

Registered Co-operative and Community Benefit Society No 29840R

Registered Social Housing Provider No LH4454

Local Space

**Report and financial statements
for the year ended 31 March 2019**

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

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 (to 6 August 2018)
Jessica Tamayao (to 2 July 2019)
Manu Nair
Tim Mulvenna
Richard Stevens
Martin Bellinger
Conor McAuley (from 27 November 2018)
Jitinder Takhar (from 23 April 2018 to 31 August 2019)

Executive Management Team

Chief Executive
Operations Director
Operations Director
Interim Finance Director
Finance Director
Development Director
Corporate Services Director
Company Secretary

Jitinder Takhar
Caroline Wagstaff (to 16 October 2018)
Mark Kent (from 16 October 2018)
Francesca Rhodes (to 31 May 2018)
Josephine Parsons (from 04 June 2018)
Stephen Kirrage
Catherine Diamond (from 01 June 2018)
Kirsty Semple

Main Banker

Lloyds Bank plc
25 Gresham Street
London EC2V 7HN

Solicitors

Devonshires Solicitors LLP
30 Finsbury Circus
London EC2M 7DT

Auditor

Beever and Struthers
15 Bunhill Row
London EC1Y 8LP

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LOCAL SPACE

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CHAIR'S MESSAGE

In my second full year as Chair, I am pleased to report that the Board, executive and officers have delivered many notable achievements towards Local Space's strategic plan during the year. Local Space has retained its AA- rating with Standard & Poors and its G1V1 regulatory rating following a viability review during the year. This demonstrates the inherent strength of the business and its stable and predictable cashflows which are supported by rent guarantees from our key partners.

The core strategic aim for Local Space is to supply additional homes for homeless families to our key Local Authority partners. The target is to deliver 865 homes (800 for London Borough of Newham and 65 for London Borough of Waltham Forest) over a 4-year period 2016-2020, and this has been expanded further to deliver an additional 104 homes for the London Borough of Waltham Forest to build on the contract delivered in 2018/19. The supply and refurbishment process has been streamlined during the year and is now delivering around 30 homes per month with an average refurbishment time of 11.5 weeks.

The funding strategy for the year to support this growth required the addition of £80m new funding to be sourced. This came from a variety of sources including existing bank funders (Barclays and Santander) and a new funder to the sector (MORhomes). £50m of the £80m was obtained on a fixed rate basis for 19 years at a cost of under 3.5%. This adds to Local Space's longer term fixed cashflows and mitigates against the risk of increasing interest rates on variable rate debt.

For the year ended 31st March 2019 we made a net surplus of £4.3m (£5.9m 2017/18). As at 31st March 2019 fixed assets were £484m (2017/18 £405m), an increase of 19.5% in the year. Operating margins remain strong at 54%, and all financial covenants were complied with at all times during the year.

Looking at governance, the Board has been stable during the year, with only one change made as a result of a change in administration in the London Borough of Newham. The Board is highly skilled and able to provide appropriate challenge, scrutiny and encouragement to the business and its staff. Local Space is fully compliant with the most up to date NHF Code of Governance.

During 2018/19 three new executive appointments were made; the Finance, Operations, and Corporate Services' Directors took up their posts during the year. These posts were all filled by individuals with suitable experience to take the organisation forward in delivering its strategy.

I would like to thank all Board members for their commitment and contributions during the year. I would also like to thank the staff for their hard work without which the business would not be able to operate and achieve so much.



Richard Reynolds
Chair

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

BOARD REPORT

The Board of Local Space is pleased to present its report and the audited financial statements for the year ended 31 March 2019.

Objectives and Strategy to achieve objectives

Local Space is a specialist provider of social housing. Its focus is on the provision of temporary accommodation and key worker homes in partnership with several key local authority partners. Local Space works in East London and Essex, and partners with local authorities through contracts and nominations agreements which govern the way in which the homes are allocated. In general, the focus is to provide homes for families and individuals from local authority homeless waiting lists.

The homes Local Space provides offer our partners a more cost-effective alternative to renting properties on the open market, in which to house homeless families and individuals. In addition key worker accommodation offers a way to house workers in key public services who would not be able to afford accommodation on the open market, but who might not otherwise qualify for social housing.

Our corporate objectives for 2018/19 are summarised as:

Strategic Objectives:	Primary Performance Goals:
Homes that people want to live in	<ul style="list-style-type: none">• Acquire 260 homes in-year• 370 homes let in-year• Acquire 50 homes in-year with grant funding for the London Borough of Waltham Forest• Maintain homes to Local Space standard including completing all stock condition surveys during 2018/19• Pilot re-provision of at least 20 homes in Hackney
Services that our customers are happy with	<ul style="list-style-type: none">• Achieve 90% satisfaction with home and services from our residents• Involve tenants in key decisions that affect services provided to them• Extend monitoring of KPIs to all properties including those managed by third parties
Being a successful business	<ul style="list-style-type: none">• Maintain an Operating Margin of at least 56%, net margin of at least 19% 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• Funding strategy developed to ensure liquidity and covenant compliance• VFM KPIs met or exceeded; at least two Value for Money case studies per department each year
Being a well-managed organisation	<ul style="list-style-type: none">• Achieve IIP accreditation• Achieve staff satisfaction of more than 80% by March 2019• ICT services audited and digital strategy developed• Ensure full Board membership is retained including succession planning and develop the Board culture and effectiveness

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

BOARD REPORT (CONTINUED)

Local Space Business Model

The business model balances the rent received from the occupation of our homes with the costs to manage the properties and tenancies, as well as service the debt accumulated during the acquisition and development of our property portfolio.

Over 90% of our rental income is guaranteed through one of our local authority partnerships. This means that there is a very stable income stream which contributes to our high credit rating (AA- Standard & Poors) and allows our lenders to offer us the best possible rates for our debt finance. Our debt finance is mostly secured on the value of the property portfolio which further protects our funders and allows them to offer us finance at good rates.

Local Space began a growth program in 2016 which is expected to last 4 years in total. This program aims to add 969 additional homes to our 2016 portfolio of 1,817 social housing units. This is possible through leveraging the value inherent in the original Acquisition and Equity portfolio of 1,450 homes to acquire more homes in the early part of the growth program, and in turn use the value of subsequently newly acquired homes to help fund the later growth. 2018/19 was the third year of the growth program.

Our business model has some differences when compared to most registered providers of social housing. We tend to achieve higher operating margins than most other providers, 2018/19 62% (2017/18 64%) as calculated before deducting the Newham Sum compared with median operating margins of 28% in our sector. Our net margin in 2018/19 was 15% (2017/18 22%). We have been able to retain the highest credit rating with Standard and Poors of any registered provider, AA-, and we have remained fully compliant with our regulator's highest standards, G1V1, again this year following our regular viability review.

Future Prospects

The growth program for the London Borough of Newham is continuing in 2019/20. Local Space is also extending the delivery program for the London Borough of Waltham Forest for the next two financial years, subject to the availability of Right to Buy (RTB) receipts.

Having undertaken stock condition surveys in more than 87% of our homes we are planning a £13m investment program in our homes over the next 5 financial years. This will improve the quality of homes for the residents who reside in them.

Planned performance for future years and a comparison of actual performance v plan for 2018/19 is provided in the table below:

Local Space Performance in 2018/19

Financial performance has been satisfactory in the year with an operating surplus of £18.2m before the Newham Sum (2017/18 £17.0m), and a net surplus of £4.7m (2017/18 £5.9m) before recognition of initial defined benefit pension scheme liabilities and actuarial losses for the year.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

BOARD REPORT (CONTINUED)

Value for Money metrics	2018/19 Actual	2018/19 Plan	2019/20 Plan	2020/21 Plan	Median for sector 2017/18
Operating Margin	54.0%	56.0%	54.7%	55.3%	27.9%
EBITDA-MRI	170%	187%	149%	138%	213.6%
Interest cover					
Gearing	62%	51%	65%	68%	35.1%
Return on capital employed (ROCE)	3.3%	4%	4%	4%	3.7%
New supply delivered	9.9%	9%	8.4%	8.4%	1.5%
Headline social housing costs per unit	£3,197	£3,517	£4,420	£4,523	£3,450
Total number of homes	2,378	2,453	2,578	2,795	N/A
Investment in existing homes	£1.1m	£1.1m	£3.4m	£3.3m	N/A

The variance between actual and planned results for 2018/19 is largely due to:

- (i) fewer than planned property acquisitions;
- (ii) fewer properties coming into rent than planned;
- (iii) planning error on rental assumptions and
- (iv) changes in the accounting for the pension scheme deficit

235 new properties were acquired during the year and a total of 345 properties were let during the year to provide much needed new homes for families and individuals. At 31st March 2019 the cumulative number of properties handed over for lettings since the commencement of the growth programme was 479 (including 65 GPB (Growth Plan B Programme in partnership with London Borough of Waltham Forest)). The average time taken during the year from acquisition to let was 18 weeks. In the second half of the year this period had reduced to 11.5 weeks on average, reflecting the work undertaken to plan and manage our refurbishment contractors more effectively.

26 homes were re-let in the year (2017/18 39 homes) with an average turnaround time of 20 days. Arrears management has undergone significant review and improvement during the year. As a consequence, arrears have improved from 2.9% to 2.0%. Investment in existing homes was £1.1m in the year (2017/18 £0.7m) and 260 homes (2017/18 110 homes) received some capital investment during the year.

Health and Safety has remained a key focus in the business, both in terms of compliance and investment in our homes. Internal audits of fire and asbestos safety have delivered findings indicating reasonable (major incident) and partial (asbestos) assurance. Management have agreed necessary actions to be completed by no later than 31st May 2019 to address recommendations.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

BOARD REPORT (CONTINUED)

Key financial and non-financial indicators

Our key performance indicators are set out below and include the VFM indicators set by the Regulator for Social Housing.

Performance Measures	2018/19	2017/18	2016/17	2015/16	Median for sector 2017/18
Reinvestment %	16.8%	15.7%	5.4%	1.6%	5.8%
New supply delivered	9.9%	10.9%	4.8%	0.9%	1.5%
Number of new homes acquired	235	231	-	-	N/A
Number of new homes let	345	88	-	-	N/A
Investment in new homes	£80m	£63m	-	-	N/A
Investment in existing homes	£1.1m	£0.7m	£0.8m	-	N/A
Gearing	59.4%	55.4%	52.1%	52.2%	35.1%
Liquidity	173.1%	128.7%	269.2%	244.7%	214.5%
EBITDA-MRI Interest cover	170.0%	193.2%	221.6%	238.9%	213.6%
Headline social housing cost per unit ¹	£3,197	£2,846	£2,508	£3,337	£3,450
Rent losses (void and bad debts as % rent and service charges receivable)	0.7%	0.2%	1.0%	0.3%	2.3%
Rent arrears (gross arrears as % rent and service charges receivable)	2.0%	2.9%	2.1%	1.8%	4.4%
Operating margin (social housing)	53.6%	54.8%	60.2%	56.9%	30.4%
Operating Margin (all)	53.6%	54.7%	60.1%	56.8%	27.9%
Net surplus	£4.3m	£5.9m	£5.6m	(£1.8m)	£6.8m
Surplus for the year (as % income from lettings)	14.7%	22.3%	21.8%	(7.2%)	18.0%
Return on capital employed (ROCE)	3.3%	3.7%	4.2%	4.1%	3.7%

1. Headline social housing cost per unit based on all management and repair costs (including capitalised major works) before Newham Sum payment, divided by total number of social housing units owned.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

BOARD REPORT (CONTINUED)

Value for Money

Local Space demonstrates significant investment in the supply of new temporary accommodation compared with the sector median. This is the result of the growth program which has been underway since 2016. The amount of funds invested was £80m in 2018/19 (£63.0m 2017/18). In addition, £1.1m was invested in improvements to existing homes (£0.7m 2017/18).

This was possible as a result of both available lending, including some from new sources, and from the core business which returned a net surplus of £4.3m (2017/18 £5.9m). £80m of new loan funding was secured within the year.

One of the results of the investment in new homes is the rising gearing level in the business to 59.4% (55.4% 2017/18). However, this is well within the tightest lender's covenant for gearing which is 75% and was planned as part of the growth strategy. Sector median levels of gearing are lower at 35.1% demonstrating both differing loan covenants and also less investment in many other registered providers.

Headline social housing costs per unit have been consistent over the last few years and in 2018/19 were £3,197 (2017/18 £2,846). This compares with the sector median of £3,450 per unit. Capitalised repairs are included in this calculation and increased investment in existing stock accounts for the increase in average cost compared to 2017/18. The underlying trend of improvement is the result of doing more for the same cost as the number of units managed have increased with very little additional overheads being added.

Interest cover is also reducing over the term of the growth strategy as expected, as the loan portfolio grows to fund the growth program, to 170.0% (2017/18 193.2%). The sector median is 213.6%. Local Space's performance reflects its ambitious growth program which is largely funded by new borrowing.

Local Space will review its value for money strategy during 2019/20 and prepare a new plan with measures and targets for the years ahead. This will reflect the expectations of the regulator and guidance produced as well as the 2018 standard and sector best practice.

Principal risks and uncertainties

The top eight risks we are monitoring within the business this year are shown in table below:

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Report and financial statements for the year ended 31 March 2019

BOARD REPORT (CONTINUED)

Risk:	Main mitigating actions:
Gas Safety failure resulting in injury or death	<ul style="list-style-type: none"> Careful data management and regular audit Use of court procedure where necessary Program of safety checks starts at 10 months KPI monitored monthly Internal audit provided substantial assurance of control system
House price movement impacting growth strategy	<ul style="list-style-type: none"> Control limits approved by Board for each area of operation Regular monitoring of progress against targets Several agents used to source properties Current growth plan is fully funded
Withdrawal of UK from EU resulting in lack of funding availability or key contractor staff in maintenance and refurbishment program	<ul style="list-style-type: none"> Professional advisors in place to assist with funding plans Current growth plan is fully funded Current business plan stress tested for movements in funding costs and house prices No exposure to market sales Regular liaison with key contractors to assess resilience
Property refurbishment takes longer than planned, slowing delivery of new homes for letting resulting in income loss	<ul style="list-style-type: none"> Access to frameworks for VFM procurement Delivery program closely monitored Performance improved in year from 22 weeks to 11.5 weeks
Poor customer satisfaction resulting in reputational damage	<ul style="list-style-type: none"> Good housing management policies reviewed in-year Professional staff appointed to key posts Independent monitoring of customer satisfaction New KPI framework agreed with key Local Authority Partner
Breach of Data Protection Act resulting in reputational damage or substantial fine	<ul style="list-style-type: none"> Data protection policy in place and training provided to all staff and Board members Revised policies and procedure developed and implemented Compliance plan prepared and implemented New privacy notices developed and launched
Inability to secure or retain suitable staff resulting in inability to deliver services	<ul style="list-style-type: none"> Revised policies and procedures developed and implemented Reward and recognition scheme reviewed and improved
Breach of Equality and Diversity Legislation resulting in reputational damage or substantial fine	<ul style="list-style-type: none"> Strategy, policies and procedures in place Unconscious bias training provided to all staff and Board members Equality Impact assessment developed

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

BOARD REPORT (CONTINUED)

Governance

Local Space has retained the highest regulatory rating for governance again in 2018/19. During the year the Board skills matrix was reviewed to ensure that any skill gaps were identified and addressed. This skills matrix was utilised in the recruitment of the new Board member. The Board was subjected to external observation and undertook an annual review of its functioning, including the way in which induction and training was provided. Local Space has adopted the 2015 NHF Code of Governance. It reviews its compliance annually, and it is fully compliant with this Code. In 2018 it also reviewed its compliance with the UK Corporate Governance Code and the Charity Governance Code and the Board is satisfied that Local Space is also compliant with the principles contained in both of these Codes. Local Space reviews its compliance with all of the relevant RSH (Regulator of Social Housing) standards twice a year. We are able to certify that there has been full compliance with the RSH Governance and Viability standards.

Review of internal controls

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

The process for identifying, evaluating and managing the significant risks faced by the association is ongoing and has been in place throughout the period commencing 1 April 2018 up to the date of approval of the report and financial statements. Key elements of the control framework include:

- Board approved committee terms of reference and delegated authorities;
- Management responsibilities for the identification, evaluation, and control; of significant risks and regular reviews by external specialists;
- Risk register review by Audit and Risk Committee & Board;
- Asset and Liability Register maintained and updated every month with regular reporting to Audit and Risk Committee and Board;
- Strategic and business planning processes, with detailed financial budgets and forecasts;
- Formal recruitment, retention, learning and development policies for all staff;
- Established authorisation and appraisal procedures for all significant new initiatives and commitments;
- Treasury management which is subject to external review as required;
- Regular reporting to the Board on key business objectives, targets and outcomes and;
- Board approved anti-fraud and corruption policy and whistle-blowing policy;

A comprehensive program of internal audit assessment took place in the year. This was the first year with RSM as Local Space's internal auditor. RSM were appointed following a robust tender process.

The overall findings were that *Local Space has an adequate and effective framework for risk management, governance and internal controls, although further enhancements are required to the framework to ensure that it remains adequate and effective.*

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

BOARD REPORT (CONTINUED)

The audit program was developed to assess key risk areas within the business and included:

Area:	Key Findings:
Treasury Management	Substantial assurance
Gas Safety	Substantial assurance
Contract Management	Reasonable assurance
Key Financial Controls	Reasonable assurance
Health and Safety – Major Incident Policy	Reasonable assurance
Health and Safety – Asbestos Safety	Partial assurance
Data Quality	Partial assurance
GDPR Governance	Advisory Report
Follow up earlier recommendations	Reasonable progress

Where internal audit findings have led to 'partial assurance' reports, this is mainly due to the priority attributed to recommendations being implemented. Management have responded on a positive and timely basis to the recommendations and agreed them with the Audit & Risk Committee. Implementation of all audit recommendations is verified on a regular basis by the Internal Auditors.

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



Richard Reynolds
Chair

23 July 2019



Jitinder Takhar
Chief Executive

23 July 2019

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

STATEMENT OF RESPONSIBILITIES OF THE BOARD

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

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

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the association and of the Income and Expenditure for the period of account.

In preparing these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.


The Board is responsible for 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 Co-operative and Community Benefit Society Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It has general responsibility for taking reasonable steps to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board are responsible for the maintenance and integrity of the association's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to The Auditors

We the members of the Board who held office at the date of approval of these Financial Statements as set out above, confirm so far as we are aware, that there is no relevant audit information of which the Association's auditors are unaware; and we have taken all the steps that we ought to have taken as Board members to make ourselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Board Report was approved on 23rd July 2019 and signed on its behalf by:



Richard Reynolds

Chair

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF LOCAL SPACE

Opinion

We have audited the financial statements of Local Space “the Association” for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, the Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies in notes 1 and 2. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Association’s affairs as at 31 March 2019 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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.

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 Association’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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Report and financial statements for the year ended 31 March 2019

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other information

The other information comprises the information included in the Board Report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. 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 Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Board for the financial statements

As explained more fully in the Statement of Responsibilities of the Board for the Report and Financial Statements set out on page 12, 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 Board 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 Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

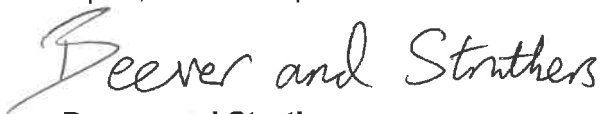
Auditor's responsibilities for the audit of the financial statements

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.

Use of our report

This report is made solely to the Association's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body for our audit work, for this report, or for the opinions we have formed.



Beever and Struthers
Statutory Auditor, Chartered Accountants
London

Date: 31 JULY 2019

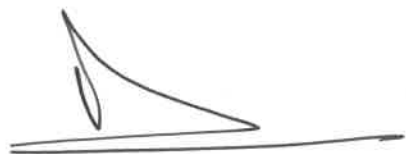
LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 £'000	2018 £'000
Turnover	3	29,129	26,534
Operating expenditure	3	<u>(10,952)</u>	<u>(9,498)</u>
Operating surplus	8	18,177	17,036
Newham Sum	33	<u>(2,550)</u>	<u>(2,525)</u>
		15,627	14,511
Gain / (Loss) on disposal of property, plant and equipment fixed assets	6	289	697
Interest receivable	7	40	36
Interest and financing costs	7	(11,082)	(9,241)
Movement in fair value of financial derivatives	32	<u>(134)</u>	<u>(74)</u>
Surplus/(deficit) before taxation		4,740	5,929
Taxation	9	<u>-</u>	<u>-</u>
Surplus/(deficit) after taxation		4,740	5,929
Other Comprehensive Income			
Initial recognition of multi employer defined benefit scheme	12	(397)	-
Actuarial (loss)/gain in respect of pension schemes	12	(72)	-
Total Comprehensive Income for the Year		<u>4,271</u>	<u>5,929</u>

The financial statements and accompanying notes on pages 16 to 48 were approved and authorised for issue by the Board on 23rd July 2019 and signed on its behalf by



Richard Reynolds
Chair



Board Member



Kirsty Semple
Secretary

The Statement of Comprehensive Income relates wholly to continuing activities and the notes on pages 20 to 48 form an integral part of these financial statements.

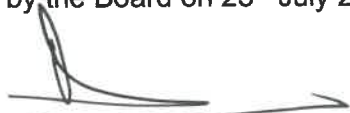
LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

STATEMENT OF FINANCIAL POSITION

		2019 £'000	2018 £'000
Tangible Fixed assets	Note		
Housing properties	14	480,481	402,765
Other fixed assets	15	1,655	1,752
Investment properties	16	910	950
Investments	18	855	-
		483,901	405,467
Current assets			
Trade and other debtors	17	4,076	2,578
Cash and cash equivalents		10,137	9,074
		14,213	11,652
Creditors: amounts falling due within one year	19	(8,210)	(9,057)
Net current assets		6,003	2,595
Total assets less current liabilities		489,904	408,062
Creditors: amounts falling due after more than one year	20	(302,506)	(224,701)
Provisions for liabilities			
Pension – defined benefit liability	25	(632)	-
Total net assets		186,766	183,361
Reserves			
Income and expenditure reserve		56,530	52,259
Revaluation reserve		130,236	131,102
Total reserves		186,766	183,361

The financial statements and accompanying notes on pages 16 to 48 were approved and authorised for issue by the Board on 23rd July 2019 and signed on its behalf by


Richard Reynolds
Chair


Board Member


Kirsty Semple
Secretary

The notes on pages 20 to 48 form an integral part of these financial statements.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

STATEMENT OF CHANGES IN RESERVES

	Note	Income and expenditure account £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2017		46,330	131,512	177,842
Total Comprehensive Income for the year		5,929	-	5,929
Unrealised surplus / (deficit) on revaluation of investment properties		-	254	254
Released on disposal of properties		-	(664)	(664)
Balance at 31 March 2018		52,259	131,102	183,361
Total Comprehensive Income for the year		4,271	-	4,271
Unrealised surplus / (deficit) on revaluation of investment properties	16	-	(40)	(40)
Released on disposal of properties		-	(826)	(826)
Balance at 31 March 2019		56,530	130,236	186,766

The notes on pages 20 to 48 form an integral part of these financial statements.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

STATEMENT OF CASH FLOWS

	2019 £'000	2018 £'000
Net cash generated from operating activities	17,626	20,740
Cash flow from investing activities		
Purchase of tangible fixed assets	(84,004)	(63,895)
Investments	(855)	-
Sale Proceeds	1,575	1,413
Grants received	5,698	-
Interest received	40	36
	<u>(77,546)</u>	<u>(62,446)</u>
Cash flow from financing activities		
Interest paid	(10,882)	(9,010)
Loan arrangement fee	(635)	(823)
Loan drawn down	165,500	74,500
Loan repayment	<u>(93,000)</u>	<u>(30,500)</u>
	60,983	34,167
Net change in cash and cash equivalents	1,063	(7,539)
Cash and cash equivalents at beginning of the year	<u>9,074</u>	<u>16,613</u>
Cash and cash equivalents at end of the year	<u>10,137</u>	<u>9,074</u>
Cash flow from operating activities		
	2019 £'000	2018 £'000
Total Comprehensive Income for the year	4,271	5,929
Adjustments for non-cash & non operating activity items:		
Depreciation of tangible fixed assets	4,530	4,226
(Increase)/Decrease in trade and other debtors	(1,498)	(1,755)
Increase/(Decrease) in trade and other creditors	(1,050)	2,562
Pension Provision	558	(15)
Carrying amount of tangible fixed asset disposals	(642)	(697)
Disposals	352	-
Movement in fair value of financial derivatives	134	74
Increase in Long term Creditor (LBWF Grant)	-	1,211
Amortisation of loan arrangement fee	200	231
Grant amortisation	(71)	-
Interest payable	10,882	9,010
Interest receivable	(40)	(36)
Net cash generated from operating activities	<u>17,626</u>	<u>20,740</u>

The notes on pages 20 to 48 form an integral part of these financial statements.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

1. Legal status

The association is registered under the Co-operative and Community Benefit Society Act 2014 and is a registered provider of social housing. It is an exempt charity.

2. Accounting policies

Basis of accounting

The financial statements of the association are 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 financial statements have been prepared under the historic cost convention as modified by investment properties and financial derivatives held at fair value or deemed cost for assets held at date of transition to FRS 102.

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 Board 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

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Turnover

Turnover comprises rental income receivable in the year, amortised capital grant, income from investment properties, other services included at the invoiced value of goods and services supplied in the year and from open market property sales. Rental income is recognised from the point when the properties under development reach legal practical completion or otherwise become available for letting, net of any voids. Turnover is recognised on an accruals basis.

Sale of Housing Properties

Outright sales of properties are treated as sales of fixed assets and not as properties developed for sale.

Interest Payable

The Interest payable is charged to the Statement of Comprehensive Income in the year to which it is incurred.

Current and Deferred Taxation By virtue of s.478 Corporation Tax Act 2010, the association has charitable status and is not subject to corporation tax on surpluses as a result of, or earned in furtherance of, charitable objectives.

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 costs 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.

Work 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.

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.

Completed properties and properties under construction are recognised at the lower of cost and net realisable value. Costs comprise of materials and direct overheads attributable to the development. Net realisable value is assessed using publicly available information and internal forecasts on future sales price after allowing for all further costs of completion and disposal.

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

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

Investment properties were valued at market value as at 31 March 2019. 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-Global Standards 2017 (incorporating the IVSC International Valuation Standards) and the RICS Valuation – Global standards 2017 – UK national supplement, together the "Red Book".

In arriving at their opinion of Market Value the valuers have adopted the following assumptions:

Gross Annual Rent (Current)	£74,100
Voids	5% of Rent Debit pa
Management Costs	8% of Rent Debit pa
Maintenance	2% of Rent Debit pa
Net Yield Applied	6-8%

Other 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

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.

Lease

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.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

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.

Bad and Doubtful Debts

The provision for bad and doubtful debts is based upon the age of arrears. Percentages are applied on a specific basis to the relevant age of arrears based upon our experience in collecting similar balances. All outstanding arrears balances are reviewed on an individual basis with the relevant provision applied if required.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Creditors

Short term trade creditors are measured at the transaction price.

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.

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. Local Space has subsequently applied the accrual method of grant recognition from April 2018 for new grant received from London Borough of Waltham Forest.

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

Employee Benefits

Short term employee benefits are recognised as an expense in the period in which they are incurred.

Retirement benefits

The cost of providing retirement pensions and related benefits is charged to management expenses over periods benefiting from the employees' services.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Local Space participates in the Social Housing Pension Scheme ('SHPS'), a defined benefit multi-employer pension scheme administered by TPT Retirement Solutions ('TPT'). Historically, TPT has not been able to provide sufficient information for each social landlord's share of SHPS to allow defined benefit accounting to be applied. Instead, in accordance with FRS (Financial Reporting Standard) 102 paragraphs 28.11 and 28.11A and Housing SORP (Statement of Recommended Practice) paragraphs 15.9 to 15.12, SHPS has been accounted for as a defined contribution scheme and recognised a liability for the present value of the landlord's deficit funding agreement.

Following changes made to systems and processes by TPT, sufficient information is now available for SHPS. In January 2019, the Financial Reporting Council issued FRED71 ('Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans.') which provides proposed changes to FRS 102 on this issue.

Consistent with the guidance in FRED 71 paragraph 4 (FRS 102 paragraph 28.11B), the difference between the deficit funding liability and the net defined benefit deficit for SHPS has been recognised in Other Comprehensive Income. Further disclosures in this area are included in Note 12.

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.

Financial Instruments

Financial assets and financial liabilities are measured at transaction price initially, plus, in the case of a financial asset or financial liability not at fair value through the Statement of Comprehensive Income, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial Instruments held by the association are as follows:

- Financial assets such as receivables are classified as loans and receivables and held at amortised cost using the effective interest rate method.
- Cash is classified as a financial asset and is held in the financial statements at cost.
- Derivatives such as interest rate swaps are classified as financial assets or financial liabilities at fair value.

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 of Bank Canada's syndicated loan facility. One swap covers the exposure for just over one year from 2026-2027 and the other from 2026-32. These swaps are non-basic financial instruments. At each Statement of Financial Position date, they are remeasured at fair value. Any movement in the measurement in fair value is recognised in the Statement of Comprehensive Income.

Financial instruments liabilities such as bonds and loans are held at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transactions costs

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

of the loan to the extent that it is probable that some or all of the facility will be drawn down. 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.

Local Space has identified four external loans from Lloyds, Barclays, Santander, MORhomes and a private placement bond with M&G to be financial instruments and analysed all loans and bonds according to Sections 11 & 12 of the Financial Reporting Standard 102 and concluded that they are basic financial instruments.

Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

The following financial instruments are assessed individually for impairment:

- (a) All equity instruments regardless of significance; and
- (b) Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics. An impairment loss is measured as follows on the following instruments measured at cost or amortised cost:

- (c) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.
- (d) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in the Statement of Comprehensive Income immediately.

Impairment of Non-financial Assets

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

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

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 fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on a similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated cost model or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the association as the existing property.

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.

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 the Housing SORP 2014.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

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

	2019		
	Turnover	Operating expenditure	Operating Surplus
	£'000	£'000	£'000
Social housing letting	29,061	(10,920)	18,141
Non-social housing activities	68	(32)	36
	<u>29,129</u>	<u>(10,952)</u>	<u>18,177</u>

	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>

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 3 (Continued)

Particulars of income and expenditure from social housing lettings

	2019		2018	
	Temporary Social housing £'000	Key worker housing £'000	Total £'000	Total £'000
Rent receivable net of identifiable service charges	27,614	1,356	28,970	26,486
Service charge income	-	20	20	18
Grant amortisation	70	1	71	-
Turnover from social housing lettings	27,684	1,377	29,061	26,504
Management	(3,358)	(198)	(3,556)	(3,211)
Service charge costs	(918)	(24)	(942)	(719)
Routine maintenance	(981)	(99)	(1,080)	(755)
Planned maintenance	(631)	(57)	(688)	(507)
Major repairs expenditure	-	-	-	-
Bad debts	(69)	(11)	(80)	7
Depreciation of housing properties	(4,125)	(229)	(4,354)	(4,042)
Other costs	(200)	(20)	(220)	(203)
Operating costs on social housing lettings	(10,282)	(638)	(10,920)	(9,430)
Operating surplus on social housing lettings	17,402	739	18,141	17,074
Void losses	(102)	(18)	(120)	(48)

Particulars of turnover from non-social housing lettings

	2019 £'000	2018 £'000
Investment Property Income	34	29
Other Income	34	1
	68	30

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

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:

	2019 No of Properties	2018 No of Properties
Social housing		
Temporary social housing	2,241	2,009
Key worker housing	134	131
Total owned	2,375	2,140
Non-social housing		
Investment properties	3	3
Total owned	2,378	2,143

5. Accommodation managed by others

The association owns property managed by other bodies

	2019 No of Properties	2018 No of Properties
Temporary Housing	1,937 ¹	1,749

¹ Includes 489 GPA (Growth Plan A) units which count as owned and managed for purposes of regulatory returns as Local Space is landlord.

6. Gain / (Loss) on disposal of fixed assets

	2019 £'000	2018 £'000
Disposal proceeds	1,622	1,424
Cost of Disposals	(980)	(475)
Carrying value of fixed assets	(353)	(252)
Surplus	289	697
Capital Grant recyclable/repayable (Note 22)	256	235
Disposals proceeds fund (Note 23)	-	-

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

7. Net Interest

	2019 £'000	2018 £'000
Interest Receivable and similar income		
On financial assets measured at cost:		
Interest receivable from current accounts	40	36
Interest receivable from short term deposits	-	-
Interest on fixed asset investments	-	-
On financial assets measured at fair value:		
Fair value gain on derivative financial instruments	-	-
Total Interest Receivable	40	36
	2019 £'000	2018 £'000
Interest Payable and financing costs		
On financial liabilities measured at amortised cost:		
On loans repayable within 5 years	6,864	5,758
On loans wholly or partly repayable in more than 5 years	4,002	3,236
Finance leases		
Costs associated with financing	216	247
On financial liabilities measured at fair value:		
Fair value loss on derivative financial instruments	134	74
Less: Interest capitalised on housing properties under construction	-	-
Total Interest Payable and Financing Costs	11,216	9,315
Net Interest Payable	11,176	9,279

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

8. Operating surplus

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

	2019 £'000	2018 £'000
Depreciation of housing properties	4,354	4,042
Depreciation of other tangible fixed assets	176	184
Operating lease rentals		
- office equipment and computers	<u>4</u>	<u>1</u>
Auditors' remuneration (excluding VAT)		
-Fees payable to the association's auditors for the audit of the financial statements	34 ¹	34
-Fees payable to the association's auditors for other services:	<u>-</u>	<u>-</u>
Total audit services	<u>34</u>	<u>34</u>
All other services	-	-
Total non-audit services	<u>-</u>	<u>-</u>

¹This is the audit fee for 2017/18 Financial Statements payable to the previous auditors. The audit fee for 2018/19 Statements payable to the current auditors will be £27k.

9. Tax on Surplus on ordinary activities

Local Space has not incurred any tax liability in 2018/19.

10. Employees

	2019 No	2018 No
Administration	10	9
Development	5	5
Housing, support and care	<u>10</u>	<u>10</u>
	<u>25</u>	<u>24</u>

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

The full-time equivalent number of staff who received remuneration in excess of £60,000 was as follows:

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 10 Continued

	No	No
£60,001 to £70,000	3	3
£70,001 to £80,000	-	-
£80,001 to £90,000	-	1
£90,001 to £100,000	2	-
£100,001 to £110,000	1	-
£110,001 to £120,000	1	-
£120,001 to £130,000	-	-
£130,001 to £140,000	-	1
£140,001 to £150,000	1	-
	<hr/>	<hr/>
Employee costs:	2019	2018
	£'000	£'000
Wages and salaries	1,391	1,533
Social security costs	163	120
Other pension costs	95	89
	<hr/> 1,649	<hr/> 1,742

The association's employees are members of the Social Housing Pension Scheme (SHPS). Further information on the scheme is given in Note 12.

11. Board members, committee members and executive directors

Executive directors

	Basic Salary £'000	Pension contributions £'000	2019 Total £'000	2018 Total £'000
Chief Executive				
Jitinder Takhar	141	11	152	140
Key Management personnel	439	26	465	256
	<hr/> 580	<hr/> 37	<hr/> 617	<hr/> 396

Key Management Personnel consist of:

- | | |
|----------------------|--|
| 1) Josephine Parsons | Finance Director (from 4 June 2018) |
| 2) Stephen Kirrage | Development Director |
| 3) Caroline Wagstaff | Operations Director (to 16 October 2018) |
| 4) Mark Kent | Operations Director (from 16 October 2018) |
| 5) Catherine Diamond | Corporate Services Director |
| 6) Kirsty Semple | Company Secretary |

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.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 11 Continued

The emoluments of the highest paid executive director, Jitinder Takhar, excluding pension contributions were £141,000 from 1 April 2018 to 31 March 2019 (2018: £130,000).

Board and committee members

The association had 13 people who were serving Board and committee members in 2018/19 (2017/18:15). Nine of these Board members and Committee members received emoluments of £45,667 during the year (2018: £37,000). One member received arrears of pay in April 2019. Two further members were not entitled to receive emoluments and a fourth is the Chief Executive whose details are shown above.

	2019	2018
	£	£
John Layton (to 31 May 2017)	-	1,667
Sarah Ebanja (to 20 August 2017)	-	2,292
Elaine Bowes (to 31 January 2018)	-	5,000
Caitlin Farrow (from 26 January 2016)	6,000	4,000
Clive Turner (from 6 December 2016)	7,500	4,000
Manu Nair (from 6 December 2016)	4,000	3,708
Martin Bellinger (from 17 October 2017)	3,667	-
Richard Stevens (from 13 September 2017)	6,000	3,250
Richard Reynolds (from 28 March 2017)	10,000	9,500
Paul Edwards (from 13 September 2017)	2,000	1,083
Tim Mulvenna (from 13 September 2017)	6,000	2,500
Beatrice Adusei (3 rd July 2018 to 16 th October 2018)	500	-
Nilesh Patel (from 16 th October 2018) ¹	-	-
	45,667	37,000

¹ Backdated arrears of £917 paid in April 2019

12. 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. The accounting policy in relation to SHPS is set out on Page 23.

Previously there has been insufficient information available for an employer in SHPS to account for its obligations on a Defined Benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, employers have been accounting for the obligation by stating the present value of agreed future deficit repayment contributions. At 31st March 2018 the present value of agreed deficit contributions provided in Local Space's Statement of Financial Position was £84k.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 12 Continued

For financial years ending on or after 31 March 2019 Local Space's pension administrator, TPT Retirement Solutions, are now able to provide sufficient information to enable Local Space to account for its obligations on a Defined Benefit basis.

The following adjustments have been made:

- Removal of the liability for the funding of the deficit funding agreement (reduction in Creditors of £84k; increase in Other Comprehensive Income £84k)
- Recognition of the net pension deficit (increase in pension liability £632k; reduction in Other Comprehensive Income £632k).

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% (2018:7.7%). Member contributions were 4.9% (2018:4.9%).

As at the Statement of Financial Position date, there were 24 active members of the scheme employed by Local Space. The total annual pensionable payroll in respect of all members on the scheme during 2018/19 was £1,236,184 (2018: £1,009,705). Local Space continues to offer membership of the scheme to its employees.

The TPT valuation at 31st March 2019 shows the fair value of plan assets to be £1,576k compared to £1,323k at 31st March 2018. The defined benefit obligation valuation at 31st March 2019 was £2,208k compared to £1,804k at 31st March 2018. The overall deficit recognised in the financial statements is £632k at 31st March 2019 compared to £481k at 31st March 2018.

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.

At 31st March 2018 Local Space agreed to make additional deficit payments to SHPS at the rate of £9,174 (2017: £8,906) per year for 10 years. This arrangement remains in place until such time as any revised contribution is agreed.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 12 Continued

Principle Actuarial Assumptions

	2019	2018
Rate of increase in Salaries	3.24%	3.13%
Rate of increase for pensions in payment / inflation	-	-
Discount Rate	2.36%	2.60%
Inflation Assumptions CPI	2.24%	2.13%
Allowance for commutation of pension for cash at retirement (% of max allowance)	75%	75%

The current mortality rates assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	2019 Years	2018 ¹ Years
Retiring in 2019		
Males	21.8	-
Females	23.5	-
Retiring in 2039		
Males	23.2	-
Females	24.7	-

Analysis of Amount Charged to Operating Expenditure

	2019 £000	2018 ¹ £000
Statement of Comprehensive Income (SOCl)		
Employers Costs net of Employees Contributions	170	-
Scheme Expenses	3	-
Interest	14	-
Total SOCI	187	-
Other Comprehensive Income (OCI)		
Initial recognition of multi employer defined benefit scheme	397	-
Actuarial losses	72	-
Total OCI	469	-
Total Charged to Operating Expenditure	656	-

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 12 Continued

Movement in surplus/(deficit) during year

	2019	2018 ¹
	£000	£000
Scheme Deficit at start of year	481	-
Employers Service Costs	170	-
Employers Contributions	(108)	-
Expenses	3	-
Net interest	14	-
Remeasurements	72	-
Scheme Deficit at 31 March 2019	632	-

Asset & Liability Reconciliation

Reconciliation of Liabilities	2019	2018 ¹
	£000	£000
Liabilities at start of period	1,804	-
Service Costs	170	-
Expenses	3	-
Interest Costs	50	-
Employee Contributions	59	-
Remeasurements	134	-
Benefits Paid	(12)	-
Liabilities at end of period	2,208	-

Reconciliation of Assets	2019	2018 ¹
	£000	£000
Fair value at start of period	1,323	-
Employer contributions	108	-
Employee Contributions	59	-
Interest	36	-
Remeasurements	62	-
Benefits Paid	(12)	-
Assets at end of Period	1,576	-

¹ Prior Year information is not available.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 12 Continued

The assets at the end of the period are as follows:-

	2019	2018
	£000	£000
Global Equity	265	261
Absolute Return	136	162
Distressed Opportunities	29	13
Credit Relative Value	29	-
Alternative Risk Premia	91	50
Fund of Hedge Funds	7	44
Emerging Markets Debt	54	53
Risk Sharing	48	12
Insurance- Linked Securities	45	35
Property	35	61
Infrastructure	83	34
Private Debt	21	12
Corporate Bond Fund	73	54
Long Lease Property	23	-
Secured Income	56	49
Over 15 Years Gilts	-	-
Liability Driven Investment	578	482
Net Current Assets	3	1
Total Assets	1,576	1,323

13. Intangible Assets & Goodwill

The association did not have any intangibles assets at 31st March 2018 or 31st March 2019.

NOTES TO THE FINANCIAL STATEMENTS

14. Fixed assets – Housing Properties

	Social Housing Properties held for Letting £'000	Housing properties for letting under construction £'000	Total housing properties £'000
Cost			
At 1 April 2018	416,579	401	416,980
Additions	1,107	-	1,107
Properties acquired	79,325	3,532	82,857
Schemes Completed	362	(362)	-
Aborted Costs	-	(39)	(39)
Disposals	(2,117)	-	(2,117)
At 31 March 2019	<u>495,256</u>	<u>3,532</u>	<u>498,788</u>
Depreciation and impairment			
At 1 April 2018	14,215	-	14,215
Depreciation charged in year	4,304	-	4,304
Disposals	(212)	-	(212)
At 31 March 2019	<u>18,307</u>	<u>-</u>	<u>18,307</u>
At 31 March 2019	<u>476,949</u>	<u>3,532</u>	<u>480,481</u>
At 31 March 2018	<u>402,364</u>	<u>401</u>	<u>402,765</u>

Expenditure on works to existing properties

	2019 £000	2018 £000
Components Capitalised	1,107	696
Amounts charged to Income & Expenditure	-	-
	<u>1,107</u>	<u>696</u>

The Net Book Value of assets charged as security on loans was £332,367k at 31st March 2019.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 14 Continued

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.

15. 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 2018	1,768	434	86	386	2,674
Additions	11	56	6	6	79
At 31 March 2019	<u>1,779</u>	<u>490</u>	<u>92</u>	<u>392</u>	<u>2,753</u>
Depreciation					
At 1 April 2018	296	276	79	271	922
Charged in the year	28	101	4	43	176
At 31 March 2019	<u>324</u>	<u>377</u>	<u>83</u>	<u>314</u>	<u>1,098</u>
Net book value					
At 31 March 2019	<u>1,455</u>	<u>113</u>	<u>9</u>	<u>78</u>	<u>1,655</u>
At 31 March 2018	<u>1,472</u>	<u>158</u>	<u>7</u>	<u>115</u>	<u>1,752</u>

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

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

	2019	2018
	£'000	£'000
At 1 April	950	735
Additions	-	106
Disposal	-	(145)
Increase/decrease in value	(40)	254
At 31 March	<u>910</u>	<u>950</u>

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") Global Standards 2017 (incorporating the IVSC International Valuation Standards) and the RICS Valuation – Global standards 2017 – UK national supplement, together the "Red Book".

The commercial units have been valued on an investment basis by reference to their current rent and the valuer's opinion of Market Rent, taking into account of the fact that one of the units (283-287 Barking Road) has been empty for some time. Key assumptions used are as follows:

Gross Annual Rent (Current)	£74,100
Voids	5% of Rent Debit pa
Management Costs	8% of Rent Debit pa
Maintenance	2% of Rent Debit pa
Net Yield Applied	6-8%

17. Debtors

	2019	2018
	£'000	£'000
Due within one year		
Rent and service charges receivable	576	771
Less: provision for bad and doubtful debts	(367)	(319)
	<u>209</u>	<u>452</u>
Other debtors	2,983	1,721
Prepayments and accrued income	884	405
	<u>4,076</u>	<u>2,578</u>

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

18. Investments

	2019	2018
	£'000	£'000
MORhomes – Investment Equity	280	-
MORhomes – Contingent Convertible Loan	575	-
	<u>855</u>	<u>-</u>

19. Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Trade creditors	25	460
Rent and service charges received in advance	1,957	1,936
Key worker tenant deposit	93	85
Other taxation and social security	69	45
Amounts due to property providers	516	1,724
Pension	-	9
Grant (Note 21)	245	42
Holiday Pay	31	16
Accrued loan interest	1,330	1,583
Newham Sum	2,550	2,525
Accruals and deferred income	1,394	632
	<u>8,210</u>	<u>9,057</u>

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

	2019	2018
	£'000	£'000
Debt (Note 32)	295,380	223,181
Grant	7,126	1,446
Pension	-	74
Total	<u>302,506</u>	<u>224,701</u>

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

21. Grant

	2019 £'000	2018 £'000
At the start of the Year	1,488	-
Grants Received during the year:		
Housing properties	5,698	1,253
Grant Recyclable/Repayable on Disposals	256	235
Disposal Proceeds Fund	-	-
Grants recycled during the year:		
Housing properties	-	-
Amortised Grant	(71)	-
At the end of the Year	7,371	1,488
Due within one year	245	42
Due in more than one year	7,126	1,446
	7,371	1,488

22. Recyclable/Repayable Capital Grant

	2019 £'000	2018 £'000
At the start of the Year	235	-
Inputs to fund:		
Grant repayable/recyclable on disposals	256	235
Grants recycled during the year:		
Housing purchases	-	-
Major Repairs	-	-
Transfers to other private Registered Providers	-	-
Repayment of Grant	-	-
At the end of the Year	491	235
Due within one year	16	-
Due in more than one year	475	235
	491	235

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

23. Disposal Proceeds Fund

Local Space has opted not to operate a Disposal Proceeds Fund.

24. Obligations under finance leases

Local Space does not have any finance lease arrangements.

25. Provisions for Liabilities and Charges

	Pension £'000	Other £'000
At start of the year	-	-
Initial Recognition	397	-
Initial Recognition – Creditors < 1 Year	84	-
Transfer from Statement of Comprehensive Income (increase in provision)	187	-
Released in year	(108)	-
Unused amounts reversed in year	-	-
Re measurement changes	72	-
At the end of the year	632	-

26. Share capital

The association is a Registered Society under Co-operative and Community Benefit Society Act 2014.

	2019 No	2018 No
Shares of £1 each issued and fully paid		
At 1 April	8	8
Joining during the year	-	4
Leaving during the year	-	(4)
At 31 March	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.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

27. Capital commitments

	2019 £'000	2018 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements:		
Expenditure on property purchases where contract has been exchanged	2,035	1,341
Capital expenditure which has been authorised by the Board but has not yet been contracted for:		
Expenditure on property purchases where contracts not exchanged	10,366	8,258
	12,401	9,599

The above commitments will be financed primarily through internal funds. Commitments at 31st March 2019 include 8 properties where contracts have been exchanged awaiting completion (31st March 2018 – 4 properties).

28. Contingent assets/liabilities

The association had no contingent assets or liabilities at 31 March 2019 (2018: nil).

29. Operating leases

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

	2019 £'000	2018 £'000
Within one year	7	1
Between one and five years	<u>20</u>	<u>3</u>

30. Grant and financial assistance

	Total £000
Total accumulated Government Grant and financial assistance received or receivable at 31 st March 2019	7,101
Held as deferred capital grant	7,030
Recognised as income in statement of Comprehensive Income in the current period	71

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

31. Related parties

Councillor Tahmina Rahman who was a Board member, is an elected councillor of the London Borough of Newham. Conor McAuley was an elected councillor of the London Borough of Newham until May 2019, before he became a Board member. Jessica Tamayao, who serves as a Board member, is an employee of the London Borough of Newham, as was Douglas Trainer who also previously served on the Board. 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 11.

32. Financial Instruments and risk management

Debt analysis

	2019 £'000	2018 £'000
Bank loans	171,077	186,077
Bond	75,000	37,500
MORhomes	50,000	-
Fair value of the interest rate swap	1,516	1,382
Arrangement Fee	(2,213)	(1,778)
Total	295,380	223,181

Liquidity

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 below. The trade creditors are all payable within their credit terms.

Security

The bank loans are secured by a fixed charge over the properties owned by the association. The £50m funding from MORhomes has been fully drawn against security of one property. Full securitisation is expected by end of August 2019.

Terms of repayment and arrangement fee

The loan from Lloyds (£100m) is repayable commencing 2021. The loan from Santander (£38m) is repayable commencing 2021. The loan from Barclays (£33m) is repayable commencing 2021. The M&G Bond of £37.5m is repayable commencing 2048. The MORhomes (£50m) funding is repayable in 2049.

LOCAL SPACE

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 32 continued

At 31 March 2019 the association had undrawn loan facilities of £97m (2018: £52m). £82m of this is fully secured and a further £15m is agreed loan awaiting security.

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

	2019 £'000	2018 £'000
Within one year or on demand	-	-
Between one and two years	19,000	-
Two years or more but less than five years	124,125	137,018
Five years or more	152,952	86,559
	<u>296,077</u>	<u>223,577</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 2019 is £1.5m (2018: £1.4m) on the Statement of Financial Position 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.

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

Report and financial statements for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS

Note 32 continued

Categories of financial assets and financial liabilities

	2019 £'000	2018 £'000
Financial liabilities measured at amortised cost	296,077	223,577
Total	<u>296,077</u>	<u>223,577</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:

	2019 £'000	2018 £'000
Floating rate on money market deposits	10,064	8,943
Financial assets on which no interest is earned	72	131
Total	<u>10,136</u>	<u>9,074</u>

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

Local Space cash and cash equivalents earned interest at a variable rate of 0.47% during the year 2018/19.

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:

	2019 £'000	2018 £'000
Fixed rate	257,000	169,500
Floating rate	39,077	54,077
	<u>296,077</u>	<u>223,577</u>

The weighted average cost of borrowing at 31st March 2019 was 4.28%.

NOTES TO THE FINANCIAL STATEMENTS**Note 32 continued****Borrowing facilities**

The association has undrawn agreed committed borrowing facilities of £82m. A further £15m is agreed but awaiting security. The repayment profile for undrawn facilities is shown as follows:

	2019 £'000	2018 £'000
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	31,000	-
Expiring in more than two years	66,000	52,000
	<u>97,000</u>	<u>52,000</u>

Financial liabilities at fair value through the statement of comprehensive income

	2019 £'000	2018 £'000	Movement £'000
Movement in fair value of financial derivatives	1,516	1,382	134

33. Newham Sum (NS)

The Newham Sum is calculated according to the Master Agreement between Local Space and the London Borough of Newham (LBN). The Newham Sum for 2018/19 is £2.550m (2017/18: £2.525m).

