

For General Release

REPORT TO:	GENERAL PURPOSES & AUDIT COMMITTEE 18 JULY 2018
SUBJECT:	AUDIT REPORT FOR BRICK BY BRICK CROYDON LTD 2017 ACCOUNTS
LEAD OFFICER:	SHIFA MUSTAFA EXECUTIVE DIRECTOR OF PLACE
CABINET MEMBER:	COUNCILLOR ALISON BUTLER CABINET MEMBER FOR HOMES AND GATEWAY SERVICES AND DEPUTY LEADER (STATUTORY) COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE AND RESOURCES
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON: <p>The preparation and publication of the Brick by Brick Croydon Ltd (BxB) final accounts provides assurance that the company's overall financial position is sound. This underpins the delivery of the company's business plan and the achievement of its key corporate objectives.</p> <p>Strong financial governance and stewardship ensures that the company's resources are allocated in an effective and responsible way that enables it to deliver multi-tenure housing across the borough in a manner that is commercially efficient, and thereby maximizes the return to the company's sole shareholder, the London Borough of Croydon.</p>	
FINANCIAL IMPACT: <p>There are no direct financial implications arising from this report.</p>	
FORWARD PLAN KEY DECISION REFERENCE NO.: <p>Not a key decision</p>	

1	RECOMMENDATIONS
	The Committee is asked to:
1.1	Note the independent auditors report on the BxB final accounts issued by the company's external auditors, Grant Thornton (Appendix 1).

2 EXECUTIVE SUMMARY

- 2.1 The Auditors have issued their report on the 2017 financial statements for Brick by Brick, which includes their opinion on the final accounts. It is the view of the auditors that the company's final accounts:
- give a true and fair view of the state of the company's affairs as at 31st December 2017;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
 - have been prepared in accordance with the requirements of the Companies Act 2006.

3 INDEPENDENT AUDITOR'S REPORT

- 3.1 This independent auditor's report is made solely to the company's members, as a body, and provides assurance that the financial statements are free from material misstatement.
- 3.2 Grant Thornton completed their audit of the 2017 accounts for BxB on 3rd May 2018 and signed off their independent report to the members of Brick by Brick Croydon Ltd on the same date.

The principal responsibilities of the auditor are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error;
- execute their responsibilities in accordance with the International Standards on Auditing (UK) and applicable law in providing their opinion on the company's financial statements.

The Brick by Brick Director's Report and Financial Statements 2017 are attached at Appendix 1 (which include the independent auditors report).

- 3.3 Grant Thornton issued an unqualified opinion on the 2017 Financial Statements for Brick by Brick.

- 3.4 In addition, no significant risks were identified in relation to the company's system of internal control and no recommendations were issued in relation to this.

4 CONSULTATION

- 4.1 The company's accounts have been filed at Companies House in accordance with requirements. The director's report and financial statements are therefore publicly available.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 5.1 There are no direct financial considerations arising from this report.

- 5.2 There are no implications arising from this report of new policy or
- GPAC BxB Audit Findings Report

spending decisions.

Approved by Lisa Taylor –Director of Finance, Investment and Risk and
Deputy S151 Officer

6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Solicitor to the Council comments that there are no direct legal implications arising from the recommendations within this report.

Approved by Sandra Herbert, Head of Litigation and Corporate Law for and on behalf of Jacqueline Harris-Baker Director of Law and Monitoring Officer

7 HUMAN RESOURCES IMPACT

- 7.1 There are no immediate Human Resources considerations that arise from the recommendations of this report for London Borough of Croydon staff.

Approved by Sue Moorman – Director of Human Resources

8 EQUALITIES IMPACT

- 8.1 An Equalities Impact Assessment has not been carried out as this report does not require a new policy or spending decision. The contents of this report do not have any equalities implications.

9 ENVIRONMENTAL IMPACT

- 9.1 There are no implications arising from this report.

10 CRIME AND DISORDER REDUCTION IMPACT

- 10.1 There are no implications arising from this report.

11 REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 11.1 None.

12 OPTIONS CONSIDERED AND REJECTED

- 12.1 None.

CONTACT OFFICER:	Shifa Mustafa, Executive Director of Place
BACKGROUND PAPERS:	None
APPENDICES:	Appendix 1 Brick by Brick Accounts 2017

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Directors' Report & Financial Statements

For the year ended 31 December 2017

Brick by Brick Croydon Limited

Registered Number: 09578014

Company Information

Directors

Colm Lacey (appointed 26 January 2016)
Jayne McGivern (appointed 26 January 2016)
Lisa Taylor (appointed 26 January 2016)
Jeremy Titchen (appointed 26 January 2016)

Registered number

09578014

Registered office

Bernard Weatherill House
8 Mint Walk
Croydon
CR0 1EA



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Directors' Report

For the year ended 31 December 2017

The Directors present their report and the financial statements for the year ended 31 December 2017.

Results and Dividends

The loss for the year, after taxation, amounted to £267,052.

Directors

The following directors served during 2017:

Colm Lacey (appointed 26 January 2016)
Jayne McGivern (appointed 26 January 2016)
Lisa Taylor (appointed 26 January 2016)
Jeremy Titchen (appointed 26 January 2016)

Annual Report

In 2017 Brick by Brick Croydon Ltd (BxB) has continued to make significant progress with its programme of development activity aimed at increasing the supply of new homes across Croydon. The programme remains on course to deliver its target of 50% affordable housing on the residential programme, whilst maintaining the company's commitment to high quality design and maximising the profit dividend available to its sole shareholder (the London Borough of Croydon).

The company's development model continues to operate on the basis of identifying land with development potential onto which viable schemes can be developed by BxB on acquisition of the land. The terms of the purchase of these sites are designed to ensure that the Council secures best consideration in terms of the value of the land, including the capture of land value from favourable future market conditions via overage arrangements.

The Council provides development finance to BxB at market rates on a scheme-by-scheme basis, where BxB can clearly demonstrate financial viability (as would be the norm for any borrowing facility). The company accrues interest on these loans which creates an additional revenue source for the Council. In addition, BxB's net development profit (once schemes have been delivered) is available to the Council to take as a dividend in its capacity as sole shareholder.

In 2017 the company recognised a loss of £267,052. In addition, the company has re-stated its 2016 loss from £1,088,108 to £245,120 following some changes to the way in which it accounts for interest and staff costs. This reflects ongoing work in building a substantial programme of BXB development activity (see below), with many starts on site commencing in early 2018. The company will begin to generate revenue from this development activity in the forthcoming financial year.

Programme Update

BXB's programme of development activity continued to move at pace during 2017, with a series of very significant milestones being reached by the company in this period.

BXB Smaller Sites Programme

- Planning permission granted for 26 schemes that will deliver a total of 539 units



- Successful tendering of building contracts for 25 of the sites with planning permission
- Planning applications submitted for a further 9 small site schemes totalling 144 units
- Starts on site achieved on 7 sites in 2017/2018

College Green

- Commencement of works on the Fairfield Halls refurbishment
- Demolition of the existing car park in preparation for the Fairfield Homes development
- Successful tendering of the building contract for the Fairfield Homes scheme delivering 215 units

BxB Larger Sites Programme

- Planning permission granted on the 158 unit Lion Green Road scheme
- Planning applications submitted on the Wandle Road Car Park and Belgrave & Grosvenor schemes
- Planned delivery of 387 units, of which 50% will be affordable in line with BXB policy

As part of the tender process to select building contractors to deliver the schemes with planning permission, BXB has also set up a framework arrangement with a small group of preferred contractors. This arrangement will allow the company to build a working relationship with a set of trusted builders that will lay the foundations for sustainable delivery of the wider programme as it continues to grow.

Common Ground Architecture

In 2017 BXB formally established an in-house commercial architecture practice, Common Ground Architecture (www.commongroundarchitecture.com) to support its ambition to continue to design and develop high quality homes of all tenure.

Common Ground Architecture will initially focus on working with local authorities and other public sector clients to help them to realise the full potential of their land assets through unlocking awkward or previously undevelopable sites. It will operate as a trading entity within BXB aiming to generate profit on the sale of its services that will contribute to the overall bottom line for BXB, and therefore generate further returns for the London Borough of Croydon as sole shareholder.

The practice will also provide services to BXB as client on a series of schemes. The first scheme to be delivered in this way is the development of 14 new homes on Station Road in the South Norwood Conservation Area which will also accommodate a library space. This scheme has planning approval and is expected to start on site in early 2018.

Recognition

BXB is proud that the progress it has made since it started operating in mid-2016 has been widely recognised in 2017 with a series of awards recognising the impact that the company has made and the quality of the contribution that it is making to delivering quality homes in London.

In particular, our smaller sites programme was awarded the following accolades:

- Best Housing Initiative – New London Architecture Awards 2017
- Best Architectural Design – Inside Housing Awards 2017
- Finalist for Best Housing Initiative – LGC Awards 2017

Future Outlook

The outlook for the business remains positive, with completion of the earliest schemes anticipated at the end of 2018 and sales launches planned for individual developments on a rolling basis from mid-2018 onwards. The company will begin to generate



revenues from the development of affordable rent units in 2018 under the terms of the proposed transfer of these homes to an affordable housing provider. It also expects substantial commitments to be in place for the purchase of units that complete in early 2019.

As part of the sales process, BXB is committed to ensuring that local people are prioritised in terms of the opportunity to buy its homes. This will be achieved via an 8-week exclusive priority period following the launch of each individual BXB development during which only existing Croydon residents will be able to reserve units. Furthermore, local people that register a serious interest with BXB prior to the launch of its developments will be invited to reserve units in their vicinity on a first refusal basis.

Finally, the commitment from the Council as funder to support the BXB programme remains strong. The company's updated five-year business plan was approved by the London Borough of Croydon's Cabinet in February 2018 and loan agreements are in place across the board for the company's ongoing development activity.

For more information on BXB, see www.bxbdevelopment.com.



Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company Law requires the directors to prepare financial statements for each financial year. Under that Law, the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company Law, the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume Brick by Brick Croydon will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

The Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and that each Director has taken all steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

Small companies exemption

In preparing this report, the directors have taken advantage of the small companies exemption in part 15 of the Companies Act 2006.

Post balance sheet events

There have been no significant events affecting the Company since the year end. This report was approved by the board on 3rd May 2018 and signed on its behalf.

 03/05/18

Colm Lacey

Director



Independent auditor's report to the members of Brick By Brick Croydon Limited

Opinion

We have audited the financial statements of Brick By Brick Croydon Limited (the 'company') for the year ended 31 December 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company'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 directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company'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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and financial statements, 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.



Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors for the financial statements

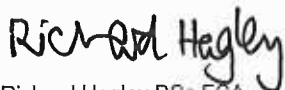
As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities 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.



Richard Hagley BSc FCA

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

3 May 2018



Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	Year ended 31 Dec 2017	Year ended 31 Dec 2016 (Re-Stated)
		£	£
Turnover		0	0
Cost of Sales		(131,347)	(167,414)
Gross Loss (-)		(131,347)	(167,414)
Administrative Expenses		(101,099)	(71,557)
Operating Loss (-)		(232,447)	(238,971)
Interest Payable	13	(34,605)	(6,149)
Loss (-) before Tax		(267,052)	(245,120)
Tax on Loss	14	0	0
Loss (-) and total comprehensive income for the year		(267,052)	(245,120)

The notes on pages 13 to 21 form part of these financial statements.



Statement of Financial Position

As at 31 December 2017

	Notes	As at 31 Dec 2017 £	As at 31 Dec 2016 (Re-Styled) £
Fixed Assets	6	491,807	0
Current Assets			
Work in Progress	7	32,622,752	9,785,284
Inventories	7	0	0
Debtors	8	409,960	1,610,232
Cash and Cash Equivalents	9	506,844	0
		<u>33,539,556</u>	<u>11,395,516</u>
Creditors falling due within one year	10	(3,256,886)	(2,536,070)
Net Current Assets		30,282,670	8,859,446
Creditors falling due after more than one year	11	(31,286,549)	(9,104,466)
Net (Liabilities)		<u>(512,072)</u>	<u>(245,020)</u>
Capital and Reserves			
Share Capital	12	100	100
Retained Loss		(512,172)	(245,120)
Capital and Reserves		<u>(512,072)</u>	<u>(245,020)</u>

In preparing this report, the directors have taken advantage of the small companies exemption in part 15 of the Companies Act 2006.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 3rd May 2018.

 03/05/18

Colm Lacey
Director

The notes on pages 13 to 21 form part of these financial statements.



Statement of Changes in Equity

For the year ended 31 December 2017

	Called-up share capital £	Profit and loss account £	Total £
At 31 December 2015 (Unaudited)	100	0	100
Profit (+) / Loss (-) and total comprehensive income for the year (Re-Stated)	0	(245,120)	(245,120)
Issue of shares	0	0	0
Dividends paid	0	0	0
At 31 December 2016 (Re-Stated)	100	(245,120)	(245,020)
Profit (+) / Loss (-) and total comprehensive income for the year	0	(267,052)	(267,052)
Issue of shares	0	0	0
Dividends paid	0	0	0
At 31 December 2017	100	(512,172)	(512,072)

The notes on pages 13 to 21 form part of these financial statements.



Notes to the Financial Statements

For the year ended 31 December 2017

1 General Information

Brick by Brick Croydon Limited ("the Company") is a private limited company. The company was incorporated on 6 May 2015 and began trading in 2016. This is the third year in which the financial statements have been prepared, and cover the year from 1 January 2017 to 31 December 2017. All expenditure and income in the first period of trading, the year from 6 May 2015 to 31 December 2015, was zero.

The company is incorporated and domiciled in England. The address of the Company's registered office is Bernard Weatherill House, 8 Mint Walk, Croydon, United Kingdom, CR0 1EA.

The Company is a development company established by the London Borough of Croydon to deliver housing led development across the borough.

The Company's accounts are prepared on a single entity basis.

2 Accounting Policies

2.1 Basis of Preparation of Financial Statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102, Section 1A Small Entities, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006. In preparing the financial statements, the directors have taken advantage of the small companies exemption in part 15 of the Companies Act 2006 which allows a cash flow statement to be omitted.

The financial statements are presented in Sterling (£) and are rounded to the nearest pound.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 4).

The following principal accounting policies have been applied:

2.2 Going Concern

After reviewing the company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

The London Borough of Croydon have provided a letter of support confirming they will continue to provide finance to Brick by Brick Croydon up to March 2020.

Notes to the Financial Statements

For the year ended 31 December 2017

2.3 Fixed Assets

The company holds a mix of land and building fixed assets. These are classed as Property, Plant and Equipment which are recognised under FRS 102 as assets which:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

Recognition & Measurement

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the company and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to operate.

Depreciation

Depreciation is provided for on all assets by the systematic allocation of depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Assets are depreciated from the year that they are brought into use and are depreciated on a straight-line basis over their useful economic life as follows for property, plant and equipment:

- a) Dwellings and Other Buildings – 50 years
- b) Vehicles, Plant, Furniture & Equipment – 10 years

Impairment

Assets will be assessed at least every 2 years to assess whether there is any indication that the asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

No revenue was recognised during 2017.

Notes to the Financial Statements

For the year ended 31 December 2017

2.5 Debtors

Debtors are recognised in relation to income due to the business as a consequence of activity in a prior period. This mainly relates to the recovery of VAT from HMRC and is measured based on the balance of the VAT account still to be reclaimed at the end of the company's financial year.

2.6 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.7 Financial Instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Income statement.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements

For the year ended 31 December 2017

2.8 Creditors

Short term 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.

2.9 Finance Costs

Finance costs are capitalised according to Section 25 of FRS 102 to reflect the fact that loans to Brick by Brick are aligned to specific development schemes. Interest is apportioned to individual schemes and then charged to WIP using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Interest incurred on borrowing to fund operating expenditure is also apportioned accordingly and charged to the Statement of Comprehensive Income.

2.10 Taxation

A tax liability will be recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

A deferred tax liability or asset is recognised for the additional tax that will be incurred or deductible in the future based on assets and liabilities that are recognised in a business combination.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

2.11 Inventories and Work in Progress

Work in progress comprises direct materials, labour costs, site overheads, associated professional charges, loan interest and other attributable overheads. It is held at the historical cost of bringing the buildings to their present location and condition.

Upon the completion of a building, it is transferred from work in progress to inventory. At this point it is valued and then held at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and overheads.

Regular reviews are carried out to identify any impairment in the value of inventory. Where an impairment is identified, it is charged as a finance expense in the Statement of Comprehensive Income in the year.

Regular reviews of schemes are carried out to ensure they are still active, and that activity will result in an asset. Where a scheme is no longer likely to proceed, costs are charged as a cost of sales in the Statement of Comprehensive Income in the relevant year.

Notes to the Financial Statements

For the year ended 31 December 2017

3 Re-statement of 2016 Balances

For 2017 the company has opted to apply a change in accounting policy that allows it to capitalise interest charged on its loans and borrowing. In addition, it has also chosen to adjust the presentation of staff recharges by capitalising the cost of staff whose services are deployed directly to the delivery of the company's development programme. Both decisions have been taken to more accurately reflect the way in which the company appraises potential developments to test that they are financially viable (and therefore better reflect the gross development cost estimates that are calculated to test profit expectations).

In addition, it was noted during the audit testing of the 2017 accounts that the work in progress balance included in the 2016 accounts had been understated due to the identification of a number of invoices that related to the previous financial year. The detailed analysis of these transactions calculated the total value of the understatement of 2016 creditors to be £895,938.

These changes require a re-statement of the 2016 accounts in order to compare financial activity on a like-for-like basis. The key changes to the previously audited 2016 accounts are summarised below:

	2016 (Re- Stated) £	2016 (Original) £	Adjustment £
a) Interest Capitalisation			
Statement of Comprehensive Income – Interest Payable	(6,149)	(260,241)	(254,092)
b) Staff Capitalisation			
Statement of Comprehensive Income – Cost of Sales	(167,414)	(756,310)	(588,896)
c) 2016 Creditors			
Balance Sheet – Creditors falling due within one year	(2,536,070)	(1,640,131)	(895,938)
Balance Sheet – Work in Progress (combined impact of all 3 re-statements)	9,785,284	8,046,358	1,738,926

4 Critical accounting judgments and key sources of estimation uncertainty

In applying the Group's accounting policies which are described in note 2, the Directors have made no individual judgements that have a significant impact upon the financial statements, excepting those involving estimation which are dealt with below. Actual results may differ from these estimates.

The key sources of estimation uncertainty at the balance sheet date are:

Deferred tax asset in respect of tax losses

At the balance sheet date, the Directors decided they were unable to completely demonstrate there would be sufficient future taxable profits against which current taxable losses could be set against. As a result, it was decided not to recognise a deferred tax asset in respect of tax losses.

Notes to the Financial Statements

For the year ended 31 December 2017

5 Events after the reporting period

There were no events after the reporting period that would cause these statements to be adjusted. Development activity has continued into 2018, with significant activity in the first quarter being comprised of:

	£
Acquisition of property	468,570
Drawdown of development funding	6,786,723

6 Fixed Assets

In March 2017 the company purchased a property adjacent to one of its developments (2 Cargreen Road).

	Land £	Buildings £	TOTAL £
Cost			
At 1 st January 2017	0	0	0
Additions	166,976	331,460	498,436
At 31 st December 2017	166,976	331,460	498,436
Depreciation			
At 1 st January 2017	0	0	0
Provided in year	0	(6,629)	(6,629)
At 31 st December 2017	0	(6,629)	(6,629)
Net Book Value @ 31 st Dec 2017	166,976	324,831	491,807
Net Book Value @ 31 st Dec 2016	0	0	0

7 Inventories and Work in Progress

	2017 £	2016 (Re-Styled) £
Completed Inventories	0	0
Work in Progress	32,622,752	9,785,284
	<u>32,622,752</u>	<u>9,785,284</u>

The Directors consider all inventories to be essentially current in nature although the Group's operational cycle is such that a proportion of inventories will not be realised within 12 months. It is not possible to determine with accuracy when specific inventory will be realised as this is subject to a number of issues, including consumer demand and planning permission delays.

Notes to the Financial Statements

For the year ended 31 December 2017

8 Short-Term Debtors

	2017 £	2016 £
Other Receivables	409,960	1,610,232

Other receivables includes £409,860 in relation to VAT recoverable from HMRC and £100 in relation to called-up share capital

9 Cash and Cash Equivalents

	2017 £	2016 £
Cash at Bank	506,844	0

Brick by Brick Croydon had a cash balance of £506,844 at the 31 December 2017.

10 Creditors falling due within one year

	2017 £	2016 (Re-Stated) £
Payable to LB Croydon	916,529	1,610,132
Payable to Grant Thornton	24,000	30,000
Payable to Other Third Parties	2,316,357	895,938
	<u>3,256,886</u>	<u>2,536,070</u>

Brick by Brick Croydon owes £916,529 to the London Borough of Croydon in relation to reclaimed VAT that was paid by the Council on its behalf. The remaining creditors relate to on-going development and operating activity.

11 Financial Instruments

The maturity profile of the total contracted payments in respect of financial liabilities is as follows:

	Balance at 31 Dec 2017 £	Less than 1 year £	1-2 years £	2-5 years £	Over 5 years £
Loans from LB Croydon	32,203,078	916,529	0	31,286,549	0

Notes to the Financial Statements

For the year ended 31 December 2017

Loan terms and risks

In 2016 Brick by Brick Croydon arranged an unsecured loan facility with the London Borough of Croydon, which could be drawn against for five years, until 2021, up to a total loan value of £10,061,091, of which a total of £9,104,466 was drawn down in 2016. The remainder of this loan was drawn down in 2017.

Repayment of the principal is required no later than five years after each loan has been drawn down, or the agreement's termination date of 2021. The interest rate charged for the loan is 5%. Interest is payable in full upon completion of the loan.

In 2017 an additional loan agreement was entered into for the purchase of 2 Cargreen Road (up to a maximum of £498,611). The loan must be re-paid within 5 years and interest of 5% is payable on the loan. Loan agreements have since been created on a scheme-by-scheme basis for each development that Brick by Brick is progressing. A total of 24 loan agreements have been agreed with the maximum borrowing facility capped at the estimated gross development cost included in the company's financial appraisal (and approved by its board). These loans must be re-paid by the long-stop estimate for each development (usually 12 months after planned practical completion) and an interest rate of 6.25% is applied to each loan.

The "less than 1 year" balance of £916,529 represents VAT incurred on expenditure funded by loans from LB Croydon, and does not form part of any loan facility. This amount is matched by a short term debtor from HMRC and amounts already reclaimed from HMRC in the company's bank account which will be repaid to the Council.

12 Share Capital

The Company has one class of ordinary shares (nominal value 100p). The shareholders are entitled to one vote per share at meetings of the Company.

	2017 £	2016 £
100 Ordinary Shares (100p each)	100	100

13 Interest Payable

Loans made to the company have been apportioned between those that directly support specific schemes (which are capitalised as WIP) and those that fund operating expenditure (which are charged to the income statement). For loan drawdowns to 31st March 2017 an interest rate of 5% is applied. All subsequent loans accrue interest at a rate of 6.25%

	2017 £	2016 (Re-Stated) £
Interest capitalised as WIP	889,570	254,092
Interest charged to Statement of Comprehensive Income	34,605	6,149
Total Interest payable on loans from LB Croydon	924,175	260,241

Notes to the Financial Statements

For the year ended 31 December 2017

14 Taxation

The Company has made the following tax losses:

	2017 £	2016 (Re-Styled) £	Accumulated Loss £
Tax Losses	(1,149,992)	(499,211)	(1,649,203)

A deferred tax asset has not been recognised in respect of accumulated tax losses. At the balance sheet date, the Directors decided they were unable to completely demonstrate there would be sufficient future taxable profits against which current taxable losses could be set against. As a result, it was decided not to recognise a deferred tax asset in respect of tax losses.

15 Auditors' Remuneration

	2017 £	2016 £
Grant Thornton UK LLP Audit Fee	24,000	30,000

16 Employees

Brick by Brick Croydon had no employees during 2017. There were also no employees during 2016.

Two of the directors are employees of the London Borough of Croydon. Two of the directors are externally appointed advisors, but not employees of Brick by Brick Croydon.

The directors of Brick by Brick Croydon received the following remuneration directly from Brick by Brick Croydon in 2017.

Director	2017 £	2016 £
Colm Lacey	0	0
Lisa Taylor	0	0
Jayne McGivern	18,000	24,000
Jeremy Titchen	18,000	13,500
	<hr/>	<hr/>
	36,000	37,500

17 Ultimate Controlling Party

Brick by Brick Croydon Limited is 100% owned by the London Borough of Croydon, which is the immediate and ultimate controlling party.

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