Stonewater Limited

Annual Report & Accounts 2021

For the year ended 31 March 2021

Our Vision

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

Contents

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 **33,600 homes** across England for over **75,000 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.

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 considerable proportion **(34%)** of our general needs customers are families with dependent children
- Most of our general needs customers **(60%)** are in receipt of either partial or no benefits at all
- **37%** of our customers are older people
- **62%** of our tenancies last for five years and above
- Our specialist housing provides support for many vulnerable groups within our society, this includes: young people, young families, those with mental health issues and learning disabilities, and those suffering domestic abuse.
- We also provide accommodation on behalf of a number of support agencies across the country, who utilise our properties to deliver services to people including those who are homeless, suffering domestic abuse, have mental or physical support needs, young people, drug and alcohol recovery, and ex-offenders.

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

Over the past year, we have built **671 homes** (2020: 654). 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:

- **398** affordable rent, social rent, rent to buy
- **273** shared ownership

At 31 March 2021, we were in contract to build **2,577 homes**.

Work continued on Stonewater's stock rationalisation programme. During 2020/21 21 void properties were sold, these are typically properties where there is limited stock in the vicinity or perhaps require some modernisation or possibly a low EPC rating which we do not want to retain. Three schemes were sold to other registered social landlords, these were in locations where we no longer chose to operate, such as London, and we have disposed of all our stock there as a key part of our strategy. 87 units were sold via staircasing where shared owners chose to buy a further proportion of the property. 18 units were sold through the Right to Buy and Right to Acquire schemes, including 14 through the voluntary Right to Buy pilot scheme. The scheme ended in March 2020, however Homes England permitted those sales already underway at that date to continue into 2020/21.

About Stonewater

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 are the principles that guide us and set the tone for the way we behave.

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

(Chairman of the Board, Chair of the Life Assurance Management Committee)

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 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.

Chris Edis

(from 1 April 2020)

Chris is a chartered accountant with extensive experience in top tier financial services institutions. An experienced executive and finance director, Chris is currently the Finance Director, Commercial Banking, of Lloyds Banking Group plc, bringing experience in strategy, treasury, liquidity, and capital management.

Angus Michie

(from 1 June 2020)

Angus is a qualified Chartered Surveyor in the planning and development discipline with 30 years' experience in the residential development industry. He has a real passion for creating places for people to live that are attractive, well designed and sustainable. Angus spent 25 years with the Berkeley Group. As Divisional Chairman of a number of their operating businesses in London, the South East and the Midlands, he was responsible for a number of the Groups joint ventures with the Prudential and various local authorities. Angus is the Managing Director of SevenCapital who are a developer of residential and mixed use communities across London, the Midlands and the South East.

Jennifer Bennett

(Chair of Business Design and Technology Committee until 31 March 2021, Chair of Managed Services Committee until 31 March 2021) (Chair of Value Creation Challenge and Assurance Panel from October 2020)

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 Challenge and Assurance Panel, Chair of Nominations and Remuneration 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 Challenge and Assurance Panel)

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 Assets and Development Challenge and Assurance Panel)

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 Challenge and Assurance Panel 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

(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.

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

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 is Stonewater's Executive Director for Customer Experience; she has 30 years housing experience operating at an executive level in a range of organisations for the last 18 years. Her focus is to ensure that we always demonstrate respect for those we serve and for each other, and that the customer remains central to decision making.

Sue was part of the team which created Stonewater focusing in particular on the development of customer facing services and tenant scrutiny. Prior to this, her roles included housing consultant for a range of organisations, Managing Director for a rural LSVT and Head of Service in a former coal field regeneration area.

She is a graduate in Economics, a Fellow of the Chartered Institute of Housing and a Member of the Chartered Management Institute. Sue is a 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. Stonewater's development programme is strong and ambitious and is among the largest in the sector. Jonathan is responsible for the strategic delivery of Stonewater's housing development programmes including the implementation of innovative affordable rental and shared ownership schemes.

David Blower
Executive Director of Corporate Services

David has worked in the industry since 1993 and is passionate about creating high performing cultures where individuals are equipped to succeed. Initially building his career in finance he held a number of senior finance posts before moving into this wider role on the formation of Stonewater in 2015. He leads a multi-functional team that is driving the business forward across a range of disciplines, including People, Technology, Risk and Assurance, Communications, Strategic Planning, Performance and data.

He is a Chartered Certified Accountant and holds an MBA from Warwick Business School.

Secretary and registered office

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Advisors

Principal bankers

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Auditor

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London W1U 7EU

Solicitors

Devonshires Solicitors
30 Finsbury Circus
London EC2M 7DT

Solicitors (Governance)

Trowers and Hamlins LLP
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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

As I look back on the last 12 months, it is an understatement to say that it has been a year like no other. With lockdowns meaning that most of us have spent more time at home than ever before, having a secure, safe place to call home has never been so important and at Stonewater, our Vision is more significant than ever.

Housing associations have always played a vital role, providing homes and support to some of the most vulnerable people in society - but perhaps never more so than during the Covid-19 pandemic. Despite the challenges we've faced, we have achieved so much, supporting people when they needed us the most. In the last year, we have:

- Delivered 671 new homes, despite construction restrictions and site shut downs
- Let over 1,800 homes, including more than 100 virtual sign ups
- Completed more than 200 shared ownership sales
- Supported customers facing hardship during the pandemic, including offering flexible rent payment arrangements and helping them to navigate the benefits system

None of this could be achieved without a strong foundation and I am delighted to report a good set of results and a stable financial position. Highlights include:

- Maintaining our long-term rating of A+ and top G1/V1 governance and viability rating
- Achieving an increase in turnover of over £20m
- Operating costs have remained in line with last year, with our operating margin rising to 33% from 28% last year
- Implementing a Group restructure, creating the capacity to build even more homes, enabling us to help around 3,500 additional families

Stonewater became one of the first social housing providers in the UK to adopt the sector-wide sustainability reporting standard. We have also established a finance framework that has been independently assessed as being aligned to green and social financing principles and the UN sustainable development goals on poverty, communities and climate action. Our annual targets include planting 3,000 trees, upgrading 350 properties to EPC level C or equivalent and installing 200 low carbon heating systems.

I am incredibly proud of what we have delivered, and how we have successfully adjusted and adapted against a backdrop of extraordinary change. This is testament to everyone at Stonewater and their commitment to doing the right thing for our customers and colleagues. I must particularly thank Nicholas Harris, Chief Executive, and Stonewater's Executive Team, for skilfully leading the organisation through such a difficult and unprecedented time.

As we look ahead to a post-pandemic world, we need to continue be flexible and dynamic to ensure we can continue to help as many people as possible. Our focus is on bouncing forward - not back - and building on the great work that has already been achieved. Covid-19 has demonstrated that the world can change dramatically very quickly but whatever the future holds, I know that Stonewater will continue to deliver high quality services and support to people who need them the most.

Sheila Collins

Sheila Collins
Chairman

Chief Executive's statement

Despite the unprecedented challenges presented by the Covid-19 pandemic, I am pleased with our financial and operational performance over the last year.

Our digital capability and investment in technology meant a successful switch to homeworking for the majority of our colleagues within 24 hours, ensuring a seamless service for our customers. The pandemic has also enabled us to design and implement innovative solutions, responding to changing customer expectations and needs while maintaining our Customer Promise: We're proud to make things personal. If it matters to our customers, it matters to us. Highlights include:

- Launching our extended domestic abuse service to help the rising number of people seeking support, which won the Homeless Link Excellence Award for 'Innovation in Housing'
- Pivoting from face-to-face to virtual sign ups, enabling us to continue providing quality homes to those who need them the most
- Proactively contacting 30,000 customers over the last year, resulting in 124 customers now on deferred payment plans
- Achieved a Silver SHIFT rating against environmental targets

We recognise that the post-pandemic landscape has shifted significantly and that the 'new normal' is here to stay. We've successfully navigated this by changing the way we provide services and our ways of working to support customers and colleagues in the best way possible. For example, we know that hybrid working offers multiple benefits, including better work/life balance for colleagues, as well as reduced environmental impact. As a result, we're leading the sector with new hybrid working model, including an interest-free loan option to improve colleagues' home work spaces which launched in May 2021.

Despite facing their own individual challenges during the pandemic, our colleagues have consistently gone the extra mile for our customers, and have truly lived and breathed our Values. At Stonewater, we put people first and aim to be an employer of choice – something that is borne out in the high levels of colleague engagement shown through Best Companies. We are continuing as a 'one star' organisation and were named as one of the Top 25 Housing Associations to work for, coming in at number 19, as well as one of the Top 100 Best Companies to work for in the South East and in the Midlands.

I am proud of what we have achieved and, while there will inevitably be further challenges ahead, I have no doubt that Stonewater is well-placed to meet them head on.

Nicholas Harris

Nicholas Harris
Chief Executive

Report of the Board of Management and Strategic Report

Stonewater's Strategic Plan 2021-25

Our Strategic Plan 2021-25 was prepared at the end of a year when we have seen immense changes to society and businesses as a result of the Covid-19 pandemic. We had to adapt quickly to working in different ways and to ensure we could continue to deliver a high standard of service to our customers. 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 in March 2020. This allowed us to focus on adapting and retaining essential services for our customers while taking the opportunity to re-imagine the way we do things.

The Plan focuses on Stonewater 25, an ambitious programme to build the Stonewater of the future and help us deliver our Customer Promise: We're proud to make things personal. If it matters to our customers, it matters to us. Stonewater 25 will build on the changes we have already made in how we operate, while continuing to put customers at the heart of everything we do, and help us become an even stronger and more inclusive business that is equipped to face future challenges.

The Strategic Plan sets out our priorities for the next four years. The objectives and associated outcomes we will achieve over the period of this plan 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 to attract, develop and retain a highly motivated and inclusive workforce who will deliver our strategic objectives
- Manage our resources efficiently, effectively and sustainably, and maximise the charging potential and return on our assets to ensure we have the financial capacity to deliver our priorities.

Our priorities in the Strategic Plan for the next four years, and the objectives we have set, take account of our assessment of the operating environment for housing, the opportunities available to us, and the challenges we face. As we move towards a post-pandemic world, we will all be living and working differently compared to pre-pandemic days.

The way we deliver our services will continue to evolve in response to these changes as we move towards our Future Operating Model. However, our focus will remain on providing quality services for our customers, delivering more much-needed new homes and making a positive contribution to the communities we serve.

Group financial performance

Our turnover increased this year by £21.4m. A number of factors contributed to this; a 2.7% rent increase, a £4.8m increase in proceeds from 1st tranche sales of shared ownership properties, and £5.7m received in settlement of three legal cases. Our rental income has grown by 6.1% year on year (2020: growth of 1.0%). Rental income increased due to the handover of 671 of new units (2020: 654) and an acquisition of 731 homes from another provider in March 2020 (452) and May 2020 (279).

Operating costs remained broadly in line with 2019/20, with increased maintenance costs offset by savings in travel and other overhead costs due to new ways of working during the ongoing pandemic.

The decrease in surplus on disposal of fixed assets is due to large one-off sector sales that took place in 2019/20, and the voluntary Right to Buy pilot in the Midlands, which finished in March 2020.

The operating margin, excluding surplus on disposal of fixed assets but including surplus from first tranche shared ownership sales, is 33%. This has risen by 5% from the previous year due to the increase in turnover. This key performance indicator (KPI) better reflects the trend in operating surplus as disposal of fixed assets can vary year-on-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	2021 £'000	2020 £'000
Turnover	**210,383**	189,001
Operating costs	**(123,392)**	(121,979)
Cost of sales	**(18,426)**	(14,390)
Surplus on disposal of fixed assets	**8,171**	28,198
Operating surplus	**76,736**	80,830
Operating margin excluding surplus on disposal of fixed assets (%)	***33%***	*28%*
Net interest	**(33,784)**	(33,209)
Movement in fair value of non-hedging instruments	**5,865**	(5,315)
Surplus for the year	**48,817**	42,306
Actuarial gains/(losses) on defined benefit schemes	**(18,050)**	17,321
Movement in fair value of hedging instruments	**22,245**	(13,812)
Total comprehensive income for the year	**53,012**	45,815

The Group's liquidity remains strong. During the year, Stonewater entered into a £75m Private Placement of Debt with two US investors which completed in June 2020. In March 2021, £75m of the 3.375% Bonds maturing November 2045, which had been sold on a deferred basis, settled with Stonewater Funding PLC. Proceeds from the £75m bond were onlent to Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited on 3 March 2021. The Group also obtained £28m of new loans. We continue to deliver an ambitious development programme while maintaining a resilient balance sheet.

Housing properties increased by a net of £149m which comprises £186m additions, £8m disposals and £29m depreciation and impairment charges.

Total reserves

Total reserves increased by £53m due to £30.8m increase in income and expenditure reserve and a £22.2m decrease 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 (SHPS), a multi-employer defined benefit scheme, which are 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 from £4.4m to £5.1m. The value of the assets increased from £5.0m to £5.9m, and the obligation increased from £9.5m to £11.0m. 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 increased to £26.7m from £12.2m last year. The fair value of the assets comprising Stonewater's share of the scheme is £109.2m (2020: £98.5m) and the liabilities are £135.9m (2020: £110.8m).

Statement of financial position	2021 £'000	2020 £'000
Tangible fixed assets – housing properties	**2,037,328**	1,887,962
Other tangible fixed assets	**9,384**	9,337
Net current assets	**116,993**	94,368
Total assets less current liabilities	**2,163,705**	1,991,667
Creditors due after more than one year	**(1,782,679)**	(1,679,225)
Provisions for liabilities and charges	**(556)**	(85)
Pension scheme liability	**(31,785)**	(16,684)
Net assets	**348,685**	295,673
Cash flow hedge reserve	**(61,007)**	(83,252)
Income and expenditure reserve	**409,692**	378,925
Total reserves	**348,685**	295,673

Report of the Board of Management and Strategic Report

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 2021, 95% of borrowings were at fixed interest rates or hedged by floating to fixed interest rate swaps.

Sustainable finance

As part of our aspirations for a more sustainable future, Stonewater has established a Sustainable Finance Framework, which sets out the work being done on sustainability. The framework will allow Stonewater to attract new efficient funding and broaden its investor base. In turn this will enable the development of more high quality affordable homes, the refinancing of our existing stock, and help meet the costs of renovation to enable Stonewater to ensure all of our homes have an EPC rating of at least band C by 2030 and then ensure as many homes as possible are EPC B by 2040. We plan for our business be net zero-carbon by the government deadline of 2050.

Impact of Covid-19

Stonewater continues to ensure 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.

LIBOR to SONIA transition

Stonewater has made good progress in preparation for the change in the floating benchmark rate from LIBOR to SONIA and the Banks have reached a consensus position on how the transition will work. However, the changes to the benchmark rate need to be documented in all of Stonewater's loan and derivative contracts. Stonewater expects this to happen before the date of LIBOR discontinuance.

Debt structure

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

In March 2020, Stonewater Funding PLC (the Group's capital market entity) sold £75m of 3.04% Senior Secured Notes with maturity June 2050 in the US Private Placement market.

In March 2021 £75m of its 3.375% 2045 Bonds, which had been sold on a deferred basis, settled. Proceeds were lent to Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited.

All of Stonewater Funding's debt has similar security and limited cross guarantee arrangements.

At 31 March 2021, the assets and liabilities of Stonewater (3) Limited and Stonewater (4) Limited were transferred to Stonewater Limited by a transfer of engagements. The transfer required the approval from a number of the Group's Lenders. At the same time as seeking Lender approval, the Bank covenants in Stonewater Limited were renegotiated and £100m of new facilities were obtained.

Total loan facilities and bond debt at 31 March 2021 amounted to £1,509m (2020: £1,286m) of which £417m was undrawn (2020: £320m).

Cash flows

Net cash from operating activities for the year was £86.9m (2020: £101.7m), a decrease of £14.8m compared with the previous year.

Net cash outflow from investment activities was £138.3m (2020: £120.5m), mainly due to £181.5m investment in housing assets less grant receipt of £45.4m (2020: £157.1m less grant receipt of £31.9m).

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 2021, cash balances were £130.1m (2020: £94.6m) and the balance of restricted cash was £4.6m (2020: £4.6m). Cash and committed facilities exceeded the Group's contracted obligations for the next 18 months less grant by £234.6m (2020: £115.9m). The excess of committed facilities over capital commitments is to ensure that committed developments for the next 18 months are fully funded.

As at 31 March 2021, the exposure position with counterparties on standalone derivatives was £74.1m (2020: £119.0m) and after the use of unsecured thresholds £39.1m (2020: £84.0m). This exposure was secured by charged property security.

Loan covenants

Stonewater's actual performance for the year against its loan covenants is as follows:

Interest cover*:	
Stonewater Limited	212% >110%
Stonewater (2) Limited	203% >110%

Gearing:	
Stonewater Limited	40% <70% of assets
Stonewater (3) Limited	47% <65% of assets

*Interest Cover for Stonewater Limited is tested against the annual results and also against the rolling average of the results of the last three years. The ratio shown is the three-year test. The ratio shown is the 3 year average which is the test with the lowest headroom.

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 the delivery of our Strategic Plan, which sets out our strategic objectives with measurable outcome targets for each objective.

During 2020/21, we updated our Value for Money Strategy. Serving our current and future customers and the communities we work in is the reason we exist as an organisation. Our approach to VfM is ensuring we make best use of all of our resources to maximise value for our customers, by delivering high standards of service, providing more much needed new homes, and meeting our Customer Promise: *We're proud to make things personal. If it matters to our customers, it matters to us*. We call our approach 'Value maximisation for customers'.

Value maximisation for customers

Our approach is based on the 3 Es (Economy, Efficiency and Effectiveness). These are about making the best use of our resources to achieve the intended strategic outcomes, and can be explained as follows:

- Economy — minimising the cost of resources used while having regard to quality – **spending less**
- Efficiency — the relationship between the output from goods or services and the resources to produce them – **spending well**
- Effectiveness — the extent to which objectives are achieved and the relationship between intended and actual impacts – **spending wisely**

These can be summarised as **cost effectiveness** – making the best use of our resources to achieve the intended outcomes to maximise value for our customers.

Our approach to VfM includes targets for the seven metrics included in the Value for Money Standard published by the Regulator of Social Housing on 1 April 2018. Our performance for the VfM metrics is benchmarked against our peer group (based on Global Accounts). The VfM metrics include social housing cost per unit, which is based on the management, service charge, maintenance, major repair, and other social housing costs that a registered provider incurs divided by the number of properties to which these costs relate. We use social housing cost per unit compared to our peer group as a 'broad brush' measure for demonstrating economy in the delivery of our strategic objectives.

We measure effectiveness based on whether we have achieved the outcome target for a strategic objective. Demonstrating efficiency is the most complex of the 3 Es to measure as it looks at the relationship between the outcomes achieved compared to the cost incurred to achieve the outcomes. We use benchmarking against a suitable peer group of registered providers to measure whether we are efficient in the delivery of our strategic objectives. If our baseline costs (i.e. social housing cost per unit) are lower than, or in line with, those of our peer group and the outcome achieved is the same as, or better than, that of our peer group, we have demonstrated efficiency.

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 2020/21 against our outcome targets under our three Strategic Plan themes of Customer Experience, Growth and Influence, and Business Excellence, is set out below. A number of housing associations have not submitted 2020/21 performance data to Vantage due to the focus on the impact of the Covid-19 pandemic, so where necessary we have used 2019/20 benchmark data and also data from HouseMark's Covid-19 Impact Monitoring report for year ending March 2021.

The events of the last year following the Covid-19 outbreak resulted in significant change to society and to business, and we had to adapt quickly to work in different ways and ensure we could continue to deliver services to our customers. We took a proactive approach to the changes we had to make, reviewing the business through three distinct lenses: *re-imagining* how we work, *re-setting* our ambitions and *re-connecting* with what's most important.

Our review of the business included our governance structure. As part of this we established a new Value Creation Challenge and Assurance Panel. This panel has specific responsibility for overseeing our approach to value for money.

We re-set some of our targets for 2020/21 to reflect the impact of the pandemic on our customers and the business, including our targets for income collection and arrears. Despite the challenges we faced we met most of the targets we had set for the year.

Customer experience

Objective	Outcome measure	2020 result	2021 target	2021 result	2022 target	Benchmark (Peer group)	Demonstrating Economy, Efficiency and Effectiveness
1. Deliver an effective service that meets the diverse needs and aspirations of our customers	Customer satisfaction	78%	83%	84.5% Target achieved	84%	83.98%	Economy, Efficiency and Effectiveness
2. Deliver retirement living services that meet the needs and aspirations of our customers	Customer satisfaction – retirement living	78%	83%	86.6% Target achieved	84%	N/A	Economy, Effectiveness
3. Deliver supported housing services that meet the needs of our customers and the aspirations of the business	Percentage of clients to have maintained sustainable, long term independent living	80%	80%	90.9% Target achieved	80%	N/A	Economy, Effectiveness

Objective 1 relates to overall customer satisfaction and objective 2 relates specifically to satisfaction for our retirement living customers, and we achieved our outcome targets for both strategic objectives. We exceeded the outcome targets for both objectives as a result of the work we have done to improve levels of customer satisfaction. Over the last year, we have radically re-imagined our relationship with customers, recognising that the way we all live and work has changed and that for many of us our priorities have changed too. Keeping the Customer Promise central to our relationship has helped ensure we remain grounded in what matters.

We have also focused on improving the quality of our data and customer insight, seeking to understand the demand and the things that matter most to customers, and then using that insight and a continual feedback loop to develop and adopt an operating model in real time. This transformation has been organisation-wide and has been facilitated by the key enablers of 'people' and 'technology' coming together.

In April 2020, we implemented our new real-time customer feedback programme in partnership with Upland Rant & Rave. This involved moving to a modern customer experience measurement solution that is familiar to customers based on their interactions with other service providers.

During the year, we have been embedding this approach to deliver the voice of the customer into the heart of the organisation, allowing us to review our services and to keep pace with changing customer expectations; understanding what matters most and when. We have also implemented a resolution approach to case manage issues and close the loop with individually dissatisfied customers. This ability to gain more timely feedback leads to the right people having access to greater insight, allowing them to improve our customer experience. The changes we put in place resulted in a significant increase in customer satisfaction.

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 entered 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.

During 2020/21, we continued our investment in our digital strategy as part of our Stonewater 20 programme. By March 2021, 30% of customer transactions were being carried out on-line through MyHome, our self-serve portal that we co-created with customers. In March 2021, there were 15,000 user logins to MyHome, with 624 of those from new MyHome users.

Objective 3 relates to our supported living 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 living service. We significantly exceeded the target we set for the year, with 90.9% of our customers sustaining a tenancy 12 months after leaving a Stonewater supported living tenancy. Our supported living teams have had substantial training to equip them with the tools to work in a more strengths-based and person-centred way. This in turn means that customers leave our supported living services having had more autonomy over the support they receive and their ultimate destination upon moving on from our services.

A key element of our supported living is support for those experiencing domestic abuse. During 2020/21, we achieved Domestic Abuse Housing Alliance (DAHA) accreditation, which is the UK benchmark for how housing providers should respond to domestic abuse. The audit noted the strength of our work on equality, diversity and inclusion around domestic abuse.

During 2020/21, we were awarded the contract to run a domestic abuse service for Brighton and Hove, which took effect from 1 April 2021. The contract is to run a 15 flat refuge, made up of individual flats for women and their children, and this fits into our existing offer of specialist refuges and foyers, and our domestic abuse services. Over time, we will be working with survivors and partner agencies locally to increase the support on offer, and to extend it to meet the needs of all survivors in the Brighton and Hove area.

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Growth and Influence

Objective	Outcome measure	2020 result	2021 target	2021 result	2022 target	Benchmark (Peer group)	Demonstrating Economy, Efficiency and Effectiveness
4. Deliver an ambitious programme to provide more homes for people in need	4,750 new homes by March 2024	N/A (target was for March 2024. 654 homes delivered in 2019/20)	N/A (target is for March 2024. Interim target of 679 homes set for 2020/21)	N/A (target is for March 2024. 671 homes delivered in 2020/21) Interim target not achieved	N/A (target is for March 2024. Interim target of 1100 homes set for 2021/22)	N/A	Economy
5. Ensure there are a wide range of housing options from home ownership to affordable rented homes to meet the changing needs of the market	Increase in the number of new tenures available for customers	3	N/A (no target set for this objective)	1	N/A	N/A	Economy
6. Build a reputation as a thought leader in the sector with influence on national and local agendas	Perceived as a thought leader, measured by 25% increase in media coverage and 75% positive responses in CPI survey	N/A (new target set for March 2022)	N/A (target is for March 2022)	37% increase in positive news articles. 77% of colleagues perceive Stonewater as a thought leader. Targets achieved	N/A (new target set for March 2024)	N/A	Economy, Effectiveness

Objective 4 relates to our target for the number of new homes delivered, with a target date of March 2024. During 2020/21, 671 homes were handed over compared to the interim target of 679 units. In the next three financial years, there is a pipeline of 2,965 future potential homes currently forecast as capable of handover by March 2023, of which 2,423 are already exchanged or in contract and a further 359 have been approved. This pipeline, plus completions in 2020/21, accounts for 77% of the 4,750 target. Based on the current profile of forecast completions, we are on track to achieve the 1,500 per year handover mark in 2023/24.

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 in partnership with the Community Forest Trust (CFT), in which we donate £50 for every house we build, which the CFT uses to plant five trees and to fund community outreach programmes, helping children engage with nature. In addition, we plant one tree for every new home on our new schemes and we involve our colleagues and the local community in this process.

Our new developments completed in 2020/21 included a veterans' self-build scheme in Leominster. This was a collaboration between Stonewater and veterans' charity Alabaré Community Self Build (Veterans) scheme, which enabled a group of veterans to work alongside local contractor J Harper & Son (Leominster) Ltd to gain valuable, transferable skills that they can bring to the workplace.

On top of increasing their employment opportunities, every veteran working on the scheme was provided with their own new home for themselves and their families to rent. Many of the veterans were previously homeless, so this project has been life changing for them.

Stonewater has an ambitious Environmental Strategy. We are committed to providing homes for our customers that are warm, comfortable and affordable and also minimising our overall impact on the environment. Our Environmental Strategy sets out our ambitions to further reduce the running cost of our homes for our customers, allowing them to sustain their tenancies more easily. It also sets out how we will use the green space that exists within our schemes to help create sustainable communities for our customers.

We have run a number of pilot schemes using air source and ground source heat pumps, and these technologies are now our favoured approach in off-gas areas. We have also developed an investment programme for our existing homes to ensure all of our homes reach a minimum of Energy Performance Certificate C by 2030.

Objective 5 relates to our aim to increase the range of tenures we provide to both existing and new customers. Of the 671 new homes handed over in 2020/21, there was a balance of tenure delivered across the schemes. Rented properties handed over were split between social rent at 16%, and affordable rent at 46%. The remaining 38% of handovers were delivered as shared ownership homes.

During 2020/21, we also delivered our first Rent to Buy homes, expanding our existing portfolio of tenure options. We have also agreed an outline for a flexible tenure scheme for existing tenants. However, the launch of this has been deferred until the short to mid-term economic outlook becomes clearer.

Objective 6 sets out our aim to be a thought leader in the sector, with influence on national and local agendas for the benefit of our customers and the communities we work in. We introduced a new outcome measure for this objective based on achieving a 25% increase in our media coverage by March 2022, and 75% of colleagues perceiving Stonewater as a thought leader in the sector.

During 2020/21, there were 750 positive news articles about Stonewater, a 37% increase compared to 2019/20, and 77% of responses on whether colleagues consider Stonewater to be a thought leader in the sector were positive. As we have already exceeded the targets set for March 2022, new stretch targets have been set for March 2024 of a 30% increase in our media coverage, and for 80% of colleagues to perceive Stonewater as a thought leader in the sector.

Business Excellence

Objective	Outcome measure	2020 result	2021 target	2021 result	2022 target	Benchmark (Peer group)	Demonstrating Economy, Efficiency and Effectiveness
7. Achieve consistently high standards of performance for our business critical key performance indicators on income collection and compliance	Total rent and service charge collected	98.98%	98.61%	99.5% Target achieved	99.5%	N/A	Economy, Effectiveness
	Percentage of properties compliant with LGSR	99.99%	100%	99.86% Target not achieved	100%	99.98%	Economy
	Number of outstanding Fire Risk Assessments	0	0	0 Target achieved	0	0	Economy, Efficiency and Effectiveness
8. Invest in and support our people to attract, develop and retain a highly motivated workforce who will deliver our strategic objectives	Level of colleague engagement (measured by the Sunday Times Best Companies survey)	685.9 (One Star - 24th in the top 25 housing associations to work for in the Best Companies survey)	N/A (Target is for 2024)	N/A (target is for 2024. Interim milestone for 2021 - One Star and score of 684.5 in Best Companies survey. 19th in the top 25 housing associations to work for)	N/A (target set for 2024)	N/A	Economy, Effectiveness
	Equality, diversity and inclusion are further embedded in Stonewater's culture by March 2024 (measured by achieving the Chartered Institute of Housing 10 by 20 Challenge and the Social Housing Equality Framework 'Achieving' level)	80% (Positive responses to a bespoke question in the Best Companies survey)	N/A (new target and measure set for 2024)	N/A (target is for 2024. Interim target for 2020/21 of Chartered Institute of Housing 10 by 20 Challenge achieved) Assessment for SHEF 'Achieving' level deferred to 2021/22 by the Local Government Association due to the pandemic)	N/A (target is for 2024)	N/A	Economy, Effectiveness
9. Manage our resources efficiently, effectively and sustainably and maximise the return on our assets to ensure we have the financial capacity to deliver our priorities.	Social housing cost per unit reduced	£3,114	£2,969	£2,975 Target not achieved	£3,445	£3,824	Economy, Effectiveness
	Office and business mileage carbon footprints reduced by 33% by March 2022	N/A (new target for March 2022)	N/A (target set for March 2022)	Office carbon footprint: 50% Mileage carbon footprint: 87% Target achieved 2022 target achieved in 2021	Office carbon footprint: 50% Mileage carbon footprint: 50%	N/A	Economy, Effectiveness

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.

As a result of the Covid-19 pandemic, which had an impact on many of our customers' incomes, we set a revised target of 98.61% for income collection. We exceeded the target and achieved 99.5% for income collection.

We implemented an income maximisation strategy in response to the financial impact of the pandemic on our customers, which we believe provided a balanced, customer-focused and flexible approach to our payment arrangements. Flexible payment arrangements and deferred payment arrangements were introduced to support customers with reduced income to agree manageable payment plans for an agreed period of time.

We introduced new technology to make it as easy as possible for customers to pay, and established referral pathways for personalised 'wrap around' support, including financial inclusion and wellbeing. We also delivered an effective multi-channel communications strategy, resulting in over 30,000 customers contacts. The year-end outturn in income collection means that we are well placed for what is likely to be a challenging year ahead, with an uncertain economic position, and the expected end of the furlough scheme and the £20 Universal Credit uplift.

The pandemic resulted in difficulties in accessing some customers' homes to carry out gas safety checks because they were self-isolating or shielding. At the end of March 2021, there were 29 properties where the Landlord Gas

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Value for Money (VfM) and performance — continued

Safety Records (LGSR) had not been issued and we achieved 99.86% compliance. While this was below our target, it was within the risk appetite tolerance level of 99.5-100% set by our Board. Of the 29 properties, two gas safety checks had been completed and were awaiting issue of the certificate, 16 had appointments booked for April following a period of self-isolation or shielding, eight had court action approved to gain access or an application had been made, and three required remedial work or new boilers and appointments had been made. As we move towards a post-pandemic world as a result of the success of the Covid-19 vaccination programme, the number of customers self-isolating or shielding is expected to reduce and we have set a target of 100% compliance in 2021/22.

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 third 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 position in the 'best housing associations to work for' category from number 24 to number 19. We have set a new target for 2024 to be in the Top 10 Housing Associations to work for.

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. We set two interim targets for 2020/21, and we achieved one of these, which was the Chartered Institute of Housing's '10 by 20 Challenge'. Our second interim target was to reach the Social Housing Equality Framework (SHEF) 'Achieving' level by March 2021. However, as a result of the Covid-19 pandemic all assessments for the Social Housing Equality Framework (SHEF) 'Achieving' level were deferred to 2021/22 by the Local Government Association, so our target has been put back to March 2022.

Objective 9 focuses on managing our resources efficiently and effectively, and the outcome target is based on reducing our social housing cost per unit. Following the outbreak of the pandemic, which impacted on our planned maintenance programme, we set a revised figure for social housing cost per unit in our budget of £2,969, and achieved £2,975. 2020/21 was an exceptional year, with Homes spending deferred on revenue and capital, and general overhead costs down across the business, for example travel and subsistence, and also a reduced stock condition survey. These factors have reduced the social housing cost per unit for 2020/21 compared to 2019/20.

We had a second outcome target for Objective 9, which was to reduce our office and business mileage carbon footprint by 33% by March 2022. Partly as a result of the pandemic and the Government's advice for people to work at home where possible, we exceeded our target for reducing both for both our office and business mileage carbon footprint. As we move towards a post-pandemic world, we have set a stretch target for March 2022 to maintain a 50% reduction for both our office and mileage carbon footprint. We aim to achieve this though our office rationalisation programme and move to hybrid working.

As part of our approach to ensure we are demonstrating economy in the delivery of our strategic objectives, we set targets for VfM cash savings for each Stonewater Directorate as part of our annual budget setting process. We monitor and report on progress against these targets every quarter to our Finance Challenge and Assurance Panel. Our performance against our target for 2020/21 is set out in the table below.

	2020 result	2021 Target	2021 result
VfM cash savings	£3.7m	£6.91m	£9.5m

Savings exceeded the target mainly due to investment in cavity wall insulation that was delivered entirely through grant funding, which had not been included in the initial target. This investment will also reduce fuel bills for our customers.

Savings include other grants received for investment in our homes, contract negotiations and use of internal resource to deliver services rather than outsourcing.

In addition to our performance against our strategic objective outcome targets, we also consider where we can the add value for our customers and the communities we work in as we deliver our services. Some examples of this 'added value' are:

- A drive to improve digital inclusion for our customers through the 'We are Digital' project
- Supporting local authorities in their work on rough sleepers, including providing move on accommodation
- Completion of the veterans' self-build scheme in Leominster, which provided valuable work experience and also a new home for all of the veterans

Regulatory Value for Money (VfM) Metrics

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

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

It is a regulatory requirement 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.

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

Metric	Description	Median per Global Accounts 2020	Stonewater per Global Accounts 2020	Stonewater Quartile 2020	Period 12 2020/21
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	7.2%	7.0%	MQ	**8.5%**
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	1.6%	2.3%	UQ	**2.2%**
3) Gearing %	This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance	44.0%	45.8%	MQ	**46.5%**
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	170.3%	159.8%	MQ	**215.1%**
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	£3,824	£3,216	LQ	**£2,975**
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	25.7%	30.8%	UQ	**33.6%**
B) Operating Margin (overall)	Excluding surplus on asset disposals	23.1%	27.8%	UQ	**32.6%**
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	3.4%	4.1%	UQ	**3.5%**

Stonewater aims to be median quartile for all metrics. The results for all seven metrics compare favourably or are in line with the 2020 median. At the start of each year Stonewater sets internal targets for these metrics based on the budget, and monitors forecast performance against these targets, and the median quartile, quarterly throughout the year.

When comparing to the 2020 median we are mindful that performance for all housing associations will have been impacted by the pandemic.

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Value for Money (VfM) and performance — continued

Asset management

Over the last three years, Stonewater has used the Asset Management Strategy 2018-2021 to set out our approach to stock investment and disposal, maximising asset value whilst balancing the social purpose of the business. Performance against the key deliverables in the term covered by the strategy is provided below. Stonewater has prepared the Homes Strategy 2021-2025 which will replace this document from the coming financial year.

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. 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.

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. We have 15 blocks over 18m high, and only one with ACM cladding, which has been decanted and is undergoing removal and replacement in 2021/22. We carried out fire risk assessments on all 15 blocks, and further in-depth surveys of each will be undertaken this year. All urgent works identified by the fire risk assessments have been completed, and a further budgetary provision has been set aside for upgrades to fire systems in all stock where a fire risk assessment is carried out. 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 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.

Overview of key actions from the 2020/21 plan:

- **Deliver Cost Sharing Vehicle in the West region** – the project is ongoing and will continue into 2021/22. We are in the closing stages of negotiations, with final Board and Executive sign-off completed in March. The expected go live date in June has been delayed and at present it is anticipated to be September 2021. The incumbent providers have had their contracts extended accordingly to ensure we continue to provide an uninterrupted service to our customers. This project has been incorporated in the new Asset Management Strategy 2021-25.
- **Reduce CO2 emissions** – this is ongoing and will continue into 2021/22 and beyond. The recent re-evaluation of our office space and the closure of some of our offices will provide a reduction in CO2 emissions of circa 50%, exceeding Stonewater's 33% target. The 2020 SHIFT rating has also been received. Stonewater achieved a Silver rating and a score of 55.5%, a 15% improvement on the 2019 rating.
- **Ensure all Stonewater homes achieve SAP Band E** – this is ongoing and will continue into 2021/22. We currently have 40 homes below an E rating. This number has slightly increased due to the purchase of stock from another association during the year. All properties are included within the 2021/22 investment programme to be brought up to at least a D rating.
- **Ongoing, and on track to delivery longer-term target of Band C by 2030** – this is ongoing and will continue into 2021/22. In last year's SHIFT we reported 35% below Band C. We continue to improve the information we hold on the thermal efficiency of our homes and the measures and installations that are reasonable practicable to deliver. The long-term investment programme is being reviewed to maximise opportunities to secure funding from the Social Housing Decarbonisation fund from April 2022.
- **Reduce the number of residents classified as being in fuel poverty** – ongoing and will continue into 2021/22. All energy efficiency measures feed into this objective. In the last 12 months we have upgraded the insulation to over 2,000 properties, securing £2.1m grant funding to complete this work. Heating upgrades to circa 150 properties this year including the installation of ground source heat pumps (GSHP) and air source heat pumps (ASHP) will all work to reduce the cost of heating for our customers. The Government definition of fuel poverty was changed in the new Sustainable Warmth Strategy. The updated measure, Low Income Low Energy Efficiency (LILEE), finds a household to be fuel poor if it:
  - Has a residual income below the poverty line (after accounting for required fuel costs) and
  - Lives in a home that has an energy efficiency rating below Band C

The first element of this metric is difficult for Stonewater to monitor, this highlights the importance of Stonewater ensuring all homes reach a minimum EPC rating of Band C, so that no customers are classified as living in fuel poverty.

Engagement with our customers on switching to suitable tariffs will commence once lockdown restrictions are lifted and will again work towards reducing the number of residents at risk of fuel poverty. We will continue to monitor and report on ways in which we can help tackle this national crisis.

- **Implement a rolling five-year component replacement programme** – this is ongoing and carried forward 2021/22. The investment profiles over the short, medium and long-term are pivotal to the way we procure services and materials, ensuring we remain a good client for our service providers. Work has commenced on establishing clear programmes of investment for our key components ensuring we have robust and relevant stock information that we can share with our maintenance partners. Covid-19 has delayed many of our programmes for 2020/21 requiring us to revisit and re-profile our service delivery.
- **Dispose of 28 properties as vacant possession sales and 100 properties as trade sales** - following the first lockdown in March 2020, disposal expectations were revised and a reduced outturn was agreed. The new target was set at 13 arising voids and zero trade sales, and 21 void sales were achieved. The stamp duty holiday introduced by Government in July 2020 was well received and served to re-invigorate the housing market. For 2021/22, this action will be to dispose of 25 properties as vacant possession sales.

The following are some of the key highlights of the outgoing strategy over the three-year period, essentially short-term goals subsumed and part of business as usual. They have helped drive the business forward both in terms of growth, as well as providing mechanisms for future strategic decision-making.

Successes in the three years include:

- The successful acquisition of 731 homes from Southern Housing Group, of which 279 completed in May 2020 with the remainder having completed in March 2020
- The replacement of the AVAT appraisal model with the Asprey BI / AVM model
- The introduction of digital self-service for responsive repairs
- Trade sale disposals generating a surplus of £16m
- Disposal of 63 arising voids generating a surplus of £7.8m
- A number of long-term contracts were awarded during the term of the strategy including Fire Servicing, Heating (service & installation), Repairs and Voids

The following are the actions continuing into the Homes Strategy 2021-2025, in addition to those listed above:

- **Digital improvements** – whilst the introduction of digital service was completed, the revolution continues. The next phase will include the implementation of digital appointments and, for some of our service providers, the ability to track the location of tradespeople, improving the way our customers manage their appointments.
- **Review Decent Homes Property Standard** - analysis of data for all Stonewater properties continues to ensure the poorest performing homes are targeted and to identify any properties which may have been missed during previous improvement programmes. The physical insulation surveys that were on hold due to Covid-19 were successfully remobilised during July 2020. The poorest performing properties remain those with old electric heating. These are being programmed in for improved systems including heat pumps and high heat retention storage heaters, albeit with much of this work now deferred. Achieving a minimum of SAP Band C by 2030 remains the target and further analysis beyond 2030 with a target of carbon neutrality continues. The analysis results will be used to prioritise investment and identify homes where it is not technically feasible to meet the future standards.
- **Review customer consultation and engagement processes for repairs and planned works** - the Customer Experience restructure and the creation of the Customer Voice and Influence team will allow increased focus on customer involvement and engagement across all Directorates. The objective of this is to bring the customer voice into the heart of the organisation, and demonstrate how our customers can influence and help shape existing and future services. The working relationship personas and overall customer profiles will inform a range of engagement and involvement mechanisms, on both virtual and conventional platforms.
- **Deliver changes identified in the Hackitt Review** – this brought with it a number of changes including Document B of the Building Regulations, The Fire Safety Bill and a draft Building Safety Bill. The Head of Health, Safety and Compliance will ensure Stonewater is aware of the implications especially the need for Building Safety Managers to ensure we meet our regulatory requirements as identified by emerging legislation.
- **Integrated asset management** – the project has continued to evolve and has gone through a number of iterations and enhancements over the past 18 months, covering both compliance and contract management.

  Compliance Update – the automated compliance certification system was awarded to Corgi Technical in 2020 and implementation / integration with ActiveH is in progress with an anticipated go live date now scheduled for August 2021 for gas servicing documentation and periodic electric testing.

  All elements of the Asbestos register/portal are now live.

  Contract management update – a number of areas have experienced delays, however alternative solutions have been identified and work is progressing at pace.

  Financial reporting – both the finance dashboard in ActiveH and the finance report through Power BI are ready to roll out into live use and we are in the process of running a pilot with a contractor.

  Documents and data – go live from August 2021.

  Variations and payments – go live from August 2021.

  One Place – the name given to the platform for colleagues and partners to monitor programmes. This project is expected to go live in March 2022.

Report of the Board of Management and Strategic Report

Value for Money (VfM) and performance — continued

Health & Safety and Compliance

Stonewater directly employs a dedicated team to oversee health & safety and compliance. Working with colleagues and our supply chain partners, the team ensures we have a safe working environment, our customers have safe homes, and as a business we are compliant with our health & safety statutory and regulatory responsibilities. This team includes chartered professionals who belong to bodies such as the Institute of Occupational Safety and Health, and the Institution of Fire Engineers.

Our health & safety organisational model is based upon HSG65; 'Plan-Do-Check-Act', and our health & safety governance is overseen by Stonewater's Safety Management Committee, chaired by a member of the Executive team. There are a number of safety groups that report to Safety Management Committee, and these groups hold regular health and safety meetings and are attended by colleagues from across the business.

Fire safety and compliance remain at the forefront of Stonewater's objectives. Stonewater undertakes annual Fire Risk Assessment and has achieved 100% compliance at year-end. A recent internal audit undertaken by RSM gave a substantial assurance for our Fire Safety Processes.

99.85% of our properties were fully gas safety compliant at the year-end: this still met top 2020 quartile performance when compared with our peer group and was achieved during lockdown. A substantial assurance rating was also received for our Gas Safety processes from our internal auditors RSM.

The Health & Safety and Compliance Team offers advice and guidance across the whole organisation. The Head of Health & Safety and Compliance is a member of the Housing Quality Networks (HQN) Safetynet advisory group and Stonewater hosts best practice group meetings attended by other social housing providers. Stonewater is also a signatory to the Building a Safer Future Charter.

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 2021/22.

Sustainability

Stonewater has an ambitious Environmental Strategy. As part of this, we are reviewing our plan to reduce the organisations' carbon emissions, supporting the Government's target to become net zero by 2050. In 2020/21, Stonewater's carbon emissions from business mileage reduced by 87% when compared to the previous year, largely due to enforced travel bans during the lockdown periods. However, through adopting a new hybrid working approach, we plan to maintain the majority of this reduction in 2021/22. Our office carbon footprint also reduced significantly by 57% when compared to the previous year and we aim to maintain this level of emissions in 2021/22.

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 351 homes below Band D. By achieving the EPC Band C target, our scope 3 carbon emissions of our homes will also reduce by 8,000 tonnes of CO_2 per year.

In 2020/21, Stonewater undertook modelling to ascertain the investment required to improve all homes to a minimum of EPC Band B, alongside low carbon heating as well as the investment needed to reach net zero. The EPC band B with low carbon heating modelling also achieved very close to net zero when using 2050 projections for carbon intensity of the electricity grid. We will ensure that all improvements made to homes to achieve EPC Band C are also compatible with the net zero standard so that we make most efficient use of resources and are following the trajectory to net zero.

To aid this approach and identify 100% of underperforming assets (those with a negative net present value), a software system has been developed and was brought online during the last quarter of 2019. This software allows the 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 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. Stonewater will no longer approve any new land and build schemes with fossil fuel heating.

Stonewater completed its second SHIFT accreditation assessment in 2020/21. 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 maintained a silver rating in the 2020/21 assessment, but increased its rating by 15%. We aim to achieve a Gold accreditation by March 2022.

Procurement and outsourcing

The Procurement Team has continued to work on their longer term strategy. Improving data within the team through the Contracts Register remains a priority, along with enhancing governance for all suppliers who are appointed to provide services to Stonewater, irrespective of the value of the contract. The desire to increase Value for Money potential in all contracts is a significant focus, alongside increasing the delivery of social value and sustainability benefits to the business.

The work with the Contracts Register continues to progress well, with additional items being added regularly and the existing data being enhanced through continual review by the team. However, there are question marks about whether the Delta portal, Stonewater's current repository for contract records and documents, offers enough value beyond being a storage facility. An ongoing project to explore the benefits of housing all contract records in Microsoft SharePoint and utilising PowerBI reporting functionality is expected to gather pace throughout the current financial year and allow the Procurement Team to utilise contract data in a more commercial manner.

The mobilisation of the remaining Price-Per-Property (PPP) contracts remains ongoing. Working with our consultant partners Faithorn Farrell Timms (FFT), the decision has been taken to appoint Ian Williams as the contractor for the North region on an interim basis of two years, whilst a longer term solution is agreed and procured. This appointment combines with the other northern regions that Ian Williams were awarded from the original procurement exercises, providing the necessary degree of continuity to Stonewater. The whole North region is expected to have mobilised under their various contractual agreements by summer 2021.

There has been a delay to the mobilisation of the Cost Sharing Vehicle (CSV) employed in Stonewater's West Region with Platform Group. This is a tactical decision to enable the adoption of new software within Platform for raising and organising repairs. The existing provider, G-Purchase, has agreed to continue providing interim support for repairs in the West during this transitional period.

The effects of the Covid-19 pandemic are still being felt throughout the various supply chains connected to Stonewater contracts. However, through close communication with key supply partners, the majority of risks have been managed and allowed services to continue delivering successfully under the current government guidelines. Furthermore, through the improved data within the Procurement Team, all suppliers are monitored regularly through Dun & Bradstreet to assess financial stability, which is reported to Stonewater's Risk and Assurance Committee on a monthly basis.

As restrictions ease across the country throughout the spring and summer of 2021, we would expect suppliers to operate more in line with their pre-pandemic practices, whilst ensuring that the wellbeing of Stonewater customers and employees is considered at all times. There may be a continued need for flexible working practices in some areas for the foreseeable future, but this will be agreed during discussions with relevant suppliers.

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 achieving favourable results compared to a benchmarking peer group of similar sized housing associations. Key indicators that we consider are:

	2020/21 Cost per unit £	2019/20 Cost per unit £	2019/20 Sector (median) £
Management	**1,006**	951	1,079
Average cost of responsive repairs	**141**	142	n/a
Maintenance	**899**	944	1,064
Major repairs	**390**	658	766

	2020/21	2019/20	2019/20
Customer satisfaction %	**85%**	78%	87%
Number of new homes built	**671**	654	n/a
Void re let time (days)	**26**	29	n/a

We continue to maximise value from our maintenance spend to ensure that our homes are fully functional and meet our customers' needs. Major repairs have decreased in 2020/21 due to works being paused during lockdown. These works have been planned to be carried out in future years.

Customer satisfaction

Our Voice of the Customer programme using Rant & Rave's fast feedback platform allows us to understanding how we are performing against our Customer Promise, and ensures the feedback received can be used by our operational teams to remove any areas of frustration and dissatisfaction from our services, ultimately improving the customer experience. During 2020/21, 84.5% of our customers told us that they were satisfied with the service they had received from Stonewater. The key drivers of satisfaction for our customers were communication and more specifically receiving a call back, the quality of repairs and the speed of delivery of our services.

During 2020/21, our customer service training programme has been rolled out, ensuring all colleagues put our Customer Promise at the heart of how they deliver services. Along with the introduction of a resolution approach to addressing negative customer feedback, this allows us to focus on doing what matters most to our customers.

Report of the Board of Management and Strategic Report

External environment

Back to the 'new normal'

The Covid-19 pandemic was an unpredictable event that has caused significant political upheaval, societal change and, tragically, the deaths of millions worldwide.

However, with the UK's vaccine rollout leading the world and the easing of lockdown restrictions gathering pace, we are seeing a return to 'normality' – though one that will not be the same as before. What the 'new normal' looks like, and if it will remain the same or if we will return to old norms, is yet to be seen.

With support for businesses coming to an end in the coming months, there will inevitably be some upheaval. Small businesses and the self-employed, especially in the hospitality sector, are still feeling the impact on their livelihoods and this impact will be felt for many years to come.

With the easing of restrictions, the Government is now looking to get back to what it promised at the 2019 General Election: levelling-up, achieving sustainability, and making the most of the possibilities of Brexit.

Housing associations like Stonewater have a vital role to play in supporting the recovery from Covid-19 and the achievement of these political ambitions. We are both an employer to many, and the provider of safety, security, and support to tens of thousands of people throughout these challenging times. We will need to continue to be flexible, dynamic and reactive to ensure that we can operate effectively as a landlord and as a business.

We have regularly kept our stakeholders updated on our work to support customers and staff throughout the pandemic, including sending regular updates to all of our constituency MPs and local authority leaders – meeting with many of them to provide further information.

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

Housing supply and affordability

After a period of downing tools during the initial lockdown, the construction industry has largely returned to normal – though there are still issues arising from Covid-19 and Brexit, such as a shortage of materials. Despite these challenges, we are determined that we, and our new homes, will play a key role in economic and societal recovery.

However, we need to look at how we adapt our homes to both the changing needs of our customers now, and those in the future. This means that we need to look at how our current homes work and think about what our new homes should include to better allow flexible working.

We also need to make sure that we are building enough new affordable homes in the right places so that we can support people to live where they want to live, and in homes that they can afford. This will contribute to reducing homelessness and building on the work of the 'Everyone In' scheme at the start of the pandemic.

Key statistics include:

- In 2020, 127,580 homes were started in England, of which 23,500 belong to housing associations
- In 2020, 148,620 homes were completed in England, of which 25,500 were delivered by housing associations
- Between 1 April 2020 and 30 September 2020, 35,809 affordable houses (Affordable Rent, Social Rent, Intermediate Rent, Affordable Home Ownership and Affordable Tenure) were started in England, excluding non-Homes England London delivery
- 79% of housing starts on site by housing associations were for affordable homes
- Between July and September 2020, 68,680 households were initially assessed as homeless or threatened with homelessness and owed a statutory homelessness duty
- Between September to November 2020, UK employment was estimated at 75.2%, 1.1% lower than a year earlier

In Government there has finally been some consistency, with incumbent Housing Minister, Christopher Pincher holding the post for 16 months – the longest reign since Brandon Lewis left the role in 2016.

The last year has seen two significant proposals for policy change in our sector – the *Planning for the Future* planning reforms White Paper in August and the *Social Housing White Paper* in November. Over the next 12 months we expect to see the Government legislate to bring forward elements of both White Papers. We have engaged with the Government on both documents, and will continue to do so, and are already ensuring that we are prepared to meet the changes that are required as soon as we are able to.

Likewise, building safety is a major topic in both the sector and politics. Stonewater is fortunate that our stock is largely comprised of houses and low-rise apartment blocks, and as a result we have not been impacted by the fire safety issues that others in the sector have. Our Homes Directorate will continue to work closely with other colleagues and the sector to ensure that are customers are not impacted by any changes and ensure that our homes are safe and fit for habitation.

Environment and sustainability

The Government has been clear that the environment will remain central to its agenda for the remainder of this Parliament, launching more ambitious carbon reduction targets in recent months. The publication of the 10-Point Plan for a Green Industrial Revolution was a welcome move, and we look forward to further progress being made in the run-up to the COP26 Summit in Glasgow in November.

This is an issue that is very close to Stonewater's heart. There are approximately 4 million homes in the UK socially rented, but only 56% of current social housing stock meets EPC band C. As a sector we are doing better than most, but at the current rate of retrofit we are on track to miss the Government's ambition to get to band C by some 60 years.

We estimate that it will cost £20,000 to £25,000 on average to retrofit each social home – approximately £4.3 billion every year for the next 25 years, which is a sizeable cost. A survey by Savills in late 2020 found that only 7% of housing association leaders see it as a short-term priority, and 22% see it as a long-term priority.

For Stonewater, we have been able to lead in this area. In July 2020, a report produced by the leading independent think tank, the Institute for Public Policy Research (IPPR) and funded by Stonewater, All Hands to the Pump: A Home Improvement Plan for England, was published. The report was well-received by sector and political stakeholders and has had significant influence on Government and Labour Party policies regarding housing retrofit and decarbonisation.

Alongside this, we have sought to raise this issue's profile by meeting with Ministers and civil servants at BEIS and MHCLG, select committee members and backbenchers. In March 2021, our Executive Director, Patrick Chauvin gave evidence to the House of Commons Business, Energy and Industrial Strategy Select Committee on decarbonisation as the only housing association representative.

Our Chief Executive Officer, Nicholas Harris, has also been invited to be part of the National Housing Federation's CEO-level Sustainability Strategy Group, which will lead the sector in developing a roadmap to decarbonising our stock.

While there is a long way to go still on decarbonisation, we have led the way in this area and ensured that it is high on the agenda. We will continue to do so into 2021 and beyond.

Most importantly, this is a key way that we can help our customers out of fuel poverty. Stonewater recently joined the End Fuel Poverty Coalition, and will this year lead its Social Housing Working Group to look at ways to reduce the impact of fuel poverty on customers.

Government policy and changes to welfare options

The Government introduced a new programme for the next parliament at the Queen's Speech and in May 2021. It is expected that the next year will see legislation to ground rents and leasehold reform, changes to the planning system, and adult social care reform, which will be followed closely.

While there is no expectation of any significant changes to the benefit system in the coming years, we have been pleased to see a number of other reforms, including:

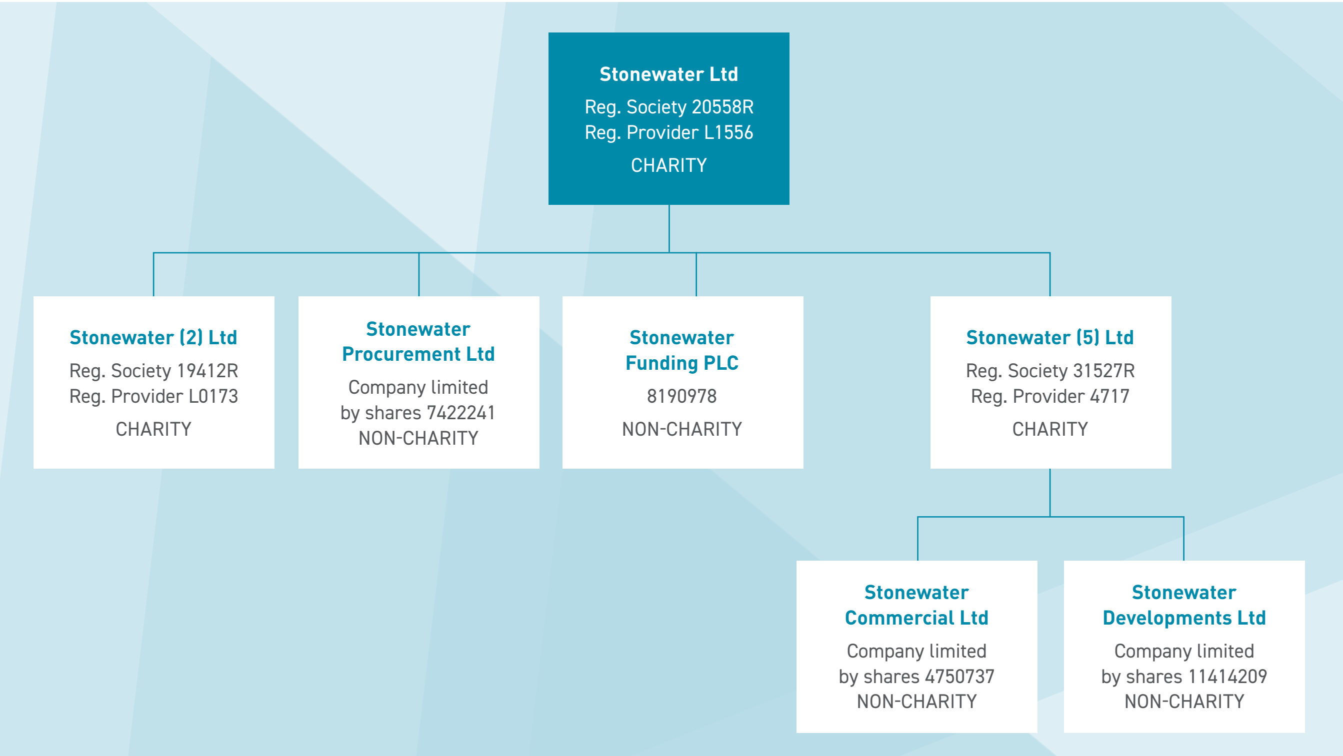
- An increase in the Affordable Homes Programme to its largest level yet
- A drive to improve the quality of design in housing, as well as proposals for a new 'zonal' planning system championed by Stonewater
- The announcement that the Government wants to see 600,000 heat pumps being installed per year by 2028
- The introduction of a new Social Housing Decarbonisation Fund, worth at least £3.8bn over 10 years to fund the retrofitting of social homes
- The promise of a Heat and Building Strategy which sets a pathway for the decarbonisation of heat in buildings
- New funding to support domestic abuse survivors and homeless people

Meanwhile we have recently seen the Domestic Abuse Bill pass into law, as well as the announcement of a new Domestic Abuse Strategy and Violence Against Women and Girls Strategy. These are welcome developments and will be important policies that we will continue to champion and influence. Stonewater is committed to our work to protect those who have fled from domestic abuse – including those in Stonewater's dedicated domestic abuse victim housing – and will be working to demonstrate our thought leadership in this space.

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 2021, Stonewater Limited had two registered provider subsidiaries:

- Stonewater (2) Limited
- Stonewater (5) Limited

During the year Stonewater undertook a partial collapse of its Group structure, reducing the number of registered providers in the Group from five to three. Following an independent review which suggested four options, the Board accepted a recommendation of a transfer of engagements from Stonewater (3) Limited and Stonewater (4) Limited to Stonewater Limited, the ultimate parent of the Group in July 2020. Following a period of consultation with customers and other key stakeholders, the Board approved the transfer of engagements in January 2021. The restructure created streamlined administration, greater flexibility and increased capacity within the Group. The financial consents were finalised with lenders and the transfer of engagements was effective from 31 March 2021.

This new approach maximises the financial capacity to deliver the planned investment in existing and also new homes.

Stonewater also has four wholly-owned commercial subsidiaries:

- Stonewater Procurement Limited – a company which provided design and build services for new properties until 31 March 2021 when it sold its business to Stonewater Developments Limited
- 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 also provides 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

As part of the review of the Group structure, Stonewater also looked at it commercial subsidiaries. The Group included Stonewater Procurement Limited (SP), a company which provides design and build services to Registered Providers (RPs) in the Group and charges 2.5% mark-up on its services, and Stonewater Developments Limited (SD), a company which provides design and build services to RPs in the Group but also can purchase land if the site opted to tax and develops homes to the Golden Brick stage, then selling the partially completed homes to the RPs. SD can also sell fully developed homes on the open market. As the scope of SD is wider than SP, as part of the restructure the Group decided to transfer the business of SP to SD, and SD will act as the sole development company for the Group.

Board

The Board has responsibility for setting Stonewater's 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 6-7. The Board comprised 12 members at 31 March 2021, including one executive member.

Current obligations of Board members to the Board and the company

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

Governance arrangements in response to Covid-19

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 sub-committees 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. During 2020/21, Board meetings were held more frequently than usual, using video conferencing. This, facilitated timely decisions during a rapidly developing situation and enabled the Board, in partnership with the Executive Directors' Group (EDG), to continue to provide strong direction and oversight of operational performance. The governance structure and arrangements were reviewed and changes implemented in late 2020, to provide a reimagined structure which reflects the continuing need for strong leadership and efficiency in decision taking (see also section on committees and panels below). Board meetings are now held monthly.

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 Stonewater works. The Board has set targets for improving diversity across the governance structure. At 31 March 2021, the Board comprised 42% female members, 17% from a Black, Asian or minority ethnic background, and two members identifying as disabled. The Board consists of members whose ages span five decades.

The Board undertakes an annual appraisal of its performance, culminating in the identification of key targets for the year ahead. In 2020/21, these were to build an effective Board, enhance the customer experience, growth and develop and approach to economy, effectiveness and efficiency gains. 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:

- Build an effective Board – the Board undertook two away day activities during the past year. While social distancing rules meant that it was not possible to hold events in one location, new mechanisms for creating a strong team were used, such as informal coffee cup sessions and focus group discussions, via video conferencing. Induction for new members also included opportunities for one to one meetings with colleagues and subject specialists. A full learning & development programme was delivered throughout the year
- Enhance the customer experience - KPIs are monitored by the Board on a quarterly basis
- Achieve growth targets – 671 units were handed over towards our internal target of 679 per annum
- Develop an approach to economy, effectiveness and efficiency gains. Stonewater's approach to Value for Money (VfM) was reviewed during the year and the strategy updated. Regulatory VfM metrics are monitored by the Board on a quarterly basis, with the finance panel providing assurance on delivery. A new value creation challenge and assurance panel was established to oversee Stonewater's holistic approach encompassing efficiency and effectiveness as well economic gains

Other actions for improvement arising from the appraisal are monitored through the governance action plan by the Governance and People Challenge & Assurance Panel. Individual members are required to play an active role in the work of the Board and its committees or panels. 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

During the 2020/21 financial year, Stonewater complied fully with the chosen code the 2015 National Housing Federation (NHF) Code of Governance. The Board adopted the updated 2020 National Housing Federation (NHF) Code of Governance in December 2020. In accordance with NHF guidance, the first report of compliance against this new code will appear in the 2021/22 accounts.

Shareholding policy

Under the rules for each registered society in the Stonewater Group, the Group Board retains discretion over the issue of shares. The current policy is that Stonewater operates a closed membership, with shares only issued to individuals who are Board members.

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Committees and panels

The governance structure supporting the Board was reviewed during the year to provide for more agile and responsive decision making in the volatile operating environment. This new structure, implemented in late October 2020, comprises two committees and five challenge and assurance panels. Each of the committees and panels is chaired by a Board member and includes places for independent members. Meetings are held remotely, as and when required. The arrangements were reviewed as part of Stonewater's regulatory in depth assessment in early 2021 and an internal audit undertaken after six months of operation confirmed that they provide good governance oversight of Stonewater's operations.

Nominations and Remuneration Committee

Oversees the recruitment and remuneration of non-executives, the Chief Executive and the Executive Directors. Advises the Board on annual pay reviews for Stonewater employees.

Risk and Assurance Committee

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

Assets and Development Challenge & Assurance Panel

Oversees Stonewater's growth and home investment programmes, including sustainability initiatives.

Customer Experience Challenge & Assurance Panel

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.

Finance Challenge & Assurance Panel

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

Governance and People Challenge & Assurance Panel

Oversees Stonewater's governance arrangements and employee terms and conditions of service, other than those which are reserved for the Board.

Value Creation Challenge & Assurance Panel

Oversees the delivery of efficiency and effectiveness gains.

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 Critical 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 Stonewater 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.

Key strategic risks

The following are the key strategic risks that the Board considers, and the actions that have been taken to mitigate these and strengthen controls. The Board is continuing to monitor the dynamic post-pandemic operating environment and implement further actions to ensure that the risks arising are managed appropriately and activities remain within the agreed risk appetite.

Brexit risk

The Board has monitored the risks arising from Brexit through the existing risks and a separate risk action plan. Stress testing has included the impact of negative consequences of Brexit and appropriate actions have been agreed. The ongoing consequences of Brexit along with the pandemic continue to be monitored and managed closely; actions are included within the risk table as appropriate.

	Risk responses	
	Examples of controls in place	Actions during the year to strengthen controls
1 Financial capacity and income collection performance limits the delivery of growth and business transformation	• Treasury management strategy monitoring • Regular stress testing • Monitoring the metrics that are used in the credit rating process • Income collection and arrears performance monitoring	• Implementation of Stonewater's financial strategy • Implementation of income maximisation strategy • Establishment of sustainable finance framework • Business Plan and stress-testing which demonstrate ability to withstand various economic stresses together with an increased development programme following Group restructuring
2 The governance structures and processes are not aligned to the evolving regulatory environment	• Board succession plan • Annual Board and committee appraisal process • Regular Board review and stress testing of operating environment • Policy and strategy review framework	• In-year review of the operating environment as part of monitoring and reporting progress on delivery of the Strategic Plan • Implementation of new meeting timetable and arrangements to facilitate efficient and timely decisions in a fast-moving environment • Governance restructure, moving from quarterly committee meetings to smaller, more agile committees and panels • Independent audit of new governance arrangements • Participation in national interest groups and at national political and sector conferences
3 Customer insight is not embedded in business design and service review processes	• Voice of the Customer strategy. • Competency Centre within Customer Experience (CX) including customer involvement, communications and feedback • Dedicated customer insights team • Independent methodology for customer satisfaction	• CX service restructured around the customer journey • New complaints process with increased focus on early resolution and learning • Rant and Rave implemented. Institute of Customer Services survey undertaken • Customer satisfaction board level KPI • Customer Experience Panel oversight of insights programme
4 Stonewater does not meet its health & 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 • KPIs monitored by the Board and Assets Panel • Compliance issues monitored by the Risk and Assurance Committee • 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
5 Uncertainty about Government post-pandemic priorities inhibits strategic planning	• 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
6 Investment decisions do not give appropriate weight to competing strategic agendas e.g. environment, safety, growth, digitalisation	• Strategic plan monitoring • Growth strategy monitoring • Regular stress testing • Environmental strategy • Value for money strategy	• Mapping procurement methodology, timing of delivery and location of new homes in the period 2019-2024 • Maintaining an understanding of the market for land and S106 opportunities so as to ensure Stonewater balances competitiveness with financial sustainability • Six monthly review of the Financial appraisal assumptions and hurdles for new build development schemes • SHIFT (in full) silver accreditation

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7 Failure to embrace new technology and to invest in appropriate technological solutions	• IT strategy in place • Specialist consultants engaged to advise on strategic implementation • IT investment supporting delivery of future operating model • Business Design and Technology Group provide oversight of strategy, availability, security and risks	• Enabled remote and virtual working to support business continuity during pandemic • Value Panel providing oversight of technology strategy • Appointment of Data specialist • Development of Data Management Strategy • Future technology Case for Change
8 The workforce is not led effectively and leaders do not have the capacity or capability to set and deliver the strategic plan	• 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 Board members • Delivery of learning and development programme • Delivery of Values Based Leadership Programme (Ambi-dextrous and Authentic modules for EDG/ Senior Managers
9 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	• Development of employer brand • Development of resource strategy • Restructuring of colleague team • Development of hybrid working model • Management Development & Coaching • Manager Briefings and Packs
10 Resilience of Stonewater's IT systems to cyber attacks	• Operational and governance oversight of IT Strategy • Cyber essentials accreditation in place • 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 • Development of data strategy
11 Partnerships and supply chain relationships do not deliver objectives	• Procurement procedures and contract management system in place, monitored • Partnering Advisor in place to provide objective scrutiny of contract delivery • Contracts managed by nominated managers, with regular partnership management meetings in place • Value for Money Strategy • Risk appetite monitoring	• Implementation of improved communications between Stonewater and contractors • Team restructuring to strengthen contract management

Effects of material estimates and judgements upon performance

The following are the material judgements affecting performance.

Impairment

Management assesses the housing properties for indicators of impairment at each balance sheet date. Where indicators exist, a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. Judgements in assessing the level of cash generating units and the recoverable amounts could lead to increases or decreases in the impairment provision.

Capitalisation of property development costs

Management determines 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.

Useful lives of depreciable assets

We set out the expected useful lives of our assets in the accounting policies on page 53 and 54. Management reviews its estimate of the useful lives of depreciable assets periodically, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and ICT equipment, changes to decent homes standards which may require more frequent replacement of key components and changes to the ability to let the property which may reduce the economic life of the property. Our policies are well developed. Accumulated depreciation at 31 March 2021 was £358 million, with the total charge in year of £31 million.

Defined benefit pension scheme obligations

At 31 March 2021, we had two defined benefit pension schemes, both closed to new members, the Social Housing Pension Scheme (SHPS) and the Dorset County Pension Fund defined benefit pension scheme (DCPF). Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. We draw advice from scheme actuaries. Variations in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses (as analysed in note 29). The net liability of both schemes at 31 March 2021 was £32 million.

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 £69.4 million at 31 March 2021, compared to the fair value adopted of £74.1 million (2020: £106.9 million compared to fair value adopted of £119.0 million).

Bad debt

We make a provision for the likelihood of debtors failing to pay. Our assumptions bandings are based on the type of debt (including customer analysis) and length of time the debt remains unpaid. In light of the likely impact of Covid-19 on our customers and in anticipation of higher arrears, we have reviewed and updated our assumptions.

Impact of transfer of engagements on loans and hedging relationships

As part of the transfer of engagements, amendments were made to the terms of the loan agreements held by the entities involved. Management undertook a detailed review of all seven affected loans on a substance basis, and determined that one of the amendments was substantial under the definition set out in the accounting standard. For the loan where the modification was substantial the associated issue costs were written off to the income and expenditure account. Those loans where the amendment was deemed non-substantial did not qualify as a new loan, so the amortisation of issue costs was modified to take place over the new life of the loan, and no gain or loss arose at the date of modification.

Management also determined that the refinancing of the loans associated with the transfer of engagements did not qualify as a termination event for the cashflow hedging relationships between the loans and the standalone derivatives which hedge the loans.

Report of the Board of Management and Strategic Report

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 are developing our new strategy for the next five years to ensure we continue to stretch ourselves towards becoming an exceptional place to work.

We have an active Colleague Forum, which widely consults, informs and engages with colleagues across the organisation. The forum has informed and influenced the implementation of the integrated change programme in order that the best outcomes for the company are achieved.

Leadership and management development remains a key priority and we are 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. To support this, we have applied the principles of the Rooney Rule and introduced our 'Opportunity Pledge'. This includes avoiding recruitment panels that are single gender and ideally diverse across a range of protected characteristics. Also, where candidates meet the criteria for senior roles, we ensure those interviewed include candidates from under-represented groups.

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 colleagues feel empowered to make decisions on behalf of our customers and are digitally confident and capable, in order to deliver our Customer Promise
- Ensure that colleagues have the tools to deliver great services to customers

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.

We have recently transformed our frontline housing services so that we can better respond to customer demand regardless of geography or issue. We have created teams of 'business experts' in frontline Customer Partner roles, focused on enhancing our customer relationship through high quality customer journeys for specific casework and enquiry types. We are proud to prioritise the personal feel of our virtual casework, tailoring our approach to each individual and benefitting from being able to act faster to coordinate work with partnering contractors and agencies.

In the last year we have established a relationship with Community Catalyst –a social enterprise working in partnerships across the UK to try to make sure that people who need support to live their lives can be part of strong, inclusive communities with real opportunities to connect, create and contribute. We chose to work with them with the intention of creating sustainable systems and communities that are nurturing and people feel able to thrive and value each other's contribution and strengths. From March 2021 to September 2021, we will work with Community Catalyst in three pilot areas - Southampton, Bedford and Calderdale - to support customers to build a better community for themselves, using their skills, ambitions and those of people in the wider community.

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. Building on our commitment to put customers at the heart of everything we do, we have created a new Customer Voice and Influence function including customer communications, engagement, complaints and feedback. The aligning of these business arrears will help ensure that we are truly a 'listening organisation' and our customers' voices, feedback and experience influence, shape and direct the development and delivery of our services. Building on our existing approach but also innovating, we seek to find new, exciting ways to listen, engage and communicate with our customers as we bring the Government's Charter for Social Housing Residents and the National Housing Federation's Together with Tenants Charter alive.

In addition to ensuring we are listening and learning at each customer 'touchpoint', we continue to work with our customers to shape our customer engagement toolkit. This toolkit provides a comprehensive offer of informal and formal opportunities to shape our services and true flexibility, meeting diverse customer circumstances. The toolkit includes the Customer Experience Challenge and Assurance Panel (CXCAP), Customer Scrutiny Panel, our 'friends of Scrutiny' group, the Customer Hubb (our digital forum of over 700 customers), ad hoc focus and survey groups, and social media.

Through effective governance, including the CXCAP consisting of colleagues, customers, and Board members, we ensure that the voice of our customers is amplified throughout the organisation, and there is appropriate scrutiny to ensure we are truly listening, learning and delivering on our commitment to put customers at the heart of how we deliver our services.

Customer insight

Our approach to customer insight allows us to have a better understanding of our customers; who they are and what they expect of our services. Our customer personas are embedded throughout Stonewater, demonstrating our customers' needs, opinions and aspirations, and so better enabling us to tailor how we develop and deliver our services so that they are cost effective and provide great customer experiences across the business. We use a variety of customer engagement and involvement channels to feedback on and design our services with customers, including our Customer Scrutiny Panel, user-based design on digital services and in retirement living, and online Review Panels on policies.

Suppliers

At Stonewater, we place great value on the significant contribution made by our supply partners, irrespective of their size or the volume of work they complete for us each year. Therefore, maintaining strong and positive relationships is crucial to ensure the effective delivery of a variety of services to our business.

We do this through this through two simple but effective principles: clear and regular communication with all suppliers, through agreed mediums; and ensuring that all payments are made early or on time, in line with agreed schedules in each contractual agreement. By following these two principles, we provide clarity to businesses and ensure that we contribute positively to their financial security and wellbeing during difficult and uncertain times. We paid invoices received during 2020/21 within an average of 24 days.

Report of the Board of Management and Strategic Report

Homes England

Stonewater has been a development partner with Homes England for over 15 years delivering affordable homes across England. During that period, Stonewater has secured grant funding from Homes England to deliver a variety of tenures, including social rent, affordable rent, Rent to Buy, and shared ownership. The relationship with Homes England has always been open, transparent, strong and committed, which has enabled Stonewater to deliver much-needed affordable homes across the country.

Stonewater has an existing Strategic Partnership with The Guinness Partnership (TGP) and Homes England to deliver a total of 4,500 new grant funded homes by March 2024 with grant funding of £224m (some exceptions can run to March 2025 by specific agreement with Homes England). This is the largest allocation with the current Strategic Partnership.

Funders

We maintain strong relationships with our bank and capital market funders by ensuring they are updated on Stonewater's operational and financial performance. Relevant operational information is published on Stonewater's investor relations pages on our website, and both half year and annual performance information is published there too. Update meetings are held regularly.

Equality, diversity and inclusion

Stonewater has adopted the Social Housing Equality Framework (SHEF) to support and drive the organisation's equality, diversity and inclusion (EDI) agenda. Our EDI Board is chaired by the Executive Director of Corporate Services and is taking action to achieve the SHEF 'Achieving' level across the business as a whole.

When looking at our Board, Executive and Operational Delivery Group combined, our diversity is as follows:

Gender	58% Male, 42% Female
Ethnicity	88% White, 12% BAME
Sexuality	88% identify as heterosexual, 12% identify as LGBTQ+
Disability	96% non-disabled, 4% disabled
Age span	5 decades

Pay gap reporting

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 2021, we published our latest gender pay gap data as at 5 April 2020. This year's report shows an improvement in our performance, with the median gender pay gap being 16.84% (21.47% 2020). 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 have also voluntarily reported on our Black, Asian and minority ethnic (BAME) pay gap data again this year and were pleased that we continue to maintain a marginal gap, with a median BAME pay gap of -0.07%. 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 **stonewater.org/about-us/performance**

Modern slavery and human trafficking

Stonewater's modern slavery and human trafficking statement, under the Modern Slavery Act 2015, for the financial year ending 31 March 2021, is available via our website modern-slavery-and-human-trafficking-statement

Financial inclusion

Through the pandemic we have adopted a customer-focused, flexible approach to ensure that no customer faces debt enforcement action where they are actively working with us to improve their situation. This flexible approach has included 'deferred' and 'flexible payment' arrangements, enabling customers to tailor their rent payments for an agreed period of time, supporting customers to navigate through challenging circumstances to sustain their tenancy.

Our Income Management colleagues are equipped to provide holistic customer advice and signpost to specialist organisations where appropriate. In addition, we have worked with a specialist not-for-profit organisation providing financial inclusion and wellbeing services, establishing a referral pathway for customers who are struggling. We have also invested to develop and procure new technology to ensure that we are targeting our resources to those customers who need it the most.

Throughout the pandemic, we have delivered a multi-channel communications strategy to ensure customers are informed and encouraged to speak to us if they are struggling. This has resulted in over 30,000 customers contacts over the year.

We continue to work with Experian on rental data sharing to improve our customers' access to favourable financial services through their credit rating. We also work with customers at the tenancy outset to identify those customers at the earliest opportunity who may struggle financially and ensure that we support customers to start their tenancy on the best possible footing.

Future prospects

The key assumptions included in the business plan are: Year 1 of the plan, 2021/22, is based on the final budget.

Rents

Rents on social and affordable rent properties increases under the new rent settlement of CPI + 1% until 2024/25. Increases of CPI only are assumed thereafter.

Inflation – Consumer Price Index (CPI)

1.5% for 2021/22, and 2% 2022/23 thereafter

London Interbank Offered Rate (LIBOR)/SONIA

0.1% in 2021/22, rising to 3% by 2030/31

Earnings

CPI + 0.5%, rising to CPI + 1% from 2025/26 thereafter

Maintenance and development costs

CPI + 2.5% until 2026/27, CPI + 1% until 2033/34, CPI only thereafter

Other Costs

CPI + 0.5% throughout

Voids and bad debts

Voids 0.8%, rising to 1%. Bad debts remain higher than usual at 1.5% due to Covid-19, reducing to 1.0% from 2023-24

Pension contributions

SHPS annual recovery payments per latest review schedule for 2021/22, with assumptions for increases made beyond that

Expected Income and expenditure	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Turnover	225.1	247.5	276.3	274.3	290.6
Cost of sales	(31.4)	(39.1)	(48.8)	(32.3)	(34.8)
Operating costs	(134.7)	(135.3)	(141.2)	(148.9)	(159.2)
Surplus on disposal of fixed assets	4.7	4.8	5.4	5.7	6.4
Operating surplus	63.7	77.9	91.7	98.8	103.0
Net interest	(39.2)	(42.2)	(45.9)	(50.6)	(55.6)
Movement in fair value of non-hedging financial instruments	1.4	1.4	1.4	1.4	1.4
Surplus for the year	**25.9**	**37.1**	**47.2**	**49.6**	**48.8**
Capitalised components	25.6	23.2	26.0	26.8	29.2

Stonewater reviewed its 30-year plan in May 2021. Following the Group restructure, additional financial capacity has been freed up within the Group, with the continued aim to provide homes for people in need.

The 2021 forecasts plan for the post-pandemic recovery, with increases in repairs and maintenance expected following the easing of restrictions.

Development over the next five years is planned to total over 7,000 social rent, affordable rent, shared ownership and Rent to Buy units. This period covers the end of the initial Strategic Partnership Programme (SPP) with Homes England covering the delivery of 1,500 homes, and the start of the second SPP, due for approval later in 2021, in which Stonewater has applied for further grant funding and is continuing its partnership with Guinness. Furthermore, there is a limited build for sale programme.

The plan has been stress tested for a 'perfect storm' of events the Board consider might affect the plan. Further stress testing confirms resistance to the factors modelled, including adverse movements in inflation, interest, Government rent policy and market values.

Additional stress testing modelled the impact of the cost of works to move properties to EPC B energy efficiency in line with Government aspirations.

Where remedies are required to ensure compliance with bank covenants, priorities have been set within parameters set 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

Significant changes have been made to Stonewater's operations during 2020/21 in response to the Covid-19 pandemic. The Board and Executive Team have followed Government and regulatory guidance in implementing revised working practices, including a move to remote service delivery across the business. 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. During the initial stages of the pandemic, to ensure strong governance oversight and efficient decision making, the Board met fortnightly. From September 2020, a monthly meeting pattern has been established. Experience of the pandemic has also led to changes to the wider governance structure to deliver more agile decisions 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 pandemic.

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 to the best of its knowledge compliance with its adopted code of governance and the regulatory Governance and Financial Viability Standard as set by Regulator of Social Housing.

Compliance with the regulatory standards

The latest regulatory judgement issued by the Regulator of Social Housing in March 2021 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 Financial Viability Standard, taking account of the Code of Practice, and confirms that Stonewater remains 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 2020/21 on 17 July 2020.

The report of the Board was approved on 20 July 2021 and signed on its behalf by:

Sheila Collins
Chairman of Board

Independent auditor's report to the members of Stonewater Limited

Opinion on the financial statements

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 2021 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.

We have audited the financial statements of Stonewater Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2021 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 cash flow 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

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 including retenders and reappointments is 6 years, covering the years ending 31 March 2016 to 31 March 2021.

We remain independent of the Group and the Parent 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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Association.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Board's assessment of the Group and the Parent Association's ability to continue to adopt the going concern basis of accounting included:

- 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.
- 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 2022 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.
- We reviewed scenarios modelled by management including a reverse stress test to analyse the impact on covenant compliance in a scenario with multiple adverse conditions including increased LIBOR rates and inflation, a reduction in property sales and the level of voids and bad debt increasing. We challenged management on the suitability of the mitigating actions identified by in their assessment and quantum and the time period ascribed to these actions. We reviewed the reasonableness of the proposed mitigations and whether the 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report.

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

Overview

Coverage	*100% (2020: 100%) of Group surplus* *100% (2020: 100%) of Group turnover* *100% (2020: 100%) of Group total assets*		
Key audit matters		2021	2020
	Refinancing	☐	
	Net realisable value of property developed for sale	☐	☐
	Going concern		☐
	Going concern is no longer considered to be a key audit matter because the level of uncertainty associated with forecasting has decreased this year and the impacts of the Covid-19 pandemic and associated lockdowns is better understood.		
Materiality	*Group financial statements as a whole* £8,080,000 (2020:32,900,000) based on 8% (2020: 1.6%) of adjusted operating profit (2020: total assets).		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Board that may have represented a risk of material misstatement.

The only significant components for Group purposes were the parent entity and Stonewater (2) Limited. We have performed statutory audits on all components in the Group for the purposes of reporting on their individual financial statements and for Group/consolidation purposes.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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	How the scope of our audit addressed the key audit matter
Refinancing **There are two key judgements described in the judgement and estimation uncertainty section (on page 57) relating to this KAM. Firstly one relating to if loans have been substantially modified and secondly consideration of hedge accounting.** During the year the Group has undergone a restructure and the activities of Stonewater (3) and Stonewater (4) have been transferred to Stonewater Limited via a transfer of engagements. As a result of the restructure the loan financing was re-negotiated with lenders. Judgement was required by management in determining whether the changes to the terms of the loan finance represents a substantial modification or a non substantial modification. The Group holds a number of derivatives where hedge accounting has been applied previously. Consideration is required to the impact on this hedge accounting of any changes to the underlying hedged items. Also the treatment of hedge reserves relating to derivatives that have been disposed of during the refinancing process has to be considered. Due to the materiality of the items involved combined with the level of management judgment the accounting for the refinancing has been considered a key audit matter.	We have obtained management's assessment of the accounting implications of both the loan modifications and derivatives. We have considered the arguments made by management in these papers and checked whether they are consistent with our understanding of the applicable accounting framework. We have considered the arguments used by management for if each loan had undergone a substantial modification and ensured that the same qualitative factors have been consistently applied for all loans subject to refinancing in the year. For key factors of the loans that have been important for management to reach their conclusions we have confirmed these back to relevant clauses in the loan agreements. We have also obtained the associated calculations for the changes in net present value of the refinanced loans and confirmed that they are mechanically correct and relevant inputs agree to the underlying loan documents. We have obtained the original hedge documentation to confirm that the terms included enable Stonewater to substitute the hedged item with a similar loan as indicated in the accounting paper. We have obtained the outputs from management's expert relating to the effectiveness of the hedging relationships and confirmed that this has been updated in line with our understanding of the changes to the underlying hedged items. This consideration included ensuring relationships where the loan has been modified to be less aligned to the swap are now treated as less effective in the associated hedging transactions for the year. For derivatives that have had a reduction of nominal holding in the year we have ensured that the hypothetical used for the purpose of hedge accounting has been appropriately updated. We have also considered the associated disclosures in the financial statements and ensure that they include the required disclosures as set out in FRS102
Key observations:	
Based on the evidence obtained we did not identify any indications that the judgments relating to the refinancing made by management were inappropriate.	

Key audit matter	How the scope of our audit addressed the key audit matter
Net realisable value of property developed for sale **This relates to items included in note 18 of the financial statements. This area also represents a key judgment made by management as described on page 57.** 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 £32,641,000. 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, 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 assessed the accuracy of cost forecasting by looking at outturn costs compared to budget on schemes that completed in the year. We have also stress tested 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 on 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.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Association financial statements	
	2021	2020	2021	2020
	£	£	£	£
Materiality	8,080,000	32,900,000	5,540,000	15,600,000
Basis for determining materiality	8% of adjusted operating surplus	1.6% of total assets	8% of adjusted operating surplus	1.6% of total assets
Performance materiality	5,656,000	23,030,000	3,878,000	10,920,000
Basis for determining performance materiality	70%	70%	70%	70%

Rationale for the benchmark applied

For the current year we have used 8% of adjusted operating surplus as the basis of materiality. The adjustment to operating surplus are to add back depreciation and any profit or loss on the sale of fixed assets which is inline with the strictest loan covenant definition. We have used this benchmark as we considered to the area of financial statements with the greatest interest to the principal users and the area with the greatest impact on investor and lender decisions. In the prior year we used 1.6% of total assets as we considered this to be the area of financial statements with the greatest interest to the principal users.

Specific materiality

In the prior year we also determined that for all items comprising adjusted operating profit (including related disclosures), a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items based on 8% of adjusted operating profit. We further applied a performance materiality level of 70% of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated

Component materiality

We set materiality for each component of the Group based on a percentage of between 1.7% and 68.5% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £140,000 to £5,540,000. In the audit of each component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Risk and Assurance Committee that we would report to them all individual audit differences in excess of £162,000 (2020: £658,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The board are responsible for the other information. The other information comprises the information included in the Report of the board of management, Strategic 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 we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information including the Chairman's statement, Chief Executive's statement, Report of the Board of Management and Strategic Report and Statement of Board's responsibilities in respect of the Board of management and strategic report and the financial statements and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

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

Responsibilities of the board

As explained more fully in the statement of the board's responsibilities set out on page 40, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board are responsible for assessing the 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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Group and Association and the industry in which it operates, we identified that the principal laws and regulations that directly affect the financial statements to be 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. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

In addition the Group and Association are subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: employment law, data protection and health and safety legislation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence if any.

In our assessment the areas of the financial statements most susceptible to material misstatement (either from fraud or error) are the calculation of any required impairments to assets or the judgments relating to the refinancing transactions. This is because these areas require a high degree of management judgment and accounting estimation. The responsible individual specifically reviewed the individuals allocated to work on these sections to ensure that they have the requisite competence to perform this work and to ensure they would identify any applicable non-compliance with laws and regulations.

Audit procedures performed by the engagement team included:

- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading minutes of meeting of those charged with governance, and reviewing correspondence with HMRC and Internal Audit reports;
- Challenging managements assumptions and justifications relating to the refinancing transactions in the year and the proposed treatment under the accounting standards;
- Challenging assumptions made by management in their significant accounting estimates in particular in relation to the net realisable value of properties held for sale; and
- In addressing the risk of fraud through management override of controls; testing the appropriateness of journal entries and other adjustments, in particular any journals posted to cash and material journal adjustments.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

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

Use of our report

This report is made solely to the 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

BDO LLP, Statutory Auditor

London

22 July 2021

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 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Turnover	4	210,383	189,001	153,597	138,799
Cost of sales	4	(18,426)	(14,390)	(13,110)	(10,348)
Operating costs	4	(123,392)	(121,979)	(92,721)	(94,761)
Surplus on disposal of fixed assets	11	8,258	28,198	6,233	18,354
Loss on disposal of other fixed assets	11	(87)	-	(87)	-
Operating surplus	4,7	76,736	80,830	53,912	52,044
Interest receivable and similar income	12	26	572	226	415
Interest payable and financing costs	13	(33,810)	(33,781)	(20,467)	(20,973)
Movement in fair value of non-hedging financial instruments	13	5,865	(5,315)	4,512	(4,482)
Surplus for the year		48,817	42,306	38,183	27,004
Actuarial (losses)/gains on defined benefit pension scheme	29	(18,050)	17,321	(9,213)	8,102
Movement in fair value of hedging financial instruments	13	22,245	(13,812)	16,357	(10,324)
Total comprehensive income for the year		53,012	45,815	45,327	24,782

All activities relate to continuing operations.

The notes on pages 50 to 86 form part of these financial statements.

Consolidated and Association statement of financial position

	Note	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Fixed assets					
Tangible fixed assets - housing properties	15	**2,037,328**	1,887,962	**1,376,255**	1,296,349
Other tangible fixed assets	16	**9,384**	9,337	**8,218**	8,482
Investment	17	**-**	-	**50**	50
Total fixed assets		**2,046,712**	1,897,299	**1,384,523**	1,304,881
Current assets					
Properties held for sale	18	**32,641**	35,785	**18,937**	22,993
Debtors: amounts falling due after more than one year	19	**-**	-	**-**	1,210
Trade and other debtors	19	**28,748**	27,050	**28,190**	23,164
Restricted cash	20	**4,646**	4,639	**3,102**	3,096
Cash and cash equivalents		**130,126**	94,581	**66,026**	55,164
		196,161	162,055	**116,255**	105,627
Creditors: amounts falling due in one year	21	**(79,168)**	(67,687)	**(54,076)**	(41,835)
Net current assets		**116,993**	94,368	**62,179**	63,792
Total assets less current liabilities		**2,163,705**	1,991,667	**1,446,702**	1,368,673
Creditors: amounts falling due after more than one year	22	**(1,782,679)**	(1,679,225)	**(1,138,130)**	(1,113,738)
Provisions for liabilities and charges	28	**(556)**	(85)	**(556)**	(85)
Pension scheme liability	29	**(31,785)**	(16,684)	**(18,131)**	(10,292)
Net assets		**348,685**	295,673	**289,885**	244,558
Capital and reserves					
Share capital	30	**-**	-	**-**	-
Cashflow hedge reserve		**(61,007)**	(83,252)	**(36,468)**	(52,825)
Income and expenditure reserve		**409,692**	378,925	**326,353**	297,383
Total capital and reserves		**348,685**	295,673	**289,885**	244,558

The notes on pages 50 to 86 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 20 July 2021.

Sheila Collins
Chairman of the Board

Nicholas Harris
Board Member

Anne Harling
Secretary

Consolidated and Association statement of changes in reserves

	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 2020	**(83,252)**	**378,925**	**295,673**	**(52,825)**	**297,383**	**244,558**
Surplus for the year	**-**	**48,817**	**48,817**	**-**	**38,183**	**38,183**
Actuarial losses on defined benefit pension scheme (DCC)	**-**	**(652)**	**(652)**	**-**	**(652)**	**(652)**
Actuarial losses on defined benefit pension scheme (SHPS)	**-**	**(17,398)**	**(17,398)**	**-**	**(8,561)**	**(8,561)**
Movement in fair value of hedging financial instruments	**22,245**	**-**	**22,245**	**16,357**	**-**	**16,357**
Balance at 31 March 2021	**(61,007)**	**409,692**	**348,685**	**(36,468)**	**326,353**	**289,885**
Balance at 1 April 2019	(69,440)	319,298	249,858	(42,501)	262,277	219,776
Surplus for the year	-	42,306	42,306	-	27,004	27,004
Actuarial losses on defined benefit pension scheme (DCC)	-	(583)	(583)	-	(583)	(583)
Actuarial gains on defined benefit pension scheme (SHPS)	-	17,904	17,904	-	8,685	8,685
Movement in fair value of hedging financial instruments	(13,812)	-	(13,812)	(10,324)	-	(10,324)
Balance at 31 March 2020	(83,252)	378,925	295,673	(52,825)	297,383	244,558

Consolidated statement of cash flow

	Group 2021 £'000	Group 2020 £'000
Cash flows from operating activities		
Surplus for the year	48,817	42,306
Carrying value of fixed assets disposed	8,498	20,018
Adjustments for non-cash items:		
Depreciation and impairment	32,430	30,616
Deferred government grants amortisation	(6,988)	(7,021)
Interest payable and financing costs	33,810	33,781
Interest receivable and similar income	(26)	(572)
Movement in fair value of hedging financial instruments	(5,865)	5,315
Non cash movements on defined benefit pension scheme	(2,949)	(2,405)
Decrease/(increase) in trade and other debtors	(8,450)	968
Decrease in trade and other creditors	(15,331)	(8,537)
Decrease/(increase) in properties held for sale	3,144	(12,465)
(Decrease)/increase in provisions	471	(255)
Net cash generated from operating activities	**87,561**	101,749
Cash flow from investing activities		
Purchase of fixed assets	(182,157)	(156,609)
Purchase of other fixed assets	(2,283)	(1,708)
Receipt of grant	45,417	37,808
Net cash used in investing activities	**(139,023)**	(120,509)
Cash flow from financing activities		
Interest paid on loans	(37,061)	(36,223)
Interest received	26	572
(Increase)/decrease in short term investment	(7)	(85)
New loans	28,000	44,500
Bonds proceeds	146,870	28,977
Bond repayments	(1,821)	(1,700)
Loan repayments	(49,000)	(24,951)
Net cash generated from financing activities	**87,007**	11,090
Net decrease in cash and cash equivalents	35,545	(7,670)
Cash and cash equivalents at beginning of year	94,581	102,251
Cash and cash equivalents at end of year	**130,126**	94,581

Notes to the financial statements

General notes

Statement of comprehensive income-related notes

Statement of financial position-related notes

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. On 31 March 2021, two registered social housing providers, Stonewater (3) Limited and Stonewater (4) Limited were merged into Stonewater Limited by way of transfer of engagement which was treated as a group reconstruction and so merger accounting has been applied.

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

After making enquiries and reviewing the 30-year financial plan, updated for current economic and business assumptions including stress testing and analysis of potential impact on covenants, the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for at least 12 months from the date on which the financial statements were approved for release. The financial statements have therefore been prepared on a going concern basis.

Stress testing covered the impact on our business of key economic factors, 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 adverse movements in inflation and interest rates. Although the plans do not exceed covenant safeguards, the more severe stresses may approach or exceed the covenants. The principal remedy in these 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 continue to be uncertain in light of the on going pandemic, 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) for the following 18 months. At 31 March 2021, Stonewater Limited had £66m of cash, £3.1m of short term investments and £317m of undrawn facilities, which exceeded contracted obligations less grant by £182m.

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.

Merger accounting

The transfer of engagements from Stonewater (3) Limited and Stonewater (4) Limited to Stonewater Limited on 31 March 2021 has been accounted for as a merger in the financial statements of the Association. Merger accounting involves combining all of the results and cashflows of all the parties involved from the beginning of the financial period in which the merger occurs. The comparative amounts are restated by including the results for all the combining entities for the previous accounting period and by combining their statement of financial positions as at the previous reporting date. Group reconstructions can be accounted for using merger accounting if certain criteria are met. The Board consider that merger accounting is appropriate because the transfer of engagements meets the following key criteria:

a) The ultimate equity holders remain the same and the rights of each equity holder relative to others are unchanged
b) No non-controlling interest in the net assets of the Group was altered as no non-controlling interest exists
c) The entities are Co-operative and Community Benefit Societies, and the Co-operative and Community Benefit Societies Act 2014 does not prohibit the use of merger accounting

As the Board consider that all criteria were met, merger accounting was required to be applied in the preparation of the Association's financial statements.

Full disclosure is outlined in note 35.

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

Notes to the financial statements

Operating segments
As there are publicly traded securities within the Group, a requirement arises to disclose information about Group operating segments under IFRS 8, even though the Group does not report under IFRS. Segmental information is disclosed in note 4(a) and 5(a) and as part of the analysis of housing properties 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.

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 of 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. A small amount of sales that had commenced before 31 March 2020 were allowed to continue through the programme and completed during 2020/21.

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.

Coronavirus Job Retention Scheme
Stonewater participated in the job retention, or furlough, scheme during the year. Amounts received under the scheme have been coded to other income in the income and expenditure account and are reported as such.

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 53).

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 Assets 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 basis.

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 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, where the obligation to repay or recycle exists, the grant is recorded on the statement of financial position.

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 the first tranche of shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche. Stock is stated at the lower of cost and net realisable value.

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.

Under FRS102 a substantial modification of the terms of an existing financial liability or a part of is treated as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group assesses whether Debt has been substantially modified by comparing a number of subjective factors pre- and post-refinancing, including changes to the contractually loan cashflows. If determined that the loan has not been substantially modified the amortisation period for issue costs is adjusted to the new loan maturity and no gain or loss on modification is recognised. If the modification is substantial the remaining unamortised issue costs associated with the loan are written off and the costs associated with the new loan are amortised over the life of the new loan.

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 (LNAV) 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.

Derivatives are accounted for in accordance with Section 12 of FRS 102. Derivatives are financial instruments held at fair value through profit or loss.

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 hedged item. Otherwise, the balance relating to the swap in cashflow hedge reserve is written off.

Where a loan is modified and it has been assessed as a non-substantial modification and the hedge documentation allows for the replacement of the hedged item by another similar loan the hedging relationship with the stand alone derivative continues.

Interest rate benchmarks

In the accounts the Group has applied the December 2019 Amendments to FRS 102: Interest rate benchmark reform. The amendments provide relief in applying the requirements of hedge accounting to certain hedges, including allowing the Group to assume that interest rate benchmarks on which hedged cash flows are based (e.g. LIBOR) will not be altered as a result of interest rate benchmark reform. Consequently, hedging relationships that may have otherwise been impacted by interest rate benchmark reform have remained in place and no additional ineffective portion of the hedge has been recognised.

Notes to the financial statements

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.

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
- Whether the amendments made to the terms of the loan agreements associated with the transfer of engagements are sufficiently substantial to require the recognition of a new loan. A substance based approach has been adopted for each loan to assess whether a substantial modification has taken place. Where it has been determined that there has been a non-substantial modification the amortisation of issue costs will be modified to take place over the new life of the loan. No gain or loss will arise at the date of modification
- Whether the refinancing of the loans associated with the transfer of engagements was a termination event for the cashflow hedging relationships between the loans and the standalone derivatives which hedge the loans

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 £69.4 million at 31 March 2021, compared to the fair value adopted of £74.1 million (2020: £106.9 million compared to 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 2021 £'000	Cost of sales 2021 £'000	Operating costs 2021 £'000	Surplus on disposal of fixed assets 2021 £'000	Operating surplus/(deficit) 2021 £'000
Social housing lettings	5	181,427		(120,378)		**61,049**
Other social housing activities:						
First tranche shared ownership sales		22,248	(18,426)			**3,822**
Development staff costs				(1,047)		**(1,047)**
Charitable donations				(1,907)		**(1,907)**
Job retention scheme		1,017				**1,017**
Legal settlements		5,691				**5,691**
Surplus on disposal of fixed assets	11				8,171	**8,171**
Activities other than social housing activities:				(60)		**(60)**
Other		-	-	-	-	-
Total		**210,383**	**(18,426)**	**(123,392)**	**8,171**	**76,736**

Stonewater participated in the Coronavirus job retention scheme and received £1m.

During 2020/21, Stonewater settled three legal cases out of court and received £5.7m.

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**

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

Association	Note	Turnover 2021 £'000	Cost of sales 2021 £'000	Operating costs 2021 £'000	Surplus on disposal of fixed assets 2021 £'000	Operating surplus/(deficit) 2021 £'000
Social housing lettings	5	131,198	-	(89,767)	-	41,431
Other social housing activities:						
First tranche shared ownership sales		15,691	(13,110)	-	-	2,581
Development staff costs		-	-	(1,047)	-	(1,047)
Charitable donations		-	-	(1,907)	-	(1,907)
Job retention scheme		1,017				1,017
Legal settlements		5,691				5,691
Surplus on disposal of fixed assets	11				6,146	6,146
Total		**153,597**	**(13,110)**	**(92,721)**	**6,146**	**53,912**

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	126,183	-	(91,375)	-	34,808
Other social housing activities:						
First tranche shared ownership sales		12,337	(10,348)	-	-	1,989
Development staff costs		-	-	(885)	-	(885)
Charitable donations		279	-	(2,501)	-	(2,222)
Surplus on disposal of fixed assets	11				18,354	18,354
Total		**138,799**	**(10,348)**	**(94,761)**	**18,354**	**52,044**

Notes to the financial statements

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 2021**	Total 2020
	£'000	£'000	£'000	£'000	**£'000**	£'000
Income from social housing lettings:						
Rent receivable net of identifiable service charges	109,427	12,206	7,341	24,670	**153,644**	144,722
Service charge income	9,666	7,563	1,732	735	**19,696**	18,693
Net rent receivable	119,093	19,769	9,073	25,405	**173,340**	163,415
Amortised government grants (note 23)	5,550	778	211	449	**6,988**	7,021
Other income	883	71	145	-	**1,099**	850
Income from social housing lettings	125,526	20,618	9,429	25,854	**181,427**	171,286
Expenditure on social housing lettings:						
Management	(22,644)	(3,988)	(2,858)	(4,983)	**(34,473)**	(31,627)
Service charge costs	(9,593)	(8,977)	(910)	(796)	**(20,276)**	(18,639)
Routine maintenance	(20,451)	(2,104)	(107)	(1,408)	**(24,070)**	(24,539)
Planned maintenance	(6,493)	(155)	-	(99)	**(6,747)**	(6,875)
Major repairs (note 15c)	(3,178)	209	(104)	(174)	**(3,247)**	(6,229)
Bad debts	(1,353)	(350)	(5)	(326)	**(2,034)**	(1,831)
Depreciation on housing properties – annual charge (note 7 and 15)	(20,602)	(2,684)	(1,342)	(3,757)	**(28,385)**	(26,883)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 15a)	(438)	(66)	-	(18)	**(522)**	(954)
Impairment on housing properties (note 7 and 15a)	(246)	-	(655)	(145)	**(1,046)**	(2,280)
Reversal of impairment (note 7 and 15a)	81	100	187	54	**422**	1,311
Expenditure on social housing lettings	**(84,917)**	**(18,015)**	**(5,794)**	**(11,652)**	**(120,378)**	(118,546)
Operating surplus on social housing lettings	**40,609**	**2,603**	**3,635**	**14,202**	**61,049**	52,740
Void losses	**(718)**	**(468)**	**(23)**	**(124)**	**(1,333)**	(1,848)

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 2021 £'000**	Total 2020 £'000
Income from social housing lettings:						
Rent receivable net of identifiable service charges	67,199	9,728	4,230	18,507	**99,664**	95,829
Service charge income	6,386	6,076	900	600	**13,962**	13,381
Net rent receivable	**73,585**	**15,804**	**5,130**	**19,107**	**113,626**	109,210
Amortised government grants (note 15c and 23)	3,301	614	89	431	**4,435**	4,423
Other income	8,783	1,439	1,097	1,818	**13,137**	12,550
Income from social housing lettings	**85,669**	**17,857**	**6,316**	**21,356**	**131,198**	126,183
Expenditure on social housing lettings:						
Management	(22,230)	(3,909)	(2,833)	(4,961)	**(33,933)**	(31,110)
Service charge costs	(6,457)	(7,085)	(549)	(735)	**(14,826)**	(13,914)
Routine maintenance	(11,552)	(1,855)	(84)	(965)	**(14,456)**	(16,182)
Planned maintenance	(4,196)	(126)	-	(80)	**(4,402)**	(5,136)
Major repairs (note 15c)	(2,063)	275	(55)	(157)	**(2,000)**	(4,678)
Bad debts	(787)	(342)	(4)	(242)	**(1,375)**	(1,264)
Depreciation on housing properties – annual charge (note 7 and 15b)	(11,843)	(2,140)	(878)	(3,140)	**(18,001)**	(17,406)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 15b)	(220)	(62)	-	(14)	**(296)**	(516)
Impairment on housing properties (note 7 and 15b)	-	-	(655)	(145)	**(800)**	(2,248)
Reversal of impairment (note 7 and 15b)	81	-	187	54	**322**	1,079
Expenditure on social housing lettings	**(59,267)**	**(15,244)**	**(4,871)**	**(10,385)**	**(89,767)**	(91,375)
Operating surplus/(deficit) on social housing lettings	**26,402**	**2,613**	**1,445**	**10,971**	**41,431**	34,808
Void losses	(435)	(428)	(32)	(97)	**(992)**	(1,305)

Notes to the financial statements

6. Units of housing stock

Group	At start of the year Number	Additions Number	Disposals Number	Reclassification Number	At the end of the year Number
General needs	20,739	308	(43)	(103)	**20,901**
Affordable	3,443	310	(3)	63	**3,813**
Shared ownership	2,517	294	(22)	(69)	**2,720**
Supported housing	430	4	(5)	11	**440**
Housing for older people	2,224	9	(25)	(1)	**2,207**
Other	29	3	-	1	**33**
Total owned	29,382	928	(98)	(98)	**30,114**
Accommodation managed for others	3,260	208	(8)	97	**3,557**
Total managed accommodation	32,642	1,136	(106)	(1)	**33,671**
Units managed by other associations	629	-	(46)	1	**584**
Total owned and managed accommodation	33,271	1,136	(152)	-	**34,255**
Units under construction	1,539				**2,577**

Association	At start of the year Number	Additions Number	Disposals Number	Reclassification Number	**At the end of the year Number**
General needs	12,694	70	(38)	(86)	**12,640**
Affordable	2,570	182	(3)	63	**2,812**
Shared ownership	1,416	203	(7)	(57)	**1,555**
Supported housing	368	-	(5)	4	**367**
Housing for older people	1,762	1	(25)	(1)	**1,737**
Other	22	3	-	1	**26**
Total owned	18,832	459	(78)	(76)	**19,137**
Accommodation managed for others	1,596	190	(1)	75	**1,860**
Total managed accommodation	20,428	649	(79)	(1)	**20,997**
Units managed by other associations	456	-	(42)	1	**415**
Total owned and managed accommodation	20,884	649	(121)	-	**21,412**
Units under construction	975				**1,765**

7. Operating surplus

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
This is arrived at after charging/(crediting):				
Depreciation of housing properties				
- annual charge (note 5 and 15b)	**28,385**	26,883	**18,001**	17,406
- accelerated depreciation (note 5 and 15b)	**522**	954	**296**	516
Depreciation of other tangible fixed assets (note 16)	**2,810**	1,820	**2,679**	1,569
Impairment of housing properties (note 5 and 15b)	**1,046**	2,280	**800**	2,248
Reversal of impairment of housing properties (note 5 and 15b)	**(422)**	(1,311)	**(322)**	(1,079)
Impairment of other tangible fixed assets (note 16)	**89**	-	**89**	-
Operating lease charges – land and building	**676**	752	**676**	502
Operating lease charges – other	**246**	304	**246**	304

Audit remuneration of £90,000 (excluding VAT) (2020: £85,000) represents the audit fee for all Group entities. The Association fee is £70,000 (excluding VAT) (2020: £66,000). Fees for other services were paid by the Group and Association of £9,100 (excluding VAT) (2020: £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 2021 £'000	Group 2020 £'000
FTE	**676**	690
Staff costs consists of:		
Wages and salaries	**25,142**	24,996
Social security costs	**2,401**	2,452
Other pension costs	**1,186**	1,167
Redundancy	**829**	112
Total	**29,558**	28,727

Notes to the financial statements

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 2021 £'000	Group 2020 £'000
Executive directors' remuneration	1,080	1,165
Amounts paid to non-executive directors	170	160
Pension contributions	35	44
Benefits in kind	34	33
Total	**1,319**	1,402

The highest total paid is to the Chief Executive in respect of remuneration, and the value was £221,000 (2020: £238,000), in addition pension contributions of £9,693 (2020: £10,074) 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 2021 Number	Group 2020 Number
£60,000 - £69,999	26	27
£70,000 - £79,999	17	12
£80,000 - £89,999	9	10
£90,000 - £99,999	8	8
£100,000 - £109,999	6	6
£110,000 - £119,999	-	2
£120,000 - £129,999	1	1
£140,000 - £149,999	2	-
£150,000 - £159,999	1	-
£160,000 - £169,999	1	1
£180,000 - £189,999	1	2
£200,000 - £209,999	1	1
£220,000 - £229,999	-	1
£240,000 - £249,999	1	-
£250,000 - £259,999	-	1
Total	**74**	72

10. Board members' remuneration

Name	Group 2021 £	Group 2020 £
Mr G Blunden	-	12,500
Mrs S Collins	25,000	12,500
Mr T Kazi	15,000	15,000
Mr P Hammond	5,000	15,000
Mr J Weguelin	-	7,500
Ms A Dokov	15,000	15,000
Mr B Roebuck	7,500	10,000
Mr D Wright	15,000	15,000
Ms J Crowe	15,000	12,500
Ms C Kearney	10,000	10,000
Mr A Lawrence	15,000	15,000
Ms J Bennett	15,000	12,500
Mr H Shields	14,167	7,500
Mr A Michie	8,333	-
Mr C Edis	10,000	-
Total	**170,000**	160,000

11. Surplus on disposal of fixed assets

Group	Shared ownership properties 2021 £'000	Other housing properties 2021 £'000	Voluntary Right to Buy 2021 £'000	Other fixed assets 2021 £'000	Total 2021 £'000	Total 2020 £'000
Disposal proceeds	8,027	6,981	1,758	10	**16,776**	49,128
Net book value of disposals (notes 15a and 16)	(4,822)	(2,982)	(563)	(131)	**(8,498)**	(19,978)
Other	(156)	94	(79)	34	**(107)**	(952)
Surplus on disposal of fixed assets	**3,049**	**4,093**	**1,116**	**(87)**	**8,171**	28,198

Association	Shared ownership properties 2021	Other housing properties 2021	Voluntary Right to Buy 2021	Other fixed assets 2021	Total 2021	Total 2020
	£'000	£'000	£'000	£'000	**£'000**	£'000
Disposal proceeds	5,103	5,865	558	10	**11,536**	33,235
Net book value of disposals (notes 15b and 16)	(3,307)	(2,042)	(203)	(122)	**(5,674)**	(14,301)
Other	(79)	368	(30)	25	**284**	(580)
Surplus on disposal of fixed assets	**1,717**	**4,191**	**325**	**(87)**	**6,146**	18,354

12. Interest receivable and similar income

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Interest receivable from Group undertakings	**-**	-	**205**	93
Interest receivable and similar income	**26**	572	**21**	322
Total	**26**	572	**226**	415

Notes to the financial statements

13. Interest payable and financing costs

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Interest on loans and overdrafts	37,191	35,924	15,218	15,425
Amortisation of issue costs	1,117	850	907	578
Interest payable to Group undertakings	-	-	7,144	7,103
Interest capitalised on construction on housing properties (note 15c)	(4,866)	(3,862)	(3,034)	(2,605)
Recycled capital grant fund (note 24)	12	63	7	38
Disposal proceeds fund (note 25)	-	-	-	-
Net interest on net defined benefit liability (note 29)	356	806	225	434
Total	33,810	33,781	20,467	20,973

Other financing costs through income and expenditure:				
Movement in fair value of non-hedging financial instruments	(5,865)	5,315	(4,512)	4,482
Other financing costs through other comprehensive income:				
Movement in fair value of hedging financial instruments	(22,245)	13,812	(16,357)	10,324

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.

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 2020	1,945,324	62,357	168,697	35,383	2,211,761
Additions:					
– construction costs	-	95,891	-	59,895	155,786
– replaced components (note 15c)	10,132	-	-	-	10,132
– completed properties	17,981		3,365		21,346
Transfer to completed properties	50,361	(50,361)	24,128	(24,128)	-
Disposals:					
– staircasing (note 11)	-	-	(5,152)	-	(5,152)
– other sales (note 11)	(4,367)	-	-	-	(4,367)
– components	(1,413)	-	-	-	(1,413)
At 31 March 2021	**2,018,018**	**107,887**	**191,038**	**71,150**	**2,388,093**
Depreciation:					
At 1 April 2020	310,476	-	9,378	-	319,854
Charge for the year (note 5 and 7)	27,055	-	1,330	-	28,385
Disposals during the year					
– staircasing (note 11)	-	-	(330)	-	(330)
– replaced components	(891)	-	-	-	(891)
– other (note 11)	(822)	-	-	-	(822)
At 31 March 2021	**335,818**	**-**	**10,378**	**-**	**346,196**
Provision for impairment:					
At 1 April 2020	695	-	3,233	17	3,945
Charge for the year (note 5 and 7)	391	-	637	18	1,046
Reversal of impairment (note 5 and 7)	(235)		(170)	(17)	(422)
At 31 March 2021	**851**	**-**	**3,700**	**18**	**4,569**
Net book value:					
At 31 March 2021	**1,681,349**	**107,887**	**176,960**	**71,132**	**2,037,328**
At 31 March 2020	1,634,153	62,357	156,086	35,366	1,887,962

Notes to the financial statements

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 2020	1,311,069	47,106	113,611	25,573	1,497,359
Additions:					
– construction costs	-	54,464	-	39,269	93,733
– completed properties	-	-	2,943	-	2,943
– replaced components (note 15c)	7,557	-	-	-	7,557
Transfer to completed properties	30,846	(30,846)	16,694	(16,694)	-
Disposals:					
– staircasing (note 11)	-	-	(3,492)	-	(3,492)
– other sales (note 11)	(2,867)	-	-	-	(2,867)
– components	(815)	-	-	-	(815)
At 31 March 2021	**1,345,790**	**70,724**	**129,756**	**48,148**	**1,594,418**
Depreciation:					
At 1 April 2020	192,628	-	4,694	-	197,322
Charge for the year (note 5 and 7)	17,136	-	865	-	18,001
Disposals during the year					
– staircasing (note 11)	-	-	(185)	-	(185)
- replaced components	(519)	-	-	-	(519)
- other (note 11)	(622)	-	-	-	(622)
At 31 March 2021	**208,623**	**-**	**5,374**	**-**	**213,997**
Provision for impairment:					
At 1 April 2020	438	-	3,233	17	3,688
Charge for the year (note 5 and 7)	145	-	638	18	800
Reversal of impairment (note 5 and 7)	(135)	-	(170)	(17)	(322)
At 31 March 2021	**448**	**-**	**3,700**	**18**	**4,166**
Net book value:					
At 31 March 2021	**1,136,719**	**70,724**	**120,682**	**48,130**	**1,376,255**
At 31 March 2020	1,118,003	47,106	105,684	25,556	1,296,349

15(c). Tangible fixed assets housing properties

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
The net book value of housing and other properties comprises:				
Freehold	**1,966,669**	1,816,825	**1,337,411**	1,257,679
Long leasehold	**70,659**	71,137	**38,844**	38,670
	2,037,328	1,887,962	**1,376,255**	1,296,349
Interest capitalisation:				
Interest capitalised in the year (note 13)	**4,866**	3,862	**3,034**	2,605
Cumulative interest capitalised	**50,926**	46,060	**30,316**	27,282
Rate used for capitalisation	**3.8%**	4.0%	**3.8%**	4.0%
Works to properties:				
Improvements to existing properties capitalised (note 15b)	**10,132**	15,699	**7,557**	11,321
Major repairs expenditure to income and expenditure account (note 5)	**3,247**	6,229	**2,000**	4,678
	13,379	21,928	**9,557**	15,999
Total social housing grant received or receivable to date as follows:				
Capital grant held in deferred income (note 23)	**651,518**	619,641	**438,835**	408,898
Recycled capital grant fund (note 24)	**11,052**	11,348	**6,505**	7,048
Amortised to statement of comprehensive income in year (note 5)	**6,988**	7,020	**4,435**	4,423
Write back amortisation on disposals (note 23)	**(632)**	(1,860)	**(470)**	(1,548)
Cumulative amortisation to reserves	**79,201**	72,845	**52,144**	48,179

Notes to the financial statements

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 and 31 March 2021, Stonewater determined that the global coronavirus pandemic 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. Three schemes were impaired as a result of this review.

A review of schemes with long-term void properties was undertaken and no schemes were identified where the recoverable amount was lower than the carrying amount.

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 more of the properties were purchased from owners.

Following the review, the Group has recognised a total impairment loss of £1.0m (2020: £2.2m) in respect of general needs completed properties and properties under construction. Impairment of £0.4m was reversed during the year on that are no longer impaired (2020: £1.3m).

The schemes impaired are as follows:

Group			
Scheme	Charge/ (Reversal) £'000	No. of units affected	Carrying value prior to Impairment
Affordable scheme 1	145	1	424
Active Development scheme 1	(54)	10	2,506
Sewage Treatment plant	(81)	N/A	-
High Rise block	498	64	498
Active Development scheme 2	139	10	2,513
Active Development scheme 3	(170)	6	1,466
Active Development scheme 4	(16)	10	2,019
Active Development scheme 5	(1)	5	1,042
Active Development scheme 6	2	9	1,950
Active Development scheme 7	16	5	1,065
General Needs scheme 1	246	33	3,138
Supported Housing scheme 1	(100)	4	95
	624	**157**	**16,716**

Association			
Scheme	Charge/ (Reversal) £'000	No. of units affected	Carrying value prior to Impairment
Affordable scheme 1	145	1	424
Active Development scheme 1	(54)	10	2,506
Sewage Treatment plant	(81)	N/A	-
High Rise block	498	64	498
Active Development scheme 2	139	10	2,513
Active Development scheme 3	(170)	6	1,466
Active Development scheme 4	(16)	10	2,019
Active Development scheme 5	(1)	5	1,042
Active Development scheme 6	2	9	1,950
Active Development scheme 7	16	5	1,065
	478	**120**	**13,483**

The breakdown of the brought forward impairment balances is as follows:

Group		
Scheme	Brought forward £'000	Reason for Impairment
Sewage Treatment plant	317	Cost of works
High Rise block	2,926	Cost of remedial works
Active Development scheme 3	170	Cost to Value exceeds 100%
Active Development scheme 4	122	Cost to Value exceeds 100%
Active Development scheme 5	16	Additional valuations re Covid19
Active Development scheme 6	1	Additional valuations re Covid19
Active Development scheme 9	136	Cost to Value exceeds 100%
General Needs scheme 1	159	Recoverable amount exceeded NBV
Supported Housing scheme 1	100	Dilapidation costs re Lease surrender
	3,947	

Association		
Scheme	Brought forward £'000	Reason for Impairment
Sewage Treatment plant	317	Cost of works
High Rise block	2,926	Cost of remedial works
Active Development scheme 3	170	Cost to Value exceeds 100%
Active Development scheme 4	122	Cost to Value exceeds 100%
Active Development scheme 5	16	Additional valuations re Covid19
Active Development scheme 6	1	Additional valuations re Covid19
Active Development scheme 9	136	Cost to Value exceeds 100%
	3,688	

Properties held for security

The Association had 15,156 properties pledged as security at 31 March 2021 with a net book value of £853.3m (2020: 15,163 properties, £832.9m). The Association had 4,396 completed assets that have not been charged, with a net book value of £404.1m (2020: 4,125 assets, NBV £390.8m).

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 2020	582	8,890	9,049	58	**18,579**
Additions	-	839	2,238	-	**3,077**
Disposals	-	(563)	(12)	(58)	**(633)**
At 31 March 2021	**582**	**9,166**	**11,275**	**-**	**21,023**
Depreciation:					
At 1 April 2020	402	5,208	3,574	58	**9,242**
Charge for year (note 7)	15	778	2,017	-	**2,810**
Disposals	-	(433)	(11)	(58)	**(502)**
Impairment charge	-	89	-	-	**89**
At 31 March 2021	**417**	**5,642**	**5,580**	**-**	**11,639**
Net book value:					
At 31 March 2021	**165**	**3,524**	**5,695**	**-**	**9,384**
At 31 March 2020	180	3,682	5,475	-	9,337

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 2020	139	6,509	9,051	58	**15,757**
Additions	-	388	2,238	-	**2,626**
Disposals	-	(544)	(12)	(58)	**(614)**
At 31 March 2021	139	6,353	11,277	-	**17,769**
Depreciation:					
At 1 April 2020	7	3,636	3,574	58	**7,275**
Charge for year (note 7)	2	660	2,017	-	**2,679**
Disposals	-	(423)	(11)	(58)	**(492)**
Impairment charge	-	89	-	-	**89**
At 31 March 2021	9	3,962	5,580	-	**9,551**
Net book value:					
At 31 March 2021	130	2,391	5,697	-	**8,218**
At 31 March 2020	132	2,873	5,477	-	8,482

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 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 incorporated companies.

At 31 March 2020, Stonewater Limited indirectly held 100% of the share capital of two registered social landlords, Stonewater (3) Limited and Stonewater (4) Limited. As detailed on page 28, at 31 March 2021 the Stonewater Group undertook a transfer of engagements from these two entities to Stonewater Limited, the ultimate parent of the Group.

18. Properties held for sale

	Group 2021 £'000	Group 2020 £'000	**Association 2021 £'000**	Association 2020 £'000
Housing properties for sale:				
Work in progress	**25,985**	29,259	**12,755**	16,820
Completed properties	**5,841**	4,045	**5,425**	4,045
Other property sales	**815**	2,481	**757**	2,128
	32,641	35,785	**18,937**	22,993

The stock figure above includes capitalised interest of £438k (2020: £471k).

Notes to the financial statements

19. Trade and other debtors

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'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	11,613	12,631	7,501	8,024
Less: provision for doubtful debts	(3,899)	(5,694)	(2,715)	(3,909)
	7,714	6,937	4,786	4,115
Service costs to be charged in future periods	7,120	4,356	6,209	3,974
Amounts owed by Group undertaking	-	-	7,468	710
Other debtors	7,745	2,434	3,561	1,390
Prepayment and accrued income	2,921	2,896	2,921	2,891
Social housing grant receivable	3,248	10,427	3,245	10,084
	28,748	27,050	28,190	23,164

20. Restricted cash

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Brought forward	4,639	4,554	3,096	3,098
Additions/(withdrawals)	7	85	6	(2)
Carried forward	4,646	4,639	3,102	3,096

Restricted cash primarily represents cash which is held in escrow as part of the Group and Association's financing arrangements.

21. Creditors – amounts falling due within one year

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Housing loans external (note 26)	**27,856**	20,253	**14,484**	5,750
Issue costs (note 26)	**(739)**	(730)	**(502)**	(499)
Housing loans internal (note 26)	**-**	-	**175**	218
Issue costs internal (note 26)	**-**	-	**(40)**	(36)
Trade creditors	**244**	4,626	**242**	4,423
Other creditors	**20,911**	16,467	**16,504**	12,537
Taxation and social security	**1,711**	1,634	**1,699**	1,568
Accruals and deferred income	**4,584**	2,458	**155**	1,080
Accrued interest	**6,128**	4,881	**1,824**	2,245
Retentions	**2,813**	2,572	**480**	525
Amounts owed to Group undertakings	**-**	-	**9,510**	3,348
Deferred capital grant (note 23)	**7,107**	7,108	**4,517**	4,517
Recycled capital grant fund (note 24)	**2,479**	2,981	**1,083**	2,377
Leaseholder sinking funds	**6,074**	5,437	**3,945**	3,782
	79,168	67,687	**54,076**	41,835

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

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Housing loans external (note 26)	**1,063,730**	945,821	**439,352**	440,325
Issue costs external (note 26)	**(7,998)**	(6,542)	**(4,302)**	(3,402)
Bond on lending (note 26)	**-**	-	**223,351**	189,986
Issue costs internal (note 26)	**-**	-	**(842)**	(762)
Derivative financial instruments (note 27)	**74,096**	119,046	**40,831**	78,539
Deferred capital grant (note 23)	**644,278**	612,533	**434,318**	404,381
Recycled capital grant fund (note 24)	**8,573**	8,367	**5,422**	4,671
	1,782,679	1,679,225	**1,138,130**	1,113,738

Notes to the financial statements

23. Deferred capital grant

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
At 1 April	619,641	588,882	408,898	379,571
Grants received during the year	38,665	41,872	34,458	36,594
Transfer to RCGF (note 24)	(1,825)	(4,506)	(970)	(2,970)
Transfer from RCGF (note 24)	2,133	767	1,397	301
Transfer from DPF (note 25)	-	310	-	104
Transfer from intercompany	-	-	-	620
Released to income in the year (note 5)	(6,988)	(7,021)	(4,435)	(4,423)
Write back amortisation on disposals (note 15c)	632	1,860	470	1,548
Other movements	(873)	(2,523)	(983)	(2,447)
At 31 March	651,385	619,641	438,835	408,898
Amounts due for repayments:				
- within one year (note 21)	7,107	7,108	4,517	4,517
- greater than one year (note 22)	644,278	612,533	434,318	404,381
	651,385	619,641	438,835	408,898

24. Recycled capital grant fund (RCGF)

Group	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
At 1 April	11,348	7,421	7,048	4,700
Inputs to fund:				
Grants recycled from deferred capital grants (note 23)	1,825	4,506	970	2,970
Grant recycled on VRTB disposals	-	125	-	125
Interest accrued (note 13)	12	63	7	38
Recycling of grant:				
New build (note 23)	(2,133)	(767)	(1,397)	(301)
Transferred to other Group members	-	-	(123)	(485)
At 31 March	11,052	11,348	6,505	7,048
Amounts due for repayments:				
- within one year (note 21)	2,479	2,981	1,083	2,377
- within two to three years (note 22)	8,573	8,367	5,422	4,671
	11,052	11,348	6,505	7,048

25. Disposal proceeds fund (DPF)

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
At 1 April	-	310	-	104
Inputs to fund:				
Grants recycled (note 23)	-	-	-	-
New development and repairs to existing properties (note 23)	-	(310)	-	(104)
Interest Accrued (note 13)	-	-	-	-
At 31 March	-	-	-	-
Amounts due:				
- within one year (note 21)	-	-	-	-
- within two to three years (note 22)	-	-	-	-
	-	-	-	-

26. Loans and borrowings – Group

Maturity of debt:	Bank loans 2021 £'000	Bond finance 2021 £'000	Other loans 2021 £'000	Total 2021 £'000
In one year or less, or on demand	24,875	2,673	308	**27,856**
Issue costs < one year	(625)	(114)	-	**(739)**
Within one year (note 21)	24,250	2,559	308	**27,117**
In more than one year but not more than two years	46,172	2,818	342	**49,332**
In more than two years but not more than five years	174,865	9,554	1,280	**185,699**
After five years	233,531	583,589	11,579	**828,699**
Issue costs	(4,251)	(3,747)	-	**(7,998)**
Greater than one year (note 22)	450,317	592,214	13,201	**1,055,732**
Total loans	474,567	594,773	13,509	**1,082,849**

During the year, the Group received proceeds of £147.6m from the settlement of £75m of 3.375% bonds with a maturity of 2045 which had been issued on a deferred basis and £75m of 3.04% Senior Secured Notes with a maturity of 2050.

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	381,989	439,328	12,053	**833,370**
Issue costs	(3,444)	(3,098)	-	**(6,542)**
Greater than one year (note 22)	477,484	448,285	13,510	**939,279**
Total loans	493,865	451,151	13,786	**958,802**

All of the bank loans mature by 2038.

Of the £594.8m bond finance, £441.4m has a repayment date between 2040 and 2050.

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 2021 were £1,509 million (2020: £1,286 million) of which £418 million were undrawn (2020: £320 million).

The amount of drawn debt secured on property assets is £1,091m (2020: £966m).

Notes to the financial statements

26. Loans and borrowings – Association

Maturity of debt:	Bank loans 2021 £'000	Bond finance 2021 £'000	Bond on lending 2021 £'000	Other loans 2021 £'000	**Total 2021 £'000**
In one year or less, or on demand	14,022	344	175	118	**14,659**
Issue costs < one year	(473)	(29)	(40)	-	**(542)**
Within one year (note 21)	13,549	315	135	118	**14,117**
In more than one year but not more than two years	35,244	354	171	131	**35,900**
In more than two years but not more than five years	144,956	1,113	539	492	**147,100**
After five years	142,027	108,234	222,641	6,801	**479,703**
Issue costs	(3,630)	(672)	(842)	-	**(5,144)**
Greater than one year (note 22)	318,597	109,029	222,509	7,424	**657,559**
Total loans	332,146	109,344	222,644	7,542	**671,676**

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	5,331	329	218	90	**5,968**
Issue costs < one year	(470)	(29)	(36)	-	**(535)**
Within one year (note 21)	4,861	300	182	90	**5,433**
In more than one year but not more than two years	6,106	345	211	118	**6,780**
In more than two years but not more than five years	39,078	1,084	672	441	**41,275**
After five years	277,553	108,617	189,103	6,983	**582,256**
Issue costs	(2,707)	(695)	(762)	-	**(4,164)**
Greater than one year (note 22)	320,030	109,351	189,224	7,542	**626,147**
Total loans	324,891	109,651	189,406	7,632	**631,580**

The amount of drawn debt secured on property assets is £677m (2020: £637m).

27. Financial instruments

The Group's financial instruments held at fair value through the profit and loss may be analysed as follows:

	Note	**Group 2021 £'000**	Group 2020 £'000
Derivative financial instruments designated as cash flow hedges	22	**57,308**	98,230
Other derivative financial instruments	22	**16,788**	20,816
Total		**74,096**	119,046

Derivative financial instruments are measured at fair value through the profit and loss based at each reporting date.

Hedge of variable interest rate risk arising from bank loan liabilities
To hedge the volatility of floating interest rates that it is charged on bank loans, the Group has entered into standalone derivatives with a notional amount of £257.2m. All the derivatives are interest rate swaps with the majority swapping floating rates of interest to fixed rates of interest. For accounting, where possible the Group designates a hedging relationship between the derivative and the bank loan (the hedged item) swaps with a notional of £222.2m have been designated as cashflow hedges. Over the next 7 years swaps with a notional of £163m which are designated as cashflow hedges will mature. There was a £22,245k reduction in the fair value of hedging value of hedging instruments recognised in other comprehensive income. £1,837k of ineffectiveness for non hedging financial instruments has been recognised in statement of comprehensive income.

The derivatives which are not designated for accounting purposes as cashflow hedges still reduce the volatility of Stonewater's floating interest rate exposure. The majority of these swaps mature in the period 2031- 2035.

Overall the Group pays 3.7% (2020: 3.8%) fixed and receives LIBOR (though cash flows are settled on a net basis) on its standalone swap portfolio.

After taking into account the derivatives, the Group pays an average interest rate on its borrowings of 3.5% (2020: 3.6% per annum).

28. Provisions for liabilities and charges

Group	Dilapidations £'000	**Total £'000**
At 1 April 2020	85	**85**
Charged to statement of comprehensive income	471	**471**
At 31 March 2021	**556**	**556**

Association	Dilapidations £'000	**Total £'000**
At 1 April 2020	85	**85**
Charged to statement of comprehensive income	471	**471**
At 31 March 2021	**556**	**556**

Dilapidations provisions relate to a leased scheme requiring refurbishment and three of Stonewater's leased offices. The outflows from these are expected in the next 12 months.

Notes to the financial statements

29. Pensions

Three schemes are operated by the Group. The tables below set out the impact of the pension scheme movements on the statement of other comprehensive income, and the statement of financial position.

Statement of comprehensive income	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Pension Liability				
DCC	**(652)**	(583)	**(652)**	(583)
SHPS	**(17,398)**	17,904	**(8,561)**	8,685
Total	**(18,050)**	17,321	**(9,213)**	8,102

Statement of financial position	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Pension Liability				
DCC	**5,124**	4,444	**5,124**	4,444
SHPS	**26,661**	12,240	**13,007**	5,848
Total	**31,785**	16,684	**18,131**	10,292

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 completed 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 Group 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.

Similarly, actuarial valuations of the scheme were carried out as at 30 September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive, and as at 30 September 2020 to inform the liabilities for accounting year ends from 31 March 2021 to 28 February 2022 inclusive.

The liabilities are compared, at the relevant accounting date, with the company's fair share of the Scheme's total assets to calculate the Group's net deficit or surplus.

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.

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 £652,000 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 2021 £'000	SHPS 2021 £'000	**Total 2021 £'000**	Total 2020 £'000
Fair value of plan assets	5,870	109,203	**115,073**	103,544
Present value of plan liabilities	(10,994)	(135,864)	**(146,858)**	(120,228)
Net pension scheme liability	(5,124)	(26,661)	**(31,785)**	(16,684)
Reconciliation of fair value of plan assets:				
At the beginning of the year/initial recognition	5,012	98,532	**103,544**	102,162
Interest income on plan assets	114	2,345	**2,459**	2,371
Return on assets less interest	1,046	8,192	**9,238**	(1,295)
Other actuarial gains	-	-	**-**	176
Administration expenses	(4)	-	**(4)**	(4)
Contributions by employer	130	3,312	**3,442**	3,360
Contributions by fund participants	14	-	**14**	14
Estimated benefits paid plus expenses	(442)	(3,178)	**(3,620)**	(3,240)
At the end of the year	5,870	109,203	**115,073**	103,544
Reconciliation of present value of plan liabilities:				
Defined benefit obligation at start of period/ initial recognition	(9,456)	(110,772)	**(120,228)**	(138,572)
Current service cost	(51)	-	**(51)**	(49)
Expenses	-	(82)	**(82)**	(96)
Interest expense	(217)	(2,598)	**(2,815)**	(3,177)
Contributions by plan participants	(14)	-	**(14)**	(14)
Actuarial gains (losses) due to scheme experience	149	2,559	**2,708**	1,435
Actuarial gains (losses) due to changes in demographic assumptions	102	(499)	**(397)**	1,192
Actuarial (losses)/gains due to changes in financial assumptions	(1,949)	(27,650)	**(29,599)**	15,813
Benefits paid and expenses	442	3,178	**3,620**	3,240
At the end of the year	(10,994)	(135,864)	**(146,858)**	(120,228)
Amounts recognised in other comprehensive income are as follows:				
Included in administrative expenses:				
Service costs	51	-	**51**	62
Administration expenses	4	82	**86**	87
	55	82	**137**	149
Amounts included in other finance costs				
Net interest costs (note 13)	103	253	**356**	806

Notes to the financial statements

29. Pensions continued

	DCC 2021 £'000	SHPS 2021 £'000	**Total 2021 £'000**	Total 2020 £'000
Analysis of actuarial loss recognised in other comprehensive income:				
Return on fund assets in excess of interest	1,046	8,192	**9,238**	(1,295)
Other actuarial gains (losses) on assets	-	-	**-**	176
Change in financial assumptions	(1,949)	(27,650)	**(29,599)**	15,813
Change in demographic assumptions – gain (loss)	102	(499)	**(397)**	1,192
Experience loss on defined benefit obligation	149	2,559	**2,708**	1,435
Total actuarial gains (losses)	(652)	(17,398)	**(18,050)**	17,321

	DCC 2021 £'000	SHPS 2021 £'000	**Total 2021 £'000**	Total 2020 £'000
Composition of plan assets:				
Equities	3,202	17,404	**20,606**	16,909
Liability driven investment	670	27,754	**28,424**	33,272
Cash	134	664	**798**	526
Other bonds	338	6,452	**6,790**	6,028
Diversified growth fund	289	-	**289**	284
Property	550	4,408	**4,958**	4,451
Infrastructure	358	7,281	**7,639**	7,679
Multi asset credit	300	-	**300**	224
Secured income funds	29	-	**29**	-
Debt	-	9,636	**9,636**	7,996
Alternatives	-	35,604	**35,604**	26,175
Total	5,870	109,203	**115,073**	103,544

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2021 was £11,697,000 (2020: £1,076,000).

	DCC 2021 %	**SHPS 2021 %**	DCC 2020 %	SHPS 2020 %
Principal actuarial assumptions used at the statement of financial position date:				
Discount rates:	**1.95**	**2.18**	2.35	2.38
Future salary increases	**3.90**	**3.87**	2.95	2.62
Future pension increases	**2.90**	**2.91**	1.95	1.79
Inflation assumptions - RPI	**3.35**	**3.27**	2.80	2.62
Inflation assumptions - CPI	**2.90**	**2.87**	1.95	1.62

Mortality rates:				
For a male aged 65 now	**23.1**	**21.6**	23.3	21.5
For a female aged 65 now	**24.6**	**23.5**	24.7	23.3
At 65 for a male member aged 45 now	**24.4**	**22.9**	24.7	22.9
At 65 for a female member aged 45 now	**26.0**	**25.1**	26.2	24.5

30. Share capital

Association	2021 £	2020 £
At 1 April	11	11
Shares issued in the year	2	2
Shares cancelled in the year	(2)	(2)
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 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Amounts payable as lessee:				
Not later than one year	**671**	871	**671**	719
Later than one year and not later than five years	**712**	1,379	**712**	1,147
Later than five years	**125**	312	**125**	312
	1,508	2,562	**1,508**	2,178

Notes to the financial statements

32. Capital commitments

	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Stock purchase exchanged but not completed	-	17,954	-	-
Commitments contracted but not provided for construction	692,174	352,694	423,334	247,678
Commitments approved by the Board but not contracted for construction	106,215	168,414	27,808	43,578
	798,389	539,062	451,142	291,256

The above capital commitments for the Group are projected to be funded from £103.1 million SHG (2020: £71m) and property sales of £174 million (2020: £150m) with the remainder funded from operating cashflow and external borrowings £521.3 million.

The above capital commitments for the Association are projected to be funded from £49.1 million SHG (2020: £35.3m) and property sales of £107 million (2020: £92m), with the remainder funded from operating cashflow and external borrowing £295 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:

	2021 £'000	2020 £'000
Staff costs recharge to Stonewater Procurement Limited and Stonewater Developments Limited	1,564	1,673
Management services provided to Stonewater Procurement Limited, Stonewater Developments Limited and Stonewater Funding PLC	407	452

Intra-Group costs

The Association receives design and build services from Stonewater Procurement Limited 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 Limited, 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:

	2021	2020
	£'000	£'000
Charge for the design and build service provided by Stonewater Procurement Limited	**39,733**	62,848
2.5% admin charge from Stonewater Procurement	**1,003**	1,568
Charge for development services provided by Stonewater Developments Limited	**21,744**	18,129
2.5% admin charge from Stonewater Developments Limited	**543**	453
Management fee charged by Stonewater Funding PLC	**65**	138

Intra-Group Liabilities

Stonewater Limited has loans in place with Stonewater Funding PLC.
At 31 March 2021 the outstanding amount was £222.6m (2020: £189.3m).

Stonewater (2) Limited has loans in place with Stonewater Funding PLC.
At 31 March 2021 the outstanding amount was £174.1m (2020: £75.8m).

Stonewater (5) Limited has a loan in place with Stonewater Funding PLC.
At 31 March 2021 the outstanding amount was £74m (2020: £59.8m).

	2021	2020
	£'000	£'000
Loan balance provided by Stonewater Funding PLC (after issue costs) (note 26)	**470,762**	324,950
Interest charged by Stonewater Funding PLC	**14,034**	11,723

Under the facilities the loans, which are repayable at various dates through to 2050, 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 2021, 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 2020	Cash flows	Other non-cash changes	**31 March 2021**
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	94,581	35,545	-	**130,126**
Bank loans	(493,867)	20,723	(1,423)	**(474,567)**
Bond finance	(451,151)	(145,049)	1,427	**(594,773)**
Other loans	(13,786)	277	-	**(13,509)**
Derivatives	(119,046)	27,660	17,290	**(74,096)**
Net debt	(983,269)	(60,844)	17,294	**(1,026,819)**

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

35. Merger accounting

On 31 March 2021, Stonewater (3) Limited and Stonewater (4) Limited, both registered providers of social housing, effected a transfer of engagements to the ultimate parent of the Group, Stonewater Limited.

At 31 March 2021, Stonewater Limited had net assets of £129.3m, Stonewater (3) Limited £120.7m, and Stonewater (4) Limited £39.9m. No material adjustments were required to align accounting policies.

The following tables present the results for each entity pre-merger, and the combined post-merger figures. The post-merger figures include eliminations of where the entities had intercompany transactions and are therefore not simply the sum of the three entities for each line.

Analysis of comprehensive income 2020/21	Pre-merger			Post-merger
Association	**Stonewater Limited**	**Stonewater (3) Limited**	**Stonewater (4) Limited**	**Stonewater Limited**
	£'000	£'000	£'000	£'000
Operating surplus	**33,747**	**10,442**	**3,577**	**47,766**
Surplus on sale of fixed assets	4,469	1,202	475	6,146
Interest receivable	371	3	3	226
Interest and financing costs	(15,755)	(3,382)	(1,481)	(20,467)
Movement in fair value of financial instruments	3,857	655	-	4,512
Surplus for the year	**26,689**	**8,920**	**2,574**	**38,183**
Actuarial gain/(loss) on pension schemes	(9,213)	-	-	(9,213)
Change in fair value of hedged financial instruments	14,829	1,528	-	16,357
Total comprehensive income	**32,305**	**10,448**	**2,574**	**45,327**

Analysis of comprehensive income 2019/20	Pre-merger			Post-merger
Association	**Stonewater Limited**	**Stonewater (3) Limited**	**Stonewater (4) Limited**	**Stonewater Limited**
	£'000	£'000	£'000	£'000
Operating surplus	**20,474**	**8,646**	**4,570**	**33,690**
Surplus on sale of fixed assets	11,264	2,417	4,673	**18,354**
Interest receivable	463	21	24	**415**
Interest and financing costs	(16,601)	(2,736)	(1,729)	**(20,973)**
Movement in fair value of financial instruments	(4,234)	(248)	-	**(4,482)**
Surplus for the year	**11,366**	**8,100**	**7,538**	**27,004**
Actuarial gain/(loss) on pension schemes	6,891	-	1,211	**8,102**
Change in fair value of hedged financial instruments	(9,635)	(689)	-	**(10,324)**
Total comprehensive income	**8,622**	**7,411**	**8,749**	**24,782**

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