

REPORT OF THE BOARD,  
STRATEGIC REPORT AND  
STONEWATER (2) LIMITED  
FINANCIAL STATEMENTS

For the year ending 31 March 2018



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### **Board Members**

George Blunden (Chair)  
Sheila Collins  
Doug Wright  
John Weguelin  
Nicholas Harris  
Patrick Symington (from 1 July 2017)  
Colin Small (until 30 September 2017)

Michael Collins (Deputy Chair)  
Brian Roebuck  
Anne Dokov  
Peter Hammond  
Tariq Kazi (from 13 March 2018)  
Juliana Crowe (from 1 October 2017)  
Sue Terry (until 30 September 2017)

### **Advisers**

#### **Secretary and registered office**

Anne Harling  
Suite C, Lancaster House  
Grange Business Park  
Enderby Road  
Whetstone  
Leicester  
LE8 6EP

#### **Principal Bankers**

Barclays Bank  
Level 27  
1 Churchill Place  
London  
E14 5HP

#### **Principal Solicitors**

Devonshires Solicitors  
30 Finsbury Circus  
London EC2M 7DT

#### **Auditors**

BDO LLP  
2 Snowhill  
Birmingham  
B4 6GA

# Report of the Board of Management and Strategic report

The Board presents its report and audited financial statements for Stonewater (2) Limited (the 'Association') for the year ended 31 March 2018.

## Nature of the business and principal activity

Stonewater (2) Limited is a Registered Society under the Cooperative and Community Benefit Societies Act 2014, with charitable status, and a Registered Provider with the Regulator of Social Housing (RSH). Its parent is Stonewater Limited (the 'Group' or 'Stonewater').

The principal activity of the Association is the development and management of rented housing accommodation for those in most need.

### Our Vision

For everyone to have the opportunity to have a place that they can call home

### Our Mission

To offer quality homes and services for people whose needs are not met by the open market.

### Our Values

**Ethical** – we take responsibility and are accountable for our decisions. When we make a promise, we keep it. We are inclusive, professional and honest.

**Ambitious** – we are driven and competitive, always seeking the best solutions for our organisation and our customers. We aim to be a landlord, partner and employer of choice.

**Passionate** – we genuinely care and are committed and motivated to always do the best we can. Our enthusiasm and energy at every touchpoint inspires us to be an organisation everyone can be proud to be associated with.

**Agile** – by being adaptable and open-minded we proactively make the most of opportunities. Our innovation and collaboration helps drive continuous improvement.

**Commercial** – we are an efficient and astute organisation with a clear focus on delivering value for money. Organisational efficiency translates into more homes for those that need them and improved choice and services for our customers.



# Report of the Board of Management and Strategic report

## Stonewater's Strategic Plan 2017-2022

Our Strategic Plan is our compass on this journey. The objectives and associated outcomes we are seeking to achieve are set out under three key themes:

### Customer experience

- > Deliver an effective service that meets the diverse needs and aspirations of our customers.
- > Deliver Retirement Living services that meet the needs and aspirations of our customers.
- > Deliver Supported Housing services that meet the needs of our customers and the aspirations of the business.

### Growth and influence

- > Deliver an ambitious programme to provide more homes for people in need.
- > Develop an increased range of housing options from home ownership to affordable rented homes to meet the changing needs of the market.
- > Build a reputation as a thought leader in the sector with influence on national and local agendas.

### Business excellence

- > Achieve consistently high standards of performance for our business critical key performance indicators on income collection and compliance.
- > Invest in and support our people to attract, develop and retain a highly motivated workforce who will deliver our strategic objectives.
- > Manage our resources efficiently and effectively and maximise the return on our assets to ensure we have the financial capacity to deliver our priorities.

Our priorities for the next five years and the objectives we have set take account of our assessment of the current operating environment for housing, the opportunities available to us, and the challenges we face. We are working against a backdrop of budget constraints, continuing welfare reform and emerging government policy.

We are also in a period of economic uncertainty as a result of Brexit. However, our strong financial position, combined with our clear vision, means we are able to respond positively to a challenging external environment and stay true to our goals. Our Strategic Plan underpins our purpose. It is designed around the needs of our customers, the vision of our Board, the clear leadership of our Executive team, the capability of our management, the passion of our staff, and commitment from our stakeholders and working partners.

# Report of the Board of Management and Strategic report

Stonewater is committed to its customers, who are drawn from a range of backgrounds including:

- >Long-term unemployed
- >People with social, health and care needs
- >Disadvantaged and vulnerable individuals

## External environment

### Housing supply and affordability

We continue to operate in an environment where housing supply and affordability are paramount concerns. More people than ever before are faced with homelessness, and the cost of housing in many areas continues to rise above affordable levels.

Between 2010 and 2017...

>The number of households who are homeless increased by 64%. This means there are currently 79,000 homeless households.

>Approximately 120,000 children live in these homeless households and therefore have nowhere to call 'home'.

>The number of rough sleepers has increased by 169%. An estimated 4,700 people currently sleep rough, although homeless charities believe the actual figure is higher.

>Figures on homeless households and rough sleepers for this period do not include the 'hidden homeless' or 'sofa surfers': people who do not have a home but also do not qualify for housing assistance.

Supply of housing is not keeping up with demand. There has been an 11% drop in social housing availability and housing that is affordable for those on a low income.

The Government has announced a number of measures to increase housing supply. The Housing White Paper "Fixing our broken housing market", which was published in February 2017, indicated a shift in strategy towards a more balanced approach to building new homes which meet the needs of people in all financial circumstances. It recognised the need to create more affordable rental homes, in addition to low cost home ownership options.

# Report of the Board of Management and Strategic report

## **Government policy and changes to welfare options**

Set amidst a backdrop of continuing economic uncertainty due to Brexit, we have welcomed the following changes:

>Government's concessions on the Local Housing Allowance for people living in sheltered or supported accommodation. Original plans to cap the allowance were scrapped and the Government announced a consultation on future funding.

>The decision to make changes to the payment of Universal Credit, helping to prevent problems with rent arrears associated with claimants not receiving any benefits for long periods between payments.

>The 1% rent settlement.

In the Autumn 2017 budget, the Chancellor's spotlight fell on a number of issues relating to housing. This included the resurrection of the Voluntary Right to Buy scheme, with £200m being made available for a pilot scheme in the West Midlands launched in July 2018. He also announced that local councils will now be able to borrow more money to build housing in unaffordable areas, and a change to planning regulations which will help to supply and support smaller house building companies. The Government's overall focus is on increasing density of existing housing to meet demand, rather than excessive building on the green belt. There will also be an emphasis on building in cities and transport hub locations.

In her speech at the Conservative Party conference in October 2017, Prime Minister Theresa May announced that £2bn additional funding will be made available for the construction of new social and affordable housing. She also announced the 1% rent settlement which in real terms means Stonewater will be able to increase its ambitions to build more houses in its business plan.

And in November 2017, housing association debt was reclassified from public liability to private.

## **Demographic changes**

Due to a number of factors including increased life expectancy and migration, the population of England is set to rise from an estimated 54.3 million in 2014 to 58.4 million in 2024. This increase, coupled with factors including a 12% increase in the number of single-person households means that housing is more in demand than ever before. We are also experiencing an unprecedented rise in the number of older people in the UK population. Statistics show that by 2039:

The number of people aged 75 and over will have risen by 89.3% to 9.9 million.

The number of people aged 85 and over will more than double, to reach 3.6 million.

The number of people aged 100 and over will increase dramatically, from 14,000 at mid-2014 to 83,000.

1 in 12 of the population will be aged 80 or over.

This ageing population will see a shift in the type of housing and additional support required, as people choose sheltered or supported living, or require help to enable them to remain in their own home.

# Report of the Board of Management and Strategic report

## Regulation

The Regulator of Social Housing (RSH) continues to focus on 'co-regulation'. Under this approach, the RSH's engagement with registered providers is risk based with a focus on protecting social housing assets from undue risk.

The Housing and Planning Act 2016 has reduced the regulation of registered providers with the requirement to gain regulatory consent for restructures, constitutional changes and disposals replaced by a system of notification.

The latest regulatory judgement issued by the Homes and Communities Agency in November 2017, following a regulatory stability check, confirms that Stonewater meets the requirements set out in the Governance and Financial Viability standard of the 2015 Regulatory Framework with the top ratings of G1 (The provider meets the requirements on governance set out in the Governance and Financial Viability standard), and V1 (The provider meets the requirements on viability set out in the Governance and Financial Viability Standard and has the capacity to mitigate its exposures effectively). Since then the Board has undertaken a self assessment of compliance with the Governance and Viability standard, taking account of the NHF Code of Practice, and confirms that Stonewater is compliant with the standard.

## Performance in the year

Total comprehensive income for the year was £23.7m (2017: £7.3m).

Key Performance indicators:

Rental income lost through voids is 1.48% (2017: 0.99%)

Gross arrears on average were 4.58%

Responsive repairs satisfaction on average was 88.8%



# Report of the Board of Management and Strategic report

## Governance structure

### Board

The Board is responsible for the proper and effective management of Stonewater. The Board, working with the Executive Directors Group (EDG) led by the Chief Executive, undertakes this role through strategic direction, establishing a framework for delegation, and holding the EDG to account for performance. This includes accountability to customers and other stakeholders, such as funding providers and partner local authorities. Board members are listed on page 1. The Board comprised twelve members at 31 March 2018 including one executive member.

### Current obligations of Board Members to the Board and the company

Board members are collectively responsible for ensuring the success of the company and for its compliance with all legal and regulatory obligations. Members are expected to comply with and uphold Stonewater's purpose, values, objectives and policies, share responsibility for decisions taken and represent the company.

The board undertakes an annual appraisal of its performance, culminating in the identification of key targets for the year ahead.

In 2017/18 these were:

- > Improve customer experience
- > Optimise growth
- > Deliver digital programme
- > and meet KPI and VFM targets

Other actions for improvement arising from the appraisal are monitored through the governance action plan by the Governance and HR Committee. Individual members are required to play an active role in the work of the Board and its committees. Each member has an individual annual appraisal, which provides an opportunity to review performance during the year and set objectives for the year ahead.

Specific development needs identified through the appraisal are fed into the board learning and development programme.

### Code of Governance

Stonewater has adopted the 2015 National Housing Federation (NHF) Code of Governance for our registered providers and complies fully with it.

We comply with the code of governance in all aspects and the RSH's Governance and Financial Viability standard.

# Report of the Board of Management and Strategic report

## Committees

The Board is supported by five functional committees and a task and finish groups, each of which is chaired by a Board member. Each of the Risk and Assurance Committee, the Housing Committee and the Digital & IT Task and Finish group include places for independent members.

### > Assets and Development Committee

Oversees Stonewater's asset investment programme, including growth projects and management of assets.

### > Finance Committee

Oversees Stonewater's finances and exercises borrowing and treasury powers.

### >Governance and HR Committee

Oversees Board and committee recruitment and performance, reviews members' remuneration and expenses, oversees the recruitment and performance of the Chief Executive, reviews staff terms and conditions.

### >Housing Committee

Oversees front facing delivery in relation to affordable landlord services, ensuring that Stonewater has knowledge and understanding of the impact of the service provision and Stonewater's activities on local communities.

### >Risk and Assurance Committee

Oversees risk management, the audit function and considers the annual financial statements and external and internal auditor's reports.

### >Digital and IT Task and Finish group

Oversees the implementation of Stonewater's digital and IT strategies.

## Executive Directors Group

Stonewater has an experienced Executive Directors Group which manages the day to day running of the business. The Executive team consists of Chief Executive and five Executive Directors. The members of the Executive Directors Group are disclosed in the consolidated financial statements.

## Access to information

Stonewater aims to work in a transparent and open manner, making information publicly available unless there are justifiable reasons for not doing so, such as personal data or commercially sensitive information.

Information takes a variety of forms including reports; policy statements; minutes; and publications, such as newsletters and the annual report. Many may be found on our website [www.stonewater.org](http://www.stonewater.org) and copies are also available on request.

# Report of the Board of Management and Strategic report

## Risks and uncertainties

New, emerging and high scoring risks are monitored through the Strategic Risk Register. The Executive Director Group and the Risk and Assurance Committee keep the register under review to ensure that it fully reflects the risks to the delivery of Stonewater's operations and Strategic Plan. Designated managers are responsible for each identified risk area and the Risk and Assurance Manager oversees progress against actions to mitigate risks.

The Board has also adopted a risk appetite statement which sets out the nature and levels of risk we are prepared to take in order to achieve our strategic objectives, and this is kept under review with changes made to reflect our requirements for liquidity and cumulative risk.

The Chief Executive reports to the Risk and Assurance Committee on the effectiveness of the internal control environment.

The key strategic risks at present are:

1. National policy volatility
2. Growth
3. Long term finance
4. Cyber security
5. Digitalisation (to include future operating model)
6. Leadership
7. Recruitment and retention of skilled staff
8. Value for money (VfM)
9. Health and safety (including fire)
10. Procurement

Stonewater's risk management process involves risk identification and assessment, the allocation of risk owners to manage risk, implementation of controls and review of the residual risks after controls are implemented. Assurance mapping is used to ensure that actions taken to manage the risks are within Stonewater's agreed risk appetite.

## People strategy

Detail of our people related strategies and objectives can be found in the Consolidated Financial Statements.

## Gender Pay Gap

Stonewater gender pay gap statement is available via the website:

[www.stonewater.org](http://www.stonewater.org)

## Corporate Communications

Detail of our corporate communications strategies and objectives can be found in the consolidated financial statements.

## Value for Money

The Group Value for Money achievements can be found through the Group website and is summarised in the Consolidated Financial Statements.

We recognise that in order to continue to develop new homes, invest in our communities and ensure that our housing properties are maintained in good condition, we need to understand and maximise the value we get from our expenditure and our assets.

# Report of the Board of Management and Strategic report

## Relationships

### Customer engagement

At Stonewater, we strive to put the customer at the heart of all we do. We encourage our customers to engage with us through a range of channels including the Customer Scrutiny Panel, our digital Customer Hub, and through mainstream social media channels like Facebook and Twitter to name a few. We let customers know that we are committed to continuous improvement in the services we offer them, and we encourage them to let us know what they think. We are especially focused on improving digital access for our customers and staff, and our ConnectD programme is designed to do just that. Improving and enhancing digital channels including our Customer Hub enables two-way feedback regardless of the location of our customers and staff.

### Customer insight

We are committed to maintaining a positive relationship with our customers, listening to their feedback and adjusting our service in response. Our most recent customer survey showed that 80% of our customers are happy with the service they receive from us.

### Equality and diversity

Stonewater has adopted the Social Housing Equality Framework (SHEF) to support and drive the organisations Equality and Diversity agenda. The Corporate Equality Group is taking action to achieve the SHEF Developing Level across the business as a whole.

## Modern slavery and human trafficking

Stonewater's slavery and human trafficking statement, under the Modern Slavery Act 2015, for the financial year ending 31 March 2018, is also available via the website: [www.stonewater.org](http://www.stonewater.org)

### Financial inclusion

We continue to support customers affected by the bedroom tax and benefit changes. We have been preparing for the roll out of Universal Credit; keeping abreast of good practice and partnering with other Registered Providers. We have used our normal customer communication channels to inform and advise on benefit changes and how they will be affected. We continue to promote a credit union as an option for customers. We continue to work with Experian on rental data sharing in order to improve access to favourable financial services for our customers.

### Treasury policies and objectives

Stonewater has a formal Treasury Management Policy which is regularly reviewed. Further detail of this policy and objectives can be found in the Consolidated financial statements.

### Going concern

Having reviewed the five-year Strategic Plan and the 30-year financial projections, the Board is fully satisfied that the Association has adequate resources to continue trading for the foreseeable future. Accordingly, it continues to adopt the Going Concern basis in preparing the Association's Financial Statements.

# Report of the Board of Management and Strategic report

## Business planning, risk and internal controls assurance

### Purpose

The statement of internal controls provides information to both internal and external stakeholders on how efficient Stonewater governs its business, manages risks and delivers the business plan.

### Responsibility

The Board has overall responsibility for establishing and maintaining the system of business planning, risk and internal control and for reviewing its effectiveness across Stonewater. The Risk and Assurance Committee is responsible for the Board for monitoring this system and ensuring its effectiveness.

### Approach

Stonewater has adopted the three lines of defence assurance framework, whereby we employ qualified staff and put good policies and procedures in place; monitor these through management activity and governance reporting and seek external assurance through audits, accreditations etc. In meeting its responsibilities, the Board has adopted a risk based approach to internal controls, which are embedded within the normal management and governance process.

This approach includes the regular evaluation of the nature and extent of risks to which Stonewater is exposed to.

### > Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. The Executive Directors Group regularly considers significant risks facing Stonewater from both existing and proposed new business, and these are identified and evaluated.

### > Monitoring and corrective action

A process of control self-assessment and regular management reporting on regulatory and control issues, including any raised by the external auditors, provides hierarchical assurance to successive levels of management and to the Board.

### > Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including treasury strategy and new investment projects. Stonewater's own Code of Conduct based on the National Housing Federation (NHF) model sets out Stonewater's stance with regard to the quality, integrity and ethics of its employees. A framework of policies and procedures is in place covering issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data protection and fraud.

### > Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes; and also progress in achieving and retaining recognition for quality management systems.

The internal control framework and the risk management process are subject to regular review by Internal Audit, who are responsible for providing independent assurance to the Board via the Risk and Assurance Committee.

The Board has received from the Chief Executive an annual report, has conducted its annual review of the effectiveness of the system of internal control, has reviewed the fraud register and has taken account of any changes needed to maintain the effectiveness of risk management and the control process.

The Board confirms that there is an on-going process for identifying, evaluating and managing significant risks faced by Stonewater. This process has been in place throughout the year under review, up to the date of the annual report, and is reviewed by the Board.

The Board is able to confirm to the best of its knowledge compliance with its adopted code of governance and the regulatory governance, financial viability standard as set by Regulator of Social Housing (RSH).

# Report of the Board of Management and Strategic report

## Statement of the Board's Responsibilities in Respect of the Board's Report and the Financial Statements

The Board is responsible for preparing the Board's Report and the Financial Statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law and social housing legislation require the Board to prepare financial statements for each financial year. Under those regulations the board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of the Group and Associations income and expenditure in the period.

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 UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements,
- > Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and association will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Association and enable them to ensure that its financial statements comply with:-

>The Co-operative and Community Benefit Societies Act 2014

>The Housing and Regeneration Act 2008

>The Accounting Direction for Private Registered Providers of Social Housing 2015.

The Board has general responsibility for taking such steps as reasonably open to it to safeguarding the assets of Stonewater and to prevent and detect of fraud and other irregularities.

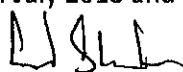
Financial statements are published on Stonewater's website in accordance with UK legislation governing the preparation and dissemination of financial statements. The maintenance and integrity of the corporate and financial information on Stonewaters website is the responsibility of the Board. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

### Disclosure of information to auditors

The Board members who held office at the date of approval of this report confirm that in fulfilling their duties as a board member they have taken the steps they ought to have taken to make themselves aware of any information relevant to the audit and the auditors are aware of that information. So far as they are aware there is no relevant audit information which they have not made the auditors aware of.

BDO LLP were appointed as Stonewater's external auditors for 2017/18 on 27 July 2017

The report of the Board was approved on 24 July 2018 and signed on its behalf by:



**George Biunden**  
Chair of Board

# Independent auditor's report to the members of Stonewater (2) Limited

## Opinion

We have audited the financial statements of Stonewater (2) Limited ("the Association") for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- >give a true and fair view of the state of the Association's affairs as at 31 March 2018 and of the Association's surplus 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 Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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 members use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- >the board members have 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.

## Other information

The board are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

# Independent auditor's report to the members of Stonewater (2) Limited

In connection with our audit of the financial statements, our responsibility is to read the other information including the Report of the Board of Management and Strategic report 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 we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

- >the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- >adequate accounting records have not been kept by the Association; or
- >a satisfactory system of control has not been maintained over transactions; or
- >the Association financial statements are not in agreement with the accounting records and returns;
- or
- >we have not received all the information and explanations we require for our audit.

## **Responsibilities of the board**

As explained more fully in the statement of the board's responsibilities 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 members 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 are 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.

## **Auditor's responsibilities for the audit of the financial statements**

This report is made solely to the members of the Association, as a body, in accordance with in accordance with the Housing and Regeneration Act 2008 and 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

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.



## Independent auditor's report to the members of Stonewater (2) Limited

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](http://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 members of the Association, as a body, in accordance with in accordance with the Housing and Regeneration Act 2008 and 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 members as a body, for our audit work, for this report, or for the opinions we have formed.



Kyla Bellingall (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
Birmingham  
United Kingdom      8 Aug. 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Statement of comprehensive income

		2018	2017
	Note	£'000	£'000
Turnover	4	53,160	51,534
Cost of sales	4	(2,032)	(452)
Operating costs	4	(33,623)	(34,054)
<b>Operating surplus</b>	<b>4,7</b>	<b>17,505</b>	<b>17,028</b>
Surplus on disposal of housing properties	9	10,437	3,035
Surplus on disposal of other fixed assets	9	554	-
Interest receivable and similar income	10	67	59
Interest Payable and financing costs	11	(11,381)	(11,445)
Movement in fair value adjustments	11	1,853	(2,215)
<b>Surplus for the financial year</b>		<b>19,035</b>	<b>6,462</b>
Change in fair value of hedged financial instruments	11	4,703	823
<b>Total comprehensive income for the year</b>		<b>23,738</b>	<b>7,285</b>

All activities relate to continuing operations.

The notes on pages 19 to 43 form part of these financial statements.

## Statement of financial position

		2018	2017
	Note	£'000	£'000
<b>Fixed assets</b>			
Housing properties	13	519,258	521,934
Other tangible fixed assets	14	807	2,678
Investments	15	-	-
<b>Total fixed assets</b>		<b>520,065</b>	<b>524,612</b>
<b>Current assets</b>			
Properties held for sale	16	2,033	1,109
Trade and other debtors	17	2,246	9,083
Current asset investments	18	1,510	1,829
Cash and cash equivalents		40,291	6,850
		46,080	18,871
Creditors: Amounts due in one year	19	(26,687)	(23,188)
<b>Net current assets / (liabilities)</b>		<b>19,393</b>	<b>(4,317)</b>
<b>Total assets less current liabilities</b>		<b>539,458</b>	<b>520,295</b>
Creditors: amounts falling due after more than one year	20	(478,615)	(483,190)
<b>Net assets</b>		<b>60,843</b>	<b>37,105</b>
<b>Capital and reserves</b>			
Share capital	26	-	-
Cashflow hedge reserve		(26,691)	(31,394)
Income and expenditure reserve		87,534	68,499
		<b>60,843</b>	<b>37,105</b>

The notes on pages 19 to 43 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 July 2018.

 <b>G Blunden</b> Chair of the Board	 <b>N Harris</b> Board Member	 <b>A Harling</b> Secretary
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## Statement of changes in reserves

	Cashflow hedge reserve	Income & expenditure reserve	Total
	2018	2018	2018
	£'000	£'000	£'000
<b>Balance at 1 April 2017</b>	<b>(31,394)</b>	<b>68,499</b>	<b>37,105</b>
Surplus for the year	-	19,035	<b>19,035</b>
Movement in fair value of hedged financial instruments	4,703	-	<b>4,703</b>
<b>Balance at 31 March 2018</b>	<b>(26,691)</b>	<b>87,534</b>	<b>60,843</b>
Balance at 1 April 2016	(32,217)	65,301	33,084
Reclassification	-	(3,264)	(3,264)
Revised opening balance at 1 April 2016	(32,217)	62,037	29,820
Surplus for the year	-	6,462	6,462
Movement in fair value of hedged financial instruments	823	-	823
Balance at 31 March 2017	(31,394)	68,499	37,105

Prior year adjustment relates to SHPs pension deficit, which was recognised for the first time in the year ended 31 March 2016 to comply with FRS 102. The deficit was recorded in Stonewater (3) Limited at 31 March 2016 of £3.3 million. This was incorrect as the legal obligation for this liability is within Stonewater (2) Limited.

## Notes to the financial statements

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# Notes to the financial statements

## 1. Legal status

Stonewater (2) Limited is registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a social housing provider. The Association is a public benefit entity.

## 2. Accounting policies

### Basis of preparation

The financial statements of the Association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102) 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.

The financial statements are presented in Sterling (£'000) to the nearest thousand except where specifically stated otherwise.

In preparing these financial statements, advantage has been taken of the following disclosure exemptions available in FRS 102:

- > No cash flow statement has been presented.
- > Disclosures in respect of the Association's financial instruments have not been presented.
- > Disclosure in respect of the related party transactions with intra group companies.

The information is included in the consolidated financial statements of Stonewater Limited as at 31 March 2018 and these financial statements may be obtained from Stonewaters' registered address as disclosed on page 1.

The following principal accounting policies have been applied:

### Going concern

After making enquiries and reviewing the financial plan, the Board has a reasonable expectation that the association has adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concerned basis.

### Turnover

Turnover represents rental and service charge income receivable (net of void losses), grants from local authorities and the Regulator of Social Housing (RSH), income from shared ownership first tranche sales, income from properties developed for sale, grant amortisation and other income, all of which arise in the UK.

The amortisation of social housing grant is applied by the accruals model in accordance with FRS102, and the income is released over the life of the associated structure component.

Rental income is recognised from the point when properties under development reach practical completion and are formally let; income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

# Notes to the financial statements

## Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable.

## Properties for sale

Properties developed for outright sale are included in turnover, cost of sales and operating costs. Properties developed for shared ownership sale are divided into first tranche sales and other sales. First tranche sales are included within turnover, cost of sales and operating costs. Subsequent tranches (Staircasing) are shown separately, and are included with other sales of fixed asset below operating surplus.

## Service charges

The Group adopts a mixture of fixed and variable method for calculating and charging service charges to its tenants and leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated or fixed amounts chargeable.

## Schemes managed by agents

Income is shown as rent receivable and management fees payable to agents are included in operating costs.

## Cost of sales

Cost of sales represents costs including capitalised interest, direct overheads incurred during the course of development of those properties and marketing and other incidental costs incurred during the course of the sale of those properties.

(Development overhead costs are capitalised to the extent in which they directly attribute to bringing schemes into a working condition. Such expenditure is inclusive of in house development staff, surveyor costs, and a proportion of other staff in other departments which work on development activity).

## Operating costs

Direct employee, administration and operating costs are allocated to either the statement of comprehensive income or capital schemes on the basis of costs of staff or the extent to which they are directly engaged in the operations concerned.

## Value Added Tax

The Association charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the Association and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

## Notes to the financial statements

### Tangible fixed assets – housing properties

Housing properties constructed or acquired (including land) on the open market are stated at cost less depreciation and impairment (where applicable).

The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development.

Directly attributable costs of acquisition includes capitalised interest calculated, on a proportional basis, using finance costs on borrowing which has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure is charged to the Statement of Comprehensive Income.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are held at cost less any impairment, and are transferred to completed properties when ready for letting.

Expenditure on schemes which are subsequently aborted, is written off in the period in which it is recognised the scheme will not be developed to completion.

Gains and losses on disposals of housing properties are determined by comparing the proceeds with the carrying amount and incidental costs of sales and are recognised within Surplus on disposal of fixed assets in the Statement of Comprehensive Income.

### Government and other grants

Social Housing Grant (SHG) is receivable from the Regulator of Social Housing (RSH).

As required by the Housing SORP 2014, grant is carried as deferred income in the Statement of Financial Position and released to the Statement of Comprehensive Income on a systematic basis over the useful economic lives of the structure component.

In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected (see table of useful economic lives on page 22).

Social housing grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the Statement of Comprehensive Income.

Grants relating to revenue are recognised in the Statement of Comprehensive Income over the same period as the expenditure to which they relate once performance related conditions have been met.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Grant is amortised even if there are no related depreciation charges.



## Notes to the financial statements

### Recycled capital grant fund

On the occurrence of certain relevant events, primarily the sale of dwellings, the RSH can direct Stonewater to recycle capital grants or to make repayments of the recoverable amount. The Association adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the RSH with interest unless the regulator agrees an extension.

Balances held in the Recycled capital grant fund which are required to be used within one year from the Statement of Financial Position date are held in "creditors due within one year". Funds which are required to be used in a time frame of greater than one year are held in "creditor due after more than one year".

### Disposal proceeds fund

Receipts from Right to Acquire (RTA) sales were required to be retained in a ring fenced fund that can only be used for providing replacement housing. The sales receipts less eligible expenses are credited to the Disposal Proceeds Fund. The RSH communicated its intention that from 1<sup>st</sup> April 2017, credits arising from RTA sales should instead be credited to the Recycled capital grant fund. Existing balances held in the Disposal proceeds fund should remain and be used in line with policy. In effect, the Disposal proceeds fund will no longer exist as a separate fund after 31<sup>st</sup> March 2020.

Balances held in the Disposal proceeds fund which are required to be used within one year from the Statement of Financial Position date are held in "creditors due within one year". Funds which are required to be used in a time frame of greater than one year are held in "creditor due after more than one year".

### Depreciation of housing property

Housing land and property is split between land, structure and other major components that are expected to require replacement over time.

Land is not depreciated on account of its indefinite useful economic life.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

The cost of housing property and components is depreciated over the useful economic lives of the assets on the following basis:

Description	Estimated Economic Life (years)
Boiler	15
Kitchen	20
Heating Systems & Bathrooms	30
Electrics	40
Windows	35
Roof covers	70
Structure	100

Leasehold properties are depreciated over the length of the lease except where the expected useful economic life of properties is shorter than the lease; when the lease and building elements are depreciated separately over their expected useful economic lives.

## Notes to the financial statements

### Impairment of fixed assets

The housing property portfolio for the Association is assessed for indicators of impairment at each Statement of Financial Position date, and any impairment in an income generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of income generating unit exceeds the higher of its net realisable value or its value in use.

Impairment reviews are carried out in accordance with the Housing SORP, with consideration of the following impairment indicators: -

- >Development Issues
- >Change in legislation
- >Average void time/change in demand
- >Proportion of properties vacant
- >Loss made on property sales
- >Schemes being redeveloped/demolished

Definition of cash generating units is defined as schemes.

### Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

### Shared ownership properties and staircasing

Under low cost home ownership arrangements, the Group disposes of a long lease on low cost home ownership housing units for a share ranging between 25% and 75% of value.

The buyer has the right to purchase further proportions up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

Low cost home ownership properties awaiting sale or under construction are split proportionately between current and fixed assets based on the element relating to the expected first tranche sale. The first tranche proportion is classified as a current asset. The remaining tranche, the potential "staircasing element", is classified as housing properties and included in completed housing property at cost with any provision for impairment. Sales of subsequent tranches are treated as a part disposal of housing properties. Such staircasing sales may result in capital grant being deferred (recycled) or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

## Notes to the financial statements

### Tangible fixed assets – Other

Other tangible fixed assets, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Association adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Association. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the period in which they are incurred.

### Depreciation of other tangible fixed assets

Freehold land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Description	Estimated useful life (years)
Freehold buildings	100
Leasehold, and buildings	Per lease agreement
Fixtures & Fittings	5
Motor vehicles	4
Computers	3

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals of other fixed assets are determined by comparing the proceeds with the carrying amount and incidental costs of sales and are recognised within Surplus on disposal of fixed assets in the Statement of Comprehensive Income.

### Properties held for sale

Properties held for sale represent work in progress and completed properties, including housing properties developed for transfer to other registered providers; properties developed for outright sale; and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

### Debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating costs.

### Impairment of rental and other trade receivables

The Association estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair it reviews the age profile of the debt, historical collection rates and the class of debt.

### Rent and service charge agreements

The association has made arrangement with individuals and households for arrears payments of rent and service charges. These arrangements are effectively loans granted at nil interest rate.

## Notes to the financial statements

### Concessionary loans

Concessionary loans are those loans made or received by the Association that are made:

- > To further its public benefit objectives.
- > At a rate of interest which is below the prevailing market rate of interest.
- > Not repayable on demand.

These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. The Association had no such loans outstanding at year end. During the financial year one concessionary loan from the Association to Stonewater (4) Limited existed. This loan was repaid in May 2017.

### Loans, investments and short term deposits

All loans, investments and short term deposits held by the Association, with the exception of the cancellable embedded option arrangements detailed below, are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost), FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Association has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated in the Statement of Financial Position at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

### Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

### Cash and cash equivalents

Cash and cash equivalents in the Association's Statement of Financial Position consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

The Association invests in highly rated Constant Net Asset Value (CNAV) money market funds where capital preservation is the priority. These are valued on an amortised cost basis. Following the change in regulation for existing EU money market funds these investments are required to change to Low Volatility Net Asset Value (LVNAV) investments before 21st January 2019.

### Leased assets: Lessee

All leases are considered to be operating leases. Their annual rentals are charged to Statement of Comprehensive Income on a straight-line basis over the term of the lease. Reverse premiums and similar incentives received to enter into operating lease agreements are released to the statement of comprehensive income over the term of the lease.

### Finance costs

Finance costs on bonds and notes are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument. For all other borrowings, finance costs are charged on an amortised cost basis.

### Leasehold sinking funds

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included in creditors.

## Notes to the financial statements

### Derivative financial instruments and hedged accounting

The Association holds floating rate loans which expose the Association to interest rate risk, to mitigate against this risk the Association uses interest rate swaps. These instruments are measured at fair value at each reporting date. They are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Association has designated each of the swaps against either existing drawn floating rate debt or against highly probable future floating rate debt. To the extent the hedge is effective movements in fair value adjustments, other than adjustments for own or counter party credit risk, are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any movements in fair value relating to ineffectiveness and adjustments for our own or counter party credit risk are recognised in Statement of Comprehensive Income.

### Current and deferred taxation

The tax expense for the year comprises of both current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Association's subsidiaries operate and generate taxable income.

### Pension costs

Contributions to the group's defined contribution pension scheme are charged to the statement of comprehensive income in the year in which they become payable.

The Association participate in the multi-employer defined benefit Social Housing Pension Scheme (SHPS). It is not possible to identify the share of the underlying assets and liabilities belonging to individual participating employers on a consistent and reasonable basis. As a result, the amount charged to operating expenditure represents the employer contribution payable to the scheme for the accounting period. Contributions payable under the terms of a funding agreement for past deficits are recognised as a liability in the statement of financial position at the present value of the expected future cash flows for which there is a contractual obligation

### Contingent liabilities

A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made.

A contingent liability exists on grant repayment which is dependent on the disposal of related property.

### Cashflow reserve

Cashflow hedge reserve is created from the movement in the fair value of hedging derivatives that are assumed as effective.

The cashflow reserve will be released over the life of the instruments to which it relates.

### Income and expenditure reserve

Income and expenditure reserve represents surpluses generated from operating activities each year.

### 3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key judgements have been made in respect of the following:

> Whether there are indicators of impairment of the Association's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The members have considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost. The members have also considered impairment based on their assumptions to define cash or asset generating units.

> Determining the anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, they then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on the member's best estimate of sales value based on economic conditions within the area of development.

> Whether leases entered into by the group either as a lessor or a lessee are operating or lease or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

> Determining the appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.

> What constitutes a cash generating unit when indicators of impairment require there to be an impairment review.

> Negative compensation clauses in loan agreement. A review of loans was undertaken during the financial year to identify whether negative compensation clauses apply. We do not believe that any of the contractual provisions in our loan agreements:

- result in the holder losing the principal amount or any interest attributable to the current period or prior periods; or

- make permission to prepay contingent on future events.

Therefore, the loans were considered to be basic financial instruments.

Other key sources of estimation uncertainty:

**> Tangible fixed assets (note 13 and 14)**

Tangible fixed assets are depreciated over their useful economic lives. The actual lives of the assets are assessed annually and may vary depending on a number of factors. For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

**> Hedge accounting effectiveness.**

A prospective test is performed at hedge inception and at each reporting date, under the critical terms method, and using a hypothetical derivative set up so that it matches the Hedging Instrument, but in the opposite direction.

The strength of the statistical relationship between the hedging instrument and hedged item is measured by comparing the mark-to-market movement of the hedging instrument to that of the hypothetical derivative by shocking the underlying curve. As the market value represents the present value of all future swap cashflows, a strong correlation between changes in market value of swap and hypothetical swap implies that the hedge is expected to be highly effective.

Those swaps which are accounted for as non-basic comprise (a) cancellable swaps where the bank counterparty has the option to terminate the swap, (b) those fixed-to-floating swaps which reduce Stonewater's hedged interest percentage and (c) RPI swaps, where current government rent policy means that the swaps no longer hedge movements in inflation. Where basic swaps have payment dates that do not match exactly with the underlying loan, then an adjustment is made for the non-effective part of hedge.

**> Valuation of Swaps**

We have used a clearing house valuation for all SWAPs held by the Group. This method is adopted across the registered provider sector. We have not used the debit value adjustment (DVA) as there is no current requirement under FRS 102 to hold SWAPs at DVA adjusted value.

**> Social Housing Pension deficit calculation and discount rate used**

The discount rate used in the calculation of the SHPS deficit was based on the rate advised by our external pension advisors, and which was used for section 28 of FRS 102 valuation of the Defined Benefits pension scheme.

## Notes to the financial statements

### 4. Particulars of turnover, costs of sales, operating costs and operating surplus

		Turnover	Cost of sales	Operating costs	Operating surplus
	Note	2018	2018	2018	2018
		£'000	£'000	£'000	£'000
Social housing lettings	5	50,408	-	(33,623)	16,785
Other social housing activities					
First tranche low costs home ownership sales		2,752	(2,032)	-	720
<b>Total</b>		<b>53,160</b>	<b>(2,032)</b>	<b>(33,623)</b>	<b>17,505</b>

		Turnover	Cost of sales	Operating costs	Operating surplus
	Note	2017	2017	2017	2017
		£'000	£'000	£'000	£'000
Social housing lettings	5	50,755	-	(34,054)	16,701
Other social housing activities					
First tranche low costs home ownership sales		778	(613)	-	165
Other		1	161	-	162
		51,534	(452)	(34,054)	17,028



## Notes to the financial statements

### 5. Particulars of the income and expenditure from social housing lettings

	General needs	Supported & housing for older people	Shared ownership	Affordable	Total 2018	Total 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	36,914	1,736	2,487	2,453	<b>43,590</b>	43,952
Service charge income	2,656	902	677	23	<b>4,258</b>	4,167
<b>Net rent receivable</b>	<b>39,570</b>	<b>2,638</b>	<b>3,164</b>	<b>2,476</b>	<b>47,848</b>	48,119
Amortised government grants	2,130	130	150	28	<b>2,438</b>	2,436
Other income	79	-	43	-	<b>122</b>	200
<b>Turnover from social housing lettings</b>	<b>41,779</b>	<b>2,768</b>	<b>3,357</b>	<b>2,504</b>	<b>50,408</b>	50,755
<b>Expenditure on letting activities</b>						
Management	(7,445)	(405)	(1,167)	(649)	<b>(9,666)</b>	(9,774)
Service charge costs	(2,224)	(1,100)	(330)	(31)	<b>(3,685)</b>	(3,541)
Routine maintenance	(6,543)	(369)	(61)	(299)	<b>(7,272)</b>	(7,547)
Planned maintenance	(1,589)	(70)	(5)	(57)	<b>(1,721)</b>	(2,055)
Major repairs	(1,508)	(647)	(95)	(10)	<b>(2,260)</b>	(2,207)
Bad debts	(505)	(20)	(15)	(23)	<b>(563)</b>	(322)
Depreciation on housing properties	(7,518)	(299)	(413)	(466)	<b>(8,696)</b>	(8,377)
Impairment on housing properties	(230)	-	-	-	<b>(230)</b>	(231)
Reversal of impairment	-	-	470	-	<b>470</b>	-
<b>Operating expenditure on lettings</b>	<b>(27,562)</b>	<b>(2,910)</b>	<b>(1,616)</b>	<b>(1,535)</b>	<b>(33,623)</b>	(34,054)
<b>Operating surplus on lettings</b>	<b>14,217</b>	<b>(142)</b>	<b>1,741</b>	<b>969</b>	<b>16,785</b>	16,701
<b>Void losses</b>	<b>(476)</b>	<b>(81)</b>	<b>(101)</b>	<b>(61)</b>	<b>(719)</b>	(479)

## 6. Units of housing stock

	2018	2017
	Number	Number
General Needs Housing	6,923	6,771
Affordable housing	680	618
Shared Ownership	1,180	1,128
Supported Housing	71	81
Housing for older people	232	254
Other	505	503
<b>Total Owned</b>	<b>9,591</b>	<b>9,355</b>
Accommodation managed for others	895	974
<b>Total managed accommodation</b>	<b>10,486</b>	<b>10,329</b>
Units managed by other associations	165	483
<b>Total owned and managed accommodation</b>	<b>10,651</b>	<b>10,812</b>
Units under construction	282	127

## 7. Operating surplus

	2018	2017
	£'000	£'000
This is arrived at after charging:		
Depreciation of housing properties		
-annual charge (note 5 and 13)	<b>8,372</b>	8,149
-accelerated depreciation (note 5)	<b>324</b>	228
Depreciation of other tangible fixed assets (note 14)	<b>175</b>	105
Impairment of housing properties (note 5 and 13a)	<b>230</b>	231
Reversal of Impairment of housing properties	<b>(470)</b>	-
Operating lease rentals	<b>356</b>	348

Audit fees for the year ending 31 March 2018 are borne by the Parent company, Stonewater Limited, and are disclosed in the consolidated financial statements.

## 8. Employees, Directors' and senior executive remuneration

Employee information, including pension costs and the cost of Directors and senior executives remuneration are disclosed in the Consolidated financial statements.

# Notes to the financial statements

## 9. Surplus on disposal of fixed assets

	Shared ownership	Other housing properties	Other fixed assets	Total	Total
	2018	2018	2018	2018	2017
	£'000	£'000	£'000	£'000	£'000
<b>Housing Properties:</b>					
Disposal proceeds	4,302	11,667	2,280	<b>18,249</b>	5,724
Cost of disposals	(2,138)	(3,394)	(1,726)	<b>(7,258)</b>	(2,689)
<b>Surplus on disposal</b>	<b>2,164</b>	<b>8,273</b>	<b>554</b>	<b>10,991</b>	3,035

## 10. Interest receivable and similar income

	2018	2017
	£'000	£'000
Interest receivable and similar income	61	59
Interest from group entities	6	-
<b>Total</b>	<b>67</b>	59

## 11. Interest payable and financing costs

	2018	2017
	£'000	£'000
Bank loans and overdrafts	9,603	9,916
Interest payable to group undertakings	1,793	1,234
Interest capitalised on construction on housing properties (note 13b)	(391)	(184)
Recycled capital grant fund (note 22)	9	8
Disposal proceeds fund (note 23)	1	2
Net interest on pension fund	366	469
<b>Total</b>	<b>11,381</b>	11,445
<b>Other financing costs through income and expenditure</b>		
Movement in fair value of non hedged financial instruments	1,853	(2,215)
<b>Other financing costs through other comprehensive income</b>		
Movement in fair value of hedged financial instruments	4,703	823

## Notes to the financial statements

### 12. Taxation on surplus on ordinary activities

Stonewater Limited is registered with charitable rules under Co-operative and Community Benefit Societies Act and as such received charitable relief from Corporation tax.

### 13(a). Tangible fixed assets Housing Properties

	Housing Properties held for lettings	Housing Properties for letting under construction	Shared ownership completed	Shared ownership under construction	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost:</b>					
At 1 April 2017	558,813	2,212	47,901	1,355	610,281
Additions:					
- Construction costs	-	7,701	-	6,950	14,651
- Replaced components	2,750	-	-	-	2,750
Transferred to completed properties	5,769	(5,769)	2,817	(2,817)	-
Transfer to properties held for sale	-	-	-	(2,957)	(2,957)
Disposals – staircasing sales	-	-	(2,290)	-	(2,290)
Disposals– other sales	(7,467)	-	-	-	(7,467)
Disposals – replaced components	(927)	-	-	-	(927)
<b>At 31 March 2018</b>	<b>558,938</b>	<b>4,144</b>	<b>48,428</b>	<b>2,531</b>	<b>614,041</b>
<b>Depreciation:</b>					
At 1 April 2017	83,868	-	3,778	-	87,646
Charge for the year	8,283	-	413	-	8,696
Disposals – staircasing sales	-	-	(167)	-	(167)
Disposals – replaced components	(920)	-	-	-	(920)
Disposals – other	(932)	-	-	-	(932)
<b>At 31 March 2018</b>	<b>90,299</b>	<b>-</b>	<b>4,024</b>	<b>-</b>	<b>94,323</b>
<b>Provision for impairment:</b>					
At 1 April 2017	-	230	470	-	700
Charge for the year	230	-	-	-	230
Released during the year	-	-	(470)	-	(470)
<b>At 31 March 2018</b>	<b>230</b>	<b>230</b>	<b>-</b>	<b>-</b>	<b>460</b>
<b>Net book value:</b>					
<b>At 31 March 2018</b>	<b>468,409</b>	<b>3,914</b>	<b>44,404</b>	<b>2,531</b>	<b>519,258</b>
At 31 March 2017	474,945	1,981	43,653	1,355	521,934

## Notes to the financial statements

### 13(b). Tangible fixed assets Housing Properties (continued)

	2018	2017
	£'000	£'000
The net book value of housing and other properties (note 15) comprises:		
Freehold	489,490	490,375
Long leasehold	29,768	31,559
	519,258	521,934
<b>Interest capitalisation</b>		
Interest capitalised in the year (note 11)	391	184
Cumulative interest capitalised	13,276	12,885
Rate used for capitalisation	3.9%	4.3%
<b>Works to properties</b>		
Improvements to existing properties capitalised	2,750	2,410
Major repairs expenditure to income and expenditure account (note 5)	2,260	2,207
	5,010	4,617
<b>Total social housing Grant received or receivable to date as follows:</b>	<b>2018</b>	<b>2017</b>
	£'000	£'000
Capital grant held in deferred income (note 21)	196,866	203,734
Recycled capital grant fund (note 22)	2,588	2,573
Disposal proceeds fund (note 23)	190	462
Amortised to income and expenditure account in year (note 5)	2,438	2,436
Cumulative amortisation to reserves	20,702	18,264

#### Impairment

A full impairment review was carried out at 31 March 2016 and no material impairment was identified. At 31 March 2018 we considered whether any specific indicators of impairment at scheme or property level exist and identified:

During the current year, the Association has recognised an impairment loss of £230k (2017: £230k) in respect of properties held for lettings. No units in management were impacted by the impairment loss calculated. In addition, £470k impairment was reversed during the year (2017: £100k). The impairment reversal related to one scheme comprising of 12 units that were impaired prior to 2016/17 as void properties. The properties were subsequently sold during 2017/18.

#### Properties held for security

The Association had 7,577 properties pledged as security at 31 March 2018 (2017: 7,220 properties).

14. Other tangible fixed assets

	Freehold Office	Furniture and office equipment	Total
	£'000	£'000	£'000
<b>Costs</b>			
At 1 April 2017	3,623	2,036	5,659
Additions	-	11	11
Disposal	(2,842)	-	(2,842)
<b>At 31 March 2018</b>	<b>781</b>	<b>2,047</b>	<b>2,828</b>
<b>Depreciation</b>			
At 1 April 2017	1,650	1,331	2,981
Charge for year (note 7)	76	99	175
Disposal	(1,135)	-	(1,135)
<b>At 31 March 2018</b>	<b>591</b>	<b>1,430</b>	<b>2,021</b>
<b>Net book value</b>			
At 31 March 2018	190	617	807
At 31 March 2017	1,973	705	2,678

15. Fixed Asset Investments

Name	Country of Incorporation	Proportion of voting rights/ordinary share capital held	Nature of business	Nature of entity
Stonewater (3) Limited	England	100%	Registered provider of social housing	Registered Social Landlord
Stonewater (4) Limited	England	100%	Registered provider of social housing	Registered Social Landlord

16. Properties held for sale

	2018	2017
	£'000	£'000
Housing properties for sale:		
Work in progress	1,346	1,109
Completed properties	687	-
	<b>2,033</b>	<b>1,109</b>

## 17. Debtors

	2018	2017
	£'000	£'000
Rent and service charge arrears	2,967	2,508
Less: Provision for doubtful debts	(860)	(656)
	2,107	1,852
Amounts owned by group undertaking	13	7,007
Other debtors	115	173
Social Housing grant receivable	11	51
	2,246	9,083

All amounts are due within one year.

Included in Amounts owed by group undertakings at 31 March 2017 was a £4m concessionary loan which the Association had provided under the partnership agreement with Stonewater (4) Limited.

The loan was repaid in May 2017

## 18. Current asset investments

Short term investments of £1,510,000 (2017: £1,829,000) are represented by amounts held in Escrow accounts and bank deposits.

## Notes to the financial statements

### 19. Creditors – amounts falling due within one year

	2018	2017
	£'000	£'000
Housing loans external (note 24)	10,578	6,027
Issue costs external (note 24)	(19)	(193)
Housing loans internal (note 24)	1,580	1,422
Trade Creditors	129	243
Other creditors	3,436	4,474
Taxation and social security	128	42
Accruals and deferred income	274	156
Accrued interest	1,353	836
Retentions	123	227
Amounts owed to group undertakings	4,728	6,254
Recycled capital grant fund (note 22)	1,330	701
Disposal proceeds fund (note 23)	125	272
Social housing pension (SHPS)	1,329	1,329
Leaseholder sinking funds	1,593	1,398
	<b>26,687</b>	<b>23,188</b>

### 20. Creditors – amounts falling due after more than one year

	2018	2017
	£'000	£'000
Housing loans external (note 24)	219,056	206,775
Issue costs external (note 24)	(631)	(548)
Housing loans internal (note 24)	19,183	20,781
Derivatives financial instruments	35,555	42,109
SHPS pension deficit	7,263	8,277
Deferred capital grant (note 21)	196,866	203,734
Recycled capital grant fund (note 22)	1,258	1,872
Disposal proceeds fund (note 23)	65	190
	<b>478,615</b>	<b>483,190</b>





## 21. Deferred capital grant

	2018	2017
	£'000	£'000
At 1 April	203,734	206,143
Grants received during the year		515
Transfer to RCGF and DPF (note 22)	(546)	(645)
Transfer from intercompany	(402)	-
Released to income in the year (note 5)	(2,438)	(2,436)
Write back amortisation on disposals	647	141
Other movements	(4,129)	16
<b>At 31 March</b>	<b>196,866</b>	<b>203,734</b>

## 22. Recycled capital grant fund (RCGF)

	HCA	HCA
	2018	2017
	£'000	£'000
At 1 April	2,573	2,213
<b>Inputs to fund:</b>		
Grants recycled from deferred capital grants (note 21)	546	861
Transfer to Group Members	(540)	-
Interest accrued (note 11)	9	8
<b>Recycling of grant:</b>		
New build	-	(170)
Repayment of grant to GLA	-	(339)
<b>At 31 March</b>	<b>2,588</b>	<b>2,573</b>
<b>Amounts due for repayments</b>		
-within 1 year (note 19)	1,330	701
-within 2 to 3 years (note 20)	1,258	1,872
	<b>2,588</b>	<b>2,573</b>

## Notes to the financial statements

### 23. Disposal proceeds fund (DPF)

	HCA	HCA
	2018	2017
	£'000	£'000
At 1 April	462	398
Inputs to fund:		
Transfer from other Group Members	(273)	-
Grants recycled (note 22)	-	123
New development and repairs to existing properties (note 21)	-	(61)
Interest Accrued (note 11)	1	2
<b>At 31 March</b>	<b>190</b>	<b>462</b>
Analysed as:		
Amounts to be released within 1 year	125	272
Amounts to be released in more than 1 year	65	190
	<b>190</b>	<b>462</b>

Withdrawals from the disposal proceeds fund were used for approved grants on New Build Schemes.

### 24. Loans and borrowings

Maturity of debt:	Bank loans	Bond Finance	Other loans	Total
	2018	2018	2018	2018
	£'000	£'000	£'000	£'000
In one year or less, or on demand	10,328	1,630	200	<b>12,158</b>
Issue Costs <1 year	(11)	(8)	-	<b>(19)</b>
<b>Within one year (note 19)</b>	<b>10,317</b>	<b>1,622</b>	<b>200</b>	<b>12,139</b>
In more than one year but not more than two years	11,627	1,747	153	<b>13,527</b>
In more than two years but not more than five years	33,471	6,057	570	<b>40,098</b>
After five years	121,374	57,674	5,566	<b>184,614</b>
Issue Costs	(272)	(359)	-	<b>(631)</b>
<b>Within more than one year (note 20)</b>	<b>166,200</b>	<b>65,119</b>	<b>6,289</b>	<b>237,608</b>
<b>Total Loans</b>	<b>176,517</b>	<b>66,741</b>	<b>6,489</b>	<b>249,747</b>

## Notes to the financial statements

Maturity of debt:	Bank loans	Bond Finance	Other loans	Total
	2017	2017	2017	2017
	£'000	£'000	£'000	£'000
In one year or less, or on demand	5,851	1,470	128	7,449
Issue Costs <1 year	(191)	(2)	-	(193)
Within one year (note 21)	5,660	1,468	128	7,256
In more than one year but not more than two years	10,328	1,580	142	12,050
In more than two years but not more than five years	36,204	5,477	529	42,210
After five years	132,266	35,280	5,750	173,296
Issue Costs	(491)	(57)	-	(548)
Within more than one year (note 22)	178,307	42,280	6,421	227,008
Total Loans	183,967	43,748	6,549	234,264

Bond Finance includes £46.5m (2017: £21.6m) from Stonewater Funding Plc, a fellow Group Member.

### 25. Pension

#### Social Housing Pension Scheme

Stonewater (2) Ltd participates in the Social Housing Pension Scheme (the scheme). The scheme is funded and is contracted out of the state pension scheme.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to address the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The discounted value of the future contributions arising from the last valuation received in November 2016 are reflected in note 19 and 20.

## Notes to the financial statements

### 26. Share capital

	2018	2017
	£	£
At 1 April	11	12
Shares issued in the year	3	-
Shares cancelled in the year	(2)	(1)
At 31 March	12	11

The share capital of the Association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that share is cancelled and the amount paid thereon becomes the property of Stonewater. Therefore, all shareholdings relate to non-equity interests.

### 27. Operating leases

The Association had minimum lease payments under non-cancellable operating leases as set out below:

	2018	2017
	£'000	£'000
Amounts payable as Lessee		
Not later than 1 year	273	290
Later than 1 year and not later than 5 years	519	770
Later than 5 years	47	105
	839	1,165

### 28. Capital commitments

	2018	2017
	£'000	£'000
Commitments contracted but not provided for Construction	37,954	15,134
Commitments approved by the Board but not contracted for Construction	8,557	19,756
	46,511	34,890

Capital commitments for the Association will be funded from £1.4m (2017: £1.2m) SHG, with the remainder funded from property sales £14.7m (2017: £9.2m) and external borrowing £30.4m (2017: £24.5m).

## 29. Related party disclosures

The Association transacted with a non regulated entity: Stonewater Funding PLC whose principal activity is to act as the capital markets issuance vehicle for the group.

The Association transacted with a non regulated entity: Stonewater Procurement Limited, a company that provided design and build services to the Association.

The charge for the design and build services was £7,568k (2017: £2,626k) plus 2.5% admin charge of £189k (2017: £66k), a total recharge of £7,757k (2017: £2,692k).

#### Intra group liabilities

The Association has a loan in place with Stonewater Funding PLC. At 31 March 2018 the outstanding amount was £46.4m (2017: £21.6 million)

Stonewater Funding PLC has on lent the proceeds of its 5.034% 2042 bond issue to Stonewater Ltd, Stonewater (2) Limited and Stonewater (5). The loans are secure by fixed charges over the housing properties of each borrower; and cross guarantees by each of the three cover any shortfall in the security and any unpaid interest and fees in respect of the loans.

At 31 March 2018 the potential shortfall covered by the guarantee was nil as the valuation of the security provided by Stonewater Limited, Stonewater (2) Limited and Stonewater (5) exceeded the amount required.

In July 2017 Stonewater Funding PLC issued £100 million of Notes in a private placement to investors managed by PGIM Inc, and entered into a shelf facility for £19.2m. The notes were issued at 3.03% (series A, amortising between 2038 and 2047) and 3.06% (bullet repayment 2047). £75m of the proceeds were on lent to Stonewater Ltd and £25m to Stonewater (2) Ltd.

The parent company is Stonewater Limited, a registered social housing provider. There is no ultimate controlling party of Stonewater Limited.

A copy of the consolidated financial statements can be obtained from the parent company's registered office which is shown on page 1.

	2018	2017
	£'000	£'000
Loan Balance (including issue costs)	46,346	21,574
Interest Charged	1,793	1,233

