

Registered Cooperative and Community Benefit Society No 29840R
Registered Social Landlord No LH4454

Local Space Limited
Report and financial statements
for the year ended 31 March 2017

LOCAL SPACE LIMITED

Report and financial statements for the year ended 31 March 2017

ASSOCIATION INFORMATION

Co-operative and Community Benefit Society (formerly Industrial and Provident Society) Registration Number

29840R

Homes and Communities Agency Registration Number

LH4454

Registered Office

58 Romford Road, Stratford, London E15 4BZ

Board

Richard Reynolds (Appointed 28 March 2017, Chair from 16 May 2017)
Sarah Ebanja (Vice Chair)
Elaine Bowes
Janet Marsh
Douglas Trainer
Caitlin Farrow
Cllr Tahmina Rahman (from 20 September 2016)
Cllr Clive Turner (from 6 December 2016)
Jessica Tamayao (from 28 March 2017)
Manu Nair (from 23 May 2017)
John Layton (Chair to 16 May 2017, Board member to 31 May 2017)
Cllr Andrew Baikie (to 28 March 2017)
Cllr Ian Corbett (to 26 July 2016)
Cllr Richard Crawford (to 26 July 2016)
Kene Ibezi (to 1 August 2016)
Nilavra Mukerji (to 4 April 2016)
Donford Vardon (to 4 April 2016)

Executive Management Team

Chief Executive
Operations Director
Head of Operations
Finance & Resources Director
Finance & Resources Director
Development Director
Head of New Business

Jitinder Takhar
Caroline Wagstaff (from 17 October 2016)
Linmora Blair (to 31 August 2016)
Iain Bacon (from 26 April 2017)
Joel Inbakumar (to 30 April 2017)
Stephen Kirrage (from 1 September 2016)
Peter Wright (to 31 August 2016)

Secretary

Kirsty Semple

Main Banker

Lloyds Bank plc
25 Gresham Street
London EC2V 7HN

Solicitors

Devonshires Solicitors LLP
30 Finsbury Circus
London EC2M 7DT

Auditor

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

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CHAIR'S MESSAGE

The past financial year has continued to be very successful for Local Space, but has also seen many changes at Executive and Board level. Our Chief Executive, Jitinder Takhar, has recruited a new Executive Team, with the arrival of Stephen Kirrage as Development Director, and Caroline Wagstaff as Operations Director. Our Finance and Resources Director, Joel Inbakumar, left at the end of April 2017 after four years with Local Space, and is currently replaced with an experienced interim. There have also been many changes to our Board, with the departure of a number of long standing Board members, including the previous Chair, John Layton, whose term ended in May 2017.

John has been a great supporter of Local Space, having been involved right from the very beginning back in 2006. He provided leadership throughout the difficult start-up phase, and also when relations with key partners needed greater attention. John's vision, experience and sense of responsibility helped make Local Space the financially strong organisation that we are today, and helped develop the excellent partnership working with the London Borough of Newham (LBN) which has supported our growth. I thank John and the other Board members for their considerable efforts over the year.

We are now very well placed to take the organisation forward; our finances continue to be very strong. We are delighted that Local Space has been reaffirmed as the top credit rating of AA- by Standard & Poor. This allows us to look forward to the future with confidence.

Our successes are attributable to strong governance and the work of our executive team and our employees. Our financial strength is made possible through the surplus we generate from renting homes, together with the increases in the value of our housing stock, and the assurance we have for our future income from LBN. Our continued financial strength will enable Local Space to continue with our ambitious growth strategy, using new funding to purchase or develop more homes to house more people in need. Having financial strength is not an end in itself, but provides benefits to those that live in our properties and those looking for rented homes in the future.

For the year ended 31 March 2017, we made a surplus of £5.6m compared to a deficit of £1.8m in 2015/16 (which was stated after making a one-off payment of £9m to LBN in order to extend the master agreement). At 31 March 2017, our housing properties were valued, on a subject to tenancy basis, at £426m which represents an average 14% increase over the year. This increase in value is not reflected in these accounts.

Our vision for the next ten years remains to deliver a substantial increase in the number of homes we rent out to tenants. During those ten years, we will also increase our investment into our existing properties to ensure that our residents live in warm, safe and environmentally friendly homes. We published our corporate plan for 2016/20 in December 2016, which focuses on implementing our growth strategy of another 800 properties to be acquired or developed by 2020. In addition we have agreed to deliver an additional 50 homes funded with Right to Buy (RTB) receipts from LBN, and are in discussions with the London Borough of Waltham Forest to deliver a further 50 homes for them on the same basis.

We face considerable competition to purchase existing properties, and this combined with house price inflation means that suitable properties are a lot harder to secure at the values which we had assumed in our business plan. As a result we completed on the purchases of 91 properties in 2016/17, against a plan of 162.

For 2017/18 and the following two financial years, we intend to change the mix of properties from our original plan of 1/3 from each of the three portfolio areas of Newham, Outer London and Outside the M25. In May 2017 the Board approved for this mix to be amended to 70% of homes to be delivered outside of the M25, and 30% to be within London. We also now have a team in place to develop a growing pipeline of appropriate properties to acquire, or develop.

CHAIR'S MESSAGE (CONTINUED)

I would like to thank my fellow Board members for their contributions during the year. I would also like to thank our staff for their commitment to Local Space. Our achievements are only possible through their hard work, knowledge and motivation and the support of our partners particularly LBN which has been a long-term supporter of Local Space. I am delighted to have joined the Board at such an exciting time for the organisation.

A handwritten signature in dark ink, consisting of a large, stylized 'R' followed by a horizontal line extending to the right.

Richard Reynolds
Chair

STRATEGIC REPORT

The original growth strategy and revised agreement with the London borough of Newham (LBN) were considered to be financially affordable. The partnership with LBN, particularly the rental guarantee, provides protection from the uncertainty around rent levels which face the wider social housing sector. It therefore, represents a relatively low risk growth strategy.

The growth programme was phased over a 4-year period from 2016 to 2020, during which 800 units would be purchased or developed at a total cost of £185 million. The original growth programme assumed a purchase/development phasing of 15%, 30%, 30% and 25% in years 1 to 4 respectively, but this has now been adjusted to reflect learning gained from the first year. There will also be a greater emphasis on purchasing additional units to deliver the growth programme, rather than relying as much on securing new build properties, which tend to have a longer lead time involved.

We published our corporate plan for 2016/20 in December 2016. In addition we have agreed to deliver an additional 50 homes funded with Right to Buy (RTB) receipts from LBN, and are in discussions with the London Borough of Waltham Forest to deliver a further 50 homes for them on the same basis.

We face considerable competition to purchase existing properties, and this, combined with house price inflation running at upwards of 20% in some areas, means that suitable properties are a lot harder to secure at the values which we had assumed in our business plan. As a result we completed on the purchase of 91 properties in 2016/17, against a plan of 162. We are also planning to focus more on leasehold flats.

We also now have a team in place to find appropriate properties to acquire, and there is now a growing pipeline of properties. We have also been approached about the possibility of acquiring stock portfolios, from other housing associations, which could be a quicker and more cost effective approach to deliver the growth plan.

The current low-interest rate environment remains favourable and represents a window of opportunity to obtain the extra funding required to grow at affordable levels. We completed a private placement with M&G investments in June 2017, which will deliver new funding of £75 million over a minimum 30 year term, at a lower rate of interest than was assumed in the business plan. Further funding will be required in 2019, 2020 and 2021, to refinance existing loans and to also purchase or develop additional properties. We will continue to monitor progress against the growth strategy and will manage risks closely.

At the year-end, the Association's reserves amounted to £177.8m (2016:£172.2m), including an accumulated revaluation surplus on housing properties of £131.5m (2016: £131.5m) and the surplus for the year is £5.5m (Loss 2016: £1.8m).

The UK property market has experienced growth but London and South East have outperformed other areas of the country. For Local Space, open market values subject to tenancies have risen reflecting primarily the value of the remaining length of the lease agreements with the London Boroughs of Newham, Hackney and Waltham Forest. Details of changes to the Association's housing assets are shown on page 13. Short-term interest rates remained low throughout 2016 and into 2017 which continued to benefit Local Space. The details of the Association's loans are shown in note 17 to the financial statements.

STRATEGIC REPORT (CONTINUED)

The setting of Local Housing Allowances (LHAs) to the 30th percentile of market rents (previously based on median market rents when Local Space was formed), has reduced LHAs. This adds more risk and makes it more difficult to deliver viable purchase and refurbishment schemes.

Welfare Reform continues to pose an increased risk of additional bad debts through higher tenant rent arrears across the sector. The greatest risks are with the reduction in the benefit cap and the roll out of universal credit. The Association has identified and engaged with the most affected tenants from our directly managed stock with a number of initiatives to mitigate the effect of the reforms. Additionally, the Association is working with London Boroughs of Newham, Hackney and Waltham Forest to help to lessen the impact of the reforms, and the rent guarantees that we have in place reduce the impact on Local Space compared with the rest of the sector.

The business plan has been updated to reflect the change in the geographic mix of the properties to be acquired and developed. The revised plan was presented to the Board in May 2017, and the plan was independently validated prior to submission of the annual return to the regulator, the Homes & Communities Agency. Prior to submission we also stress tested the plan to ensure that it stands up to the impact of a number of possible scenarios, including:-

- House price inflation higher than expected
- Delay in delivery of growth programme impacts on financial performance due to rent loss
- Further change in the mix of properties to deliver the growth programme
- Interest rates higher than expected

We will also ensure that the mitigations that we have in place are appropriate.

STRATEGIC REPORT (CONTINUED)

Risks & Uncertainties

The table below summarises some of the main risks faced by the association and the mitigation actions taken:

Not being able to buy or build appropriate / affordable properties for the prices set within the business plan	<ul style="list-style-type: none"> • Implementation plan agreed by the Board with clear buying limits • Regular scrutiny of the program • Program reviewed as part of review of business plan, and any changes approved by the Board.
The withdrawal of UK from the EU (Brexit)	<ul style="list-style-type: none"> • Continuous monitoring of the housing market and sources of funding • Receiving updates from treasury advisers • Evaluation of business plan implications
Void rent loss	<ul style="list-style-type: none"> • Performance monitoring of void turnaround times • Maintain stock condition records to ensure major repairs are scheduled, and don't delay relets • Maintain effective working relationships with LBN.
Ageing stock with defects, unpredictable long-term stock investment costs	<ul style="list-style-type: none"> • Use of Keystone asset management information and regular stock condition surveys • Regular liaison with contractors to identify problem properties • Asset management strategy to dispose of non-performing stock
Welfare reform - Benefit Cap, Association's larger properties becoming unaffordable, failure to collect rent	<ul style="list-style-type: none"> • Stock analysis to determine unaffordable properties • Rent arrears performance monitoring • Close liaison with local authority Housing Benefit departments • Rent guarantee with 94% paid once former tenant arrears.
Termination of master agreement with London Borough of Newham (LBN)	<ul style="list-style-type: none"> • Regular senior level meetings with LBN • Discussions at the strategic partnership board meetings • Maintaining sufficient cash reserves
Management failure and reputational damage	<ul style="list-style-type: none"> • Recruitment and retention of an experienced management team


Richard Reynolds
Chair

1 August 2017

Jitinder Takhar
Chief Executive



1 August 2017

STRATEGIC REPORT (CONTINUED)

The Board of Local Space is pleased to present its report and the audited financial statements for the year ended 31 March 2017.

The Association's financial performance during 2016/17 showed an improvement of 6.0% in the operating surplus after deducting the Newham Surplus Sum. The turnover was slightly higher due to acquisition of new properties during 2016/17. The expenses were proportionately comparable due to the focus on costs and the value for money strategies pursued. Overall, the surplus was £5.6m (Loss 2016: £1.8m) after the Newham Surplus Sum payable to London Borough of Newham, of £2.5m (2016: £11.6m). The figure for 2016 includes a one off payment of £9.0m paid to LBN in order to extend the master agreement. The Newham surplus sum is a return on the investment made by the London Borough of Newham (LBN) in Local Space Limited.

Objectives

In 2016 we published a new corporate plan for 2016 to 2020, which outlines our plans and how we are supporting the various areas of our business to make this a success.

Our mission is simple and straightforward.

"Delivering affordable and quality social housing to people on low incomes helping lives and communities to change for the better."

Our objectives are summarised as:

Homes that people want to live in
Services that our customers are happy with
Being a successful business
Being a well-managed organisation

Our business is supported by our core values which shape how we deliver our services. Our services are supported by our staff where we invest training and development and reward for good performance and behaviour. Our values are:

Acting with integrity
Creative and innovative solutions
Putting customers first
Working with partners

Performance

The key performance indicators used by the executive and the Board during 2016/17 are set out below:

- Repairs – tenant and resident satisfaction, right first time and cost
- Tenant and resident satisfaction levels
- Percentage of rent collected
- Percentage of vacant properties and duration of vacancy
- Gas safety inspections
- Staff sickness levels
- Overall performance against annual budget and Value for Money monitoring.

STRATEGIC REPORT (CONTINUED)

Commentary on Performance

Performance against the agreed targets for each KPI is reported quarterly to the Board. The KPIs underpin the four objectives outlined above.

For the last quarter of 2016/17 overall performance showed good to excellent levels of performance in ten areas, and unsatisfactory performance in three areas.

Key highlights are:-

Homes that people want to live in

Asset management generally showed good performance, with only minor under performance in two areas in the last quarter of the year (appointments kept on time and void days.) We are working closely with our repairs supplier to improve performance.

In terms of capital spend, performance was good, with underspends just on the kitchens and bathrooms programme, due to a slow start to the year. A new specification has been agreed for these works, and we intend to access other frameworks to speed up procurement.

Our programme to acquire or develop new homes has been delayed, as outlined earlier in this report.

Services that our customers are happy with

Customer satisfaction showed good performance apart from one area, which is customer satisfaction in being able to contact Local Space. Those residents in properties which are managed by LBN should generally not need to contact Local Space, and so we will look at the scoring for this KPI.

Lettings performance was very good, and performance was good for the number of calls answered within a specific time, and the number of abandoned calls.

Tenant involvement was still lower than target, although the target at 10% involvement is thought to be ambitious. There were encouraging signs of improvement at the end of the year.

Being a successful business

Income collection performance was slightly below target for the year. This was caused by arrears building up for considerable periods before Local Space was re-imbursed by the London Boroughs of Hackney and Waltham Forest under the rent guarantee arrangements. We have now agreed an alternative arrangement which should improve our performance in this area.

Being a well-managed organisation

Performance has been good in this area, with a number of measures such as timeliness of responses to audit recommendation, Board and staff attendance, as well as value for money and financial management showing good performance, with a couple of isolated incidents impacting negatively on performance. Value for money and good financial management are demonstrated on pages 13 to 15 of these accounts.

STRATEGIC REPORT (CONTINUED)

Governance

Local Space initiated a thorough governance review in 2016, and as a conclusion of that review the Board adopted the NHF Code of Governance: Promoting Board Excellence for Housing Associations (2015). (Local Space had previously adopted the 2012 NHF Code of Governance). Linked with this exercise, a comprehensive review of Local Space's compliance with the Code was undertaken. The Board certifies that it is fully compliant with the NHF Code of Governance.

The two areas of non-compliance with the NHF Code of Governance identified in last year's accounts have now been addressed:

- The two members of the Board who had served for more than nine years are now no longer on the Board.
- The previous Chair came to the end of his term and so no longer attends the Board or the Audit Committee.

The implementation of the governance review has been continued in 2017, and we appointed Altair in May 2017 to carry out an independent review of our current policies, procedures and governance arrangements. We have also appointed JCRA to review our existing Treasury policies and procedures. Both of these reviews will be completed by September 2017, when the findings will be presented to the Board. These exercises are to ensure that Local Space is as business fit as possible to meet the requirements of its future strategy.

A handwritten signature in dark ink, consisting of a large, stylized 'R' followed by a horizontal line extending to the right.

Richard Reynolds
Chair

REPORT OF THE BOARD

Employees

The strength of Local Space lies in the quality of all of its employees. In particular, our ability to meet our objectives and our commitments to our partners depends on their contribution. The Association shares information on its objectives, progress, and activities through regular meetings involving Board members, the senior management team and staff. We are committed to equality and diversity principles in our recruitment and retention of employees, including those who are disabled or become disabled whilst in the employment of the Association.

Providing Value for Money (VfM)

The HCA's Regulatory Framework includes a specific standard for VfM. The HCA expects us to have 'a strategy for optimising VfM and systems to ensure that this strategy is achieved'. The HCA also requires us to prepare an annual self-assessment report to our residents and stakeholders, setting out how we currently comply with the VfM standard and our plans and priorities for the future.

Our full VfM self-assessment for 2015/16 can be found on our website at www.localspace.co.uk/about. The self-assessment for 2016/17 will be published on our website by 30 September 2017.

Value for Money Strategy

The current VfM strategy states that the Board will ensure that a robust assessment into the performance of all our assets and resources (including financial, social and environmental returns) is undertaken on an annual basis. In particular, the Board commits to:

- Deliver the regulatory requirements of the Homes and Communities Agency (HCA) in relation to VfM;
- Make decisions on how resources are used to deliver objectives and it will consider the trade-offs and the opportunity costs of such decisions;
- Instill an understanding of the return on our assets and have a strategy for optimising the future return on assets. This includes a rigorous appraisal of the potential options for improving VfM, including the potential benefits of alternative delivery and procurement models;
- Have a process of scrutinising performance management. The process will be effective in driving and delivering improved VfM performance;
- Have a process for understanding costs and outcomes of delivering specific services, to understand, why and how, the underlying factors influence these costs.

The current VfM strategy will be reviewed during 2017/18, and will be aligned with the Corporate Plan through to 2020.

Value for Money – Our Approach

Local Space's Board ensures that VfM is integral to the way in which we operate as a business. This can be seen in our values and particularly through the value of 'striving for excellence'.

We are committed to being effective in the management of our resources so that we can continue to invest and re-invest in cost-effective, quality services to our customers whilst creating the financial capacity to provide new homes and additional services which benefit the communities that we serve. We have adopted a range of practices to embed VfM across the business:

REPORT OF THE BOARD (CONTINUED)

- Achieving VfM has always been at the core of our business, but recently we have become more structured in our approach to planning, monitoring and reporting our achievements. We now ensure that our key stakeholders are able to gain a transparent view of our outputs so that a comparison can be made with alternative providers.
- Our VfM Strategy action plan describes how we translate our VfM strategy aims into action. Our budgets, performance indicators, and dashboards provide us with a framework which allows us to understand, challenge and act on key costs and drivers. The framework includes a business plan and regularly updated risk register and acts as an overall barometer of our VfM health.
- Regular reporting to the Board and committees of performance against our plans enables us to secure effective governance and oversight of our performance on VfM and the achievement of our business objectives.
- A VfM action plan is in place documenting efficiency improvements which provide financial as well as social returns.
- Budgets and business plans include efficiency targets and improvements in services based on action plans. We engage in rigorous sensitivity testing and we assess all our risks and we develop measures to manage and mitigate these as far as possible. In addition to routine sensitivity testing we have a robust approach to stress testing the business plan. This helps our Board and senior team ensure that investment decisions are made in the light of all the latest information possible.
- The executive management team takes the lead on the implementation of strategy and it drives the achievement of VfM ensuring that a culture which seeks to maximise achievement of our aims is embedded into policy and practice and with a permanent reference to VfM on all board report cover sheets.
- We ensure that residents have transparent access to our achievements as well as every opportunity to express their views and requirements regarding service priorities.
- We have created effective processes and structures which enable residents to examine our performance and we actively invite scrutiny of this through surveys and other opportunities which allow views to be expressed openly.
- A very obvious outcome from our focus on VfM has been our consistently robust financial performance. This is a very transparent output from our dedicated efforts to provide cost effective services, whilst also striving to manage the main parts of our business with financial care.
- An area which requires further improvement and on which we are focussed on is the management of costs and income through controlling arrears, minimising the incidence of void stock, reducing re-let times and keeping downward pressure on operating costs. This will help us to enjoy better financial health and this provides the Board with choices for targeted investment in those priorities that have been highlighted by our customers.

LOCAL SPACE LIMITED

Report and financial statements for the year ended 31 March 2017

REPORT OF THE BOARD (CONTINUED)

VfM gains - financial performance

The association makes effective use of its financial strength and capacity to support its business objectives and spending priorities. This is achieved through the delivery of consistent and excellent financial results. Our strong financial record of achievement is illustrated in the following table:

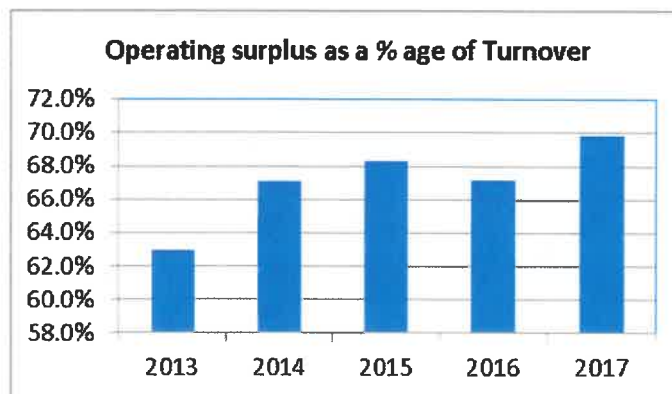
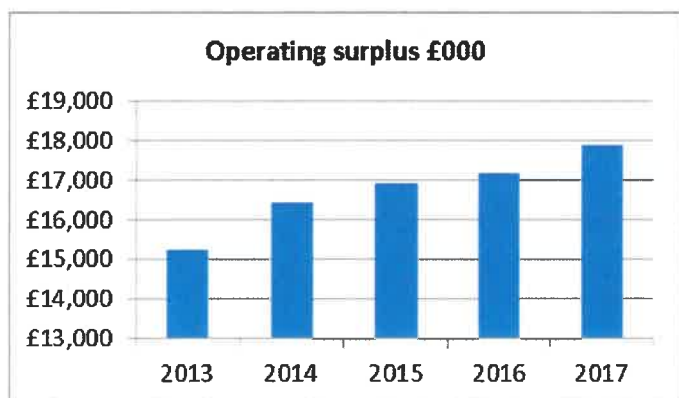
Income and expenditure account £000	2017**	2016*,**	2015**	2014	2013
	£'000	£'000	£'000	£'000	£'000
Total turnover	25,632	25,576	24,777	24,491	24,248
Operating surplus before Newham Surplus	17,907	17,181	16,931	16,435	15,259
Surplus for the year	5,582	(1,842)	6,783	7,241	6,056

Balance sheet £000	2017**	2016*,**	2015**	2014	2013
Fixed assets	346,689	331,944	330,410	327,473	301,830
Net current assets/(liabilities)	10,959	11,333	15,733	12,105	2,036
Total assets less current liabilities	357,648	343,277	346,143	339,578	303,866
Loans and provision (due over one year)	179,806	171,017	172,065	172,001	172,000
Total reserves	177,842	172,260	174,078	167,577	131,866
Total long term loans and reserves	357,648	343,277	346,143	339,578	303,866

* Includes £9m one-off agreement extension fee paid to LBN in 2016

** The values for 2015, 2016 and 2017 are based on FRS102 accounting principles

The following charts usefully illustrate the steady and positive improvement in our financial results. This compares favourably with the results of our peers and indeed of the sector as a whole.



The operating surplus for 2016 and the operating surplus as a % of turnover for 2016 are shown excluding the £9m one-off agreement extension fee paid to LBN in 2016.

REPORT OF THE BOARD (CONTINUED)

For the year ended 31 March	**2017	**2016	**2015	2014	2013
Operating surplus as %age of turnover	69.9%	67.2%	68.3%	67.1%	62.9%
Surplus for the year as %age of income from lettings	21.8%	(7.2%)*	27.4%	29.6%	25.0%
Rent losses (voids and bad debts as %age of rent and service charges receivable)	1.0%	0.3%	0.8%	0.5%	1.2%
Rent arrears (gross arrears as %age of rent and service charges receivable)	2.1%	1.8%	1.9%	2.1%	2.2%
Liquidity (current assets divided by current liabilities)	269.2%	244.7%	329.2%	283.6%	131.8%

* Includes £9m one-off agreement extension fee paid to LBN.

**The values for 2015, 2016 and 2017 are based on FRS102 accounting principles.

The last 12 months have once again been very successful in terms of our financial performance and our forward projections also look positive. The net surplus shows an improved bottom line when compared to the previous year.

Looking at some of the key results outlined in the table above we can see the following:

- Turnover has grown year by year and in 2017 we maintained a positive profile for this with an increase of £56,000 rental income.
- The values for 2015, 2016 and 2017 are based on FRS102 accounting principles.
- Operating margin stands at 69.9% which, whilst a moderate increase compared with last year (67.2%), continues to compare extremely favorably with the sector average.
- Net margin stands at 21.8% for 2016/17. This performance is clearly a very positive result which compares well with the previous year and is well above sector average.
- The liquidity of the association continues to provide significant comfort with our results at 2017 showing a position of 269.2%. This is a very sound result which is well above the sector norms.
- Funding position is stable with loans increasing from £171.6m to £179.7m, with undrawn facilities of £42.5m.
- Net debt per unit, which has come down slightly in 2017 compared to the previous year, is shown in the table below:

For the year ended 31 March	2017	2016	2015	2014	2013
Net debt per unit (£'000)	94.0	93.9	95.5	97.5	97.5

Benchmarking

We recognise that it is important for stakeholders to be able to measure our performance against others and whilst it is difficult to find organisations that are similar to ours we have undertaken useful benchmarking work which sets our performance in a useful context and helps us to learn and to improve. Like many associations we use HouseMark to generate benchmarking results. We use the benchmarking tool to help us to develop performance score cards and we use small project groups to implement our plans.

REPORT OF THE BOARD (CONTINUED)

Return on assets

The HCA's Regulatory Framework sets out a requirement to demonstrate or provide evidence of continuous improvement in the use of our assets. This is in order that we are able to provide and publish sufficient information to enable stakeholders to assess our achievements. In this section we have set out to show:

- That we understand the value of assets including details of the financial and social return, at a detailed enough level to enable an analysis of differing values of different stock according to location or type (e.g. Net Present Values or NPVs);
- That we understand the value of our returns and that we are committed to using these to underpin all our strategic asset decisions.

The table below shows analysis of our Return on Assets:

2016/17							
Portfolio	Number of Properties	Market Value STT £'000	Gross Rent £'000	Gross Yield %	Operating Surplus	Surplus as a % of Gross Rent	Operating Surplus/ Property £'000
London Borough of Newham	1490	314,108	21,024	6.7%	12,733	60.6%	8.55
Directly Managed	422	111,070	4,751	4.3%	2,674	56.3%	6.34
Total	1912	425,178	25,775	6.1%	15,407	59.8%	8.06

2015/16							
Portfolio	Number of Properties	Market Value STT £'000	Gross Rent £'000	Gross Yield %	Operating Surplus	Surplus as a % of Gross Rent	Operating Surplus/ Property £'000
London Borough of Newham	1450	272,437	20,776	7.6%	12040	58.0%	8.30
Directly Managed	371	92,457	4,534	4.9%	2495	55.0%	6.73
Total	1821	364,894	25,310	6.9%	14,535	57.4%	7.98

Movement							
Portfolio	Number of Properties	Market Value STT £'000	Gross Rent £'000	Gross Yield %	Operating Surplus	Surplus as a % of Gross Rent	Operating Surplus/ Property £'000
London Borough of Newham	40	41,671	248	-0.9%	693	2.6%	0.25
Directly Managed	51	18,613	217	-0.6%	179	1.3%	-0.39
Total	91	60,284	465	0.8%	872	4.2%	0.08

Capital Growth

London Borough of Newham	15.3%
Directly Managed	20.1%
Total	16.5%

Notes:

- The market values are based on Savills valuations at 31 March each year and based on subject to tenancy basis (MV-STT).
- The London Borough of Newham portfolio is leased until March 2031.
- The operating surpluses shown are net of Newham Surplus Sums (NSS) paid to LBN.

REPORT OF THE BOARD (CONTINUED)

The Social Return

We understand that VfM is not just about achieving increasing efficiency and Local Space remains committed to its social purpose of providing good quality temporary accommodation for homeless people in the East London region. This means that we invest in our residents and their communities and we work towards delivering business objectives which are much wider than just the improvement of surpluses.

In the past we have recruited apprentices to the organisation and have taken on four apprentices in previous years.

Engagement and Scrutiny

We are committed to ensuring that our tenants fully understand our aims and performance on Value for Money. To help us to accomplish this we established our Tenants Scrutiny Panel in 2014/15. This has helped us to involve our tenants in identifying our corporate priorities. The Panel has also enabled us to secure more effective scrutiny of our performance and it has involved tenants in service review work which has been invaluable in enhancing our knowledge of customer needs.

Our overall self-assessment

The Board has gained assurance that the association has complied with the Regulator's VfM standard by following a structured process of assessment. As well as comprehensive performance reporting and management accounts the Board receives a regular update on key performance indicators and actual performance against budgets. This information enables the Board to perform an effective scrutiny role whilst also positively influencing and providing leadership in the delivery of its VfM strategy.

The Board's Self-Assessment and Commitment to Stakeholders

With the narrative and the evidence provided throughout in the self-assessment, the board of Local Space has established its case for being compliant with the requirements of the VfM standard. Areas have been identified for further improvement and these have been set out under our future plans in the self-assessment. The Board, through the publication of this statement expresses its ongoing commitment to delivering VfM as a business working hard for its customers and to continuing to make improvements in these matters during 2017/18 and beyond.

Donations

Local Space made no political donations in the year. (2016: £NIL)

Internal Controls Assurance

The Board acknowledges its overall responsibility for establishing and maintaining the system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives; and to provide reasonable, and not absolute, assurance against material misstatement or loss. The Board periodically reviews the scheme of delegations to ensure that they are in line with changes in the organisation and operating environment.

The process for identifying, evaluating and managing the significant risks faced by the Association is on-going and has been in place throughout the period commencing 1 April 2016 up to the date of approval of the report and financial statements. Key elements of the control framework include:

REPORT OF THE BOARD (CONTINUED)

- Board approved terms of reference and delegated authorities for the Audit Committee, and the Equality, Diversity & Remuneration Committee;
- Management responsibilities for the identification, evaluation, and control; of significant risks and regular reviews by external specialists;
- Risk register review by Audit Committee & Board;
- Strategic and business planning processes, with detailed financial budgets and forecasts;
- Formal recruitment, retention, learning and development policies for all staff;
- Established authorisation and appraisal procedures for all significant new initiatives and commitments;
- Treasury management which is subject to external review as required;
- Regular reporting to the Board on key business objectives, targets and outcomes and;
- Board approved anti-fraud and corruption policy and whistle-blowing policy;
- Based on assessments by the Executive and the Audit Committee, the following areas were examined by our internal auditors and, where necessary, action was taken during the year:
 - Business Continuity Management
 - Property Acquisition and Development
 - Allocations, Lettings and Void Management
 - Asset Management
 - Gas Safety
 - Assets and Liabilities Register

The overall opinion given by internal auditors, BDO, is that they were able to give moderate assurance that there is generally a sound system of internal control, designed to meet the organisations objectives and that controls are generally being applied consistently.

The Board cannot delegate ultimate responsibility for the system of internal control, but it can, and has, delegated authority to the Audit Committee to regularly review the effectiveness of the system of internal control. The Board receives reports from the Audit Committee.

Statement of Responsibilities of the Board for the Report and Financial Statements

The Board is responsible for preparing the Report of the Board and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society Act and registered social landlord legislation require the Board to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws).

Under the Co-operative and Community Benefit Society legislation the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Association for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social landlords (2014) have been followed, subject to any material departures disclosed and explained in the financial statements.

REPORT OF THE BOARD (CONTINUED)

Governance and Viability Compliance

During the year the Board has undertaken stress and scenario testing on the organisation's business plan with the help of independent consultants and has been kept informed on the progress with the development of an assets and liabilities register. The Board, having reviewed all relevant HCA standards and evidence for compliance, certifies full compliance with the requirements of the Governance and Viability Standard as issued by our regulator, the HCA.

Assets and Liabilities Register

The HCA's revised Governance and Financial Viability Standard was issued in April 2015. The Standard requires all registered providers to maintain a register of all its assets and liabilities, and to detail how liabilities are charged against assets. The Board confirms that an appropriate Assets and Liabilities Register has been developed and is kept up to date.

Disclosure of Information to Auditor

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable it to ensure that the financial statements comply with the Cooperative and Community Benefit Society Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction 2015. It is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social landlords (2014).

The Board is responsible for the maintenance and integrity of the corporate and financial information on the Association's website.

At the date of making this report each of the Board members and executive directors, as set out on the financial statement, confirm the following:

- So far as each Board member and executive director is aware, there is no relevant information needed by the Association's auditor in connection with preparing their report of which the Association's auditor is unaware;
- Each Board member and executive director has taken all the steps that ought to have taken as a Board member and executive director in order to make themselves aware of any relevant information needed by the Association's auditor in connection with preparing their report and to establish that the Association's auditor is aware of that information.

LOCAL SPACE LIMITED

Report and financial statements for the year ended 31 March 2017

External Auditor

A resolution to re-appoint Grant Thornton UK LLP will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on 5 September 2017.

The report of the Board was approved by the Board on 28 July 2017 and signed on their behalf by:



Richard Reynolds

Chair

LOCAL SPACE LIMITED

Report and financial statements for the year ended 31 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS LOCAL SPACE LIMITED

We have audited the financial statements of Local Space Limited for the year ended 31 March 2017 which comprise statement of comprehensive income, statement of changes in reserves, statement of financial position, statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the organisation's members, as a body, in accordance with regulations made under 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 organisation'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 organisation and the organisation's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and the auditor

As explained more fully in the Statement of responsibilities of the Board for the report and financial statements set out on page 17, the board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the organisation's affairs as at 31 March 2017 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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 require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the organisation 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.

Grant Thornton LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

9 AUGUST 2017

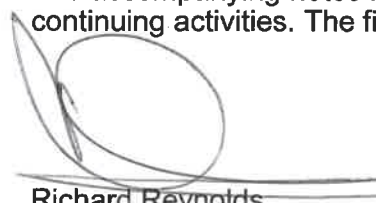
LOCAL SPACE LIMITED

Report and financial statements for the year ended 31 March 2017

STATEMENT OF COMPREHENSIVE INCOME

	Note	2017 £'000	2016 £'000
Turnover	3	25,632	25,576
Operating expenditure	3	<u>(7,725)</u>	<u>(8,395)</u>
Operating surplus	5	17,907	17,181
Newham Surplus Sum	24	<u>(2,500)</u>	<u>(2,645)</u>
		15,407	14,536
LBN Agreement Extension Fee	24	-	(9,000)
Loss on disposal of property, plant and equipment fixed assets	6	(357)	(460)
Interest receivable	7	71	218
Interest and financing costs	8	(8,231)	(7,136)
Movement in fair value of financial derivatives	17	(1,308)	-
		<u>5,582</u>	<u>(1,842)</u>
Surplus/(deficit) before taxation		5,582	(1,842)
Taxation		<u>-</u>	<u>-</u>
Surplus/(deficit) for the year		5,582	(1,842)

The accompanying notes form part of these financial statements. The results relate wholly to continuing activities. The financial statements were approved by the Board on 28 July 2017.



Richard Reynolds
Chair



Board Member



Kirsty Semple
Secretary

STATEMENT OF CHANGES IN RESERVES

	Income and expenditure account	Revaluation reserve	Total
	£'000	£'000	£'000
Balance as at 1 April 2015	42,566	131,512	174,078
Deficit for the year	(1,842)	-	(1,842)
Unrealised surplus on revaluation of investment properties	24	-	24
Balance at 31 March 2016	40,748	131,512	172,260
Surplus for the year	5,582	-	5,582
Balance at 31 March 2017	46,330	131,512	177,842

The accompanying notes form part of these financial statements.

LOCAL SPACE LIMITED

Report and financial statements for the year ended 31 March 2017

STATEMENT OF FINANCIAL POSITION

		2017 £'000	2016 £'000
Tangible Fixed assets	Note		
Housing properties	11	344,124	329,504
Other fixed assets	12	1,830	1,705
Investment properties	13	<u>735</u>	<u>735</u>
		346,689	331,944
Current assets			
Trade and other debtors	14	823	715
Cash and cash equivalents		<u>16,613</u>	<u>18,450</u>
		17,436	19,165
Creditors: amounts falling due within one year	15	<u>(6,495)</u>	<u>(7,851)</u>
Net current assets		10,941	11,314
Total assets less current liabilities		357,630	343,258
Creditors: amounts falling due after more than one year	16	<u>(179,788)</u>	<u>(170,998)</u>
Total net assets		177,842	172,260
Reserves			
Income and expenditure reserve		46,330	40,748
Revaluation reserve		<u>131,512</u>	<u>131,512</u>
Total reserves		177,842	172,260

The accompanying notes form part of these financial statements. The financial statements were approved by the Board on 28 July 2017.


Richard Reynolds
Chair


Board Member


Kirsty Semple
Secretary

STATEMENT OF CASH FLOWS

	2017 £'000	2016 £'000
Net cash generated from operating activities	17,964	10,210
Cash flow from investing activities		
Purchase of tangible fixed assets	(18,857)	(5,627)
Interest received	71	112
	<u>(18,786)</u>	<u>(5,515)</u>
Cash flow from financing activities		
Interest paid	(8,231)	(7,136)
Loan arrangement fee	(307)	(1,093)
Loan drawn down	32,500	-
Loan payment	(24,977)	-
LBN amortised fees	-	311
	<u>(1,015)</u>	<u>(7,918)</u>
Net change in cash and cash equivalents	(1,837)	(3,223)
Cash and cash equivalents at beginning of the year	<u>18,450</u>	<u>21,673</u>
Cash and cash equivalents at end of the year	<u>16,613</u>	<u>18,450</u>
Cash flow from operating activities		
	2017 £'000	2016 £'000
Surplus for the year	5,582	(1,842)
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	3,755	3,658
Increase/(Decrease) in trade and other debtors	(108)	318
Decrease in trade and other creditors	(1,356)	1,009
Carrying amount of tangible fixed asset disposals	357	460
LBN amortised grant	-	(311)
Swap increase	1,308	-
Amortisation of loan arrangement fee	266	-
Interest payable	8,231	7,136
Interest receivable	(71)	(218)
Net cash generated from operating activities	<u>17,964</u>	<u>10,210</u>

The accompanying notes form part of these financial statements.

FINANCIAL STATEMENTS

1. Legal status

The Association is registered under the Cooperative and Community Benefit Society Act 2014 and is a registered housing association. It is an exempt charity.

2. Accounting policies

Basis of accounting

The financial statements of the Association is prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

Financial statements have been prepared under FRS 102.

The financial statements are presented in Sterling (£).

The Association is not a qualifying entity, so no disclosure exemptions are available.

Going concern

The Association's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The Association has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Association's day to day operations. The Association also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgments and estimates have been made include valuation of property plant and equipment (tangible fixed assets), recoverable amount of trade debtors and other trade receivables.

Significant management judgements

The following are the significant management judgements made in applying the accounting policies of the Association that have the most significant effect on the financial statements.

- Replacement of components
- Depreciation rates

NOTES TO THE FINANCIAL STATEMENTS

Capitalisation of property development costs

The total amount capitalised in the year was £18.6m relating to component replacements and the acquisition of Growth plan properties (£17.8m).

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to decent homes standards which may require more frequent replacement of key components. Accumulated depreciation for housing properties and other tangible fixed assets at 31 March 2017 was £11m.

Multi-employer pension obligation

The Association has entered into a contractual agreement with the Social Housing Pension Scheme (SHPS) to determine how the deficit will be funded. Contributions expected to be settled within 12 months after the reporting date are measured at the present value of the contributions payable by using a discounted rate (discounted present value basis). The rate used is determined by reference to market yields at the reporting date on high quality bonds. A liability of £93k is recorded in the statement of financial position at 31 March 2017.

Turnover and revenue recognition

Turnover comprises rental income receivable in the year, income from investment properties and other services included at the invoiced value of goods and services supplied in the year. Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. It is probable that the timing difference will not reverse in the foreseeable future.

Interest payable

The interest payable is charged to income and expenditure in the year.

Financial instruments

Financial instruments are carried at amortised cost, using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

NOTES TO THE FINANCIAL STATEMENTS

Financial instruments (Continued)

Local Space has identified three external loans from Lloyds, Barclays and Santander to be the financial instruments and analysed all loans according to Section 11 & 12 and concluded that they are all basic financial instruments. Local Space repaid the £7.5m Barclays Loan and the £17.4m Santander loan during the year.

Local Space entered into two standalone swap agreements on 31 March 2016 to avoid mark to market break costs of two loan tranches of the previous Royal Bank of Canada's syndicated loan facility. One swap covers the exposure for just over one year from 2026-2027 and the other from 2026-2032. These swaps are non-basic financial instruments. At each statement of financial position date, they are re-measured at fair value. Any movement in the measurement in fair value is recognised in the statement of comprehensive income.

Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

We have analysed all our current debtors and did not identify any debtor adjustments.

Creditors

Short term trade creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

The association recognises an accrual for untaken annual leave for employees as a result of contracted services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The accrual is measured at the salary cost payable for the period of absence.

The deficit recognised for the SHPS scheme is also recognised as a creditor.

Employee benefits

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

Pensions

The Association participates in a multi-employer defined benefit scheme, the Social Housing Pension Scheme (SHPS).

For the SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. Contribution payable by the Association to SHPS for current service are charged to the statement of comprehensive income based upon the contributions payable for the accounting period.

NOTES TO THE FINANCIAL STATEMENTS

Pensions (continued)

Where there is a contractual agreement between the scheme and the Association that determines how the deficit will be funded, the contributions payable that arise from the agreement, to the extent that they relate to the deficit recognised as a liability in the statement of financial position and the resulting expense in the statement of comprehensive income. When the contributions are not expected to be settled within 12 months after the reporting period, the liability is measured at the present value of the contributions payable by using a discounted rate.

Housing properties

Housing properties are properties held for the provision of social housing or to otherwise provide a social benefit. The Association has adopted the Deemed Cost transition relief option and recorded all its Pre March 2014 housing properties at Deemed Cost less depreciation and impairment losses and post March 2014 housing properties at cost less depreciation and impairment losses.

Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of improvements.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements.

Investment properties

Investment properties consist of commercial properties not held for the social benefit or for use in the business. Investment properties are measured at cost on initial recognition and subsequently at fair value as at the year end, with changes in fair value recognised in income and expenditure.

Government grants

Government grants include grants receivable from the Homes and Communities Agency (the HCA), local authorities, and other government organisations. Government grants received for housing properties are written off to reserves account on transition date by adopting Deemed Cost transition relief.

The Association has taken advantage of the transition relief to use the performance model of grant recognition up to the date of transition. Therefore there are no grant accruals recognised on the books of the Association at transition. Additionally, there have been no new grants received during the period since the transition date; therefore there remains no grant accrual. However, prospectively Local Space plans to apply the accrual method of grant recognition.

Where individual components are disposed of and this does not create a relevant event for recycling purposes.

Other grants

There have been no new grants received during the period.

NOTES TO THE FINANCIAL STATEMENTS

Depreciation of housing properties

The Association separately identifies the major components which comprise 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 its estimated useful economic life.

The association depreciates the major components of its housing properties at the following annual rates:

Structure	100 Years
Roofs	60 Years
Kitchens	15 Years
Bathrooms	15 Years
Gas and boilers	15 Years
Windows and doors	30 Years
Electrics	30 Years

Freehold land is not depreciated.

Leasehold properties are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

Impairment

Annually housing properties are assessed for impairment indicators. Where indicators are identified an assessment for impairment is undertaken comparing the asset's carrying amount to its recoverable amount. Where the carrying amount of an asset is deemed to exceed its recoverable amount, the asset is written down to its recoverable amount, this is likely to be the value in use of the asset based on its service potential. The resulting impairment loss is recognised as expenditure in income and expenditure. Where an asset is currently deemed not to be providing service potential to the association, its recoverable amount is its fair value less costs to sell.

The Association has reviewed the carrying value of all assets and the appropriate levels of assessment for impairment based on the cash generating units and concluded that there are no indicators of impairment.

Other tangible fixed assets

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Freehold buildings	2% on cost
Long leasehold property	Over life of lease
Furniture, fixtures and fittings	Straight-line over 3 years
Computers and office equipment	Straight-line over 3 years
Furniture in properties	Straight-line over 5 years

NOTES TO THE FINANCIAL STATEMENTS

Other tangible fixed assets (Continued)

Gains or losses arising on the disposal of other tangible fixed assets are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised as part of the surplus/deficit for the year.

Leases

Rentals payable under operating leases and any lease incentives are charged to the income and expenditure account on a straight line basis over the lease term.

Revaluation reserve

Local Space has chosen to take advantage of the Deemed Cost transitional relief, applying the historical cost basis prospectively whilst using the previous GAAP revaluation as Deemed Cost at 1 April 2014. Therefore applying the depreciation model prospectively and freezing the revaluation reserve until disposal.

NOTES TO THE FINANCIAL STATEMENTS

3. Particulars of turnover, cost of sales, operating costs and operating surplus
- Continuing activities

	2017		
	Turnover	Operating expenditure	Operating Surplus
	£'000	£'000	£'000
Social housing letting	25,602	(7,714)	17,888
Non-social housing activities	30	(11)	19
	<u>25,632</u>	<u>(7,725)</u>	<u>17,907</u>
	2016		
	Turnover	Operating expenditure	Operating Surplus
	£'000	£'000	£'000
Social housing letting	25,535	(8,391)	17,144
Non-social housing activities	41	(4)	37
	<u>25,576</u>	<u>(8,395)</u>	<u>17,181</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 3 (Continued)

Particulars of income and expenditure from social housing lettings

	2017		2016	
	Temporary Social housing £'000	Key worker housing £'000	Total £'000	Total £'000
Rent receivable net of identifiable service charges	24,295	1,289	25,584	25,205
Service charge income	-	18	18	19
Other revenue grants	-	-	-	311
Turnover from social housing lettings	24,295	1,307	25,602	25,535
Management	(2,312)	(190)	(2,502)	(3,074)
Service charge costs	(379)	(17)	(396)	(579)
Routine maintenance	(406)	(69)	(475)	(339)
Planned maintenance	(306)	(43)	(349)	(453)
Major repairs expenditure	(29)	(15)	(44)	(70)
Bad debts	(85)	(8)	(93)	(14)
Depreciation of housing properties	(3,387)	(245)	(3,632)	(3,544)
Other costs	(202)	(21)	(223)	(318)
Operating costs on social housing lettings	(7,106)	(608)	(7,714)	(8,391)
	17,189	699	17,888	17,144
Operating surplus on social housing lettings				
Void losses	(141)	(3)	(144)	(56)

Particulars of turnover from non-social housing lettings

	2017 £'000	2016 £'000
Investment Income	30	31
Other Income	-	10
	30	41

NOTES TO THE FINANCIAL STATEMENTS

4. Accommodation in management and development

At the end of the year accommodation in management for each class of accommodation was as follows:

	2017 No of Properties	2016 No of Properties
Social housing		
Temporary social housing	1,776	1,685
Key worker housing	132	132
Total owned	1,908	1,817
Non-social housing		
Investment properties	4	4
Total owned and managed	1,912	1,821

5. Operating surplus

The operating surplus is arrived at after charging/ (crediting):

	2017 £'000	2016 £'000
Depreciation of housing properties	3,632	3,544
Depreciation of other tangible fixed assets	123	113
Operating lease rentals		
- office equipment and computers	2	2
Auditors' remuneration (excluding VAT)		
-Fees payable to the Association's auditors for the audit of the financial statements	27	23
-Fees payable to the Association's auditors for other services:	18	-
Total audit services	45	23
All other services	-	8
Total non-audit services	-	8

NOTES TO THE FINANCIAL STATEMENTS**6. Deficit on disposal of fixed assets – Components**

	2017 £'000	2016 £'000
Disposal proceeds	-	-
Carrying value of fixed assets	(357)	(460)
	<u>(357)</u>	<u>(460)</u>

7. Interest receivable and other income

	2017 £'000	2016 £'000
Interest receivable and similar income	71	218
	<u>71</u>	<u>218</u>

8. Interest and financing costs

	2017 £'000	2016 £'000
Loans and bank overdrafts	(8,231)	(7,136)
	<u>(8,231)</u>	<u>(7,136)</u>

9. Employees

Average number of employees expressed as full-time equivalents (calculated based on a standard working week of 35hrs).

	2017 No	2016 No
Administration	10	14
Development	4	2
Housing, support and care	13	11
	<u>27</u>	<u>27</u>

NOTES TO THE FINANCIAL STATEMENTS

9. Employees (continued)

The full-time equivalent number of staff who received remuneration (excluding directors):

	2017 No	2016 No
£60,001 to £70,000	1	1
£70,001 to £80,000	-	1
£80,001 to £90,000	1	-
£90,001 to £100,000	1	1
£100,001 to £130,000	1	1

Employee costs:

	2017 £'000	2016 £'000
Wages and salaries	1,335	1,355
Social security costs	94	99
Other pension costs	68	48
	1,497	1,502

The association's employees are members of the Social Housing Pension Scheme (SHPS). Further information on the scheme is given in note 18.

10. Board members, committee members and executive directors

Executive directors

	Basic Salary £'000	Pension contributions £'000	2017 Total £'000	2016 Total £'000
Chief Executive				
Richard Clark (to March 2016)	-	-	-	119
Jitinder Takhar	122	6	128	10
Key Management personnel	223	17	240	256
	345	23	368	385

Key Management Personnel consist of:

- 1) Joel Inbakumar Finance & Resources Director
- 2) Stephen Kirrage Development Director (from 1 September 2016)
- 3) Caroline Wagstaff Operations Director (from 17 October 2016)
- 4) Peter Wright Head of New Business (to 31 August 2016)
- 5) Linmora Blair Head of Operations (to 31 August 2016)

NOTES TO THE FINANCIAL STATEMENTS

10. Board members, committee members and executive directors (continued)

The Chief Executive is a member of Social Housing Pension Scheme. The Association does not make any further contribution to an individual pension arrangement for the Chief Executive.

The emoluments of the highest paid executive director Jitinder Takhar excluding pension contributions were £128,000 from 1 April 2016 to 31 March 2017 (2016: £10,250 – Full year equivalent £123,000).

Board and committee members

The Association had 17 people who were serving Board and committee members in 2016/17 (2016/15:14). Seven of these Board members and Committee members received emoluments of £25,364 during the year (2016: £27,978).

	2017 £	2016 £
John Layton	8,068	7,103
Sarah Ebanja	5,500	5,500
Elaine Bowes	5,000	4,500
Kenechukwu Ibezi (to 31 July 2016)	1,000	3,000
Caitlin Farrow (From 26 January 2016)	3,796	-
Clive Turner (from 6 December 2016)	1,333	-
Manu Nair (from 6 December 2016)*	667	-
Michael Clarke (to 31 July 2015)	-	1,875
Donford Vardon (to 4 April 2016)	-	3,000
Nilavra Mukerji (to 4 April 2016)	-	3,000
	<hr/>	<hr/>
	25,364	27,978

*Manu Nair was a member of the Audit Committee from 6th December 2016. He joined the Board on 23rd May 2017.

NOTES TO THE FINANCIAL STATEMENTS

11. Fixed assets – housing properties

	Social Housing Properties held for Letting £'000	Housing properties for letting under construction £'000	Total housing properties £'000
Deemed Cost			
At 1 April 2016	336,364	16	336,380
Additions	797	-	797
Properties acquired	17,750	62	17,812
Schemes Completed	16	(16)	-
Disposals	(565)	-	(565)
At 31 March 2017	354,362	62	354,424
Depreciation and impairment			
At 1 April 2016	6,876	-	6,876
Depreciation charged in year	3,632	-	3,632
Disposals	(208)	-	(208)
At 31 March 2017	10,300	-	10,300
At 31 March 2017	344,062	62	344,124
At 31 March 2016	329,488	16	329,504

Expenditure on works to existing properties

	2017 £'000	2016 £'000
Components capitalised	797	1,031
Amounts charged to income and Expenditure	44	70
	841	1,101

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

11. Fixed assets – housing properties (continued)

The carrying value of housing properties that would have been included in the financial statements had the assets been carried at historical cost less accumulated depreciation as follows:

	2017 £'000	2016 £'000
Housing properties at historical cost	354,424	336,380
Accumulated depreciation	(10,300)	(6,876)
	344,124	329,504

Impairment

The Association considers individual schemes to be separate Cash Generating Units (CGU's) when assessing for impairment, in accordance with the requirements of Financial Reporting 102 and SORP 2014.

During the current year, the association has not recognised any impairment loss in respect of housing stock.

12. Tangible fixed assets – other

	Freehold offices	Computers and office equipment	Furniture, fixtures and fittings	Furniture in properties	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2016	1,616	283	126	295	2,320
Additions	74	133	2	39	248
Transfer	48	-	(48)	-	-
At 31 March 2017	1,738	416	80	334	2,568
Depreciation					
At 1 April 2016	228	122	81	184	615
Charged in the year	26	49	4	44	123
Transfer	9	-	(9)	-	-
At 31 March 2017	263	171	76	228	738
Net book value					
At 31 March 2017	1,475	245	4	106	1,830
At 31 March 2016	1,388	161	45	111	1,705

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

13. Investment properties non-social housing properties held for letting

	2017	2016
	£'000	£'000
At 1 April	735	295
Additions	-	420
Increase/decrease in value	-	20
At 31 March	<u>735</u>	<u>735</u>

Investment properties were valued at fair value as at 31 March 2017. The Association's investment properties have been valued by Savills LLP, Chartered Surveyors, and professional external valuers. The full valuation of properties was undertaken in accordance with Royal Institution of Chartered Surveyors' ("RICS") Valuation-Professional Standards January 2014 (the "RICS Red Book") published in November 2013 and effective from 1 January 2014.

In valuing investment properties, a discounted cash flow methodology was adopted with key assumptions:

Discount rate	6.0%
Annual inflation rate, after first two years	2.5%
Level of long-term annual rent increase	2.0%

14. Debtors

	2017	2016
	£'000	£'000
Due within one year		
Rent and service charges receivable	549	446
Less: provision for bad and doubtful debts	(326)	(270)
	<u>223</u>	<u>176</u>
Other debtors	303	275
Prepayments and accrued income	<u>297</u>	<u>264</u>
	<u>823</u>	<u>715</u>

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

15. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	13	221
Bank Overdraft	-	732
Rent and service charges received in advance	1,889	1,844
Key worker tenant deposit	83	80
Other taxation and social security	43	37
Amounts due to property providers	12	12
Pension	4	7
Holiday Pay	14	12
Accrued loan interest	1,242	693
Newham Surplus Sum	2,500	2,700
Accruals and deferred income	695	1,513
	6,495	7,851

16. Creditors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Debt	179,699	170,908
Pension	89	90
Total	179,788	170,998

17. Debt analysis

	2017 £'000	2016 £'000
Bank loans	179,577	172,054
Fair value of the interest rate swap	1,308	-
Arrangement Fee	(1,186)	(1,146)
Total	179,699	170,908

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

Note 17 continued

Security

The bank loans are secured by a fixed charge over the properties owned by the Association.

Terms of repayment and arrangement fee

The loan from Lloyds (£91m) is repayable commencing 2022. The loan from Santander (£55.5m) is repayable commencing 2019. The loan from Barclays (£33m) is repayable commencing 2021.

At 31 March 2017 the Association had undrawn loan facilities of £42.5m (2016: £78m).

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

	2017 £'000	2016 £'000
Within one year or on demand	-	24,977
Two years or more but less than five years	88,500	-
Five years or more	91,077	147,077
	<u>179,577</u>	<u>172,054</u>

Derivative Financial Instruments - Interest Rate Swap

The Association has entered into two interest rate swap arrangements on 31 March 2016. The swaps are based on a notional amount of £5m each. The fair value of the interest rate swaps is £1.3m on the balance sheet date.

Financial Instruments

Local space's financial instruments comprise cash and cash equivalents, bank borrowings and items such as trade creditors and trade debtors which arise from its operations. The main purpose of these financial instruments is to provide finance for Local Space's operations.

Local space operations expose it to a variety of financial risks, include credit risk, liquidity risk and interest rate risk.

Credit risk

Local space credit risk is primarily attributable to its rental arrears. Local space has implemented policies that requires appropriate pre-tenancy checks on potential new tenants before a property is let. The carrying amount of financial assets represents the maximum credit exposure.

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

Note 17 continued

Liquidity risk

The association actively maintains a mixture of long term and short term debt finance as well as maintaining a minimum cash level amount of £2m that is designed to ensure it has sufficient available funds for operations and planned expansion. Local space monitors its levels of working capital to ensure it can meet its operational liabilities and debt repayments as they fall due.

Local space financial liabilities comprise of trade creditors and bank borrowings which are measured at amortised cost. The contractual maturity of the bank borrowings are shown in note 25. The trade creditors are all payable within their credit terms.

Interest rate risk

Local space has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise only cash and cash equivalents which earn interest at a variable rate. Local space has a policy of maintaining debt at fixed and floating rates to manage future interest costs effectively.

We are currently reviewing Local Space Treasury policies and the results of this will be presented to the board in September 2017.

Local space cash and cash equivalents earned interest at a variable rate of 0.2% during the year 2016/17.

Details of the terms of the local space borrowings are disclosed in note 17.

18. Social Housing Pension Scheme

The Association participates in the Social Housing Pension Scheme (the Scheme). The Scheme is funded and is contracted out of the State Pension scheme.

Local Space currently operates career average revalued earnings (CARE) with a 1/80th accrual rate benefit structure for active members.

During the accounting period, Local Space paid contributions at the rate of 9.1% (2016:9.1%). Member contributions were 4.9% (2016:4.9%).

As at the balance sheet date, there were 24 active members of the scheme employed by Local Space. The annual pensionable payroll in respect of these members was £719,014 (2016:£493,948). Local Space continues to offer membership of the scheme to its employees.

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

Note 18 continued

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the Scheme is a multi-employer scheme where the Scheme assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers

The scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement, the company 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.

The Association has agreed to make additional deficit payments to SHPS at the rate of £8,906 (2016:£3,719) per year for 10 years. Using the discount rate based on SHP's statement for the same period a liability with a net present value of £93,000 is recognised within provisions for this contractual obligation.

	2017	2016
	£'000	£'000
At 1 April	97	45
Increase in provision due to deficit agreement	-	52
Released in the year	(4)	-
At 31 March 2017	93	97

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

19. Share capital

The association is a Registered Society under Cooperative and Community Benefit Society Act 2014.

	2017	2016
	No	No
Shares of £1 each issued and fully paid		
At 1 April	9	9
Joining during the year	2	1
Leaving during the year	(3)	(1)
At 31 March 2017	<u>8</u>	<u>9</u>

The shares provide members a right to vote at general meetings, but do not provide any rights to dividends or distributions on a winding up.

20. Capital commitments

	2017	2016
	£'000	£'000
Capital expenditure		
Expenditure contracted for but not provided in the accounts	2,712	1,455
Expenditure authorised by the board, but not contracted	6,856	-
	<u>9,568</u>	<u>1,455</u>

The above commitments will be financed primarily through internal funds.

21. Contingent assets/liabilities

The Association had no contingent assets or liabilities at 31 March 2017 (2016: nil).

Disclosures in relation to key management personnel and the Board are included in note 10.

22. Leasing commitments

The future minimum lease payments of leases are as set out below.

The association's future minimum operating lease payments are as follows:

	2017	2016
	£'000	£'000
Within one year	1	2
Between one and five years	<u>4</u>	<u>5</u>

NOTES TO THE REPORT AND FINANCIAL STATEMENTS**23. Related parties**

Councillors Andrew Baikie, Ian Corbett and Richard Crawford who were Board members, and Cllr Tahmina Rahman who is a Board member, are also elected councillors of the London Borough of Newham. Douglas Trainer and Jessica Tamayao, who are Board members, are employees of the London Borough of Newham. All transactions with the Borough are on normal commercial terms.

Disclosures in relation to key management personnel are included in note 10.

24. Newham Surplus Sum (NSS)

The Newham Surplus Sum is calculated according to the Master Agreement between Local Space Limited and the London Borough of Newham (LBN). The Newham Surplus Sum for 2016/17 is £2.5m (2015/16: £2.6m).

A London Borough of Newham master agreement extension fee was paid in 2016 of £9m.

25. Financial assets and liabilities**Categories of financial assets and financial liabilities**

	2017	2016
	£'000	£'000
Financial liabilities measured at amortised cost	179,577	172,054
Total	<u>179,577</u>	<u>172,054</u>

Financial assets

Other than short-term debtors, financial assets held are equity instruments, cash deposits placed on money markets at call, seven-day and monthly rates and cash at bank. They are sterling denominated and the interest rate profile at 31 March was:

	2017	2016
	£'000	£'000
Floating rate on money market deposits	16,571	18,401
Financial assets on which no interest is earned	42	49
Total	<u>16,613</u>	<u>18,450</u>

The financial assets are floating rate, attracting interest at rates that vary with bank rates.

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

Note 25 continued

Financial liabilities excluding trade creditors – interest rate risk profile

The Association's financial liabilities are sterling denominated. The interest rate profile of the Association's financial liabilities at 31 March was:

	2017 £'000	2016 £'000
Fixed rate	132,000	132,000
Floating rate	47,577	40,054
	<u>179,577</u>	<u>172,054</u>

Borrowing facilities

The Association has undrawn committed borrowing facilities. The facilities available at 31 March in respect of which all conditions precedent had been met were as follows:

	2017 £'000	2016 £'000
Expiring in one year or less	-	3,000
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years	42,500	75,000
	<u>42,500</u>	<u>78,000</u>

Financial liabilities at fair value through the statement of comprehensive income

	2017 £'000	2016 £'000
Movement in fair value of financial derivatives	1,308	-
Total	<u>1,308</u>	<u>-</u>

26. Post balance sheet event

The Association finalised a private placement for £75 million on 26 June 2017, receivable in two tranches of £37.5 million with the second instalment due in June 2018.