Stonewater Limited

Registered Social Housing Provider – consolidated and entity

Financial Statements

Year ended 31 March 2016

Poundbury, in Dorset.

Co-operative and Community Benefit Society (FCA) number: 20558R. Homes and Communities Agency number: L1556.

Contents

Board of Management

George Blunden
Chair

George is an investment banker, he began his career as a community worker and had a spell in industry before moving to the City where he was a director of a number of financial institutions. He is currently Chair of the Charity Bank, which provides affordable loan finance to those charitable and social organisations who might find it difficult to access loans from commercial banks and is also a non-executive director of an insurance company.

Michael Collins

Michael has had a long career in senior positions in the IT and financial services sectors. Previously he was a Director and Deputy Chief Executive of an insurance organisation, and until retirement Managing Director of a property law firm. Michael chairs the digital transformation and IT strategy group.

Sheila Collins

Sheila is a solicitor specialising in law for the elderly and is a member of the Board of Bournemouth University. Prior to joining the Board she was, for 12 years, Chair of the Royal Bournemouth and Christchurch Hospitals Foundation Trust. Sheila chairs the Governance and HR Committee.

Anne Dokov

Anne's career has been mainly in the public sector, particularly local government. She has extensive experience of governance and specialist knowledge of equality, diversity and human resources. She runs her own consultancy working with small companies and individuals on HR and career development issues.

Peter Hammond

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

Brian Roebuck

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

John Weguelin

John is a banker with extensive experience of leading, motivating and directing multi-functional and diverse teams. He is currently CEO of Zenith Bank UK Ltd. His interests include property development, leadership and change management. John chairs the Finance Committee.

Colin Small

Colin has a long career in housing finance and has held number of finance director and non-executive positions within the housing sector. Colin provides consultancy services to housing associations and is a member of the Chartered Institute of Management Accountants Committee Membership. Colin chairs the Risk and Assurance Committee.

Doug Wright

Doug is a development and financial professional. He is a consultant for vulnerable people for the repair and improvement of their homes. Doug chairs the Assets and Development Committee.

Sue Terry

Sue's career in housing spans 30 years in both frontline and strategic roles. She is now an independent consultant and continues to work with housing organisations and charities, specialising in housing with care. Sue provides management coaching for care organisations and residential homes and also works with individuals, helping them achieve personal and career goals. Sue is chair of the Housing Committee.

Nicholas Harris

Nicholas is Stonewater's Designate CEO having been CEO of Raglan Housing Association since January 2010. He has extensive experience in both the social housing sector and local authorities and considerable knowledge in socio-economic regeneration matters.

Bob Strachan

Bob is Stonewater's Chief Executive Officer having been at the Jephson Group since 1988. Previous to this he held a number of senior executive positions in the housing sector. He is an architect, and a member of the Royal Institute of British Architects, as well as being a member of the Chartered Institute of Housing. Bob will be retiring at the end of this year. He will be succeeded by Nicholas Harris.

Executives and Advisors

Executive Directors Group
Bob Strachan
(Chief Executive)

Nicholas Harris
(Chief Executive-Designate)

Sue Shirt

Scott Baxendale

John Bruton

David Blower

Richard Stevenson
(until 30 June 2016)

Martin Ward
(until 30 June 2016)

David Jefferson
(until 31 March 2016)

Stuart Shore
(until 31 December 2015)

Principal Bankers
Barclays Bank
Level 27
1 Churchill Place
London
E14 5HP

Principal Solicitors
Devonshires Solicitors
30 Finsbury Circus
London
ECM 7DT

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

Auditors
BDO LLP
Two Snowhill
Birmingham
B4 6GA

Chairman's statement

George Blunden
Chair of Board

Stonewater's first full year of operation has been both challenging and successful. We have established ourselves as one of the leading social housing providers in the UK, both in terms of the size and geographic spread of our portfolio. We have around £172 million in turnover, £1.6 billion in assets and manage over 30,000 homes across England.

Along with the rest of the sector we have adopted major changes to accounting standards affecting grant, pensions and financial instruments. This will make these financial statements unfamiliar to readers. Without these changes the surplus for the year would have been £28.1m, compared to £25.0m in 2014-15.

Government policy, welfare reform and emerging regulatory changes are stirring a sea-change in the social housing sector. Against this backdrop we have been resolute in our vision of 'everyone having an opportunity to have a place they can call home'. Despite decreasing revenue (as a result of Budget impacts) we are continuing to deliver a significant development programme to provide good quality, affordable homes for those who most need them. We remain on target to deliver our projected merger benefits and are in a stronger position as Stonewater than either ex-legacy organisation – making our merger rationale more important than ever. Additionally, we have re-shaped our business to deliver efficiency savings, streamlined our Committee and Executive structures and are investing heavily in digital services to support our customer offer.

A successful commercial focus and a caring heart need not be mutually exclusive and customers remain at the centre of all that we do - whether they are disadvantaged young people in our Foyers, families moving into their first home, women escaping domestic abuse or older people in need of additional support. Understanding and responding to the needs of our customers and supporting communities remains a key measure of Stonewater's success.

I would like to take this opportunity to thank our retiring Chief Executive Bob Strachan, for his strong and effective leadership in setting Stonewater on the right path. Bob will be succeeded by Nicholas Harris (CEO Designate), from January 2017, and I have every confidence Nicholas will bring renewed energy and expertise in ensuring our continued success.

I would also like to thank my fellow Board Members and those who served on our Committees for their vision and support over the past 12 months. My particular appreciation goes to those retiring members who have given many years of great service and been key in helping create our vibrant new organisation.

Finally, much credit is due to Stonewater's leadership team and staff that have shown immense talent and commitment during what has been a very busy year.

George Blunden
Chair of Board
Stonewater Limited

Chief Executive's statement

Bob Strachan
Chief Executive

Against a maelstrom of sector change, Stonewater has emerged from its first full year of operation as a strong and visionary organisation. Our balance sheet remains robust, our staff resilient, our plans ambitious and our development programme significant.

One of Stonewater's key merger promises was to build more homes than either former legacy association could do individually. Despite Budget cuts, we are already delivering on this. During the course of 2015-2016, 651 homes were completed – 508 for rent and 143 for shared ownership and work started on the construction of a further 710 homes during the year. At 31 March 2016, we were in contract to build 1,325 homes.

In terms of our broad financial performance, we remain in a strong position with £172m turnover, and a £26m surplus for the year. We have spent £16.4m on maintaining and upgrading our property portfolio.

The need for good quality, affordable homes and services remains as critical as ever. As one of the UK's leading social housing providers we have a responsibility to engage in and influence the national policy agenda. In October (2015) Stonewater hosted a round table discussion ahead of the Government's Housing Bill and planned sector reforms which was attended by MP Clive Betts, Chair of the Department for Communities and Local Government Select Committee's (DCLG) Select Committee, and other housing association chief executives. We also provided a written submission and were invited to give oral evidence in Westminster to the DCLG's inquiry into the future of housing associations. We will continue to work with all levels of government to bring our expertise and considerable investment potential together to tackle the housing crisis.

My appreciation and thanks are due to residents, Board Members, colleagues, staff and everyone who is supporting Stonewater in making a real difference within the communities we serve.

This is a particularly heartfelt message as I prepare to retire at the end of this year (Dec 2016). Over the course of almost four decades in the sector, I have seen much change and have had the privilege of working with people dedicated to our social purpose. I am proud to have been part of the formation of Stonewater and to have helped guide the emerging organisation on the road to success. I know it will continue to play an important and substantial role in making a real difference to the lives of a great many people.

Bob Strachan
Chief Executive

Our Vision

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

Sherburn, in Elmet.

Report of the Board of Management and Strategic Report

The Board presents its report and audited financial statements for Stonewater Limited and its subsidiaries (the "Group" or "Stonewater") for the year ended 31 March 2016.

Nature of the business

Stonewater is a Registered Society under the Cooperative and Community Benefit Societies Act 2014, with charitable status, and a Registered Provider with the Homes and Communities Agency (HCA).

Stonewater's Vision and Mission

Stonewater's vision is for everyone to have the opportunity to have a place they can call home. Our mission is to offer high quality homes and services for people whose needs are not met by the open market.

Our Values and Behaviours guide the way we do things:

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

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

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

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

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

Report of the Board of Management and Strategic Report

Strategic Plan 2015-2020

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

Customer experience

> Deliver outstanding service that meets the diverse needs and aspirations of our customers.

> Deliver a retirement living service that meets the diverse needs and aspirations of our customers.

Growth and influence

> Deliver an ambitious programme to provide more homes for people in need.

> 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 operational key performance indicators.

> Invest in and support our people and promote a culture of high performance.

> Achieve value for money in all that we do.

Our objectives outline what we will do to achieve them and our values will guide us in how we do it. We are working against a backdrop of ever-increasing housing need, ever-decreasing resource and continuing uncertainty – both economic and legislative. What is clear however is that Stonewater's strong financial position, combined with our compelling vision and enthusiastic commitment will help us forge ahead. While there are challenges to navigate during our journey of transformation we have the expertise to ensure we do so successfully.

We have listened to our customers; we have clear vision from our Board, outstanding leadership within our Executive Director Group, great capability across our management community, genuine passion amongst our staff and strong commitment from our working partners.

Activities

Stonewater houses some of the most disadvantaged members of the community. Many residents are long-term unemployed and have a range of social, health and care needs that require a new approach to housing management.

In many of Stonewater's areas of operation, high house prices are increasing the demand for affordable housing.

During the year, Stonewater built 651 homes: 508 for affordable rent and 143 for shared ownership, and have delivered in line with our affordable home target from the Homes and Communities Agency (HCA) for the three years to March 2015.

Work continued on Stonewater's stock rationalisation programme. The asset development team achieved gross sales of £15.4m for this programme, which equates to just under £6.0m net and compares with last year's figures of £14.8m gross and £6.7m net. These sums will enable Stonewater to invest in new homes that are more energy efficient and cost less to maintain, bringing forward efficiencies for the business.

External environment

Housing supply and affordability

There is a continued under supply of new homes in England, and so the pressure on house prices and a shortage of affordable homes continues to be a challenge for the sector. Social rented homes construction is at its lowest level for almost 30 years and availability continues to decline. Just 8% of the population now lives in social housing compared with 42% in 1979.

An estimated 250,000 homes are needed in England each year. In 2015 142,890 new homes were completed, less than 60% of the number needed to meet demand.

House prices in England rose by 7.3% in the year to December 2015, and over the last 10 years have increased by 55%. The Office for Budget Responsibility (OBR) has predicted house price inflation to be 5% per year over the next 5 years, higher than its forecast for increases in average earnings.

The proportion of owner occupied households in England fell from a peak of 71% in 2003 to 64% in 2014 and those in private rented accommodation rose from 11% of households in the 2003 to 19% in 2015.

Private sector rents have also increased significantly in recent years. In December 2015 average private sector rental values in the UK, excluding London, were nearly 5% higher than a year earlier.

Welfare reform and cuts in government spending

The Work and Welfare Reform Act 2016 has reduced the cap on maximum levels of benefit entitlement for families to £20,000 outside London. It also restricted housing support for under 21 year olds and introduced plans to limit housing support to Local Housing Allowance (LHA) levels.

Changes to the regulatory framework

The Homes and Communities Agency (HCA) continues to focus on 'co-regulation'. Under this approach, the HCA's engagement with registered providers will be less frequent, but more focused and strategic, with a particular emphasis on risk management and mitigation and periodic in-depth assessments. The Housing and Planning Act 2016 has reduced the regulation of registered providers.

Demographic changes

The Office of National Statistics (ONS) has projected that the population of England will increase from an estimated 54.3 million in 2014 to 58.4 million in 2024. This 7% increase is higher than for the rest of the UK. 52% of this increase is due to a projected natural increase (more births than deaths) and 48% from the projected net number of migrants.

ONS data also shows that over the 10 years up to 2013 there was a 12% increase in the number of single person households in the UK. This increase was higher than the increase for any other household group. If this trend continues it suggests that the number of households (and therefore the need for more homes) will increase at a faster rate than the increase in the population as a whole.

Due to improved life expectancy it has also forecast that for the UK as a whole there will be a 35% increase in people aged 75 and over to 6.9 million in 2024, with a 33% increase in those aged 85 or over to 2 million. This may lead to a need for additional support services to enable older people to remain in their own homes.

Projected population of England in 2024

58.4m*

*Source the Office of National Statistics.

Regulation

The latest regulatory judgement issued by the HCA in February 2016 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).

Our Structure

Stonewater is one of the UK's leading social housing providers. We manage 30,000 homes across England, providing homes for rent, shared ownership, leasehold retirement living and supported accommodation.

As at 31 March 2016 Stonewater Limited had four registered provider subsidiaries:

Stonewater (2) Limited

Stonewater (3) Limited

Stonewater (4) Limited

Stonewater (5) Limited

Stonewater also has three wholly owned commercial subsidiaries:

Stonewater Procurement Limited – A company which provides design and build services for new properties.

Stonewater Funding plc – A company which provides external funding for the Group via the capital markets.

Stonewater Commercial Limited – Currently dormant.

Our Strategic Plan sets out what we will do to ensure that we continue to deliver our ambitions to build more homes and provide services that meet the needs of our customers.

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

Report of the Board of Management and Strategic Report

Performance

Within the new structure, the performance of the organisation is based around a suite of up to 25 KPIs. We will look at a selection of these below.

Customer contact

The Housing Services Centre (HSC) continued to provide an excellent level of service, in the context of attempts to 'channel' residents towards an increased online offer, whereby tasks such as paying rent and reporting repairs can be done on the internet. For the year ended 31 March 2016 93% of external calls were answered, with an average wait time of approximately 15 to 20 seconds.

Voids and Arrears

Gross arrears remained relatively low throughout 2015/16, despite a challenging environment of welfare reform. The Q4 figure of 3.31% was inflated by a delayed housing benefit payment from Calderdale Council, without which the figure would have been 3.25%. Nevertheless, performance remains ahead of both the peer group upper quartile (3.75%) and the Stonewater target (3.4%).

Development

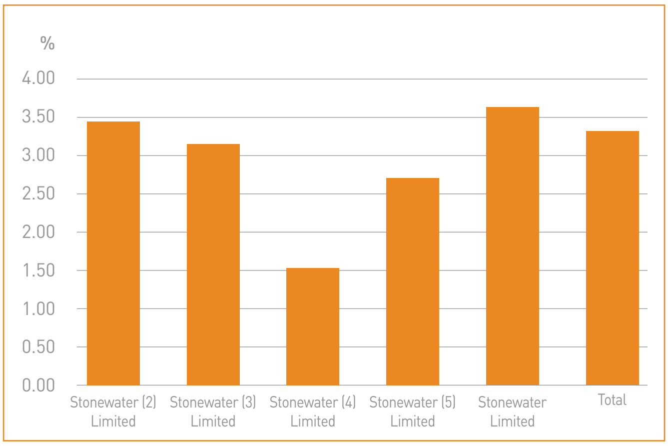
A total of 651 new homes were completed across the Stonewater Group during 2015/16. This was ahead of the target of 600 handovers, and was a significant increase on the 396 completions in 2014/15. Of these 651 properties, 508 were for rent and 143 were for shared ownership. Construction began on a total of 796 homes during the year, which suggests further success in development in the year to come.

Maintenance activity and satisfaction

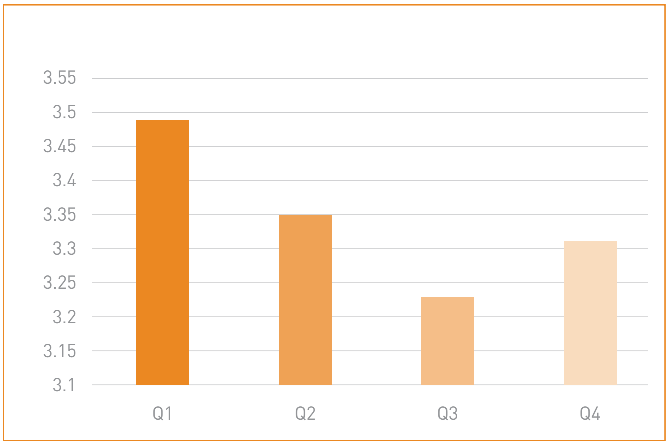
Satisfaction with responsive repairs remained high during 2015/16. For the Stonewater Group as a whole, satisfaction for the year was 87% (including 70% who were "very satisfied"), an improvement of 2% on the prior year. Only 9% were either "fairly" or "very" dissatisfied. Performance was relatively consistent across the Group with satisfaction scores fluctuating between 81% and 89% for the lowest and highest-performing associations.

During the course of the year we harmonised our approach to satisfaction surveys, with Voluntas now conducting surveys on behalf of Stonewater across all associations.

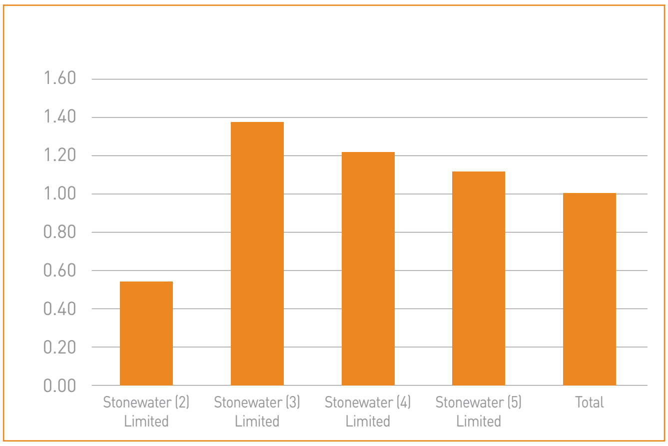
Gross arrears % 31 March 2016



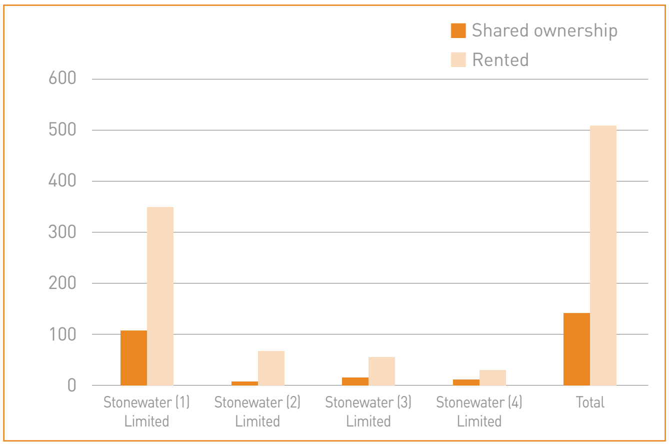
Group Gross Arrears % year end 31 March 2016



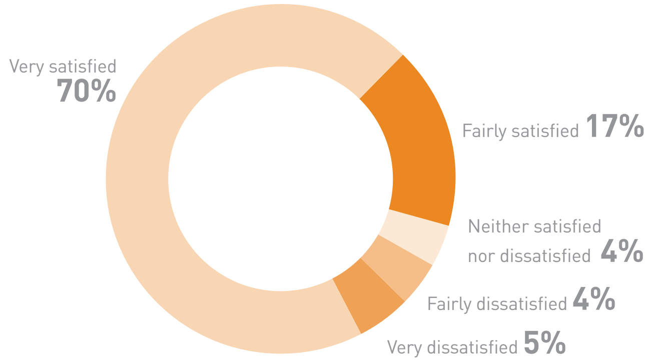
Void loss % 31 March 2016



Handovers by entity and tenure type



Responsive Repairs Satisfaction (All Stonewater)



Report of the Board of Management and Strategic Report

Resources

Board

The Board is responsible for the proper and effective management of Stonewater. The Board, working with the Executive Director Group (EDG) led by the Chief Executive, undertakes this role through strategic direction, establishing a framework for delegation, and holding the EDG to account for performance. This includes accountability to residents and other stakeholders, such as funding providers and partner local authorities. Board Members and the EDG are listed on pages 4-6. The Board comprised twelve members at 31 March 2016 including two executive members.

Current obligations of Board Members to the Board and the company

Board members are collectively responsible for ensuring the success of the company and for its compliance with all legal and regulatory obligations. Members are expected to comply with and uphold Stonewater's purpose, values, objectives and policies, share responsibility for decisions taken and represent the company. The board undertakes an annual appraisal of its performance, culminating in the identification of key targets for the year ahead.

In 2015 these were:

> Overseeing a successful integration programme.

> Delivery of the strategic plan.

> Focus on strategy.

> Compliance with regulatory standards.

Other actions for improvement arising from the appraisal are monitored through the governance action plan by the Governance and HR Committee.

Individual members are required to play an active role in the work of the Board and its committees. Each member has an individual annual appraisal, which provides an opportunity to review performance during the year and set objectives for the year ahead. Specific development needs identified through the appraisal are fed into the board learning and development programme.

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 residents and the communities where we work. The Board has set targets for improving diversity across the governance structure. The current Board comprises 25% female members; there are no members from a black or minority ethnic background and no disabled members. The average age of the membership at AGM 2015 was 61 years.

Governance structure

Following a governance review, the committee structure has been streamlined to five functional committees, each of which is chaired by a member of the board. The operations committees which were in place during 2015/16 have been disbanded and replaced with a single Housing Committee, which has responsibility for overseeing front-facing delivery of the affordable housing service, including the customer engagement and customer contact strategies. Each of The Risk and Assurance Committee and the Housing Committee include places for independent members.

Assets and Development Committee
Oversees Stonewater's asset investment programme, including growth projects and management of assets.
Finance Committee
Oversees Stonewater's finances and exercises borrowing and treasury powers.
Governance and HR Committee
Oversees Board and committee recruitment and performance, reviews members' remuneration and expenses, oversees the recruitment and performance of the Chief Executive, reviews staff terms and conditions.
Housing Committee
Oversees front facing delivery in relation to affordable landlord services, ensuring that Stonewater has knowledge and understanding of the impact of the service provision and Stonewater's activities on local communities.
Risk and Assurance Committee
Oversees risk management, the audit function and considers the annual financial statements and external and internal auditor's reports.

Policy for admitting new shareholders

The company is moving towards a closed membership in line with best practice.

Code of Governance

Stonewater adopted the 2015 National Housing Federation Code of Governance in June 2015 and complies fully with it.

Resources

Access to information

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

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

Executive Directors Group

We have an experienced Executive Directors Group that manages the day to day running of the business. The Executive team consists of our Chief Executive, Deputy Chief Executive and eight Executive Directors. The members of the Group are listed on page 6.

Staff strategies

As we implement post-merger restructures, staff turnover is expected to be higher than it will be in the longer term. We aim to manage the reduction in staff related costs through natural turnover, as opposed to compulsory redundancy, wherever possible. We also have an active Stonewater Staff Committee (SSC) who consult, inform and engage with staff as widely as possible. The SSC have informed and influenced the implementation of the integration change programme in order that the best outcomes for the new company can be achieved.

Stonewater commits more than 2% of its annual salary bill to provide learning and development, which exceeds the Chartered Institute of Personnel and Development's benchmark.

Leadership and management development remains a key priority, to enable the development of our strategic plan. The organisation has continued to focus on developing the key skills which enable effective performance management and development of individuals and teams.

We are taking part in the Sunday Times Best Companies to Work For survey to establish a baseline for improving employee engagement.

Stonewater is committed to an active equal opportunities policy from recruitment and selection, through training 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. The Group will fairly consider any employment applications made by disabled people. We will also attempt to continue employing staff who become disabled during their employment.

Stonewater recognises that the people it employs have a direct impact on business results.

Our staff strategies are designed to:

> Support Stonewater's business objectives and ambitions.

> Lead the organisation through change and improvement programmes.

> Foster strong and inspiring leadership which engages staff.

> Support enabling and engaging managers whose teams continually strive to improve performance.

> Enable staff to meet organisational and individual goals to provide a quality service to customers.

> Identify and foster talent and potential.

> Reward and recognise the contribution of staff appropriately.

> Provide a safe, inclusive and accessible working environment for all staff.

> Achieve value for money at all times.

Report of the Board of Management and Strategic Report

Corporate Communications

To help achieve the ambition of becoming an influential thought leader, the team work closely with a specialist public affairs agency. During the year a series of meetings were held with a number of MPs in their constituencies and in Westminster. Letters updating MPs on the merger were issued and we work closely with the Development team to ensure we establish and maintain relationships with MPs and local authority members in areas where we are looking to build our brand presence.

The Corporate Communications team led the work on all merger communications (internal and external) and established a dedicated intranet to ensure information was shared in a clear and timely manner. The team also led the development of the new Stonewater brand and a new Stonewater website which launched in January 2015, in parallel with social media platforms and a new intranet for staff. All offices were rebranded as Stonewater from the start of the year along with key corporate templates, documents and collateral.

Risks and uncertainties

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

The Board has also adopted a risk appetite statement and this is kept under review with changes made to reflect our requirements for liquidity and cumulative risk.

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

The key strategic risks at present are:

1. Welfare reform
2. Growth strategy
3. Financial viability
4. Financial – Brexit
5. Reputation
6. Social change and technology
7. Customer and service offer
8. Retirement living
9. Business transformation
10. Governance and leadership
11. Compliance control and assurance
12. Cultural differences
13. Health and safety
14. Business continuity
15. Cyber resilience

Relationships

Customer Engagement

We seek to put customer engagement at the heart of all our activities so that customers can both influence the delivery of housing services and play an active part in the governance of the company.

We have continued to provide a range of opportunities for residents to work with us to develop improved services and to improve the neighbourhoods where we have homes.

We are ensuring that customers are an essential part of planning for the future of Stonewater. A cross organisation Sounding Board of residents is key in providing oversight and intelligence of both strategic and operational plans for the new organisation.

Customer Insight

Our online Customer Insight panel has continued to be surveyed on a range of issues to inform our approach to operational and strategic matters. Specifically we carried out our STAR survey measure of customer satisfaction, with a further survey into the priorities and satisfaction of our retirement living customers processes and procedures. This input helped us to identify the priorities for improvement to ensure the most effective use of resources, and highlighted communication with customers as key in the management of antisocial behaviour cases.

Improving Service Delivery

Our focus is on continuously striving to improve services to customers in a cost effect manner. During the year, resident comment and opinion was key in us refining our antisocial behaviour management.

We worked closely with residents and with partner agencies to develop a pilot Playing Out approach. This encourages responsible play, and tolerance towards play, whilst developing the skills of customers in organising the activities.

Equality and Diversity

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

Slavery and Human Trafficking

Stonewater's slavery and human trafficking statement, for the financial year ending 31 March 2016, is available on our website **www.stonewater.org/modern-slavery-and-human-trafficking-statement/**.

Financial Inclusion

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

We continued to work with Experian on rental data sharing in order to improve access to favourable financial services for our customers.

Charitable Contributions

No charitable or political donations were made during the year (2015: nil).

Financial Position

Consolidated Statement of Comprehensive Income is summarised in the following table:

	2016 £'000	2015 £'000
Turnover	171,750	165,147
Operating costs	(109,816)	(107,886)
Cost of sales	(8,706)	(6,317)
Operating surplus	53,228	50,944
Net interest charges and finance costs	(33,248)	(40,291)
Surplus on sale of assets	5,930	6,709
Surplus for the financial year	25,910	17,362
Actuarial gains on defined benefit scheme	135	(1,076)
Movement in fair value of hedged instruments	(6,004)	(43,641)
Total comprehensive income/(deficit) for the year	20,041	(27,355)

Turnover

Turnover increased by £6.6m (4.0%) as a result of rent increases, increased housing stock and increased shared ownership sales.

Maintenance

Routine maintenance expenditure for the year was £19.6million, reduced from £23.9m in the prior year. The cost of planned works and major repairs charged to the income and expenditure account was £10.9m. The normal cycle of works means that expenditure varies from year to year. Capital expenditure on replacement of components was £16.4m (2015:£24m).

Operating Margin on Social Lettings

The operating margin on social housing letting decreased from 34.8% to 33.5% mainly due to higher costs which included costs' or 'a one-off'. Sales of first tranches of shared ownership properties showed a surplus of £1,659,000 (2015: £1,588,000).

Interest payable

	2016	2015
Average borrowings	£809 million	£773 million
Proportion fixed	72%	78%
Weighted cost of funds	4.11%	4.18%

Interest costs of £33m reduced by £7m primarily due to a decrease in losses arising on the fair value of non hedged derivative instruments.

Pension costs

Stonewater participates in two pensions schemes: The Dorset County Pension Fund (DCPF) which is accounted for as a defined benefit scheme under FRS 17 and the Social Housing Pension Scheme (SHPS) which is a multi-employer defined benefit scheme. From 1 April 2011 the SHPS defined benefit scheme was closed to new members. New employees will be offered the SHPS defined contribution scheme, with the employer matching the employees' contribution levels.

Stonewater's deficit in DCPF remained at £5m in the year. The value of the assets did not change materially.

The last formal valuation of the scheme was performed as at 30 September 2014 by a professionally qualified actuary using the 'projected unit method'. The market value of the scheme's assets at the valuation date was £2.062m. The valuation revealed a shortfall of assets compared with the value of liabilities of £1.035m, equivalent to a past service funding level of 67.0%.

During the year, the employer contribution rate was between 7% and 8.3%, depending on the level of benefit provided, plus deficit contributions of 7.5% of pensionable salaries. Following the 2014 valuation, filing service costs have been increased, but Stonewater has not yet received the allocation between the employer and the employee.

Report of the Board of Management and Strategic Report

Going concern

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

Treasury policies and objectives

Stonewater has a formal Treasury Management Policy agreed by the Board and which will be 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.

Stonewater has approval from the Regulator to use financial derivative instruments and this is incorporated in the registered Rules of Stonewater. Derivatives are not used for speculative purposes or in such a way that an additional exposure to market forces is created.

Qualifying third party indemnity provisions

The company has no qualifying third party indemnity provisions in place for the directors of Stonewater Limited.

Capital structure

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

No further sales of bonds were made during the year by the Group's finance vehicle Stonewater Funding plc.

During the year the Group converted one term loan temporarily into a 2 year revolving facility, after which this reverts to a term loan.

The Group has funding from ten bank lenders. An existing Stonewater (3) Limited facility with Clydesdale Bank was extended and increased by £10 million.

Total loan facilities at 31 March 2016 were £956m (2015: £967m) of which £172m were undrawn (2015: £142m).

Cash flows

Cash flow

During the year net cash-inflow of £16.1m (2015: £15.7m outflow) was generated by Group activities. £15.5m (2015: £16.0m) was received from the disposal of housing properties. As a developing association there were significant cash flows from new development. Spend was £93.1m before receipt of grant of £3.7m (2015: £98.3m before grant receipt of £9.9m). Scheduled loan repayments and re-financings were £98.1m (2015: £19.2m). A total of £58m was drawn from loan facilities (2015: £113.7m of which £40.8m related to the bond issue).

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 2016 cash balances were £46.2m (2015: £30.2m) and the balance of short term investments was £15.1m (2015: £113.2m). Cash and committed facilities exceeded the Group's contracted obligations by £77m. The excess of committed facilities over capital commitments is to ensure the proposed HCA development bid is fully funded.

As at 31 March 2016 derivative exposure positions with counterparties (after use of thresholds) was £105.2m (2015: £76.7m). This exposure was met by £94.9m of charged property security and £10.3m of cash collateral.

Loan covenants

Stonewater's performance against covenants is as follows:

	Covenant	2015/16
Interest cover		
Stonewater Limited	>110%	**199%**
Stonewater 2	>110%	**203%**
Stonewater 3	>105%	**266%**
Gearing		
Stonewater Limited	<85%	**79%**
Stonewater 2	<65%	**39%**
Stonewater 3	<50%	**25%**

Value for Money (VfM)

Our vision for VfM is a holistic and customer focused one that:

"Delivers quality services to our customers and works with our stakeholders in a way that is innovative, cost effective and maximises the return on our investments".

Governance and strategy

The Board of Stonewater set a VfM strategy at its inception. At an operational level the Finance Committee monitors delivery of the VfM strategy and action plan as well as maintaining strict oversight of budget and treasury management.

VfM is focused around delivering Stonewater's corporate objectives and the test applied is whether each objective meets the five principles contained in the VfM Framework:

1. Doing the right things.
2. Doing things economically.
3. Maximising the return from our staff.
4. Maximising the return from our assets.
5. Achieving the right outcomes.

Delivering VfM

Economy

The business case for the creation of Stonewater made two key promises:

> Provision of new homes.

> New and improved services for customers.

Our original business plan would have created significant savings to reinvest in new homes. Our revised business plan, adopted in October 2015 following the 2015 summer budget, will deliver savings of £79.3m over the 10 years from 2015/16.

The work we have started in our first year as Stonewater to bring together our structures and business systems will deliver savings of £10.9m per annum from 2020/21.

Efficiency

Return On Investment (ROI) - disposals and acquisitions

Stonewater has continued to invest further resources into the disposals and acquisitions team delivering significant returns. It continued to implement the rationalisation strategy set in 2013. Surpluses on disposal for the year were £6m (2015: £6.8m).

Sustainability

Having developed a new Sustainability Strategy work has begun to focus on improving the energy efficiency of our homes to improve the average SAP rating of our homes to 72 (compared to a UK national average of 57). At 31 March 2016 the average SAP rating of Stonewater properties was 71.86 (2015: 70.98).

Procurement and outsourcing

Stonewater has a specialist Procurement team and has adopted a 5 year plan which has identified £6.2m of potential savings, of which £0.5m has been achieved in 15/16. Over a 5 year period these new contracts will deliver savings of £2.3m.

Social Return On Investment (SROI)

SROI is a way to measure and account for the value created by work. Stonewater is adopting a SROI methodology such as that developed by the Housing Association Charitable Trust which has 'Value Insight' and includes:

> Complete stock and neighbourhood profiles.

> Strategic tool and project structure.

> Calculations of our social impact.

> Automatic generation of reports detailing performance against targets and aligned to financial year.

> An assessment of our local economic impact.

Projected savings	Year 1 2015-16 £,000	Year 2	Year 3	Year 4	Year 5	5 years cuml	10 years cuml
Per annum savings	(2,090)	1,396	3,974	10,223	10,935	24,440	79,367
Cumulative savings		(694)	3,281	13,504	24,440		

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Achieving the right outcomes

Comparative data for 2014/15 published by the Homes and Communities Agency (HCA) in 2016 shows our performance in the median quartile. Our target is to perform at lower quartile cost within 5 years and our projections show that our social housing cost per unit will fall 15% by 2019/20.

	Actual			Forecast		
	14-15	15-16	16-17	17-18	18-19	19-20
Social housing cost per unit	3.57	3.39	3.33	3.30	3.03	3.03
Sector level data						
Upper quartile	4.30					
Median	3.55					
Lower quartile	3.19					

A copy of our 2015/16 Value for Money (VfM) self-assessment is available on our website, as is a copy of the 2014/15 VfM self-assessment.

- > **2014/15 VfM self-assessment**
- > **2015/16 VfM self-assessment**

Future prospects

Following the announcement by the Government of its intention to require social landlords to reduce their rents, now incorporated in the Work and Welfare Reform Act, Stonewater reviewed its business plan to ensure its continued viability. The plan was reviewed again in April 2016 to keep it up to date. The key assumptions of the plan are:

Rents
Rents on social and affordable rent properties are assumed to fall by 1% each year from 2016-17 to 2019-20. Thereafter (as a change from the October Plan), increases are assumed to be CPI only from 2020-21, before returning to CPI + 1% from 2025-26.

Inflation – Consumer price index (CPI)
1.5% for 2017-18 to 2021-22, 2.0% thereafter.

London Interbank Offered Rate (LIBOR)
0.85% in 2016-17 (as per Budget), rising to 4% by 2022-23.

Maintenance and development costs
CPI + 1.5% until 2021-22, CPI + 1% thereafter.

Other non-staff costs
CPI + 0.5%.

Voids and bad debts
1.5% each in 2016-17, reflecting the risks from welfare reform 1.25% each in 2017-18, and 1% thereafter.

Queensway, in Southampton.

Expected income and expenditure is as follows:

Income and expenditure	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
Rent and service charges	158.1	159.8	159.9	160.6	164.0
Other income	0.7	0.7	0.7	0.8	0.8
Less: voids	-2.4	-2.0	-1.6	-1.6	-1.6
Income from social housing lettings	156.4	158.5	159.0	159.8	163.2
Management and service costs	57.2	57.4	57.7	57.9	58.5
Responsive and planned maintenance	31.5	29.3	29.9	30.5	32.0
Bad debts	2.4	2.0	1.6	1.6	1.6
Property depreciation	20.2	22.5	23.5	24.0	25.1
Merger savings and other costs	0.0	-2.3	-3.7	-3.9	-3.9
Total operating costs	111.3	108.9	108.9	110.1	113.3
Surplus/(deficit) on social housing lettings	45.1	49.7	50.1	49.7	49.9
Other income	2.6	3.2	2.7	3.2	3.5
Surplus on sale of properties	5.0	7.5	9.1	9.4	9.8
Surplus before interest	52.7	60.4	61.9	62.3	63.2
Net interest	31.2	34.9	34.8	35.5	36.7
Retained surplus	**21.5**	**25.5**	**27.1**	**26.8**	**26.6**
Capitalised Components	13.8	18.8	11.8	11.7	12.9

Development over the next 10 years is planned to be over 3,100 affordable rented units and 1,500 shared ownership units. In addition a limited build for sale programme is included in the plan. Sale of new properties is limited to 12.5% of turnover.

The plan has been stress tested for a 'perfect storm' of events that the Board considers might affect the plan, including increased negative mark to market valuations of the derivatives and Britain leaving the EU.

The main source of uncertainty is considered to be the vote on 23 June for the UK to leave the European Union. The immediate impact is sustainable within the plan but there could be further effects on the financial market, the economy and government policy.

Internal controls assurance

The Board has overall responsibility for establishing and maintaining the system of internal control and for reviewing its effectiveness across Stonewater.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and provide reasonable assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of Stonewater's assets and interests.

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 and is consistent with the principles of the Financial Reporting Council's Combined Code on Corporate Governance as incorporated in the Housing Corporation circular 07/07: Internal Controls Assurance, now withdrawn, but considered good practice.

The process adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework, includes:

> Identification and evaluation of key risks
Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is an ongoing process of management review in each area of Stonewater's activities. This process is summarised in an annual report considered by the Risk and Assurance Committee. 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

Report of the Board of Management and Strategic Report

hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those with a material impact on the financial statements.

> 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. The Board has adopted the National Housing Federation (NHF) Code of Conduct. Stonewater's own Code of Conduct is disseminated to all employees. This sets out Stonewater's stance with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data protection and fraud, including its prevention, detection and reporting, and the recovery of assets.

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

The internal control framework and the risk management process are subject to regular review by Internal Audit, who are responsible for providing independent assurance to the Board via the Risk and Assurance Committee. The Risk and Assurance Committee considers internal control at each of its meetings during the year.

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 (no entries in the year) 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 ongoing process for identifying, evaluating and managing significant risks facing 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, the regulatory requirement as established by Homes and Communities Agency including all aspects of law.

Disclosure of information to auditors

The Board Members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which Stonewater's auditors are unaware; and each Board Member has taken all the steps that he / she ought to have taken to make himself / herself aware of any relevant audit information and to establish that Stonewater's auditors are aware of that information.

Auditors

Following a re-tendering exercise, BDO were appointed as Stonewater's external auditors for 2015/16 on 6th October 2015.

By order of the Board

George Blunden
Chair of Board
26 July 2016

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

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Stonewater and of the income and expenditure of the Group and Stonewater for that period.

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

> Select suitable accounting policies and then apply them consistently;

> Make judgements and estimates that are reasonable and prudent;

> State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and

> Prepare the financial statements on the going concern basis unless it is inappropriate to presume that Stonewater will continue in business.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of Stonewater and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of Stonewater and to prevent and detect fraud and other irregularities.

Independent auditor's report

We have audited the financial statements of Stonewater Limited for the year ended 31 March 2016 which comprise the consolidated and association statement of comprehensive income, the consolidated and association balance sheet, the consolidated and association statement of changes in reserves, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditors

As explained more fully in the statement of Board Member responsibilities, the Board Members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at **www.frc.org.uk/auditscopeukprivate**.

Opinion on financial statements

In our opinion the financial statements:

> give a true and fair view of the state of the Group's and parent association's affairs as at 31 March 2016 and of the Group's and parent association's surplus for the year then ended;

> have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

> have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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 to report to you if, in our opinion:

> the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;

> adequate accounting records have not been kept by the parent association; or

> a satisfactory system of control has not been maintained over transactions; or

> the parent association financial statements are not in agreement with the accounting records and returns; or

> we have not received all the information and explanations we require for our audit.

BDO LLP, statutory auditor
Birmingham
United Kingdom
5 August 2016

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

Newcroft Court, Yeovil
– handover of new homes.

Consolidated and Association statement of comprehensive income

For the year ended 31 March 2016

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Turnover	4	**171,750**	165,147	91,075	76,019
Cost of sales	4	**(8,706)**	(6,317)	(5,645)	(4,594)
Operating costs	4	**(109,816)**	(107,886)	(62,532)	(45,665)
Operating surplus	4, 8	**53,228**	50,944	22,898	25,760
Surplus/(deficit) on disposal of fixed assets	11	**5,930**	6,709	3,365	4,932
Other interest receivable and similar income	12	**611**	419	442	219
Interest and financing costs	13	**(31,657)**	(30,166)	(15,339)	(14,215)
Movement in fair value of non hedged financial instruments	13	**(2,202)**	(10,544)	(1,630)	(5,852)
Surplus for the financial year		**25,910**	17,362	9,736	10,844
Actuarial gains/(losses) on defined benefit pension scheme	29	**135**	(1,076)	135	(1,076)
Movement in fair value of hedged financial instruments	13	**(6,004)**	(43,641)	(3,322)	(27,102)
Total comprehensive income/(deficit) for the year		**20,041**	(27,355)	6,549	(17,334)

All activities relate to continuing operations.

The notes on pages 33 to 74 form part of these financial statements.

Consolidated and Association balance sheets

At 31 March 2016

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Fixed assets					
Housing properties	15	**1,623,996**	1,560,230	794,436	741,184
Other fixed assets	16	**7,555**	7,942	1,759	1,682
Investments	17	**-**	-	13	13
		1,631,551	1,568,172	796,208	742,879
Current assets					
Properties held for sale	18	**9,233**	8,396	7,097	6,345
Debtors	19	**10,226**	14,109	10,399	9,720
Investment	20	**15,094**	113,246	10,910	40,595
Cash and cash equivalents		**46,271**	30,186	10,498	20,217
		80,824	165,937	38,904	76,877
Creditors: amounts falling due within one year	21	**(39,468)**	(68,170)	(23,834)	(47,090)
Net current assets		**41,356**	97,767	15,070	29,787
Total assets less current liabilities		**1,672,907**	1,665,939	811,278	772,666
Creditors: amounts falling due after more than one year	22	**(1,501,184)**	(1,518,071)	(750,255)	(719,388)
Provisions and other liabilities	28	**(19,719)**	(14,557)	(8,590)	(6,056)
Net assets excluding pension liability		**152,004**	133,311	52,433	47,222
Pension liability	29	**(5,025)**	(5,096)	(5,025)	(5,096)
Net assets		**146,979**	128,215	47,408	42,126
Capital and reserves					
Called up share capital	30	**-**	-	-	-
Cash flow hedge reserve		**(99,219)**	(93,215)	(61,727)	(58,405)
Income and expenditure reserve		**246,198**	221,430	109,135	100,531
		146,979	128,215	47,408	42,126

The financial statements were approved by the Board of Directors and authorised for issue on 26th July 2016.

G Blunden
Chair of the Board

N Harris
Board Member

A Harling
Secretary

The notes on pages 33 to 74 form part of these financial statements.

Consolidated and Association statement of changes in reserves

For the year ended 31 March 2016

	Group Cash flow hedge reserve £'000	Group Income and expenditure reserve £'000	Group Total £'000	Association Cash flow hedge reserve £'000	Association Income and expenditure reserve £'000	Association Total £'000
Balance at 1 April 2015	(93,215)	221,430	128,215	(58,405)	100,531	42,126
Surplus for the year	-	25,910	25,910	-	9,736	9,736
Transfer of sinking funds to creditors	-	(1,277)	(1,277)	-	(1,267)	(1,267)
Actuarial gains/(losses) on defined benefit pension scheme	-	135	135	-	135	135
Movement in fair value of hedged financial instrument	(6,004)	-	(6,004)	(3,322)	-	(3,322)
Balance at 31 March 2016	(99,219)	246,198	146,979	(61,727)	109,135	47,408
Balance at 1 April 2014	(49,574)	205,144	155,570	(31,303)	90,763	59,460
Surplus for the year	-	17,362	17,362	-	10,844	10,844
Actuarial gains/(losses) on defined benefit pension scheme	-	(1,076)	(1,076)	-	(1,076)	(1,076)
Movement in fair value of hedged financial instrument	(43,641)	-	(43,641)	(27,102)	-	(27,102)
Balance at 31 March 2015	(93,215)	221,430	128,215	(58,405)	100,531	42,126

Consolidated statement of cash flows

At 31 March 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Surplus/(deficit) for the financial year	**25,910**	17,362
Adjustments for:		
Depreciation of fixed assets – housing properties	**23,339**	25,629
Depreciation of fixed assets – other	**1,598**	1,282
Impairment of development land and completed properties	**131**	698
Amortised grant	**(6,838)**	(9,192)
Net fair value losses/(gains) recognised in profit or loss (financial instruments)	**2,202**	10,544
Interest payable and finance costs	**31,492**	30,001
Finance costs (pension)	**165**	167
Interest received	**(611)**	(419)
Surplus on the sale of fixed assets - housing properties	**(5,930)**	(6,709)
Decrease/(increase) in trade and other debtors	**3,885**	1,724
Decrease/(increase) in properties held for sale	**(837)**	854
Increase/(decrease) in creditors	**(8,691)**	(1,131)
Net cash generated from operating activities	**65,815**	70,810
Cash flows from investing activities		
Proceeds from sale of fixed assets – housing properties	**15,469**	16,027
Purchase of fixed assets – housing properties	**(93,098)**	(98,287)
Purchases of fixed assets – other	**(1,293)**	(498)
Receipt of grant	**2,744**	9,641
Net cash from investing activities	**(76,178)**	(73,117)
Cash flows from financing activities		
Interest paid on loans	**(32,192)**	(32,288)
Interest received	**611**	316
Decrease/(increase) in short term investment	**98,152**	(75,959)
New loans – bank	**58,000**	113,735
Loan repayments	**(98,123)**	(19,159)
Net cash generated/(used) in financing activities	**26,448**	(13,355)
Net increase/(decrease) in cash and cash equivalents	**16,085**	(15,662)
Cash and cash equivalents at beginning of year	**30,186**	45,848
Cash and cash equivalents at end of year	**46,271**	30,186

The notes on page 33 to 74 form part of these financial statements.

Notes forming part of the financial statements

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Notes to the Financial Statements

1. Legal status

Stonewater is registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and is registered with the Homes and Communities Agency as a social housing provider.

2. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Stonewater Limited 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 2014, 'Accounting by registered social housing providers' 2014, the Accounting Direction for Private Registered Providers of Social Housing 2015.

FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015 but may be applied early to periods ending on or after 31 December 2012. Information on the impact of first-time adoption of FRS 102 is given in note 34.

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.

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.

The following principal accounting policies have been applied:

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. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

In accordance with the transitional exemption available in FRS 102, the Group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 1 January 2012.

Turnover

Turnover is measured at the fair value of the consideration received or receivable. The group generates the following material income streams:

> Rental income receivable (after deducting lost rent from void properties available for letting),

> First tranche sales of Low Cost Home Ownership housing properties developed for sale,

> Service charges receivable,

> Revenue grants and proceeds from the sale of land and property.

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

Supported housing schemes

The Group receives Supporting People grants from a number of London Boroughs and County Councils. The grants received in the period as well as costs incurred by the Group in the provision of support services have been included in the Income and Expenditure Account. Any excess of cost over the grant received is borne by the Group where it is not recoverable from tenants.

Notes to the Financial Statements

Service charges

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

Management of units owned by others

Management fees receivable and reimbursed expenses are shown as income and included in management fees receivable. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

Schemes managed by agents

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

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 Group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Pension costs

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

The Association participates in a pension scheme providing benefits based on pensionable pay. The difference between the fair value of the assets held in the Association's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Association and group's balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the Association is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

The Group and Association participate in the Social Housing Pension Scheme (SHPS) which provides benefits based on pensionable pay. The assets of the scheme are held separately from those of the Group and Association.

Holiday pay accrual

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

Tangible fixed assets – Housing properties

Housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable).

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

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

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

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

When housing properties are for sale to another social landlord, the cost is dealt with in current assets under housing properties and stock for sale.

Completed housing properties acquired from subsidiaries are valued at existing use value for social housing at the date of acquisition.

Notes to the Financial Statements

Depreciation of housing property

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

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

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

The cost of all other housing property (net of accumulated depreciation to date and impairment, where applicable) and components is depreciated over the useful economic lives of the assets.

Housing properties are split between the structure and the major components which require periodic replacement. The costs of replacement or restoration of these components are capitalised and depreciated over the estimated useful economic life as follows:

Description	Estimated economic life
Boiler	15
Kitchens	20
Heating systems and bathrooms	30
Electrics	40
Windows	35
Roof covers	70
Structure	80 to 110

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.

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.

Shared ownership properties and staircasing

Under low cost home ownership arrangements, the Group disposes of a long lease on low cost home ownership housing units for a share ranging between 25% and 75% of value. The buyer has the right to purchase further proportions and up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

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

For shared ownership accommodation that the Group is responsible for, it is the Group's policy to maintain them in a continuous state of sound repair. Maintenance of other shared ownership properties is the responsibility of the shared owner. Any impairment in the value of such properties is charged to the Statement of Comprehensive Income.

Allocation of costs for mixed tenure and shared ownership developments

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

Tangible fixed assets – Other

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

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

Notes to the Financial Statements

Depreciation of other tangible fixed assets

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	Economic useful life (years)
Freehold buildings – other	50-100
Leasehold land and buildings	Lease term
Furniture and equipment (scheme)	8
Furniture and equipment (leasehold)	5
Motor vehicles	4
Computers	3

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

Government grants

Grants received in relation to assets that are presented at deemed cost at the date of transition have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grant received since the transition date in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected (see table of useful economic lives on page 35).

Where Social Housing Grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account over 80-110 years dependant on the type of property.

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

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

Recycled capital grant fund

On the occurrence of certain relevant events, primarily the sale of dwellings, the Homes and Communities Agency (HCA) can direct Stonewater to recycle capital grants or to make repayments of the recoverable amount. The Group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the HCA with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used within one year is disclosed in the balance sheet under 'creditors due after more than one year'. The remainder is disclosed under 'creditors due within one year'.

Disposal Proceeds Fund

Receipts from Right to Acquire (RTA) sales are required to be retained in a ring fenced fund that can only be used for providing replacement housing. The sales receipts less eligible expenses are credited to the Disposal Proceeds Fund. Any sales receipts less eligible expenses held within disposal proceeds fund, which it is anticipated will not be used within one year is disclosed in the balance sheet under 'creditors due after more than one year'. The remainder is disclosed under 'creditors due within one year'.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Impairment of fixed assets

The housing property portfolio for the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then 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 or depreciated replacement value. An option appraisal is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The Group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use. No properties have been valued at Value In Use – Service Potential (VIU-SP).

The Group defines cash generating units as schemes. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value impairment is recorded through a charge to income and expenditure.

Notes to the Financial Statements

Properties held for sale

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

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

Debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Recoverable amount 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.

Concessionary loans

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

> To further its public benefit objectives.

> At a rate of interest which is below the prevailing market rate of interest.

> Not repayable on demand.

These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment.

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, with the exception of the cancellable embedded option arrangements detailed below, are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost), FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instrument are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Financial liabilities and equity

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

Cash and cash equivalents

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

The Group has also identified some investments, which meet the definition of cash and cash equivalents but are restricted in their use; these investments have been classified as restricted cash equivalents.

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.

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

Leased assets: Lessee

All leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

The Group has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard (1 January 2012) to continue to be charged over the period to the first market rent review rather than the term of lease.

For leases entered into on or after 1 January 2012, reverse premiums and similar incentives received to enter into operating lease agreements are released to the comprehensive income statement over the term of the lease.

Notes to the Financial Statements

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

The Group has recognised provisions for liabilities of uncertain timing or amounts including those for SHPS deficit contribution provision and restructuring costs.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date.

Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as a finance cost in income and expenditure in the period it arises.

Contingent liabilities

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

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

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

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

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

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

> 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.

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

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

> The exemptions to be taken on transition to FRS 102.

> The categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset. No investment properties were identified.

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

Other key sources of estimation uncertainty:

Tangible fixed assets (see note 15)

Tangible fixed assets are depreciated over their useful economic lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

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.

During the year we changed the estimated useful life of components to ensure consistency across the Group. This resulted in increasing the estimated useful lives of some components and therefore reduced depreciation charge.

Derivative instruments and hedge accounting (note 26 and 27)

An assessment has been made of the loan arrangements held by the Group with particular regard to their basic or non basic classification. There is a risk that a future pronouncement by Financial Reporting Council (FRC) (or similar) or establishment of practice whereby the loans may be classified differently and also possible transitional exemptions in the first year of FRS 102 may no longer be available.

Notes to the Financial Statements

Hedge accounting effectiveness

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

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

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

Negative compensation clauses in loan agreement

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

> Result in the holder losing the principal amount or any interest attributable to the current period or prior periods; or
> Make permission to prepay contingent on future events.

Therefore the loans were considered to be basic financial instruments.

Rental and other trade receivables (debtors note 19)

The estimate for receivables relates to the recoverability of the balances outstanding at year end. A review is performed to consider whether debt is recoverable.

Social Housing Pension (SHP) deficit calculation and discount rate used (note 28)

The discount rate used in the calculation of the SHP deficit was based on the rate advised by our external pension advisors, and which was used for valuation of the defined benefits pension scheme.

Concessionary loans

We reviewed the loan made by one of the Group Association's to another Group Association and concluded that it is a concessionary loan as it was made:

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

Notes to the Financial Statements

4. Particulars of turnover, cost of sales, operating costs and operating surplus – Group

GROUP	Turnover 2016 £'000	Cost of sales 2016 £'000	Operating costs 2016 £'000	Operating surplus/deficit 2016 £'000
Social housing lettings (Note 5)	160,147	-	(106,266)	53,881
Other Social Housing Activities				
First tranche low cost home ownership sales	9,351	(7,693)	-	1,658
Charges for support services	906	-	(940)	(34)
Other	977	(1,013)	(1,273)	(1,309)
	11,234	(8,706)	(2,213)	315
Activities other than Social Housing Activities				
Other	369	-	(1,337)	(968)
Total	171,750	(8,706)	(109,816)	53,228

GROUP	Turnover 2015 £'000	Cost of sales 2015 £'000	Operating costs 2015 £'000	Operating surplus/deficit 2015 £'000
Social housing lettings (Note 5)	154,294	-	(100,596)	53,698
Other Social Housing Activities				
First tranche low cost home ownership sales	7,905	(6,317)	-	1,588
Other	2,948	-	(6,488)	(3,540)
	10,853	(6,317)	(6,488)	(1,952)
Activities other than Social Housing Activities				
Other	-	-	(802)	(802)
Total	165,147	(6,317)	(107,886)	50,944

Notes to the Financial Statements

4. Particulars of turnover, cost of sales, operating costs and operating surplus – Association

ASSOCIATION	Turnover	Cost of sales	Operating costs	Operating surplus/deficit
	2016	2016	2016	2016
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	83,784	-	(60,888)	22,896
Other Social Housing Activities				
First tranche low cost home ownership sales	6,901	(5,645)	-	1,256
Development staff costs	20	-	(1,227)	(1,207)
	6,921	(5,645)	(1,227)	49
Activities other than Social Housing Activities				
Open market sales	370	-	(417)	(47)
Total	91,075	(5,645)	(62,532)	22,898

ASSOCIATION	Turnover	Cost of sales	Operating costs	Operating surplus/deficit
	2015	2015	2015	2015
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	70,192	-	(43,389)	26,803
Other Social Housing Activities				
First tranche low cost home ownership sales	5,679	(4,594)	-	1,085
Development staff costs	148	-	(2,092)	(1,944)
	5,827	(4,594)	(2,092)	(859)
Activities other than Social Housing Activities				
Open market sales	-	-	(184)	(184)
Total	76,019	(4,594)	(45,665)	25,760

Notes to the Financial Statements

5. Income and expenditure from social housing lettings – Group

	General needs	Sheltered and Supported housing	Shared Ownership	Affordable	Total 2016	Total 2015
	£'000	£'000	£'000	£'000	**£'000**	£'000
Income						
Rents net of identifiable service charges	109,515	15,447	5,089	6,585	136,636	129,461
Service charge income	8,983	6,674	1,040	(64)	16,633	15,380
Amortised government grants	5,599	806	237	196	6,838	9,193
Other income/grant	-	40	-	-	40	260
Income from social housing lettings	**124,097**	**22,967**	**6,366**	**6,717**	**160,147**	**154,294**
Expenditure						
Management	(29,396)	(4,981)	(1,859)	(861)	(37,097)	(22,227)
Service charge costs	(7,827)	(5,969)	(695)	(105)	(14,596)	(14,305)
Routine maintenance	(16,128)	(2,669)	(89)	(733)	(19,619)	(23,879)
Planned maintenance	(5,089)	(750)	(27)	(71)	(5,937)	(7,080)
Major repairs expenditure	(3,664)	(1,223)	(33)	(20)	(4,940)	(6,885)
Bad debts	(558)	(78)	28	-	(608)	(1,086)
Depreciation of housing properties:						
- Annual charge	(17,799)	(2,174)	(797)	(712)	(21,482)	(25,629)
- Accelerated on disposal of components	(1,438)	(375)	-	(43)	(1,856)	-
Impairment of housing properties	(1,008)	-	-	-	(1,008)	-
Reversal of impairment of housing properties	877	-	-	-	877	1,175
Other costs	-	-	-	-	-	(680)
Operating expenditure on social housing lettings	**(82,030)**	**(18,219)**	**(3,472)**	**(2,545)**	**(106,266)**	(100,596)
Operating surplus on social housing lettings	**42,067**	**4,748**	**2,894**	**4,172**	**53,881**	**53,698**
Void losses	(920)	(676)	(52)	(142)	(1,790)	(1,599)

Notes to the Financial Statements

5. Income and expenditure from social housing lettings – Association

	General needs	Sheltered and Supported housing	Shared Ownership	Affordable	Total 2016	Total 2015
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
Rents net of identifiable service charges	45,008	7,118	1,395	6,532	60,053	56,501
Service charge income	4,971	4,265	511	(63)	9,684	9,114
Other income/grant	7,814	1,736	289	976	10,815	-
Amortised government grants	2,499	434	64	195	3,192	4,317
Other income/grant	-	40	-	-	40	260
Income from social housing lettings	60,292	13,593	2,259	7,640	83,784	70,192
Expenditure						
Management	(22,123)	(4,655)	(1,001)	(1,837)	(29,616)	(10,848)
Service charge costs	(4,268)	(3,876)	(337)	(105)	(8,586)	(8,658)
Routine maintenance	(6,803)	(1,324)	(48)	(724)	(8,899)	(9,928)
Planned maintenance	(2,161)	(272)	(18)	(71)	(2,522)	(3,523)
Major repairs expenditure	(771)	(739)	(33)	(20)	(1,563)	(2,640)
Bad debts	(444)	(-)	(-)	(-)	(444)	(492)
Depreciation of housing properties:						
- Annual charge	(6,542)	(1,107)	(228)	(705)	(8,582)	(7,949)
- Accelerated on disposal of components	(667)	(241)	(-)	(45)	(953)	(995)
Impairment of housing properties	(600)	(-)	(-)	(-)	(600)	-
Reversal of impairment of housing properties	877	(-)	(-)	(-)	877	1,644
Operating expenditure on social housing lettings	(43,502)	(12,214)	(1,665)	(3,507)	(60,888)	(43,389)
Operating surplus on social housing lettings	16,790	1,379	594	4,133	22,896	**26,803**
Void losses	(410)	(403)	(11)	(141)	(965)	(896)

Notes to the Financial Statements

6. Units of housing stock

	Group 2016 Number	Group 2015 Number	Association 2016 Number	Association 2015 Number
General needs housing	21,388	21,459	9,206	9,209
Affordable housing	1,697	1,037	1,097	728
Shared Ownership	2,172	2,079	665	557
Supported housing	581	622	301	300
Sheltered Accommodation	2,983	3,135	1,264	1,368
Other	833	834	31	32
Total owned	29,654	29,166	12,564	12,194
Accommodation managed for others	218	172	33	-
Total managed accommodation	29,872	29,338	12,597	12,194
Units managed by other associations	126	126	126	126
Total owned and managed accommodation	29,998	29,464	12,723	12,320
Units under construction	1,202	385	811	138

7. Operating surplus

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Depreciation of housing properties:				
- Annual charge (note 5 and 15)	21,482	25,629	8,582	7,949
- Accelerated depreciation (note 5 and 15)	1,856	-	954	995
Depreciation of other tangible fixed assets	1,598	1,282	885	668
Impairment of housing properties	1,008	-	600	-
Reversal of impairment of housing properties	(877)	(1,175)	(877)	(1,644)
Impairment of other tangible fixed assets	-	1,873	-	-
Operating lease charges-land and buildings	886	1,431	523	1,082
Operating lease charges-other	134	171	134	171
Auditors' remuneration				
- Audit of these financial statements	75	56	60	39
- Fees for tax services	-	7	-	7
- Other fees	-	33	-	31

Audit remuneration of £75k (including VAT) represents the audit fee for all group entities.

Notes to the Financial Statements

8. Employees

	Group 2016 £'000	Group 2015 £'000
Staff costs consist of:		
Wages and salaries	**21,383**	22,969
Social security costs	**1,902**	1,844
Pension costs	**1,055**	1,218
	24,340	26,031

The average number of employees expressed as full time equivalents (calculated based on a standard working week of 37.5 hours) during the year was as follows:	Group 2016 FTE	Group 2015 FTE
	678	733

Notes to the Financial Statements

9. Directors' and senior executive remuneration

The directors are defined as the members of the Board of Management, the Chief Executive and the Executive Management Team disclosed on page 6.

	Group 2016 £'000	Group 2015 £'000
Executive directors' emoluments	**1,234**	805
Amounts paid to non-executive directors	**159**	90
Compensation for loss of office	**412**	-
Pension contributions	**117**	74
Benefits in kind	**76**	46
	1,998	1,015

The total amount payable to the Chief Executive, who was also the highest paid director in respect of emoluments was £176k (2015 - £178k). Pension contributions of £18k (2015 - £12k) were made to SHPS on his behalf.

As a member of the SHPS, the Chief Executive has a contractual entitlement to an enhanced pension.

The remuneration paid to staff (including Executive Management Team) earning over £60,000 upwards:

	Group 2016 £'000	Group 2015 £'000
£60,000 - £69,999	**9**	8
£70,000 - £79,999	**9**	5
£80,000 - £89,999	**3**	4
£90,000 - £99,999	**2**	3
£100,000 - £109,999	**1**	4
£110,000 - £119,999	**4**	1
£120,000 - £129,999	**1**	-
£130,000 - £139,999	**1**	-
£140,000 - £149,999	**-**	1
£150,000 - £159,999	**-**	1
£160,000 - £169,999	**1**	3
£170,000 - £179,999	**1**	-
	32	30

Notes to the Financial Statements

10. Board members

Name	2016 Emoluments £	2015 Emoluments £
Mr G Blunden	25,000	19,058
Mrs S Collins	15,000	11,100
Mr P Hammond	15,000	11,100
Mrs S Terry	15,000	11,100
Mr J Weguelin	13,500	11,100
Ms A Dokov	15,000	3,750
Mr B Roebuck	15,000	3,750
Mr D Wright	15,000	3,750
Dr M Collins	15,000	3,750
Mr C Small	15,000	3,750
Mr M Brown	-	3,000
Mr P Robathan	-	5,250
	158,500	90,458

11. Surplus on disposal of fixed assets

GROUP	Shared ownership 2016 £'000	Other housing properties 2016 £'000	Total 2016 £'000	Total 2015 £'000
Housing properties:				
Disposal proceeds	8,112	7,332	15,444	14,887
Cost of disposals	(5,261)	(4,147)	(9,408)	(8,178)
Selling costs	(43)	(63)	(106)	-
Surplus on disposal	2,808	3,122	5,930	6,709

ASSOCIATION	Shared ownership 2016 £'000	Other housing properties 2016 £'000	Total 2016 £'000	Total 2015 £'000
Housing properties:				
Disposal proceeds	3,020	5,004	8,024	7,688
Cost of disposals	(2,032)	(2,627)	(4,659)	(2,756)
Surplus on disposal	988	2,377	3,365	4,932

Notes to the Financial Statements

12. Interest receivable and income from investments

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Interest receivable from group undertakings	-	-	24	14
Interest receivable and similar income	611	419	418	205
	611	419	442	219

13. Interest payable and finance costs

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Bank loans and overdrafts	34,572	32,285	12,988	11,845
Interest payable to Group undertakings	-	-	5,021	4,247
Interest capitalised on construction of housing properties	(3,200)	(2,337)	(2,880)	(2,065)
Finance costs in relation to SHPS	103	50	43	21
Recycled capital grant fund	31	-	19	-
Disposal proceeds fund	3	1	-	-
Interest and financing costs	**31,509**	29,999	**15,191**	14,048
Other finance costs (pensions)	**148**	167	**148**	167
Total interest and finance costs	**31,657**	30,166	**15,339**	14,215
Movement in fair value of non hedged financial instruments	**2,202**	10,544	**1,630**	5,852
Movement in fair value of hedged financial instruments	**6,004**	43,641	**3,322**	27,102

14. Taxation on surplus on ordinary activities

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

Notes to the Financial Statements

15. Tangible fixed assets – Housing properties

GROUP	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation:					
At 1 April 2015	1,592,889	63,304	110,874	8,985	1,776,052
Additions:					
- Construction costs	-	60,724	-	26,960	87,684
- Replaced components	15,783	(139)	972	(202)	16,414
Reclassification of properties	1,337	-	(1,337)	-	-
Completed schemes	47,777	(47,777)	12,537	(12,537)	-
Transfer to properties held for sale	-	675		(8,475)	(7,800)
Disposals:					
- Stair-casing sales	-	-	(5,425)	-	(5,425)
- Other sales (Voids/RTB/RTA)	(6,124)	-	-	-	(6,124)
- Replaced components	(3,159)	-	-	-	(3,159)
Write off major repairs	(1,371)	-	-	-	(1,371)
At 31 March 2016	**1,647,132**	**76,787**	**117,621**	**14,731**	**1,856,271**
Depreciation:					
At 1 April 2015	208,866	(674)	5,569	-	213,761
Charge for the year	22,542	-	797	-	23,339
On disposals:					
- Write off major repairs	(1,392)	-	-	-	(1,392)
- Replaced components	(3,963)	-	-	-	(3,963)
- Other sales (Voids/RTB/RTA)	(1,347)	-	(315)	-	(1,662)
At 31 March 2016	**224,706**	**(674)**	**6,051**	**-**	**230,083**
Impairment:					
At 1 April 2015	901	690	470	-	2,061
Charge for the year	600	408	-	-	1,008
Released in the year	(877)	-	-	-	(877)
At 31 March 2016	**624**	**1,098**	**470**	**-**	**2,192**
Net book value at 31 March 2016	1,421,802	76,363	111,100	14,731	1,623,996
Net book value at 31 March 2015	1,383,122	63,288	104,835	8,985	1,560,230

Notes to the Financial Statements

15. Tangible fixed assets – Housing properties

ASSOCIATION	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation:					
At 1 April 2015	734,904	53,405	37,473	7,538	833,320
Additions:					
- Construction costs	-	46,275	-	21,530	67,805
- Replaced components	6,778	-	-	-	6,778
Completed schemes	33,627	(33,627)	9,113	(9,113)	-
Transfer to properties held for sale	-	-	-	(6,820)	(6,820)
Disposals:					
- Stair-casing sales	-	-	(2,167)	-	(2,167)
- Other sales	(3,470)	-	-	-	(3,470)
- Replaced components	(2,370)	-	-	-	(2,370)
Major repairs write-over	(1,174)	-	-	-	(1,174)
At 31 March 2016	768,295	66,053	44,419	13,135	891,902
Depreciation:					
At 1 April 2015	89,811	-	1,424	-	91,235
Charge for the year	9,307	-	228	-	9,535
Reclassification of properties	-	-	-	-	-
Eliminated on disposals:					
- Replaced components	(2,370)	-	-	-	(2,370)
- Major repairs write-over	(1,195)	-	-	-	(1,195)
- Other sales	(251)	-	(112)	-	(363)
At 31 March 2016	95,302	-	1,540	-	96,842
Impairment:					
At 1 April 2015	901	-	-	-	901
Charge for the year	600	-	-	-	600
Released in the year	(877)	-	-	-	(877)
At 31 March 2016	624	-	-	-	624
Net book value at 31 March 2016	672,369	66,053	42,879	13,135	794,436
Net book value at 31 March 2015	644,192	53,405	36,049	7,538	741,184

Notes to the Financial Statements

15. Tangible fixed assets – Housing properties

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
The net book value of housing properties may be further analysed as:				
Freehold	1,549,649	1,503,160	768,660	715,260
Long leasehold	74,347	57,040	25,776	25,894
Short leasehold	-	30	-	30
	1,623,996	1,560,230	794,436	741,184

	£'000	£'000	£'000	£'000
Interest capitalisation				
Interest capitalised in the year	3,200	2,337	2,880	2,065
Cumulative interest capitalised	33,556	14,718	16,605	13,725
Rate used for capitalisation	4.5%	4.5%	4.5%	4.5%
Works to properties				
Improvements to existing properties capitalised	16,413	23,976	6,778	10,045
Major repairs expenditure to income and expenditure account	4,941	6,885	1,564	2,640
	21,354	30,861	8,342	12,685
Total Social Housing Grant received or receivable to date as follows;				
Capital grant held in deferred income (note 23)	595,377	600,314	283,828	285,237
Recycled capital grant fund (note 24)	4,978	3,658	2,348	2,151
Disposal proceeds fund (note 25)	553	948	-	-
Amortised to income and expenditure account in year	6,838	9,193	3,192	4,317
Cumulative amortisation to reserves	48,845	42,007	24,890	21,698

Notes to the Financial Statements

15. Tangible fixed assets – Housing properties

Impairment

The group considers individual schemes to represent separate cash generating units (CGU's) when assessing for impairment in accordance with the requirements of FRS 102 and SORP 2014. This is due to the economies of scale gained from having stock grouped as a scheme and the recognition that individual properties which are more expensive would be unlikely to be acquired if they were individual units, but are likely to be acquired as part of a number of units.

During the current year, the Group and Association have recognised an impairment loss of £1,008k (2015 - £Nil) in respect of general needs housing stock. These relate to one sewer and one development scheme at Group level and one sewer at Association level. On 8 July 2015, the Summer Budget included the announcement that the Government will reduce rents in social housing in England by 1% a year for four years from April 2016. The Government indicated this will result in a 12% reduction in average rents by 2020/21, compared to current forecasts. As such, this triggered an indicator of impairment and a full review was performed.

No units were impacted by the impairment loss calculated.

In carrying out the review the following steps were taken: an initial review based on the existing use social housing value based on the revised rents for the properties following the Summer Budget adjustments; where this was a lower than carrying value a further comparison against depreciated replacement value was undertaken.

In calculating the depreciated replacement value attention was paid to the cost of replacing different house types and sizes looking at current programme costs. This was then depreciated in line with the age of the properties being considered. This process involved calculating the values on a property by property basis to obtain as much accuracy as possible. Very few properties were identified as having a higher carrying value than the depreciated replacement cost and those that did were not impaired when the scheme as a whole was reviewed.

Where the current programme did not include a specific property type a judgement was made on the closest match in the programme to that property type and that cost was used. This match was done on a conservative basis to allow for variations in cost between assumed property types.

In 2015-16 an impairment of £0.877m was reversed in relation to one scheme which has been subsequently disposed. In the prior year an impairment of £1.175m was released in relation to one scheme subsequently disposed of in 2014-15.

Properties held for security

Stonewater Limited Association had 7,621 properties pledged as security at 31 March 2016 (2015: 7,466).

Notes to the Financial Statements

16.Other tangible fixed assets – Group

Group	Freehold office properties £'000	Office fixtures, furniture and fittings £'000	Computers £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2015	6,669	8,772	7,720	210	23,371
Additions	122	358	813	-	1,293
Disposals	-	(201)	(180)	(102)	(483)
At 31 March 2016	6,791	8,929	8,353	108	24,181
Depreciation					
At 1 April 2015	3,014	5,971	6,254	190	15,429
Charge for year	216	323	1,044	15	1,598
Eliminated on disposal	-	(119)	(180)	(102)	(401)
At 31 March 2016	3,230	6,175	7,118	103	16,626
Net book value					
At 31 March 2016	3,561	2,754	1,235	5	7,555
At 31 March 2015	3,655	2,801	1,466	20	7,942

16. Other tangible fixed assets – Association

ASSOCIATION	Freehold office properties £'000	Office fixtures, furniture and fittings £'000	Computers £'000	Total £'000
Cost or valuation				
At 1 April 2015	118	3,068	5,061	8,247
Additions	85	117	760	962
At 31 March 2016	203	3,185	5,821	9,209
Depreciation				
At 1 April 2015	14	2,404	4,147	6,565
Charge for year	108	46	731	885
At 31 March 2016	122	2,450	4,878	7,450
Net book value				
At 31 March 2016	81	735	943	1,759
At 31 March 2015	104	664	914	1,682

Notes to the Financial Statements

17. Fixed assets investments

Name	Country of incorporation	Proportion of voting rights/ordinary share capital held	Class and percentage of shares held	**Association** £
Stonewater Commercial Limited	England	100%	Dormant	1
Stonewater Procurement Limited	England	100%	Development/Building company	1
Stonewater (5) Limited	England	100%	Registered provider of social housing	1
Stonewater (2) Limited	England	100%	Registered provider of social housing	1
Stonewater Funding	England	100%	Bond issue vehicle	12,500
Total				12,504

Stonewater (2) Limited has two registered provider subsidiaries, Stonewater (3) and Stonewater (4) for which Stonewater has overall control.

18. Properties held for sale

GROUP	**Total 2016 £'000**	Total 2015 £'000
Properties held for sale	**23**	72
Work in progress	**4,879**	6,595
Completed properties	**4,083**	1,480
Other properties for sale	**248**	249
Total	**9,233**	8,396

ASSOCIATION	**Total 2016 £'000**	Total 2015 £'000
Work in progress	4,211	5,929
Completed properties	2,886	416
Total	7,097	6,345

Notes to the Financial Statements

19. Debtors

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Rent and service charge arrears	8,318	7,585	3,679	3,847
Less: Provision for doubtful debts	(2,257)	(1,964)	(667)	(375)
	6,061	5,621	3,012	3,472
Amounts owed by group undertakings	-	-	4,694	37
Other debtors	2,132	3,042	1,324	2,901
Prepayments and accrued income	1,893	2,906	1,239	770
Social housing grant receivable	140	2,540	130	2,540
	10,226	14,109	10,399	9,720

All amounts are due within one year.

20. Current asset investments

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Brought forward	113,246	37,389	40,595	-
Additions	-	75,857	-	40,595
Withdrawals	(98,152)	-	(29,685)	-
Carried forward	15,094	113,246	10,910	40,595

Group:
Short term investments relate to bank deposits and amounts held in Escrow.

Association:
Short term investment of £1,330,000 is represented by amounts held in Escrow accounts by a third party following a bond issue and an Affordable Housing loan.

Notes to the Financial Statements

21. Creditors – amounts falling due within one year

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Loans and borrowings (note 26)	10,707	30,574	3,763	4,203
Interest rate swap	91	113	91	63
Trade creditors	1,632	9,493	34	1,879
Retentions	2,701	1,338	-	-
Amounts owed to group undertakings	-	-	3,555	26,361
Taxation and social security	414	426	150	367
Rent and service charges received in advance	1,377	-	-	-
Other creditors	4,953	8,269	4,823	4,600
Recycled capital grant fund (note 24)	159	148	159	148
Accruals and deferred income	8,154	14,006	4,786	5,617
Accrued interest	3,399	1,184	1,950	1,233
Leaseholder sinking funds	5,881	2,619	4,523	2,619
	39,468	68,170	23,834	47,090

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

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Loans and borrowings (note 26)	773,517	794,610	386,829	359,664
Interest rate swap	126,918	118,689	77,409	72,484
Deferred capital grant (note 23)	595,377	600,314	283,828	285,237
Recycled capital grant fund (note 24)	4,819	3,510	2,189	2,003
Disposal proceeds fund (note 25)	553	948	-	-
	1,501,184	1,518,071	750,255	719,388

Notes to the Financial Statements

23. Deferred capital grant

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
At 1 April	600,314	599,398	285,237	282,166
Grants received during the year	**3,664**	9,864	2,069	6,525
Grants recycled from/(to) the recycled capital grant fund and disposals proceeds fund (note 24 and note 25)	**(1,763)**	245	(286)	863
Released to income during the year (note 5)	**(6,838)**	(9,193)	(3,192)	(4,317)
	595,377	600,314	283,828	285,237

24. Recycled capital grant fund

GROUP	HCA 2016 £'000	GLA 2016 £'000	Total 2016 £'000	HCA 2015 £'000	GLA 2015 £'000	Total 2015 £'000
At 1 April	2,564	1,094	3,658	3,211	915	4,126
Inputs to fund:						
- Grants recycled from deferred capital grants (note 23)	**2,582**	**22**	**2,604**	1,456	179	1,635
- Interest accrued (note 23)	**31**	**-**	**31**	-	-	-
Recycling of grant:						
- New build (note 23)	**(477)**	**-**	**(477)**	(2,103)	-	(2,103)
- Transferred to Income	**-**	**(838)**	**(838)**	-	-	-
	4,700	**278**	**4,978**	2,564	1,094	3,658

ASSOCIATION	HCA 2016 £'000	GLA 2016 £'000	Total 2016 £'000	HCA 2015 £'000	GLA 2015 £'000	Total 2015 £'000
At 1 April	1,057	1,094	2,151	2,099	915	3,014
Inputs to fund:						
- Grants recycled from deferred capital grants (note 23)	1,229	22	1,251	667	179	846
- Interest accrued (note 23)	19	-	19	-	-	-
- Transfers from group members	228	-	228	-	-	-
Recycling of grant:						
- New build (note 23)	(463)	-	(463)	(1,709)	-	(1,709)
- Transferred to income	-	(838)	(838)	-	-	-
	2,070	278	2,348	1,057	1,094	2,151

Withdrawals from the recycled capital grant fund were used for the purchase and development of new housing schemes for letting and for approved works to existing properties.

Notes to the Financial Statements

25. Disposal proceeds fund

GROUP	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
At 1 April	948	725	-	-
Inputs to fund:				
- Funds recycled from deferred capital grants (note 23)	123	425	-	-
- Funds recycled from statement of comprehensive income	-	-	-	-
- Interest accrued (note 23)	3	1	-	-
- Transfer from Group members	-	-	521	-
Use/allocation of funds:				
- New build (note 23)	(521)	(103)	(521)	-
- Other	-	(100)	-	-
	553	948	-	-
Amounts 3 years or older where repayment may be required	-	-	-	-

Notes to the Financial Statements

26. Loans and borrowings – Maturity of debt:

GROUP	Bank loans 2016 £'000	Bond finance 2016 £'000	Other loans 2016 £'000	Total 2016 £'000
In one year or less, or on demand	9,311	1,470	205	10,986
Issue costs <1 year	(279)	-	-	(279)
	9,032	1,470	205	10,707
In more than one year but not more than two years	16,009	1,580	226	17,815
In more than two years but not more than five years	75,867	5,448	783	82,098
After five years	491,904	172,351	13,482	677,737
Issue costs	(3,684)	(449)	-	(4,133)
	589,128	180,400	14,696	784,224

	Bank loans 2015 £'000	Bond finance 2015 £'000	Other loans 2015 £'000	Total 2015 £'000
In one year or less, or on demand	29,457	1,327	187	30,971
Issue costs <1 year	(397)	-	-	(397)
	29,060	1,327	187	30,574
In more than one year but not more than two years	10,298	1,425	204	11,927
In more than two years but not more than five years	79,968	4,939	725	85,632
After five years	517,397	169,039	13,760	700,196
Issue costs	(3,145)	-	-	(3,145)
	633,578	176,730	14,876	825,184

Notes to the Financial Statements

26. Loans and borrowings

ASSOCIATION	Bank loans 2016 £'000	Bond finance 2016 £'000	Other loans 2016 £'000	Total 2016 £'000
In one year or less, or on demand	3,685	-	78	3,763
In more than one year but not more than two years	4,770	-	85	4,855
In more than two years but not more than five years	26,394	-	262	26,656
After five years	265,568	86,662	5,797	358,027
Issue costs	(2,709)	-	-	(2,709)
	297,708	86,662	6,222	390,592

	Bank loans 2015 £'000	Bond finance 2015 £'000	Other loans 2015 £'000	Total 2015 £'000
In one year or less, or on demand	4,129	-	74	4,203
In more than one year but not more than two years	4,583	-	78	4,661
In more than two years but not more than five years	25,983	-	257	26,240
After five years	239,831	91,495	-	331,326
Issue costs	(2,563)	-	-	(2,563)
	271,963	91,495	409	363,867

The Group has entered into floating to fixed interest rate swaps. These are accounted for as a cash flow hedge (see note 13).
Loans are secured by specific charges on the housing properties of the Group.
Total loan facilities at 31 March 2016 were £961m (2015: £970m) of which £172m were undrawn (2015: £142m).

Notes to the Financial Statements

27. Financial instruments

The Group's and Association's financial instruments may be analysed as follows:

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Financial assets					
Financial assets measured at historical cost					
- Trade receivables	19	**6,061**	5,621	3,012	3,472
- Other receivables	19	**4,165**	8,488	7,387	6,248
- Investments		**-**	-	13	13
- Investments in short term deposits		**15,094**	113,246	10,910	40,595
- Cash and cash equivalents		**46,271**	30,186	10,498	20,217
Total financial assets		**71,591**	157,541	31,820	70,545
Financial liabilities					
Financial liabilities measured at amortised cost					
- Loans payable	26	**784,224**	825,184	390,592	363,867
Financial liabilities measured at historical cost					
- Trade creditors	21	**1,632**	9,493	34	1,879
- Other creditors	21	**26,879**	27,842	19,787	40,797
Derivative financial instruments	21 & 22	**127,009**	118,802	77,500	72,547
Total financial liabilities		**939,744**	981,321	487,913	479,090

Financial assets measured at amortised cost comprise trade debtors, other debtors, amounts owed by associated undertakings.

Financial liabilities measured at amortised cost comprise of bank loans and overdrafts, trade creditors, other creditors.

Derivative financial instruments designated as hedges of variable interest rate risk comprise interest rate swaps.

Hedge of variable interest rate risk arising from bank loan liabilities

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the Group has entered into floating to fixed interest rate swaps with a nominal value equal to that initial borrowings, the same term as the loans and interest re-pricing dates identical to those of the variable rate loans. These result in the Group paying 5.1% and receiving LIBOR (though cash flows are settled on a net basis) and effectively fix the total interest cost on loans and interest rates swaps at 4.6% per annum.

Group: The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a fair value of £127m (2015: £118.8m) at the balance sheet date. The cash flows arising from the interest rate swaps will continue until their maturity, coincidental with the repayment of the term loans which range from 1 year to 32 years. The movement in fair value in the period of (£6m) recognised in other comprehensive income for hedges and (£2.2m) within finance costs for non hedges.

Association: The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a fair value of £77.5m (2015: £72.5m) at the balance sheet date. The cash flows arising from the interest rate swaps, coincidental with the repayment of the term loans. The movement in fair value in the period of (£3.3m) recognised in other comprehensive income for hedges and (£1.6m) within finance costs for non hedges.

Notes to the Financial Statements

28. Provisions and other liabilities

GROUP	SHPS pension deficit contribution £'000	Restructuring £'000	Dilapidations £'000	Total £'000
At 1 April 2015	14,464	-	93	14,557
Charged to income and expenditure				
- Additions	6,318	-	-	6,318
- Remeasurement (note a)	(126)	244	361	479
Unwinding of discount	103	-	-	103
Contribution paid	(1,738)	-	-	(1,738)
At 31 March 2016	**19,021**	**244**	**454**	**19,719**

ASSOCIATION	SHPS pension deficit contribution £'000	Restructuring £'000	Dilapidations £'000	Total £'000
At 1 April 2015	5,963	-	93	6,056
Charged to income and expenditure				
- Additions	2,658	244	361	3,263
- Remeasurement (note a)	(52)	-	-	(52)
Unwinding of discount	43	-	-	43
Contribution paid	(720)	-	-	(720)
At 31 March 2016	**7,892**	**244**	**454**	**8,590**

Note a

The discount rate used in calculating the SHPS deficit contribution provision changed from 3.10% at 31 March 2015 to 3.25% at 31 March 2016, as a result the provision decreased.

> SHPS pension deficit contribution (see note 29), whereby contributions are due annually until April 2026.

> Restructuring provisions relate to ongoing restructuring of team structures. The outflows from these are expected in the next 12 months.

> Dilapidations provisions relate to ongoing restructuring work and office rationalisation plans. The outflows from these are expected in the next 12 months.

Notes to the Financial Statements

29. Pensions

Several pension schemes are operated by the Group.

A) Social Housing Pension Scheme

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

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

The discounted value of the future contributions arising from the last valuation received in October 2015 are reflected in note 28.

B) Defined benefit pension scheme Dorset County Council

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 December 2013 and updated to 31 December 2015 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 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020.

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

	2016 £'000	2015 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	9,964	8,567
Current service cost	26	11
Interest cost	289	353
Change in financial assumptions	(322)	1,350
Estimated benefits paid net of transfers in	(312)	(320)
Contributions by scheme participants	6	3
At the end of the year	**9,651**	9,964

Notes to the Financial Statements

29. Pensions

	2016 £'000	2015 £'000
Reconciliation of fair value of plan assets		
At the beginning of the year	**4,868**	4,620
Interest income on plan assets	**141**	190
Return on assets less interest	**(187)**	274
Administration expenses	**(3)**	(4)
Contributions by employer	**113**	105
Contributions by fund participants	**6**	3
Estimated benefits paid plus unfunded net transfers in	**(312)**	(320)
At the end of the year	**4,626**	4,868

Fair value of plan assets	**4,626**	4,868
Present value of plan liabilities	**(9,651)**	(9,964)
Net pension scheme liability	**(5,025)**	(5,096)

Amounts recognised in other comprehensive income are as follows:		
Included in administrative expenses:		
Service cost	**26**	11
Administration expenses	**3**	4
	29	15

Amounts included in other finance costs		
Net interest cost	**148**	94

Analysis of actuarial loss recognised in other comprehensive income		
Return on fund assets in excess of interest	**(187)**	274
Changes in financial assumptions	**322**	(1,350)
	135	(1,076)

Notes to the Financial Statements

29. Pensions

	2016	2015
Composition of plan assets	%	%
Equities	56	57
Gilts	10	12
Other bonds	13	12
Diversified Growth Fund	5	5
Infrastructure	1	1
Property	11	10
Cash	4	3
Total plan assets	100	100

Principal actuarial assumptions used at the balance sheet date	%	%
Discount rates	3.25	2.95
Future salary increases	4.55	4.45
Future pension increases	2.55	2.45
Inflation assumption – RPI	3.30	3.20
Inflation assumptions – CPI	2.55	2.45
Mortality rates:		
For a male aged 65 now	22.9	22.8
At 65 for a male member aged 45 now	25.2	25.1
For a female aged 65 now	25.3	25.2
At 65 for a female member aged 45 now	27.7	27.6

Notes to the Financial Statements

30. Share capital

	2016 £	2015 £
At 1 April	21	21
Shares issued in the year	-	5
Shares cancelled in the year	(2)	(5)
At 31 March	**19**	21

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 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Amounts payable as lessee				
Not later than 1 year	628	709	355	436
Later than 1 year and not later than 5 years	2,221	2,563	1,082	1,414
Later than 5 years	497	944	257	509
Total	**3,346**	4,216	**1,694**	2,359

Notes to the Financial Statements

32. Capital commitments

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Commitments contracted but not provided for construction	**125,540**	119,458	93,561	95,052
Commitments approved by the Board but not contracted for construction	**28,738**	64,510	26,393	22,386
	154,278	183,968	119,954	117,438

Capital commitments for the Group will be funded from £4.4m SHG, with the remainder funded from property sales and external borrowing.

Capital commitments for the Association will be funded from £4.0m SHG, with the remainder funded from property sales and external borrowing.

33. Related party disclosures

Stonewater Limited transacts with a number of associate non regulated entities. The associates it transacts with are Stonewater Procurement Limited, a company that provides design and build services and Stonewater Funding plc whose principal activity is to act as the capital markets issuance vehicle for the Group.

Intra group revenue

Stonewater Limited provides staffing to Stonewater Procurement Limited, Stonewater Funding and Stonewater 5 Limited. The staff manages various build projects and management services. These costs are charged based on an allocation method.

The total inter group income for the period was:

	2016 £'000	2015 £'000
Internal management charge	**1,245**	1,217

Stonewater Limited provides management services to Stonewater (2) Limited, Stonewater (3) Limited and Stonewater (4) Limited. These costs are charged based on an allocation method.

The total intergroup income for the period was:

	2016 £'000	2015 £'000
Internal management charge	**9,569**	-

Intra group costs

Stonewater Limited receives design and build services from Stonewater Procurement Limited. These costs are charged in line with scheme contracts. They also pay an admin fee based on a percentage (2.5%) of the contract costs.

Stonewater Limited receives financial services from Stonewater Funding plc.

The total costs charged for the period were:

	2016 £'000	2015 £'000
Design and build service	**38,610**	24,893
2.5% admin charge	**991**	461
Funding management fee	**120**	110

Intra group liabilities

Stonewater Limited has a loan in place with Stonewater Funding plc. At 31 March 2016 the outstanding amount was £81m.

Stonewater (5) Limited has a loan in place with Stonewater Funding plc. At 31 March 2016 the outstanding amount was £31m.

Stonewater (2) Limited has a loan in place with Stonewater Funding plc. At 31 March 2016 the outstanding amount was £21.6m.

Notes to the Financial Statements

The total amount loan balance and interest charged by Stonewater Funding plc in the year was:

	2016 £'000	2015 £'000
Loan balance (including issue costs)	133,757	81,965
Interest charged	6,010	4,380

Stonewater Funding plc sold £45 million of retained bond loan that has been on lent to Stonewater Limited (£25 million) and Stonewater (2) Limited (£20 million). Under the facilities the loans, which are repayable at various dates through to 2042, 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 2016 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) Limited exceeded the amount required.

34. First time adoption of FRS 102

Explanation of changes to previously reported to Group and Association Surplus and Reserves;

> Social Housing Grant can no longer be offset against housing property within fixed assets and under section 24 of FRS 102, where properties are held at deemed cost, the related social housing grant will be recognised initially under the performance model with subsequent grants measured using the 'accrual model' with the grant amortised over the life of the structure and components of the property. This change in accounting treatment will result in the property costs increasing, but being offset by an increase in liabilities. Property depreciation will also be restated to reflect the higher property costs.

> Section 11 requires basic financial instrument to be measured at amortised cost. Section 12 requires derivative instruments to be measured at fair value with any gains or losses going through surplus and deficit. Section 12 also allows for any change in fair value of hedged financial instruments to be recognised within other comprehensive income, with amounts relating to the ineffectiveness of the hedged instrument recognised within finance costs or income.

> FRS 102 requires that, where an organisation has a contractual commitment to make future pension payments, the present value of these future payments needs to be shown as a liability within the balance sheet. The contractual commitment for SHPS has therefore been recognised as a liability on the Balance Sheet for 1 April 2014.

> FRS 102 effectively requires that the benefit of lease incentives received on entering into new leases be spread over the lease term. Under previous UK GAAP these incentives were spread over the period to the next market rent review.

> FRS 102 requires recognition of the cost of accumulating compensated absences in the financial statements. Therefore an entity that has employees that have untaken holidays at the balance sheet date that will be paid for in the next financial year will need to make an accrual for such entitlements.

> FRS 102 requires the recognition in profit or loss of a net interest cost (or income) on defined benefit pension schemes. This is calculated by multiplying the net pension liability (or asset) by the market yields on high quality corporate bonds. The effect of this, when compared to previous UK GAAP, has been to reduce reported profits for the year ended 31 March 2015 because previous UK GAAP led to the recognition of finance income calculated by reference to the expected returns on the pension plan's specific assets be they equities, properties or bonds. The change has had no effect on reported equity as the measurement of the net defined pension scheme liability (or asset) has not changed. Instead, the decrease in reported profit is mirrored by an increase in actuarial gains which are presented within other comprehensive income.

Notes to the Financial Statements

34. First time adoption of FRS 102

The transition statement for Stonewater Limited has been included below, which highlights the key changes to the Opening Balance Sheet as at 31 March 2014, Balance Sheet as at 31 March 2015 and the Income and Expenditure Account for the year ended 31 March 2015.

Stonewater Limited balance sheet at 1 April 2014	As per financial statements £'000	FRS 102 adjustment £'000	As per FRS 102 £'000
Tangible fixed assets			
Housing properties	777,837	-	777,837
Accumulated depreciation	(43,962)	(43,417)	(87,379)
Social Housing Grant	(342,963)	342,963	-
Other fixed assets	2,177	-	2,177
Investments	13	-	13
Total tangible fixed assets	**393,102**	**299,546**	**692,648**
Current assets			
Properties for sale	5,516	-	5,516
Debtors	9,872	-	9,872
Cash at bank and in hand	38,044	-	38,044
Creditors: amounts falling due within one year			
Fair value of financial instruments	-	(150)	(150)
Deferred income – Operating leases	-	(64)	(64)
Deferred income – Holiday accrual	-	(75)	(75)
Other creditors	(42,099)	-	(42,099)
Net current assets	**11,333**	**(289)**	**11,044**
Total assets less current liabilities	**404,435**	**299,257**	**703,692**
Creditors: amounts falling due after more than one year			
Social Housing Grant	-	282,165	282,165
Fair value of financial instruments	-	39,442	39,442
Other creditors	312,372	-	312,372
DB pension scheme	3,947	-	3,947
SHPS pension scheme	-	6,212	6,212
Provision for liabilities and charges	93	-	93
Revenue reserves b/fwd – Original	88,023	-	88,023
PYA – Amortisation of grant	-	17,381	17,381
PYA – SHPS pension	-	(6,212)	(6,212)
PYA – Hedging	-	(8,289)	(8,289)
PYA – Other	-	(139)	(139)
Revenue reserves b/fwd – Restated	**88,023**	**2,741**	**90,764**
Cash flow hedge reserves	-	(31,303)	(31,303)
Total long term liabilities and reserves	**404,435**	**299,257**	**703,692**

As a result of implementation of FRS 102, a net reduction of £(28.6)m has arisen within reserves, mainly due to the recognition of the cash flow reserve (£31.3m) arising from the recognition of the fair value of hedged financial instruments and offset by £2.7m arising from revenue reserves (pensions SHPS, grant amortisation, other financial instruments).

Notes to the Financial Statements

34. First time adoption of FRS 102

Stonewater Limited balance sheet at 31 March 2015	As per financial statements £'000	FRS 102 adjustment £'000	As per FRS 102 £'000
Tangible fixed assets			
Housing properties	833,341	-	833,341
Accumulated depreciation	(45,625)	(46,532)	(92,157)
Social Housing Grant	(350,179)	350,179	-
Other fixed assets	1,682	-	1,682
Investments	13	-	13
Total tangible fixed assets	**439,232**	**303,647**	**742,879**
Current assets			
Properties for sale	6,345	-	6,345
Debtors	9,720	-	9,720
Short term investments	40,595	-	40,595
Cash at bank and in hand	20,217	-	20,217
Creditors: amounts falling due within one year			
Fair value of financial instruments	-	(63)	(63)
Deferred income - Operating leases	-	(97)	(97)
Deferred income - Holiday accrual	-	(74)	(74)
Other creditors	(46,876)	20	(46,856)
Net current assets	**30,001**	**(214)**	**29,787**
Total assets less current liabilities	**469,233**	**303,433**	**772,666**
Creditors: amounts falling due after more than one year			
Social Housing Grant	-	285,237	285,237
Fair value of financial instruments	-	72,484	72,484
Other creditors	361,667	-	361,667
DB pension scheme	5,096	-	5,096
SHPS pension scheme	-	5,963	5,963
Provision for liabilities and charges	93	-	93
Revenue reserves	102,377	(1,846)	100,531
Cash flow hedge reserves	-	(58,405)	(58,405)
Total long term liabilities and reserves	**469,233**	**303,433**	**772,666**

As a result of implementation of FRS 102, a net reduction of £(61.5)m has arisen within reserves, mainly due to the recognition of the cash flow reserve (£58.4m) arising from the recognition of the fair value of hedged financial instruments and (£3.1m) arising from revenue reserves (pensions SHPS, grant amortisation, other financial instruments).

Notes to the Financial Statements

34. First time adoption of FRS 102

Stonewater Limited Income and Expenditure year ended 31 March 2015	As per financial statements	FRS 102 amortisation adjustment	FRS102 hedging adjustment	FRS102 other adjustments	As per FRS 102
	£'000	£'000	£'000	£'000	£'000
Turnover	**71,702**	**4,317**	**-**	**-**	**76,019**
Operating costs	(42,689)	(3,214)	-	238	(45,665)
Cost of sales	(4,594)	-	-	-	(4,594)
Operating surplus	**24,419**	**1,103**	**-**	**238**	**25,760**
Surplus on sale of fixed assets	4,986	(54)	-	-	4,932
Interest receivable and similar income	219	-	-	-	219
Interest payable and similar charges	(14,027)	-	-	(21)	(14,048)
Movement in fair value of non hedged financial instruments	-	-	(5,852)	-	(5,852)
Other finance costs	(73)	-	-	(94)	(167)
Investment income	-	-	-	-	-
Surplus for the year	**15,524**	**1,049**	**(5,852)**	**123**	**10,844**
Movement in fair value of hedged financial instruments	-	-	(27,102)	-	(27,102)
Actuarial gains/(losses) on defined benefit pension scheme	(1,170)	-	-	94	(1,076)
Total comprehensive income for the year	**14,354**	**1,049**	**(32,954)**	**217**	**(17,334)**

As a result of implementation of FRS 102, the turnover for the year ended 31 March 2015, has been adjusted for the amortisation of the grant by £4.3m.

Surplus for the year has decreased by (£4.6m) due to hedging adjustments (£5.9m) partly offset by an increase of £1.1m due to the grants amortisation and of £0.2m in other adjustments (pension SHPS, lease incentive and holiday accrual).

Notes to the Financial Statements

34. First time adoption of FRS 102

The consolidated transition statement for Stonewater Limited has been included below, which highlights the key changes to the Opening Balance Sheet as at 31 March 2014, Balance Sheet as at 31 March 2015 and the Income and Expenditure Account for the year ended 31 March 2015.

Consolidated balance sheet at 1 April 2014	As per financial statements £'000	FRS 102 adjustment £'000	As per FRS 102 £'000
Tangible fixed assets			
Housing properties	1,688,412	-	1,688,412
Accumulated depreciation	(132,102)	(64,872)	(196,974)
Other subsidies	(12,689)	12,689	-
Social Housing Grant	(684,396)	684,396	-
Other fixed assets	10,599	-	10,599
Total tangible fixed assets	**869,824**	**632,213**	**1,502,037**
Current assets			
Non liquid assets	1,442	-	1,442
Properties for sale	9,250	-	9,250
Debtors	13,618	-	13,618
Short term investments	35,846	-	35,846
Cash at bank and in hand	45,848	-	45,848
Creditors: amounts falling due within one year			
Fair value of financial instruments	-	(150)	(150)
Deferred income – Operating leases	-	(148)	(148)
Deferred income – Holiday accrual	-	(197)	(197)
Other creditors	(42,765)	-	(42,765)
Net current assets	**63,239**	**(495)**	**62,744**
Total assets less current liabilities	**933,063**	**631,718**	**1,564,781**
Creditors: amounts falling due after more than one year			
Social Housing Grant	-	599,398	599,398
Fair value of financial instruments	-	64,467	64,467
Other creditors	726,247	-	726,247
DB pension scheme	3,947	-	3,947
SHPS pension scheme	-	15,058	15,058
Provision for liabilities and charges	93	-	93
Revenue reserves b/fwd – Original	202,777	-	202,777
PYA – Amortisation of grant	-	32,815	32,815
PYA – SHPS pension	-	(15,058)	(15,058)
PYA – Hedging	-	(15,043)	(15,043)
PYA - Other	-	(345)	(345)
Revenue reserves b/fwd - Restated	**202,777**	**2,369**	**205,146**
Cash flow hedge reserves	-	(49,574)	(49,574)
Total long term liabilities and reserves	**933,063**	**631,718**	**1,564,781**

As a result of implementation of FRS 102, a net reduction of £(47.2)m has arisen within reserves, mainly due to the recognition of the cash flow reserve (£49.6m) arising from the recognition of the fair value of hedged financial instruments and offset by £2.4m arising from revenue reserves (pensions SHPS, grant amortisation, other financial instruments).

Notes to the Financial Statements

34. First time adoption of FRS 102

Consolidated balance sheet at 31 March 2015	As per financial statements £'000	FRS 102 adjustment £'000	As per FRS 102 £'000
Tangible fixed assets			
Housing properties	1,776,045	-	1,776,045
Accumulated depreciation	(145,645)	(70,169)	(215,814)
Social Housing Grant	(693,472)	693,472	-
Other subsidies	(12,232)	12,232	-
Other fixed assets	7,942	-	7,942
Total tangible fixed assets	**932,638**	**635,535**	**1,568,173**
Current assets			
Non liquid assets	1,544	-	1,544
Properties for sale	8,396	-	8,396
Debtors	14,109	-	14,109
Short term investments	111,702	-	111,702
Cash at bank and in hand	30,186	-	30,186
Creditors: amounts falling due within one year			
Fair value of financial instruments	-	(113)	(113)
Deferred income – Operating leases	-	(177)	(177)
Deferred income – Holiday accrual	-	(195)	(195)
Other creditors	(67,685)	-	(67,685)
Net current assets	**98,252**	**(485)**	**97,767**
Total assets less current liabilities	**1,030,889**	**635,050**	**1,665,939**
Creditors: amounts falling due after more than one year			
Social Housing Grant	-	600,314	600,314
Fair value of financial instruments	-	118,689	118,689
Other creditors	799,068	-	799,068
DB pension scheme	5,096	-	5,096
SHPS pension scheme	-	14,464	14,464
Provision for liabilities and charges	93	-	93
Revenue reserves	226,631	(5,202)	221,430
Cash flow hedge reserves	-	(93,215)	(93,215)
Total long term liabilities and reserves	**1,030,889**	**635,050**	**1,665,939**

As a result of implementation of FRS 102, a net reduction of £(98.4)m has arisen within reserves, mainly due to the recognition of the cash flow reserve (£93.2m) arising from the recognition of the fair value of hedged financial instruments and (£5.2m) arising from revenue reserves (pensions SHPS, grant amortisation, other financial instruments).

Notes to the Financial Statements

34. First time adoption of FRS 102

Consolidated Income and Expenditure Account year ended 31 March 2015

	As per financial statements	FRS 102 amortisation adjustment	FRS 102 hedging adjustment	FRS 102 other adjustments	As per FRS 102
	£'000	£'000	£'000	£'000	£'000
Turnover	155,954	9,192	-	1	165,147
Operating costs	(101,826)	(6,676)	-	615	(107,886)
Cost of sales	(6,317)	-	-	-	(6,317)
Operating surplus	**47,811**	**2,516**	**-**	**616**	**50,944**
Surplus on sale of fixed assets	6,819	(110)	-	-	6,709
Interest receivable and similar income	316	-	-	-	316
Interest payable and similar charges	(29,951)	-	-	(48)	(29,999)
Movement in fair value of non hedged financial instruments	-	-	(10,544)	-	(10,544)
Other finance costs	(73)	-	-	(94)	(167)
Investment income	103	-	-	-	103
Surplus for the year	**25,025**	**2,406**	**(10,544)**	**475**	**17,362**
Movement in fair value of hedged financial instruments	-	-	(43,641)	-	(43,641)
Actuarial gains/(losses) on defined benefit pension scheme	(1,170)	-	-	94	(1,076)
Total comprehensive income for the year	**23,855**	**2,406**	**(54,185)**	**569**	**(27,355)**

As a result of implementation of FRS 102, the turnover for the year ended 31 March 2015, has been adjusted for the amortisation of the grant by £9.2m, whereby now amortised over the life of the housing property.

Surplus for the year has decreased by (£7.6m) due to losses arising on the movement of non hedged instruments of (£10.5m), partly offset by an increase of £2.4m due to the grants amortisation and £0.6m in other adjustments (pension SHPS, lease incentive and holiday accrual).

A further (£43.6m) losses have been recognised within comprehensive income relating to the recognition of movement in fair value of hedged financial instruments.

STONEWATER