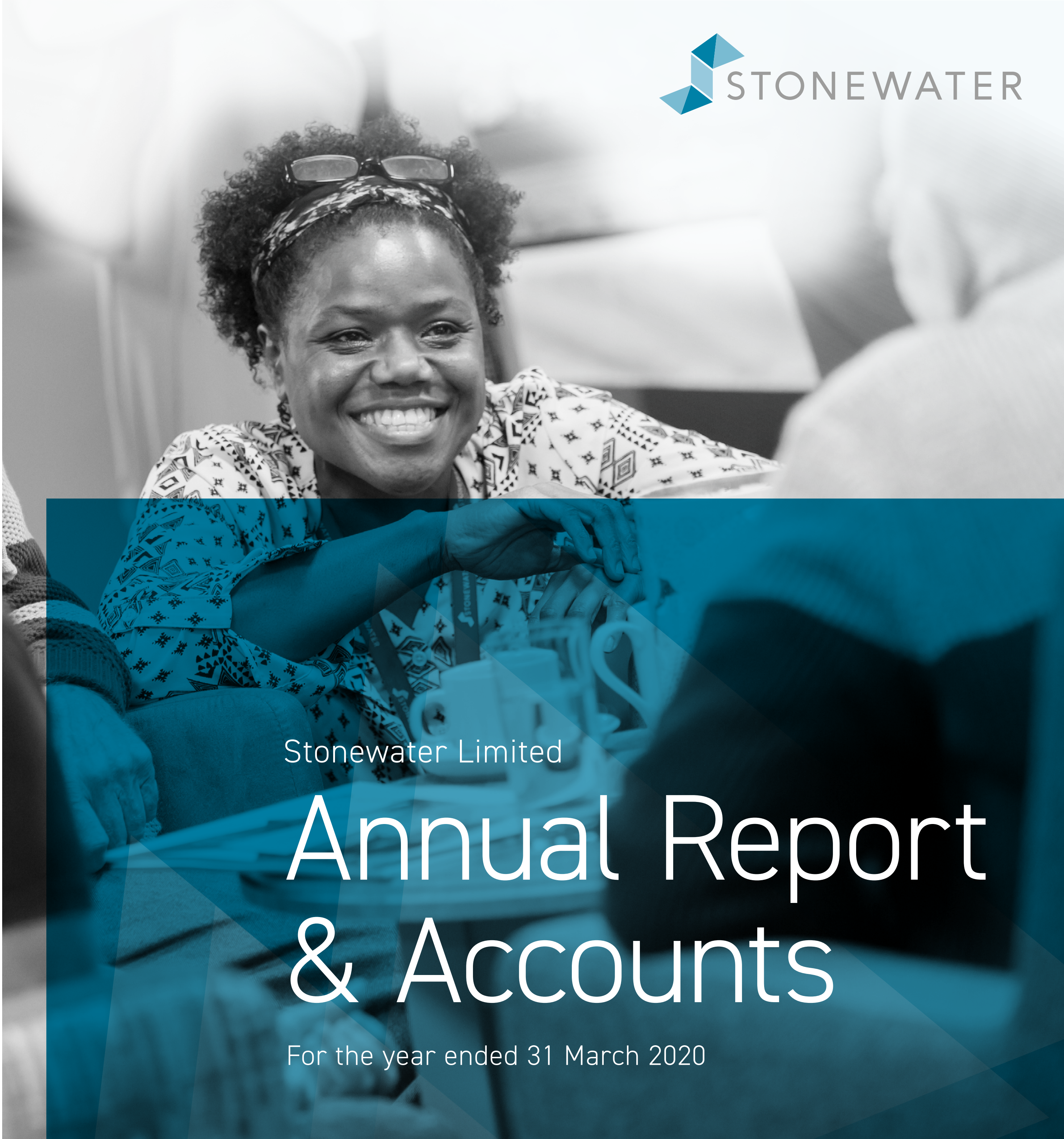


Stonewater Limited

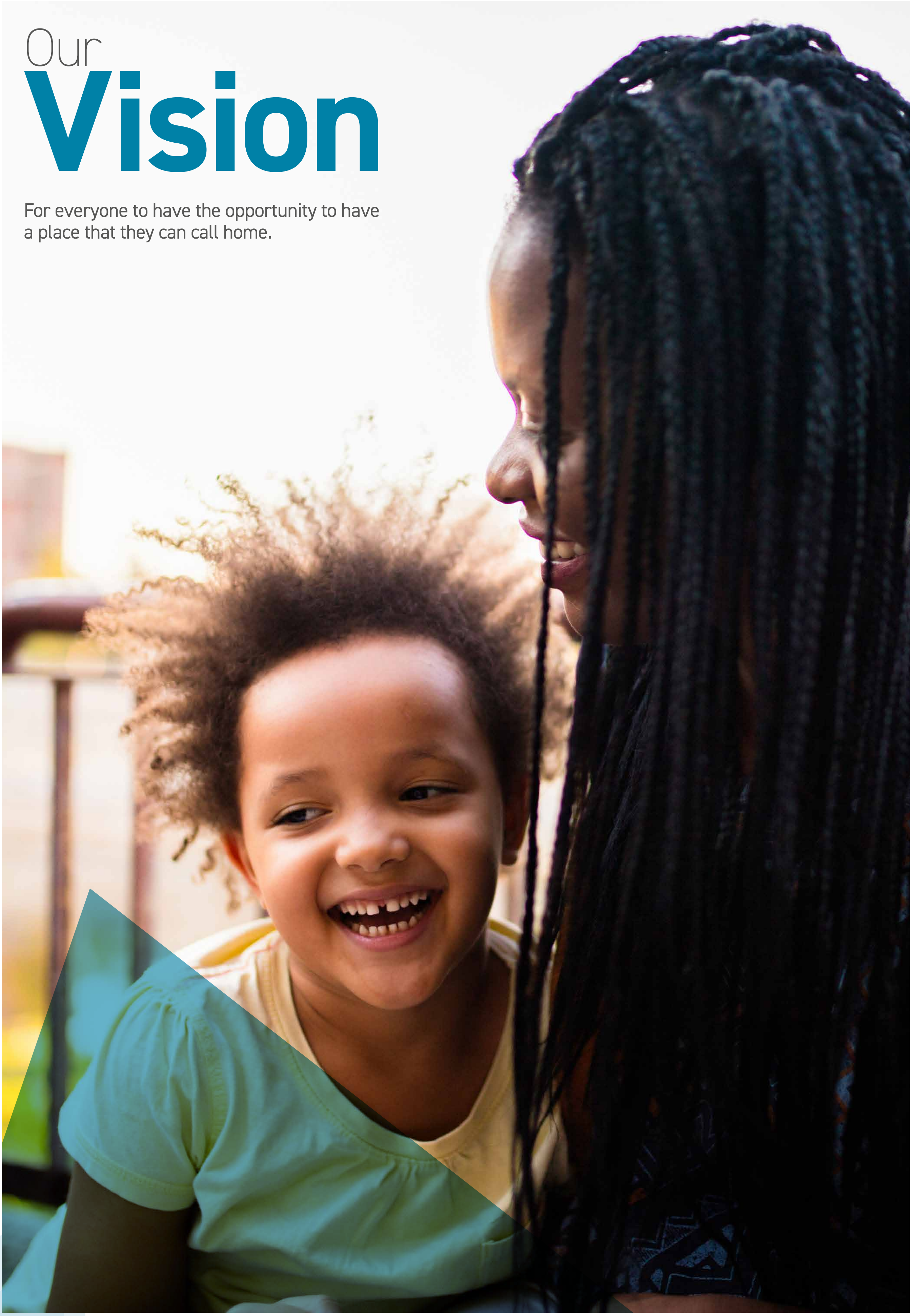
Annual Report & Accounts

For the year ended 31 March 2020

stonewater.org

Our Vision

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



What's inside

Community Benefit Society Number 20558R.
Regulator of Social Housing Number L1556.

About Stonewater

Stonewater is proud to be one of the UK's leading social housing providers.

We manage around **33,000 homes** across England for over **70,000 customers,** and provide affordable properties for general rent, shared ownership and sale, alongside specialist accommodation such as retirement and supported living schemes for older and vulnerable people, domestic abuse refuges, a dedicated LGBTQ+ Safe Space, and young people's foyers.

Customer focus

In the context of housing demand and supply in the UK, our customers represent a diverse community of households who rent, who buy, and for a relatively small number, where we provide support as a stepping stone.

We provide homes to customers across England whose housing needs cannot be met by the open market, particularly in terms of both affordability and security.

- A large proportion (35%) of our general needs customers are families with dependent children
- Most of our general needs customers (70%) are in either full or part-time employment
- A significant proportion of our customers are older people on lower incomes
- 62% of our tenancies last for 5 years and above
- Our specialist housing provides support for vulnerable young people, those with mental health issues and those suffering domestic abuse

We will continue to deliver our ambitions to build more homes and provide services that meet the needs of our customers.

Building homes

Over the past year, we have built 654 homes (2019: 548). We have plans to increase our build programme to reach 1,500 handovers a year from 2022/23 and have a good pipeline of development to achieve this.

For the past year, this figure is broken down into:

- 420 affordable rent, social rent, rent to buy
- 234 shared ownership

At 31 March 2020, we were in contract to build 1,539 homes.

A large stock acquisition was made in March 2020 from another housing association of 474 properties, with a further 257 completing in May.

Work continued on Stonewater's stock rationalisation programme. The Asset team achieved gross sales of £22.4m (2019: £10.4m) for this programme, which generated a surplus of £13.3m (2019: £5.9m). These sums will be re-invested in new homes that are more energy efficient and cost less to maintain, delivering continued efficiencies for the business.

Everything we do is guided by our Vision, Mission and Values.

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

Our Values

We believe that in order to be successful, we have to build our foundations on strong values:

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 who need them and improved choice and services for our customers.

Ethical

We take responsibility and are accountable for our decisions.

When we make a promise, we keep it.

We are inclusive, professional and honest.

Board members, executive officers and advisors

THE BOARD

SHEILA COLLINS
(Appointed as Chairman of the Board from 1 October 2019)

Sheila has a wealth of experience in the governance of large complex organisations as well as that of smaller charities. She has served at board and trustee level across a number of different not-for-profit sectors including roles on the boards of Bournemouth University and Macmillan Caring Locally. A retired solicitor, Sheila also brings a commercial perspective and a passion for the diversity and inclusion agenda.

Sheila was previously chairman of the Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust.

NICHOLAS HARRIS
(Chief Executive)

Nicholas became Stonewater's CEO in 2016, having been CEO of Raglan Housing Association since January 2010. Previous to this, he held the CEO position at Raven Housing Trust for seven years and Group Operations Director for the Swaythling Housing Group for seven years. He has extensive experience in both the social housing sector and local authorities, and considerable knowledge in socio-economic regeneration matters.

CLAIRE KEARNEY

After more than 20 years' experience in the publishing industry, Claire now works as an independent technology consultant, championing a user-centric approach to the provision of online services. Claire brings experience of creating and implementing digital services which align with strategic aims, alongside promoting high standards of web governance through committee experience.

TARIQ KAZI
(Chair of the Finance Committee until 31 May 2020)

Tariq is a professional accountant and corporate treasurer, who has experience of working across different sectors, including audit, commercial banking and local authorities, as well as the housing sector. He is currently Head of Treasury at Optivo and has a special interest in people, culture and innovation. Tariq has served as a magistrate and, as a non-executive, he has undertaken a number of roles including as a member of the social housing regulation committee, membership of a housing association treasury committee and trusteeship of two charities.

BRIAN ROEBUCK
(until 1 April 2020)

Brian previously held senior positions in financial management in the public, voluntary and private sectors. He has worked in the social housing sector since 1994.

PETER HAMMOND
(until 1 April 2020)

Peter has over 30 years' experience in the social housing and consultancy sectors covering a number of key service areas including strategy, governance, risk, audit, asset management, treasury and development. He was formerly Group Finance Director for a major housing association and Director for over 25 years with a number of housing consultancies. In 2012 he founded Peter Hammond Consulting Ltd.

JENNIFER BENNETT

(Chair of Business Design and Technology Committee, Chair of Managed Services Committee)

Jennifer is a nationally recognised social housing solicitor and her areas of expertise include governance, securitisation, asset management and leasehold law. During her 30 years in the sector she has also held a number of voluntary roles including as a non-executive director of Portsmouth Hospitals NHS Trust, an independent member of Winchester City Council Standards Committee, a non-executive director of Parity Trust (which provides loan finance for community-based projects), and a trustee of the Roberts Centre, a registered charity providing housing and support to families and children in Portsmouth. Jennifer is a member of the Chartered Institute of Housing.

ANNE DOKOV

(Chair of the Governance and People Committee)

Anne's career has been mainly in the public sector, particularly local Government. She has extensive experience of governance, organisational change and development, programme management and specialist knowledge of diversity, inclusion and human resources. She is a Lay Member of the Disciplinary Tribunal for the Chartered Institute of Legal Executives and Stonewater's Trustee on the Longleigh Foundation Board.

JULIANA CROWE

(Chair of the Customer Experience Committee)

Juliana has over 25 years' experience of working in the social housing sector, most recently as the housing director for a large Midlands based housing group. Previously she worked for the London Boroughs of Southwark, Tower Hamlets and Greenwich. She is a member of the European Structural Investments Funds Sub Committee (ESIF) in Worcestershire.

She has extensive experience at all levels of asset management, estate and housing management of inner city estates and rural affordable homes, with expertise in building sustainable communities. She has previously been the Chair of the CIH West Midlands Board, a Trustee of HACT.

In her spare time, Juliana is helping to build a school in the upper region of Ghana in memory of her father.

DOUG WRIGHT

(Chair of the Asset and Development Committee)

Doug is a finance and development professional who worked for Nationwide, Britain's largest building society, for 25 years. Doug initially worked as a Branch Manager but was subsequently employed by the development subsidiary Nationwide Housing Trust, building mixed tenure housing schemes including homes for sale together with private and social housing for rent.

On leaving Nationwide, Doug established his own consultancy, specialising in finance for vulnerable homeowners who couldn't access finance to repair and improve their homes. In this role Doug worked closely with Local Authorities and Government, carrying out research work which led to Doug establishing Art Homes Ltd which made loans to the vulnerable homeowners.

Doug has been a board member of a range of organisations over the last 30 years including: Shape, Witton Lodge, Wrekin, Marches, Jephson and currently Stonewater Housing Associations.

ANDREW LAWRENCE

(Chair of the Finance Committee from 1 June 2020) (Chair of the Risk and Assurance Committee until 31 May 2020)

Andrew is a chartered accountant with a special interest in corporate governance, strategic leadership, risk management, cultural change and innovation. Formerly a finance director in the commercial and international development sectors, he now has a portfolio of non-executive director roles in organisations in which he is passionate about the organisational purpose. Andrew is Chair of Bron Afon Community Housing, a community mutual social enterprise in South Wales, a Director of Baptist Insurance Company plc, Chair of the Audit and Risk Committee of the Intellectual Property Office and Trustee of a number of charities.

HUGH SHIELDS

(from 1 October 2019)
(Chair of the Risk and Assurance Committee from 1 June 2020)

Hugh's career has spanned a variety of complex organisations, including investment banking where he has held a number of directorships. His career has also encompassed leading on policy development within the accounting profession and responding to the digital challenge, most recently through work for the Institute of Chartered Accountants of Scotland. Hugh's interest in social housing and the wider not-for-profit sector is informed by his association with the homeless charity, Centrepoint, and his role as a member of the Church Commissioners' Audit Committee.

JOHN WEGUELIN

(until 30 September 2019)

CHRIS EDIS

(from 1 April 2020)

GEORGE BLUNDEN

(Chairman until 30 September 2019)

ANGUS MICHIE

(from 1 June 2020)

Board members, executive officers and advisors

EXECUTIVE OFFICERS

NICHOLAS HARRIS
Chief Executive

Prior to becoming Stonewater's Chief Executive Officer (CEO) in 2016, Nicholas worked as CEO at Raglan Housing from 2010 and previously Raven Housing Trust. He has extensive experience in both the social housing sector and local authorities, and considerable knowledge in socio-economic regeneration matters.

JOHN BRUTON
Deputy Chief Executive and Executive Director of Finance

Before the formation of Stonewater, John had been Director of Finance at Raglan since 2001. Previously he was Financial Controller at Metropolitan Housing Partnership, and did audit and advisory work at KPMG. He is a chartered accountant and has a postgraduate degree in mathematics.

PATRICK CHAUVIN
Executive Director of Assets
(from 1 March 2020)

Patrick is a highly experienced property and asset management professional. He has held senior management positions across a range of disciplines within the housing sector, including Director of Asset Services at Amicus Horizon and Head of Strategic Portfolio at Circle.

He is a qualified building surveyor with extensive experience in housing and construction.

SUE SHIRT
Executive Director of Customer Experience

Sue has 29 years' housing experience, including 16 years as an executive. Before Stonewater, she worked as Managing Director and Operations Director for an LSVT. She is an Economics graduate, Fellow of the Chartered Institute of Housing and Trustee for a domestic violence charity.

JONATHAN LAYZELL
Executive Director of Development

Jonathan has an extensive background in delivering homes with a particular interest in rural housing and sustainability of rural communities. He is also interested in how Registered Providers can use investment in new homes to support growth in the construction sector and wider economy.

DAVID BLOWER
Executive Director of Corporate Services

David has worked in the industry since 1993, in a number of senior finance roles before taking up the role of Executive Director of Corporate Services at Stonewater in 2015. David is a chartered certified accountant and holds an MBA from Warwick Business School.

SCOTT BAXENDALE
Executive Director of Assets
(until 12 March 2020)

SECRETARY AND REGISTERED OFFICE

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

ADVISORS

PRINCIPAL BANKERS	AUDITORS	SOLICITORS	SOLICITORS (GOVERNANCE)
Barclays Bank Level 27 1 Churchill Place London E14 5HP	**BDO LLP** 55 Baker Street London W1U 7EU	**Devonshires Solicitors** 30 Finsbury Circus London EC2M 7DT	**Trowers and Hamlins LLP** 55 Princess Street Manchester M2 4EW

Our Mission

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

Chairman's statement

SHEILA COLLINS
Chairman

It was a great privilege to be appointed as Chairman in October last year. As I reflect on the achievements of Stonewater over the last 12 months, against a backdrop of so much social and political change, I believe our Vision is more important than ever.

I'm pleased that we delivered a solid operational and financial performance over the course of the year, building much-needed homes and investing to support our residents and their communities.

Housing associations have a strong social purpose and are landlords to more than six million people across the UK. It's fair to say that the impacts of the coronavirus pandemic have disproportionally affected many of our customers, who were already vulnerable or disadvantaged. Addressing this will continue to be a top priority for us as we work to continue providing services and support for those most in need.

Recent events have shown the vast UK disparity in access to green space, security of tenure, financial resilience and mental wellbeing. We have also seen the particular challenges that our Black, Asian and minority ethnic (BAME) communities face. Nevertheless, it has also shown that determined, responsive and compassionate action can achieve more than we ever thought plausible or possible, with:

- Ninety percent of rough sleepers helped off the streets in two weeks
- Millions of people self-organising support in their neighbours
- Housing associations, alongside charities, community groups and businesses, have reoriented themselves completely to support communities at incredible speed

As the world around us is transformed, I've seen first-hand how Stonewater has quickly adapted to new ways of working – putting colleague and customer health and wellbeing first, and helping people feel safe. I must praise Nicholas Harris, Chief Executive, and Stonewater's Executive Team on how they have responded to this tsunami of change, a testament of agility and leadership.

More than ever before, our homes are our sanctuary, but Stonewater's commitment goes beyond that - our culture, values and strategy are driven by a core desire to have a broader, positive impact on our customers and communities. We've seen so many lives tragically lost and so many people struggling – loneliness among the elderly, families trying to put food on the table, young people missing school or college, the devastating impacts of social isolation or job insecurity. It's a legacy that will last generations. So looking ahead isn't just about 'returning to normal' – for Stonewater and my fellow Board members it means re-thinking much of what we thought we knew, learning from these extraordinary times and re-shaping our role for a post-pandemic landscape.

We are all being tested in new and challenging ways, and while there is still much uncertainty ahead, I believe housing associations can play a vital part in our nation's recovery. No matter what comes next, I know our social purpose will drive us to do the right thing.

SHEILA COLLINS
Chairman

Chief Executive's statement

NICHOLAS HARRIS
Chief Executive

We are pleased to report a good set of results and a stable financial position, endorsed by a strong investment grade rating from Standard & Poor's. This financial position provides a solid foundation from which to deliver our Vision 'for everyone to have the opportunity to have a place that they can call home'. I am pleased with how we've performed as an organisation and recognise that none of our success would be possible without the dedication of our colleagues and the ambition of our Board.

We are living in unprecedented times, with the impacts of coronavirus on economies worldwide and forecasts of a global recession. However, as a leading social housing provider we entered the crisis in a position of relative financial strength. We had robust stress testing in the run up to Brexit, which has meant we have established a range of mitigations in the event of any financial distress and on our surplus, which looks beyond Covid-19.

One thing we know and accept is that there is no going back to 'normal'. Out of these extraordinary events, we're navigating a new way forward. We've already responded by adapting our services and ways of working, reviewing our plans and assessing how we can support our customers, our communities and our business to get through this in the best shape possible. It is a dynamic situation; however, we're in a strong position, having already invested significantly in technology, mobile working and a digitally enabled approach over the last three years.

Like our peers in the sector, we face considerable challenges in the coming months and years, and must continue to innovate, develop with new funding models, and work with stakeholders to keep delivering affordable homes and investing in communities.

As a people-centred organisation, we value the work of our colleagues who go the extra mile to help our customers. We're creating a place where people want to work and continue to attract the best talent by offering a wide range of opportunities and engagement through our values.

Against the backdrop of the coronavirus and in this time of sweeping economic and social change, we want to do more for our residents too. To help achieve this, we have developed a Customer Promise which recognises that if it matters to them, it matters to us. We are committed to listening more, responding better and doing the right thing, using our promise to guide our decisions.

Despite the challenges faced this year, we have achieved much and remain in a good position to continue to build the new homes that are so badly needed, by so many.

Highlights include:

- We remain in a very strong financial position, maintaining our long-term rating of A+ and top G1/V1 governance and viability ranking
- Completed 654 new home handovers. As we emerge in the post-pandemic world, the need for quality, affordable homes will be greater than ever
- Achieved targets in the West Midlands Voluntary Right to Buy pilot, which generated £10.7m, along with the success of a number of other sector sales
- Our continued strategic alliance with Guinness Partnership is enabling us to extend and accelerate development plans, bringing forward the building of affordable social housing
- Completed a 731-home transfer from Southern Housing Group. All the homes are located in Wiltshire, Oxfordshire and Berkshire. These are key target areas for where we already have a firm geographical footprint
- We issued more bonds in the year, and have issued a private placement of debt in the US for the first time. This will support future long-term investment in delivering more affordable homes

I am proud of what we've achieved and have every confidence that Stonewater is well-placed to meet whatever challenges lie ahead.

NICHOLAS HARRIS
Chief Executive

Report of the Board of Management and Strategic Report

STONEWATER'S STRATEGIC PLAN 2019-2024

Due to the uncertainty as a result of the coronavirus pandemic, we have deferred updating our Strategic Plan for 2020-25 and are continuing to work towards our existing Strategic Plan 2019-24, while reshaping the way we work and deliver our services to take account of the challenging circumstances.

Our Strategic Plan sets out our priorities and what we aim to achieve. The objectives and associated outcomes we aim 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 (KPIs) on income collection and compliance.
- Invest in and support our people in order 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 investment in our assets to ensure we have the financial capacity to deliver our priorities.

Our priorities in the existing Strategic Plan 2019-24 for the next four years and the objectives we set took account of our assessment of the operating environment for housing, the opportunities available to us and the challenges we faced at the time the Plan was developed.

Along with others in the housing sector, we have had to adapt to change as a result of the impact of the coronavirus pandemic. We responded quickly and positively, and by adopting safe new working practices we have been able to continue providing essential services to our customers. We also introduced new flexible payment arrangements to support those customers who are experiencing financial hardship as a direct result of the coronavirus outbreak. Our significant investment in new technology meant we were able to move quickly to a digitally enabled, home-working approach for the majority of our colleagues at the start of the lockdown.

We have been proactive in planning for the 'new normal' and have developed a programme of work to remobilise and re-imagine our business under the banner of Stonewater '20. We are following Government guidelines, including the Recovery Strategy and the subsequent new guide to working safely published on 12 May 2020. At all times, our plans and decisions will be made with the health, safety and well-being of our colleagues, customers and contractors at the forefront.

The way we work will be different in the future but our focus will remain on providing quality services for our customers, delivering more much needed new homes and making positive contributions to the communities we serve. Our plans to deliver this will be reflected in the update of our Strategic Plan for 2020-25.

> Our business has grown by 1.0% year on year.

GROUP FINANCIAL PERFORMANCE

- Our turnover decreased by £1.7m, mainly due a drop in income from first tranche sales of shared ownership properties. However our business has grown by 1.0% year on year (2019: growth of 1.9%). Rental income increased due to the handover of 654 of new units (2019: 548).
- Operating costs increased by £3.5m, mainly due to an impairment, additional bad debt provision and increased professional fees due to a stock condition survey of the planned maintenance programme.
- The operating margin excluding surplus on disposal of fixed assets but including surplus from first tranche shared ownership sales is 28%. This is 2% lower than previous year owing to the increase in operating costs. This key performance indicator (KPI) better reflects the trend in operating surplus as disposal of fixed assets can vary year on year.
- The increase in surplus on disposal of fixed assets is due to large sector sales that took place in 2019/20, and the voluntary Right to Buy pilot in the Midlands which Stonewater participated in.
- The decrease in net interest is due to £10.7m in 2018/19 that was transferred from the cashflow hedge reserve on the close of a swap in the year.
- The surplus generated for the year will continue to be reinvested into our development programme, enhancing our systems and providing excellent customer service.

Consolidated statement of comprehensive income	**2020**	2019
	£'000	£'000
Turnover	**189,001**	190,724
Operating costs	**(121,979)**	(118,255)
Cost of sales	**(14,390)**	(16,085)
Surplus on disposal of fixed assets	**28,198**	9,422
Operating surplus	**80,830**	65,806
Operating margin excluding surplus on disposal of fixed assets (%)	***28%***	*30%*
Net interest	**(33,209)**	(42,053)
Movement in fair value of non-hedging instruments	**(5,315)**	(1,368)
Surplus for the year	**42,306**	22,385
Actuarial gains/(losses) on defined benefit schemes	**17,321**	(6,922)
Net impact of the initial recognition of multi-employer defined benefit scheme	**-**	(10,876)
Movement in fair value of hedging instruments	**(13,812)**	10,601
Total comprehensive income for the year	**45,815**	15,188

Report of the Board of Management and Strategic Report

GROUP FINANCIAL PERFORMANCE – CONTINUED

- The Group's liquidity remains strong. In the year, Stonewater issued £53m of its 3.375% bonds maturing November 2045 (£28m deferred to September 2021), added RCFs of £125m and increased the amount of its shelf facility with PGIM by the sterling equivalent of $75m. It also entered into a £75m Private Placement of Debt with two US investors which completed in June 2020. We continue to deliver an ambitious development programme while maintaining a resilient balance sheet.
- Housing properties increased by a net of £112m, which comprises £161m additions, £20m disposals and £29m depreciation and impairment charges.

Total reserves

Total reserves increased by £45.8m due to £59.6m increase in income and expenditure reserve, offset by a £13.8m increase in the cash flow hedge reserve.

Pension costs

Stonewater participates in three pension schemes: The Dorset County Pension Fund defined benefit pension scheme (DCPF), the Social Housing Pension Scheme (which is a multi-employer defined benefit scheme) defined benefit scheme, which are both accounted for as defined benefit schemes under section 28 of FRS102, and the SHPS defined contribution scheme.

From 1 April 2011, the SHPS defined benefit scheme was closed to new members. New employees are offered the SHPS defined contribution scheme, with the employer matching the employees' contribution levels.

Stonewater's deficit in the DCPF increased to £4.4m from £3.8m last year. The value of the assets decreased from £5.6m to £5.0m. The last formal valuation of the scheme was performed as at 31 March 2019 by a professionally qualified actuary using the Projected Unit Method.

Stonewater's deficit in the SHPS decreased to £12.2m from £32.6m last year. The fair value of the assets comprising Stonewater's share of the scheme is £98.5m (2019: £96.6m).

Statement of financial position	**2020**	2019
	£'000	£'000
Tangible fixed assets – housing properties	**1,887,962**	1,776,052
Other tangible fixed assets	**9,337**	8,877
Net current assets	**94,368**	79,093
Total assets less current liabilities	**1,991,667**	1,864,022
Creditors due after more than one year	**(1,679,225)**	(1,577,414)
Provisions for liabilities and charges	**(85)**	(340)
Pension scheme liability	**(16,684)**	(36,410)
Net assets	**295,673**	249,858
Cash flow hedge reserve	**(83,252)**	(69,440)
Income and expenditure reserve	**378,925**	319,298
Total reserves	**295,673**	249,858

TREASURY MANAGEMENT

Treasury management policy

Stonewater has a formal treasury management policy, agreed by the Board and reviewed regularly. The purpose of the policy is to establish the framework within which Stonewater seeks to control risk arising from its borrowings and cash holdings.

In order to achieve this, the policy provides a strategy for:

- Group borrowings and subsequent debt management.
- Investment of surplus funds.
- Relationship with bankers, lenders and advisors.

Derivatives are used to manage the interest rate exposure arising from variable rate bank debt.

The Group's interest rate policy for borrowings is to be between 50% and 100% fixed. If refinancing of floating rate bank debt with bond funding resulted in an enduring over fixed position, the position would be corrected.

As at 31 March 2020, 92.2% of borrowings were at fixed interest rates or hedged by floating to fixed interest rate swaps.

"Stonewater has a formal treasury management policy, agreed by the Board and reviewed regularly.treasury management policy, agreed by the Board and reviewed regularly.

Impact of Covid-19

Stonewater has reviewed its treasury management in the light of Covid-19 and has ensured that it has strong liquidity, that committed bank facilities will remain available, and that the value of charged security continues to meet loan asset cover requirements.

Debt structure

The Group's policy is to raise debt finance through bilateral loans and capital markets issuance.

In September 2019, Stonewater Funding PLC:

- Sold £25m of its retained 3.375% 2045 bonds in a private placement. The bonds were issued at a premium, and the net proceeds were £28.9m. Proceeds were lent to Stonewater (5) Ltd in January 2020.
- Sold £28m of its retained 3.375% 2045 bonds on a deferred basis, for settlement in September 2021. The bonds were issued at a premium, and the net proceeds will be £30.0m.

In November 2019, the company increased its shelf facility with PGIM Inc by $75m. The facility, under which Stonewater Funding PLC can issue Senior Secured Notes with maturities up to 30 years is available until November 2022.

In March 2020, the company sold £75m of 3.04% Senior Secured Notes with maturity June 2050 in the US Private Placement market. The notes will be issued, and will fund, in June 2020. Proceeds are likely to be lent to Stonewater (2) Limited.

Both the PGIM Inc notes, the Private Placement and the bonds have similar security and limited cross guarantee arrangements.

During the year, Group companies have renewed and increased revolving credit facilities, which are used as a principal source of liquidity for future commitments.

The Group has funding from 10 lenders. Total loan facilities at 31 March 2020 amounted to £1,286m (2019: £1,152m) of which £320m was undrawn (2019: £234m).

Cash flows

Net cash from operating activities for the year was £107.1m (2019 restated: £75.2m), an increase of £32m compared with the previous year.

Net cash outflow from investment activities was £126.9m (2019 restated: £109.1m) mainly due to £157.1m investment in housing assets less grant receipt of £31.9m (2019: £112.4m less grant receipt of £7.3m).

Liquidity

The Group maintains a list of investment limits for authorised organisations with which it will place deposits based on short-term credit ratings. As at 31 March 2020 cash balances were £94.6m (2019: £102.3m) and the balance of short term investments was £4.6m (2019: £4.6m). Cash and committed facilities exceeded the Group's contracted obligations less grant by £115.9m (2019: £183m). The excess of committed facilities over capital commitments is to ensure that committed development is fully funded.

As at 31 March 2020 the exposure position with counterparties on standalone derivatives was £119.0m (2019: £99.9m) and after the use of unsecured thresholds £84m (2019: £60.0m). This exposure was secured £77m by charged property security and £1.4m by cash. There was a £5.6m cash call at the start of April 2020 (2019: all charged property security).

Loan covenants

Stonewater's performance against covenants is as follows:

Interest cover*:	
Stonewater Ltd	187% >110%
Stonewater (2) Ltd	217% >110%
Stonewater (3) Ltd	304% >105%

Gearing:	
Stonewater Ltd	72% <85% of net worth, including Social Housing Grant
Stonewater (2) Ltd	39% <65% of assets
Stonewater (3) Ltd	36% <50% of assets

*Covenants shown are the three year averages

Report of the Board of Management and Strategic Report

VALUE FOR MONEY (VFM) AND PERFORMANCE

At Stonewater we aim to achieve Value for Money (VfM) in everything we do, it is embedded into our Strategic Plan which sets out what we plan to do and how we intend to deliver it.

Our Strategic Plan sets out our objectives and the measurable outcomes we aim to achieve. Five VfM tests are applied against these objectives and outcomes, and these run as a 'golden thread' through all we do:

1 Doing the right things
2 Doing things economically
3 Maximising the return from our people
4 Maximising the return from our assets
5 Achieving outcomes that are right and sustainable

Our approach to VfM includes setting our own monetary savings targets (which are incorporated into our budget) as well as targets for the seven metrics included in the Value for Money Standard published by the Regulator of Social Housing on 1April 2018. Our performance for the VfM metrics is benchmarked against our peer group (based on Global Accounts).

Our approach to date has been built around the three themes in our Strategic Plan of Customer Experience, Growth and Influence, and Business Excellence.

We are currently reviewing our VfM strategy to strengthen the way we measure and demonstrate efficiency and effectiveness, as well as economy, in the delivery of our strategic objectives. An updated strategy will be considered by our Board during 2020.

We monitor and report to our Board on progress towards achieving our strategic objective outcome targets during the year. We also benchmark our performance for our outcome targets against a Vantage peer group of registered providers where possible. The peer group was recommended by Vantage based on our size and geographical spread. Our performance in 2019/20 against our outcome targets under our three Strategic Plan themes is set out below. A number of housing associations have not submitted 2019-20 performance data to Vantage due to the focus on the impact of the Covid-19 pandemic, so where necessary we have shown 2018/19 benchmark data.

Due to the dynamic operating environment caused by the Covid-19 pandemic, our Board has decided to defer an update of our Strategic Plan until later in the year. Therefore our targets have not yet been set and are based on our 2019-24 plan.

Our approach has been built around the three themes in our Strategic Plan of Customer Experience, Growth and Influence, and Business Excellence.

Customer Experience

Growth and Influence

Business Excellence

CUSTOMER EXPERIENCE

Objective	Outcome measure	2019 result	2020 target	2020 result	2021 target	Benchmark (Peer group)
1 & 2	Customer satisfaction.	79%	83%	78%	83%	83.78% (2018/19 figure)
3	Percentage of clients to have maintained sustainable, long term independent living.	94.7%	N/A (target is for March 2021)	N/A (target is for March 2021)	80%	Not applicable (Data not available via Vantage)

Objective 1 relates to overall customer satisfaction and objective 2 relates specifically to satisfaction for our retirement living customers. Our performance for customer satisfaction has remained at broadly the same level for the last two years and below our target. We recognise that achieving a step change in customer satisfaction will take time but have worked hard over the year to lay foundations to facilitate this. This has included setting a clear set of customer commitments (and performance against these reported to customers), improved management information to enable greater visibility and accountability and joining the Institute of Customer Services (ICS). Through our ICS membership we have been able to carry out the business benchmarking survey with our customers, enabling benchmarking outside of sector and greater insight to continually improve customer experience.

We have plans in place for the next year which will fundamentally change the way that we work, further increasing insight, accountability and capacity, and helping to achieve an improvement in customer satisfaction:

- Changes to the way we capture transactional customer satisfaction, improving the quantity and quality of customer feedback available, and enabling 'real time' resolution of issues.
- A corporate training programme across the business around customer service to shift culture.

During 2019/20 we ran an innovative 'live response' pilot scheme on a regional basis to responding to incoming customer queries. Our Customer Service Centre team continued to resolve customer queries as they came in. However, where we receive customer calls needing further work these were referred to a team of Tenancy Support Officers (TSOs) who would either provide a resolution over the phone or take responsibility for ensuring the customer's issue is resolved quickly. This team were also able to respond quickly to incoming emails and other communication requiring work from a TSO. This pilot scheme was rolled out into a national pilot scheme in May 2020, which will run for nine months.

We continued to invest in our retirement living schemes, with five schemes completed in 2019/20, and a further six due for completion in 2020/21. This work has delivered modern, functional and high quality design discretely developed for the comfort of older adults, and meeting an agreed Stonewater standard.

As well as providing modern, high-specification homes for our retirement living customers, we also focus on improving their health and wellbeing and reducing social isolation. We have nine 'health hubs' that help our customers manage long term health issues. We also enter into strategic partnerships with organisations such as Be Well and the Dementia Action Alliance, and also local community groups to support health and wellbeing initiatives.

Old Mill Court retirement living scheme in Crowborough, East Sussex

Report of the Board of Management and Strategic Report

VALUE FOR MONEY (VFM) AND PERFORMANCE — CONTINUED

CUSTOMER EXPERIENCE – CONTINUED

We also continued our investment in our digital strategy, and during the year we launched MyHome, the self-serve portal which we have co-created with customers. By March 2020, over 6,000 customers had registered on MyHome, and more than 14,000 payments totalling over £3,300,000 had been made via the portal.

We also delivered the first year of a three-year programme of digital inclusion to increase our retirement living customers' skills in using digital technology. The programme will continue until March 2022.

Objective 3 relates to our supported housing service, and the outcome target is based on a sector standard target of 80% of customers maintaining sustainable, long term independent living (12 months plus) after moving on from Stonewater's supported housing service. In 2018/19 we introduced a transformational 'strengths based' approach to delivering support to our customers, aimed at equipping them with a greater set of life skills to ensure independent living. As a result, we saw a very low level of evictions and abandonments that year, and we

Stonewater colleagues and customers at one of our young people's foyers

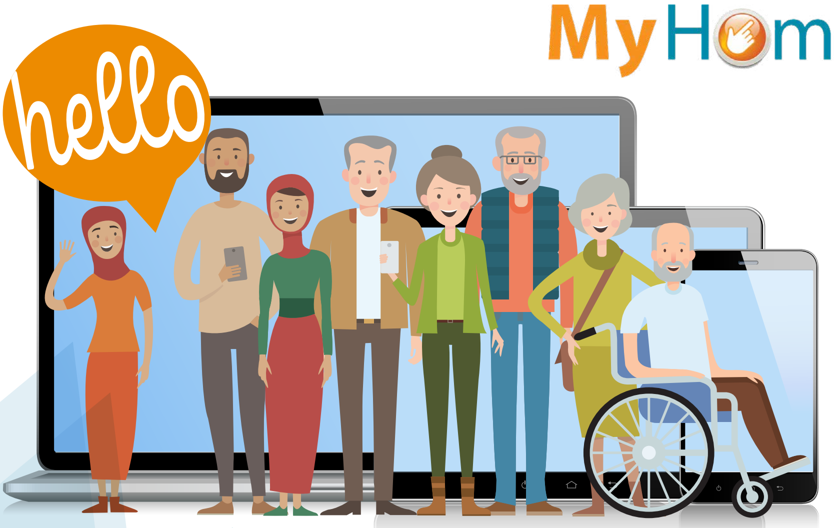
significantly exceeded the target for customers who sustain independent living. The trend of a reduction in evictions and abandonments was sustained in 2019/20 and if this is again reflected in a high percentage of customers who maintained independent living, we will set a more stretching target for future years.

As a result of our success in achieving successful outcomes for customers, we negotiated six contract extensions for existing supported housing services and have also been successful in two bids for new local authority frameworks.

As a key element of our supported housing is support for those experiencing domestic abuse, during 2019/20 our team has been working towards achieving the Domestic Abuse Housing Alliance (DAHA) accreditation, which is the UK benchmark for how housing providers should respond to domestic abuse. Our audit took place in February 2020 and the feedback was very positive, with the auditor commenting on the passion and commitment of the Stonewater colleagues she met and the strength of the evidence we had submitted. She particularly noted the strength of our work on equality, diversity and inclusion around domestic abuse, and said we were one of the best and most innovative housing providers she had seen in this area.

There were four areas where we need to strengthen our approach and then provide further evidence. Work is underway on these four areas and evidence will be submitted in June 2020, following which we hope to achieve full DAHA accreditation.

MyHome



daha
Domestic Abuse Housing Alliance

GROWTH AND INFLUENCE

Objective	Outcome measure	2019 result	2020 target	2020 result	2021 target	Benchmark (Peer group)
4	Number of new homes.	548 new homes	6,250 new homes by March 2024	N/A – target is for 2024*	4,750 new homes by March 2024	Median Quartile (See Value for Money metrics)
5	Increase in the number of new tenures available for customers.	1	N/A	3	Not applicable – no metric attached to this Outcome	Not applicable (Data not available via Vantage)
6	Increase in our media profile (measured by the % of positive press and online news coverage).	63% increase in media profile	N/A – new measure used for 2020 with actual performance to provide a baseline	100%	25% increase in our media coverage by March 2022	Not applicable (Data not available via Vantage)

*See below for progress against this target

Objective 4 relates to our target for the number of new homes delivered, with a target date of March 2024. During 2019-20, 654 new homes were delivered. There were 49 homes from our forecast of 703 homes for the year that could not be completed due to a combination of build and certification delays as social distancing was implemented nationally in March as a result of the coronavirus pandemic.

We have a strong forward pipeline of around 2,600 homes currently forecast as capable of handover by March 2022, of which 1,819 are already in contract. The team are working closely with development partners and advisers to plan for and mitigate the effects of the coronavirus pandemic. Our Business Plan has been updated and approved by the Board. This takes into account the impact of the pandemic, and is likely to mean that delivery for 2020-21 will be 679 homes, lower than previously planned.

All of the new homes we deliver are energy efficient to ensure they are affordable to run for our customers. This also helps to minimise the impact of our homes on the environment. Our new developments are also sympathetic to their local environment and Stonewater is dedicated to enhancing the biodiversity of our schemes wherever possible.

Some of Stonewater's new developments have included edible planting and community allotments. We are also part of an initiative to ensure that for every home we build, we plant six trees to replace the number of trees used in the development of each of our homes, and we involve our colleagues and the local community in this process.

Community art installation at Orchid Acre Close, Somerset

Stonewater has an ambitious environmental strategy. Whilst we aim to deliver as many new homes as possible, it is important that they are energy efficient, and we consider and invest in renewable energy such as solar PV, Passive House (Passivhaus) Design and efficient heating systems such as heat pumps to provide fossil fuel free homes. We continue to seek to innovate and adopt new technology such as battery storage and seek ways to improve the efficiency of our development programme, for example through the use of offsite construction.

Objective 5 relates to our aim to increase the range of tenures we provide to both existing and new customers. We have already introduced Rent to Buy, a small number of market rent properties, and also myOwnHome for Stonewater colleagues.

We have also been participating in the Voluntary Right to Buy pilot in the Midlands area. 2019-20 was a pivotal year for the pilot, which officially ended on 31 March 2020, as it was the year we expected most of the receipts. However, completions can continue into 2020/21 if transactions have been agreed and are sufficiently progressed to complete before September 2020.

Following two early completions in 2018/19 we completed 120 transactions in 2019/20, resulting in receipts of £16,710,000. There are a further 18 cases being progressed during 2020/21 as the pilot comes to an end, with the expectation that 75% of these will reach completion.

Objective 6 sets out our aim to be a thought leader in the sector with influence on national and local agendas for the benefits of our customers and the communities we work in. We introduced a new outcome measure for this objective based on the percentage of positive press and online news coverage generated. No target was set for 2019/20, as the result for this year will provide a baseline for target setting for future years.

By March 2020, we had achieved 100% positive coverage. However, we attribute this to a change in our proactive public relations approach following the outbreak of coronavirus. We focused our public relations on responding to the pandemic, which we believe would have been consistent with what our audience would have expected from Stonewater at that time. We will set a realistic target for 2020/21 in our updated Strategic Plan for 2020-25.

Report of the Board of Management and Strategic Report

VALUE FOR MONEY (VFM) AND PERFORMANCE — CONTINUED

BUSINESS EXCELLENCE

Objective	Outcome measure	2019 result	2020 target	2020 result	2021 target	Benchmark (Peer group)
7	Total rent and service charge collected.	99.23%	99.20%	98.98%	99.20%	100.14% (2018/19 figure)
	Percentage of properties compliant with LGSR.	100%	100%	99.99%	100%	99.99% (2018/19 figure)
	Number of outstanding Fire Risk Assessments.	0	0	0	0	0 (2018/19 figure)
8	i. Level of colleague engagement (measured by the Sunday Times Best Companies survey).	660.1	Increase on 2019 result	672.3	Increase on 2020 result	67th in Best Companies top 100 not for profit organisations to work for. 24th in the top 25 housing associations to work for.
	ii. Equality, diversity and inclusion are further embedded in Stonewater's culture by March 2024. (measured by a question in the Best Companies survey).	79%	Increase on 2019 result	80%	Increase on 2020 result	Not applicable (Data not available via Vantage)
9	Social housing cost per unit has reduced to £3,117.	£3,131	£3,117	£3,114	£3,225 by March 2022	Lower quartile (see Value for Money metrics)

Objective 7 focuses on our 'business critical' key performance indicators (KPIs) for income collection and compliance. We have a 'zero tolerance' approach to our KPIs for compliance.

Our income collection performance at 98.98% was below our target of 99.2%. The last week in March coincided with a week in the income collection cycle where lower Housing Benefit payments are received, and also in the middle of the cycle for Universal Credit payments. This had an impact on our year-end performance.

We have implemented an income maximisation strategy in response to the financial impact of the coronavirus pandemic on our customers, which we believe provides a balanced, customer focused and flexible approach to our payment arrangements. Flexible payment arrangements and deferred payment arrangements have been introduced to support customers with reduced income to agree manageable payment plans for an agreed period of time. We have also been proactively contacting all customers who may find themselves financially impacted in the coming weeks or months.

We had two properties at the end of March where the Landlord Gas Safety Records (LGSR) had not been issued. One of these related to a customer who was 'self-isolating', so the visit to the property could not be carried out during the 14-day self-isolation period. The other property had an ongoing boiler installation at the year end. Landlord Gas Safety Records for both properties were subsequently issued in April. There were no Fire Risk Assessments outstanding at the end of March.

Objective 8 relates to our aim to attract, develop and retain a highly motivated workforce, and our outcome measure and target for this objective is based on our achievement in the Best Companies survey. For the second year running we achieved a one star rating in the survey. By continuing to invest in our people, our culture and values, we improved our score in the survey and are now ranked 67th in the Sunday Times Top 100 Best Not-for-Profit Companies to Work For. We are also ranked 24th in the 'best housing associations to work for' category.

Stonewater colleagues at our South Asian Women's Refuge

We have a second outcome target for objective 8 based on equality, diversity and inclusion to be further embedded in Stonewater's culture by March 2024, which is based the level of positive responses to a relevant question in the Best Companies survey. Our target was to achieve an increase in our score compared with the survey in 2018/19, which we achieved.

Objective 9 focuses on managing our resources efficiently and effectively, and the outcome target is based on reducing our social housing cost per unit. In 2019/20, we exceeded the target we had set.

In addition to our performance against our strategic objective outcome targets, we also measure the 'added value' of our services for our customers and the communities we work in through calculating a social return on investment (SROI). We use the Housing Association Charitable Trust (HACT) model to gather and record this information, and the SROI figures are validated and certified by HACT at the end of the financial year. This allows us to understand where the activities and initiatives we put in place have the most impact for both the business and our customers. The validated SROI figure for 2019/20 is £7.5m, compared with our target of £2.5m, with an investment of £350,700, so the ratio of budget to social value is 1:22. HACT has confirmed that it is not possible to benchmark the return on investment, as the activities undertaken by housing associations to generate SROI vary.

In addition to these themes, we have also delivered cash savings associated with restructure of departments, re tenders and through a vigorous procurement process.

Each area of the business has clear and measurable VfM targets, which are set during the budgeting process. The results are reported quarterly to our finance committee which includes achievements to date versus agreed targets and sets out any new initiatives identified in the quarter.

Further details on our strategy and results can be found on our website **https://www.stonewater.org/about-us/value-for-money**

During 2019/20 we achieved the following VFM savings, totalling £3.7m:

- Assets grant funding for installations of insulation £1.2m.
- Negotiations on acquisitions of new properties and build costs, and reductions in sales times £2.1m.
- Other VfM items consist of savings achieved on interest due to renegotiation of loans, re-procurement of contracts, and different ways of working £0.4m.

Colleagues taking part in our 'I am Stonewater' campaign

Report of the Board of Management and Strategic Report

VALUE FOR MONEY (VFM) AND PERFORMANCE — CONTINUED

Regulatory Value for Money

The Regulator of Social Housing (RSH) published a new Value for Money Standard on 1 April 2018. The standard includes seven measures with which to measure performance, and establish how that performance compares to peers.

When comparing against peers it must be taken into account that some variances may be due to business decisions i.e. increase in maintenance could be as a result of wanting to enhance customer satisfaction.

It is a regulatory obligation to deliver good VfM, and to gain the maximum benefit from our resources and the money we spend. In turn this ensures we can continue to invest in the homes and services so desperately needed in our communities.

Stonewater's performance and comparison to average sector metrics are shown below. Stonewater has therefore maintained or improved its performance on each of these value for money measures.

Metric	Description	Median per Global Accounts 2019	Stonewater per Global Accounts 2019	Stonewater Quartile	Period 12 2019/20
1) Reinvestment %	This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held	6.2%	5.3%	LQ	9.8%
2) New supply delivered %					
A) New supply delivered (Social housing units) %	This metric sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units managed at period end	1.5%	2.9%	MQ	3.8%
3) Gearing %	This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance	43.4%	45.6%	MQ	45.8%
4) Earnings before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest cover %	The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a RP generates against interest payments	184.2%	182.3%	MQ	180.9%
5) Headline social housing cost per unit	The unit cost metric assesses the headline social housing cost per unit which is made up of the main components of management, service charge costs, maintenance, major repairs and other social housing costs	£3,695	£3,198	LQ	£3,114
6) Operating Margin %					
A) Operating Margin (social housing lettings only)	The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account	29.2%	32.8%	MQ	30.8%
B) Operating Margin (overall)	Excluding surplus on asset disposals	25.8%	39.6%	MQ	28.0%
7) Return on capital employed (ROCE)	This metric compares operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources	3.8%	3.5%	LQ	4.1%

LQ = Lower quartile MQ = Median quartile UQ = Upper quartile (as defined by the Regulator of Social Housing)

Asset management

Stonewater's asset management strategy 2018 - 2021 sets out our approach to stock investment and disposal, maximising asset value whilst balancing the social purpose of the business. The strategy pulls together the key factors that are involved in the management of a large and complex asset portfolio into one overarching document. It is explicitly linked to Stonewater's Business Plan and wider strategic objectives. It sets out the strategic framework for the three years until 2021 with regards to growth, stock condition and planned investment, and provides a solid basis for the medium and long-term management of Stonewater's property assets.

Stonewater's vision is 'for everyone to have the opportunity to have a place that they can call home'. Our core business is to provide high quality housing and support services to meet the needs of existing and future customers. To do this, we spend a large proportion of our annual net expenditure on developing new homes, together with improving and maintaining our existing properties.

Asset investment decisions have long lead times and, once implemented, can affect customers' experiences for many years. Over such long periods of time there can be major changes in customers' expectations, the economy and the requirements of Government, regulators and funders. To be prepared for such changes, those managing physical assets are required to think far ahead.

Following the tragic events at Grenfell Tower in June 2017, customer safety continues to be our number one priority. In response to this we have reviewed the construction of our buildings and have also undertaken a major review of our fire safety strategy. Grenfell should not have happened and we will do everything possible to ensure that this type of incident never occurs at a Stonewater property.

Stonewater is one of the UK's 25 largest social housing providers with 33,000 homes under management, operating across a large geographical footprint. Stonewater's property portfolio includes a diverse range of age, design and construction types. The investment approach is flexible in recognition of this diverse portfolio.

Inside the kitchen at an Orchid Acre Close property in Somerset

Stonewater provides homes which are welcoming, well maintained and offer facilities that meet customers' expectations and aspirations. The effective use of assets starts at the development stage and continues through the life of the property to eventual disposal. Active asset management is about maximising and maintaining the value of Stonewater's property assets and investing appropriately to meet corporate objectives.

The strategy is set out in five sections:

1 Details the operating environment, outlining the customer base and the size and make-up of the property portfolio.

2 Describes the 'what and how' of the key objectives that the asset management strategy will deliver.

3 Outlines the other main strategies that are incorporated into the main asset management strategy.

4 Describes the medium and long-term investment plans together with the operational arrangements for the delivery of key services.

5 Summarises the action plan that we will use to transform the strategy from a written document into a range of achievements within the three-year period covered by this strategy.

Key deliverables:

- Contribute towards the medium-term growth target of 50,000 homes by purchasing (in sector) 300 properties in 2019/20.
- Dispose of 381 units over the next three years through 300 trade sales and 81 open market sales.
- Deliver safe homes by ensuring 100% compliance across all assets.
- Reduce the total cost per unit for all maintenance services and be in the upper quartile for benchmarked cost by 2023.
- Be in the upper quartile for benchmarked costs for the delivery of repairs and capital programmes by 2023.
- Deliver significant VfM cost savings through re-procurement of our maintenance contracts by 2021.
- Deliver self-service for repairs for all our customers who can access online was due for launch at the end of March 2020 but has been delayed due to the Covid-19 pandemic. However, it is in the final stage of testing and will be deployed when full service resume.
- Maintain and improve our homes by investing £75m by 2023.
- Reduce costs for residents by identifying costs for improving the energy efficiency of the assets to a minimum Band E by 2020, a minimum Band D by 2025 and a minimum Band C by 2030. This remains on plan and further detail is provided later in this report.

Report of the Board of Management and Strategic Report

VALUE FOR MONEY (VFM) AND PERFORMANCE — CONTINUED

- Increase year on year the Net Present Value (NPV) of the stock over the life of the current strategy using an Asset Valuation Tool (AVT). This is an option appraisal tool which allows us to fully understand our assets from numerous viewpoints. This is key to protecting our assets and making intelligent investment decisions, whilst providing up to date information about the management of stock.
- Identify 100% of underperforming assets (those with a negative NPV) and options to appraise to determine the most cost effective solution by 2019. Software is in place and being utilised by portfolio options team, further information is provided later in the 'Sustainability and compliance' section.
- Contribute towards local communities by incorporating an employment and skills plan in three new regional contracts for repairs and voids by 2021. This has been included in the procurement packages, those contracts let to date are already delivering and similar is anticipated for the remaining contracts that are currently in final stages of procurement.
- Improve the quality of asset data and Business Plan forecasting by surveying 20% of the stock each year for the next five years, the programme was accelerated but Covid-19 restrictions will result in delivery within original timeframe.

Sustainability and compliance

Stonewater directly employs a dedicated team to oversee health and safety compliance. This team includes chartered professionals who belong to bodies such as the Institute of Occupational Safety and Health and Institution of Fire Engineers.

Our health and safety organisational model is based upon HSG65; 'Plan-Do-Check-Act', and regular health and safety meetings are held, fed by respective specialist area groups, and chaired by a member of the Executive Team.

The compliance team offer advice and guidance across the whole organisation, and also are licenced to provide the IOSH 'Managing Safely' course in-house. Stonewater, represented by the Head of Health and Safety and Compliance, is a member of the Housing Quality Networks (HQN) Safetynet advisory group and hosts best practice group meetings attended by other social housing providers.

Fire safety and compliance remain at the forefront of Stonewater's objectives. Currently Stonewater has completed over 1,500 fire risk assessments, and continues to deliver a rigorous health and safety policy which ensures the highest accreditations.

99.99% of our properties were fully gas safety compliant at the year end, exceeding top quartile performance when compared with our peer group and a substantial assurance rating was received for our Gas Safety processes from our internal auditors RSM. All properties that required a fire risk assessment were compliant at the year end.

A compliance dashboard is in the final stages of development and will provide key performance information and management reports across all the main compliance areas. This dashboard is currently undergoing rigorous testing by the Asset Data Team and will be online in the first half of 2020/21.

Stonewater has long term targets in place for improving the energy efficiency of its existing homes. This is for all homes to achieve a minimum EPC rating of Band C by 2030 and Band D by 2025. Stonewater is well on track to achieving the Band D target ahead of schedule, with 262 homes below Band D.

Stonewater is also analysing its existing homes to look beyond the minimum Band C target and improve our homes towards carbon neutrality, by 2050 in line with Government targets. To aid this approach and identify 100% of underperforming assets (those with a negative NPV), a software system has been developed and was brought online during the last quarter of 2019. This software allows the Assets Team to complete detailed long-term appraisals of the stock to inform portfolio investment decisions.

For new homes Stonewater is developing options to move away from fossil fuel heating and thus improve the overall energy performance of our homes. This will include increased insulation standards and the adoption of renewable technologies such as heat pumps and solar photovoltaic panels.

In 2019/20, Stonewater completed its first SHIFT accreditation assessment. SHIFT is an independent assessment and accreditation scheme that demonstrates organisations are delivering against challenging environmental targets. The SHIFT assessment measures organisations against 21 environmental criteria, including CO_2 emissions, water use, landfill waste and response to climate change risks. Stonewater achieved a silver rating in the 2019/20 assessment.

Procurement and outsourcing

Over the last 12 months the procurement team have been through a restructure and strengthened in key areas. With a new Head of Procurement, two Business Partners and a Procurement Analyst, the team are now positioned to move forward to the next stage of the longer term strategy. Value for Money (VfM) and the contract register are clearly two areas which need to be developed over the next 12 months, as this will drive toward the longer term business objectives and identify and mitigate potential supply chain risk. The team are working closely with Finance to implement a fully approved process by having a clear sign off methodology to validate any proposed savings that occur throughout this year and beyond.

The work with the contract register is now well underway and huge progress has been made in a very short number of weeks, with over 200 contracts now identified and added to the Delta portal, with each one having an average of five documents attached. Having control in this area is fundamental to the procurement plan in many ways, such as, contract compliance, key performance indicator (KPI) management, spend control and analysis and pipeline planning. The contract register process will only strengthen in the months to come and control in this area will be continual.

The re-procurement of repairs and voids, gas servicing and fire have generally gone well although there have been some delays with the overall timing. The scopes have been re-evaluated and mobilisation across many of these activities is now underway. Covid-19 has played its part delaying some of these initiatives but there is a plan in place to deliver the majority of these schemes by the year end/early into 2021.

The first contracts for the south east and south west regions went live in June 2018 and June 2019 respectively. The contracts allow for planned maintenance and capital works to be added in future (subject to satisfactory performance and a further VfM review of the PPP contract). In addition to the savings generated from the contract side, moving to large monthly invoices rather than invoices based upon individual schedule of rates reduces the administrative burden within the business.

Covid-19 more specifically has naturally created a number of challenges for Stonewater in 2020 and presently, and as at the time of writing this report, the challenges are still very present. The team across all divisions are working hard to ensure the supply chains remain whole and our offering to the customer base remains at a continual high. Given the lockdown challenges that were imposed in the first few weeks Stonewater had little choice other than to move to provide cover for emergency call outs only. Once the lockdowns tensions ease Stonewater will be able to loosen these measures and start to go back to more normal working patterns. However, trying to predict a time frame may be difficult, but suffice to say we are staying in close touch with our supply chain partners throughout all of this.

Despite all the challenges we face as a business, we remain positive that there will be a bright future ahead but we must plan now to ensure we are ready to take the necessary steps once the country starts to return to ‘business as usual’. We may however need to introduce more flexible working patterns and initiatives in many areas, as a business as usual situation may be slightly different to what we have experienced historically as a country.

Report of the Board of Management and Strategic Report

VALUE FOR MONEY (VFM) AND PERFORMANCE — CONTINUED

Our performance

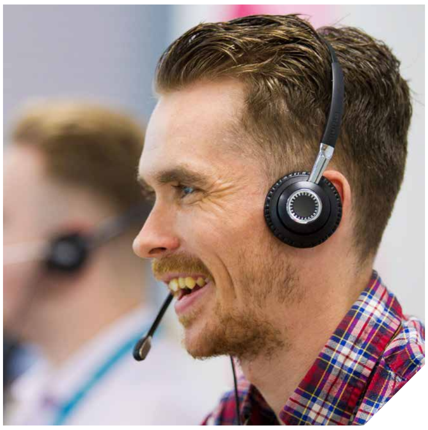
In addition to Value for Money, we have set ambitious targets for our 'business critical' key performance indicators.

One of our key targets at Stonewater is aiming to achieving best quartile compared to a benchmarking peer group of similar sized housing associations. One of our key indicators is cost per unit:

	2019/20 Cost per unit £	2018/19 Cost per unit £	2018/19 Sector (median) £
Management	**951**	953	1,059
Average cost of responsive repairs	**142**	153	n/a
Maintenance	**944**	909	951
Major repairs	**658**	683	702

	2019/20	2018/19	2018/19
Customer satisfaction %	**78%**	79%	87%
Number of new homes built	**654**	548	n/a
Void re-let time (days)	**29**	29	n/a

We continue to increase the level of investment on maintenance to ensure that our homes are fully functional and meet our customers' needs.



Customer satisfaction

Understanding how we are performing against our Customer Promise and acting on the feedback we receive from our customers is really important to continually improving our services. During 2019/20, 78% of our customers told us that they were satisfied with the services they received from Stonewater. The key drivers of customer satisfaction were estate services and repairs performance more generally.

From 2020/21, we are introducing easier and quicker ways for customer feedback to be captured and focusing more on the reducing the time in which we respond to customer issues. Putting our Customer Promise at the centre of how we deliver services and invest in our colleagues, we will also be rolling out a customer service training programme across the whole of Stonewater.

Report of the Board of Management and Strategic Report

EXTERNAL ENVIRONMENT

A week is a long time in politics...

After several years of political uncertainty and focus on Brexit at the expense of almost everything else, the 2019 General Election was supposed to bring a new era of stability. A Government with a strong majority, with fresh blood and representing areas of the country that the Conservative Party had never before.

The 'levelling up' agenda was supposed to be the focus of the Government. The 2020 Budget – Rishi Sunak's first as Chancellor – prioritised growing the economy in areas outside London and the South East, with major infrastructure spending planned to create jobs and economic stimulus across the UK.

But they say a week is a long time in politics: within a week many businesses were now working from home, businesses having to make difficult decisions, and shortly thereafter the 'lockdown' and social distancing.

The environment we operate in has shifted beyond all recognition in a matter of months. Many people – particularly those who are self-employed – have seen their livelihoods cut and, tragically, lost in some cases. Millions of people have been furloughed, saving many jobs that would have otherwise been lost, but still businesses across the country are having to look at their headcounts and their balance sheets, and plan for a rocky road ahead.

For housing associations like Stonewater, there is a vital role to play. We are both an employer to many, but also relied on by tens of thousands of people to provide safety, security, and support through these challenging times. We will need to be flexible, dynamic, and reactive to ensure that we can operate effectively as a landlord and as a business.

We will have a key role to play in providing security and safety to our customers, but also to play a key role in the economic recovery.

With the situation remaining highly volatile, we are continuing to monitor how things are evolving in our operating environment. We are constantly looking again and updating the information we send to our customers. We are keeping in touch with key local authorities and stakeholders to understand and ensure that they know they can rely on us to support their constituents – which many have told us they value. We are in close dialogue with our contractors to understand their positions and the situation with their supply chains. We are back on site delivering most of the schemes we were before lockdown began.

We are also retaining strong liquidity levels to deal with financial uncertainties. We are in a good position and feedback from partners indicates that we are being far more proactive than other registered providers even with the ongoing uncertainty around Covid-19. Finally, we are reassuring staff through regular emails, blogs and at team meetings, of the actions we are taking as things continue to evolve.

Housing supply and affordability

The Covid-19 pandemic has put many development sites on hold while the 'new normal' becomes clearer, but we are determined that we, and our new homes, should play a key role in the economic and social recovery.

When normality is restored, it is likely that the need for new homes that are good quality and affordable, will be as important as ever. We need to be aware of the changes in the relationship between work and the home – are our homes fit for working from home, for example. And tragically, more people than ever before are faced with homelessness and the cost of housing in many areas continues to rise above affordable levels. Those who have been off the streets since lockdown, in hotels and B&Bs, will need somewhere to go after the hospitality industry resumes.

Key statistics include that:

- It is estimated that there are more than 280,000 homeless people in England on any given night, including 236,000 people living in temporary accommodation.
- Approximately 130,000 children live in these homeless households and therefore have nowhere to call 'home'.
- Figures on homeless households and rough sleepers 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.

Delivery of new housing was once again a key commitment of all political parties at the 2019 General Election, and remains the priority of the new Housing, Communities and Local Government team and new Housing Minister.

Since 2015 there has been a real shift in the Government's vision for the housing sector, with the goal of delivering 300,000 new homes per year. The Housing White Paper 'Fixing our broken housing market' 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 – we are engaging with Government on matters including the new First Homes consultation, and on ensuring there is recognition for the value of new affordable homes across multiple tenures. We look forward to the forthcoming White Paper on the planning system and hope that this will allow us to deliver more homes quickly.

Housing associations are seen as having a vital role in delivering new homes to solve the housing crisis even before Covid-19. However, there has been a consistent drive towards higher standards since the Grenfell Tower tragedy but also spurred by fires at other developments. The Government has introduced new safety standards for taller buildings, but safety has been a key priority for all developments. 2020 will see the publication of the long-awaited Social Housing White Paper, which should build on the Green Paper of 2018. We will continue to engage closely with Government, local Government and our stakeholders to ensure that the policies that come from the White Paper are strong, clear and support our customers.

2020 was gearing up to be a crucial year for environmental policy, particularly with the UK hosting the COP26 conference. It is important that the environment and sustainability is not overshadowed too much by Covid-19, particularly in the housing and development sectors. Stonewater is working hard to deliver thought leadership on improving environmental standards in existing homes through our work with the Institute for Public Policy Research (IPPR), but our development team is constantly looking at new ways to increase, innovate and keep our carbon footprint down.

Government policy and changes to welfare options

There continues to be significant economic uncertainty due to the unknown impact on the economy of Covid-19, but there are signs that the Government is looking to return to progressing legislation that goes beyond Brexit for the first time in a while. Over the past couple of years, we have welcomed the following changes:

- The Government has introduced a drive towards better design in housing, with the view that building better quality homes will lead to a better public perception of housing and an understanding of social and economic benefits of new housing.
- The Government has shown long-term commitment to funding new affordable housing through the expansion of the Affordable Homes Programme.
- 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 Government has lifted the freeze on Local Housing Allowance rates, allowing rates to rise by inflation from April 2020. Other benefits including Universal Credit and those on the legacy system will also have the benefits freeze unfrozen from April.

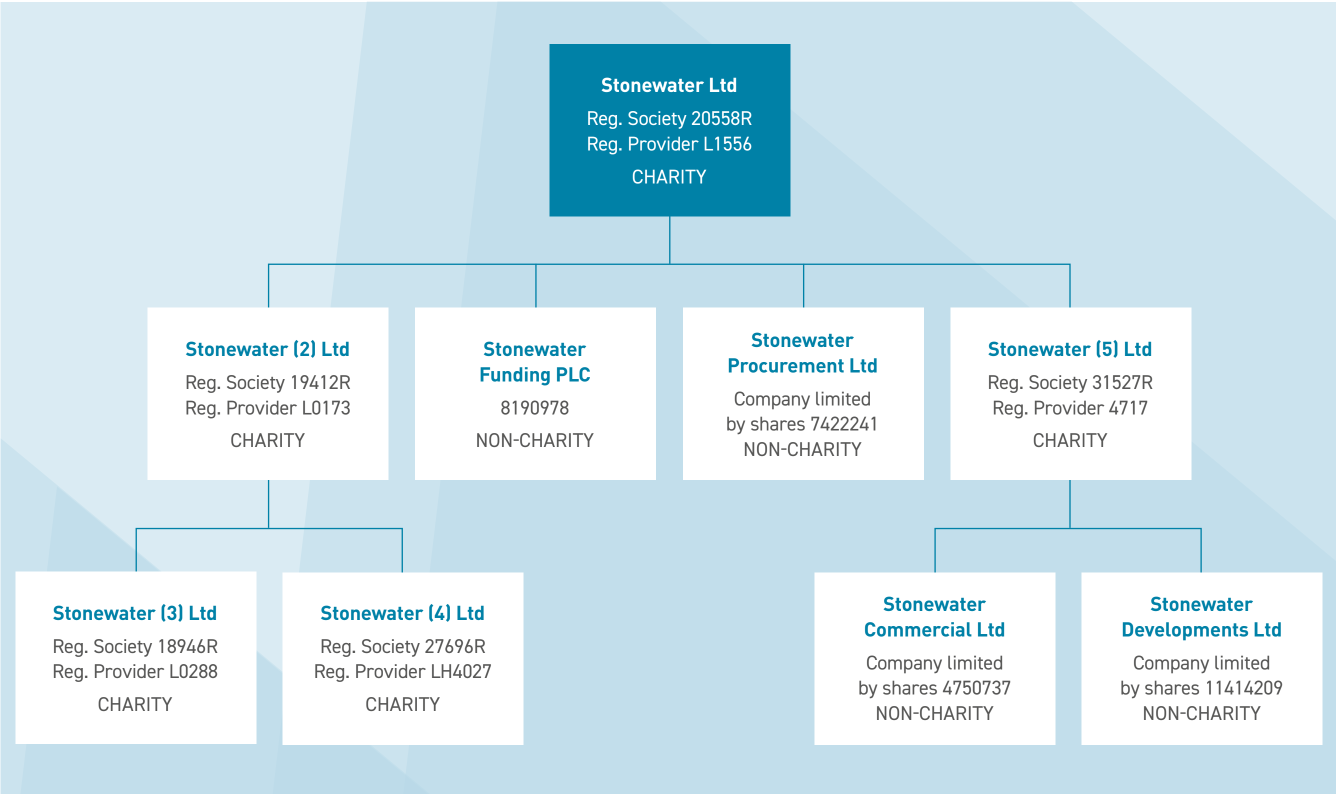
A long-term ambition of Stonewater is to reduce homelessness and we are proud of our work in this area. We are particularly pleased that the Government has committed to eradicating homelessness by the end of this Parliament and welcome the £650m made available to help rough sleepers into permanent accommodation.

The reintroduction of the Domestic Abuse Bill to the House of Commons is particularly welcome too by our supported housing team. This is an important piece of legislation that will introduce a definition of domestic abuse of the first time. Stonewater will be monitoring the passage of the Bill and will work to ensure that it protects those who have fled from domestic abuse – including those in Stonewater's dedicated domestic abuse housing.

Report of the Board of Management and Strategic Report

ORGANISATIONAL STRUCTURE, GOVERNANCE AND RISK MANAGEMENT

The Group structure is illustrated below; Stonewater Limited is the parent of the Group.



As at 31 March 2020 Stonewater Limited had four registered provider subsidiaries:

- Stonewater (2) Limited
- Stonewater (3) Limited (indirect holding, subsidiary of S2)
- Stonewater (4) Limited (indirect holding, subsidiary of S2)
- Stonewater (5) Limited

Stonewater also has four wholly owned commercial subsidiaries:

- Stonewater Procurement Limited – a company which provides design and build services for new properties.
- Stonewater Developments Limited – a company which supports the Stonewater registered provider entities with their development activity by widening the scope of potential developments by selling fully or partially developed dwellings on the open market to Group entities. The company will also provide design and build services to other Group companies.
- Stonewater Funding PLC – a company which provides external funding for the Group via the capital markets.
- Stonewater Commercial Limited – currently dormant.

BOARD

The Board is responsible for the proper and effective management of Stonewater, providing overall strategic direction and ensuring that the organisation meets its strategic aims and objectives. The delegation and control framework established by the Board includes accountability to customers and other stakeholders, such as funding providers and partner local authorities. Board members are listed on pages 3-5. The Board comprised 12 members at 31 March 2020, 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 uphold Stonewater's purpose, values, objectives and policies, share responsibility for decisions taken and represent the company.

Covid-19 duties of Board

Changes to governance arrangements were introduced at the end of March 2020 in response to the Government measures to control the Covid-19 pandemic. Two Board subcommittees were established with delegated authority to take decisions on behalf of the Board in relation to operational changes implemented as a result of the pandemic. Weekly Board meetings, using video conferencing, were instigated to facilitate timely decisions during a rapidly developing situation. During the period of the pandemic the Board, in partnership with the Executive Directors' Group (EDG), has continued to provide strong direction and oversight of operational performance.

Skills, qualities and experience required by the Board

To discharge its responsibilities for the direction of the company, Stonewater's Board needs a broad range of skills, competencies, experience and knowledge. All members are expected to demonstrate customer focus, strong communication and interpersonal skills, strategic thinking and leadership.

In addition, the Board seeks to have a membership that reflects the diversity of Stonewater's customers and the communities in which we work. The Board has set targets for improving diversity across the governance structure. At 31 March 2020, the Board comprised 42% female members, 17% from a Black, Asian or minority ethnic background and two members identifying as disabled. The average age of the membership at 31 March 2020 was 61 years.

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

In 2019/20 these were to deliver a customer-centric service, growth and Board succession.

The Board monitors progress against these objectives through quarterly reporting against sub-targets and the final position is assessed through the annual collective Board appraisal at the end of the year. Headline progress against these objectives was:

- Growth – 654 units handed over against our internal target of 653. Homes England Strategic Partnership targets achieved with 260 of the 1500 homes in the programme started on site and cash take up of £29.5m.
- Service delivery – key KPIs are monitored by the Board on a quarterly basis.
- Maintain a cohesive Board team through Board succession – team building activities have been built into the Board calendar. Induction for new members includes opportunities for one to one meetings with colleagues and subject specialists, as well as opportunities to visit offices and Stonewater schemes.

Other actions for improvement arising from the appraisal are monitored through the governance action plan by the Governance and People 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 feed into the member 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.

Shareholding policy

Under Association rules, the Group Board retains discretion over the issue of shares in the Association and current policy is that we operate a closed membership with shares only issued to individuals who are Board members.

Report of the Board of Management and Strategic Report

COMMITTEES

The Board is supported by seven functional committees, each of which is chaired by a Board member. Each of the Risk and Assurance Committee, the Customer Experience Committee, the Business Design and Technology Committee and the Managed Services Committee include places for independent members.

Each of the Board committees undertakes an annual self-assessment, which reviews how the committee has fulfilled its terms of reference and worked together as a team during the year. During the review, targets for the year ahead and improvements to the committee's operations are identified. The particular areas of focus for each of the committees during 2019/20 are shown, and will be assessed in the 2020 collective appraisals. Two committees, Business Design and Technology and Managed Services Committee, have been newly formed and will set objectives as part of the 2020 collective appraisal process.

- **Assets and Development Committee**
  Oversees Stonewater's asset investment programme, including growth projects and management of assets.

  During the year the committee has been focusing on:

  - Implementation of the Homes England strategic partnership
  - Opportunity and risk management
  - Asset sales

- **Customer Experience 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.

  During the year the committee has been focusing on:

  - Utilising customer insights
  - Service delivery
  - Monitoring technological developments within the operating environment

- **Finance Committee**
  Oversees Stonewater's finances and exercises borrowing and treasury powers.

  During the year the committee has been focusing on Value for Money assessment and reporting.

- **Governance and People Committee**
  Oversees Board and Committee recruitment and performance, reviews members' remuneration and expenses, oversees the recruitment and performance of the Chief Executive, and reviews staff terms and conditions.

  During the year the committee has been focusing on:

  - Board succession, including induction
  - Implementation of the People Strategy
  - Compliance with regulatory requirements

- **Risk and Assurance Committee**
  Oversees risk management, the audit function, and considers the annual financial statements and external and internal auditors' reports.

  During the year the committee has been focusing on ensuring:

  - The operating environment is monitored and risks managed accordingly
  - Stonewater's assurance framework remains appropriate for the business

- **Business Design and Technology Committee**
  Oversees the implementation of Stonewater's digital and IT strategies, with responsibility for developing and overseeing technological strategies to support Stonewater's customer offer and organisational development.

- **Managed Services Committee**
  Oversees the mobilisation and delivery of Stonewater's contract with Legal & General Affordable Homes.

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 the Chief Executive and five Executive Directors.

The details of the Executive Directors' Group are disclosed on page 8.

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 and publications. Many can be found on our website **(www.stonewater.org)** and copies are also available on request.

Risks and uncertainties

New, emerging and high scoring risks are monitored through the Strategic and Operational Risk Register. The Executive Directors' 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 Company Secretary 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. Performance against this is kept under review, facilitated through the use of metrics to enable the Board and committees to assess whether performance remains within the risk appetite parameters.

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

Stonewater colleagues working together

Report of the Board of Management and Strategic Report

KEY STRATEGIC RISKS

	Risk responses	
	Examples of controls in place	**Actions during the year to strengthen controls**
Business strategy and practices do not adapt to threats and opportunities from post-pandemic operating environment	• Compliance with regulatory and Government guidance. • Regular review of operating environment. • Stress testing. • Ensure future funding in place for forthcoming expenditure. • Risk appetite review and monitoring.	• Identification of opportunities for growth arising from the operating environment. • Programme to implement new operating model. • Continued implementation of digitalisation programme. • Development of communications strategy to support changes in operating practices. • Development of learning and development tools for new operating environment.
Uncertainty about, and changes in, Government policy inhibit strategic planning	• Specialist support via PR and public affairs agencies. • Regular Board review and stress testing of operating environment. • Brexit action plan.	• In-year review of the operating environment as part of monitoring and reporting progress on delivery of the Strategic Plan. • Participation in national interest groups and at national political and sector conferences.
Stonewater's financial viability reduces	• Treasury management strategy monitoring. • Regular stress testing. • Monitoring metrics that are used in the credit rating process.	• Improve flexibility of short term funding and cash management. • Identify new funding.
Opportunities for growth through development and sector stock sales are not identified and effectively pursued	• Growth strategy monitoring. • Regular stress testing. • Ensure funding is made available.	• Mapping procurement methodology, timing and location of future programme. • Developing understanding of the market to balance competitiveness with financial sustainability. • Recruitment and retention of skilled staff.
Resilience of Stonewater's IT systems to cyber attacks	• Operational and governance oversight of IT Strategy. • Obtain cyber essentials accreditation. • Modern security appliances and systems in place to protect against cyber attack.	• Implementation of additional security systems and processes. • Implementation of regular assessment of internal controls and security architecture. • Review of the cyber major incident response plan.
Lack of leadership concentration on broader issues of strategy, policy and overall performance monitoring	• Board succession plan regularly monitored through governance structure, informed by annual audit of members' skills and gap analysis. • Member learning and development programme in place, monitored through governance structure. • Leadership training provided to managers.	• Recruitment and induction of new chairman and new Board members. • Delivery of learning and development programme. • Recruitment of a new Executive Director of Assets.
Stonewater's offer does not attract and retain people with the skills and experience required to deliver the strategic plan	• Independent benchmarking of executive and senior manager salaries. • Gender pay gap data, job evaluation and external benchmarking. • Monitoring of changes to staff establishment and turnover.	• Implementation of new pay framework. • Develop employer brand. • Develop resource strategy.
Value for Money targets are not met	• Value for Money targets monitored through quarterly reports to the Finance Committee and Board. • Strategy for re-procurement of large contracts and periodic checks on existing contracts. • Contract management arrangements in place.	• Implementation of initiatives to achieve Value for Money gains. • Deliver plan to achieve target social housing cost per unit. • Review of the Value for Money strategy.
Stonewater does not meet its health and safety obligations as a landlord, employer, developer and provider of care and support services	• Specialist team in place with subject experts embedded across the business. • Oversight of activity by Safety Management Committee and specialist sub-groups. • Management plans in place for key risk areas e.g. fire, asbestos etc.	• Implementation of compliance modules across all assets compliance activities. • Further development of the suite of KPIs. • Rollout digitalisation of compliance processes.
Digitalisation of services and establishment of upgraded IT systems are not implemented effectively leading to a decline in customer satisfaction	• Governance oversight of overall strategy, risks and benefits realisation. • Delivery of projects monitored by Projects Board. • Change toolkits support organisational change and heat maps used to assess implementation impact.	• Development of post-digitalisation Target Operating Model. • Maximising customer accessibility to digital services. • Development of risk management and project management arrangements and reporting.
Commitments under property management and maintenance contract with Legal & General Affordable Homes (LGAH) are not met and the opportunities afforded by this relationship are not realised	• Contract is led by a dedicated Stonewater Director with support from officers from different directorates. • Governance oversight by Managed Services Committee. • Operational oversight by a staff group comprising representatives from different directorates. • Schedule regular meetings with LGAH.	• Development of benefits realisation metrics. • Development of a suite of KPIs.

PEOPLE STRATEGY

Stonewater's five-year people strategy was developed in 2016 and sets out our ambition to become one of the best companies to work for in the UK. Having delivered this rating ahead of schedule, we have now set ourselves a new stretch target of becoming an exceptional place to work.

We also have an active Stonewater People Committee which consults, informs and engages with colleagues as widely as possible. The People Committee has informed and influenced the implementation of the integration change programme in order that the best outcomes for the company can be achieved.

Leadership and management development remains a key priority, to enable the development of our Strategic Plan and future operating model. Stonewater is committed and is actively working towards equality, diversity and inclusion in all that we do, from recruitment and selection, through learning and development, appraisal and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment practices will be objective, free from bias and based solely on work criteria and individual merit.

Stonewater has an in-house recruitment team to ensure that we recruit people who share our values and fit well within our culture. We are continuing with our Digital People Services programme to improve the colleague experience and ensure that we are making the most of the benefits that digitalisation can offer.

We have extended our approach to people management and development into our response to the Covid-19 pandemic. We were quick to relocate colleagues to be able to work from home, making best use of our existing home working policies and procedures. We were able to provide flexible working arrangements for those who needed to care for dependants due to school closures and the effects of the lockdown. We provided bespoke online training, developed in-house on a range of topics from coronavirus to safeguarding, domestic abuse and resilience. Our regular manager briefings enabled us to keep managers and colleagues informed about matters that affected them. We were able to continue to support colleagues through our unique benefits such as the BUPA employee assistance programme, BHSF health and our wellbeing toolkit.

Our people strategy is designed to:

- Deliver our Strategic Plan objectives and long term vision to be an exceptional place to work
- Ensure that colleagues are engaged, developed and equipped to delivery excellent services to customers.
- Continuously improve employee engagement so that colleagues feel proud, committed and advocates for our organisation.
- Offer a best in class employee offer designed to attract and retain a talented and motivated workforce.
- Develop the skills, knowledge and confidence of our workforce to ensure we are capable of delivering our Customer Promise.
- Ensure that colleagues have the tools to deliver great services to customers.

“ Stonewater has an in-house recruitment team to ensure that we recruit people who share our values and fit well within our culture.

Report of the Board of Management and Strategic Report

RELATIONSHIPS

We put customers at the heart of everything we do, investing in communities to create great places to live. Providing good quality, affordable homes for the people who need them most is our foundation but, above and beyond that, the way we deliver our services and work with customers is fundamental.

We also recognise that to become a great business we must look outwards to excel at customer service.

Understanding housing's relationship and interface with other areas of social policy (social care, health, financial inclusion, regeneration, employability and education), plus gaining deeper insight into our customer base, is vital.

Tidying up the outside space at Douglas Mews, Dorset

Customer engagement

Our customers are key to our success, and we invest in understanding customer needs and aspirations to provide services which support their ability to thrive in their communities. Our aim is to deliver innovative, effective and consistent services to our customers, and to listen to their feedback so we can use this to help further shape our services to meet their diverse needs.

We encourage our customers to engage with us and offer a range of involvement opportunities both online and face-to-face, including the Customer Scrutiny Panel, our Customer hubb (our digital forum), and through social media channels such as Facebook and Twitter. We emphasise to customers that we are committed to continuous improvement in the services we offer and we encourage them to let us know what they think.

We are especially focused on improving digital access for our customers and colleagues. Improving and enhancing digital channels enables two-way feedback regardless of where people are. We were early adopters of the National Housing Federation's Together with Tenants plan, reinforcing Stonewater's commitment to continuously nurture positive relationships with our customers and share our experience and good practice with the sector.

Customer insight

Our approach to customer insight allows us to have a better understanding of our customers and what they value. This helps us to provide better, more tailored services delivered right first time to meet the needs of our diverse customer base.

During 2019/20, 78% of our customers told us that they were satisfied with the services they received from Stonewater. From 2020/21, we are introducing easier and quicker ways for customer feedback to be captured and focusing more on reducing the time in which we respond to customer issues. Putting our Customer Promise at the centre of how we deliver services and invest in our colleagues, we will also be rolling out a customer service training programme across the whole of Stonewater.

Equality, diversity and inclusion

Stonewater has adopted the Social Housing Equality Framework (SHEF) to support and drive the organisation's equality and diversity agenda. The Corporate Equality Group is taking action to achieve the SHEF Achieving Level across the business as a whole.

Gender pay gap

Stonewater is committed to equality in treatment and pay of men and women. From April 2017, all UK employers with more than 250 employees were required by law to publish a number of details relating to the gender pay gap in their organisation.

During April 2020, we published our latest gender pay gap data as at 5 April 2019. This year's report shows an improvement in our performance, with the mean gender pay gap being 19.69% (2019: 20%). Our full report is available on our website. We are continuing to work to improve our performance in this area, for example through our Gender Equality Group and continuing with our leadership development programme, as well as ensuring our employee policies support family friendly principles. We also took the decision to review our Black, Asian and minority ethnic (BAME) pay gap data this year and were pleased to find that there is currently no gap. We recognise there is still work to do to create a more diverse workforce and continue to take action to address this such as our employee networking groups.

Further information can be found at **www.stonewater.org/about-us/performance**

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 2020, is available via our website **modern-slavery-and-human-trafficking-statement.**

Financial inclusion

We provide information via our website and Customer hubb to keep customers up to date with benefit changes. Our colleagues are trained about welfare benefits and are able to identify customers who require specialist support, who are then signposted to national and local organisations that can provide this. We contact customers as they apply for Universal Credit to ensure they have the necessary support to complete their claim and set up a payment method.

We continue to work with Experian on rental data sharing to improve our customers' access to favourable financial services through their credit rating.

Nursery school children taking part in an environmental activity

Report of the Board of Management and Strategic Report

FUTURE PROSPECTS

Stonewater reviewed its 30-year business plan in May 2020. The principal change from the previous year's plan is to extend the development programme to 1,500 units per annum from 2022/23. This takes advantage of increased financial capacity and grant funding from the strategic partnership with Homes England alongside The Guinness Partnership.

The business has liquidity to cover 36 months of projected requirements.

The impact of restrictions imposed to contain the coronavirus outbreak in the UK are set out in the 'External environment' section of this report and the future prospects for the business have been reviewed again. The key assumptions included in the business plan are:

Rents

Rents on social and affordable rent properties were increased by 1.9% at the beginning of April 2020, and it is assumed this will be followed by increases under the new rent settlement of CPI + 1% for five years. We assume increases of CPI only thereafter. It is assumed that the rent arrears of the 54% of customers who pay from their own resources will increase by three months on average and that this will result in a bad debt charge of £6.4million in 2020/21. Loss of rents due to empty properties will increase to 1.8% of income.

Shared ownership

First tranche sales will take six months from handover and prices will be 10% lower than previously assumed. There will be no staircasing (i.e. purchase of further tranches) in the first three months of the financial year but will resume at their previous rate.

Other property sales

No other property sales are assumed to take place in the year.

Maintenance costs

Only essential responsive maintenance works will be carried out for a period of three months, before reverting to the normal service. This will reduce expenditure by £2.7 million. Planned work which requires entry to customers' homes will only be carried out where it is required by legislation (e.g. gas servicing).

More severe consequences of the coronavirus have also been considered which do not result in failure of the business.

Operating environment

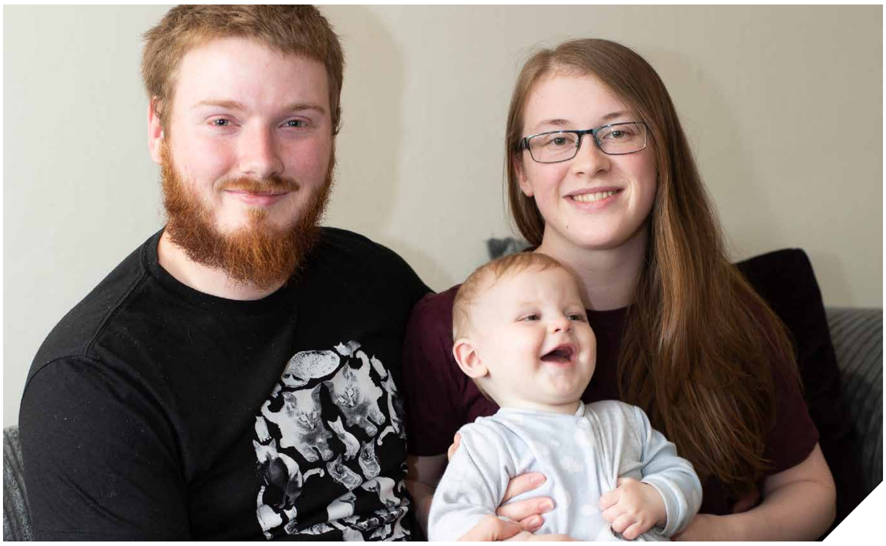
Until the outbreak of coronavirus in the UK, the operating environment for Stonewater was benign: restrictions on rent levels that had operated in the previous four years had ended, a strategic partnership with Homes England to provide grant for new development was in place, debt was readily available at low cost.

The restrictions put in place by the Government to control the outbreak required significant changes to our ways of working. All offices have been closed and staff are successfully working from home. There has been a slowdown in work on development sites which has resulted in rental income from new properties being delayed. The repairs service was reduced to emergency works only as a result of reduced customer demand and the ability of contractors to carry out work. These two factors result in decreased work for certain groups of staff and in consequence Stonewater has accessed the Government Coronavirus Job Retention Scheme.

The situation has impacted the income of some of our customers and the Government has introduced measures to protect tenancies. Stonewater has been proactive in working with customers to prevent unsustainable rent arrears from arising. The impact so far has been modest, but this remains a major risk to the business. The rate of tenancy turnover has fallen as customers choose not to move and safe ways of preparing voids for reletting and for letting new homes have been developed so that the amount of rent lost has actually reduced.

It is anticipated that the sale of first tranches of new shared ownership properties may fall due to reduction in customer demand and the availability of mortgages, but the impact to date has been limited.

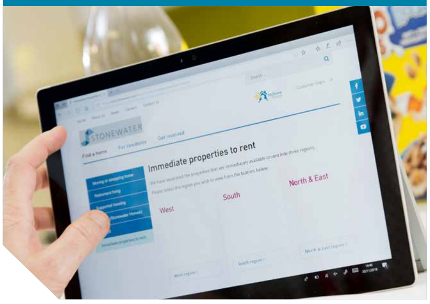
A young family in their new Stonewater home



Expected income and expenditure is as follows:

Income statement	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Rent and service charges	172.7	182.5	195.9	208.1	220.8
Other income	2.1	2.5	2.7	2.8	2.9
Less: voids	-2.2	-1.8	-2.0	-2.1	-2.2
Amortised Government grant	7.5	11.0	7.7	8.0	8.3
Income from social housing lettings	180.0	194.1	204.2	216.8	229.8
Management and service costs	60.7	67.4	67.2	64.2	64.7
Responsive and planned maintenance	28.5	33.0	34.8	36.1	37.6
Bad debts	6.6	1.8	2.0	2.1	2.2
Property depreciation	29.0	29.3	33.3	37.5	41.4
Merger savings and other costs	0.3	0.7	0.9	0.9	0.9
Total Operating Costs	125.2	132.2	138.2	140.7	146.8
Surplus on social housing lettings	54.8	62.0	66.1	76.1	83.0
Surplus on sales (1st tranche and OMS)	1.2	3.4	0.8	2.8	5.6
Surplus on sales (other properties)	3.3	7.2	7.9	8.5	9.0
Surplus before interest	59.3	72.6	74.8	87.4	97.5
Net interest	-37.4	-37.3	-39.2	-42.1	-45.2
Movement in FV	1.4	1.4	1.4	1.4	1.4
Retained Surplus	**23.4**	**36.7**	**37.0**	**46.7**	**53.7**
Capitalised components	13.7	22.8	20.8	22.4	25.0

> “Development over the next five years is expected to total over 6,000 social rent, affordable rent, shared ownership and rent to buy units.



The business plan was revised due to Covid-19.

Development over the next five years is expected to total over 6,000 social rent, affordable rent, shared ownership and rent to buy units. This includes the strategic partnership programme in partnership with Homes England, the first of these units handing over during 2020/21.

There is also a limited build for sale programme.

The plan takes into account the expected impact of Covid-19 on the Group, and in addition the plan has been stress tested for a more adverse effect of Covid-19. Further stress tests considered a Reverse Stress which covered multiple facets impacting over a number of years including:

- An extension of the Covid-19 impact
- Higher levels of voids and bad debts
- Adverse inflation and interest rates
- Reductions in sales income

Additional stress tests included the impact of single unfavourable financial events such as high inflation and margin calls.

The main uncertainties on the plan are the continued effects of Covid-19, and the hangover to the economy this might produce, as well as the impact of Brexit negotiations with Britain leaving the EU. Although the current impact is sustainable, there could be further effects on financial markets, the wider economy and Government policy.

If remedies are required to ensure compliance with bank covenants, the mitigating factors have been set within parameters agreed by the Board.

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 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 to 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 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.

A Stonewater colleague and retirement living customers

Significant changes were made to Stonewater's operations towards the end of 2019/20 in response to the coronavirus pandemic. The Board and Executive team have followed Government and regulatory guidance in implementing revised working practices. The actions taken in response to Government lockdown and social distancing measures included a move to remote service delivery, where possible, and a scaling back of the repairs service to focus on compliance and emergency works. The risks arising from the evolving operating environment have been carefully assessed at each stage to ensure that business activities remain within the Board's risk appetite.

The Board has also agreed additional controls to ensure that during the Covid-19 pandemic Stonewater remains a viable concern. These have included Board meetings twice a month to provide strong governance oversight and efficient decision taking. A suite of performance indicators, scenario models and risk appetite measures have been developed to inform Board decisions and performance monitoring. The Board's priority has been to safeguard health and safety, along with other legal, regulatory and financial compliance. Revised and new policies and procedures have been put in place to reflect the revised operating environment and strengthen internal controls.

The internal control framework and the risk management process are subject to regular review by the internal auditors, who are responsible for providing independent assurance to the Board via the Risk and Assurance Committee. The internal auditors have been kept informed of changes made to operations in response to the coronavirus.

New homes and public art at East Anton, Hampshire

Confirmation from the Board

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 compliance with its adopted code of governance and the regulatory Governance and Financial Viability standard as set by Regulator of Social Housing during the course of the year and up to the date of signing.

Compliance with the regulatory standards

The latest regulatory judgement issued by the Regulator of Social Housing in December 2019 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 Homes & Communities Agency Code of Practice, and confirms that Stonewater is compliant with the standard.

Statement of the Board's responsibilities in respect of the Board of management and Strategic report and the financial statements

The Board members are responsible for preparing the report of the Board of management and strategic 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 members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these financial statements, the Board members are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2018 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Association will continue in business.

The Board members are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Association's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

They are also responsible for safeguarding the assets of the Group and Association, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Board is responsible for ensuring that the report of the Board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2018.

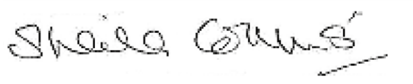
Financial statements are published on the Association's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Association's website is the responsibility of the Board members. The Board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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 2019/20 on 23 July 2019.

The report of the Board was approved on 17 July 2020 and signed on its behalf by:



SHEILA COLLINS
Chairman of Board

Independent auditor's report to the members of Stonewater Limited

Opinion

We have audited the financial statements of Stonewater Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2020 which comprise the consolidated and Association statement of comprehensive income, the consolidated and Association statement of financial position, the consolidated and Association statement of changes in reserves, the consolidated statement of cashflows 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 Group's and of the Association's affairs as at 31 March 2020 and of the Group's and 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 Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

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 Group and 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 Group's or 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.

Independent auditor's report to the members of Stonewater Limited – continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Our response to the key audit matter
Going Concern	
As disclosed in note 1, following the outbreak of Covid-19, and the resultant impact on the overall economy, management has considered the appropriateness of the going concern basis of preparation for the group as well as the parent entity. The directors' assessment of going concern involves a number of subjective judgements including the anticipated future levels of bad debts, voids, the rate of inflation, costs of borrowing and the level of property sales, which have been impacted by the current Covid-19 pandemic. We have therefore spent significant audit effort in assessing the appropriateness of the assumptions involved and to ensure the adequacy of the disclosure in the accounting policy in relation to the steps undertaken by the Board to gain assurance that there is not a material uncertainty around the adoption of the going concern basis of preparing the financial statements. Therefore this area was identified as a Key Audit Matter.	Our audit response involved the following: • Assessment of the internal forecasting process to confirm the projections are prepared by appropriate personnel that are aware of the detailed figures in the forecast but also to have a high level understanding of the entity's market, strategy and profile in the customer base, and the potential impact that Covid-19 might have on these projections. • Obtaining and assessing the availability of financing facilities, including the nature of facilities, repayment terms and financial covenants. We considered management's financial covenant compliance calculations through to September 2021 and concluded on the consistency of such calculations with the ratios stated in the relevant lender agreements. • Consideration of the forecasts prepared by management and challenge of the key assumptions based on our knowledge of the business. As referred to in basis of preparation note, management has modelled reasonably possible downside scenarios to incorporate the expected impact of the Covid-19 pandemic. We have considered the appropriateness of the downside scenarios in respect of the impact of Covid-19 and challenged management to confirm that they have suitably addressed the inputs, which are most susceptible to change, including those in respect of revenue, margins and cost savings. • We challenged management on the suitability of the mitigating actions identified by management in their assessment and the quantum and period ascribed to these mitigating actions. Scenarios modelled by management include a reverse stress test to analyse the impact on covenant compliance in a scenario with multiple adverse conditions including LIBOR rates, inflation, reduction in property sales and the level of voids and bad debt. We reviewed the reasonableness of the proposed mitigations and if those mitigations were entirely in the control of management to action. • We considered the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and stress test scenario.
Key observations:	
Our key observations are set out in the conclusions related to going concern section of our audit report.	

Key audit matter	Our response to the key audit matter
Net realisable value of property developed for sale	
As explained in the accounting policies, properties developed for sale, including shared ownership first tranches and properties developed for outright sale, are measured at the lower of cost and net realisable value resulting in an amount recognised in the balance sheet of £35,785,000. For properties in development at the balance sheet date, an assessment is needed of an anticipated selling price and a determination of the expected costs to complete. Due to the volume of properties under construction and the level of judgement involved in estimating both selling price and costs to complete, assessments which are further complicated with the current uncertainty relating to the Covid-19 outbreak, we considered there to be a significant risk that the carrying amount of properties developed for sale is misstated and was therefore a key audit matter.	• Having obtained management's assessment of the net realisable value of properties developed for sale, we tested this on a sample basis. • Our samples were chosen from the populations of items that represented both developments under construction as well as completed developments at year-end. • For a sample of completed properties we agreed the amounts involved to supporting documentation where the property was sold post year-end. • For a sample of properties under development we obtained details of the expected costs to complete from the scheme budget for that development and agreed the budgeted contracted cost of the development to the latest contract documentation. We examined supporting documentation for anticipated sales proceeds and we compared the incurred expenditure to the balance sheet date to the estimated amount at that date. • We also assessed the accuracy of cost forecasting by looking at outturn costs compared to budget on schemes that completed in the year. • We have also considered the impact of Covid-19 by stress testing the appraisals for a number of properties under development. These stress tests looked at the impact of increasing costs to complete and reducing sales prices by a range of percentages up to 10%. We then considered if this had a material impact of the level of impairment required.
Key observations:	
Based on the evidence obtained we did not identify any indications that the assessments of the recoverable amount made by management were inappropriate.	

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £32,900,000 (2019 - £31,000,000) which represents 1.6% of total assets (2019 – 1.6% of total assets).

We also apply a specific materiality level for all items comprising operating profit (including related disclosures) as that term is defined for the purposes of the entities' lending covenants. This therefore involves adjusting operating profit for depreciation, amortisation, capitalised major works and the net profit/loss on non-outright sale properties. The specific materiality level that we applied was £8,940,000 (2019 - £7,400,000), which is 8.0% of adjusted operating profit (2019 – 8.0%).

We used total assets and adjusted operating profit as our chosen benchmarks to determine materiality and for specific materiality as these are considered to be the areas of the financial statements of greatest interest to the principal users of the financial statements and the areas which will have greatest impact on investor and lender decisions.

Materiality for the parent company was set at £15,600,000 (2019 - £15,000,000) with a specific materiality set at £3,640,000 (2019 - £3,200,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 70% (2019 – 70%) of materiality or specific materiality depending on the financial statement area being audited. In setting the level of performance materiality. We considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that misstatements in excess of £658,000 (2019 - £620,000) for areas considered using financial statement materiality and £178,000 (2019 - £148,000) for areas considered using specific materiality, which were identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting component in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

Extent to which the audit is capable of detecting irregularities, including fraud

The extent to which the audit is capable of detecting irregularities is affected by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud usually are inherently more difficult to detect than irregularities that result from error.

As part of the audit we gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We considered the Association's compliance with laws and regulations that have a direct impact on the financial statements such as the Co-operative and Community Benefit Societies Act 2014 (and related Directions and regulations), the Housing and Regeneration Act 2008 and other laws and regulations applicable to a registered social

Independent auditor's report to the members of Stonewater Limited – continued

housing provider in England. We also considered the risks of non-compliance with the other requirements imposed by the Regulator of Social Housing, and we considered the extent to which non-compliance might have a material effect on the Group financial statements.

We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries of the Board and of management and enquiries of third parties, where information from that third party has been used by the Association in the preparation of the financial statements.

There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Board that represented a risk of material misstatement due to fraud.

Classification of components

The only significant components for Group purposes were the parent entity, Stonewater (2) Limited and Stonewater (3) Limited.

Audit work on all components was performed by BDO UK both for the purposes of reporting on the individual financial statements and for Group/consolidation purposes.

Other information

The Board is responsible for the other information. Other information comprises the information included in the Annual 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 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 including the Strategic and Financial Report, the report on Corporate Governance and Board Committees, the report on Risks and the Statement of Responsibilities of the Board 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 parent Association; or
- A satisfactory system of control has not been maintained over transactions; or
- The parent 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 responsibilities of the Board, set out on page 46, 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 is responsible for assessing the Group and 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 Group or 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

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.

Other matters

Following the recommendation of the Risk and Assurance committee, we were appointed by the Board on 24 October 2018 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ending 31 March 2016 to 31 March 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the members of the Association, as a body, 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.

BDO LLP

PHILIP CLIFTLANDS
Senior Statutory Auditor

For and on behalf of BDO LLP,
Statutory Auditor
Gatwick
United Kingdom

Date: 7 August 2020.

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

Consolidated and Association statement of comprehensive income

	Note	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Turnover	4	189,001	190,724	103,122	104,085
Cost of sales	4	(14,390)	(16,085)	(6,338)	(8,461)
Operating costs	4	(121,979)	(118,255)	(76,310)	(71,155)
Surplus on disposal of fixed assets	11	28,198	9,422	11,264	4,409
Operating surplus	4,7	80,830	65,806	31,738	28,878
Interest receivable and similar income	12	572	2,988	463	3,062
Interest payable and financing costs	13	(33,781)	(34,296)	(16,601)	(16,937)
Amount transferred from cashflow hedge reserve	13	-	(10,745)	-	(10,745)
Movement in fair value of non-hedging financial instruments	13	(5,315)	(1,368)	(4,234)	390
Surplus for the year		42,306	22,385	11,366	4,648
Actuarial gains/(losses) on defined benefit pension scheme	29	17,321	(6,922)	6,891	(2,843)
Net impact of the initial recognition of multi-employer defined benefit pension scheme	29	-	(10,876)	-	(4,230)
Movement in fair value of hedging financial instruments	13	(13,812)	10,601	(9,634)	9,655
Total comprehensive income for the year		45,815	15,188	8,623	7,230

All activities relate to continuing operations.

The notes on pages 52 to 90 form part of these financial statements.

Consolidated and Association statement of financial position

	Note	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Fixed assets					
Tangible fixed assets - housing properties	15	**1,887,962**	1,776,052	**884,862**	846,868
Other tangible fixed assets	16	**9,337**	8,877	**7,436**	6,868
Investment	17	**-**	-	**50**	50
Total fixed assets		**1,897,299**	1,784,929	**892,348**	853,786
Current assets					
Properties held for sale	18	**35,785**	23,320	**15,947**	12,685
Debtors: amounts falling due after more than one year	19	**-**	-	**1,210**	-
Trade and other debtors	19	**27,050**	23,954	**30,265**	20,282
Short-term investments	20	**4,639**	4,554	**1,801**	1,796
Cash and cash equivalents		**94,581**	102,251	**34,965**	50,466
		162,055	154,079	**84,188**	85,229
Creditors: amounts falling due in one year	21	**(67,687)**	(74,986)	**(41,177)**	(42,594)
Net current assets		**94,368**	79,093	**43,011**	42,635
Total assets less current liabilities		**1,991,667**	1,864,022	**935,359**	896,421
Creditors: amounts falling due after more than one year	22	**(1,679,225)**	(1,577,414)	**(827,948)**	(789,532)
Provisions for liabilities and charges	28	**(85)**	(340)	**(85)**	(340)
Pension scheme liability	29	**(16,684)**	(36,410)	**(9,287)**	(17,133)
Net assets		**295,673**	249,858	**98,039**	89,416
Capital and reserves					
Share capital	30	**-**	-	**-**	-
Cashflow hedge reserve		**(83,252)**	(69,440)	**(49,142)**	(39,508)
Income and expenditure reserve		**378,925**	319,298	**147,181**	128,924
Total capital and reserves		**295,673**	249,858	**98,039**	89,416

The notes on pages 52 to 90 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 17 July 2020.

SHEILA COLLINS
Chairman of the Board

NICHOLAS HARRIS
Board Member

ANNA HARLING
Secretary

Consolidated and Association statement of changes in reserves

Group	Group £'000 Cashflow hedge reserve	Group £'000 Income and expenditure reserve	Group £'000 Total	Association £'000 Cashflow hedge reserve	Association £'000 Income and expenditure reserve	Association £'000 Total
Balance at 1 April 2019	**(69,440)**	**319,298**	**249,858**	**(39,508)**	**128,924**	**89,416**
Surplus for the year	**-**	**42,306**	**42,306**	**-**	**11,366**	**11,366**
Actuarial losses on defined benefit pension scheme (DCC)	**-**	**(583)**	**(583)**	**-**	**(583)**	**(583)**
Actuarial gains on defined benefit pension scheme (SHPS)	**-**	**17,904**	**17,904**	**-**	**7,474**	**7,474**
Movement in fair value of hedging financial instruments	**(13,812)**	**-**	**(13,812)**	**(9,634)**	**-**	**(9,634)**
Balance at 31 March 2020	**(83,252)**	**378,925**	**295,673**	**(49,142)**	**147,181**	**98,039**
Balance at 1 April 2018	(80,041)	314,711	234,670	(49,163)	131,349	82,186
Surplus for the year	-	22,385	22,385	-	4,648	4,648
Actuarial gains on defined benefit pension scheme (DCC)	-	192	192	-	192	192
Actuarial losses on defined benefit pension scheme (SHPS)	-	(7,114)	(7,114)	-	(3,035)	(3,035)
Net impact of the initial recognition of the multi-employer defined benefit pension scheme	-	(10,876)	(10,876)	-	(4,230)	(4,230)
Movement in fair value of hedging financial instruments	10,601	-	10,601	9,655	-	9,655
Balance at 31 March 2019	(69,440)	319,298	249,858	(39,508)	128,924	89,416

Consolidated statement of cash flow

	Group 2020 £'000	Group 2019 £'000
Cash flows from operating activities		
Surplus for the year	42,306	22,385
Carrying value of fixed assets disposed	20,018	9,942
Adjustments for non-cash items:		
Depreciation and impairment	30,616	29,129
Deferred Government grants amortisation	(7,021)	(7,023)
Interest payable and financing costs	33,781	34,296
Amount transferred from cashflow hedge reserve	-	10,745
Interest receivable and similar income	(572)	(471)
Profit on disposal of derivative	-	(2,518)
Movement in fair value of hedging financial instruments	5,315	1,368
Non cash movements on defined benefit pension scheme	(2,405)	(1,520)
Decrease/(increase) in trade and other debtors	968	(10,025)
Decrease in trade and other creditors	(8,537)	886
Increase in properties held for sale	(12,465)	(12,119)
(Decrease)/increase in provisions	(255)	127
Net cash generated from operating activities	**101,749**	75,202
Cash flow from investing activities		
Purchase of fixed assets	(156,609)	(112,342)
Purchase of other fixed assets	(1,708)	(4,010)
Receipt of grant	37,808	7,253
Net cash used in investing activities	**(120,509)**	(109,099)
Cash flow from financing activities		
Interest paid on loans	(36,223)	(37,113)
Interest received	572	471
(Increase)/decrease in short term investment	(85)	50
New loans	73,477	95,366
Loan repayments	(26,651)	(30,453)
Net cash generated from financing activities	**11,090**	28,321
Net decrease in cash and cash equivalents	(7,670)	(5,576)
Cash and cash equivalents at beginning of year	102,251	107,827
Cash and cash equivalents at end of year	**94,581**	102,251

Notes to the financial statements

1. Legal status

Stonewater 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 accounting

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Stonewater includes the Co-operative and Community Benefit Societies Act 2014 (and related group accounts regulations), the Housing and Regeneration Act 2008, FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland," the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018, "Accounting by registered social housing providers" and the Accounting Direction for Private Registered Providers of Social Housing 2019.

The financial statements are prepared under the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

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

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

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical.
- No cash flow statement has been presented for the parent company.
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole.
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

Going concern

The Board has reviewed the Association's five-year strategic plan and 30-year financial projections. This review took account of the Covid-19 pandemic and included stress testing and analysis of potential impact on covenants. The Board is fully satisfied that the Association has adequate resources to continue trading for the foreseeable future and therefore continues to adopt the going concern basis in preparing the Association's financial statements

In the analysis of potential impact of the Covid-19 on our business, we considered increase in rent arrears and bad debts, loss of rental income due to delayed handovers, temporary inability to sell new shared ownership properties and delays in work on building sites. The principal remedy in more stressed scenarios is to reduce development expenditure followed by reduction in capital repairs and achieving operating costs savings. We have modelled various scenarios and identified the limits that the business can withstand.

As circumstances are particularly uncertain and outside our control, we will continue to carry out formal reviews on a regular basis.

We have a policy of maintaining cash and committed bank facilities equal to contractual commitments (less grant associated with them). At 31 March 2020 we had £94.6m of cash, £4.6m short term investments and £320m of undrawn facilities, which exceeded the Group's contracted obligations less grant by £119.5m. In addition we have three tranches of guaranteed future funding receivable in the next 18 months: £75m in June 2020, £75m in March 2021 and £28m in September 2021.

Basis of consolidation

The consolidated financial statements present the results of Stonewater Limited and its subsidiaries ('the Group') as if they formed a single entity.

Uniform accounting policies have been adopted across the Group, and intercompany transactions and balances between have therefore been eliminated in full.

Turnover

Turnover represents rental and service charge income, grants receivable from local authorities and from Homes England, income from shared ownership first tranche sales, and proceeds from property sales, grant amortisation and other income, all of which arises in the UK.

- Rental income is measured at fair value of the consideration received or receivable and represents the amount receivable for the services rendered net of any voids.
- The amortisation of social housing grant is applied by the accrual model in accordance with FRS102, and the income is released over the life of the associated structure component.
- Fixed service charge income is recognised in the year to which it relates. Variable service charge income is recognised in the year the related cost is recognised.
- Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.
- Intra-Group income and expenditure is included in turnover and operating costs in the financial statements of the Association but is eliminated within the Group consolidated financial statements.

Operating segments

There are publicly traded securities within the Group and therefore a requirement to disclose information about Group operating segments under IFRS 8. Segmental information is disclosed in note 4(c) and as part of the analysis in note 15. Information about income, expenditure and assets attributable to material operating segments are based on the nature and function of assets held rather than geography. This is appropriate based on the similarity of the services, nature of risks, type of customer and nature of regulatory environment across all geographical locations in which the Group operates. Operating segments are analysed along the lines of information presented to the Chief Operating Decision Maker who for the purpose of these accounts is determined to be the Board.

Properties for sale

Properties developed for shared ownership sale are divided into first tranche element and staircasing element. First tranche elements are included within turnover, cost of sales and operating costs.

Subsequent tranches (staircasing) are shown separately within the surplus on sale of housing properties before operating surplus in the statement of comprehensive income. All other sales of fixed asset properties are shown in surplus on sale of housing properties in the statement of comprehensive income.

Notes to the financial statements

Service charges
The Group adopts a mixture of fixed and variable methods 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 development/construction 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. Land costs originally incurred during construction are attributed to each sales transaction.

Also included within costs of sales are expenses relating to fees expended in promotion developments through the planning system which are written off to the statement of comprehensive income until the viability of such a development is reasonably secure, after which such costs are capitalised in accordance with the accounting policy in respect of land and properties held for sale. At the date a sale is recognised a relevant proportion of costs inclusive of in-house development staff, shared ownership sales staff, and a proportion of other staff in other departments which work on development activity attributable to that sale are taken to cost of sales.

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.

Voluntary Right to Buy
Stonewater participated in the Midlands voluntary Right to Buy programme during 2019/20. In accordance with the guidance for the sector, a discount is received by the tenant purchasing the property and Stonewater receives a grant for that amount so we receive full market value. This is treated as a revenue grant and taken to the income statement at the point the property is sold. A record has been kept of the grant received so that it can be reinvested in a replacement of the home sold, the grant can be kept for up to 10 years before reinvestment.

Value Added Tax
The Group 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.

Government and other grants
Social Housing Grant (SHG) is receivable from Homes England, and is accounted for using the accrual method of accounting for government grants and any new grant received is included as part of creditors. The grant is recognised within income when amortised over the useful economic life of the asset. Grant is amortised even if there are no related depreciation charges.

In accordance with Housing SORP 2018 the useful economic life of the housing property structure has been selected (see table of useful economic lives on page 63).

SHG received against new schemes, which are under construction, is included as a long term liability. Amortisation becomes active once the unit is in active management

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.

SHG can be recycled by the Association under certain circumstances such as if a property is sold, or if another relevant event takes place. In these cases, the SHG can be recycled for use on projects approved by Homes England and is held on the statement of financial position as a liability in the recycled capital grant fund. However, SHG may need to be repaid in certain circumstances.

Disposal proceeds fund (DPF)
The Regulator of Social Housing communicated its intention that from 1 April 2017, credits arising from Right To Acquire (RTA) sales should instead be credited to the recycled capital grant fund, therefore the DPF fund no longer is required. In 2019/20 the remaining DPF fund in the Group was allocated fully to new build schemes, and has a nil balance at 31 March 2020.

Housing properties

Housing properties constructed or acquired (including land), 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.

Cost comprises of acquiring of land and buildings, development costs, and interest charges incurred during development. In addition are the staff costs attributable to bringing housing property into working condition for their intended use.

Housing properties in the course of construction are stated at cost and not depreciated and are transferred to completed properties when they are ready for letting.

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.

Expenditure on replaced components is capitalised if the component is classified as being wholly replaced. Any remaining net book value of the replaced component is disposed of and recognised as accelerated depreciation.

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 amortised grant written back are recognised within surplus on disposal of fixed assets in the statement of comprehensive income.

Fixed Asset and depreciation

Freehold land is not depreciated.

The useful economic lives of all tangible fixed assets are reviewed annually.

Housing components are depreciated from the month following replacement. The range of estimated useful economic useful lives are:

Description	Estimated economic life (years)
Boilers	15
Kitchens	20
Lifts	20
Heating systems	30
Bathrooms and wet rooms	30
Windows and doors	35
Electrics	40
Roof cover	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.

Social Housing Grant (SHG) is amortised to income over 100 years for social housing lettings.

Where a purchase of completed properties is made including transfer of properties between Group entities, the useful lives of the components are adjusted to reflect the actual remaining lives of the properties, using the information obtained from the other social landlord during due diligence. Where accurate cost information on the components is not available, the cost for each unit is apportioned based on the pre-determined assumptions that the Group uses for new build properties.

Notes to the financial statements

Impairment

An annual review is undertaken of existing social housing properties to determine if there have been indicators of impairment in the current financial year for assets which may have suffered an impairment loss. The review is done on a scheme level, which is deemed to be a cash-generating unit. 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
- Material reduction on market value
- Schemes being redeveloped/demolished

If there is an indicator of an impairment, the recoverable amount of any affected asset is estimated and compared to the carrying amount. If the estimated recoverable amount is lower than the carrying amount, then the carrying amount is adjusted down to the recoverable value and an impairment loss is recognised as operating expenditure.

Other fixed assets

Other tangible fixed assets are stated at historical cost less accumulated depreciation and 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.

Depreciation of other 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 office	100
Furniture and office equipment	5 to 25
Computer equipment	3 or 5

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.

Residual values for other tangible fixed assets are assumed to be nil.

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.

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.

Donated land and other assets

Land and other assets donated by local authorities and other government sources are added to cost at the fair value of the land at the time of the donation. Where the land is not related to a specific development and is donated by a public body, an amount equivalent to the increase in value between fair value and consideration paid is treated as a non-monetary grant and recognised in the statement of financial position as a liability. Where the donation is from a non-public source, the value of the donation is included as income.

Acquisition of housing properties from other social landlords

Housing properties acquired from other Housing Associations are measured at fair value, measured at the purchase price. Grant associated with the transfers is assumed to be fully amortised and therefore not recognised in the statement of financial position. On disposal of the properties the grant must be recorded on the statement of financial position where the obligation to repay or recycle exists.

Shared ownership properties and staircasing

Shared ownership sales are treated as follows:

- Shared ownership properties are split proportionately between current and fixed assets based on the first tranche proportion.
- The first tranche proportion is classed as a current asset and related sales proceeds are included in turnover.
- The remaining element is classed as a fixed asset, and included in housing properties at cost, less any provisions needed for depreciation or impairment.

Properties held for sale

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

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 Group 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 Group 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.

Loans, investments and short term deposits

All loans, investments and short term deposits held by the Group, are classified as basic financial instruments in accordance with FRS 102. These instruments are initially accounted for 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 Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the statement of financial position at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Bonds and bond on lending are accounted for using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents in the Group's consolidated financial position consist of cash at bank, deposits and investments in low volatility net asset value money market funds. In all cases capital preservation is key.

The Group has also identified some investments, which meet the definition of cash and cash equivalents but are restricted in their use and therefore not highly liquid. These investments have been classified as restricted cash equivalents and disclosed as current investments in the statement of financial position.

Derivative instruments and hedge accounting

The Group holds floating rate loans which expose the Group to interest rate risk. To mitigate against this risk the Group 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.

With the exception of swaps with cancellation options and inflation linked swaps the Group has designated each against either existing drawn floating rate debt or against highly probable floating rate debt. To the extent the hedge is effective, movements in fair value are recognised in other comprehensive income and result in a change in the cashflow hedge reserve. Any movements in fair value relating to ineffectiveness (other than our own or counterparty credit risk) are recognised in income and expenditure.

On the early termination, sale or exercise of swaps the difference between the cash paid on termination, sale or expiry of the swap and the balance sheet value of the swap if a profit is classified as interest receivable and if a loss interest payable.

If the item that the swap is hedging is still in existence at the time of the early termination, sale or exercise the accumulated balance in the cashflow hedge reserve relating to the swap is released to interest payable over the remaining life of the hedging item. Otherwise the balance relating to the swap in cashflow hedge reserve is written off.

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.

Leasehold sinking funds

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

Provision for liabilities

Provisions are included where there is a probable but not certain economic obligation. Any provision included is expected to cover the future liability and are recognised in the statement of financial position.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the statement of financial position date.

Notes to the financial statements

Holiday pay accrual
A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the statement of financial position date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the statement of financial position date.

Contingent liabilities
A contingent liability is disclosed for a possible obligation of a past event, 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.

Finance costs
For Stonewater bonds and notes, finance costs 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 including any premium recognised. Issue costs are initially recognised as a reduction in the proceeds of the instrument.

For all other borrowings, finance costs are charged on a historic cost basis.

Pension costs
The Group participates in the multi-employer defined benefit Social Housing Pension Scheme (SHPS).

For financial years ending on or after 31 March 2019, the way in which the defined benefit pension obligation in SHPS is stated in the financial statements has changed. Previously there has been insufficient information available to account for these obligations on a defined benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, the obligation has been accounted for by stating the present value of agreed future deficit repayment contributions.

For financial years ending on or after 31 March 2019, sufficient information is available to account for the obligations on a defined benefit basis.

Under defined benefit accounting the Scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the statement of financial position. The current service cost and costs from settlements and curtailments are charged to operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements are reported in statement of comprehensive income.

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

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

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

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 Group'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, we 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 members' best estimate of sales value based on economic conditions within the area of development.

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

- Determining the anticipated market value of the 3 categories of assets:
  1. Void properties ear-marked for open market sale.
  2. Completed but unsold shared ownership.
  3. Properties under construction including shared ownership units.

The values have been determined by external valuers using the market value assuming vacant possession method. The valuers have advised us that due to the current pandemic the valuations provided are on the basis of "material valuation uncertainty" and a higher degree of caution should be attached to the valuations provided than would normally by the case. Stonewater will review the values of the units frequently to check whether any further impairment is needed.

These values were used to determine the impairment shown in note 15.

Other key sources of estimation uncertainty:

- The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense. Assumptions used are based on actuarial advice.

- 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.

  - **Valuation of swaps**
    All swaps are valued at fair value by discounting expected cash flows at the risk free forward rate curve. This valuation is adopted across the registered provider sector. Had we applied credit and funding valuation adjustments the derivatives would have had a value of £106.9 million at 31 March 2020, compared to the fair value adopted of £119.0 million.

  - **Tangible fixed assets (note 15 and 16)**
    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.

  - **Social Housing Pension Scheme**
    The critical selection of financial and actuarial assumptions in relation to defined benefit scheme obligation based on best estimates derived from the Group's policies and practices and their applications to all the pension schemes operated by the Group where appropriate and confirmed with actuaries where these are beyond management expertise, e.g. mortality tables have been chosen based on published research by the Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries. Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses. Mortality rates for scheme members are set out in note 29.

    The Association has relied upon the information provided by the actuary for SHPS. The discount rate used is given in note 29, along with the inflation rates, CPI and RPI, that were used in the calculations.

Notes to the financial statements

4(a). Particulars of turnover, costs of sales, operating costs and operating surplus/(deficit)

Group	Note	Turnover 2020 £'000	Cost of sales 2020 £'000	Operating costs 2020 £'000	Surplus on disposal of fixed assets 2020 £'000	Operating surplus/(deficit) 2020 £'000
Social housing lettings	5	171,286	-	(118,546)	-	**52,740**
Other social housing activities:						
First tranche shared ownership sales		17,436	(14,390)	-	-	**3,046**
Development staff costs		-	-	(885)	-	**(885)**
Charitable donations		279		(2,501)	-	**(2,222)**
Surplus on disposal of fixed assets	11	-	-	-	28,198	**28,198**
Activities other than social housing activities:						
Other		-	-	(47)	-	**(47)**
Total		**189,001**	**(14,390)**	**(121,979)**	**28,198**	**80,830**

Group	Note	Turnover 2019 £'000	Cost of sales 2019 £'000	Operating costs 2019 £'000	Surplus on disposal of fixed assets 2019 £'000	Operating surplus/(deficit) 2019 £'000
Social housing lettings	5	169,858	-	(114,070)	-	55,788
Other social housing activities:						
First tranche shared ownership sales		20,718	(16,085)	-	-	4,633
Development staff costs		-	-	(1,083)	-	(1,083)
Charitable donations		148	-	(3,001)	-	(2,853)
Surplus on disposal of fixed assets	11	-	-	-	9,422	9,422
Activities other than social housing activities:						
Other		-	-	(101)		(101)
Total		**190,724**	**(16,085)**	**(118,255)**	**9,422**	**65,806**

4(b). Particulars of turnover, costs of sales, operating costs, surplus on disposal of fixed assets and operating surplus/(deficit)

Association	Note	Turnover 2020 £'000	Cost of sales 2020 £'000	Operating costs 2020 £'000	Surplus on disposal of fixed assets 2020 £'000	Operating surplus/(deficit) 2020 £'000
Social housing lettings	5	95,364	-	(72,924)	-	22,440
Other social housing activities:						
First tranche shared ownership sales		7,479	(6,338)	-	-	1,141
Development staff costs		-	-	(885)	-	(885)
Charitable donations		279	-	(2,501)	-	(2,222)
Surplus on disposal of fixed assets	11				11,264	11,264
Total		**103,122**	**(6,338)**	**(76,310)**	**11,264**	**31,738**

Association	Note	Turnover 2019 £'000	Cost of sales 2019 £'000	Operating costs 2019 £'000	Surplus on disposal of fixed assets 2019 £'000	Operating surplus/(deficit) 2019 £'000
Social housing lettings	5	93,338	-	(67,071)	-	26,267
Other social housing activities:						
First tranche shared ownership sales		10,625	(8,461)	-	-	2,164
Development staff costs		-	-	(1,083)	-	(1,083)
Charitable donations		122	-	(3,001)	-	(2,879)
Surplus on disposal of fixed assets	11	-	-	-	4,409	4,409
Total		**104,085**	**(8,461)**	**(71,155)**	**4,409**	**28,878**

Notes to the financial statements

4(c). Group segmental analysis

Group	Customer Experience 2020 £'000	Development 2020 £'000	Asset management 2020 £'000	Central Services 2020 £'000	Total 2020 £'000
Turnover	168,912	17,797	2,292	-	189,001
Cost of sales	-	(14,390)	-	-	(14,390)
Operating costs	(69,437)	(3,520)	(46,067)	(2,955)	(121,979)
Surplus on disposal of fixed assets	-	-	28,198	-	28,198
Operating surplus/(deficit)	**99,475**	**(113)**	**(15,577)**	**(2,955)**	**80,830**

Group – restated	Customer Experience 2019 £'000	Development 2019 £'000	Asset management 2019 £'000	Central Services 2019 £'000	Total 2019 £'000
Turnover	169,107	20,252	1,365	-	190,724
Cost of sales	-	(16,085)	-	-	(16,085)
Operating costs	(69,208)	(1,954)	(41,965)	(5,128)	(118,255)
Surplus on disposal of fixed assets	-	-	9,422	-	9,422
Operating surplus/(deficit)	99,899	2,213	(31,178)	(5,128)	65,806

5(a). Particulars of the income and expenditure from social housing lettings

Group	General needs	Supported and housing for older people	Shared ownership	Affordable rent	Total 2020	Total 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Income from social housing lettings:						
Rent receivable net of identifiable service charges	104,577	11,396	6,640	22,109	**144,722**	144,151
Service charge income	9,273	7,197	1,617	606	**18,693**	17,652
Net rent receivable	113,850	18,593	8,257	22,715	**163,415**	161,803
Amortised government grants (note 23)	5,605	792	215	409	**7,021**	7,023
Other income	605	132	113	-	**850**	1,032
Income from social housing lettings	120,060	19,517	8,585	23,124	**171,286**	169,858
Expenditure on social housing lettings:						
Management	(20,795)	(3,531)	(2,561)	(4,740)	**(31,627)**	(30,825)
Service charge costs	(8,829)	(8,274)	(1,046)	(490)	**(18,639)**	(17,091)
Routine maintenance	(20,859)	(2,191)	(145)	(1,344)	**(24,539)**	(24,072)
Planned maintenance	(6,407)	(271)	(23)	(174)	**(6,875)**	(5,327)
Major repairs (note 15a)	(3,596)	(2,222)	(155)	(256)	**(6,229)**	(8,346)
Bad debts	(1,270)	(265)	(2)	(294)	**(1,831)**	(1,043)
Depreciation on housing properties – annual charge (note 7 and 15)	(19,894)	(2,533)	(1,192)	(3,264)	**(26,883)**	(26,593)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 15a)	(814)	(123)	-	(17)	**(954)**	(493)
Impairment on housing properties (note 7)	(31)	-	(2,249)	-	**(2,280)**	(515)
Reversal of impairment (note 7)	272	501	136	402	**1,311**	236
Expenditure on social housing lettings	**(82,223)**	**(18,909)**	**(7,237)**	**(10,177)**	**(118,546)**	(114,070)
Operating surplus on social housing lettings	**37,837**	**608**	**1,348**	**12,947**	**52,740**	55,788
Void losses	**(1,067)**	**(598)**	**(19)**	**(164)**	**(1,848)**	(2,006)

Notes to the financial statements

5(b). Particulars of the income and expenditure from social housing lettings

Association	General needs £'000	Supported and housing for older people £'000	Shared ownership £'000	Affordable rent £'000	**Total 2020 £'000**	Total 2019 £'000
Income from social housing lettings:						
Rent receivable net of identifiable service charges	41,131	6,217	2,278	13,564	**63,190**	63,395
Service charge income	4,507	4,250	529	376	**9,662**	9,261
Net rent receivable	**45,638**	**10,467**	**2,807**	**13,940**	**72,852**	72,656
Amortised government grants (note 15c and 23)	2,453	422	59	379	**3,313**	3,325
Other income	12,257	2,402	1,430	3,110	**19,199**	17,357
Income from social housing lettings	**60,348**	**13,291**	**4,296**	**17,429**	**95,364**	93,338
Expenditure on social housing lettings:						
Management	(19,346)	(3,919)	(2,334)	(5,228)	**(30,827)**	(29,966)
Service charge costs	(4,724)	(4,579)	(422)	(410)	**(10,135)**	(9,122)
Routine maintenance	(9,561)	(1,282)	(36)	(667)	**(11,546)**	(9,681)
Planned maintenance	(3,517)	(142)	(15)	(75)	**(3,749)**	(2,315)
Major repairs (note 15c)	(1,886)	(592)	(152)	(229)	**(2,859)**	(4,145)
Bad debts	(531)	(175)	-	(194)	**(900)**	(490)
Depreciation on housing properties – annual charge (note 7 and 15b)	(6,983)	(1,389)	(514)	(2,408)	**(11,294)**	(11,152)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 15b)	(136)	(15)	-	(17)	**(168)**	(179)
Impairment on housing properties (note 7 and 15b)	-	-	(2,232)	-	**(2,232)**	(132)
Reversal of impairment (note 7 and 15b)	230	53	101	402	**786**	111
Expenditure on social housing lettings	**(46,454)**	**(12,040)**	**(5,604)**	**(8,826)**	**(72,924)**	(67,071)
Operating surplus/(deficit) on social housing lettings	**13,894**	**1,251**	**(1,308)**	**8,603**	**22,440**	26,267
Void losses	(318)	(387)	-	(100)	**(805)**	(1,062)

6. Units of housing stock

Group	At start of the year	Additions	Disposals	Reclassification	At the end of the year
	Number	Number	Number	Number	Number
General needs	21,527	398	(304)	(882)	**20,739**
Affordable	3,100	364	-	(21)	**3,443**
Shared ownership	2,662	246	(42)	(349)	**2,517**
Supported housing	432	9	-	(11)	**430**
Housing for older people	2,303	126	(62)	(143)	**2,224**
Other	529	-	-	(500)	**29**
Total owned	30,553	1,143	(408)	(1,906)	**29,382**
Accommodation managed for others	1,349	278	(101)	1,734	**3,260**
Total managed accommodation	31,902	1,421	(509)	(172)	**32,642**
Units managed by other associations	452	9	(4)	172	**629**
Total owned and managed accommodation	32,354	1,430	(513)	-	**33,271**
Units under construction	1,092	466	-	(19)	**1,539**

Association	At start of the year	Additions	Disposals	Reclassification	At the end of the year
	Number	Number	Number	Number	**Number**
General needs	8,486	13	(252)	(900)	**7,347**
Affordable	1,839	155	-	(8)	**1,986**
Shared ownership	894	89	(11)	(69)	**903**
Supported housing	258	5	-	-	**263**
Housing for older people	1,218	-	(35)	(14)	**1,169**
Other	22	-	-	(1)	**21**
Total owned	12,717	262	(298)	(992)	**11,689**
Accommodation managed for others	91	30	(8)	828	**941**
Total managed accommodation	12,808	292	(306)	(164)	**12,630**
Units managed by other associations	253	-	(2)	164	**415**
Total owned and managed accommodation	13,061	292	(308)	-	**13,045**
Units under construction	538	-	-	(19)	**519**

Notes to the financial statements

7. Operating surplus

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
This is arrived at after charging/(crediting):				
Depreciation of housing properties				
- annual charge (note 5 and 15b)	26,883	26,593	11,294	11,152
- accelerated depreciation (note 5 and 15b)	954	493	168	179
Depreciation of other tangible fixed assets (note 16)	1,820	1,765	1,624	1,511
Impairment of housing properties (note 5 and 15)	2,280	515	2,232	132
Reversal of impairment of housing properties (note 5 and 15)	(1,311)	(236)	(786)	(111)
Operating lease charges – land and building	752	695	502	481
Operating lease charges – other	304	205	304	205

Audit remuneration of £85,000 (excluding VAT) (2019: £83,000) represents the audit fee for all Group entities. The Association fee is £66,000 (excluding VAT) (2019: £61,000). Fees for other services were paid by the Group and Association of £11,000 (excluding VAT) (2019: £11,000).

8. Employees

The average number of employees expressed as full-time equivalents FTE (calculated based on 37.5 hours) during the year, also total expenditure was as follows:

	Group 2020 £'000	Group 2019 £'000
FTE	690	694
Staff costs consists of:		
Wages and salaries	24,996	23,635
Social security costs	2,452	2,440
Other pension costs	1,167	964
Redundancy	112	95
Total	28,727	27,134

9. Directors' and senior executives' remuneration

The directors are defined as the members of the Board of Management, the Chief Executive and the Executive Directors' Group disclosed on page 8.

	Group 2020 £'000	Group 2019 £'000
Executive Directors' remuneration	**1,165**	959
Amounts paid to non-executive directors	**160**	159
Pension contributions	**44**	48
Benefits in kind	**33**	30
Total	**1,402**	1,196

The highest total paid is to the Chief Executive in respect of remuneration, and the value was £238,000 (2019: £193,000), in addition pension contributions of £10,074 (2019: £12,000) were made to SHPS on his behalf. The Chief Executive is an ordinary member of the pension scheme.

The remuneration paid to staff (including Executive Directors' Group) earning over £60,000 (including performance related pay, benefits in kind and pension contributions paid by the employer) is:

Band	Group 2020 Number	Group 2019 Number
£60,000 - £69,999	**27**	28
£70,000 - £79,999	**12**	11
£80,000 - £89,999	**10**	8
£90,000 - £99,999	**8**	8
£100,000 - £109,999	**6**	5
£110,000 - £119,999	**2**	-
£120,000 - £129,999	**1**	-
£140,000 - £149,999	**-**	1
£150,000 - £159,999	**-**	2
£160,000 - £169,999	**1**	1
£170,000 - £179,999	**-**	1
£180,000 - £189,999	**2**	-
£200,000 - £209,999	**1**	1
£220,000 - £229,999	**1**	-
£250,000 - £259,999	**1**	-
Total	**72**	66

10. Board members' remuneration

Name	Group 2020 £	Group 2019 £
Mr G Blunden	**12,500**	25,000
Mrs S Collins	**12,500**	7,500
Mr T Kazi	**15,000**	15,000
Mr P Hammond	**15,000**	15,000
Mr J Weguelin	**7,500**	15,000
Ms A Dokov	**15,000**	15,000
Mr B Roebuck	**10,000**	10,000
Mr D Wright	**15,000**	15,000
Dr M Collins	**-**	7,500
Mr P Symington	**-**	10,000
Ms J Crowe	**12,500**	10,000
Ms C Kearney	**10,000**	5,000
Mr A Lawrence	**15,000**	3,958
Ms J Bennett	**12,500**	5,000
Mr H Shields	**7,500**	-
Total	**160,000**	158,958

Notes to the financial statements

11. Surplus on disposal of fixed assets

Group	Shared ownership properties 2020 £'000	Other housing properties 2020 £'000	Voluntary Right to Buy 2020 £'000	**Total 2020 £'000**	Total 2019 £'000
Disposal proceeds	10,040	22,378	16,710	**49,128**	19,364
Net book value of disposals (note 15a)	(5,703)	(8,669)	(5,606)	**(19,978)**	(8,734)
Other costs	(162)	(423)	(367)	**(952)**	(1,208)
Surplus on disposal of fixed assets	**4,175**	**13,286**	**10,737**	**28,198**	9,422

Association	Shared ownership properties 2020	Other housing properties 2020	Voluntary Right to Buy 2020	**Total 2020**	Total 2019
	£'000	£'000	£'000	**£'000**	£'000
Disposal proceeds	3,702	15,939	400	**20,041**	9,304
Net book value of disposals (note 15b)	(2,318)	(6,498)	(279)	**(9,095)**	(4,203)
Other costs	(229)	529	18	**318**	(692)
Surplus on disposal of fixed assets	**1,155**	**9,970**	**139**	**11,264**	4,409

12. Interest receivable and similar income

	Group 2020 £'000	Group 2019 £'000	**Association 2020 £'000**	Association 2019 £'000
Interest receivable from Group undertakings	**-**	-	**186**	318
Interest receivable and similar income	**572**	2,988	**277**	2,744
Total	**572**	2,988	**463**	3,062

The decrease from prior year is due to cash profit realised on the termination of swaps in 2018-19.

13. Interest payable and financing costs

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Interest on loans and overdrafts	**36,774**	36,190	**10,725**	11,673
Interest payable to Group undertakings	**-**	-	**7,103**	6,320
Interest capitalised on construction on housing properties (note 15c)	**(3,862)**	(2,717)	**(1,635)**	(1,453)
Recycled capital grant fund (note 24)	**63**	55	**27**	26
Disposal proceeds fund (note 25)	**-**	2	**-**	1
Net interest on net defined benefit liability (note 29)	**806**	766	**381**	370
Total	**33,781**	34,296	**16,601**	16,937

Other financing costs through income and expenditure:				
Movement in fair value of non-hedging financial instruments	**(5,315)**	(1,368)	**(4,234)**	390
Amount transferred from cashflow hedge reserve	**-**	(10,745)	**-**	(10,745)
Other financing costs through other comprehensive income:				
Movement in fair value of hedging financial instruments	**(13,812)**	10,601	**(9,634)**	9,655

In 2018/19 the loss of £10,745k results from the early termination of £30m of interest rate swaps which were accounted for as cashflow hedges. This non-cash loss represents the write-off of the balance held in the cashflow hedge reserve which related to these swaps. Stonewater paid £8,227k to terminate the swaps and the cash profit of £2,518k realised on the termination of the swaps is included in interest receivable note 12.

14. Tax 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.

Notes to the financial statements

15(a). Tangible fixed assets housing properties

Group	Housing properties held for lettings £'000	Housing properties for letting under construction £'000	Shared ownership held for lettings £'000	Shared ownership under construction £'000	Total £'000
Cost:					
At 1 April 2019	1,864,626	39,228	153,937	20,231	2,078,022
Additions:					
– construction costs	-	81,120	-	34,184	115,304
– replaced components (note 15c)	15,691	-	8	-	15,699
– completed properties	27,915	-	1,816	-	29,731
Transfer to completed properties	57,991	(57,991)	19,032	(19,032)	-
Disposals:					
– staircasing (note 11)	-	-	(6,096)	-	(6,096)
– other sales (note 11)	(18,001)	-	-	-	(18,001)
– components	(2,898)	-	-	-	(2,898)
At 31 March 2020	**1,945,324**	**62,357**	**168,697**	**35,383**	**2,211,761**
Depreciation:					
At 1 April 2019	290,441	-	8,553	-	298,994
Charge for the year (note 5 and 7)	26,619	-	1,218	-	27,837
Disposals during the year					
– staircasing (note 11)	-	-	(393)	-	(393)
– replaced components	(2,858)	-	-	-	(2,858)
– other (note 11)	(3,726)	-	-	-	(3,726)
At 31 March 2020	**310,476**	**-**	**9,378**	**-**	**319,854**
Provision for impairment:					
At 1 April 2019	1,840	-	1,136	-	2,976
Charge for the year (note 5 and 7)	31		2,249		2,280
Reversal of impairment (note 5 and 7)	(1,176)	-	(135)		(1,311)
At 31 March 2020	**695**	**-**	**3,250**	**-**	**3,945**
Net book value:					
At 31 March 2020	**1,634,153**	**62,357**	**156,069**	**35,383**	**1,887,962**
At 31 March 2019	1,572,345	39,228	144,248	20,231	1,776,052

15(b). Tangible fixed assets housing properties

Association	Housing properties held for lettings £'000	Housing properties for letting under construction £'000	Shared ownership held for lettings £'000	Shared ownership under construction £'000	Total £'000
Cost:					
At 1 April 2019	864,973	29,319	67,299	10,948	972,539
Additions:					
– construction costs	-	38,105	-	15,219	53,324
– completed properties	-	-	1,815	-	1,815
– replaced components (note 15c)	4,864	-	-	-	4,864
Transfer to completed properties	27,685	(27,685)	8,273	(8,273)	-
Disposals:					
– staircasing (note 11)	-	-	(2,432)	-	(2,432)
– other sales (note 11)	(8,658)	-	-	-	(8,658)
– components	(587)	-	-	-	(587)
At 31 March 2020	**888,277**	**39,739**	**74,955**	**17,894**	**1,020,865**
Depreciation:					
At 1 April 2019	120,757	-	2,689	-	123,446
Charge for the year (note 5 and 7)	10,943	-	519	-	11,462
Disposals during the year					
– staircasing (note 11)	-	-	(114)	-	(114)
– replaced components	(581)	-	-	-	(581)
– other (note 11)	(1,881)	-	-	-	(1,881)
At 31 March 2020	**129,238**	**-**	**3,094**	**-**	**132,332**
Provision for impairment:					
At 1 April 2019	1,123	-	1,102	-	2,225
Charge for the year (note 5 and 7)	-	-	2,232	-	2,232
Reversal of impairment (note 5 and 7)	(685)	-	(101)	-	(786)
At 31 March 2020	**438**	**-**	**3,233**	**-**	**3,671**
Net book value:					
At 31 March 2020	**758,601**	**39,739**	**68,628**	**17,894**	**884,862**
At 31 March 2019	743,093	29,319	63,508	10,948	846,868

Notes to the financial statements

15(c). Tangible fixed assets housing properties

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
The net book value of housing and other properties comprises:				
Freehold	**1,816,825**	1,701,555	**860,214**	819,920
Long leasehold	**71,137**	74,497	**24,648**	26,948
	1,887,962	1,776,052	**884,862**	846,868
Interest capitalisation:				
Interest capitalised in the year (note 13)	**3,862**	2,717	**1,635**	1,453
Cumulative interest capitalised	**46,060**	42,198	**23,888**	22,253
Rate used for capitalisation	**4.0%**	4.0%	**4.0%**	4.0%
Works to properties:				
Improvements to existing properties capitalised (note 15b)	**15,699**	13,736	**4,864**	3,625
Major repairs expenditure to income and expenditure account (note 5)	**6,229**	8,346	**2,859**	4,145
	21,928	22,082	**7,723**	7,770
Total social housing grant received or receivable to date as follows:				
Capital grant held in deferred income (note 23)	**619,641**	588,882	**314,393**	283,922
Recycled capital grant fund (note 24)	**11,348**	7,421	**4,299**	3,467
Disposal proceeds fund (note 25)	**-**	310	**-**	104
Amortised to statement of comprehensive income in year (note 5)	**7,020**	7,023	**3,313**	3,325
Write back amortisation on disposals (note 23)	**(1,860)**	(634)	**(1,203)**	(332)
Cumulative amortisation to reserves	**72,845**	67,685	**36,368**	34,258

15(d). Tangible fixed assets housing properties – Impairment

The Group considers individual schemes to represent separate cash-generating units (CGUs) when assessing for impairment in accordance with the requirements of FRS102 and SORP 2018. Group review takes into account efficiencies from having groups of properties held together and the fact that properties are usually acquired as schemes rather than individual properties and are assessed as such for development purposes.

The Group assessed its portfolio for indicators of impairment at the statement of financial position date. This is an annual process and includes looking at changes in government policy, materially higher than anticipated development costs, reduction in house market prices for shared ownership properties held for sale, changes to market demand for properties and obsolescence due to regeneration plans, and the properties with the most voids throughout the year.

At 31 March 2020, Stonewater determined that the global coronavirus was not a trigger for a full impairment review. As Stonewater reviews its properties based on EUV-SH there is no reason to conclude that properties will not remain occupied, especially at a time when moving house was restricted.

A review of existing stock that was signalled by the indicators was carried out to compare the carrying amount (Net Book Value) net of grant and the recoverable amount. The existing use value (EUV) ,value in use (NPV) and depreciated replacement value (DRC) calculations were used in the assessment.

The review of active development schemes revealed schemes which have required an impairment charge. Two schemes were impaired as a result of this review.

A review of schemes with long-term void properties was undertaken and one scheme was identified where the recoverable amount was lower than the carrying amount, and therefore an impairment charge was made in the accounts.

A further impairment charge was made to a scheme comprising of a high rise block undergoing defective correction work in relation to fire safety, that was first impaired in 2017/18, as the anticipated cost of the works required has increased in the year.

As a result of the coronavirus pandemic and the uncertainty around the impact on the housing market, the Group engaged an independent valuer to assess the market values of:

- Active Developments due for completion between April 2020 and March 2021
- Completed Shared Ownership Units awaiting first tranche sale
- Other existing Stonewater units awaiting sale

Their valuations were used to establish whether further impairments were made in light of the recent Covid-19 pandemic and the impact this may have on potential sales values. A small further impairment was booked as a result of the report.

Following the review, the Group has recognised a total impairment loss of £2.2m (2019: £0.5m) in respect of general needs completed properties and properties under construction. Impairment of £1.3m was reversed during the year on sales of properties (2019: £0.2m).

Properties held for security

Stonewater Limited had 9,415 properties pledged as security at 31 March 2020 with a net book value of £566.2m (2019: 9,136 properties, £553.9m).

Notes to the financial statements

16. Other tangible fixed assets – Group

Group	Freehold office £'000	Furniture and office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 April 2019	934	8,503	7,040	58	**16,535**
Additions	3	484	2,009	-	**2,496**
Disposals	(355)	(97)	-	-	**(452)**
At 31 March 2020	**582**	**8,890**	**9,049**	**58**	**18,579**
Depreciation:					
At 1 April 2019	647	4,632	2,321	58	**7,658**
Charge for year (note 7)	4	563	1,253	-	**1,820**
Disposals	(249)	13	-	-	**(236)**
At 31 March 2020	**402**	**5,208**	**3,574**	**58**	**9,242**
Net book value:					
At 31 March 2020	**180**	**3,682**	**5,475**	**-**	**9,337**
At 31 March 2019	287	3,871	4,719	-	8,877

16. Other tangible fixed assets – Association

Association	Freehold office £'000	Furniture and office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 April 2019	139	2,817	7,040	58	**10,054**
Additions	3	182	2,011	-	**2,196**
Disposals	-	(4)	-	-	**(4)**
At 31 March 2020	142	2,995	9,051	58	**12,246**
Depreciation:					
At 1 April 2019	5	801	2,322	58	**3,186**
Charge for year (note 7)	2	368	1,254	-	**1,624**
At 31 March 2020	7	1,169	3,576	58	**4,810**
Net book value:					
At 31 March 2020	135	1,826	5,475	-	**7,436**
At 31 March 2019	134	2,016	4,718	-	6,868

17. Fixed asset investments

Name	Country of incorporation	Proportion of voting rights/ordinary share capital held	Nature of business	Nature of entity
Stonewater (2) Limited	England	100%	Registered provider of social housing	Registered Social Landlord
Stonewater (5) Limited	England	100%	Registered provider of social housing	Registered Social Landlord
Stonewater Procurement Limited	England	100%	Development/Building company	Incorporated company
Stonewater Funding PLC	England	100%	Bond issue vehicle	Incorporated company
Stonewater Commercial Limited	England	100%	Dormant	Incorporated company
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
Stonewater Developments Limited*	England	100%	Development/Building company	Incorporated company

Investments held of £50,000 represent the Association's 50,000 £1 shares in Stonewater Funding PLC, £12,500 of which is paid and £37,500 is unpaid.

*The Association has indirect ownership of these registered social landlords and incorporated companies.

18. Properties held for sale

	Group 2020 £'000	Group 2019 £'000	**Association 2020 £'000**	Association 2019 £'000
Housing properties for sale:				
Work in progress	**29,259**	13,629	**11,411**	6,231
Completed properties	**4,045**	4,319	**3,331**	3,379
Other property sales	**2,481**	3,975	**1,205**	3,075
Work In Progress – open market sales	**-**	1,397	**-**	-
	35,785	23,320	**15,947**	12,685

The stock figure above includes capitalised interest of £471k (2019: £479k).

Notes to the financial statements

19. Trade and other debtors

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Debtors: amounts due after more than one year				
Amounts owed by Group undertakings	-	-	1,210	-
Debtors: amounts due within one year				
Rent and service charge arrears	12,631	10,953	5,285	4,987
Less: provision for doubtful debts	(5,694)	(3,963)	(2,694)	(1,862)
	6,937	6,990	2,591	3,125
Service costs to be charged in future periods	4,356	3,084	3,974	2,937
Amounts owed by Group undertaking	-	-	9,625	4,930
Other debtors	2,434	2,505	1,337	1,266
Prepayment and accrued income	2,896	5,012	2,727	2,628
Social housing grant receivable	10,427	6,363	10,011	5,396
	27,050	23,954	30,265	20,282

20. Short-term investments

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Brought forward	4,554	4,604	1,796	1,800
Additions/(withdrawals)	85	(50)	5	(4)
Carried forward	4,639	4,554	1,801	1,796

Short-term investments relate to deposits with a maturity of more than three months but less than one year and amounts held in Escrow.

21. Creditors – amounts falling due within one year

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Housing loans external (note 26)	20,253	22,678	5,439	4,328
Issue costs (note 26)	(730)	(442)	(299)	(206)
Bond on lending (note 26)	-	-	202	189
Trade creditors	4,626	823	4,410	793
Other creditors	16,467	20,688	9,537	10,564
Taxation and social security	1,634	2,196	1,533	2,095
Accruals and deferred income	2,458	6,723	738	1,932
Accrued interest	4,881	4,510	1,668	1,538
Retentions	2,572	2,139	458	374
Amounts owed to Group undertakings	-	-	8,961	12,135
Deferred capital grant (note 23)	7,108	7,064	3,383	3,339
Recycled capital grant fund (note 24)	2,981	1,485	1,409	608
Disposal proceeds fund (note 25)	-	310	-	104
Leaseholder sinking funds	5,437	6,812	3,738	4,801
	67,687	74,986	41,177	42,594

22. Creditors – amounts falling due after more than one year

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Housing loans external (note 26)	945,822	895,280	253,879	259,303
Issue costs (note 26)	(6,542)	(5,538)	(2,929)	(2,642)
Bond on lending (note 26)	-	-	189,986	190,185
Derivative financial instruments (note 27)	119,046	99,918	73,112	59,244
Deferred capital grant (note 23)	612,533	581,818	311,010	280,583
Recycled capital grant fund (note 24)	8,367	5,936	2,890	2,859
	1,679,225	1,577,414	827,948	789,532

Notes to the financial statements

23. Deferred capital grant

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
At 1 April	**588,882**	582,896	**283,922**	275,805
Grants received during the year	**41,872**	12,649	**35,167**	10,483
Transfer to RCGF (note 24)	**(4,506)**	(975)	**(1,435)**	(1,428)
Transfer from RCGF (note 24)	**767**	847	**301**	678
Transfer from DPF (note 25)	**310**	126	**104**	-
Transfer from intercompany	**-**	-	**575**	1,334
Released to income in the year (note 5)	**(7,021)**	(7,023)	**(3,313)**	(3,325)
Write back amortisation on disposals (note 15c)	**1,860**	634	**1,203**	332
Other movements	**(2,523)**	(272)	**(2,131)**	43
At 31 March	**619,641**	588,882	**314,393**	283,922
Amounts due for repayments:				
- within one year (note 21)	**7,108**	7,064	**3,383**	3,339
- greater than one year (note 22)	**612,533**	581,818	**311,010**	280,583
	619,641	588,882	**314,393**	283,922

24. Recycled capital grant fund (RCGF) – Group

Group	HE 2020 £'000	**Total 2020 £'000**	HE 2019 £'000	GLA 2019 £'000	**Total 2019 £'000**
At 1 April	7,421	**7,421**	7,240	22	**7,262**
Inputs to fund:					
Grants recycled from deferred capital grants (note 23)	4,506	**4,506**	975	-	**975**
Grant recycled on VRTB disposals	125	**125**	-	-	**-**
Interest accrued (note 13)	63	**63**	53	2	**55**
Recycling of grant:					
New build (note 23)	(767)	**(767)**	(847)	-	**(847)**
Other			-	(24)	**(24)**
At 31 March	11,348	**11,348**	7,421	-	**7,421**
Amounts due for repayments:					
- within one year (note 21)	2,981	**2,981**	1,485	-	**1,485**
- within two to three years (note 22)	8,367	**8,367**	5,936	-	**5,936**
	11,348	**11,348**	7,421	-	**7,421**

24. Recycled capital grant fund (RCGF) – Association

Association	HE 2020 £'000	Total 2020 £'000	HE 2019 £'000	GLA 2019 £'000	Total 2019 £'000
At 1 April	3,467	**3,467**	3,268	22	**3,290**
Inputs to fund:					
Grants recycled from deferred capital grants (note 23)	1,435	**1,435**	1,428	-	**1,428**
Transfer to income	-	**-**	-	-	**-**
Interest accrued (note 13)	27	**27**	24	2	**26**
Recycling of grant:					
New build (note 23)	(301)	**(301)**	(678)	-	**(678)**
Repayment of grant to GLA	-	**-**	-	(24)	**(24)**
Other	(329)	**(329)**	(575)	-	**(575)**
At 31 March	4,299	**4,299**	3,467	-	**3,467**
Amounts due:					
- within one year (note 21)	1,409	**1,409**	608	-	**608**
- within two to three years (note 22)	2,890	**2,890**	2,859	-	**2,859**
	4,299	**4,299**	3,467	-	**3,467**

25. Disposal proceeds fund (DPF)

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
At 1 April	310	434	**104**	103
Inputs to fund:				
Grants recycled (note 23)	-	(126)	**-**	-
New development and repairs to existing properties (note 23)	(310)	-	**(104)**	-
Interest accrued (note 13)	-	2	**-**	1
At 31 March	-	310	**-**	104
Amounts due:				
- within one year (note 21)	-	310	**-**	104
- within two to three years (note 22)	-	-	**-**	-
	-	310	**-**	104

Notes to the financial statements

26. Loans and borrowings – Group

Maturity of debt:	Bank loans 2020 £'000	Bond finance 2020 £'000	Other loans 2020 £'000	**Total 2020 £'000**
In one year or less, or on demand	17,021	2,956	276	**20,253**
Issue costs < one year	(640)	(90)	-	**(730)**
Within one year (note 21)	16,381	2,866	276	**19,523**
In more than one year but not more than two years	16,959	2,750	308	**20,017**
In more than two years but not more than five years	81,980	9,305	1,149	**92,434**
After five years	381,991	439,328	12,053	**833,372**
Issue costs	(3,444)	(3,098)	-	**(6,542)**
Greater than one year (note 22)	477,486	448,285	13,510	**939,281**
Total loans	493,867	451,151	13,786	**958,804**

Maturity of debt:	Bank loans 2019 £'000	Bond finance 2019 £'000	Other loans 2019 £'000	**Total 2019 £'000**
In one year or less, or on demand	20,133	2,297	248	**22,678**
Issue costs < one year	(326)	(116)	-	**(442)**
Within one year (note 21)	19,807	2,181	248	**22,236**
In more than one year but not more than two years	18,550	2,440	276	**21,266**
In more than two years but not more than five years	85,623	8,337	1,032	**94,992**
After five years	351,942	414,602	12,478	**779,022**
Issue costs	(2,491)	(3,007)	(40)	**(5,538)**
Greater than one year (note 22)	453,624	422,372	13,746	**889,742**
Total loans	473,431	424,553	13,994	**911,978**

All of the bank loans mature by 2043. There is no particular concentration of maturities in any particular financial year.

Of the £454.3m bond finance, £353.1m has a repayment date between 2037 and 2047.

The Group has entered into floating to fixed interest rate swaps. These are accounted for as a cash flow hedge (note 13).

Loans are secured by specific charges on the housing properties of the Group. Total loan facilities at 31 March 2020 were £1,286 million (2019: £1,152 million) of which £320 million were undrawn (2019: £234 million).

26. Loans and borrowings – Association

Maturity of debt:	Bank loans 2020 £'000	Bond finance 2020 £'000	Bond on lending 2020 £'000	Other loans 2020 £'000	**Total 2020 £'000**
In one year or less, or on demand	5,194	155	202	90	**5,641**
Issue costs < one year	(245)	(18)	(36)	-	**(299)**
Within one year (note 21)	4,949	137	166	90	**5,342**
In more than one year but not more than two years	5,965	163	211	100	**6,439**
In more than two years but not more than five years	20,449	514	672	373	**22,008**
After five years	156,895	64,096	189,103	5,324	**415,418**
Issue costs	(1,718)	(449)	(762)	-	**(2,929)**
Greater than one year (note 22)	181,591	64,324	189,224	5,797	**440,936**
Total loans	186,540	64,461	189,390	5,887	**446,278**

Maturity of debt:	Bank loans 2019 £'000	Bond finance 2019 £'000	Bond on lending 2019 £'000	Other loans 2019 £'000	**Total 2019 £'000**
In one year or less, or on demand	4,094	153	189	81	**4,517**
Issue costs < one year	(129)	(18)	(59)	-	**(206)**
Within one year (note 21)	3,965	135	130	81	**4,311**
In more than one year but not more than two years	5,195	155	202	90	**5,642**
In more than two years but not more than five years	19,596	502	649	335	**21,082**
After five years	163,695	64,270	189,337	5,462	**422,764**
Issue costs	(1,275)	(467)	(900)	-	**(2,642)**
Greater than one year (note 22)	187,211	64,460	189,288	5,887	**446,846**
Total loans	191,176	64,595	189,418	5,968	**451,157**

Notes to the financial statements

27. Financial instruments

The Group's financial instruments held at fair value may be analysed as follows:

	Note	Group 2020 £'000	Group 2019 £'000
Derivative financial instruments measured at fair value comprise interest rate swaps	22	**119,046**	99,918
Total		**119,046**	99,918

Derivative financial instruments are measured at fair value based at each reporting date.

Hedge of variable interest rate risk arising from bank loan liabilities.

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the Group has entered into floating to fixed interest rate swaps. These result in the Group paying 3.8% (2019: 4.9%) and receiving LIBOR (though cash flows are settled on a net basis). These swaps fix the total interest cost on loans at 3.6% (2019: 3.8% per annum).

28. Provisions for liabilities and charges

Group	Dilapidations £'000	**Total £'000**
At 1 April 2019	340	**340**
Charged to statement of comprehensive income	(255)	**(255)**
At 31 March 2020	**85**	**85**

Association	Dilapidations £'000	**Total £'000**
At 1 April 2019	340	**340**
Charged to statement of comprehensive income	(255)	**(255)**
At 31 March 2020	**85**	**85**

Dilapidations provisions relate to a leased scheme requiring refurbishment. The outflows from these are expected in the next 12 months.

29. Pensions

Three schemes are operated by the Group.

A) The Group participates in the Social Housing Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

The Scheme is classified as a 'last-man standing arrangement'. Therefore the Group is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the Scheme. Participating employers are legally required to meet their share of the Scheme deficit on an annuity purchase basis on withdrawal from the Scheme.

For financial years ending on or before 28 February 2019, it was not possible for the Association to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the Group has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the Group to account for the Scheme as a defined benefit scheme. For accounting purposes, a valuation of the scheme was carried out with an effective date of 30 September 2018. The liability figures from this valuation were rolled forward for accounting year-ends from 31 March 2019 to 29 February 2020 inclusive. The liabilities are compared, at the relevant accounting date, with the Group's fair share of the Scheme's total assets to calculate the Group's net deficit or surplus.

Similarly, an actuarial valuation of the scheme was carried out as at 30 September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive.

B) Defined benefit pension scheme Dorset County Council (DCC)

Stonewater participates in the local government scheme run by Dorset County Council as an admitted body, which is a defined benefit scheme.

Statement of other comprehensive income	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Pension Liability				
DCC	**(583)**	192	**(583)**	192
SHPS	**17,904**	(7,114)	**7,474**	(3,035)
Total	**17,321**	(6,922)	**6,891**	(2,843)
Initial recognition of SHPS multi-employer DB scheme	**-**	(10,876)	**-**	(4,230)

Statement of financial position	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Pension Liability				
Dorset	**4,444**	3,830	**4,444**	3,830
SHPS	**12,240**	32,580	**4,843**	13,303
Total	**16,684**	36,410	**9,287**	17,133

Notes to the financial statements

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2019 by a qualified independent actuary. Contributions to the scheme are made by the Group based on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees. The next valuation will be carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026. The actuarial loss for the year of £583,000 has been recognised in the statement of comprehensive income.

There were no changes to the scheme during the year and no amounts owing to the scheme at the year end.

C) Social Housing (SHPS) Defined contribution scheme

The Group also participates in the SHPS. It is funded and is contracted out of the state pension scheme.

The amount charged to the statement of consolidated income represents the contributions payable to the scheme in respect of the accounting period.

29. Pensions continued – Defined Benefit Schemes

	DCC 2020 £'000	SHPS 2020 £'000	**Total 2020 £'000**	Total 2019 £'000
Fair value of plan assets	5,012	98,532	**103,544**	102,162
Present value of plan liabilities	(9,456)	(110,772)	**(120,228)**	(138,572)
Net pension scheme liability	(4,444)	(12,240)	**(16,684)**	(36,410)
Reconciliation of fair value of plan assets:				
At the beginning of the year/ initial recognition	5,583	96,579	**102,162**	97,471
Interest income on plan assets	129	2,242	**2,371**	2,505
Return on assets less interest	(673)	(622)	**(1,295)**	1,973
Other actuarial gains	176	-	**176**	-
Administration expenses	(4)	-	**(4)**	(4)
Contributions by employer	123	3,237	**3,360**	3,173
Contributions by fund participants	14	-	**14**	548
Estimated benefits paid plus expenses	(336)	(2,904)	**(3,240)**	(3,504)
At the end of the year	5,012	98,532	**103,544**	102,162
Reconciliation of present value of plan liabilities:				
Defined benefit obligation at start of period/ initial recognition	(9,413)	(129,159)	**(138,572)**	(128,479)
Current service cost	(49)	-	**(49)**	(804)
Expenses	(13)	(83)	**(96)**	(79)
Interest expense	(217)	(2,960)	**(3,177)**	(3,271)
Contributions by plan participants	(14)	-	**(14)**	(548)
Actuarial gains (losses) due to scheme experience	(978)	2,413	**1,435**	(248)
Actuarial gains (losses) due to changes in demographic assumptions	77	1,115	**1,192**	144
Actuarial (losses)/gains due to changes in financial assumptions	815	14,998	**15,813**	(8,791)
Benefits paid and expenses	336	2,904	**3,240**	3,504
At the end of the year	(9,456)	(110,772)	**(120,228)**	(138,572)
Amounts recognised in other comprehensive income are as follows:				
Included in administrative expenses:				
Service costs	62	-	**62**	804
Administration expenses	4	83	**87**	83
	66	83	**149**	887
Amounts included in other finance costs				
Net interest costs (note 13)	88	718	**806**	766

Notes to the financial statements

29. Pensions continued

	DCC 2020 £'000	SHPS 2020 £'000	**Total 2020 £'000**	Total 2019 £'000
Analysis of actuarial loss recognised in other comprehensive income:				
Return on fund assets in excess of interest	(673)	(622)	**(1,295)**	1,973
Other actuarial gains (losses) on assets	176	-	**176**	-
Change in financial assumptions	815	14,998	**15,813**	(8,791)
Change in demographic assumptions – gain (loss)	77	1,115	**1,192**	144
Experience loss on defined benefit obligation	(978)	2,413	**1,435**	(248)
Total actuarial gains (losses)	(583)	17,904	**17,321**	(6,922)

	SHPS 2019 Group £'000	SHPS 2019 Association £'000
Analysis of net impact of the initial recognition of the multi-employer defined benefit pension scheme		
Assets per actuary at 31/03/2018	91,940	37,520
Liabilities per actuary at 31/03/2018	(118,957)	(48,435)
Opening deficit	(27,017)	(10,915)
Current SHPS Pension Liability 31/03/2018 (note 21)	(2,576)	(1,071)
Non-current SHPS Pension Liability 31/03/2018 (note 22)	(13,913)	(5,761)
Total recognised 2017/18	(16,489)	(6,832)
Impact of payments made in year	(348)	(147)
Net impact of the initial recognition of the multi-employer defined benefit pension scheme	(10,876)	(4,230)

29. Pensions continued

	DCC 2020 £'000	SHPS 2020 £'000	**Total 2020 £'000**	Total 2019 £'000
Composition of plan assets:				
Equities	2,498	14,411	**16,909**	19,083
Liability driven investment	570	32,702	**33,272**	36,045
Cash	104	422	**526**	354
Other bonds	410	5,618	**6,028**	4,902
Diversified growth fund	284	-	**284**	332
Property	576	3,875	**4,451**	4,203
Infrastructure	346	7,333	**7,679**	5,322
Multi asset credit	224	-	**224**	265
Debt	-	7,996	**7,996**	7,397
Alternatives	-	26,175	**26,175**	24,259
Total	5,012	98,532	**103,544**	102,162

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2020 was £1,076,000 (2019: £4,478,000).

	DCC 2020 %	SHPS 2020 %	DCC 2019 %	SHPS 2019 %
Principal actuarial assumptions used at the statement of financial position date:				
Discount rates:	**2.35**	**2.38**	2.35	2.31
Future salary increases	**2.95**	**2.62**	4.45	3.29
Future pension increases	**1.95**	**1.79**	2.45	2.37
Inflation assumptions - RPI	**2.80**	**2.62**	3.45	3.29
Inflation assumptions - CPI	**1.95**	**1.62**	2.45	2.29
Mortality rates:				
For a male aged 65 now	**23.3**	**21.5**	22.9	21.8
For a female aged 65 now	**24.7**	**23.3**	24.8	23.5
At 65 for a male member aged 45 now	**24.7**	**22.9**	24.6	23.2
At 65 for a female member aged 45 now	**26.2**	**24.5**	26.6	24.7

30. Share capital

Association	**2020 £**	2019 £
At 1 April	11	11
Shares issued in the year	2	3
Shares cancelled in the year	(2)	(3)
At 31 March	**11**	11

The share capital of Stonewater 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.

31. Operating leases

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

	Group 2020 £'000	Group 2019 £'000	**Association 2020 £'000**	Association 2019 £'000
Amounts payable as lessee:				
Not later than one year	**871**	973	**719**	736
Later than one year and not later than five years	**1,379**	2,001	**1,147**	1,617
Later than five years	**312**	395	**312**	395
	2,562	3,369	**2,178**	2,748

Notes to the financial statements

32. Capital commitments

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Stock purchase exchanged but not completed	17,954	-	-	-
Commitments contracted but not provided for construction	352,694	157,713	212,154	69,314
Commitments approved by the Board but not contracted for construction	168,414	144,877	8,664	78,353
	539,062	302,590	220,818	147,667

The above capital commitments for the Group are projected to be funded from £71.0 million SHG (2019: £41m) and property sales of £150 million (2019: £95.8m) with the remainder funded from operating cashflow and external borrowings £317.7 million.

The above capital commitments for the Association are projected to be funded from £30.5 million SHG (2019: £20.0m) and property sales of £66.3 million (2019: £47.0m), with the remainder funded from operating cashflow and external borrowing £124 million.

33. Related party disclosures

The Association transacts with a number of non-regulated entities: Stonewater Procurement Limited, a company which provides design and build services to other Group entities, Stonewater Funding PLC whose principal activity is to act as the capital markets issuance vehicle for the Group, and Stonewater Developments Limited a company which supports the Stonewater registered provider entities with their development activity by widening the scope of potential developments by selling fully or partially developed dwellings on the open market to Group entities. The company will also provide design and build services to other Group companies.

Intra-Group revenue

The Association provides staff services to Stonewater Procurement Limited and Stonewater Developments Limited to manage various design and build projects.

The Association recharges the staff costs to Stonewater Procurement Limited and Stonewater Developments Limited.

The Association provides management services to other Group companies including non-regulated entities. The management fee is calculated under different methods which includes number of units in each company, Development spend and Asset spend. For non regulated entities, the management fee is based on % of corporate overheads. The intercompany agreement between the Association and other Group companies sets out that the management fee is determined by the Group Finance Director on the basis that the cost allocation is both fair and reasonable.

Total income for the year from the non-regulated entities was:

	2020 £'000	2019 £'000
Staff costs recharge to Stonewater Procurement Ltd and Stonewater Developments Ltd	1,673	1,478
Management services provided to Stonewater Procurement Ltd, Stonewater Developments Ltd and Stonewater Funding PLC	452	418

Intra-Group costs

The Association receives design and build services from Stonewater Procurement Ltd and the recharge includes an admin fee based on 2.5% of the contract costs.

The Association receives a full development service from Stonewater Developments Ltd, the recharge includes an admin fee based on 2.5% of the contract costs.

The Association receives financial services from Stonewater Funding PLC.

Total costs for the year paid to the non-regulated entities were:

	2020	2019
	£'000	£'000
Charge for the design and build service provided by Stonewater Procurement Limited	**44,411**	39,899
2.5% admin charge from Stonewater Procurement	**1,109**	997
Charge for development services provided by Stonewater Developments Ltd	**18,129**	6,174
2.5% admin charge from Stonewater Developments Ltd	**453**	154
Management fee charged by Stonewater Funding PLC	**138**	135

Intra-Group Liabilities

Stonewater Limited has loans in place with Stonewater Funding PLC.
At 31 March 2020 the outstanding amount was £189.4m (2019: £90.3m).

Stonewater (2) Limited has loans in place with Stonewater Funding PLC.
At 31 March 2020 the outstanding amount was £75.8m (2019: £76.1m).

Stonewater (5) Limited has a loan in place with Stonewater Funding PLC.
At 31 March 2020 the outstanding amount was £59.8m (2019: £30.9m).

	2020	2019
	£'000	£'000
Loan balance provided by Stonewater Funding (after issue costs) (note 26)	**326,825**	297,267
Interest charged by Stonewater Funding	**11,723**	9,977

Under the facilities the loans, which are repayable at various dates through to 2047, are secured by fixed charges over the housing properties of Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited; cross guarantees cover any shortfall in the security and any unpaid interest and fees in respect of the loans. At 31 March 2020 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.

Notes to the financial statements

34. Net debt reconciliation

	1 April 2019 £'000	Cash flows £'000	Other non-cash changes £'000	**31 March 2020 £'000**
Cash at bank and in hand	102,251	(7,670)	-	**94,581**
Bank loans	(473,431)	(21,703)	1,267	**(493,867)**
Bond finance	(424,553)	(27,284)	686	**(451,151)**
Other loans	(13,994)	208	-	**(13,786)**
Derivatives	(99,918)	9,379	(28,507)	**(119,046)**
Net debt	(909,645)	(47,070)	(26,554)	**(983,269)**

The definition of debt in the gearing covenants in Stonewater's loan facilities does not include the mark to market of derivatives.

Find us at www.stonewater.org

or follow us on

Twitter

Facebook

LinkedIn

Stonewater Limited, Charitable Registered Societies No. 20558R.

Registered office: Suite C, Lancaster House, Grange Business Park,
Enderby Road, Whetstone, Leicester, LE8 6EP.

STONEWATER