

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 2018

ASSOCIATION INFORMATION

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

29840R

Regulator of Social Housing Registration Number

LH4454

Registered Office

58 Romford Road, Stratford, London E15 4BZ

Board

Richard Reynolds (Chair)
Clive Turner (Vice Chair)
Caitlin Farrow (Senior Independent Board Member)
Cllr Tahmina Rahman
Jessica Tamayao
Manu Nair (from 23 May 2017)
Tim Mulvenna (from 13 September 2017)
Richard Stevens (from 13 September 2017)
Martin Bellinger (from 17 October 2017)
John Layton (to 31 May 2017)
Sarah Ebanja (to 20 August 2017)
Janet Marsh (to 30 September 2017)
Elaine Bowes (to 31 January 2018)
Douglas Trainer (to 31 January 2018)

Executive Management Team

Chief Executive
Operations Director
Interim Finance & Resources Director
Interim Finance Director
Finance Director
Development Director
Corporate Services Director

Jitinder Takhar
Caroline Wagstaff
Iain Bacon (from 26 April 2017 to 20 October 2017)
Francesca Rhodes (from 30 October 2017 to 31 May 2018)
Josephine Parsons (from 04 June 2018)
Stephen Kirrage
Catherine Diamond (from 01 June 2018)

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

In my first full year as Chair, I am pleased to report that the Board, Executive and officers have delivered a number of notable achievements towards Local Space's strategic plan this year and have ensured that Local Space is recognised at the highest regulatory grading for governance and financial viability as well as retaining its leading Standard & Poor's AA- credit rating.

Key to the Local Space strategy is the supply of additional social housing for homeless families with a target to procure 850 homes in the 4-year period 2016-2020; March 2018 marks the half-way point for this strategy and 324 homes had been acquired by this date. In addition, Local Space has established an effective procurement supply chain to ensure the delivery of these much needed homes. As part of this strategic target, Local Space entered into an agreement with the London Borough of Waltham Forest (LBWF) this year to acquire 50 homes with grant funding support from Right to Buy proceeds; this contract will contribute to our strategic target whilst also increasing our financial capacity. I am particularly pleased to report that the agreement with LBWF was conceived and agreed, and 25 homes were acquired, within a 5 month period; this is testament to the agile and focussed organisation that Local Space has become.

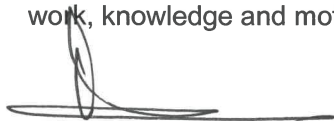
To support the acquisition strategy, Local Space entered the bond market for the first time in 2017 and agreed 40-year fixed-rate Private Placement funding of £75m with M&G at an average coupon of 3.2%. This low-cost funding contributes effectively to the largely fixed, reliable, and low risk nature of Local Space's cash flows, a profile which has been achieved predominantly through guaranteed rent agreements with our key local authority partner, the London Borough of Newham (LBN). Local Space continues to enjoy a productive and supportive relationship with LBN; the Standard & Poor's AA- credit rating, re-affirmed in February this year, recognises the credit strength in the long-term guaranteed rental agreements with LBN and the associated stable cash flows.

For the year ended 31 March 2018, we made a surplus of £5.9m which compares to a surplus of £5.6m in 2016/17. At 31 March 2018, fixed assets were £405m which represents an increase of 17% in the year. Operating margins remain very strong and compliance with all financial covenants is confirmed.

From a governance perspective, the Board (following a number of retirements and appointments in 2017) has become well-established and highly effective. This is partly a result of the professional experience that individual members bring to the Board, but also because of the level of scrutiny, challenge, encouragement and commitment that Board members provide to Local Space. The governance arrangements were duly recognised during an in-depth-assessment by the Regulator of Social Housing in January when Local Space retained its G1 V1 status. In 2017, the Board adopted the most recent NHF Model Rules and Local Space is fully compliant with the NHF Code of Governance and the high standards of governance that this represents.

The only notable change at the executive level has been the recent recruitment of the Finance Director post; this role has been largely fulfilled by interim resources this financial year, but I am pleased to report that we have now successfully recruited a Finance Director for Local Space with directly relevant experience for the organisation Local Space is today, and the organisation it will become as we build on our financial strength and strong foundation in governance, deliver our corporate strategy, and partner effectively with our local authority partners to reduce homelessness.

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 Local Authority partners.



Richard Reynolds
Chair

STRATEGIC REPORT

The Board of Local Space is pleased to present its report and the audited financial statements for the year ended 31 March 2018.

The association's financial performance during 2017/18 showed an improvement of 6.2% in the Surplus for the year. Turnover was slightly higher during 2017/18 though this growth in turnover from the acquisition of new properties was less than expected. These acquisitions did however lead to an increase in operating costs compared to 2016/17 (average of £1,400 per growth unit) especially with regard to maintenance and service costs relating to spend commitments in advance of properties being let. Administrative operating costs were higher than originally forecast predominantly due to exceptional and non-recurring recruitment costs, interim staff costs, and aborted acquisition costs. These adverse operating costs were offset by lower than forecast depreciation charges and finance costs. Overall, the surplus was £5.9m (Surplus 2017: £5.6m) after the Newham Surplus Sum payable to London Borough of Newham, of £2.525m (2017: £2.500m). The Newham Surplus Sum is the agreed contractual payment made to the London Borough of Newham (LBN) to recompense them for cost of directly managing properties on behalf of Local Space.

The Corporate Strategy for the period 2016-2020 is on target for successful fulfilment. Intrinsic to this is the ongoing support of our Local Authority and banking partners, and our ability as a small team to deliver our goals and effectively manage our contracts with third parties.

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:

Strategic Objectives:	Primary Performance Goals:
Homes that people want to live in	<ul style="list-style-type: none"> Acquire 800 homes in the 4-year period 2016-2020 for the London Borough of Newham. Acquire 50 homes by September 2018 with grant funding for the London Borough of Waltham Forest. Inform the Asset Management Strategy by completing stock condition surveys for all homes by July 2018.
Services that our customers are happy with	<ul style="list-style-type: none"> Achieve 90% satisfaction with home and services from our residents.
Being a successful business	<ul style="list-style-type: none"> Maintain an Operating Margin of at least 56% and EBITDA of more than 72%. Ensure ongoing covenant compliance and a credit profile commensurate with the RSH Financial Viability Standard and an AA- credit rating. Demonstrate and evidence at least two Value for Money case studies per department each year.
Being a well-managed organisation	<ul style="list-style-type: none"> Achieve staff satisfaction of more than 80% by March 2019. Ensure full Board membership is retained and develop the Board culture and effectiveness.

STRATEGIC REPORT (CONTINUED)

Homes that people want to live in

The acquisition strategy is our primary objective and key to our corporate mission. This strategy is phased over a 4-year period from 2016 to 2020 with the objective of purchasing/developing 800 homes at a total cost of £209 million. The financial parameters of this programme are based on 1/3 of these homes being in the London Borough of Newham, 1/3 in surrounding boroughs, and 1/3 outside the M25. To support this programme, the London Borough of Newham has guaranteed the rental income from these properties to Local Space and will undertake the tenancy management responsibilities until 2031 in exchange for a fixed management fee. This arrangement results in very stable income and expenditure cash flows and largely insulates Local Space from welfare reform and from the current prescribed regulatory rent deflation.

House prices and the ability to acquire properties within the parameters agreed by the Board and to sustain loan security valuation positions, is a key strategic factor. The house price market is monitored closely and, to date, market values subject to tenancies have risen year-on-year. The Board is alert to this risk and has introduced Golden Rule targets for asset cover valuations to provide for the risk of house price deflation.

By 31/03/2018, 299 of the 800 home target had been acquired at a cost of £80m. 88 of these had been rented whilst the remainder were being repaired/refurbished to our letting standards – consistent with our mission to deliver quality social housing, and our strategic objective to provide ‘homes that people want to live in’.

In March 2018, Local Space also entered into an agreement with the London Borough of Waltham Forest (LBWF) to acquire 50 homes with grant funding assistance from LBWF. By 31/03/2018, 25 of these properties had been acquired. The contract with LBWF guarantees 100% of the rental income to Local Space and a prescribed level of annual income inflation for a 30-year period; these contractual arrangements support our strategic drive to collaborate effectively with our Local Authority partners and to deliver value for money for them and for our residents. These homes will be directly managed by Local Space increasing our pool of directly managed stock and enabling direct control of operating costs.

In 2017-18, we have refined our procurement processes, supply chain, and associated contractual arrangements, to support the efficient acquisition and repair of new properties. The prime objective of this is to increase the rate at which we can acquire properties, repair those properties, and make them available for homeless families.

Local Space instigated a stock condition survey programme in 2017/18; 57% of the property portfolio has been surveyed for stock investment requirements to date. The resulting investment forecasts reflect the individual and specific nature of the Local Space stock and are being utilised to inform the long term financial forecasts and asset management plans.

From 2018/19 onwards Local Space will be actively looking to add to its existing programme of acquisitions by exploring direct development opportunities subject to strict viability conditions agreed by Board.

Services that our customers are happy with

In terms of how our services are viewed by our tenants, the recent independent STAR survey showed that 84% of Local Spaces directly managed tenants are happy with the overall services we provide. This went up to 92% in our tenant satisfaction survey sent out with the tenants newsletter in December 2017. When it comes to engagement and communication, 81% said that they found it easy to contact us and 83% felt regularly kept informed which represents top quartile performance when compared to our peers.

STRATEGIC REPORT (CONTINUED)

Being a successful business

Local Space has maintained high operating margins and financial covenant compliance throughout 2017/18. 'Golden Rules' have also been introduced to ensure that financial planning adequately provides for financial risk.

Strategic Objectives:	31/03/2018	31/03/2017	Covenant ¹	Local Space Golden Rule 2018/19
Operating Margin ²	54.7%	60.1%	n/a	>56%
Interest Cover	201%	224%	105%	>126%
Gearing	45%	42%	75%	<60%

The financial covenant performance reflects Local Space's ongoing investment programme; in 2017/18 acquisition costs net of grant were £63m, these costs were funded by increased debt levels of £44m.

Local Space revised its Treasury Policy in October 2017; this has increased corporate minimum liquidity requirements and enhanced routine treasury reporting to the Board.

Local Space is rated by the Standard & Poor's credit rating agency as AA- Stable; only one other Registered Provider in the UK is rated at this sector-leading level; the rating was last re-affirmed in February 2018. Local Space is also compliant with the highest regulatory viability standard of V1. Compliance with the regulatory Viability Standard was formally assessed and confirmed by the Regulator of Social Housing in April 2018.

The acquisition strategy continues until March 2020 and, based on current projections, is forecast to remain compliant with the financial covenants and with the credit profile of an AA- organisation.

In 2017/18, Local Space arranged a private placement for £75m with M&G Investment Management Ltd; this is a 40-year fixed coupon agreement in two tranches; the first tranche of £37.5m at a coupon of 3.176% was issued in July 2017; the remaining tranche of £37.5m (agreed coupon of 3.280%) was issued in June 2018. This low-cost long-term funding is enabling Local Space to progress its acquisition strategy and work with its local authority partners from a secure funding basis with low levels of interest rate risk. Local Space also increased and restructured loan facilities with Santander in March 2018; this agreement included a new 7-year loan facility for £16m and the restructure of an existing short-term revolving credit facility with one year remaining to extend the availability period until March 2023.

Long-term liabilities arising from financing activities increased by £44m in 2017/18; and increased by £74k from changes in the fair value of the private placement funding/stand-alone derivatives.

Further funding will be required in 2019/20 and 2020/21 to refinance existing loans and to complete the acquisition strategy but due to its very low level of investment commitments at any one point in time, Local Space has no reliance on funding lines not yet agreed. Local Space considers its refinancing risk to be low.

¹ Tightest Formal Financial Covenants

² Operating Margin including the Newham Surplus Sum

STRATEGIC REPORT (CONTINUED)

At the year-end, the Local Space's reserves amounted to £183.3m (2017: £177.8m), including an accumulated revaluation surplus on housing properties of £131.1m (2017: £131.5m); the surplus for the year was £5.9m (Surplus 2017: £5.6m).

Governance

Local Space has continued to review and strengthen its governance throughout the year. Good governance is vital to the effective and efficient running of Local Space, and our governance strength has recently been confirmed. Following an in depth assessment by the Regulator of Social Housing in early 2018, Local Space retained its governance rating of G1.

In 2017 we appointed Altair to carry out an independent review of our governance arrangements. This included a full review of our Board composition, skill and competencies. As a growing and developing organisation, our needs are changing in terms of the skills that we need on our Board. As a result we recruited more new Board members and our Chief Executive, Jitinder Takhar, also joined the Board in April 2018. We are confident that we are led by a strong, effective and skilled Board.

The Board is responsible for directing the affairs of Local Space, and every Board member has an agreement for service, setting out their obligations. It is supported by two committees, the Audit and Risk Committee and the newly constituted Nominations and Remuneration Committee. It also sets up task and finish groups to lead on specific pieces of work. The Board works closely with the Tenant and Scrutiny Panel, with the members of the panel also attending Board meetings.

Local Space adopted a Code of Conduct in 2017. It also adopted the 2015 NHF Code of Governance and we are happy to report we are now fully compliant with the Code. The Board reviews its compliance with the Code each year, and it also reviews its compliance with all of the relevant RSL standards twice each year. We are able to certify that there has been full compliance with the RSL Governance and Viability standards.

Performance

The key performance indicators used by the executive and the Board during 2017/18 are set out below:

- Delivery of the growth strategy.
- Compliance with the financial covenants and Local Space's own Golden Rules.
- Compliance with the liquidity policy.
- 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.

Overall, performance showed good to excellent levels of performance. The effective delivery of the growth strategy was the prime driver of any under-performance in 2017/18.

STRATEGIC REPORT (CONTINUED)

Risks & Uncertainties

The table below summarises some of the main risks faced by the association that have the potential to affect the organisation's future and/or the delivery of its corporate strategy; the current main mitigating actions are also listed.

Risk Factor	Mitigating Actions
<p>House Price Inflation <i>and the impact on the affordability of the growth strategy or</i></p> <p>House Price Deflation <i>and the impact on the valuation of loan collateral</i></p>	<ul style="list-style-type: none"> • Acquisition approval parameters agreed by the Board. • Weekly monitoring report produced by Development Director and regular scrutiny through the Executive and Board. • Treasury policy reporting includes cash flow and liquidity forecasting with specific focus on the growth programme. • Security plan implemented to support future funding requirements and to target excess asset cover positions against loans. • Annual budget review of growth plan delivery targets vs budget. • Business Plan stress testing includes movement in house price inflation/deflation.
<p>Health & Safety Incident <i>arising from the failure to maintain valid gas safety certificates for 100% of properties</i></p>	<ul style="list-style-type: none"> • Dedicated compliance officer in post. • Invested in compliance software to provide more comprehensive monitoring system – system fully implemented by December 2017. • Monthly review meetings with contractors. • Gas safety certificate compliance is a key performance indicator and routinely monitored and reported to the Board along with reports on fire risk assessments, electric testing and asbestos.
<p>The Withdrawal of the UK from the EU <i>and the impact on funding costs, house prices, labour availability, and Local Authority partnership agreements</i></p>	<ul style="list-style-type: none"> • The Executive monitors developments closely. Issues affecting LS are reported to the Board. • Market updates are received on a regular basis from JCRA (Treasury Consultants) and there is regular communication with JCRA and lenders. • Regular reviews of the Business Plan and stress testing. • Regular reviews of the funding strategy and treasury risks with JCRA support. • Monthly monitoring of security pool, valuations, and covenant compliance to ensure sufficient headroom is maintained against covenants.

LOCAL SPACE LIMITED

Report and financial statements for the year ended 31 March 2018

Reduced Surpluses and Unrecoverable Costs <i>arising from a failure to refurbish and let newly acquired properties at the budgeted rate</i>	<ul style="list-style-type: none">• The supply chain has been strengthened to provide four sub-contractors to fulfil this work; service level penalty clauses have been put in place for non-performance.
Termination of key contracts with Local Authority partners <i>arising from a failure to deliver contractual obligations and/or catastrophic business failure</i>	<ul style="list-style-type: none">• Maintaining sufficient cash reserves and high standards of Governance & Financial Viability.• Delivery of contractual responsibilities and expectations.• Regular senior level meetings with Local Authority partners.• Discussions at the strategic partnership board meetings.
Management failure and reputational damage	<ul style="list-style-type: none">• Recruitment and retention of an experienced management team and Board.

In response to the tragic event at Grenfell House where so many lost their lives Local Space has taken the following actions:

- Posted a notice on our web site about fire safety.
- Sent letters to all our residents in flatted accommodation to advise further on fire safety, provide guidance in event of a fire, and request feedback on any areas of concern.
- Carried out evaluation of all tower block accommodation. This confirmed that Local Space does not use the same type of cladding as that used at Grenfell.
- Carried out fire risk assessments, and where we are not the freeholder, requested all the fire risk assessments that have been carried out.
- Regular reports to Board on compliance, assessments and programmes of work.

Local Space is not materially exposed to welfare reform. 82% of its turnover is guaranteed through its contractual and long-term arrangements with Local Authority partners.



Richard Reynolds
Chair

25 July 2018



Jitinder Takhar
Chief Executive

25 July 2018

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 RSH's Regulatory Framework includes a specific standard for VfM. This standard was updated in April 2018 and lists required outcomes for registered providers to meet as follows:

- To clearly articulate their strategic objectives.
- To have an approach agreed by their board to achieving value for money in meeting these objectives and demonstrate their delivery of value for money to stakeholders.
- Through their strategic objectives, articulate their strategy for delivering homes that meet a range of needs.
- Ensure that optimal benefit is derived from resources and assets and optimise economy.

The standard lists specific expectations of providers as follows:

- A robust approach to achieving value for money.
- Regular and appropriate consideration by the board of potential value for money gains.
- Consideration of value for money across their whole business.
- Appropriate targets and monitoring and reporting arrangements in place for measuring performance in achieving value for money.

The standard requires us to publish evidence in the statutory accounts to enable stakeholders to understand our performance against our own standards and against sector performance with measurable plans to address areas of underperformance.

Under the new standard providers are no longer required to publish a VfM self-assessment.

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 Regulator of Social Housing (RSH) in relation to VfM;
- Make decisions on how resources are used to deliver objectives including 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.

REPORT OF THE BOARD (CONTINUED)

The VfM strategy was reviewed in 2017/18 and aligned with the Corporate Plan through to 2020. It will be further reviewed in 2018/19 in light of the new regulatory standard.

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:

- 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.
- We also recognise the opportunity we have to drive VfM for Local Space, our residents and for our loan authority partners.
- 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.
- We engage in rigorous sensitivity testing and we assess all our risks and 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 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 continue to enjoy good financial health and provides the Board with choices for targeted investment in those priorities that have been highlighted by our customers.

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:

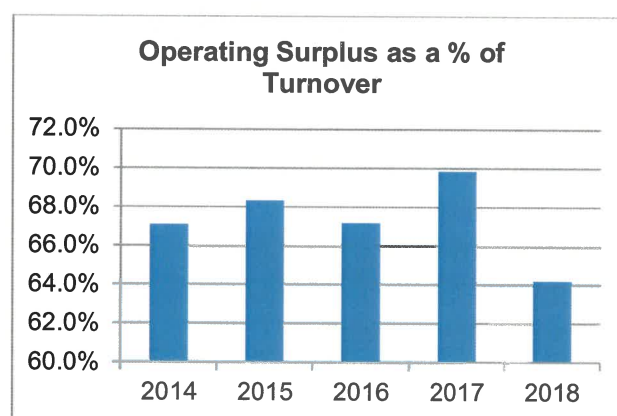
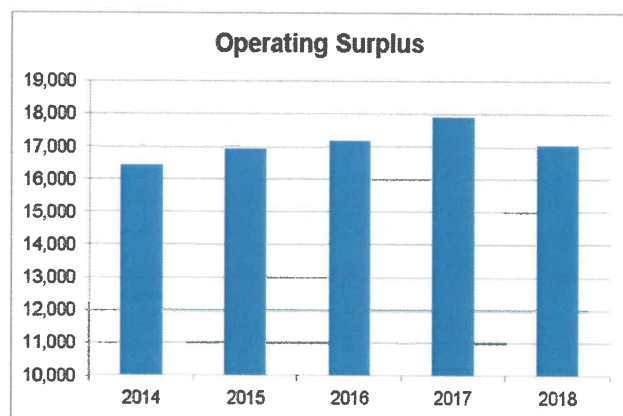
Income and expenditure account £000	2018**	2017**	2016*, **	2015**	2014
	£'000	£'000	£'000	£'000	£'000
Total turnover	26,534	25,632	25,576	24,777	24,491
Operating surplus before Newham Surplus Sum	17,036	17,907	17,181	16,931	16,435
Surplus / (Deficit) for the year	5,929	5,582	(1,842)	6,783	7,241

Balance sheet £000	2018**	2017**	2016*, **	2015**	2014
Fixed assets	405,467	346,689	331,944	330,410	327,473
Net current assets/(liabilities)	2,595	10,941	11,333	15,733	12,105
Total assets less current liabilities	408,062	357,630	343,277	346,143	339,578
Loans and provision (due over one year)	224,701	179,788	171,017	172,065	172,001
Total reserves	183,361	177,842	172,260	174,078	167,577
Total long term loans and reserves	408,062	357,630	343,277	346,143	339,578

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

** The values for 2015, 2016, 2017 and 2018 are based on FRS102 accounting principles

The following charts usefully illustrate the steady and positive improvement in our financial results to 2017. 2018 does show a drop in operating margin due to non-recurrent costs around recruitment and interim cover.



The new Value for Money Standard came into effect from April 2018. This requires us to report on a total of seven Value for Money metrics with comparators to previous year's performance and sector performance. This requirement has been incorporated into this Value for Money Statement with sector comparisons sourced from the 31/3/2017 Sector scorecard published in HouseMark. The results are summarised in the table below and demonstrate how Local Space is increasingly using the strength of its balance sheet to successfully deliver new homes.

REPORT OF THE BOARD (CONTINUED)

Value For Money Metric	Local Space			Sector Scorecard 2016/17		
For the year ended 31 March	2018 ¹	2017 ¹	2016 ²	Upper	Median	Lower
Reinvestment	15.7%	5.4%	1.6%	N/A	N/A	N/A
New Supply Delivered	10.9%	4.8%	0.9%	2.2%	1.2%	0.4%
Gearing	55.4%	52.1%	52.2%	37.6%	45.2%	59.0%
EBITDA MRI Int Cover	193.2%	221.6%	238.9%	300.6%	203.6%	161.3%
Headline Social Housing Cost per Unit (£)	2,846	2,508	3,337	2,233	3,020	4,095
Operating Margin (Soc Housing Only)	54.8%	60.2%	56.9%	37.0%	32.5%	26.6%
Operating Margin (All) ³	54.7%	60.1%	56.8%	34.8%	29.8%	23.8%
Return on Capital Employed	3.7%	4.2%	4.1%	5.5%	4.2%	3.1%

1. Operating Profit after Newham surplus sum
2. Operating profit after Newham surplus sum but before £9m one-off agreement extension fee paid to LBN.
3. Operating Margin reduced due to non recurrent recruitment and interim costs and maintenance and service costs for growth properties not yet let.

The Local Space Business Plan approved by Board in March 2018 shows the following projected results for the next 3 years.

Value For Money Metric	Local Space		
For the year ended 31 March	2019	2020	2021
New Supply Delivered	9%	13%	N/A ¹
Gearing	51%	56%	54%
EBITDA MRI Int Cover	187%	153% ²	153%
Headline Social Housing Cost per Unit (£)	3,517	4,420 ³	4,523
Operating Margin (All)	56%	59%	59%
Return on Capital Employed	4%	4%	4%

1. Number of units for development programme not yet known
2. 36% increase in interest payable due to increased debt to fund growth programme
3. Average Maintenance costs per unit rise from £528 to £1,244. Plan assumes that Local Space fully manages and maintains units after expiry of rent agreements.

In addition to the Sector Scorecard Local Space reports on other key financial indicators with comparators to previous year's results and this is summarised in the table below.

REPORT OF THE BOARD (CONTINUED)

For the year ended 31 March	2018	2017	2016	2015
Surplus for the year as %age of income from lettings	22.3%	21.8%	(7.2%) ¹	27.4%
Rent losses (voids and bad debts as %age of rent and service charges receivable)	0.2%	1.0%	0.3%	0.8%
Rent arrears (gross arrears as %age of rent and service charges receivable)	2.9%	2.1%	1.8%	1.9%
Liquidity (current assets divided by current liabilities)	128.7% ³	269.2%	244.7%	329.2%

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

2. The values for 2015, 2016, 2017 and 2018 are based on FRS102 accounting principles.

3. Ratio impacted by £1.7m creditor provision for retention fees for Brennan Road Scheme.

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 2018 we maintained a positive profile for this with an increase of £902,000 rental income.
- The values for 2015, 2016, 2017 and 2018 are based on FRS102 accounting principles.
- Operating margin stands at 54.7% which, decrease compared with last year (60.1%), continues to compare extremely favorably with the sector average.
- Net margin stands at 22.3% for 2017/18. 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 2018 showing a position of 128.7%. This is a very sound result which is well above the sector norms.
- Funding position is stable with loans increasing from £179.6m to £223.6m, with undrawn facilities of £52m.

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.

Return on assets

The RSH'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:

REPORT OF THE BOARD (CONTINUED)

- 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:

2017/18							
Portfolio	Number of Properties	Market Value STT	Gross Rent	Gross Yield %	Operating Surplus	Surplus as a % of Gross Rent	Operating Surplus/Property £'000
		£'000	£'000				
London Borough of Newham	1748	383,689	21,747	5.7%	12,028	55.3%	6.88
Directly Managed	395	112,618	4,834	4.3%	2,483	51.4%	6.29
Total	2143	496,307	26,581	5.4%	14,511	54.6%	6.77
2016/17							
Portfolio	Number of Properties	Market Value STT	Gross Rent	Gross Yield %	Operating Surplus	Surplus as a % of Gross Rent	Operating Surplus/Property £'000
		£'000	£'000				
London Borough of Newham	1540	314,108	21,024	6.7%	12,733	60.6%	8.55
Directly Managed	372	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
Movement							
Portfolio	Number of Properties	Market Value STT	Gross Rent	Gross Yield %	Operating Surplus	Surplus as a % of Gross Rent	Operating Surplus/Property £'000
		£'000	£'000				
London Borough of Newham	208	69,581	723	-1.0% -	705	-5.3%	0.25
Directly Managed	23	1,548	83	0.0% -	191	-4.9%	-0.39
Total	231	71,129	806	1.1% -	896	4.2%	0.08
Capital Growth							
London Borough of Newham		22.2%					
Directly Managed		1.4%					
Total		16.7%					

Notes:

- The Savills valuations at 31 March each year are based on (predominantly) Market Value Subject to Tenancy basis (MV-STT).
- The operating surpluses shown are net of Newham Surplus Sums (NSS) paid to LBN.
- The slight reduction in returns for 2017/18 compared to 2016/17 is due to pressure on operating surplus driven by non-recurrent interim and recruitments costs

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.

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 and part of our process of continuous improvement. Most recently the Tenant's Panel has assisted us with shortening the void process and hence the time taken to complete a void and undertaking a revised voids standards audit which has increased tenant take up.

In addition, we carry out independent monthly transactional surveys covering repairs and maintenance, gas repairs and servicing, lettings and complaints. The results from this survey have led to changes in our telephone systems in receiving calls and providing more information at letting for new tenants.

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 reporting and 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 new VfM Standard published in April 2018 states that providers are no longer required to formally publish VfM self assessments.

The Board's Self-Assessment and Commitment to Stakeholders

With the narrative and the evidence provided throughout this self-assessment, the Board of Local Space has established its case for being compliant with the requirements of the VfM standard. 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 2018/19 and beyond.

Donations

Local Space made no political donations in the year. (2017: £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.

REPORT OF THE BOARD (CONTINUED)

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 2017 up to the date of approval of this report and financial statements. Key elements of the control framework include:

- Board approved governance procedures, scheme of delegation and financial regulations, including terms of reference and delegated authorities for the Audit & Risk Committee, and Nominations and Remuneration Committee.
- Management responsibilities for the identification, evaluation, and control of significant risks and regular reviews by external specialists.
- Annual assurance reporting from the executive, via the Audit and Risk Committee, to the Board. The Board also receives an annual report on assurance from the Audit and Risk Committee.
- Risks register review by the Audit & Risk Committee and the Board; the risk management process includes a programme of 'deep dives' to interrogate individual risks and assess the effectiveness of mitigations.
- Strategic and business planning processes, with detailed financial budgets and forecasts which clearly link the strategy, the financial business plan, stress testing, and the risk map;
- Formal recruitment, retention, learning and development policies for all staff;
- Established authorisation procedures for all significant new initiatives and commitments;
- Treasury management supported by retained treasury advisors which is subject to external review as required;
- Regular reporting to the Board on key business objectives, performance indicators, targets and outcomes;
- Board approved anti-fraud and corruption policy and whistle-blowing policy;
- An internal audit programme which is informed by the organisation's risk map and strategic objectives and priorities;
- Based on assessments by the Executive and the Audit & Risk Committee, the following areas were examined by our internal auditors and, where necessary, action was taken during the year to address reported weaknesses in our controls and procedures:
 - Business Planning
 - Data Protection
 - Regulatory Returns
 - Purchase to Pay
 - Development
 - Repairs & Maintenance
 - Gas Safety
 - Health & Safety – Fire & Electrical Safety
 - Information & Technology

The overall opinion given by the internal auditors, BDO, is that they were able to give reasonable 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 audits relating to Local Space's preparations for the new General Data Protection Regulations, and for the Purchase to Pay processes were deemed to provide substantial assurance in both design and effectiveness; the effectiveness of controls relating to Regulatory Returns were also deemed to provide substantial assurance.

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

REPORT OF THE BOARD (CONTINUED)

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.

The Co-operative and Community Benefit Society Act 2014 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.

Governance and Viability Compliance

In January 2018, the regulator undertook a routine In-Depth Assessment of Local Space and subsequently confirmed that Local Space is compliant with the highest regulatory standards of governance and viability.

The Board, having reviewed all relevant RSH standards and evidence for compliance, certifies full compliance with the requirements of the Governance and Viability Standard as issued by the Regulator of Social Housing.

Assets and Liabilities Register

The RSH'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.

REPORT OF THE BOARD (CONTINUED)

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 been 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.

External Auditor

A resolution to re-appoint Grant Thornton UK LLP will be proposed at the forthcoming Annual General Meeting. Local Space will then commence a retendering process, commencing autumn 2018, for external audit services.

Annual General Meeting

The Annual General Meeting will be held on 12 September 2018.

The report of the Board was approved by the Board on 25 July 2018 and signed on their behalf by:

A handwritten signature in black ink, appearing to be 'Richard Reynolds', written over a horizontal line.

Richard Reynolds

Chair

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS LOCAL SPACE LIMITED

Opinion

We have audited the financial statements of Local Space Limited for the year ended 31 March 2018 which comprise the statement of comprehensive income, statement of changes in equity, the balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the organisation's affairs as at 31 March 2018 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.

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 company 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.

Who we are reporting to

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.

Conclusions relating to going concern

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other information

The Board is responsible for the other information. The other information comprises the information included in the Strategic Report and Report of the Board, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 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 require for our audit.

Responsibilities of the Board for the financial statements

As explained more fully in the Statement of Board's Responsibilities, the Board 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 directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the company'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 Board either intend to liquidate the organisation or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

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

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

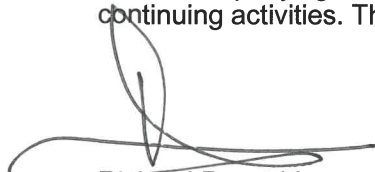
Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 27 JULY 2018

STATEMENT OF COMPREHENSIVE INCOME

	Note	2018 £'000	2017 £'000
Turnover	3	26,534	25,632
Operating expenditure	3	<u>(9,498)</u>	<u>(7,725)</u>
Operating surplus	5	17,036	17,907
Newham Surplus Sum	24	<u>(2,525)</u>	<u>(2,500)</u>
		14,511	15,407
Gain / (Loss) on disposal of property, plant and equipment fixed assets	6	697	(357)
Interest receivable	7	36	71
Interest and financing costs	8	(9,241)	(8,231)
Movement in fair value of financial derivatives	17	(74)	(1,308)
		<u>5,929</u>	<u>5,582</u>
Surplus/(deficit) before taxation		5,929	5,582
Taxation		<u>-</u>	<u>-</u>
Surplus/(deficit) for the year		5,929	5,582

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 25 July 2018.



Richard Reynolds
Chair



Board Member



Kirsty Semple
Secretary

STATEMENT OF CHANGES IN RESERVES

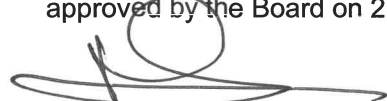
	Note	Income and expenditure account £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2016		40,748	131,512	172,260
Surplus for the year		5,582	-	5,582
Balance at 31 March 2017		46,330	131,512	177,842
Unrealised Surplus on revaluation of investment properties	13		254	254
Disposal of properties			(664)	(664)
Surplus for the year		5,929	-	5,929
Balance at 31 March 2018		52,259	131,102	183,361

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

		2018 £'000	2017 £'000
Tangible Fixed assets	Note		
Housing properties	11	402,765	344,124
Other fixed assets	12	1,752	1,830
Investment properties	13	950	735
		405,467	346,689
Current assets			
Trade and other debtors	14	2,578	823
Cash and cash equivalents		9,074	16,613
		11,652	17,436
Creditors: amounts falling due within one year	15	(9,057)	(6,495)
Net current assets		2,595	10,941
Total assets less current liabilities		408,062	357,630
Creditors: amounts falling due after more than one year	16	(224,701)	(179,788)
Total net assets		183,361	177,842
Reserves			
Income and expenditure reserve		52,259	46,330
Revaluation reserve		131,102	131,512
Total reserves		183,361	177,842

The accompanying notes form part of these financial statements. The financial statements were approved by the Board on 25 July 2018.



Richard Reynolds
Chair



Board Member



Kirsty Semple
Secretary

STATEMENT OF CASH FLOWS

	2018	2017
	£'000	£'000
Net cash generated from operating activities	20,740	17,964
Cash flow from investing activities		
Purchase of tangible fixed assets	(63,895)	(18,857)
Sale Proceeds	1,413	
Interest received	36	71
	<u>(62,446)</u>	<u>(18,786)</u>
Cash flow from financing activities		
Interest paid	(9,010)	(8,231)
Loan arrangement fee	(823)	(307)
Loan drawn down	74,500	32,500
Loan repayment	<u>(30,500)</u>	<u>(24,977)</u>
	34,167	(1,015)
Net change in cash and cash equivalents	(7,539)	(1,837)
Cash and cash equivalents at beginning of the year	<u>16,613</u>	<u>18,450</u>
Cash and cash equivalents at end of the year	<u>9,074</u>	<u>16,613</u>
Cash flow from operating activities		
	2018	2017
	£'000	£'000
Surplus for the year	5,929	5,582
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	4,226	3,755
(Increase)/Decrease in trade and other debtors	(1,755)	(108)
Increase/(Decrease) in trade and other creditors	2,562	(1,356)
Decrease in Pension Provision	(15)	-
Carrying amount of tangible fixed asset disposals	(697)	357
Swap increase	74	1,308
Increase in Long term Creditor (LBWF Grant)	1,211	-
Amortisation of loan arrangement fee	231	266
Interest payable	9,010	8,231
Interest receivable	(36)	(71)
Net cash generated from operating activities	<u>20,740</u>	<u>17,964</u>

The accompanying notes form part of these financial statements.

NOTES TO THE 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 £64m relating to component replacements (£1m) and the acquisition of Growth plan properties (£63m).

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 2018 was £15m.

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 £83k is recorded in the statement of financial position at 31 March 2018.

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.

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 Sections 11 & 12 of the Financial Reporting Standard 102 and concluded that they are all basic financial instruments.

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 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. Contributions 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 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 the statement of comprehensive income.

Government grants

Government grants include grants receivable from the Homes England, local authorities, and other government organisations. Government grants received for housing properties are written off to the reserves account on the 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. There have been no new grants received during the period since the transition date; therefore there remains no grant accrual. However grant receivable from London Borough of Waltham Forest has been invoiced in March 2018 and recognised in the statement of financial position at 31st March 2018. Local Space will apply the accrual method of grant recognition from April 2018.

Where individual components are disposed of 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 the statement of comprehensive income. 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 statement of comprehensive income 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

	2018		
	Turnover	Operating expenditure	Operating Surplus
	£'000	£'000	£'000
Social housing letting	26,504	(9,430)	17,074
Non-social housing activities	30	(68)	(38)
	<u>26,534</u>	<u>(9,498)</u>	<u>17,036</u>

	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>

NOTES TO THE FINANCIAL STATEMENTS

Note 3 (Continued)

Particulars of income and expenditure from social housing lettings

	2018		2017	
	Temporary Social housing £'000	Key worker housing £'000	Total £'000	Total £'000
Rent receivable net of identifiable service charges	25,158	1,328	26,486	25,584
Service charge income	-	18	18	18
Other revenue grants	-	-	-	-
Turnover from social housing lettings	25,158	1,346	26,504	25,602
Management	(3,007)	(204)	(3,211)	(2,502)
Service charge costs	(702)	(17)	(719)	(396)
Routine maintenance	(653)	(102)	(755)	(475)
Planned maintenance	(441)	(66)	(507)	(349)
Major repairs expenditure	-	-	-	(44)
Bad debts	41	(34)	7	(93)
Depreciation of housing properties	(3,754)	(288)	(4,042)	(3,632)
Other costs	(174)	(29)	(203)	(223)
Operating costs on social housing lettings	(8,690)	(740)	(9,430)	(7,714)
Operating surplus on social housing lettings	16,468	606	17,074	17,888
Void losses	(40)	(8)	(48)	(144)

Particulars of turnover from non-social housing lettings

	2018 £'000	2017 £'000
Investment Income	29	30
Other Income	1	-
	30	30

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:

	2018 No of Properties	2017 No of Properties
Social housing		
Temporary social housing	2,009	1,776
Key worker housing	131	132
Total owned	2,140	1,908
Non-social housing		
Investment properties	3	4
Total owned and managed	2,143	1,912

5. Operating surplus

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

	2018 £'000	2017 £'000
Depreciation of housing properties	4,042	3,632
Depreciation of other tangible fixed assets	184	123
Operating lease rentals		
- office equipment and computers	1	2
Auditors' remuneration (excluding VAT)		
-Fees payable to the association's auditors for the audit of the financial statements	34	27
-Fees payable to the association's auditors for other serves:	-	18
Total audit services	34	45
All other services	-	-
Total non-audit services	-	-

NOTES TO THE FINANCIAL STATEMENTS**6. Gain / (Loss) on disposal of fixed assets – Components**

	2018	2017
	£'000	£'000
Disposal proceeds	1,424	-
Cost of Disposals	(475)	
Carrying value of fixed assets	<u>(252)</u>	<u>(357)</u>
	<u>697</u>	<u>(357)</u>

7. Interest receivable and other income

	2018	2017
	£'000	£'000
Interest receivable and similar income	36	71
	<u>36</u>	<u>71</u>

8. Interest and financing costs

	2018	2017
	£'000	£'000
Loans and bank overdrafts	(9,241)	(8,231)
	<u>(9,241)</u>	<u>(8,231)</u>

9. Employees

	2018	2017
	No	No
Administration	9	10
Development	5	4
Housing, support and care	<u>10</u>	<u>13</u>
	<u>24</u>	<u>27</u>

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

NOTES TO THE FINANCIAL STATEMENTS

9. Employees (continued)

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

	2018 No	2017 No
£60,001 to £70,000	3	1
£70,001 to £80,000	-	-
£80,001 to £90,000	1	1
£90,001 to £100,000	-	1
£100,001 to £130,000	1	1
	<u>1</u>	<u>1</u>

Employee costs:

	2018 £'000	2017 £'000
Wages and salaries	1,533	1,335
Social security costs	120	94
Other pension costs	89	68
	<u>1,742</u>	<u>1,497</u>

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	2018 Total £'000	2017 Total £'000
Chief Executive				
Jitinder Takhar	130	10	140	128
Key Management personnel	240	16	256	240
	<u>370</u>	<u>26</u>	<u>396</u>	<u>368</u>

Key Management Personnel consist of:

- | | |
|----------------------|---|
| 1) Joel Inbakumar | Finance & Resources Director (left 30 May 2017) |
| 2) Iain Bacon | Finance & Resources Director (left 21 October 2017) |
| 3) Stephen Kirrage | Development Director |
| 4) Caroline Wagstaff | Operations Director |
| 5) Catherine Diamond | Corporate Services Director |
| 6) Kirsty Semple | Company Secretary |

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 £130,000 from 1 April 2017 to 31 March 2018 (2017: £122,000).

Board and committee members

The association had 15 people who were serving Board and committee members in 2017/18 (2016/17:17). Ten of these Board members and Committee members received emoluments of £37,000 during the year (2017: £25,364). One board member was subsequently paid arrears in June 2018 backdated to October 2017. The remaining four Board and Committee members were not entitled to receive emoluments.

	2018 £	2017 £
John Layton (to 31 May 2017)	1,667	8,068
Sarah Ebanja (to 20 August 2017)	2,292	5,500
Elaine Bowes (to 31 January 2018)	5,000	5,000
Kenechukwu Ibezi (to 31 July 2016)	-	1,000
Caitlin Farrow (from 26 January 2016)	4,000	3,796
Clive Turner (from 6 December 2016)	4,000	1,333
Manu Nair (from 6 December 2016) ¹	3,708	667
Martin Bellinger (from 17 October 2017) ²	-	-
Richard Stevens (from 13 September 2017)	3,250	-
Richard Reynolds (from 28 March 2017)	9,500	-
Paul Edwards (from 13 September 2017)	1,083	-
Tim Mulvenna (from 13 September 2017)	2,500	-
	<u>37,000</u>	<u>25,364</u>

¹ Manu Nair appointed to Audit Committee from 6 December 2016 and Board from 23 May 2017.

² Martin Bellinger received backdated arrears in June 2018.

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 2017	354,362	62	354,424
Additions	696	-	696
Properties acquired	62,641	346	62,987
Schemes Completed	7	(7)	-
Disposals	(1,127)	-	(1,127)
At 31 March 2018	<u>416,579</u>	<u>401</u>	<u>416,980</u>
Depreciation and impairment			
At 1 April 2017	10,300	-	10,300
Depreciation charged in year	4,042	-	4,042
Disposals	(127)	-	(127)
At 31 March 2018	<u>14,215</u>	<u>-</u>	<u>14,215</u>
At 31 March 2018	<u>402,364</u>	<u>401</u>	<u>402,765</u>
At 31 March 2017	<u>344,062</u>	<u>62</u>	<u>344,124</u>

Expenditure on works to existing properties

	2018 £'000	2017 £'000
Components capitalised	696	797
Amounts charged to income and Expenditure	-	44
	<u>696</u>	<u>841</u>

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:

	2018 £'000	2017 £'000
Housing properties at historical cost	416,980	354,424
Accumulated depreciation	(14,215)	(10,300)
	402,765	344,124

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 2017	1,738	416	80	334	2,568
Additions	30	18	6	52	106
At 31 March 2018	1,768	434	86	386	2,674
Depreciation					
At 1 April 2017	263	171	76	228	738
Charged in the year	33	105	3	43	184
At 31 March 2018	296	276	79	271	922
Net book value					
At 31 March 2018	1,472	158	7	115	1,752
At 31 March 2017	1,475	245	4	106	1,830

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

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

	2018	2017
	£'000	£'000
At 1 April	735	735
Additions	106	-
Disposal	(145)	-
Increase/decrease in value	254	-
At 31 March	<u>950</u>	<u>735</u>

Investment properties were valued at fair value as at 31 March 2018. 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

	2018	2017
	£'000	£'000
Due within one year		
Rent and service charges receivable	771	549
Less: provision for bad and doubtful debts	(319)	(326)
	<u>452</u>	<u>223</u>
Other debtors	1,721	303
Prepayments and accrued income	405	297
	<u>2,578</u>	<u>823</u>

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

15. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	460	13
Bank Overdraft	-	-
Rent and service charges received in advance	1,936	1,889
Key worker tenant deposit	85	83
Other taxation and social security	45	43
Amounts due to property providers	1,724	12
Pension	9	4
Grant	42	-
Holiday Pay	16	14
Accrued loan interest	1,583	1,242
Newham Surplus Sum	2,525	2,500
Accruals and deferred income	632	695
	9,057	6,495

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

	2018 £'000	2017 £'000
Debt (Note 17)	223,181	179,699
Grant	1,446	-
Pension	74	89
Total	224,701	179,788

17. Debt analysis

	2018 £'000	2017 £'000
Bank loans	186,077	179,577
Bond	37,500	-
Fair value of the interest rate swap	1,382	1,308
Arrangement Fee	(1,778)	(1,186)
Total	223,181	179,699

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 (£100m) is repayable commencing 2021. The loan from Santander (£53m) is repayable commencing 2021. The loan from Barclays (£33m) is repayable commencing 2021. The M&G Bond of £37.5m is repayable commencing 2048.

At 31 March 2018 the association had undrawn loan facilities of £52m (2017: £42.5m).

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

	2018 £'000	2017 £'000
Within one year or on demand	-	-
Two years or more but less than five years	137,018	88,500
Five years or more	86,559	91,077
	<u>223,577</u>	<u>179,577</u>

Derivative Financial Instruments - Interest Rate Swap

The association has entered into two standalone 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 at March 2018 is £1.4m (2017: £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's operations expose it to a variety of financial risks, including credit risk, liquidity risk and interest rate rise 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 £5m 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 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.

Local Space cash and cash equivalents earned interest at a variable rate of 0.2% during the year 2017/18.

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 7.7% (2017:7.7%). Member contributions were 4.9% (2017:4.9%).

As at the balance sheet date, there were 21 active members of the scheme employed by Local Space. The annual pensionable payroll in respect of these members was £1,009,705 (2017:£719,014). 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 £9,174 (2017:£8,906) 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 £84,000 is recognised within provisions for this contractual obligation.

	2018 £'000	2017 £'000
At 1 April	93	97
Increase in provision due to deficit agreement	-	-
Released in the year	(9)	(4)
At 31 March 2018	84	93

19. Share capital

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

	2018 No	2017 No
Shares of £1 each issued and fully paid		
At 1 April	8	9
Joining during the year	4	2
Leaving during the year	(4)	(3)
At 31 March 2018	8	8

The shares provide all shareholders, with the exception of London Borough of Newham, with a right to vote at general meetings, but do not provide any rights to dividends or distributions on winding up.

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

20. Capital commitments

	2018 £'000	2017 £'000
Capital expenditure		
Expenditure contracted for but not provided in the accounts	9,599	2,712
	<u>9,599</u>	<u>2,712</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 2018 (2017: 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:

	2018 £'000	2017 £'000
Within one year	1	1
Between one and five years	<u>3</u>	<u>4</u>

23. Related parties

Councillor Tahmina Rahman who is a Board member, is an elected councillor of the London Borough of Newham. Douglas Trainer and Jessica Tamayao, who have both served on as Board members, are employees of the London Borough of Newham. All transactions with the Borough are on normal commercial terms. Jitinder Takhar is employed as the Chief Executive of Local Space.

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 2017/18 is £2.525m (2016/17: £2.500m).

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

25. Financial assets and liabilities

Categories of financial assets and financial liabilities

	2018 £'000	2017 £'000
Financial liabilities measured at amortised cost	223,577	179,577
Total	<u>223,577</u>	<u>179,577</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:

	2018 £'000	2017 £'000
Floating rate on money market deposits	8,943	16,571
Financial assets on which no interest is earned	131	42
Total	<u>9,074</u>	<u>16,613</u>

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

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:

	2018 £'000	2017 £'000
Fixed rate	169,500	132,000
Floating rate	54,077	47,577
	<u>223,577</u>	<u>179,577</u>

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

Note 25 continued

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:

	2018 £'000	2017 £'000
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years	52,000	42,500
	<u>52,000</u>	<u>42,500</u>

Financial liabilities at fair value through the statement of comprehensive income

	2018 £'000	2017 £'000
Movement in fair value of financial derivatives	1,382	1,308
Total	<u>1,382</u>	<u>1,308</u>

