

**Stonewater (5) Limited**

**Registered Social Housing Provider –**

Report and Financial Statements

Year ended 31 March 2016

Co-operative and Community Benefit Society (FCA) number: 31527R

Homes and Communities Agency number: RP4717

# Stonewater (5) Limited

Report and Financial Statements for the year ended 31 March 2016

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## **Executive and advisors**

### **Board and Officers**

#### Board Members:

Mr J Weguelin - Chair

Mr G Blunden

Mr M Collins

Mrs S Collins

Mrs A Dokov

Mr P Hammond

Mr N Harris

Mr B Roebuck

Mr C Small

Mr R Strachan

Mrs S Terry

Mr D Wright

#### **Secretary and Registered Office**

Anne Harling

Suite C Lancaster House

Grange Business Park

Enderby Road

Whetstone

Leicester

LE8 6EP

#### **Auditor**

BDO LLP

Two Snowhill

Birmingham

B4 6GA

#### **Solicitor**

Devonshires Solicitors

30 Finsbury Circus

London

ECM 7DT

#### **Principal Banker**

Barclays Bank

Level 27

1 Churchill Place

London

E14 5HP

## Report of the Board of Management

The Board presents its report and audited financial statements for Stonewater (5) Limited (the 'Association') for the year ended 31 March 2016.

### Operating and Financial Review

#### 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 Homes and Communities Agency (HCA). Its ultimate 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.

#### 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 who's 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.

#### Strategic Plan

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.

# **Report of the Board of Management**

## **Operating and Financial Review**

### **Strategic Plan**

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.

### **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 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.

### **Regulation**

The latest regulatory judgement issued by the Homes and Communities Agency 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).

# Report of the Board of Management

## Operating and Financial Review

### Performance in the period

The Association has made a surplus of £1.3m during the year (2015: £0.9m), mainly due to lower management and maintenance costs.

#### *Key Performance Indicators*

Voids were 1.12% during 2015-16

Gross Rent Arrears averaged at 2.69% throughout the year

86% of tenants were very or fairly satisfied with repairs during the year

### Resources

#### *Board*

The Board is responsible for the proper and effective management of Stonewater. The Board, working with the Executive Director Group led by the Chief Executive, undertakes this role through strategic direction, establishing a framework for delegation, and holding the Executive Director Group to account for performance. This includes accountability to residents 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 2016 including two executive members.

#### *Current obligations of Board Members to the Board and the Association*

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 2015-16 these were:

- overseeing a successful integration programme;
- delivery of the strategic plan;
- focus on strategy; and
- 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 in which 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 the AGM 2015 was 61 years.

## Report of the Board of Management

### Operating and Financial Review

#### *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. The Risk and Assurance Committee and the Housing Committee include places for independent members.

The five functional committees and their purposes are:

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

#### *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.

#### *Access to Information*

Stonewater aims to work in a transparent and open manner, making information publicly available unless there are justifiable reasons for not doing so, such as personal data or commercially sensitive information. Information takes a variety of forms including reports; policy statements; minutes; and publications, such as newsletters and the annual report. Many may be found on our website [www.stonewater.org](http://www.stonewater.org) and copies are also available on request.

# Report of the Board of Management

## Operating and Financial Review

### *Executive Director 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, one for each of our three geographical divisions, and the other five who have functional responsibilities. The members of the Group are disclosed in the Consolidated financial statements.

### **Staffing Strategies**

Further detail of staff related strategies and objectives can be found in the Consolidated financial statements of the Group.

### **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.



# **Report of the Board of Management**

## **Operating and Financial Review**

### *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.

### *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 to us refining our anti social behaviour management processes and procedures. This input helped us to identify the priorities for improvement to ensure most effective use of resources, and highlighted communication with customers as key in the management of anti social behaviour cases.

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 (E&D)*

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

### *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.

During 2014-15 we began work to introduce rental data sharing with Experian 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)

### **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 for preparing the Association's Financial Statements.

# Report of the Board of Management

## Operating and Financial Review

### Value for Money

The Group Value for Money Self Assessment provides full details of achievements within the year. This is available through the Group website and is summarised in the Consolidated financial statements.

The link to the current version of the VFM statement is available on the Organisation's website at <http://www.stonewater.org/corp/about-us/management-and-governance/our-performance/value-for-money.html>. A new statement will be published by 30 September 2016.

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.

### Internal Controls Assurance

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

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 the Association'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 the Association 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 the Association's activities. This process is summarised in an annual report considered by the Risk and Audit Committee. The Executive Management Team regularly considers significant risks facing the Association 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. 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 NHF Code of Excellence in Standards of Conduct. Stonewater's own Code of Conduct is disseminated to all employees. This sets out the Association'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.

## Report of the Board of Management

### Operating and Financial Review

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.

#### Internal Controls Assurance

##### *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 Audit Committee. The Risk and Audit Committee considers internal control at each of its meetings during the year.

##### *Information and financial reporting systems*

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 any fraud registers (one entry 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 on-going process for identifying, evaluating and managing significant risks faced by the Association. 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 HCA 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 the Association'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 the Association'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.

The report of the Board was approved on 26<sup>th</sup> July 2016 and signed on its behalf by



*George Blunden*

*Board Member*

## **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 association and of the income and expenditure of the association 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 the association 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 the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

## Independent Auditor's Report to the Members of Stonewater (5) Limited

We have audited the financial statements of Stonewater (5) Limited for the year ended 31 March 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in reserves, 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](http://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 association's affairs as at 31 March 2016 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 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; or
- a satisfactory system of control has not been maintained over transactions; or
- the 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.



Kyla Bellingall  
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).

## Stonewater (5) Limited

### Statement of comprehensive income for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Turnover	4	3,359	3,571
Operating costs	4	(1,751)	(2,399)
<b>Operating surplus</b>	<b>4, 7</b>	<b>1,608</b>	<b>1,172</b>
Other interest receivable and similar income	9	1,238	1,117
Interest and financing costs	10	(1,487)	(1,388)
<b>Surplus and total comprehensive income for the financial year</b>		<b><u>1,359</u></b>	<b><u>901</u></b>

All activities relate to continuing operations.


The notes on pages 16 to 32 form part of these financial statements.

# Stonewater (5) Limited

Balance sheet as at 31 March 2016

	Note	2016 £'000	2015 £'000
<b>Fixed Assets</b>			
Housing properties	12	<u>18,918</u>	<u>19,023</u>
		<b>18,918</b>	<b>19,023</b>
<b>Current Assets</b>			
Debtors	13	584	21,503
Cash and cash equivalents		<u>21,987</u>	<u>-</u>
		<b>22,571</b>	<b>21,503</b>
Creditors: amounts falling due within one year	14	(252)	(540)
		<u>22,319</u>	<u>20,963</u>
<b>Net current assets</b>		<b>22,319</b>	<b>20,963</b>
		<u>41,237</u>	<u>39,986</u>
<b>Total assets less current liabilities</b>		<b>41,237</b>	<b>39,986</b>
Creditors: amounts falling due after more than one year	15	(38,137)	(38,245)
		<u>3,100</u>	<u>1,741</u>
<b>Net assets</b>		<b>3,100</b>	<b>1,741</b>
<b>Capital and reserves</b>			
Called up share capital	18	-	-
Income and expenditure reserve		<u>3,100</u>	<u>1,741</u>
		<b>3,100</b>	<b>1,741</b>

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



**G Blunden**

*Board Member*



**N Harris**

*Board Member*



**A Harling**

*Secretary*

The notes on pages 16 to 32 form part of these financial statements.

## Stonewater (5) Limited

### Statement of changes in reserves for the year ended 31 March 2016

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	Note	Income and expenditure reserve £'000
Balance at 1 April 2015	21	1,741
Surplus for the year		1,359
<b>Balance at 31 March 2016</b>		<u><b>3,100</b></u>
Balance at 1 April 2014	21	840
Surplus for the year	21	901
Balance at 31 March 2015	21	<u>1,741</u>



# Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

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# Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

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## 1 Legal status

Stonewater 5 Limited 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 5 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.

Information on the impact of first-time adoption of FRS 102 is given in note 21.

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

The following principal accounting policies have been applied:

### *Turnover*

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

### *Service charges*

The Association adopts a 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.

### *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.

# Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

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## 2 Accounting policies

### *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 developments.

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

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

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

When housing properties are developed 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.

### *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.

# Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

## 2 Accounting policies

### *Depreciation of housing property*

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 determined average expected useful economic life as follows:

Description	Expected Useful Life
Boiler	15
Kitchens	20
Heating Systems & Bathrooms	30
Electrics	40
Windows	35
Roof covers	70
Structure	80-110

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.

### *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 assets for which it was received.

Where a 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.

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.

# Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

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## 2 Accounting policies

### *Impairment of fixed assets*

The housing property portfolio for the Association is assessed for indicators of impairment at each balance sheet date. Where indicators are identified, 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. 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 Association 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 VIU-SP.

The Association defines cash generating units as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash generating units. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to income and expenditure.

### *Debtors and creditors*

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

### *Recoverable amount of rental and other trade receivables*

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

### *Rent and service charge agreements*

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

### *Leasehold Sinking Funds*

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

### *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.

# Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

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### 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 exemptions to be taken on transition to FRS102
- 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 12)*

Tangible fixed assets are depreciated over their useful 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.

- *Rental and other trade receivables (debtors note 13)*

The estimate for receivables relates to the recoverability of the balances outstanding at year end. A review is performed on an individual debtor basis to consider whether each debt is recoverable.

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

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

	Turnover	Operating costs	Operating surplus/(deficit)
	2016	2016	2016
	£'000	£'000	£'000
Social housing lettings (Note 5)	<u>3,359</u>	<u>(1,751)</u>	<u>1,608</u>

	Turnover	Operating costs	Operating surplus/(deficit)
	2015	2015	2015
	£'000	£'000	£'000
Social housing lettings (Note 5)	<u>3,571</u>	<u>(2,399)</u>	<u>1,172</u>

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

5 Income and expenditure from social housing lettings	General needs £'000	Sheltered & Supported Housing £'000	Affordable £'000	Total 2016 £'000	Total 2015 £'000
<b>Income</b>					
Rents net of identifiable service charges	2,158	622	53	2,833	2,744
Service charge income	208	235	-	442	672
Amortised government grants	51	32	-	84	155
	<u>2,417</u>	<u>889</u>	<u>53</u>	<u>3,359</u>	<u>3,571</u>
<b>Turnover from social housing lettings</b>					
<b>Expenditure</b>					
Management	(265)	(103)	-	(368)	(854)
Service charge costs	(210)	(240)	-	(450)	(552)
Routine maintenance	(206)	(91)	(8)	(305)	(296)
Planned maintenance	(49)	(8)	-	(57)	(139)
Major repairs expenditure	(52)	(35)	-	(87)	(91)
Bad debts	(11)	-	-	(11)	32
Depreciation of housing properties:					
- annual charge	(238)	(177)	(7)	(422)	(499)
- accelerated depreciation	(40)	-	-	(40)	-
Other costs	(8)	(3)	-	(11)	-
	<u>(1,079)</u>	<u>(657)</u>	<u>(15)</u>	<u>(1,751)</u>	<u>(2,399)</u>
<b>Operating expenditure on social housing lettings</b>					
	<u>1,338</u>	<u>232</u>	<u>38</u>	<u>1,608</u>	<u>1,172</u>
<b>Operating surplus on social housing lettings</b>					
	<u>(16)</u>	<u>(26)</u>	<u>(1)</u>	<u>(43)</u>	<u>(38)</u>
<b>Void losses</b>					



## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

### 6 Units of housing stock

	2016 Number	2015 Number
General needs housing:		
- social	397	397
- sheltered	<u>160</u>	<u>160</u>
<b>Total owned</b>	<u><b>557</b></u>	<u><b>557</b></u>

### 7 Operating surplus

	2016 £'000	2015 £'000
This is arrived at after charging/(crediting):		
Depreciation of housing properties:		
- annual charge (note 5)	422	499
- accelerated depreciation (note 5)	40	-
Auditors' remuneration		
- fees for audit of these financial statements	-	6

Audit fees for the year-ended 31 March 2016 are borne by the ultimate parent company, Stonewater Limited, and are disclosed in the Consolidated Financial Statements.

### 8 Remuneration of directors and staff numbers and costs

The cost of all officers both executive and non executive is incurred and paid by Stonewater Limited, the ultimate parent company.

Employee information, including pension costs, is disclosed in the Consolidated financial statements.

### 9 Other Interest receivable and similar income

	2016 £'000	2015 £'000
Bank interest receivable	8	19
Interest receivable from group undertakings	1,046	921
Gift aid from group undertakings	<u>184</u>	<u>177</u>
	<u><b>1,238</b></u>	<u><b>1,117</b></u>

### 10 Interest and financing costs

	2016 £'000	2015 £'000
Interest payable to Group undertakings	<u><b>1,487</b></u>	<u><b>1,388</b></u>

### 11 Taxation on surplus/(deficit) on ordinary activities

Stonewater 5 Limited is registered with charitable rules under Co-operative and Community Benefit Societies Act and as such receives charitable relief from Corporation Tax.

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

### 12 Tangible fixed assets - Housing properties

	General needs completed £'000
<i>Cost or valuation:</i>	
At 1 April 2015	19,765
Additions:	
- replaced components	311
Completed schemes	47
Disposals:	
- replaced components	(64)
Major Repairs Write-over	(197)
	<hr/>
<b>At 31 March 2016</b>	<b><u>19,862</u></b>
 <i>Depreciation:</i>	
At 1 April 2015	742
Charge for the year	462
Eliminated on disposals:	
- major repairs write-over	(237)
- replacement components	(23)
	<hr/>
<b>At 31 March 2016</b>	<b><u>944</u></b>
 <b>Net book value at 31 March 2016</b>	<b><u>18,918</u></b>
Net book value at 31 March 2015	<u>19,023</u>

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

### 12 Tangible fixed assets - Housing properties

	2016 £'000	2015 £'000
Freehold	15,018	15,221
Long leasehold	3,900	3,802
	<u>18,918</u>	<u>19,023</u>

#### *Works to properties*

Improvements to existing properties capitalised	358	1,084
Major repairs expenditure to income and expenditure account	87	91
	<u>445</u>	<u>1,175</u>

#### *Impairment*

During the current year the Association has recognised an impairment loss of £Nil (2015 - £Nil) in respect of general needs housing stock.

#### *Interest capitalisation*

No interest was capitalised during the current year (2015: £nil)

*Total Social Housing Grant received or receivable to date as follows;*

Capital grant held in deferred income (note 16)	7,097	7,181
Amortised to income and expenditure account in year	84	155
Cumulative amortisation to reserves	378	294

#### *Properties held for security*

The Association had 557 units held as security at 31 March 2016 (2015: 557).

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

### 13 Debtors

	2016 £'000	2015 £'000
Rent and service charge arrears	94	80
Less: Provision for doubtful debts	<u>(23)</u>	<u>(11)</u>
	71	69
Amounts owed by group undertakings	310	21,401
Prepayments	143	-
Other debtors	60	33
	<u>584</u>	<u>21,503</u>

All amounts are due within one year

### 14 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Other creditors	252	540
	<u>252</u>	<u>540</u>

### 15 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Amounts due to group undertakings (note 17)	31,040	31,064
Deferred Capital Grant	7,097	7,181
	<u>38,137</u>	<u>38,245</u>

Included within amounts due to group undertakings is a loan of £30m from Stonewater Funding plc, which is repayable after 5 years. Interest is payable on housing loans at varying commercial rates. Loans are secured by fixed charges on individual properties. In addition £1m premium is amortised over the life of the bond, which matures in November 2042.

### 16 Deferred capital grant

	2016 £'000	2015 £'000
At 1 April	7,181	6,123
Received from Group members	-	1,213
Released to income during the year (note 5)	(84)	(155)
	<u>7,097</u>	<u>7,181</u>
At 31 March	<u>7,097</u>	<u>7,181</u>

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

### 17 Loans and borrowings

Maturity of debt:

	Bond Finance 2016 £'000	Bond Finance 2015 £'000
After 5 years (note 15)	31,052	31,076
Less Issue Costs (note 15)	(12)	(12)
	<u>31,040</u>	<u>31,064</u>

### 18 Share capital

	2016 £	2015 £
At 1 April	11	9
Shares issued in the year	-	5
Shares cancelled in the year	-	(3)
At 31 March	<u>11</u>	<u>11</u>

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.

### 19 Capital commitments

The Association has no capital commitments at the year end.

There is no authorised expenditure which has not been committed.

### 20 Related party disclosures

The ultimate controlling party of the group is Stonewater Limited, a registered Industrial and Provident Society. There is no ultimate controlling party of Stonewater Limited.

The Association received a donation of £184k from Gift Aid from Stonewater Procurement Limited (£145k) and from Stonewater Funding plc (£39k). This is disclosed in note 9 - Interest receivable and similar income.

The Association has a loan of £31 million from Stonewater Funding plc. The loan is repayable at various dates through to 2042 and is secured by fixed charged over the housing properties of the Association. Cross guarantees cover any shortfall in the security and any unpaid interest and fees in respect of the loan across Stonewater Limited, Stonewater (2) Limited, Stonewater (5) Limited and Stonewater Funding plc.

	2016 £'000	2015 £'000
Loan	31,040	31,064
Interest	1,487	1,388

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

### 21 First time adoption of FRS 102

Explanation of changes to previously reported to 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.

The transition statement for Stonewater 5 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 Statement of Comprehensive Income for the year ended 31 March 2015.

Balance Sheet at 1 April 2014	As per Financial Statements £'000	FRS102 Adjustment £'000	As per FRS102 £'000
<b>Tangible Fixed Assets</b>			
Housing Properties	18,994	-	18,994
Accumulated Depreciation	(307)	(145)	(452)
Social Housing Grant	(6,407)	6,407	-
<b>Current Assets</b>			
Debtors	19,792	-	19,792
<b>Creditors: Amounts falling due within one year</b>			
Other creditors	(261)	-	(261)
<b>Net current assets</b>	19,531	-	19,531
<b>Total assets less current liabilities</b>	<u>31,811</u>	<u>6,262</u>	<u>38,073</u>
Creditors: Amounts falling due after more than one year			
Social Housing Grant	-	6,123	6,123
Fair value of Financial Instruments	-	-	-
Other creditors	31,110	-	31,110
Revenue reserves brought forward	701	-	701
PYA - Amortisation of Grant	-	139	139
<b>Revenue reserves b/fwd - Restated</b>	<u>701</u>	<u>139</u>	<u>840</u>
<b>Total long term liabilities and reserves</b>	<u>31,811</u>	<u>6,262</u>	<u>38,073</u>

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

### 21 First time adoption of FRS 102

As a result of implementation of FRS102, a net increase of £139k has arisen within reserves, due to the recognition of grant amortisation.

The Net Book Value of Fixed Assets has been restated to £18.5m (Cost of £19m less Accumulated Depreciation of £0.5m) at the transition date of 1 April 2014, with £6.1m reclassified as deferred income.

Balance Sheet at 31 March 2015	As per Financial Statements	FRS102 Adjustment	As per FRS102
	£'000	£'000	£'000
<b>Tangible Fixed Assets</b>			
Housing Properties	19,765	-	19,765
Accumulated Depreciation	(452)	(290)	(742)
Social Housing Grant	(7,620)	7,620	-
<b>Current Assets</b>			
Debtors	21,503	-	21,503
<b>Creditors: Amounts falling due within one year</b>			
Other creditors	(540)	-	(540)
<b>Net current assets</b>	<u>20,963</u>	<u>-</u>	<u>20,963</u>
<b>Total assets less current liabilities</b>	<u>32,656</u>	<u>7,330</u>	<u>39,986</u>
<b>Creditors: Amounts falling due after more than one year</b>			
Social Housing Grant	-	7,181	7,181
Fair value of Financial Instruments	-	-	-
Other creditors	31,064	-	31,064
Revenue reserves	1,592	149	1,741
<b>Total long term liabilities and reserves</b>	<u>32,656</u>	<u>7,330</u>	<u>39,986</u>

As a result of implementation of FRS102, a net increase of £149,000 has arisen within reserves, due to the recognition of grant amortisation.

The Net Book Value of Fixed Assets has been restated to £19.0m (Cost of £19.7m less Accumulated Depreciation of £0.7m) at the transition date of 1 April 2015, with £7.2m reclassified as deferred income.

## Stonewater (5) Limited

Notes forming part of the financial statements for the year ended 31 March 2016

### 21 First time adoption of FRS 102

Income & Expenditure Account year-ended 31 March 2015	As per Financial Statements	FRS102 Amortisation Adjustment	As per FRS102
	£'000	£'000	£'000
<b>Turnover</b>	3,416	155	3,571
Operating costs	(2,254)	(145)	(2,399)
<b>Operating surplus</b>	<b>1,162</b>	<b>10</b>	<b>1,172</b>
Interest receivable and similar income	1,117	-	1,117
Interest payable and similar charges	(1,388)	-	(1,388)
<b>Surplus for the year</b>	<b>891</b>	<b>10</b>	<b>901</b>
<b>Total comprehensive income for the year</b>	<b>891</b>	<b>10</b>	<b>901</b>

As a result of implementation of FRS102, the surplus for the year-ended 31 March 2015 has increased by £10k due to the grant amortisation adjustments.