STONEWATER

Stonewater Limited

Registered Social Housing Provider
– consolidated and entity

Report of the Board and Financial Statements

Year ended 31 March 2017

Queensway, Southampton
A development of 52 affordable rent and shared ownership homes

Contents

Community Benefit Society number: 20558R.
Homes and Communities Agency number: L1556.

Board of Management

George Blunden – Chair

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

John Weguelin

John is an investment banker, he has extensive experience of leading, motivating and directing multi-functional and diverse teams. His interests include property development, leadership and change management. John chairs the Finance Committee.

Michael Collins

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

Colin Small

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

Sheila Collins

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

Anne Dokov

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

Peter Hammond

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

Brian Roebuck

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

Doug Wright

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

Sue Terry

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

Patrick Symington

Patrick has more than 25 years experience in the social housing sector and is currently a housing consultant and interim executive.

Nicholas Harris

Nicholas is Stonewater's Chief Executive. He has extensive experience in both the social housing sector and local authorities and considerable knowledge in socio-economic regeneration matters.

Bob Strachan

Bob was a board member until 31 December 2016.

All the board members apart from Bob Strachan and Patrick Symington were in place for the entire year.

Executive and Advisors

Executive Directors Group

Bob Strachan (Chief Executive until 31 December 2016)

Nicholas Harris (Chief Executive from 1 January 2017)

Scott Baxendale

David Blower

John Bruton

Jonathan Layzell (from 1 July 2016)

Sue Shirt

Richard Stevenson (until 30 June 2016)

Martin Ward (until 30 June 2016)

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

Auditors

BDO LLP

Two Snowhill
Birmingham
B4 6GA

Principal solicitors

Devonshires Solicitors

30 Finsbury Circus
London
ECM 7DT

Our vision is: for everyone to have the opportunity to have a place they can call home.

Chairman's statement

George Blunden Chair of Board

Since Stonewater's formation in January 2015, the amount we have achieved in a little over two years is remarkable. We have established ourselves as one of the leading social housing providers in the UK, both in terms of the size and geographic spread of our portfolio. We have £181 million turnover, £1.7 billion assets and manage around 30,000 homes across England.

Following an in-depth assessment by our Regulator, we have retained the highest possible ratings for Governance (G1) and Viability (V1). We also got an A1 credit rating from independent agency Moody's.

A combination of business efficiency and benefit from changing interest rates has generated a healthy operating surplus. This means we are well placed to respond to emerging Government policy, continuing welfare reform, rent reduction and budgetary constraints from a position of financial strength and clear vision. The surplus will continue to be invested in delivering a significant development programme of good quality, affordable homes and services for those who need them most. We have proven ourselves resilient against uncertainty, reflecting our values around being both commercial and passionate. We remain on target to deliver our projected merger benefits and are investing heavily in digital transformation to ensure our business is fit for the future.

The combination of commercial strength and social ethos make a powerful partnership. Customers are at the heart of all that we do – providing people and families with good quality affordable homes, often for the first time, can truly transform lives. How well we respond to this need remains a key measure of Stonewater's success.

I would like to take this opportunity to thank my fellow Board members and those who serve on our Committees for their vision and support over the past 12 months. In addition, much credit is due to Stonewater's leadership team and staff who have shown such energy and commitment in delivering our goals.

Bob Strachan, our Chief Executive from the time of our merger and long standing Chief Executive of Jephson before that retired during the year. He was essential to the formation of Stonewater and the success of the integration process since.

George Blunden
Chair of Board

Highlights

Turnover	Assets	Homes in management
£181m	£1.7 bn	30,000

Chief Executive's statement

Nicholas Harris Chief Executive

Over our first two years of operation, Stonewater has proved itself to be a strong and agile organisation, embedding our place as one of the UK's leading social housing providers. Our balance sheet remains robust, our staff resilient, our plans ambitious and our development programme significant.

During the course of 2016/17, 717 homes were completed – 550 for rent and 167 for shared ownership and work started on the construction of a further 539 homes during the year. At 31 March 2017, we were in contract to build 1,190 homes.

In terms of our broad financial performance, we remain in a strong position with £181million turnover, and a £28.3 million surplus for the year. We have spent £10.6million on upgrading our property portfolio, including an on-going programme of refurbishment for our housing for older people and supported accommodation. We have also committed to a £4.5m investment in a digital programme, which will transform the way we do business and help ensure we remain at the forefront of the sector.

We have delivered much but there is still more to do, particularly against the backdrop of budget constraints, continuing welfare reform and emerging Government policy. We have responded positively to this, attending meetings with Department for Communities and Local Government (DCLG) members, the Chancellor and contributing to no less than six major consultations, including the most recent White Paper 'Fixing our broken housing market'. We welcome the emerging shift in Government strategy towards a more mixed tenure approach to building new homes and continue to lobby for recognition of the housing needs of people in all financial circumstances.

We continue to work towards our Vision – 'For everyone to have the opportunity to have a place they can call home'. This commitment remains at the very heart of our organisation.

My appreciation and thanks are due to residents, board members, colleagues, staff and everyone who is working so hard to ensure Stonewater's continuing success.

Nicholas Harris
Chief Executive

Highlights 2016/17

Stonewater built homes	Affordable rent	Shared ownership
717	550	167

Keble Fields, Fairford
A development of 60 affordable rent and shared ownership homes

Report of the Board of Management and Strategic Report

The Board presents its report and audited financial statements for Stonewater Limited and its subsidiaries (the "Group" or "Stonewater") for the year ended 31 March 2017.

Nature of the business

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

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 whose needs are not met by the open market.

Our Values and Behaviours guide the way we do things:

- **Ethical** – we take responsibility and are accountable for our decisions. When we make a promise, we keep it. We are inclusive, professional and honest.
- **Ambitious** – we are driven and competitive, always seeking the best solutions for our organisation and our customers. We aim to be a landlord, partner and employer of choice.
- **Passionate** – we genuinely care and are committed and motivated to always do the best we can. Our enthusiasm and energy at every touchpoint inspires us to be an organisation everyone can be proud to be associated with.
- **Agile** – by being adaptable and open-minded we pro-actively make the most of opportunities. Our innovation and collaboration helps drive continuous improvement.
- **Commercial** – we are an efficient and astute organisation with a clear focus on delivering value for money. Organisational efficiency translates into more homes for those that need them and improved choice and services for our customers.

Report of the Board of Management and Strategic Report

Strategic Plan 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.

> Achieve value for money in all that we do.

Our priorities for the next five years 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 a growing housing crisis, depleting resource and continuing uncertainty – both economic and legislative. With Brexit ahead of us, continuing change is inevitable. What remains clear however, is that Stonewater's strong financial position, combined with our clear vision, will help stay true to our goals. While there are many challenges ahead, we are confident we are in a good position to meet them.

We listen to our customers, we have clear direction 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.

Our priorities

Activities

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

In many of Stonewater's areas of operation, demand for affordable housing consistently outstrips supply, fuelled by rising house prices and limited availability.

During the year, Stonewater built 717 homes: 550 for affordable rent and 167 for shared ownership. Work started on the construction of a further 539 homes during the year. At 31 March 2017, we were in contract to build 1,190 homes.

Work continued on Stonewater's stock rationalisation programme. The asset team achieved gross sales of £18.2m for this programme, which equates to £9.9m surplus and compares with last year's figures of £15.4m gross and £5.9m surplus. These sums will be re-invested in new homes that are more energy efficient and cost less to maintain, delivering continued efficiencies for the business.

Construction started on

539 homes

31 March 2017 in contract to build

1,190 homes

Report of the Board of Management and Strategic Report

External environment

Housing supply and affordability

The Welfare Reform and Work Act 2016 legislated a 1% decrease in social housing rents for four consecutive years beginning on the 1 April 2016.

The problems of both housing supply and affordability are well known. There is an ongoing under supply of new homes; house prices continue to rise at a faster rate than earnings growth; and in particular there is a shortage of affordable homes.

> An estimated 250,000 new homes are needed in England each year to keep up with demand, but over the last 10 years on average only 166,000 new homes have been delivered.

> The population of England is both growing and ageing, which will put more pressure on the housing market.

> One in four people in their twenties and early thirties now live with their parents, with the numbers increasing from 2.4 million in 2003 to 3.3 million in 2016, as a result of high and rising house prices and private sector rents.

> There has been an increase of the number of homeless households in temporary accommodation from 48,000 to 71,500 over the last five years.

The Government has announced a number of measures to increase housing supply. The Housing White Paper "Fixing our broken housing market", which was published in February 2017, indicated a shift in strategy towards a more balanced approach to building new homes which meet the needs of people in all financial circumstances. It recognised the need to create more affordable rental homes, in addition to low cost home ownership options.

To help speed up construction of new homes, it proposed freeing up public land and brownfield sites, as well as changes to give local authorities powers to ensure developers make quicker use of planning consent.

The White Paper re-stated the Government's commitment to implement regulatory changes to allow housing associations to be re-classified as private sector bodies. A number of measures subsequently came into effect from 6 April 2017 which will remove the regulator's power of consent over disposals, restructures and mergers. The White paper also said it expected housing associations to make every effort to improve efficiency, to release more resources for building new homes.

It outlined the Government's intention to set a rent policy for social housing landlords for the period beyond 2020, to assist in borrowing against future income. This may go some way to offsetting the impacts of the 1% rent reduction, particularly in terms of longer term investment and planning. The proposals in the Housing White Paper should help increase our ability to deliver more affordable homes across all tenures by increasing the capacity in our Business Plan.

There are a number of challenges that we face, including the 1% reduction per annum in social rents until 2019-20, and ongoing welfare reform. We are also in a period of economic uncertainty as a result of Brexit. Inflation is increasing as a result of the fall in the value of sterling, and development costs are also rising.

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.

Highlights

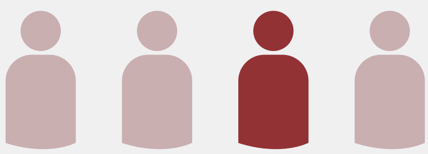
Estimated new homes needed in England each year

250,000

Average homes delivered in England, annually over last 10 years

166,000

1 in 4 people in their twenties and early thirties now live with their parents



Demographic changes

The Office of National Statistics (ONS) has projected that the population of England will increase from an estimated 54.3 million in 2014 to 58.4 million in 2024. This 7% increase is higher than for the rest of the UK. 52% of this increase is due to a projected natural increase (more births than deaths) and 48% from the projected net number of migrants. Of 324 local authorities, 315 are projected to see their population increase over the period and 13 local authorities are projected to grow by more than 15%.

ONS data also shows that over the 10 years up to 2013 there was a 12% increase in the number of single person households in the UK. This increase was higher than the increase for any other household group. Furthermore, the data also shows that those living alone, aged 45 to 64 increased by 51% between 1996 and 2016.This is partly due to the increasing population aged 45 to 64 in the UK over this period, as the 1960s baby boom generation has been reaching this age group particularly in the last decade. Those aged 65 to 74 living alone saw a statistically significant increase of 16% over the two decades. If these trends continue, it suggests that the number of households (and therefore the need for more homes) will increase at a faster rate than the increase in the population as a whole.

Due to improved life expectancy it has also forecast that for the UK the number of people aged 75 and over will rise by 89.3%, to 9.9 million, by mid-2039. The number of people aged 85 and over is projected to more than double, to reach 3.6 million by mid-2039 and the number of centenarians is projected to rise nearly six fold, from 14,000 at mid-2014 to 83,000 at mid-2039. This increase in the number of older people means that by mid-2039 more than 1 in 12 of the population is projected to be aged 80 or over. This may lead to a need for additional support services to enable older people to remain in their own homes.

Projected population of England increase 2014-2024

2014	2024
54.3m*	58.4m*

*Source the Office of National Statistics.

Regulation

The Homes and Communities Agency (HCA) continues to focus on 'co-regulation'. Under this approach, the HCA'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 March 2017, following a regulatory in depth assessment, 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.

Our Structure

Stonewater is one of the UK's most significant social housing providers. We manage around 30,000 homes across England, including affordable properties for general rent, shared ownership and sale, alongside specialist accommodation such as retirement and supported living schemes for older and vulnerable people, foyers and women's refuges.

As at 31 March 2017 Stonewater Limited had four registered provider subsidiaries:

Stonewater (2) Limited
Stonewater (3) Limited
Stonewater (4) Limited
Stonewater (5) Limited

Stonewater also has three wholly owned commercial subsidiaries:

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

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

Stonewater Commercial Limited – Currently dormant.

Report of the Board of Management and Strategic Report

Performance

Within the new structure, the performance of the organisation is based around a suite of up to 25 Key Performance Indicators (KPIs). A selection of key KPIs are shown below:

Customer contact

The Customer Contact Team (CCT) continued to provide a good level of service, in the context of attempts to 'channel shift' customers towards an increased online offer, whereby tasks such as paying rent and reporting repairs can be done on the Internet. For the year ended 31 March 2017 89% of external calls were answered (2016: 93%) with an average wait time of approximately 41 seconds (2016: 15-20 seconds).

Voids and arrears

Gross arrears as a % of total rent and service charge due increased during the year. Average gross arrears during the year of 3.9% was higher than the peer group upper quartile (3.38%) and the Stonewater target (3.31%).

Void loss as a % of total rent increased during the year. Average void loss of 1.22% was higher than the peer group upper quartile (0.58%) and the Stonewater target (0.91%)

Average re-let time (days)

Average re-let time increased from 33 days at the start of the year to 52 days at the end of the year. This was significantly higher than the peer group upper quartile of 21.5 days and the Stonewater target of 31 days.

Overall customer satisfaction % (General needs)

Overall customer satisfaction % for general needs customers was on average of 65%. This is lower than the peer group upper quartile of 85% and the Stonewater target of 80.7%.

Development

A total of 717 new homes were completed across the Stonewater Group during 2016/17. This was ahead of the target of 650 handovers, and was an increase on the 651 completions in 2015/16. Of 717 properties completed properties during the 2016/17, 550 were for rent and 167 were for shared ownership. Construction began on a total of 539 homes during the year.

Maintenance activity and satisfaction

Satisfaction with responsive repairs remained high during 2016/17. For the Stonewater Group as a whole, satisfaction for the year was 88% (including 71% who were "very satisfied"), an improvement of 1% on the prior year. Only 9% were either "fairly" or "very" dissatisfied. Performance was relatively consistent across the Group with satisfaction scores fluctuating between 81% and 89% for the lowest and highest-performing associations.

External calls answered (year ended 31 March 2017)

89%

Average gross arrears during the year

3.9%

Average re-let time

52 days

Overall customer satisfaction with responsive repairs for the year

88%

Overall customer satisfaction % for general needs customers average

65%

Gross Arrears %

31 March 2017

Stonewater target

3.31%

Stonewater (1) Limited	4.48%
Stonewater (2) Limited	4.58%
Stonewater (3) Limited	4.11%
Stonewater (4) Limited	3.63%
Stonewater (5) Limited	4.59%
Total	4.40%

Group Gross Arrears % year end

31 March 2017

Stonewater target

3.31%

Q1	3.52%
Q2	3.89%
Q3	3.84%
Q4	4.40%

Void Loss %

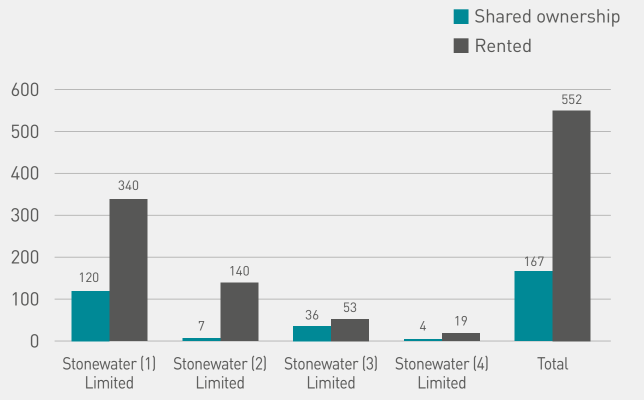
31 March 2017

Stonewater target

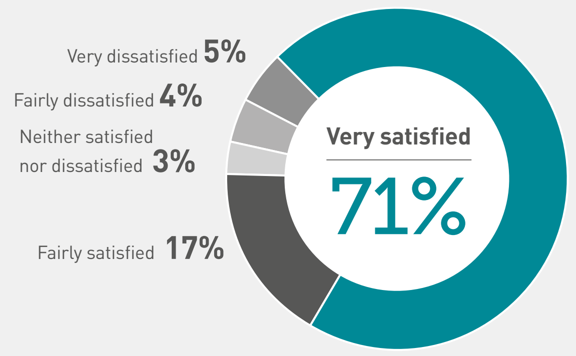
0.91%

Stonewater (1) Limited	1.43%
Stonewater (2) Limited	0.80%
Stonewater (3) Limited	1.73%
Stonewater (4) Limited	1.84%
Stonewater (5) Limited	2.29%
Total	1.35%

Handovers by Entity and Tenure Type



Responsive Repairs Satisfaction (All Stonewater)



Report of the Board of Management and Strategic Report

Governance

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 and the EDG are listed on pages 4-6. The Board comprised twelve members at 31 March 2017 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 2016/17 these were:

> Leading organisational development.

> Refine strategy in light of the changing operating environment.

> Make customer involvement meaningful.

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 customers and the communities where we work. The board has set targets for improving diversity across the governance structure. The current board comprises 27% female members; there are no members from a black or minority ethnic background and one member identifies as disabled. The average age of the membership at AGM 2016 was 62 years.

Committees

The Board is supported by five functional committees and a task and finish group, 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 Group are listed on page 6.

Policy for admitting new shareholders

The company has closed shareholding membership.

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** and copies are also available on request.

People strategy

Our People Strategy was developed last year and sets out our ambition to become one of the best companies to work for in the UK. We have taken part in the 'Sunday Times Best Companies to Work For' survey to establish a baseline for improving employee engagement and working together to improve this measure year on year.

As we embed recent restructures, staff turnover has been higher than it will be in the longer term. We are managing the reduction in staff related costs through natural turnover, as opposed to compulsory redundancy, wherever possible. We also have an active Stonewater People Committee who consult, inform and engage with colleagues as widely as possible. The People Committee have informed and influenced the implementation of the integration change programme in order that the best outcomes for the new company can be achieved.

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

Leadership and Management development remains a key priority, to enable the development of our Strategic Plan.

Stonewater is committed to an active equal opportunities policy from recruitment and selection, through training and development, appraisal and promotion to retirement, it is our policy to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment practices will be objective, free from bias and based solely on work criteria and individual merit. The Group will fairly consider any employment applications made by disabled people. We will also attempt to continue employing staff who become disabled during their employment.

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

Our People Strategy is designed to:

- Support Stonewater's business objectives and ambitions.
- Lead the organisation through change and improvement programmes.
- Foster strong and inspiring leadership which engages colleagues.
- Support enabling and engaging managers whose teams continually strive to improve performance.
- Enable our people to meet organisational and individual goals to provide a quality service to customers.
- Identify and foster talent and potential.
- Reward and recognise the contribution of colleagues appropriately.
- Provide a safe, inclusive and accessible working environment for all employees.
- Achieve value for money at all times.

Report of the Board of Management and Strategic Report

Corporate communications

To help support our ambition of becoming an influential thought leader, the Corporate Communications team work closely with a specialist public affairs agency. During the year we have responded positively to the changing political environment, supporting Stonewater's attendance at the Tory Party conference, meetings with Department for Communities and Local Government (DCLG) members, the Chancellor and contributing to no less than six major consultations, including the most recent White Paper 'Fixing our broken housing market'. We also worked closely with the Development team to ensure we establish and maintain relationships with MPs and local authority members in areas where we are looking to build our brand presence.

The communications team managed a range of stakeholder activity (internal and external), including issuing 78 media releases, supporting Stonewater's presence at major sector events and conferences, further developing the staff intranet (Networx) and delivering improvements to Stonewater's website. The team also led on brand identity and development of website for Longleigh Foundation, of which Stonewater Limited is a principal donor.

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. National policy changes
2. Growth
3. Long term finance
4. Sales market
5. Contractor performance
6. Digitalisation
7. Vulnerable residents
8. Leadership
9. Compliance
10. Health and safety
11. Customer satisfaction

Stonewater's risk management process involves risk identification, risk assessment, allocation of risk owners to manage risk, implementation of controls, consideration of the residual risks after controls are implemented and that there are adequate assurance mechanisms in place to ensure that actions taken to manage the risks are within Stonewater's agreed risk appetite.

Stakeholder Event Engagement Highlights 2016/17

☆ Stakeholder events

2	Networking fringe events
11	Executive fringe events

☆ Housing conferences

5	Housing conferences attended
5	Sponsorships
2	Exhibition stands
2	Sponsorship advertisements

☆ Peer to peer

2	Speaker invites

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.

Our Customer Scrutiny Panel holds the Board to account on our delivery of housing services. So far, our Panel has completed three service reviews, looking at allocations, complaints, and how we involve our customers digitally. The Scrutiny Panel sits alongside our governance structure and all of their findings feed directly into Board-level decision making, helping us to improve the services we provide.

As we work over a large geographical area we have created a digital Customer hubb (help us be better) so that customers in different locations can engage in consultation forums and provide feedback on our services.

Customer Scrutiny Panel

Service reviews completed (looking at allocations complaints and how we involve our customer digitally)

3

Customer insight

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

Improving service delivery

Our focus is on continuously striving to improve services to customers in a cost effect manner. During the year, we reviewed our Customer Offer and introduced a new approach to estate services management, designed to improve standards and deliver efficiency savings.

We also worked closely with customers to develop a new Reward scheme, which will offer enhanced benefits to customers who manage their tenancies well and be launched in March 2018.

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.

Slavery and human trafficking

Stonewater's slavery and human trafficking statement, under the Modern Slavery Act 2015, for the financial year ending 31 March 2017, is 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.

Report of the Board of Management and Strategic Report

Financial position

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

	2017 £'000	2016 £'000
Turnover	180,597	171,750
Operating Costs	(109,161)	(109,816)
Cost of sales	(12,074)	(8,706)
Operating surplus	59,362	53,228
Net interest charges and finance costs	(40,953)	(33,248)
Surplus on disposal of fixed assets	9,900	5,930
Surplus for the financial year	28,309	25,910
Actuarial gains on defined benefit scheme	730	135
Movement in fair value of hedged instruments	3,921	(6,004)
Total Comprehensive Income for the year	32,960	20,041

Turnover

Turnover increased by £8.9m (5%) as a result of higher rental income due to increased housing stock and increased shared ownership sales.

Maintenance

Routine maintenance expenditure for the year was £21.5m (compared to £19.6m in 2016). The cost of planned works and major repairs charged to the income and expenditure account was £11.6m (compared to £10.9m in 2016). The normal cycle of works means that expenditure varies from year to year. Capital expenditure on replacement of components was £10.6m (compared to £16.4m in 2016).

Operating margin on social lettings

The operating margin on social housing letting increased from 33.5% to 34.8% mainly due to higher rental income and lower management costs.

Interest payable

	2017	2016
Average borrowings	£785 million	£809 million
Proportion fixed	83%	72%
Weighted cost of funds	4.0%	4.11%

Interest costs were £33.3m (2016: £34.6m) before netting capitalised interest of £3.0m (2016: £3.2m).

Implications of the Grenfell Tower fire

One of Stonewater's schemes, a high rise block, has been undergoing defect correction works, relating in part to the fire safety of the building. A contract is due to be tendered in 2017 to start in 2018 for one year to remedy outstanding defects. Stonewater's Board approved that all the residents of the block move out for the duration of the works. Over the financial year 2017/18 Stonewater will incur costs for decanting residents, compensation payments and a loss of rental and service charge income for the period. Stonewater is also proposing to buy back the equity of the shared ownership flats in the block before the works start, which would be resold once the works are complete.

We have completed our review and no impairment has been recognised.

Pension costs

Stonewater participates in three pensions schemes: The Dorset County Pension Fund (DCPF) which is accounted for as a defined benefit scheme under section 28 of FRS102, the Social Housing Pension Scheme (SHPS) which is a multi-employer defined benefit scheme and SHPS defined contribution scheme. From 1 April 2011 the SHPS defined benefit scheme was closed to new members. New employees are offered the SHPS defined contribution scheme, with the employer matching the employees' contribution levels.

Stonewater's deficit in DCPF reduced to £4.4m from £5m last year. The value of the assets increased from £4.6m to £5.4m.

The last formal valuation of the Scheme was performed as at 30 November 2016 by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £2,249m. The valuation revealed a shortfall of assets compared with the value of liabilities of £452m, equivalent to a past service funding level of 83.0%.

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

Going concern

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

Treasury policies and objectives

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

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

> Group borrowings and subsequent debt management.

> Investment of surplus funds.

> Relationship with bankers, lenders and advisors.

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

If refinancing of floating rate bank debt with bond funding resulted in an over fixed position, the position will be corrected.

Qualifying third party indemnity provisions

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

Capital structure

The Group's policy is to raise debt finance through bilateral loans and bond issuance. No further sales of bonds were made during the year by the Group's finance vehicle Stonewater Funding PLC.

After the year end, Stonewater Funding PLC has issued £100m in secured notes sold to Pricoa Corporation. £75m of the proceeds have been on-lent to Stonewater Limited and £25m to Stonewater (2) Limited, with similar security and cross-guarantee arrangements to the Bond.

During the year Stonewater Limited put in place a new five year revolving facility with Lloyds Bank.

The Group has funding from 10 lenders. Total loan facilities at 31 March 2017 were £1,000m (2016: £956m) of which £223m were undrawn (2016: £172m).

Cash flows

Cash flow

Net cash from operating activities for the year was £74.3m (2016: £65.8m), an increase of 13% compared to the previous year.

Net cash outflow from investment activities was £49.1m (2016: £76.2m) mainly due to lower cash spend on development of housing properties of £68m (2016: £93m).

Net cash used in financing activities was £33m (2016: £26m cash received) mainly due to £86m decrease in short term investments.

Our cash balance at the end of the financial year was £38.2m (2016: £46.3m).

Liquidity

The Group maintains a list of investment limits for authorised organisations with which it will place deposits based on short-term credit ratings. As at 31 March 2017 cash balances were £38.2m (2016: £46.3m) and the balance of short term investments was £3.7m (2016: £15.1m). Cash and committed facilities exceeded the Group's contracted obligations by £113m (2016: £77m). The excess of committed facilities over capital commitments is to ensure that committed development is fully funded.

As at 31 March 2017 derivative exposure positions with counterparties (after use of thresholds) was £106.1m (2016: £105.2m). This exposure was met by £105.8m (2016: £94.9m) of charged property security and £0.3m (2016:£10.3m) of cash collateral.

Report of the Board of Management and Strategic Report

Loan covenants

Stonewater's performance against covenants is as follows:

	2016/17	Covenant
Interest cover		
Stonewater Ltd	**228%**	>110%
Stonewater 2	**236%**	>110%
Stonewater 3	**519%**	>105%
Gearing		
Stonewater Ltd	**72%**	<85%
Stonewater 2	**33%**	<65%
Stonewater 3	**23%**	<50%

Value for money (VfM)

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

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

Governance and strategy

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

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

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

Our cost per unit in 2015/16 was £3,415 compared to £3,959 for the sector as a whole. Compared to other associations in the data set, Stonewater ranked 88 out of 240.

Stonewater has signed up to the pilot of a sector scorecard that includes 15 indicators. Five of these measures can be calculated from the HCA Global Accounts data and the following have been calculated. 'Rank' is again out of a population of 240 and is in all cases calculated so that better performance is a low number e.g. high operating margin and low unit costs.

		Rank
Operating Margin	**31%**	85
EBITDA MRI as percentage of interest costs	**159%**	140
Gearing	**492%**	192
Return on capital employed	**3.2%**	157
Responsive/ planned maintenance	**0.72**	151

Costs per unit were particularly low in 2016/17 as we moved to a 'just in time' component replacement policy. The overall downward trend is forecast to continue in the next years.

	Financial statements			Forecasts	
Stonewater Group	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Total Social Housing Cost (£k)	**106,136**	**101,816**	**89,917**	**100,689**	**101,339**
Units	**29,464**	**29,998**	**30,853**	**31,198**	**31,537**
Social Housing Cost per Unit (£k)	**3.60**	**3.39**	**2.91**	**3.23**	**3.21**

VfM achievements in 2016/17

Initiatives in the year have resulted in £2.42m of additional annual VfM savings for 2016/17, of which £2.20m will crystallise during the year. This is in addition to the £2.98m of VfM savings identified in the financial year 2016/17.

Assets

A further £1.8m has been identified from VfM initiatives in 2016/17 as follows:

> £0.2m from a change in policy to swap from existing properties from electricity to gas, whereby electricity deemed to be more effective for some customers. This is in conjunction with the cancellation of the planned night storage heater programme.

> £0.2m from a move to 'Just in Time' replacement for boilers rather than previous replacement programme.

> £0.5m savings from a slim supply chain for kitchens and bathrooms and engaging contractors on a labour basis only.

> £0.9m savings from the East and North region regarding painting and decorating contracts whereby costs have been lower than expected per house/flat.

Corporate

> An additional £0.1m has been projected from the agreed Office Rationalisation project in relation to the planned sale of the Swindon office. This is in addition to the original £0.1m projected from the closure of Crawley, Southampton and Bristol Vincent Court offices.

> The payroll function has been outsourced to Midland HR. Projected annual savings of £19k per annum from 2017/18 onwards given the implementation costs that have been incurred in 2016/17.

> Given the recent completion of the move to one housing and asset management system and formulation of the agreed Digitalisation Strategy further work is being undertaken to identify future VfM savings from IT changes achieved in 2016/17 and future years.

Finance

> £74k saving from renegotiated audit fees for the next two years.

> £64k saving from new contract with TradeRisks at the same price for the next two years.

Development

A further £0.4m has been identified from VfM initiatives in 16/17 as follows:

> £11k from revising our Design Brief /Employers Requirements, aiming to reduce the cost of new homes in ways that do not increase long-term maintenance costs.

> £0.4m from delivering more units for less spend per head. In the financial year 2014/15 the direct cost of the development team per handed over unit plus start on site unit was £1,898 per unit of activity. In the financial year 2016/17 the same calculation is £906 per unit of activity.

Housing

> Contract negotiations are with energy consultants, electricity and gas suppliers, have achieved annual savings of approximately £0.1m which are in line with those amounts forecast for 2016/17 in prior year.

> Following the re-procurement of the estate cleaning and grounds maintenance contracts in 2015/16 a detailed review is currently being undertaken to confirm variations and changes to the contracts.

In 2016/17 we have achieved:

Additional VfM savings	VfM savings identified
£2.42m	£2.98m

Report of the Board of Management and Strategic Report

VfM initiatives for 2017/18

A total of £1.7m has been identified as new VfM initiatives.

Assets

A target of £0.5m has been set for 2017/18 and comprises:

> £0.3m saving from the relocation of the asset management support team move to the Leicester office and the introduction of shift-work.

> £0.2m saving from the installation of three district ground source heat pump trials being undertaken in the West area. These projects will receive Energy Companies Obligation (ECO) funding of £95k in the year of installation, and Renewable Heat Incentive (RHI) income of £0.9m over 20 years. The residual benefit to Stonewater will be £0.6m, and the project has a payback period of 8.8 years. The installations will also save customers money on their fuel bills, and reduce CO2 emissions.

Corporate

> £0.2m saving from renegotiated pricing for Storage Area Network (SAN) which will result in reduced data centre costs, support and maintenance of legacy SANs.

Finance

> £0.2m from the partial close out of SWAP transactions at a £1.5m discount. This resulted in an annual profit of £150k profit for the next 10 years.

> £0.2m from the Pricoa bond which was 20 basis points below the market rate.

Development

A target of £0.6m has been set for 2017/18 and comprises:

> £0.3m from an initiative to examine the risks and rewards of moving to self-insuring i.e. risk acceptance. The team will consider the saving potential around self insuring against contractor insolvency and cost escalations on site. The exercise will consider the price of NHBC cover and the payback received from claims, set against the probability and likely costs of contractor insolvency.

> £0.3m from securing better land acquisitions and build contracts.

> £50k from a joint initiative with assets to investigate whether direct procurement of key big ticket components rather than including them in the JCT contract.

> £50k from the embedding of incremental VfM practices within the development team.

Housing

> £20k from a new warden monitoring call contract which will establish a consistent approach to service provision and reduce the number of contracts from 17 to 1.

> Further work is being undertaken to identify future VfM savings from income maximisation initiatives and an update will be provided in future years.

Efficiency

Stonewater has continued to invest further resources into the disposals and acquisitions team delivering significant returns. It continued to implement the rationalisation strategy set in 2013. Surpluses on disposal for the year were £10m (2016: £6m).

Sustainability

Whilst developing a new Sustainability Strategy work has begun to focus on improving the energy efficiency of our homes to improve the average SAP rating of our homes to 72 (compared to a UK national average of 57). At 31 March 2017 the average SAP rating of Stonewater properties was 72.67 (2016: 71.86).

Procurement and outsourcing

Stonewater has a specialist procurement team and has adopted a five year plan which has identified £6.2m of potential savings, of which £1.1m has been achieved in 2016/17.

Social return on investment (SROI)

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

> Complete stock and neighbourhood profiles.

> Strategic tool and project structure.

> Calculations of our social impact.

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

> An assessment of our local economic impact.

Achieving the right outcomes

Comparative data published by the Homes and Communities Agency (HCA) in 2017 shows our performance in the median quartile. Our target is to perform at lower quartile cost within five years and our projections show that our Social Housing Cost per unit will fall 15% to £3.21 by 2018/19.

A copy of our 2016/17 VfM self-assessment is available on our website.

A new statement will be published by 30 September 2017.

Future prospects

Stonewater reviewed its business plan in April 2017. The principal changes from the previous year's plan related to lower long term interest rates and higher inflation expectations following the referendum on membership of the European Union. With no rent settlement in place for the period after 2020, it is assumed that they will increase annually by CPI.

Rents

Rents on social and affordable rent properties are assumed to fall by 1% each year to 2019-20.

Other assumptions

Year 1 of the plan, 2017-18, is based on the final budget. Other assumptions are summarised below:

Inflation – Consumer price index (CPI)
2.5% for 2018/19 and 2019/20, 3.0% until 2024/25, and 2% thereafter.

London Interband Offered Rate (LIBOR)
0.50% in 2017/18, rising to 3% by 2027/28 and 4% thereafter.

Earnings
CPI only until 2019/20, followed by CPI + 1% thereafter.

Maintenance and development costs
CPI+1.5% until 2021/22, CPI+1% until 2030/31, CPI only thereafter.

Other costs
CPI + 0.5% throughout.

Voids and bad debts
Voids 1.25% for years 1 & 2, 1% thereafter; bad debts 1% throughout.

Pension contributions
Include the series of SHPS annual recovery payments based on successive reviews.

Report of the Board of Management and Strategic Report

Expected income and expenditure is as follows:

Income and expenditure

	2017-18	2018-19	2019-20	2020-21	2021-22
	£m	£m	£m	£m	£m
Rent and Service Charges	160.3	161.0	162.9	169.1	177.4
Other Income	2.1	2.2	2.2	2.3	2.4
Less: Voids	-2.0	-2.0	-1.6	-1.7	-1.8
Amortised Government Grant	7.0	6.8	6.9	7.0	7.0
Income from Social Housing Lettings	**167.4**	**168.0**	**170.4**	**176.7**	**185.0**
Management and Service Costs	54.4	58.5	59.6	61.6	62.6
Responsive & Planned Maintenance	31.5	31.0	32.1	34.3	36.3
Bad Debts	1.6	1.6	1.6	1.7	1.8
Property Depreciation	24.5	25.8	27.5	29.2	30.9
Merger Savings & Other Costs	0.0	-1.1	-1.1	-1.1	-1.1
Total Operating Costs	**112.0**	**115.8**	**119.7**	**125.7**	**130.4**
Surplus/(Deficit) on Social Housing Lettings	55.4	52.2	50.7	51.0	54.6
Other Income	3.9	4.1	3.9	3.2	3.7
Surplus on Sale of Properties	9.3	11.5	12.0	12.5	5.7
Surplus Before Interest	**68.6**	**67.8**	**66.6**	**66.7**	**64.0**
Net Interest	-32.3	-31.4	-30.8	-29.2	-30.6
Movement in FV	2.0	2.0	2.0	2.0	2.0
Retained Surplus	**38.3**	**38.4**	**37.8**	**39.5**	**35.4**
Capitalised Components	**12.8**	**12.6**	**12.6**	**14.5**	**16.2**

Development over the next 10 years is planned to be over 4,442 affordable rented units and 1,819 shared ownership units. In addition a limited build for sale programme is included in the plan (305 units). Sale of new properties is limited to 12.5% of turnover.

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

The main source of uncertainty is considered to be the outcome of negotiations with the EU on the terms of Britain leaving the EU. The immediate impact is sustainable within the plan but there could be further effects on the financial market, the economy and government policy.

Business planning, risk and internal controls assurance

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.

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 Homes and Communities Agency (HCA).

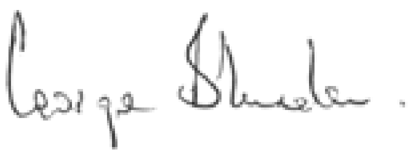
Disclosure of information to auditors

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

Auditors

BDO LLP were re-appointed as Stonewater's external auditors for 2016/17 on 23 August 2016.

The report of the Board was approved on 12 September 2017 and signed on its behalf by



George Blunden
Chair of Board

Being the **best** we can be

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 and social housing legislation require the Board to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

> Select suitable accounting policies and then apply them consistently.

> Make judgements and accounting estimates that are reasonable and prudent.

> State whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2014 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 adequate accounting records that are sufficient to show and explain Stonewater's transactions and disclose with reasonable accuracy at any time the financial position of Stonewater and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of Stonewater and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the Board Report is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2014.

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

**Stoney Meadow,
North Mundham, near Chichester**

Independent auditor's report to the members of Stonewater Limited

We have audited the financial statements of Stonewater Limited for the year ended 31 March 2017 which comprise the consolidated and association statement of comprehensive income, the consolidated and association balance sheet, the consolidated and association statement of changes in reserves, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Board and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

> Give a true and fair view of the state of the group's and parent association's affairs as at 31 March 2017 and of the Group's and parent association's surplus for the year then ended.

> Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

> Have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

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

> Adequate accounting records have not been kept by the parent association.

> A satisfactory system of control has not been maintained over transactions.

> The parent association financial statements are not in agreement with the accounting records and returns.

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

BDO LLP

BDO LLP, statutory auditor
Birmingham
United Kingdom

Date 21 September 2017

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

Stonewater Staff Conference 2017

Consolidated and Association statement of comprehensive income

For the year ended 31 March 2017

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Turnover	4	**180,597**	171,750	**102,835**	91,075
Cost of sales	4	**(12,074)**	(8,706)	**(8,948)**	(5,645)
Operating costs	4	**(109,161)**	(109,816)	**(64,747)**	(62,532)
Operating surplus	4, 7	**59,362**	53,228	**29,140**	22,898
Surplus on disposal of fixed assets	11	**9,900**	5,930	**3,039**	3,365
Interest receivable and similar income	12	**154**	611	**519**	442
Interest payable and financing costs	13	**(32,368)**	(31,657)	**(15,529)**	(15,339)
Movement in fair value of financial instruments	13	**(8,739)**	(2,202)	**(6,796)**	(1,630)
Surplus for the financial year		**28,309**	25,910	**10,373**	9,736
Actuarial gains on defined benefit pension scheme	29	**730**	135	**730**	135
Movement in fair value of financial instruments	13	**3,921**	(6,004)	**3,140**	(3,322)
Total comprehensive income for the year		**32,960**	20,041	**14,243**	6,549

All activities relate to continuing operations.

The notes on pages 39 to 74 form part of these financial statements.

Consolidated and Association balance sheets

at 31 March 2017

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Fixed Assets					
Tangible fixed assets					
Housing properties	15	**1,660,440**	1,623,996	**798,709**	794,436
Other tangible fixed assets	16	**6,035**	7,555	**2,260**	1,759
Investments	17	**-**	-	**50**	13
		1,666,475	1,631,551	**801,019**	796,208
Current assets					
Properties held for sale	18	**12,421**	9,233	**9,106**	7,097
Debtors	19	**11,714**	10,226	**18,890**	10,399
Investment	20	**3,735**	15,094	**1,334**	10,910
Cash and cash equivalents		**38,181**	46,271	**8,938**	10,498
		66,051	80,824	**38,268**	38,904
Creditors: amounts falling due within one year	21	**(51,230)**	(39,468)	**(28,351)**	(23,834)
Net current assets		**14,821**	41,356	**9,917**	15,070
Total assets less current liabilities		**1,681,296**	1,672,907	**810,936**	811,278
Creditors: amounts falling due after more than one year	22	**(1,496,524)**	(1,520,205)	**(744,455)**	(758,147)
Provisions and other liabilities	28	**(455)**	(698)	**(454)**	(698)
Net assets excluding pension liability		**184,317**	152,004	**66,027**	52,433
Pension liability	29	**(4,377)**	(5,025)	**(4,377)**	(5,025)
Net assets		**179,940**	146,979	**61,650**	47,408
Capital and reserves					
Called up share capital	30	**-**	-	**-**	-
Cashflow hedge reserve		**(95,302)**	(99,219)	**(58,588)**	(61,727)
Income and expenditure reserve		**275,242**	246,198	**120,238**	109,135
		179,940	146,979	**61,650**	47,408

The notes on pages 39 to 74 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 12th September 2017.

G Blunden
Chair of the Board

N Harris
Board Member

A Harling
Secretary

Consolidated and Association statement of changes in reserves

For the year ended March 2017

	Group Cash flow hedge reserve £'000	Group Income and expenditure reserve £'000	Group Total £'000	Association Cash flow hedge reserve £'000	Association Income and expenditure reserve £'000	Association Total £'000
Balance at 1 April 2016	**(99,219)**	**246,198**	**146,979**	**(61,727)**	**109,135**	**47,408**
Reclassification	**(4)**	**4**	**-**	**(1)**	**-**	**-**
Surplus for the year	**-**	**28,309**	**28,309**	**-**	**10,373**	**10,373**
Actuarial gains on defined benefit pension scheme	**-**	**731**	**731**	**-**	**730**	**730**
Movement in fair value of hedged financial instrument	**3,921**	**-**	**3,921**	**3,140**	**-**	**3,140**
Balance at 31 March 2017	**(95,302)**	**275,242**	**179,940**	**(58,588)**	**120,238**	**61,650**
Balance at 1 April 2015	(93,215)	221,430	128,215	(58,405)	100,531	42,126
Surplus for the year	-	25,910	25,910	-	9,736	9,736
Transfer of sinking funds to creditors	-	(1,277)	(1,277)	-	(1,267)	(1,267)
Actuarial gains on defined benefit pension scheme	-	135	135	-	135	135
Movement in fair value of hedged financial instrument	(6,004)	-	(6,004)	(3,322)	-	(3,322)
Balance at 31 March 2016	(99,219)	246,198	146,979	(61,727)	109,135	47,408

Consolidated statement of cash flows

at 31 March 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Surplus for the financial year	**28,309**	25,910
Adjustments for:		
Depreciation of fixed assets - housing properties	**25,445**	23,339
Depreciation of fixed assets - other	**1,686**	1,598
Impairment of development land and completed properties	**(594)**	131
Amortised grant	**(7,089)**	(6,838)
Net fair value losses recognised in Income and expenditure (financial instruments)	**8,739**	2,202
Interest payable and finance costs	**32,368**	31,657
Interest Received	**(155)**	(611)
Surplus on the sale of fixed assets - housing properties	**(9,900)**	(5,930)
(Increase)/decrease in trade and other debtors	**(1,485)**	3,885
Increase in properties held for sale	**(3,188)**	(837)
Decrease in provisions	**(243)**	-
Increase/(decrease) in creditors	**2,113**	(8,691)
Net cash generated from operating activities	**76,006**	65,815
Cash flows from investing activities		
Proceeds from sale of fixed assets – housing properties	**18,236**	15,469
Purchase of fixed assets – housing properties	**(66,723)**	(93,098)
Purchases of fixed assets - other	**(2,379)**	(1,293)
Receipt of grant	**2,768**	2,744
Net cash used in investing activities	**(48,098)**	(76,178)
Cash flows from financing activities		
Interest Paid on Loans	**(35,388)**	(32,192)
Interest received	**155**	611
Decrease in short term investment	**11,359**	98,152
New loans - bank	**-**	58,000
Loan repayments	**(12,123)**	(98,123)
Net cash (used)/generated in financing activities	**(35,998)**	26,448
Net (decrease)/increase in cash and cash equivalents	**(8,090)**	16,085
Cash and cash equivalents at beginning of year	**46,271**	30,186
Cash and cash equivalents at end of year	**38,181**	46,271

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Notes to the financial statements

1. Legal status

Stonewater is registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a social housing provider. The Association is a public benefit entity.

2. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Stonewater Limited includes the Co-operative and Community Benefit Societies Act 2014 (and related group accounts regulations), the Housing and Regeneration Act 2008, FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014, "Accounting by registered social housing providers" 2014, the Accounting Direction for Private Registered Providers of Social Housing 2015.

The accounts are prepared under the historic cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

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

> Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical.

> No cash flow statement has been presented for the parent company.

> Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole.

> No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements present the results of Stonewater Limited and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

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

Going concern

After making enquiries and reviewing the financial plan, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence of the foreseeable future. For this reason it continues to adopt the going concern basis in the financial statements.

Turnover

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

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

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

> Service charges receivable.

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

> Legacy income.

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.

Legacy income is recognised when it is probable that it will be received. Receipt is normally probable when:

- There has been grant of probate.
- The executors have established that there are sufficient assets in the estate, after settling any liabilities to pay the legacy.
- Any conditions attached to the legacy are either within the control of the charity or have been met.

Supported housing schemes

The Group receives Supporting People grants from a number of local authorities. The grants received in the period as well as costs incurred by the Group in the provision of support services have been included in the Statement of comprehensive income. Any excess of cost over the grant received is borne by the Group where it is not recoverable from tenants.

Service charges

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

Management of units owned by others

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

Schemes managed by agents

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

Value Added Tax

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

Finance costs

Finance costs are charged to 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.

Pension costs

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

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

The Group and Association participate in the multi-employer defined benefit Social Housing Pension Scheme (SHPS). It is not possible to identify the share of the underlying assets and liabilities belonging to individual participating employers on a consistent and reasonable basis. As a result, the amount charged to operating expenditure represents the employer contribution payable to the scheme for the accounting period. Contributions payable under the terms of a funding agreement for past deficits are recognised as a liability in the balance sheet at the present value of the expected future cash flows for which there is a contractual obligation.

Holiday pay accrual

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

Tangible fixed assets – Housing Properties

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

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

Directly attributable costs of acquisition includes capitalised interest calculated, on a proportional basis, using finance costs on borrowing which has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, finance costs are only capitalised where construction is 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 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.

Gains and losses on disposal of housing properties are determined by comparing the proceeds with the carrying amount and incidental costs of sales and recognised within gains/(loss) on disposed fixed assets in the Statement of comprehensive income post operating profit line.

Notes to the financial statements

Depreciation of housing property

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

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

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

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

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

Description	Estimated Economic Life (years)
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.

Donated land and other assets

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

Shared ownership properties and staircasing

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

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

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

Allocation of costs for mixed tenure and shared ownership developments

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

Tangible fixed assets – Other

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

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

Depreciation of other tangible fixed assets

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Description	Economic useful life (years)
Freehold buildings – other	50-100
Leasehold land and buildings	Lease term
Fixtures, furniture and fittings	5-8
Motor vehicles	4
Computers	3

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

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

Government grants

Grant received in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected (see table of useful economic lives on page 43).

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

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

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

Recycled capital grant fund

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

Disposal proceeds fund

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

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Impairment of fixed assets

The housing property portfolio for the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts or depreciated replacement value. An option appraisal is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The Group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use.

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

Notes to the financial statements

Properties held for sale

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

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

Debtors and creditors

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

Recoverable amount of rental and other trade receivables

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

Concessionary loans

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

> To further its public benefit objectives.

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

> Not repayable on demand.

These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. The Group has one concessionary loan from Stonewater (2) Limited to Stonewater (4) Limited. This loan was repaid in May 2017.

Rent and service charge agreements

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

Loans, investments and short term deposits

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

Cash and cash equivalents

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

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

Derivative instruments and hedge accounting

The Group holds floating rate loans which expose the Group to interest rate risk, to mitigate against this risk the Group uses interest rate swaps. These instruments are measured at fair value at each reporting date. They are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

Leased assets: Lessee

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

Reverse premiums and similar incentives received to enter into operating lease agreements are released to the comprehensive income statement over the term of the lease.

Leasehold sinking funds

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

Provision for liabilities

The Group has recognised provisions for dilapidations of the office buildings and restructure costs.

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

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

Contingent liabilities

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

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

Income and expenditure reserve

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

Cash flow reserve

Cash flow reserve is created from the movement in the fair value of hedging derivatives that are assumed as effective.

The cash flow reserve will be released over the life of the instruments to which it relates.

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

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

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

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

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

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

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

> 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 15 and 16)

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

Notes to the financial statements

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.

> **Derivative instruments and hedge accounting** (note 26 and 27)

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

> **Hedge accounting effectiveness**

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

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

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

The Group has transacted a partial termination of some swaps (reducing the life of the swaps to 10 years) at a discount to market rates. The portion of the swaps that has been terminated results in a derecognition of the hypothetical hedge resulting in the accumulated cashflow hedge reserve being taken to the statement of comprehensive income account in the year of the partial termination. The portion of the swaps that has not been terminated is not derecognised and the hypothetical hedge remains. The discount on the termination of the swaps has been taken to the comprehensive income statement. The execution costs have been taken to the statement of comprehensive income account.

> **Negative compensation clauses in loan agreement**

A review of loans was undertaken during financial year 2015/16 to identify whether negative compensation clauses apply. The review was updated in 2016/17. We do not believe that any of the contractual provisions in our loan agreements:

- result in the holder losing the principal amount or any interest attributable to the current period or prior periods; or
- make permission to prepay contingent on future events.

Therefore the loans were considered to be basic financial instruments.

> **Rental and other trade receivables** (note 19)

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

> **Social Housing Pension deficit calculation and discount rate used** (note 21 and 22)

The discount rate used in the calculation of the SHPS deficit was based on the rate advised by our external pension advisors, and which was used for section 28 FRS 102 valuation of the Defined Benefits pension scheme.

> **Valuation of Swaps**

All Swaps are valued at fair value.

We have used a risk free mark-to-market value all Swaps held by the Group.

In determining the fair value of derivatives we have not used the debt value adjustments (DVA) as there is no explicit requirement in FRS102 to measure derivatives using a valuation basis that takes own-credit risk into account. This valuation is adopted across the registered provider sector. Had we adjusted for debt value the derivatives would have had a value of £107.7 million at 31st March 2017, compared to the fair value adopted of £128.6m.

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

	Turnover	Cost of sales	Operating costs	Operating surplus/(deficit)
	2017	2017	2017	2017
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	163,794	-	(105,663)	58,131
Other Social Housing Activities				
First tranche low cost home ownership sales	15,038	(11,714)	-	3,324
Development Staff Costs	-	-	(592)	(592)
Charitable Donations	450	-	(958)	(508)
Other	121	(3)	-	118
	15,609	(11,717)	(1,550)	2,342
Activities other than Social Housing Activities				
Other	1,194	(357)	(1,948)	(1,111)
Total	180,597	(12,074)	(109,161)	59,362

	Turnover	Cost of sales	Operating costs	Operating surplus/(deficit)
	2016	2016	2016	2016
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	160,147	-	(106,266)	53,881
Other Social Housing Activities				
First tranche low cost home ownership sales	9,351	(7,693)	-	1,658
Development Staff Costs	-	-	(691)	(691)
Charitable Donations	-	-	(536)	(536)
Other	1,883	(1,013)	(986)	(1,309)
	11,234	(8,706)	(2,213)	315
Activities other than Social Housing Activities				
Other	369	-	(1,337)	(968)
Total	171,750	(8,706)	(109,816)	53,228

Notes to the financial statements

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

	Turnover	Cost of sales	Operating costs	Operating surplus/(deficit)
	2017	2017	2017	2017
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	90,846	-	(63,197)	27,649
Other Social Housing Activities				
First tranche low cost home ownership sales	11,539	(8,947)	-	2,592
Development Staff costs	-	-	(592)	(592)
Charitable Donations	450	-	(958)	(508)
Other	-	(1)	-	(1)
Total	102,835	(8,948)	(64,747)	29,140

	Turnover	Cost of sales	Operating costs	Operating surplus/(deficit)
	2016	2016	2016	2016
	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	83,784	-	(60,888)	22,896
Other Social Housing Activities				
First tranche low cost home ownership sales	6,901	(5,645)	-	1,256
Development Staff Costs	-	-	(691)	(691)
Charitable Donations	20	-	(536)	(516)
	6,921	(5,645)	(1,227)	49
Activities other than Social Housing Activities				
Open Market Sales	370	-	(417)	(47)
Total	91,075	(5,645)	(62,532)	22,898

5. Income and expenditure from social housing lettings – Group

	General needs	Supported housing and housing for older people	Shared Ownership	Affordable	Total 2017	Total 2016
	£'000	£'000	£'000	£'000	**£'000**	£'000
Income						
Rents net of identifiable service charges	107,063	15,019	5,151	11,736	**138,969**	136,636
Service charge income	8,779	7,608	1,264	16	**17,667**	16,633
Amortised government grants (note 23)	5,680	860	233	316	**7,089**	6,838
Other income/grant	-	67	-	2	**69**	40
Income from social housing lettings	**121,522**	**23,554**	**6,648**	**12,070**	**163,794**	160,147
Expenditure						
Management	(23,286)	(3,973)	(1,637)	(56)	**(28,952)**	(37,097)
Service charge costs	(8,219)	(7,341)	(553)	(245)	**(16,358)**	(14,596)
Routine maintenance	(17,587)	(3,075)	(20)	(789)	**(21,471)**	(19,619)
Planned maintenance	(4,747)	(456)	(7)	(126)	**(5,336)**	(5,937)
Major repairs expenditure	(4,978)	(1,208)	(62)	(52)	**(6,300)**	(4,940)
Bad debts	(666)	(365)	7	(183)	**(1,207)**	(608)
Depreciation of housing properties:						
- annual charge (note 7 & 15)	(19,266)	(2,294)	(972)	(2,094)	**(24,626)**	(21,482)
- accelerated on disposal of components (note 7 & 15)	(549)	(254)	-	(16)	**(819)**	(1,856)
Impairment of housing properties	(400)	(242)	-	(29)	**(671)**	(1,008)
Reversal of impairment of housing properties	77	-	-	-	**77**	877
Operating expenditure on social housing lettings	**(79,621)**	**(19,208)**	**(3,244)**	**(3,590)**	**(105,663)**	(106,266)
Operating surplus on social housing lettings	**41,901**	**4,346**	**3,404**	**8,480**	**58,131**	53,881
Void losses	(1,179)	(956)	(151)	(309)	**(2,595)**	(1,790)

Notes to the financial statements

5. Income and expenditure from social housing lettings – Association

	General needs	Supported housing and housing for older people	Shared Ownership	Affordable	Total 2017	Total 2016
	£'000	£'000	£'000	£'000	**£'000**	£'000
Income						
Rents net of identifiable service charges	43,689	6,805	1,484	8,809	**60,787**	60,053
Service charge income	5,124	4,412	271	(42)	**9,765**	9,684
Other income	12,655	2,065	2,272	-	**16,992**	10,855
Amortised government grants (note 23)	2,545	432	61	264	**3,302**	3,192
Income from social housing lettings	**64,013**	**13,714**	**4,088**	**9,031**	**90,846**	83,784
Expenditure						
Management	(24,595)	(3,837)	(1,590)	(44)	**(30,066)**	(29,616)
Service charge costs	(4,605)	(4,122)	(219)	(173)	**(9,119)**	(8,586)
Routine maintenance	(6,530)	(1,302)	63	(531)	**(8,300)**	(8,899)
Planned maintenance	(1,605)	(100)	2	(97)	**(1,800)**	(2,522)
Major repairs expenditure	(1,631)	(298)	(56)	(28)	**(2,013)**	(1,563)
Bad debts	(15)	(256)	(9)	(183)	**(463)**	(444)
Depreciation of housing properties:						
- annual charge (note 7 & 15)	(7,674)	(1,168)	(387)	(1,426)	**(10,655)**	(8,582)
- accelerated on disposal of components (note 7 & 15)	(247)	(156)	-	(15)	**(418)**	(953)
Impairment of housing properties (note 7)	(358)	(53)	-	(29)	**(440)**	(600)
Reversal of impairment of housing properties (note 7)	77	-	-	-	**77**	877
Operating expenditure on social housing lettings	**(47,183)**	**(11,292)**	**(2,196)**	**(2,526)**	**(63,197)**	(60,888)
Operating surplus on social housing lettings	**16,830**	**2,422**	**1,892**	**6,505**	**27,649**	22,896
Void losses	(480)	(526)	(13)	(228)	**(1,247)**	(965)

6. Units of housing stock

	Group 2017 Number	Group 2016 Number	Association 2017 Number	Association 2016 Number
General needs housing	21,012	21,388	8,569	9,206
Affordable housing	2,381	1,697	1,473	1,097
Shared Ownership	2,267	2,172	664	665
Supported housing	489	581	312	301
Housing for older people	2,434	2,983	1,231	1,264
Other	528	833	22	31
Total owned	29,111	29,654	12,271	12,564
Accommodation managed for others	1,394	218	80	33
Total managed accommodation	30,505	29,872	12,351	12,597
Units managed by other associations	348	126	122	126
Total owned and managed accommodation	30,853	29,998	12,473	12,723
Units under construction	988	1,202	488	811

7. Operating surplus

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
This is arrived at after charging/(crediting):				
Depreciation of housing properties:				
- annual charge (note 5 and 15)	24,626	21,482	10,665	8,582
- accelerated depreciation (note 5 and 15)	819	1,856	418	954
Depreciation of other tangible fixed assets (note 16)	1,686	1,598	1,420	885
Impairment of housing properties (note 5 and 15)	671	1,008	440	600
Reversal of impairment of housing properties (note 5 and 15)	(77)	(877)	(77)	(877)
Operating lease charges-land and buildings	661	886	661	523
Operating lease charges-other	215	134	215	134
Auditors' remuneration				
- audit of these financial statements	79	75	66	60
- other services	26	12	2	10

Audit remuneration of £79,000 (including VAT) (2016: £75,000) represents the audit fee for all group entities.

Additional audit fee of £40,000 plus VAT was paid for 31 March 2016.

Notes to the financial statements

8. Employees

	Group 2017 £'000	Group 2016 £'000
Staff costs consist of:		
Wages and salaries	**19,913**	21,383
Social security costs	**2,010**	1,902
Pension costs	**779**	1,055
Redundancy	**538**	-
Total	**23,240**	24,340

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

	Group 2017 FTE	Group 2016 FTE
	612	678

9. Directors' and senior executive remuneration

The directors are defined as the members of the Board of Management, the Chief Executive and the Executive Management Team disclosed on page 4 to 6.

	Group 2017 £'000	Group 2016 £'000
Executive directors' emoluments	**897**	1,234
Amounts paid to non-executive directors	**160**	159
Compensation for loss of office	**131**	412
Pension contributions	**62**	117
Benefits in kind	**54**	76
	1,304	1,998

The total amount payable to highest paid director in respect of emoluments was £162,000 (2016: £176,000). Pension contributions of £11,000 (2016: £18,000) were made to SHPS on his behalf.

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

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

	Group 2017 No.	Group 2016 No.
£60,000 - £69,999	**15**	9
£70,000 - £79,999	**4**	9
£80,000 - £89,999	**4**	3
£90,000 - £99,999	**1**	2
£100,000 - £109,999	**2**	1
£110,000 - £119,999	**4**	4
£120,000 - £129,999	**-**	1
£130,000 - £139,999	**1**	1
£140,000 - £149,999	**-**	-
£150,000 - £159,999	**1**	-
£160,000 - £169,999	**1**	1
£170,000 - £179,999	**-**	1
	33	32

Notes to the financial statements

10. Board members

Name	2017 Emoluments £	2016 Emoluments £
Mr G Blunden	25,000	25,000
Mrs S Collins	15,000	15,000
Mr P Hammond	15,000	15,000
Mrs S Terry	15,000	15,000
Mr J Weguelin	15,000	13,500
Ms A Dokov	15,000	15,000
Mr B Roebuck	15,000	15,000
Mr D Wright	15,000	15,000
Dr M Collins	15,000	15,000
Mr C Small	15,000	15,000
	160,000	158,500

11. Surplus on disposal of fixed assets

GROUP	Shared ownership 2017 £'000	Other housing properties 2017 £'000	Total 2017 £'000	Total 2016 £'000
Housing Properties:				
Disposal proceeds	6,823	11,413	18,236	15,444
Cost of disposals	(3,962)	(4,374)	(8,336)	(9,408)
Selling costs	-	-	-	(106)
Surplus on disposal	2,861	7,039	9,900	5,930

ASSOCIATION	Shared ownership 2017 £'000	Other housing properties 2017 £'000	Total 2017 £'000	Total 2016 £'000
Housing Properties:				
Disposal proceeds	2,252	19,204	21,456	8,024
Cost of disposals	(1,572)	(16,845)	(18,417)	(4,659)
Total	680	2,359	3,039	3,365

12. Interest receivable and similar income

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Interest receivable from group undertakings	-	-	454	24
Interest receivable and similar income	154	611	65	418
	154	611	519	442

13. Interest payable and financing costs

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Bank loans and overdrafts	33,532	34,572	13,057	12,988
Interest payable to group undertakings	-	-	4,095	5,021
Interest capitalised on construction of housing properties (note 15)	(3,020)	(3,200)	(2,520)	(2,880)
Net Interest on pension schemes	1,836	251	887	191
Recycled capital grant fund (note 24)	18	31	10	19
Disposal proceeds fund (note 25)	2	3	-	-
Total	32,368	31,657	15,529	15,339
Movement in fair value of non hedged financial instruments	(8,739)	2,202	(6,796)	1,630
Movement in fair value of hedged financial instruments	3,921	6,004	3,140	3,322

14. Taxation on surplus on ordinary activities

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

Notes to the financial statements

15. Tangible fixed assets Housing properties – Group

	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation:					
At 1 April 2016	1,647,132	76,787	117,621	14,731	1,856,271
Reclassification	33,773	(33,773)	7,194	(7,194)	-
Restated at 1 April 2016	**1,680,905**	**43,014**	**124,815**	**7,537**	**1,856,271**
Additions:					
- construction costs	-	49,165	13	26,224	75,402
- replaced components	10,636	-	-	-	10,636
- existing properties	1,087	-	37	-	1,124
Completed schemes	71,532	(71,532)	8,656	(8,656)	-
Transfer to properties held for sale	-	-	(280)	(15,494)	(15,774)
Disposals:					
- staircasing sales	-	-	(4,078)	-	(4,078)
- other sales (Voids/RTB/RTA)	(7,115)	-	-	-	(7,115)
- replaced components	(2,263)	-	-	-	(2,263)
At 31 March 2017	**1,754,782**	**20,647**	**129,163**	**9,611**	**1,914,203**
Depreciation:					
At 1 April 2016	224,706	(674)	6,051	-	230,083
Charge for the year (note 5 & 7)	23,660	-	966	-	24,626
On disposals					
- staircasing sales	-	-	(218)	-	(218)
- Replaced Components (note 5 & 7)	(819)	-	-	-	(819)
- Other Sales (Voids/RTB/RTA)	(2,270)	674	-	-	(1,596)
At 31 March 2017	**245,277**	**-**	**6,799**	**-**	**252,076**
Impairment:					
At 1 April 2016	624	1,098	470	-	2,192
Charge for the year	440	231	-	-	671
Released in the year	(77)	(1,099)	-	-	(1,176)
At 31 March 2017	**987**	**230**	**470**	**-**	**1,687**
Net book value at 31 March 2017	**1,508,518**	**20,417**	**121,894**	**9,611**	**1,660,440**
Net book value at 31 March 2016	1,455,575	42,590	118,294	7,537	1,623,996

15. Tangible fixed assets Housing properties – Association

	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation:					
At 1 April 2016	768,295	66,053	44,419	13,135	891,902
Reclassification	35,628	(35,628)	7,253	(7,253)	-
Restated at 1 April 2016	803,923	30,425	51,672	5,882	891,902
Additions:					
- construction costs	-	30,840	-	17,028	47,868
- replaced components	4,765	-	-	-	4,765
Completed schemes	46,278	(46,278)	7,159	(7,159)	-
Transfer to properties held for sale	-	-	-	(10,957)	(10,957)
Disposals:					
- staircasing sales	-	-	(1,611)	-	(1,611)
- other sales (Voids/RTB/RTA)	(24,490)	-	(3,859)	-	(28,349)
- replaced components	(1,008)	-	-	-	(1,008)
At 31 March 2017	**829,468**	**14,987**	**53,361**	**4,794**	**902,610**
Depreciation:					
At 1 April 2016	95,302	-	1,540	-	96,842
Charge for the year (note 5 & 7)	10,278		387		10,665
Reclassification of properties	-	-	-	-	-
Eliminated on disposals:					
- replaced components (note 5 & 7)	(418)	-	-	-	(418)
- other sales	(3,859)		(316)		(4,175)
At 31 March 2017	**101,303**	**-**	**1,611**	**-**	**102,914**
Impairment:					
At 1 April 2016	624	-	-	-	624
Charge for the year (note 5 & 7)	440	-	-	-	440
Released in the year (note 5 & 7)	(77)	-	-	-	(77)
At 31 March 2017	**987**	**-**	**-**	**-**	**987**
Net book value at 31 March 2017	**727,178**	**14,987**	**51,750**	**4,794**	**798,709**
Net book value at 31 March 2016	707,997	30,425	50,132	5,882	794,436

Notes to the financial statements

15. Tangible fixed assets Housing properties

Reclassification of the opening balances relate to transfers from under construction to completed which were completed in the year ended 31 March 2016.

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
The net book value of housing properties may be further analysed as:				
Freehold	1,583,669	1,549,649	772,345	768,660
Long leasehold	76,771	74,347	26,364	25,776
	1,660,440	1,623,996	798,709	794,436

	£'000	£'000	£'000	£'000
Interest capitalisation				
Interest capitalised in the year (note 13)	3,020	3,200	2,520	2,880
Cumulative interest capitalised	36,576	33,556	19,125	16,605
Rate used for capitalisation	4.3%	4.5%	4.3%	4.5%
Works to properties				
Improvements to existing properties capitalised	10,636	16,413	4,765	6,778
Major repairs expenditure to income and expenditure account (note 5)	6,300	4,941	2,013	1,564
	16,936	21,354	6,778	8,342
Total Social Housing Grant received or receivable to date as follows;				
Capital grant held in deferred income (note 23)	590,436	595,377	275,375	283,828
Recycled capital grant fund (note 24)	5,727	4,978	2,692	2,348
Disposal proceeds fund (note 25)	808	553	103	-
Amortised to income and expenditure account in year (note 5)	7,089	6,838	3,302	3,192
Cumulative amortisation to reserves	55,934	48,845	28,192	24,890

15. Tangible fixed assets Housing properties

Impairment

The group considers individual schemes to represent separate cash generating units (CGU's) when assessing for impairment in accordance with the requirements of FRS102 and SORP 2014. This is due to the economies of scale gained from having stock grouped as a scheme and the recognition that individual properties which are more expensive would be unlikely to be acquired if they were individual units, but are likely to be acquired as part of a number of units.

A full impairment review was carried out at 31 March 2016 and no material impairment was identified. At 31 March 2017 we considered whether any specific indicators of impairment at scheme or property level exist and identified:

> A review of existing stock was carried out to compare the carrying amount to the Value in Use utilising both value in use and depreciated replacement value. 4 schemes were identified where the depreciated replacement value was greater than the NBV, and the impairment charge was made in the accounts.

> A review of active development schemes was carried out to identify any significant variations to the original scheme costs. Two schemes (15 units) were identified where impairment was needed.

> A review of long term void properties was undertaken and no impairment was necessary.

Following the review, the group has recognised a total impairment loss of £0.7m (2016: £1.0m) in respect of general needs completed properties and properties under construction.

In addition £1.1m impairment was reversed during the year (2016: £0.9m). The impairment reversal related to 3 pieces of land that were previously impaired as no plans for development were in place. The properties have been sold during 2016/17.

Properties held for security

Stonewater Limited had 8,022 properties pledged as security at 31 March 2017 with a net book value £480.1m (2016: 7,621 properties).

Notes to the financial statements

16. Other tangible fixed assets – Group

	Freehold Office Properties £'000	Office Fixtures, Furniture and Fittings £'000	Computers £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1 April 2016	6,791	8,929	8,353	108	24,181
Additions	-	328	1,963	88	2,379
Disposals	(3,063)	(2,963)	(7,578)	(108)	(13,712)
At 31 March 2017	**3,728**	**6,294**	**2,738**	**88**	**12,848**
Depreciation					
At 1 April 2016	3,230	6,175	7,118	103	16,626
Charge for year (note 7)	272	167	1,158	89	1,686
Eliminated on Disposals	(1,068)	(3,387)	(6,940)	(104)	(11,499)
At 31 March 2017	**2,434**	**2,955**	**1,336**	**88**	**6,813**
Net book value at 31 March 2017	**1,294**	**3,339**	**1,402**	**-**	**6,035**
Net book value at 31 March 2016	3,561	2,754	1,235	5	7,555

16. Other tangible fixed assets – Association

	Freehold Office Properties £'000	Office Fixtures, Furniture and Fittings £'000	Computers £'000	Motor Vehicles £'000	Total £'000
Cost or valuation					
At 1 April 2016	203	3,185	5,821	-	9,209
Additions	-	306	1,963	88	2,357
Disposal	(98)	(2,357)	(5,039)	-	(7,494)
At 31 March 2017	**105**	**1,134**	**2,745**	**88**	**4,072**
Depreciation					
At 1 April 2016	122	2,450	4,878	-	7,450
Charge for year (note 5 & 7)	1	173	1,158	88	1,420
Elimination on Disposal	(120)	(2,247)	(4,691)	-	(7,058)
At 31 March 2017	**3**	**376**	**1,345**	**88**	**1,812**
Net book value at 31 March 2017	**102**	**758**	**1,400**	**-**	**2,260**
Net book value at 31 March 2016	81	735	943	-	1,759

17. Fixed assets investments – Association

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

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

18. Properties held for sale

	Group 2017 £'000	Group 2016 £'000	**Association 2017 £'000**	Association 2016 £'000
Properties held for sale	**-**	23	**5,933**	4,211
Work in progress	**8,291**	4,879	**3,175**	2,886
Completed properties	**4,122**	4,083	**(2)**	-
Other Properties for sale	**8**	248	**-**	-
	12,421	9,233	**9,106**	7,097

Notes to the financial statements

19. Debtors

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Within 1 year:				
Rent and service charge arrears	**9,438**	8,318	**4,853**	3,679
Less: Provision for doubtful debts	**(2,324)**	(2,257)	**(1,058)**	(667)
	7,114	6,061	**3,795**	3,012
Amounts owed by group undertakings	**-**	-	**11,204**	4,694
Other debtors	**1,856**	2,132	**1,207**	1,324
Prepayments and accrued income	**2,184**	1,893	**2,175**	1,239
Social housing grant receivable	**560**	140	**509**	130
	11,714	10,226	**18,890**	10,399

Within more than 1 year:

Included with the amounts owed by group undertakings of £11,204k above is an amount of £1,073k receivable in more than 1 year.

20. Current asset investments

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Brought forward	**15,094**	113,246	**10,910**	40,595
Withdrawals	**(11,359)**	(98,152)	**(9,576)**	(29,685)
Carried forward	**3,735**	15,094	**1,334**	10,910

Current asset investments relate to bank deposits and amounts held in Escrow.

21. Creditors – amounts falling due within one year

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Loans and borrowings (note 26)	13,974	10,986	4,860	3,763
Issue Costs (note 26)	(655)	(279)	(315)	-
Interest rate swap	-	91	-	91
Trade creditors	3,763	1,632	2,620	34
Retentions	2,174	2,701	305	-
Amounts owed to group undertakings	-	-	3,074	3,555
Taxation and social security	828	414	767	150
Other creditors	15,488	6,330	7,680	4,823
Recycled capital grant fund (note 24)	1,604	159	810	159
Disposal proceeds fund (note 25)	375	-	-	-
Accruals and deferred income	923	8,154	696	4,786
Accrued interest	3,331	3,399	1,734	1,950
Social Housing Pension (SHPS)	2,519	-	1,032	-
Leaseholder sinking funds	6,906	5,881	5,088	4,523
	51,230	39,468	28,351	23,834

Social Housing Pension (SHPS) is disclosed in the Creditors notes, last year the pension liability was disclosed in Provision and other liabilities note.

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

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Loans and borrowings (note 26)	762,944	777,654	384,148	389,539
Issue Costs (note 26)	(4,189)	(4,137)	(2,816)	(2,710)
Derivatives financial instruments (note 27)	126,841	126,918	79,144	77,409
SHPS pension deficit	15,936	19,021	6,619	7,892
Deferred capital grant (note 23)	590,436	595,377	275,375	283,828
Recycled capital grant fund (note 24)	4,123	4,819	1,882	2,189
Disposal proceeds fund (note 25)	433	553	103	-
Total	1,496,524	1,520,205	744,455	758,147

Notes to the financial statements

23. Deferred capital grant

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
At 1 April	595,377	600,314	283,828	285,237
Grants received during the year	3,395	3,664	2,562	2,069
Grants recycled to the recycled capital grant fund and disposals proceeds fund (note 24 and note 25)	(1,064)	(1,763)	(32)	(286)
Transfer to Group companies	-	-	(7,698)	-
Released to income during the year (note 5)	(7,089)	(6,838)	(3,302)	(3,192)
Write back amortisation on disposals	573	-	185	-
Other Movements	(756)	-	(168)	-
At 31 March	590,436	595,377	275,375	283,828

24. Recycled capital grant fund – Group

	HCA 2017 £'000	GLA 2017 £'000	Total 2017 £'000	HCA 2016 £'000	GLA 2016 £'000	Total 2016 £'000
At 1 April	4,700	278	4,978	2,564	1,094	3,658
Inputs to fund:						
- grants recycled from deferred capital grants (note 23)	1,795	-	1,795	2,582	22	2,604
- transfer to income	-	(79)	(79)	-	-	-
- interest accrued (note 13)	17	1	18	31	-	31
Recycling of grant:						
- new build (note 23)	(985)	-	(985)	(477)	-	(477)
- repayment of grant to GLA	-	-	-	-	(838)	(838)
At 31 March	5,527	200	5,727	4,700	278	4,978
Amount due for repayment:						
- within 1 year (note 21)	1,425	179	1,604	159	-	159
- within 2 to 3 years (note 22)	4,102	21	4,123	4,819	-	4,819
Total	5,527	200	5,727	4,978	-	4,978

24. Recycled capital grant fund – Association

	HCA 2017 £'000	GLA 2017 £'000	Total 2017 £'000	HCA 2016 £'000	GLA 2016 £'000	Total 2016 £'000
At 1 April	2,070	278	2,348	1,057	1,094	2,151
Inputs to fund:						
- grants recycled from deferred capital grants (note 23)	637	-	637	(463)		(463)
- interest accrued (note 13)	9	1	10	19	-	19
- transfers from group members	(88)	-	(88)	228	-	228
Recycling of grant:						
- new build (note 23)	(136)	-	(136)	1,229	22	1,251
- transferred to Income	-	(79)	(79)	-	(838)	(838)
At 31 March	2,492	200	2,692	2,070	278	2,348
Amount due for repayment:						
- within 1 year (note 21)	631	179	810	159	-	159
- within 2 to 3 years (note 22)	1,861	21	1,882	2,189	-	2,189
Total	2,492	200	2,692	2,348	-	2,348

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

25. Disposal proceeds fund

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
At 1 April	553	948	-	-
Inputs to fund:				
Grants Recycled (note 23)	474	123	103	(521)
Transferred from other group members	-	(521)	-	521
New development and repairs to existing properties (note 23)	(221)	-	-	-
Interest Accrued (note 13)	2	3	-	-
At 31 March	808	553	103	-
Amount due for repayment:				-
- within 1 year (note 21)	375	-	-	-
- within 2 to 3 years (note 22)	433	553	103	-
Total	808	553	103	-

Notes to the financial statements

26. Loans and borrowings – Group

Maturity of debt:	**Bank loans 2017 £'000**	**Bond Finance 2017 £'000**	**Other loans 2017 £'000**	**Total 2017 £'000**
In one year or less, or on demand	**12,279**	**1,470**	**225**	**13,974**
Issue Costs <1 year	**(644)**	**(11)**	**-**	**(655)**
Within one year (note 21)	**11,635**	**1,459**	**225**	**13,319**
In more than one year but not more than two years	**29,467**	**1,580**	**247**	**31,294**
In more than two years but not more than five years	**67,635**	**5,477**	**846**	**73,958**
After five years	**305,955**	**338,559**	**13,178**	**657,692**
Issue Costs	**(3,774)**	**(415)**	**-**	**(4,189)**
Within more than one year (note 22)	**399,283**	**345,201**	**14,271**	**758,755**
Total Loans	**410,918**	**346,660**	**14,496**	**772,074**

Maturity of debt:	Bank loans 2016 £'000	Bond Finance 2016 £'000	Other loans 2016 £'000	Total 2016 £'000
In one year or less, or on demand	9,311	1,470	205	10,986
Issue Costs <1 year	(279)	-	-	(279)
Within one year (note 21)	9,032	1,470	205	10,707
In more than one year but not more than two years	16,009	1,580	226	17,815
In more than two years but not more than five years	75,867	5,448	783	82,098
After five years	491,904	172,351	13,482	677,737
Issue Costs	(3,684)	(449)	-	(4,133)
Within more than one year (note 22)	580,096	178,930	14,492	773,517
Total Loans	589,128	180,400	14,696	784,224

26. Loans and borrowings – Association

Maturity of debt:	**Bank loans 2017 £'000**	**Bond Finance 2017 £'000**	**Other loans 2017 £'000**	**Total 2017 £'000**
In one year or less, or on demand	**4,775**	**-**	**85**	**4,860**
Issue costs ‹1yr	**(315)**	**-**	**-**	**(315)**
Within one year (note 21)	**4,460**	**-**	**85**	**4,545**
In more than one year but not more than two years	**16,211**	**-**	**92**	**16,303**
In more than two years but not more than five years	**18,434**	**-**	**270**	**18,704**
After five years	**222,305**	**121,139**	**5,697**	**349,141**
Issue Costs	**(2,816)**	**-**	**-**	**(2,816)**
Within more than one year (note 22)	**254,134**	**121,139**	**6,059**	**381,332**
Total Loans	**258,594**	**121,139**	**6,144**	**385,877**

Maturity of debt:	Bank loans 2016 £'000	Bond Finance 2016 £'000	Other loans 2016 £'000	Total 2016 £'000
In one year or less, or on demand	3,685	-	78	3,763
Issue Costs ‹1yr	-	-	-	-
Within one year (note 21)	3,685	-	78	3,763
In more than one year but not more than two years	4,770	-	85	4,855
In more than two years but not more than five years	26,394	-	262	26,656
After five years	265,568	86,662	5,797	358,027
Issue Costs	(2,709)	-	-	(2,709)
Within more than one year (note 22)	294,023	86,662	6,144	386,829
Total Loans	297,708	86,662	6,222	390,592

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

Loans are secured by specific charges on the housing properties of the group.

Total loan facilities at 31 March 2017 were £1,000 million (2016: £956 million) of which £223 million were undrawn (2016: £172 million).

Notes to the financial statements

27. Financial instruments

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

	Note	Group 2017 £'000	Group 2016 £'000
Financial assets:			
Financial assets measured at historical cost			
- Trade receivables	19	**7,114**	6,061
- Other receivables	19	**2,423**	2,409
- Investments	17	**-**	-
- Investments in short term deposits	20	**3,735**	15,094
- Cash and cash equivalents		**38,181**	46,271
Total financial assets		**51,453**	69,835
Financial liabilities:			
Financial liabilities measured at amortised cost			
- Loans payable	26	**772,074**	784,224
Financial liabilities measured at historical cost			
- Trade creditors	21	**3,763**	1,632
- Other creditors	21	**53,812**	50,848
Derivative financial instruments designated as hedges at variable interest rate risk	22	**126,841**	127,009
Total financial liabilities		**956,490**	963,713

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

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

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

Hedge of variable interest rate risk arising from bank loan liabilities

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the group has entered into floating to fixed interest rate swaps with a nominal value equal to that initial borrowings, the same term as the loans and interest re-pricing dates identical to those of the variable rate loans. These result in the group paying 4.5% (2016: 4.5%) and receiving LIBOR (though cash flows are settled on a net basis) and effectively fix the total interest cost on loans and interest rates swaps at 4.0% (2016:4.6% per annum).

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a fair value of £126.8 million (2016: £127.0 million) at the balance sheet date. The cash flows arising from the interest rate swaps will continue until their maturity, coincidental with the repayment of the term loans which range from 1 year to 31 years. The movement in fair value in the period of £3.9 million (2016: £6.0 million) recognised in other comprehensive income for hedges and £8.9 million (2016: £2.2 million) within finance costs for non hedges.

Association: The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a fair value of £79.1million (2016: £77.5 million) at the balance sheet date. The cash flows arising from the interest rate swaps, coincidental with the repayment of the term loans. The movement in fair value in the period of £3.2 million (2016: £3.3 million) recognised in other comprehensive income for hedges and £6.8 million (2016: £1.6 million) for non hedges.

28. Provisions and other liabilities

GROUP	Restructuring	Dilapidations	Total
	£'000	£'000	£'000
At 1 April 2016	244	454	**698**
Charged to income and expenditure			
- Additions	–	461	**461**
- Allocations	(244)	(460)	**(704)**
At 31 March 2017	**-**	**455**	**455**

ASSOCIATION	Restructuring	Dilapidations	Total
	£'000	£'000	£'000
At 1 April 2016	244	454	**698**
Charged to income and expenditure			
- Additions	-	460	**460**
- Allocations	(244)	(460)	**(704)**
At 31 March 2017	**-**	**454**	**454**

Note a

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

Notes to the financial statements

29. Pensions

Several pension schemes are operated by the group.

A) Social Housing Pension Scheme

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

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

The discounted value of the future contributions arising from the last valuation received in November 2016 are reflected in Note 21 and 22.

B) Defined benefit pension scheme Dorset County Council

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

A full actuarial valuation of the defined benefit scheme was carried out at 30 November 2016 by a qualified independent actuary, and it is expected to be agreed and signed off by 31 March 2017. Contributions to the scheme are made by the group based on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees. The next valuation will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2019 to 31 March 2022.

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

	2017 £'000	2016 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	9,651	9,964
Current service cost	40	26
Interest cost	309	289
Change in financial assumptions	986	(322)
Change in demographic assumptions	14	-
Experience gain on defined benefit obligation	(858)	-
Estimated benefits paid net of transfers in	(323)	(312)
Contributions by scheme participants	10	6
At the end of the year	9,829	9,651

29. Pensions

	2017 £'000	2016 £'000
Reconciliation of fair value of plan assets		
At the beginning of the year	**4,626**	4,868
Interest income on plan assets	**147**	141
Return on assets less interest	**814**	(187)
Other actuarial gains/(losses)	**58**	-
Administration expenses	**(4)**	(3)
Contributions by employer	**124**	113
Contributions by Fund participants	**10**	6
Estimated benefits paid plus unfunded net transfers in	**(323)**	(312)
At the end of the year	**5,452**	4,626

Fair value of plan assets	**5,452**	4,626
Present value of plan liabilities	**(9,829)**	(9,651)
Net pension scheme liability	**(4,377)**	(5,025)

Amounts recognised in other comprehensive income are as follows:		
Included in administrative expenses:		
Service cost	**40**	26
Administration expenses	**4**	3
	44	29

Amounts included in other finance costs		
Net interest cost	**162**	148

Analysis of actuarial loss recognised in Other Comprehensive Income		
Return on Fund assets in excess of interest	**814**	(187)
Other actuarial gains/(losses) on assets	**58**	-
Change in financial assumptions	**(986)**	322
Change in demographic assumptions	**(14)**	-
Experience gain/(loss) on defined benefit obligation	**858**	-
	730	135

Notes to the financial statements

29. Pensions

	2017 £'000	2017 %	2016 £'000	2016 %
Composition of plan assets				
Equities	**3,059**	**56**	2,606	56
Gilts/LDI	**809**	**15**	450	10
Cash	**61**	**1**	192	4
Other Bonds	**625**	**11**	582	13
Diversified Growth Fund	**236**	**4**	221	5
Property	**479**	**9**	510	11
Infrastructure	**182**	**3**	61	1
Hedge Fund	**1**	**-**	4	-
Total plan assets	**5,452**	**100**	4,626	100

	2017	2016
Principal actuarial assumptions used at the balance sheet date	**%**	%
Discount rates	**2.6**	3.25
Future salary increases	**4.6**	4.55
Future pension increases	**2.6**	2.55
Inflation assumption – RPI	**3.5**	3.30
Inflation assumptions - CPI	**2.6**	2.55
Mortality rates		
for a male aged 65 now	**23.9**	22.9
at 65 for a male member aged 45 now	**26.1**	25.2
for a female aged 65 now	**26.0**	25.3
at 65 for a female member aged 45 now	**28.3**	27.7

30. Share capital – Association

	2017 £	2016 £
At 1 April	19	21
Shares issued in the year	-	-
Shares cancelled in the year	(9)	(2)
At 31 March	**10**	19

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

31. Operating leases

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

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Amounts payable as Lessee				
Not later than 1 year	673	628	400	355
Later than 1 year and not later than 5 years	1,808	2,221	1,169	1,082
Later than 5 years	130	497	49	257
Total	**2,611**	3,346	**1,618**	1,694

32. Capital commitments

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Commitments contracted but not provided for Construction	94,400	125,540	40,762	93,561
Commitments approved by the Board but not contracted for Construction	53,167	28,738	25,142	26,393
	147,567	154,278	**65,904**	119,954

Capital commitments for the group will be funded from £8.2million SHG, with the remainder funded from property sales £48.7m and external borrowing £90.7m.

Capital commitments for the Association will be funded from £5.7 million SHG, with the remainder funded from property sales £26.2m and external borrowing £34m.

Notes to the financial statements

33. Related party disclosures

The Association transacts with a number of non regulated entities: Stonewater Procurement Limited, a company that provides design and build services to other group entities and Stonewater Funding PLC whose principal activity is to act as the capital markets issuance vehicle for the group.

Intra group revenue

The Association provides staffing to Stonewater Procurement Limited to manage various design and build projects.
The Association recharges the staff costs to Stonewater Procurement Limited.

The Association also provides management services to other group companies including non regulated entities.

Total income for the year from non regulated entities was:

	2017 £'000	2016 £'000
Staff costs recharge to Stonewater Procurement Limited	**1,497**	1,245
Management services provided to Stonewater Procurement Limited and Stonewater Funding PLC	**439**	432

Intra Group Costs

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

The Association also receives financial services from Stonewater Funding PLC.

Total costs for the year paid to the non regulated entities was:

	2017 £'000	2016 £'000
Charge for the design and build service provided by Stonewater Procurement Limited	**33,149**	38,610
2.5% admin charge	**829**	991
Management fee charged by Stonewater Funding PLC	**120**	120

Intra group liabilities

Stonewater Limited has a loan in place with Stonewater Funding PLC. At 31 March 2017 the outstanding amount was £80.8million (2016: £80.9 million)

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

Stonewater (5) Limited has a loan in place with Stonewater Funding PLC. At 31 March 2017 the outstanding amount was £31.0 million (2016: £31.0 million)

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

	2017 £'000	2016 £'000
Loan Balance (including issue costs)	**133,559**	134,071
Interest Charged	**6,292**	6,010

Under the facilities the loans, which are repayable at various dates through to 2042, are secured by fixed charges over the housing properties of Stonewater Ltd, Stonewater (2) Limited and Stonewater (5) Limited; cross guarantees cover any shortfall in the security and any unpaid interest and fees in respect of the loans. At 31 March 2017 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.

34. Post balance sheet events

After the year end Stonewater Funding PLC has issued £100 million in secured notes sold to Pricoa Corporation. £75 million of the proceeds have been on-lent to Stonewater Limited and £25 million to Stonewater (2) Limited, with similar security and cross-guarantee arrangements to the Bond.

Barton Road, Welford
Six stylish new rural homes for affordable rent and shared home ownership

STONEWATER

Stonewater Limited, Charitable Registered Societies No. 20558R.

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