

Stonewater (2) Limited

Registered Social Housing Provider

Financial Statements

Year ended 31 March 2016

Co-operative and Community Benefit Society (FCA) number: 19412R

Homes and Communities Agency number: L0173

Stonewater (2) Limited

Report and Financial Statements for the year ended 31 March 2016

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Board and Officers

Board Members:

Mr M Collins - Chair

Mr G Blunden

Mrs S Collins

Mrs A Dokov

Mr P Hammond

Mr N Harris

Mr B Roebuck

Mr C Small

Mr R Strachan

Mrs S Terry

Mr J Weguelin

Mr D Wright

Secretary and Registered Office

Anne Harling

Jephson House

1 Stoneleigh Road

Blackdown

Leamington Spa

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CV32 6RE

Auditor

BDO LLP

Two Snowhill

Birmingham

B4 6GA

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Devonshires Solicitors

30 Finsbury Circus

London

ECM 7DT

Principal Banker

Barclays Bank

Level 27

1 Churchill Place

London

E14 5HP

Report of the Board of Management

The Board presents its report and audited financial statements for Stonewater (2) Limited (the 'Association') for the year ended 31 March 2016.

Operating and Financial Review

Nature of the Business & Principal Activity

Stonewater (2) Limited is a Registered Society under the Cooperative and Community Benefit Societies Act 2014, with charitable status, and a Registered Provider with the Homes and Communities Agency (HCA). Its ultimate parent is Stonewater Limited (the 'Group' or 'Stonewater').

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

Stonewater's Vision and mission

Stonewater's vision is for everyone to have the opportunity to have a place they can call home. Our mission is to offer high quality homes and services for people who's needs are not met by the open market. Our Values and behaviours guide the way we do things:

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

Strategic Plan

The objectives and associated outcomes we are seeking to achieve are set out under three key themes:

Customer experience

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

Growth and influence

- Deliver an ambitious programme to provide more homes for people in need.
- Build a reputation as a thought leader in the sector with influence on national and local agendas.

Business excellence

- Achieve consistently high standards of performance for our operational key performance indicators.
- Invest in and support our people and promote a culture of high performance.
- Achieve value for money in all that we do.

Report of the Board of Management

Operating and Financial Review

Strategic Plan

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

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

Activities

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

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

During the year, Stonewater (2) Limited built 85 homes: 70 for affordable rent and 15 for shared ownership, and have delivered in line with our affordable home target from the Homes and Communities Agency (HCA) for the three years to March 2016.

Work continued on Stonewater's stock rationalisation programme. In Stonewater (2) Limited the asset development team achieved gross sales of £6.4m for this programme, which equates to just under £2.2m net and compares with last year's figures of £5.3m gross and £1.2m net. These sums will enable Stonewater to invest in new homes that are more energy efficient and cost less to maintain, bringing forward efficiencies for the business.

External Environment

Housing supply and affordability

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

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

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

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

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

Report of the Board of Management

Operating and Financial Review

Welfare reform and cuts in government spending

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

Changes to the regulatory framework

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

Regulation

The latest regulatory judgement issued by the Homes and Communities Agency in February 2016 confirms that Stonewater meets the requirements set out in the Governance and Financial Viability standard of the 2015 Regulatory Framework with the top ratings of G1 (The provider meets the requirements on governance set out in the Governance and Financial Viability standard) and V1 (The provider meets the requirements on viability set out in the Governance and Financial Viability Standard and has the capacity to mitigate its exposures effectively).

Performance in the period

The Association has made a surplus of £9.2m during the year (2015: £1.2m) mainly due to higher rental income, lower maintenance costs, lower interest and higher surplus from asset disposals.

Voids and Arrears

Rental income lost through voids is 0.54%

Gross arrears on average were 3.45%

Responsive repairs satisfaction on average was 86%

Resources

Board

The Board is responsible for the proper and effective management of Stonewater. The Board, working with the Executive Director Group led by the Chief Executive, undertakes this role through strategic direction, establishing a framework for delegation, and holding the Executive Director Group to account for performance. This includes accountability to residents and other stakeholders, such as funding providers and partner local authorities. Board Members and the Executive Director Group are listed on page 2. The Board comprised twelve members at 31 March 2016 including two executive members.

Current obligations of Board Members to the Board and the Association

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

Report of the Board of Management

Operating and Financial Review

The board undertakes an annual appraisal of its performance, culminating in the identification of key targets for the year ahead. In 2015-16 these were:

- overseeing a successful integration programme;
- delivery of the strategic plan
- focus on strategy; and
- compliance with regulatory standards

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

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

Skills, qualities and experience required by the Board

To discharge its responsibilities for the direction of the company, Stonewater's Board needs a broad range of skills, competencies, experience and knowledge. All members are expected to demonstrate customer focus, strong communication and interpersonal skills, strategic thinking and leadership.

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

Governance Structure

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

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

Report of the Board of Management

Operating and Financial Review

Policy for admitting new shareholders

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

Code of Governance

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

Access to Information

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

Executive Directors Group

We have an experienced Executive Directors Group that manages the day to day running of the business. The Executive team consists of our Chief Executive, Deputy Chief Executive and eight Executive Directors, one for each of our three geographical divisions, and the other five who have functional responsibilities. The members of the Group are listed in the consolidated financial statements.

Staffing Strategies

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

Corporate Communications

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

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

Risks and Uncertainties

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

Report of the Board of Management

Operating and Financial Review

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

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

The key strategic risks at present are:

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

Relationships

Customer Engagement

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

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

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

Customer insight

Our online Customer Insight Panel has continued to be surveyed on a range of issues to inform our approach to operational and strategic matters. Specifically we carried out our STAR survey measure of customer satisfaction, with a further survey into the priorities and satisfaction of our retirement living customers.

Improving Service delivery

Our focus is on continuously striving to improve services to customers in a cost effect manner. During the year, resident comment and opinion was key in us refining our anti social behaviour management processes and procedures. This input helped us to identify the priorities for improvement to ensure most effective use of resources, and highlighted communication with customers as key in the management of anti social behaviour cases

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

Report of the Board of Management

Operating and Financial Review

Equality and Diversity

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

Financial inclusion

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

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

Charitable contributions

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

Treasury Policies and Objectives

Stonewater has a formal Treasury Management Policy which is regularly reviewed.

Further detail of this policy and objectives can be found in the Consolidated financial statements.

Going concern

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

Value for Money

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

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

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

Internal Controls Assurance

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

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

Report of the Board of Management

Operating and Financial Review

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls, which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Association is exposed and is consistent with the principles of the Financial Reporting Council's Combined Code on Corporate Governance as incorporated in the Housing Corporation circular 07/07: Internal Controls Assurance, now withdrawn, but considered good practice.

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

- *Identification and evaluation of key risks*

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is an on-going process of management review in each area of the Association's activities. This process is summarised in an annual report considered by the Risk and Audit Committee. The Executive Management Team regularly considers significant risks facing the Association from both existing and proposed new business, and these are identified and evaluated.

- *Monitoring and corrective action*

A process of control self-assessment and regular management reporting on regulatory and control issues, including any raised by the external auditors, provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those with a material impact on the financial statements.

- *Control environment and control procedures*

The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including treasury strategy and new investment projects. The Board has adopted the NHF Code of Excellence in Standards of Conduct. Stonewater's own Code of Conduct is disseminated to all employees. This sets out the Association's stance with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data protection and fraud, including its prevention, detection and reporting, and the recovery of assets.

- *Information and financial reporting systems*

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

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

Report of the Board of Management

Operating and Financial Review

- *Internal controls and risks*

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

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

The Board is able to confirm to the best of its knowledge compliance with its adopted code of governance, the regulatory requirement as established by HCA including all aspects of law.

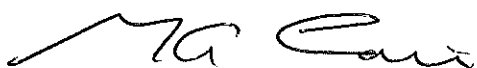
Disclosure of information to auditors

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

Auditors

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

The report of the Board was approved on 26 July 2016 and signed on its behalf by



M Collins

Chair of the Board

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

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

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

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

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

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

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Stonewater (2) Limited

We have audited the financial statements of Stonewater (2) Limited for the year ended 31 March 2016 which comprise the statement of comprehensive income, balance sheet, statement of changes in reserves, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the board and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2016 and of the association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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

BDO LLP

Kyla Bellingall
BDO LLP, statutory auditor
Birmingham
United Kingdom

5 August 2016

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

Stonewater (2) Limited

Statement of Comprehensive Income for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Turnover	4	51,543	49,688
Cost of sales	4	(543)	(470)
Operating costs	4	(32,817)	(34,702)
		<hr/>	<hr/>
Operating surplus	4, 7	18,183	14,516
Surplus/(deficit) on disposal of fixed assets	10	2,184	1,146
Other interest receivable and similar income	11	59	78
Interest and financing costs	12	(10,796)	(10,786)
Movement in fair value of non hedged financial instruments	12	(420)	(3,737)
		<hr/>	<hr/>
Surplus for the financial year		9,210	1,217
Movement in fair value of hedged financial instruments	12	(2,246)	(14,320)
		<hr/>	<hr/>
Total comprehensive income/(deficit) for the year		6,964	(13,103)

All activities relate to continuing operations.

The notes on pages 17 to 44 form part of these financial statements.

Stonewater (2) Limited

Balance sheet at 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed Assets			
Housing properties	14	520,289	517,957
Other Fixed assets	15	3,665	4,179
Investments	16	-	4,000
		523,954	526,136
Current Assets			
Properties held for sale	17	400	707
Debtors	18	8,087	3,198
Investments	19	2,745	3,995
Cash and cash equivalents		7,349	4,552
		18,581	12,452
Creditors: amounts falling due within one year	20	(17,499)	(19,617)
Net current assets/(liabilities)		1,082	(7,165)
Total assets less current liabilities		525,036	518,971
Creditors: amounts falling due after more than one year	21	(485,328)	(487,799)
Provision and other liabilities	27	(6,624)	(5,052)
Net assets		33,084	26,120
Capital and reserves			
Called up share capital	29	-	-
Cashflow hedge reserve		(32,217)	(29,971)
Income and expenditure reserve		65,301	56,091
		33,084	26,120

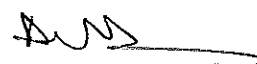
The financial statements were approved by the Board and authorised for issue on 26th July 2016.



M Collins
Chair of Board



N Harris
Board Member



A Harling
Secretary

The notes on pages 17 to 44 form part of these financial statements.

Stonewater (2) Limited

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

	Cash flow hedge reserve	Income and expenditure reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2015	(29,971)	56,091	26,120
Surplus for the year	-	9,210	9,210
Movement in fair value of hedged financial instrument	(2,246)	-	(2,246)
Balance at 31 March 2016	(32,217)	65,301	33,084
Balance at 1 April 2014	(15,651)	54,874	39,223
Surplus for the year	-	1,217	1,217
Movement in fair value of hedged financial instrument	(14,320)	-	(14,320)
Balance at 31 March 2015	(29,971)	56,091	26,120

Stonewater (2) Limited

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

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Stonewater (2) Limited

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

1 Legal status

Stonewater 2 Limited is registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and is registered with the Homes and Communities Agency as a social housing provider.

2 Accounting policies

Basis of Preparation

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Stonewater 2 Limited includes the Co-operative and Community Benefit Societies Act 2014 (and related group accounts regulations), the Housing and Regeneration Act 2008, FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014, "Accounting by registered social housing providers" 2014, the Accounting Direction for Private Registered Providers of Social Housing 2015.

Information on the impact of first-time adoption of FRS 102 is given in note 33.

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

The following principal accounting policies have been applied:

Turnover

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

- Rental income receivable (after deducting lost rent from void properties available for letting),
- First tranche sales of Low Cost Home Ownership housing properties developed for sale.
- Service charges receivable,
- Revenue grants and proceeds from the sale of land and property

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

Supported housing schemes

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

Service charges

The Association adopts a fixed 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.

Stonewater (2) Limited

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

2 Accounting policies

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

Finance costs

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

Pension costs

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

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

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 included in PPE and held at cost less any impairment, and are transferred to completed properties when ready for letting.

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

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

Stonewater (2) Limited

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

2. Accounting policies

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 economic useful life as follows:

Description	Estimated Economic Life
Boiler	15
Kitchens	20
Heating Systems & Bathrooms	30
Electrics	40
Windows	35
Roof covers	70
Structure	80 to 110

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

Shared ownership properties and staircasing

Under low cost home ownership arrangements, the Association 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 Association is responsible for, it is the Association'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.

Stonewater (2) Limited

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

2 Accounting policies

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 are stated at historical cost less 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.

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
Furniture and equipment	5 to 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

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

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

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 to 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.

Stonewater (2) Limited

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

2 Accounting policies

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 Association adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the 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 Association 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 cost. An option appraisal is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The Association looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use. No properties have been valued at VIU-SP.

The Association defines cash generating units as schemes. 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.

Properties held for sale

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

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

Debtors and creditors

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

Stonewater (2) Limited

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

2 Accounting policies

Recoverable amount of rental and other trade receivables

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

Concessionary loans

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

- to further its public benefit objectives,
- at a rate of interest which is below the prevailing market rate of interest
- to not be repayable on demand.

These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. Any associated grant is recognised as deferred income until the loan is redeemed.

Rent and service charge agreements

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

Loans, Investments and short term deposits

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

Financial liabilities and equity

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

Cash and cash equivalents

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

Stonewater (2) Limited

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

2 Accounting policies

Derivative instruments and hedge accounting

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

Leased assets: Lessee

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

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

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

Leasehold Sinking Funds

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

Provision for liabilities

The Association has recognised provisions for liabilities on SHPS Pension deficit contribution.

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.

Stonewater (2) Limited

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

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

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

- whether there are indicators of impairment of the Association's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The members have considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost. The members have also considered impairment based on their assumptions to define cash or asset generating units.
- the anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, they then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on the member's best estimate of sales value based on economic conditions within the area of development.
- the critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.
- whether leases entered into by the group either as a lessor or a lessee are operating or lease or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- the appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.
- the exemptions to be taken on transition to FRS102.
- the categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset. No investment properties were identified.
- what constitutes a cash generating unit when indicators of impairment require there to be an impairment review.

Other key sources of estimation uncertainty

1) Tangible fixed assets (see note 14 and 15)

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

For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

During the year we changed the estimated useful life of components to align with other group companies which resulted in increasing the estimated useful lives of some components and therefore reduced depreciation charge.

Stonewater (2) Limited

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

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

2) *Derivative instruments and hedge accounting (note 25 and 26)*

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 exactly matches the Hedging Instrument, but in the opposite direction.

The strength of the statistical relationship between the hedging instrument and hedged item is measured by comparing the mark-to-market movement of the hedging instrument to that of the hypothetical derivative by shocking the underlying curve. As the market value represents the present value of all future swap 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 swaps which are accounted for as non-basic comprise (a) cancellable swaps where the bank counterparty has the option to terminate the swap, (b) those fixed-to-floating swaps which reduce Stonewater's hedged interest percentage and (c) RPI swaps, where current government rent policy means that the swaps no longer hedge movements in inflation. Where basic swaps have payment dates that do not match exactly with the underlying loan, then an adjustment for the non-effective portion of the hedged item has been made.

Negative compensation clauses in loan agreement

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

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

Therefore the loans were considered to be basic financial instruments.

3) *Rental and other trade receivables (debtors) (see note 18)*

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.

4) *Social Housing Pension deficit calculation and discount rate used*

The discount rate used in the calculation of the SHP deficit was based on the rate advised by our external pension advisors, and which was used for FRS 17 valuation of the Defined Benefits pension scheme.

5) *Concessionary loans*

We reviewed the loan made by the Association to another group company and concluded that it is a concessionary loan as it was made:

- to further its public benefit objectives,
- at a rate of interest which is below the prevailing market rate of interest
- to not be repayable on demand.

Stonewater (2) Limited

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

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

	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)
Association	2016 £'000	2016 £'000	2016 £'000	2016 £'000
Social housing lettings (Note 5)	49,783	-	(31,864)	17,919
Other Social Housing Activities				
First tranche low cost home ownership sales	637	(543)	-	94
Charges for support services	376	-	(405)	(29)
Other	747	-	(548)	199
	<u>1,760</u>	<u>(543)</u>	<u>(953)</u>	<u>264</u>
	<u>51,543</u>	<u>(543)</u>	<u>(32,817)</u>	<u>18,183</u>
	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)
	2015 £'000	2015 £'000	2015 £'000	2015 £'000
Social housing lettings (Note 5)	46,822	-	(31,425)	15,397
Other Social Housing Activities				
First tranche low cost home ownership sales	589	(470)	-	119
Charges for support services	394	-	(398)	(4)
Other	1,044	-	(391)	653
	<u>2,027</u>	<u>(470)</u>	<u>(789)</u>	<u>768</u>
Activities other than Social Housing Activities				
Other	839	-	(2,488)	(1,649)
	<u>49,688</u>	<u>(470)</u>	<u>(34,702)</u>	<u>14,516</u>

Stonewater (2) Limited

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

5 Income and expenditure from social housing lettings	General needs £'000	Sheltered & Supported housing £'000	Shared ownership £'000	Total 2016 £'000	Total 2015 £'000
Income					
Rents net of identifiable service charges	39,256	1,845	2,692	43,793	41,567
Service charge income	2,488	665	416	3,569	2,832
Amortised government grants (note 22)	2,146	134	141	2,421	2,423
	<u>43,890</u>	<u>2,644</u>	<u>3,249</u>	<u>49,783</u>	<u>46,822</u>
Turnover from social housing lettings					
Expenditure					
Management	(8,798)	(643)	(915)	(10,356)	(7,259)
Service charge costs	(2,242)	(547)	(284)	(3,073)	(2,527)
Routine maintenance	(5,957)	(322)	(37)	(6,316)	(7,683)
Planned maintenance	(1,734)	(89)	(7)	(1,830)	(2,047)
Major repairs expenditure	(1,552)	(99)	-	(1,651)	(2,300)
Bad debts	26	(13)	40	53	(384)
Depreciation of housing properties:					
- annual charge (note 7 & 14)	(7,098)	(276)	(372)	(7,746)	(8,755)
- accelerated on disposal (note 7 & 14)	(482)	(55)	-	(537)	-
Impairment of housing properties	(408)	-	-	(408)	(470)
	<u>(28,245)</u>	<u>(2,044)</u>	<u>(1,575)</u>	<u>(31,864)</u>	<u>(31,425)</u>
Operating expenditure on social housing lettings					
Operating surplus on social housing lettings	15,645	600	1,674	17,919	15,397
Void losses	(267)	(25)	(30)	(322)	(305)

Stonewater (2) Limited

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

6 Units of housing stock

	2016 Number	2015 Number
General needs housing:		
- social	7,175	7,320
- affordable	402	155
Shared Ownership	1,135	1,177
Supported housing	155	196
Sheltered Accommodation	321	316
Other	802	802
Total owned	9,990	9,966
Accommodation managed for others	172	172
Units managed by other associations	356	356
Total owned and managed accommodation	10,518	10,494
Units under construction	65	179

7 Operating surplus/(deficit)

	2016 £'000	2015 £'000
This is arrived at after charging/(crediting):		
Depreciation of housing properties:		
- annual charge (note 5 & 14)	7,746	8,755
- accelerated depreciation on disposals (note 5 & 14)	537	-
Depreciation of other tangible fixed assets	551	437
Impairment of housing properties	408	470
Auditors' remuneration (excluding VAT):		
- in their capacity as auditors	-	21
- fees for other services	-	23

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

8 Employees

	2016	2015
Employee numbers (FTE)	-	213
	£'000	£'000
Staff costs (including Executive Management Team) consist of:		
Wages and salaries	-	6,964
Social security costs	-	505
Pension costs	-	981
	-	8,450

From 1 January 2015 employees of the Association were transferred to joint contract of employment with the Parent Company, Stonewater Limited and the employee information is disclosed in the Consolidated Financial Statements of Stonewater Limited.

Stonewater (2) Limited

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

9 Directors' and senior executive remuneration

The directors are defined as the members of the Board of Management, the Chief Executive and the Executive Directors Group are disclosed in the Consolidated Financial Statements.

	2016 £'000	2015 £'000
Executive directors' emoluments	-	183
Amounts paid to non-executive directors	-	62
	-	245

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

	2016 No.	2015 No.
£60,000 - £69,999	-	1
£70,000 - £79,999	-	2
£80,000 - £89,999	-	1
£90,000 - £99,999	-	2
£100,000 - £109,999	-	1
£150,000 - £159,999	-	1
£170,000 - £179,999	-	3
	-	11

From 1 January 2015 the Board of Management and Executive Directors Group were changed to that of the Group Board within Stonewater Limited. The Directors remuneration is disclosed in the Consolidated Financial Statements of Stonewater Limited.

10 Surplus on disposal of fixed assets

	Shared ownership 2016 £'000	Other housing properties 2016 £'000	Total 2016 £'000	Total 2015 £'000
Housing Properties:				
Disposal proceeds	4,546	1,841	6,387	5,268
Cost of disposals	(2,768)	(1,273)	(4,041)	(4,122)
Selling costs	(21)	(6)	(27)	-
Grant recycled	(47)	(88)	(135)	-
Surplus on disposal of other tangible fixed assets	1,710	474	2,184	1,146

Stonewater (2) Limited

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

11 Interest receivable and income from investments

	2016 £'000	2015 £'000
Interest receivable and similar income	59	78
	59	78

12 Interest payable and similar charges

	2016 £'000	2015 £'000
Bank loans and overdrafts	10,476	10,951
Interest payable to Group undertakings	544	-
Recycled capital grant fund	10	-
Disposal proceeds fund	2	-
Finance costs in relation to SHPS	36	17
	11,068	10,968
Interest capitalised on construction of housing properties	(272)	(182)
	10,796	10,786
Other financing costs through other comprehensive income	10,796	10,786
Movement in fair value of non hedged financial instruments	420	3,737
Movement in fair value of hedged financial instruments	2,246	14,320
	2,246	14,320

13 Taxation on surplus/(deficit) on ordinary activities

Stonewater 2 is registered with charitable rules under Co-operative and Community Benefit Societies Act and as such receives charitable relief from Corporation tax.

Stonewater (2) Limited

14 Tangible fixed assets - Housing properties

	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost:					
At 1 April 2015	532,173	8,110	52,037	956	593,276
Additions:					
- construction costs	-	8,566	-	244	8,810
- replaced components	6,859	(1,374)	781	-	6,266
- Reclassification of properties	1,314	-	(1,314)	-	-
Completed schemes	5,945	(5,945)	605	(605)	-
Transfer to properties held for sale	-	(675)	(23)	(202)	(900)
Disposals	(2,438)	-	-	-	(2,438)
Stair-casing sales	-	-	(2,782)	-	(2,782)
At 31 March 2016	543,853	8,682	49,304	393	602,232
Depreciation:					
At 1 April 2015	(70,793)	-	(3,365)	-	(74,158)
Charge for the year	(7,911)	-	(372)	-	(8,283)
Disposals	1,873	-	-	-	1,873
Stair-casing sales	-	-	193	-	193
At 31 March 2016	(76,831)	-	(3,544)	-	(80,375)
Impairment:					
- At 1 April 2015	-	(690)	(470)	-	(1,160)
- Charge for the year	-	(408)	-	-	(408)
At 31 March 2016	-	(1,098)	(470)	-	(1,568)
Net book value at 31 March 2016	467,022	7,584	45,290	393	520,289
Net book value at 31 March 2015	461,380	7,420	48,202	956	517,958

Stonewater (2) Limited

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

14 Tangible fixed assets - Housing properties

	2016 £'000	2015 £'000
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The net book value of housing properties may be further analysed as:

Freehold	491,271	498,140
Long leasehold	29,018	19,818
	<u>520,289</u>	<u>517,958</u>

Interest capitalisation

Interest capitalised in the year	272	182
Cumulative interest capitalised	12,701	12,429
Rate used for capitalisation	4.5%	4.5%

Works to properties

Improvements to existing properties capitalised	6,266	9,575
Major repairs expenditure to income and expenditure account	1,651	2,300
	<u>7,917</u>	<u>11,875</u>

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

Capital grant held in deferred income (note 22)	206,143	208,345
Recycled capital grant fund (note 23)	2,213	1,272
Disposal proceeds fund (note 24)	398	769
Amortised to income and expenditure account in year	2,421	2,423
Cumulative amortisation to reserves	15,828	13,407

Impairment

The Association considers separate cash generating units (CGU's) when assessing for impairment in accordance with the requirements of FRS102 and SORP 2014.

During the current year, the association have recognised an impairment loss of £408k (2015 - £470k) in respect of general needs housing stock. On 8 July 2015, the Summer Budget included the announcement that the Government will reduce rents in social housing in England by 1% a year for four years from April 2016. The Government indicated this will result in a 12% reduction in average rents by 2020/21, compared to current forecasts. As such, this triggered an indicator of impairment and a full review was performed.

No units were impacted by the impairment loss calculated. The loss relates to an aborted development scheme. The carrying value of these properties prior to the recognition of the impairment was £458k.

Properties held for security

The Association had 7,293 properties pledged as security at 31 March 2016 (2015: 7,392).

Stonewater (2) Limited

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

15 Other tangible fixed assets

	Freehold Office properties £'000	Office Fixtures, Furniture, and fittings £'000	Computers £'000	Motor Vehicles £'000	Total £'000
<i>Cost or valuation</i>					
At 1 April 2015	4,719	2,666	2,659	154	10,198
Additions	37	16	53	-	106
Disposals	-	(159)	(180)	(102)	(441)
At 31 March 2016	<u>4,756</u>	<u>2,523</u>	<u>2,532</u>	<u>52</u>	<u>9,863</u>
<i>Depreciation</i>					
At 1 April 2015	(2,087)	(1,681)	(2,107)	(144)	(6,019)
Charge for year	(92)	(137)	(313)	(9)	(551)
Disposals	-	90	180	102	372
At 31 March 2016	<u>(2,179)</u>	<u>(1,728)</u>	<u>(2,240)</u>	<u>(51)</u>	<u>(6,198)</u>
<i>Net book value</i>					
At 31 March 2016	<u>2,577</u>	<u>795</u>	<u>292</u>	<u>1</u>	<u>3,665</u>
At 31 March 2015	2,632	985	552	10	4,179

Stonewater (2) Limited

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

16 Fixed asset investments

Details of Subsidiary undertakings, associated undertakings and other investments

The principal undertakings in which Stonewater 2 Limited has an interest in are as follows:

Name	Country of incorporation	Proportion of voting rights / ordinary share capital held	Nature of business	£
Stonewater (3) Ltd	England	100%	Registered provider of social housing	1
Stonewater (4) Ltd	England	100%	Registered provider of social housing	1
Total				

17 Properties for sale

	Total 2016 £'000	Total 2015 £'000
Work in progress	276	405
Completed properties	124	302
	400	707

18 Debtors

	2016 £'000	2015 £'000
Rent and service charge arrears	2,503	2,206
Less: Provision for doubtful debts	(834)	(1,094)
	1,669	1,112
Amounts owed by group undertakings	5,361	328
Other debtors	578	360
Prepayments and accrued income	469	1,398
Social housing grant receivable	10	-
	8,087	3,198

All amounts are due within one year

Included in Amounts owed by group undertakings is £4m loan repayable in March 2017. Under the partnership agreement with Stonewater 4 Limited, the Association has provided an interest free loan facility of £4m (2015: £4m), which is drawn down.

Stonewater (2) Limited

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

19 Current asset investments

Short term investments of £2,745,000 (2015: £3,995,000) are represented by amounts held in Escrow accounts and bank deposits.

20 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank overdrafts (secured)	-	76
Loans and borrowings (note 25)	7,009	6,430
Trade creditors	996	5,149
Rent and service charges received in advance	1,345	-
Amounts owed to group undertakings	4,160	2,433
Taxation and social security	50	19
Accruals and deferred income	1,789	5,510
Accrued interest	919	-
Leaseholder sinking funds	1,231	-
	17,499	19,617

21 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Loans and borrowings (Note 25)	234,470	237,974
Interest rate swap	42,104	39,439
Deferred capital grant (Note 22)	206,143	208,345
Recycled capital grant fund (Note 23)	2,213	1,272
Disposal proceeds fund (Note 24)	398	769
	485,328	487,799

22 Deferred capital grant

	2016 £'000	2015 £'000
At 1 April	208,345	210,562
Grants received during the year	1,500	868
Grants recycled to the recycled capital grant fund and disposals proceeds fund (note 23 and note 24)	(1,281)	(662)
Released to income during the year (note 5)	(2,421)	(2,423)
At 31 March	206,143	208,345

Stonewater (2) Limited

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

23 Recycled capital grant fund

	HCA 2016 £'000	HCA 2015 £'000
Funds pertaining to activities within areas covered by		
At 1 April	1,272	869
Inputs to fund:		
- grants recycled from deferred capital grants (note 22)	1,160	698
- interest accrued	10	2
Recycling of grant:		
- new build (note 22)	(14)	(269)
- major repairs and works to existing stock (note 22)	-	(28)
- transfer to group members	(215)	-
At 31 March	2,213	1,272

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.

24 Disposal Proceeds Fund

	HCA 2016 £'000	HCA 2015 £'000
Funds pertaining to activities within areas covered by		
At 1 April	769	610
Inputs to fund: - Grant (note 22)	123	273
- Interest accrued	2	-
Use / allocation of funds:		
- new build (note 22)	-	(14)
- transfers to other group members	(496)	(100)
At 31 March	398	769

Withdrawals from the disposal proceeds fund were used for approved works to existing housing properties

Stonewater (2) Limited

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

25 Loans and borrowings

	Bank and B Soc loans	Bond Finance	Other loans	Total
Maturity of Debt	2016 £'000	2016 £'000	2016 £'000	2016 £'000
Due within one year	5,626	1,412	116	7,154
Amortisation within one year	(143)	(2)	-	(145)
Between one and two years	9,850	1,518	129	11,497
Between two and five years	35,679	5,252	478	41,409
After five years	139,120	37,037	5,937	182,094
Amortisation after one year	(472)	(58)	-	(530)
	<u>189,660</u>	<u>45,159</u>	<u>6,660</u>	<u>241,479</u>

	Bank and B Soc loans	Bond Finance	Other loans	Total
Maturity of Debt	2015 £'000	2015 £'000	2015 £'000	2015 £'000
Due within one year	5,183	1,275	104	6,562
Amortisation within one year	(131)	(1)	-	(132)
Between one and two years	5,626	1,366	116	7,108
Between two and five years	51,841	4,747	430	57,018
After five years	150,808	17,485	6,109	174,402
Amortisation after one year	(523)	(31)	-	(554)
	<u>212,804</u>	<u>24,841</u>	<u>6,759</u>	<u>244,404</u>

Bond Finance includes £21.6m (2015: £nil) from Stonewater Funding plc, a fellow Group member.

Stonewater (2) Limited

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

26 Financial Instruments

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

	Notes	2016 £'000	2015 £'000
Financial assets			
Financial assets measured at historical cost			
- Trade receivables	18	1,669	1,112
- Other receivables	18	6,418	2,086
- Investments	16	-	4,000
- Investments in short term deposits	19	2,745	3,995
- Cash and cash equivalents		7,349	4,552
Total financial assets		18,181	15,745
Financial liabilities			
Financial liabilities measured at amortised cost			
- Loans payable	25	241,479	244,404
Financial liabilities measured at historical cost			
- Trade creditors	20	996	5,149
- Other creditors	20	9,494	7,962
Derivative financial instruments	21	42,104	39,439
Total financial liabilities		294,073	296,954

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

Financial liabilities measured at amortised cost comprise of bank loans and overdrafts, trade creditors, and 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 association 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 association paying 5.5% 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 5.0% 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 £42.1m (2015: £39.4m) 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. The movement in fair value in the period (£2.2m) being recognised in other comprehensive income for hedges and (£0.5m) within finance costs for non hedges.

Stonewater (2) Limited

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

27 Provisions and other liabilities

	SHPS deficit contribution
	£'000
At 1 April 2015	5,052
Charged to income and expense	
- Additions	2,182
- Remeasurement (note a)	(44)
Unwinding of discount	36
Contribution paid	(602)
At 31 March 2016	<u>6,624</u>

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

- SHPS pension deficit contribution (see note 28), whereby contributions are due annually until April 2026

28 Pensions

A) Social Housing Pension Scheme

Stonewater 2 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 October 2015 are reflected in Note 27.

29 Share capital

	2016	2015
	£	£
At 1 April	12	15
Shares issued in the year	-	6
Shares cancelled in the year	-	(9)
At 31 March	<u>12</u>	<u>12</u>

The share capital of Stonewater 2 Limited 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.

Stonewater (2) Limited

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

30 Operating leases

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

Amounts payable as Lessee	2016 £'000	2015 £'000
Not later than 1 year	273	273
Later than 1 year and not later than 5 years	1,140	1,149
Later than 5 years	241	435
Total	<u>1,653</u>	<u>1,856</u>

31 Capital commitments

	2016 £'000	2015 £'000
Commitments contracted but not provided for Construction	8,112	9,695
Commitments approved by the Board but not contracted for Construction	1,053	21,360
	<u>9,165</u>	<u>31,055</u>

Capital commitments for the Association will be funded from £0.4m SHG, with the remainder funded from property sales and external borrowing.

32 Related party disclosures

The ultimate controlling party of the group is Stonewater Limited Association, a Registered social housing provider. There is no ultimate controlling party of Stonewater Limited Association.

A copy of the Group Financial Statement can be obtained from the parent company's registered office which is outlined on page 2.

The Association has a loan of £21.6million from Stonewater Funding plc. The loan is repayable at various dates through to 2042 and is secured by fixed charged over the housing properties of the Association. Cross guarantees cover any shortfall in the security and any unpaid interest and fees in respect of the loan across Stonewater Limited, Stonewater (2) Limited, Stonewater (5) Limited and Stonewater Funding plc.

	2016 £'000	2015 £'000
Loan	21,620	-
Interest	544	-

Stonewater (2) Limited

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

33 First time adoption of FRS 102

Explanation of changes to previously reported to Surplus and Reserves;

- Social Housing Grant can no longer be offset against housing property within fixed assets and under section 24 of FRS 102, where properties are held at deemed cost, the related social housing grant will be recognised initially under the performance model with subsequent grants measured using the 'accrual model' with the grant amortised over the life of the structure and components of the property. This change in accounting treatment will result in the property costs increasing, but being offset by an increase in liabilities. Property depreciation will also be restated to reflect the higher property costs.
- Section 11 requires basic financial instrument to be measured at amortised cost. Section 12 requires derivative instruments to be measured at fair value with any gains or losses going through surplus and deficit. Section 12 also allows for any change in fair value of hedged financial instruments to be recognised within other comprehensive income, with amounts relating to the ineffectiveness of the hedged instrument recognised within finance costs or income.
- FRS102 requires that, where an organisation has a contractual commitment to make future pension payments, the present value of these future payments needs to be shown as a liability within the balance sheet. The contractual commitment for SHPS has therefore been recognised as a liability on the Balance Sheet for 1 April 2014
- FRS 102 effectively requires that the benefit of lease incentives received on entering into new leases be spread over the lease term. Under previous UK GAAP these incentives were spread over the period to the next market rent review.
- FRS 102 requires recognition of the cost of accumulating compensated absences in the financial statements. Therefore an entity that has employees that have untaken holidays at the balance sheet date that will be paid for in the next financial year will need to make an accrual for such entitlements.

Stonewater (2) Limited

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

33 First time adoption of FRS 102

The transition statement for Stonewater (2) Limited has been included below, which highlights the key changes to the Opening Balance Sheet as at 31 March 2014, Balance Sheet as at 31 March 2015 and the Income & Expenditure Account for the year ended 31 March 2015.

Balance Sheet at 1 April 2014	As per Financial Statements	FRS102 Adjustment	As per FRS102
	£'000	£'000	£'000
Tangible Fixed Assets			
Housing Properties	575,476	-	575,476
Accumulated Depreciation	(53,275)	(14,982)	(68,257)
Social Housing Grant	(11,575)	11,575	-
Other Subsidies	(224,953)	224,953	-
Other Fixed Assets	5,554	-	5,554
Investments	4,000	-	4,000
Current Assets			
Non Liquid Assets	1,442	-	1,442
Properties for sale	1,768	-	1,768
Debtors	2,562	-	2,562
Short term investments	11,074	-	11,074
Cash at bank and in hand	4,266	-	4,266
Creditors: Amounts falling due within one year			
Deferred income - Operating leases	-	(84)	(84)
Deferred income - Holiday Accrual	-	(98)	(98)
Other creditors	(15,424)	-	(15,424)
Net current assets	5,688	(182)	5,506
Total assets less current liabilities	300,915	221,364	522,279
Creditors: Amounts falling due after more than one year			
Social Housing Grant	-	210,562	210,562
Fair value of Financial Instruments	-	21,383	21,383
Other creditors	245,859	-	245,859
SHPS Pension scheme	-	5,253	5,253
Revenue reserves b/fwd - Original	55,056	-	55,056
PYA - Amortisation of Grant	-	10,984	10,984
PYA - SHPs Pension	-	(5,253)	(5,253)
PYA - Hedging	-	(5,732)	(5,732)
PYA - Other	-	(182)	(182)
Revenue reserves b/fwd - Restated	55,056	(183)	54,873
Cashflow hedge reserves	-	(15,651)	(15,651)
Total long term liabilities and reserves	300,915	221,364	522,279

As a result of implementation of FRS102, a net reduction of £(15.7)m has arisen within reserves, primarily due to the recognition of the Cashflow reserve arising from the recognition of the Fair value of Hedged Financial Instruments.

Stonewater (2) Limited

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

33 First adoption of FRS102

Balance Sheet at 31 March 2015	As per Financial Statements	FRS102 Adjustment	As per FRS102
	£'000	£'000	£'000
Tangible Fixed Assets			
Housing Properties	593,276	-	593,276
Accumulated Depreciation	(58,964)	(16,355)	(75,319)
Social Housing Grant	(225,017)	225,017	-
Other Subsidies	(11,573)	11,573	-
Other Fixed Assets	4,179	-	4,179
Investments	4,000	-	4,000
Current Assets			
Non Liquid Assets	1,544	-	1,544
Properties for sale	707	-	707
Debtors	3,198	-	3,198
Short term investments	2,451	-	2,451
Cash at bank and in hand	4,552	-	4,552
Creditors: Amounts falling due within one year			
Deferred income - Operating leases	-	(80)	(80)
Deferred income - Holiday Accrual	-	(97)	(97)
Other creditors	(19,440)	-	(19,440)
Net current assets	(6,988)	(177)	(7,165)
Total assets less current liabilities	298,913	220,058	518,971
Creditors: Amounts falling due after more than one year			
Social Housing Grant	-	208,345	208,345
Fair value of Financial Instruments	-	39,439	39,439
Other creditors	240,015	-	240,015
SHPS Pension scheme	-	5,052	5,052
Revenue reserves	58,898	(2,807)	56,091
Cashflow hedge reserves	-	(29,971)	(29,971)
Total long term liabilities and reserves	298,913	220,058	518,971

As a result of implementation of FRS102, a net reduction of £(32.8)m has arisen within reserves, mainly due to the recognition of the Cashflow reserve (£30m) arising from the recognition of the Fair value of Hedged Financial Instruments and (£2.8m) arising from revenue reserves (pensions SHPS, grant amortisation, other financial instruments).

Stonewater (2) Limited

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

33 First adoption of FRS102

Income & Expenditure Account year-ended 31 March 2015	As per Financial Statement s	FRS102 Amortisati on Adjustment	FRS102 Hedging Adjustme nt	FRS102 Other Adjustmen ts	As per FRS102
	£'000	£'000	£'000	£'000	£'000
Turnover	47,265	2,423	-	-	49,688
Operating costs	(33,461)	(1,464)	-	223	(34,702)
Cost of sales	(470)	-	-	-	(470)
Operating surplus	<u>13,334</u>	<u>959</u>	<u>-</u>	<u>223</u>	<u>14,516</u>
Surplus on sale of fixed assets	1,199	(53)	-	-	1,146
Interest payable and similar charges	(10,769)	-	-	-	(10,769)
Movement in fair value of non hedged financial instruments	-	-	(3,737)	-	(3,737)
Other finance costs	-	-	-	(17)	(17)
Investment income	78	-	-	-	78
Surplus for the year	<u>3,842</u>	<u>906</u>	<u>(3,737)</u>	<u>206</u>	<u>1,217</u>
Movement in fair value of hedged financial instruments	-	-	(14,320)	-	(14,320)
Total comprehensive income for the year	<u>3,842</u>	<u>906</u>	<u>(18,057)</u>	<u>206</u>	<u>(13,103)</u>

As a result of implementation of FRS102, the turnover for the year-ended 31 March 2015, has been adjusted for the amortisation of the grant by £2.4m and the operating costs by increased depreciation charge of £1.4m

Surplus for the year has decreased by (£2.6m) due to hedging adjustments (£3.7m) partly offset by a net increase of £0.9m due to the grants amortisation, increased depreciation and of £0.2m in other adjustments (Pension SHPS, lease incentive and holiday accrual).

A further (£14.3m) losses have been recognised within Comprehensive Income which relates to the recognition of movement in fair value of hedged financial instruments.