

STONEWATER (5) LIMITED
REPORT OF THE BOARD OF
MANAGEMENT, STRATEGIC REPORT
AND FINANCIAL STATEMENTS

For the year ending 31 March 2018



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Board Members

George Blunden (Chair)
Sheila Collins
Doug Wright
John Weguelin
Nicholas Harris
Anne Dokov
Peter Hammond

Michael Collins (Deputy Chair)
Juliana Crowe (from 1 October 2017)
Brian Roebuck
Sue Terry (until 30 September 2017)
Tariq Kazi (from 13 March 2018)
Patrick Symington (from 1 July 2017)
Colin Small (until 30 September 2017)

Advisers

Secretary and registered office

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

Principal Bankers

Barclays Bank
Level 27
1 Churchill Place
London
E14 5HP

Principal Solicitors

Devonshires Solicitors
30 Finsbury Circus
London ECM 7DT

Auditors

BDO LLP
2 Snowhill
Birmingham
B4 6GA

Report of the Board of Management and Strategic report

The Board presents its report and audited financial statements for Stonewater (5) Limited (the 'Association') for the year ended 31 March 2018.

Nature of the business and principal activity

Stonewater (5) Limited is a Registered Society under the Cooperative and Community Benefit Societies Act 2014, with charitable status, and a Registered Provider with the Regulator of Social Housing (RSH). Its parent is Stonewater Limited (the 'Group' or 'Stonewater').

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

Our Vision

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

Our Mission

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

Our Values

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

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

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

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

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

Stonewater's Strategic Plan 2017-2022

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

Customer experience

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

Growth and influence

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

Business excellence

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

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

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

Report of the Board of Management and Strategic report

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

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

External environment

Housing supply and affordability

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

Between 2010 and 2017

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

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

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

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

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

Report of the Board of Management and Strategic report

Government policy and changes to welfare options

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

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

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

>The 1% rent settlement.

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

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

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

Demographic changes

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

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

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

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

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

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

Report of the Board of Management and Strategic report

Regulation

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

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

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

Performance in the year

Total comprehensive income for the year was £1.0m (2017: £0.9m).

Key Performance indicators:

Rental income loss through voids is 2.04% (2017: 2.25%)

Gross arrears on average were 4.46% (2017: 4.5%)

Responsive repairs satisfaction on average was 86.11% (2017: 87%)

Report of the Board of Management and Strategic report

Governance structure

Board

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

Current obligations of Board Members to the Board and the company

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

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

In 2017/18 these were:

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

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

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

Code of Governance

Stonewater has adopted the 2015 National Housing Federation (NHF) Code of Governance for our registered providers and complies fully with it. We comply with the code of governance in all aspects and the RSH's Governance and Financial Viability standard.

Report of the Board of Management and Strategic report

Committees

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

> Assets and Development Committee

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

> Finance Committee

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

>Governance and HR Committee

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

>Housing Committee

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

>Risk and Assurance Committee

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

>Digital and IT Task and Finish group

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

Executive Directors Group

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

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.

Report of the Board of Management and Strategic report

Risks and uncertainties

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

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

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

The key strategic risks at present are:

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

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

People strategy

Detail of our people related strategies and objectives can be found in the Consolidated financial statements.

Gender Pay Gap

Stonewater gender pay gap statement is available via the website:

www.stonewater.org

Corporate Communications

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

Value for Money

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

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

Report of the Board of Management and Strategic report

Relationships

Customer engagement

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

Customer insight

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

Equality and diversity

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

Modern slavery and human trafficking

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

Financial inclusion

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

Treasury policies and objectives

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

Going concern

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

Report of the Board of Management and Strategic report

Business planning, risk and internal controls assurance

Purpose

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

Responsibility

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

Approach

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

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

> Identification and evaluation of key risks

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

> Monitoring and corrective action

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

> Control environment and control procedures

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

> Information and financial reporting systems

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

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

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

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

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

Report of the Board of Management and Strategic report

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

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

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

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

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

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

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

>The Co-operative and Community Benefit Societies Act 2014

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

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

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

Disclosure of information to auditors

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

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

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



George Blunden
Chair of Board

Independent auditor's report to the members of Stonewater (5) Limited

Our opinion

We have audited the financial statements of Stonewater (5) Limited ("the Association") for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- >give a true and fair view of the state of the Association's affairs as at 31 March 2018 and of the Association's surplus for the year then ended;
- >have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- >have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our

audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

the board members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The board are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information including the Report of the Board of Management and, in doing so,

Independent auditor's report to the members of Stonewater (5) Limited

consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

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

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

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

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

Responsibilities of the board

As explained more fully in the statement of the board's responsibilities set out on page 12, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board are responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report to the members of Stonewater (5) Limited

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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



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

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

Statement of comprehensive income

		2018	2017
	Note	£'000	£'000
Turnover	4	5,894	5,566
Cost of sales	4	(67)	(280)
Operating costs	4	(4,350)	(3,970)
Operating surplus	4,7	1,477	1,316
Surplus on disposal of fixed assets	9	332	179
Interest receivable and similar income	10	728	976
Interest payable and financing costs	11	(1,482)	(1,542)
Total comprehensive income for the financial year		1,055	929

All activities relate to continuing operations.


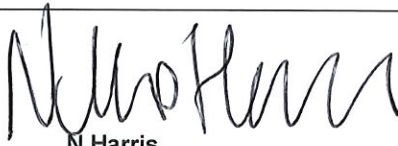

The notes on pages 19 to 36 form part of these financial statements.

Statement of financial position

		2018	2017
	Note	£'000	£'000
Fixed assets			
Housing properties	13	41,478	40,759
Total fixed assets		41,478	40,759
Current assets			
Trade and other debtors	14	862	625
Cash and cash equivalents		9,978	10,044
		10,840	10,669
Creditors: amounts due in one year	15	(1,709)	(1,796)
Net current assets		9,131	8,873
Total assets less current liabilities		50,609	49,632
Creditors: amounts falling due after more than one year	16	(45,525)	(45,603)
Net assets		5,084	4,029
Capital and reserves			
Share capital	20	-	-
Income and expenditure reserve		5,084	4,029
		5,084	4,029

The notes on pages 19 to 36 form part of these financial statements.

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

 G Blunden Chair of the Board	 N Harris Board Member	 A Harling Secretary
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Statement of changes in reserves

	Income and expenditure reserve
	2018
	£'000
Balance at 1 April 2017	4,029
Surplus for the year	1,055
Balance at 31 March 2018	5,084
Balance at 1 April 2016	3,100
Surplus for the year	929
Balance at 31 March 2017	4,029

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1. Legal status

Stonewater (5) Limited is registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a social housing provider. The Association is a public benefit entity.

2. Accounting policies

Basis of preparation

The financial statements of the Association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102) and the Housing SORP 2014 "Statement of Recommended Practice for Registered Social Housing Providers" and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

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

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

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

The following principal accounting policies have been applied:

Going concern

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

Turnover

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

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

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

Notes to the financial statements

Revenue recognition

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

Service charges

The Association 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.

Cost of sales

Cost of sales represents costs including capitalised interest, direct overheads incurred during the course of development of those properties and marketing and other incidental costs incurred during the course of the sale of those properties. (Development overhead costs are capitalised to the extent in which they directly attribute to bringing schemes into a working condition. Such expenditure is inclusive of in house development staff, surveyor costs, and a proportion of other staff in other departments which work on development activity).

Operating costs

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

Value Added Tax

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

Tangible fixed assets – housing properties

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

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

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

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

Notes to the financial statements

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

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

Gains and losses on disposals of housing properties are determined by comparing the proceeds with the carrying amount and incidental costs of sales and recognised within the gains/loss on disposed fixed assets in the Statement of Comprehensive Income post operating surplus line.

Government and other grants

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

As required by the Housing SORP 2014, grant is carried as deferred income in the Statement of Financial Position and released to the Statement of Comprehensive Income on a systematic basis over the useful economic lives of the 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 23). Social housing grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the Statement of Comprehensive Income.

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

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

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

Recycled capital grant fund

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

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

Notes to the financial statements

Impairment of fixed assets

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

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

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

Definition of cash generating units is defined as schemes.

Depreciation of housing property

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

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

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

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

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

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

Allocation of costs for mixed tenure and shared ownership developments

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

Shared ownership properties and staircasing

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

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

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

Debtors and creditors

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

Rent and service charge agreements

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

Loans, investments and short term deposits

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

Financial liabilities and equity

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

Cash and cash equivalents

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

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

Notes to the financial statements

Finance costs

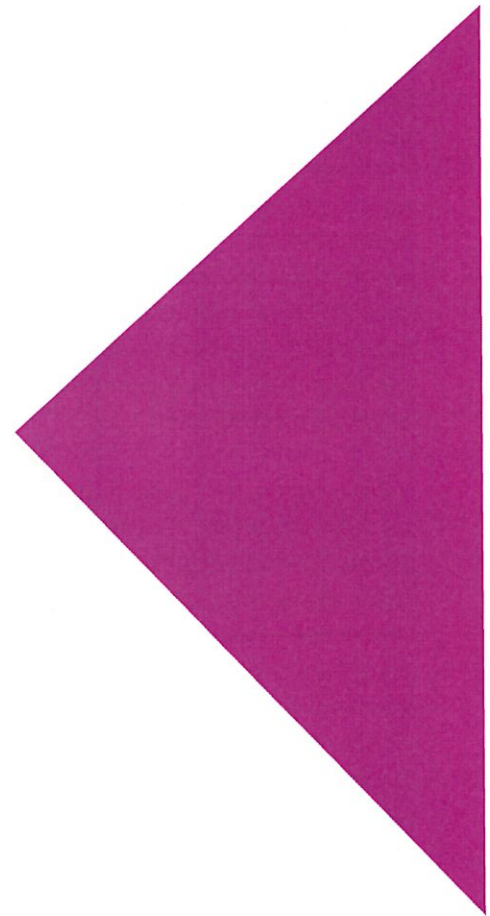
Finance costs on bonds and notes are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the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

Leasehold sinking funds

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

Income and expenditure reserve

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



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

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

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

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

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

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

Other key sources of estimation uncertainty:

> Tangible fixed assets (note 13)

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

Notes to the financial statements

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

		Turnover	Cost of sales	Operating costs	Operating surplus
	Note	2018	2018	2018	2018
		£'000	£'000	£'000	£'000
Social Housing lettings	5	5,814	-	(4,350)	1,464
Other Social Hosing Activities					
First Tranche low costs home ownership sales		80	(67)		13
Total		5,894	(67)	(4,350)	1,477

		Turnover	Cost of sales	Operating costs	Operating surplus
	Note	2017	2017	2017	2017
		£'000	£'000	£'000	£'000
Social housing lettings	5	5,227	-	(3,970)	1,257
Other social housing activities					
First Tranche low costs home ownership sales		339	(280)	-	59
		5,566	(280)	(3,970)	1,316

Notes to the financial statements

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

	General needs	Supported & Housing for older people	Shared ownership	Affordable	Total 2018	Total 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	3,828	636	148	125	4,737	4,228
Service charge income	447	323	118	-	888	798
Net rent receivable	4,275	959	266	125	5,625	5,026
Amortised government grants	147	32	7	2	188	159
Other income	-	-	1	-	1	42
Turnover from social housing lettings	4,422	991	274	127	5,814	5,227
Expenditure on letting activities						
Management	(876)	(149)	(67)	(20)	(1,112)	(1,010)
Service charge costs	(450)	(267)	(82)	(2)	(801)	(713)
Routine maintenance	(718)	(159)	(7)	(18)	(902)	(791)
Planned maintenance	(40)	(11)	(2)	(1)	(54)	(107)
Major repairs	(448)	(111)	(18)	(1)	(578)	(513)
Bad debts	(58)	(3)	(2)	(2)	(65)	(129)
Depreciation on housing properties	(661)	(143)	(18)	(16)	(838)	(707)
Operating expenditure on social housing lettings	(3,251)	(843)	(196)	(60)	(4,350)	(3,970)
Operating surplus on social housing lettings	1,171	148	78	67	1,464	1,257
Void losses	(87)	(26)	(1)	(3)	(117)	(114)

Notes to the financial statements

6. Units of housing stock

	2018	2017
	Number	Number
General Needs Housing	812	813
Affordable housing	19	19
Shared Ownership	66	68
Housing for older people	145	147
Total owned and managed accommodation	1,042	1,047

7. Operating surplus

	2018	2017
	£'000	£'000
This is arrived at after charging:		
Depreciation of housing properties		
-annual charge (note 5 and 13)	817	696
-accelerated depreciation (note 5 and 13)	21	11

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

8. Employees, Directors' and senior executive remuneration

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

Notes to the financial statements

9. Surplus on disposal of fixed assets

	Shared ownership	Other housing properties	Total	Total
	2018	2018	2018	2017
	£'000	£'000	£'000	£'000
Housing properties:				
Disposal proceeds	148	367	515	290
Cost of disposals	(106)	(77)	(183)	(111)
Surplus on disposal	42	290	332	179

10. Interest receivable and similar income

	2018	2017
	£'000	£'000
Interest receivable from group undertakings	304	503
Interest receivable and similar income	22	9
Gift aid from group undertakings	402	464
Total	728	976

11. Interest payable and financing costs

	2018	2017
	£'000	£'000
Bank loans and overdrafts	2	60
Interest payable to group undertakings	1,480	1,482
Total	1,482	1,542

12. Taxation on surplus on ordinary activities

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

Notes to the financial statements

13(a). Tangible fixed assets Housing Properties

	Housing properties held for lettings	Housing properties for letting under construction	Shared ownership properties held for lettings	Shared ownership properties under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 April 2017	38,878	-	3,513	-	42,391
Additions					
-Construction costs	-	13	-	3	16
- completed properties	894	-	-	-	894
-Replacement components	885	-	-	-	885
Transfer to properties held for sale	-	-	(67)	-	(67)
Disposals – staircasing	-	-	(106)	-	(106)
Disposals – property	(73)	-	-	-	(73)
Disposal – components	(29)	-	-	-	(29)
At 31 March 2018	40,555	13	3,340	3	43,911
Depreciation:					
At 1 April 2017	1,611	-	21	-	1,632
Charge for the year	820	-	18	-	838
Eliminated on disposals					
Disposals – staircasing	-	-	(17)	-	(17)
Disposals – other	10	-	-	-	10
Disposal – components	(30)	-	-	-	(30)
At 31 March 2018	2,411	-	22	-	2,433
Net book value:					
At 31 March 2018	38,144	13	3,318	3	41,478
At 31 March 2017	37,267	-	3,492	-	40,759

13(b). Tangible fixed assets housing properties (continued)

	2018	2017
	£'000	£'000
The net book value of housing and other properties (note 13(a)) comprises:		
Freehold	37,428	36,656
Long leasehold	4,050	4,103
	41,478	40,759
Works to properties		
Improvements to existing properties capitalised	885	209
Major repairs expenditure to income and expenditure account (note 5)	578	513
	1,463	722
Total social housing grant received or receivable to date as follows:	2018	2017
	£'000	£'000
Capital grant held in deferred income (note 17)	14,577	14,617
Recycled capital grant fund (note 18)	67	19
Amortised to income and expenditure account in year (note 5)	188	159
Cumulative amortisation to reserves	725	537

Properties held for security

The association had 567 properties pledged as security at 31 March 2018 (2017: 578 properties).



Notes to the financial statements

14. Debtors

	2018	2017
	£'000	£'000
Rent and service charge arrears	649	509
Less: Provision for doubtful debts	(164)	(132)
	485	377
Amounts owned by group undertaking	372	206
Other debtors	-	30
Prepayment and accrued income	5	12
	862	625

15. Creditors – amounts falling due within one year

	2018	2017
	£'000	£'000
Short Term Loans	31	-
Trade creditors	56	4
Other creditors	773	687
Taxation and social security	2	-
Accrued interest	45	45
Amounts owed to group undertakings	434	739
Leaseholder sinking funds	368	321
	1,709	1,796

Notes to the financial statements

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

	2018	2017
	£'000	£'000
Housing Loans (note 19)	30,000	30,000
Bond Premium (note 19)	918	979
Issue costs (note 19)	(37)	(12)
Deferred capital grant (note 17)	14,577	14,617
Recycled capital grant fund (note 18)	67	19
	45,525	45,603

Included within Housing loans is a loan of £30 million (2017: £30 million) from Stonewater Funding PLC, which is repayable in 2042. Interest payable on housing loans are at varying commercial rates. Loans are secured by fixed charges on individual properties. In addition, £0.9 million (2017: £1 million) premium is amortised over the life of the bond, which matures in November 2042.

17. Deferred capital grant

	2018	2017
	£'000	£'000
At 1 April	14,617	7,097
Transfer to RCGF and DPF (note 16 and note 18)	(48)	(19)
Transfer from intercompany	-	7,698
Released to income in the year (note 5)	(188)	(159)
Write back amortisation on disposals	1	-
Other movements	195	-
At 31 March	14,577	14,617

Notes to the financial statements

18. Recycled capital grant fund (RCGF)

	HCA	HCA
	2018	2017
	£'000	£'000
At 1 April	19	-
Inputs to fund:		
Grants recycled from deferred capital grants (note 17)	48	19
At 31 March	67	19
Amounts due for repayments		
-within 2 to 3 years (note 16)	67	19
	67	19

19. Loans and borrowings

Maturity of debt:	Bond Finance	Bond Finance
	2018	2017
	£'000	£'000
Due within one year	31	-
Between one and two years	29	-
Between two and five years	106	-
After five years	30,783	30,979
Issue Costs	(37)	(12)
Total Loans	30,912	30,967

Bond Finance includes £30 million (2017: £30 million) from Stonewater Funding PLC, a fellow Group Member.

Notes to the financial statements

20. Share capital

	2018	2017
	£'000	£'000
At 1 April	11	11
Shares issued in the year	3	-
Shares cancelled in the year	(2)	-
At 31 March	12	11

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

21. Related party disclosures

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

The total loan balance and interest charged by Stonewater Funding PLC in the year was: -

	2018	2017
	£'000	£'000
Loan Balance (including issue costs)	30,912	30,967
Interest charged	1,480	1,482

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

The charge for the design and build services was £12,915 (2017: £ nil) plus 2.5% admin charge of £323 (2017: £nil) a total recharge of £13,238 (2017: £nil).

Under the facility the loans, which are repayable at various dates through to 2042, are secure by fixed charges over the housing properties of Stonewater Ltd, Stonewater (2) Limited and Stonewater (5) Limited; cross guaranteed cover any shortfall; in the security and any unpaid interest and fees in respect of the loans. At 31 March 2018 the potential shortfall covered by the guarantee was nil as the valuation of the security provided by Stonewater Limited, Stonewater (2) Limited and Stonewater (5) exceeded the amount required.

The Association has taken advantage of the disclosure exemption available in FRS102 in respect of related party transactions with intra group companies.

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

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