

STONEWATER (2) LIMITED  
REPORT OF THE BOARD OF  
MANAGEMENT, STRATEGIC REPORT  
AND FINANCIAL STATEMENTS

For the year ending 31 March 2019

Community Benefit Society Number 19412R

Regulator of Social Housing Number L0173



## Contents

Board members and advisors	1
Report of the Board of management and Strategic report	2
Statement of the Board's responsibilities in respect of the Board's report and financial statements	14
Independent auditors report to the members of Stonewater (2) Limited	15
Statement of comprehensive income	18
Statement of financial position	19
Statement of changes in reserves	20
Notes to the financial statements	21

## Board members and advisors

<b>Board Members</b>	
George Blunden (Chair)	Michael Collins (Deputy Chair) (retired 30 September 2018)
Sheila Collins (until 30 September 2018)	Brian Roebuck
Doug Wright	Anne Dokov
John Weguelin	Peter Hammond
Nicholas Harris	Tariq Kazi
Patrick Symington (until 30 November 2018)	Juliana Crowe
Claire Kearney (from 1 October 2018)	Jennifer Bennett (from 1 October 2018)
Andrew Lawrence (from 1 January 2019)	
<b>Advisors</b>	
<b>Secretary and registered office</b>	<b>Principal Bankers</b>
Anne Harling Suite C, Lancaster House Grange Business Park Enderby Road Whetstone Leicester LE8 6EP	Barclays Bank Level 27 1 Churchill Place London E14 5HP
<b>Solicitors</b> Devonshires Solicitors 30 Finsbury Circus London EC2M 7DT	<b>Auditors</b> BDO LLP 55 Baker Street London W1U 7EU
Solicitors (for Governance) Trowers and Hamlins LLP 55 Princess Street Manchester M2 4EW	





# Report of the Board of management and Strategic report

The Board presents its report and audited financial statements for Stonewater (2) Limited (the 'Association') for the year ended 31 March 2019.

## Nature of the business and principal activities

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 Regulator of Social Housing (RSH). Its parent is Stonewater Limited (the 'Group' or 'Stonewater').

The principle activity of the Association is a not-for-profit organisation which owns, lets and manages rental housing. Our revenue is mainly acquired through rent and is ploughed back into the acquisition, development of new-affordable homes and the maintenance of property.

### Our Vision

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

### Our Mission

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

### Our Values

Our Values are the principles that guide us and set the tone for the way we behave.

#### Ethical – We are an ethical housing services provider

Listening to and understanding the needs of every individual is paramount to delivering homes and services that make a difference to people's lives. We do this by maintaining a professional approach, being honest and open and treating everyone with the equality they deserve. It is our place to help by being friendly, considerate and supportive of everyone that needs us. We will always ensure our actions are inclusive, accountable and fair.

#### Ambitious – We are a progressive organisation that dares to dream

Never content to sit back and rest on our laurels, we are the fresh face of the sector, pro-active in our approach to growth. We are not here to make up the numbers. It's our goal to be the leader, to challenge, enhance and be radical, confident in our abilities and clear of our direction. Through strong leadership we are driven to succeed. A competitive streak keeps us focused on being modern and ground-breaking.

#### Passionate – We will always go the extra mile in everything we do

We are one team working together, committed to providing a truly personal experience. Our love for what we do comes from the heart and being the best we can be energises us and makes us proud of our achievements. We are motivated by our enthusiasm and empowered to give everyone we work with the confidence that they are working with the most enthusiastic and loyal people in the sector.



# Report of the Board of management and Strategic report

**Agile** – We are on a journey, so we make sure we never stand still

Our business dictates that change is both regular and rapid, so as an organisation we always stay one step ahead. Our approaches are flexible, adapting to evolve to individual people's needs or the latest legislation. We pride ourselves on high performance so we expect innovation and initiative to be a part of our every day. We are the smart housing services team, dynamic and slick enough to respond whenever and however change dictates it.

**Commercial** – We understand the importance of commercial viability

To remain competitive and effective at what we do, we are prepared to make decisions that maintain value for our residents, our partners and ourselves. From the homes we build to the services we provide, we are open to opportunity and strive to maintain a reputation for knowledge, efficiency and an ability to sustain our business. We benchmark our approach to ensure we are relevant, respected and most importantly, successful in all we do.

## Stonewater's strategic plan 2018-2022

Our Strategic Plan sets out our priorities and what we aim to achieve. 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 (KPIs) on income collection and compliance.
- Invest in and support our people in order 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 investment in our assets to ensure we have the financial capacity to deliver our priorities.

# Report of the Board of management and Strategic report

Our priorities for the next four years and the objectives we have set take account of our assessment of the current operating environment for housing, the opportunities available to us, and the challenges we face.

Along with others in the housing sector, we are adapting to change: rising inflation and its impact on construction costs, the mobility and migration of construction trades and resultant skills shortages, and the backdrop of economic uncertainty due to Brexit. This means we have to work harder and be more creative than ever to achieve our goals.

In this context, our strategy is to deliver high quality services for our customers, while operating as a responsible business, and making positive contributions to the communities we serve.

## External environment

### Housing supply and affordability

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

Between 2010 and 2019

- The number of households who are homeless increased by 71%. This means there are currently 82,000 homeless households.
- Approximately 123,000 children live in these homeless households and therefore have nowhere to call 'home'.
- The number of rough sleepers has increased by 165%. An estimated 4,700 people currently sleep rough, although homeless charities believe the actual figure is higher.
- Figures on homeless households and rough sleepers for this period do not include the 'hidden homeless' or 'sofa surfers': people who do not have a home but also do not qualify for housing assistance.
- Supply of housing is not keeping up with demand. There has been an 11% drop in social housing availability and housing that is affordable for those on a low income.

Since 2015 there has been a real shift in the Government's vision for the housing sector, with the goal of delivering 300,000 new homes per year. The Housing White Paper "Fixing our broken housing market" 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.

Following the 2017 General Election, housing has continued to be at the forefront of the national agenda and remains a priority under successive Housing Ministers



# Report of the Board of management and Strategic report

As part of this, housing associations are now seen to play a vital role in delivering new homes to solve the housing crisis. But there has also been a drive towards higher standards, especially following the Grenfell Tower tragedy of June 2017. The drive towards more, better affordable homes led to the publication of the Social Housing Green Paper, “A New Deal for Social Housing”, which sought to find ways to stimulate the affordable housing sector to deliver more homes, as well as tackle the stigma around social housing and look to improve standards of accommodation.

Under the current Housing Minister, housing remains a priority for the Government, and Stonewater hopes that it will remain a priority once the Brexit uncertainty is overcome

Despite this priority, the ‘B’ word continues to dominate Parliamentary business – to the point where vital legislation like the Domestic Violence Bill was delayed due to the lack of available time.

Brexit also causes key risks to organisations like Stonewater – including on finances, ability of contractors to fulfil contracts, impact on residents’ day to day lives, and availability of labour.

With the situation remaining highly volatile we are continuing to monitor how things are evolving in our operating environment. We are in close dialogue with our contractors to understand their positions and the situation with their supply chains. We are keeping in touch with key local authorities to understand how their thinking is developing.

We are also retaining strong liquidity levels to deal with financial uncertainties. We believe we are in a good position and feedback from partners indicates that we are being far more proactive than other registered providers. At January's Executive team meeting we looked at actions we can take to support EU colleagues remaining in post after Brexit. Finally, we are reassuring staff through regular emails, blogs and at team meetings, of the actions we are taking as things evolve.

## Demographic changes

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

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



# Report of the Board of management and Strategic report

## Government policy and changes to welfare options

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

- Government's concessions on the Local Housing Allowance for people living in sheltered or supported accommodation. Original plans to cap the allowance were scrapped and the Government announced a consultation on future funding.
- The decision to make changes to the payment of Universal Credit, helping to prevent problems with rent arrears associated with claimants not receiving any benefits for long periods between payments.
- After five years of 1% rent reductions, which caused a number of housing associations to look to significantly cut cost and find ways to become more efficient, as well as significantly reducing new development and putting supported housing at risk across the country, the Government has confirmed a new rent settlement of CPI+1% for five years from 2020.
- The splitting of the Homes and Communities Agency into Homes England and the Regulator of Social Housing as given more direction to the sector, as well as leading to the creation of Strategic Partnerships. Stonewater finalised its Strategic Partnership deal with Guinness Partnerships and Homes England in March 2019 in the biggest deal announced to date.
- The Government has introduced a drive towards better design in housing, with the view that building better quality homes will lead to a better public perception of housing and an understanding of social and economic benefits of new housing.

In light of the startling increase in the number of homeless people both living on the streets and in temporary accommodation, the Government has launched its Rough Sleeping Strategy and Rough Sleeping Plan, designed to tackle the issue and ultimately stamp it out. Reducing homelessness has become a core tenet of Stonewater's work over the past year with the launch of our Hidden Homelessness campaign and video, which highlights how easy it is to miss the significant issues that so many people are facing. Stonewater is proud of the work that our supported housing, foyers and hostels do to support people in need, and will continue to campaign for better funding and support from Government for these vital services.

We were also pleased to see that the Government had published its draft Domestic Abuse Bill, and will work to ensure that it protects those who have fled from domestic abuse – including those in Stonewater's dedicated domestic abuse victim housing.

Meanwhile, as modern methods of construction become more commonplace and championed as a way to produce more homes more quickly, Stonewater is committed to looking at ways to introduce MMCs into our development programme.

# Report of the Board of management and Strategic report

## Performance in the year

Total comprehensive income for the year was £0.3m (2018: £23.7m)

### Key Performance indicators:

Rental income lost through voids is 0.95% (2018: 1.48%)

Gross arrears on average were 4.62% (2018: 4.58%)

Responsive repairs satisfaction on average was 92.22% (2018: 88.8%)

Operating margin excluding surplus on disposal of fixed assets 33% (2018: 33%). This KPI better reflects trend in operating margin as disposals of fixed assets can vary significantly year or year.

## Governance structure

### Board

The Board is responsible for the proper and effective management of Stonewater. The Board, working with the Executive Directors Group (EDG) led by the Chief Executive, undertakes this role through strategic direction, establishing a framework for delegation, and holding the EDG to account for performance. This includes accountability to customers and other stakeholders, such as funding providers and partner local authorities. Board members are listed on page 1. The Board comprised twelve members at 31 March 2019 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 2018/19 these were:

- Growth
- Achieving value for money
- Service delivery
- Board succession

The board monitors progress against these objectives through quarterly reporting against sub-targets and the final position is assessed through the annual collective board appraisal at the end of the year. Headline progress against these objectives for the Group was:

- Growth – 548 units handed over against our internal target of 646. However performance exceeded Homes England targets for start on site by 166 homes, completion by 197 homes and cash take up by £3.3m.
- Value for money – targeted gains of £1.9m achieved.
- Service delivery – key KPI's are monitored by the board on a quarterly basis.
- Board succession – targets for board and committee member recruitment met.



# Report of the Board of management and Strategic report

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 feed into the member learning and development programme.

## Code of Governance

Stonewater has adopted the 2015 National Housing Federation (NHF) Code of Governance for our registered providers and complies fully with it.

## Committees:

The Board is supported by six functional committees, each of which is chaired by a Board member. Each of the Risk and Assurance Committee, the Housing Committee, the Finance Committee and the Digital and new Business Design and Technology 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.

### >Digital and new Business Design and Technology Committee *(formerly the Digital and IT Task and Finish group)*

Oversees the implementation of Stonewater's digital and IT strategies, which has responsibility for developing and overseeing technological strategies to support Stonewater's customer offer and organisational development

## 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 details of the Executive Directors Group are disclosed in the consolidated financial statements.



# Report of the Board of management and Strategic report

## Access to information

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

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

## Risks and uncertainties

New, emerging and high scoring risks are monitored through the Strategic and Operational 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 Company Secretary oversees progress against actions to mitigate risks.

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

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

Further information on risks can be found in the consolidated financial statements.

## People strategy

Detail of our people related strategies and objectives can be found in the Consolidated Financial Statements.

## Gender pay gap

Stonewater gender pay gap statement is available via the website: [www.stonewater.org](http://www.stonewater.org)

## Corporate communications

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

## Value for money

The value for money achievements are summarised and can be found through the Group website, and are summarised in the consolidated financial statements.

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

Further details on our strategy and results can be found on our website <https://www.stonewater.org/about-us/value-for-money>

# Report of the Board of management and Strategic report

## Relationships

Providing people with affordable and secure homes remains the main focus and purpose at Stonewater. An understanding of housing's relationship and interface with other areas of social policy (social care, health, financial inclusion, regeneration, employability and education), plus understanding our customer base, is vital to our success.

Housing associations have evolved to become highly capitalised and more than just social housing providers, playing a key role in communities, undertaking a range of wider activities and diversifying the range of affordable housing provided.

Changes and cuts in public expenditure, changes in social policy and long-term demographic changes will always present a challenging operating environment. However, we work hard to develop a broader role and provide a wide range of services within our communities.

### Customer engagement

We place our customers at the heart of what we do, investing in communities to make great places to live. Our aim is to deliver innovative, effective and consistent services to our customers, and to listen to their feedback so we can use this to help shape our services to meet the diverse needs and aspirations of customers.

We encourage our customers to engage with us through a range of channels including the Customer Scrutiny Panel, our digital Customer Hubb, and through mainstream social media channels like Facebook and Twitter to name a few. We let customers know that we are committed to continuous improvement in the services we offer them, and we encourage them to let us know what they think.

We are especially focused on improving digital access for our customers and staff, and our ConnectD digital programme is designed to do just that. Improving and enhancing digital channels enables two-way feedback regardless of the location of our customers and staff. Our early involvement in the National Housing Federation's Together with Tenants draft plan reinforces Stonewater's commitment to continuously nurture positive relationships with our customers and share our experience with the sector.

### Customer insight

We have implemented an approach to gathering and using customer insight that is providing a multi-dimensional view of our customers obtained from a wide variety of analyses and information; including demographic data, customer feedback through surveys, complaints and involvement, operational data and staff knowledge. Allowing us to understand our customers more with the aim of tailoring how we develop our services, getting services right first time and removing duplication.

Our most recent customer survey shows that at group level 82.4% of our customers are either very or fairly happy with the services they receive from us.



# Report of the Board of management and Strategic report

## Equality, diversity and inclusion

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

## Modern slavery and human trafficking

Stonewater's slavery and human trafficking statement, under the Modern Slavery Act 2015, for the financial year ending 31 March 2019, is also available via the website: [modern-slavery-and-human-trafficking-statement](#)

## Financial inclusion

We provide information via the Website and Customer Hubb keeping customers up-to-date with benefit changes. Our colleagues are trained on welfare benefits and are able to identify customers who require specialist support. They are sign posted to national and local organisations that can provide this. We contact customers as they apply for Universal Credit to ensure they have the necessary support to complete their claim and set up a payment method.

We continue to work with Experian on rental data sharing to improve our customer's access to favourable financial services through their credit rating.

## Treasury policies and objectives

Stonewater has a formal treasury management policy which is regularly reviewed. Further detail of this policy and objectives can be found in the consolidated financial statements.

## Going concern

Having reviewed the five-year strategic plan and the 30-year financial projections, the Board is fully satisfied that the Association has adequate resources to continue trading for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the Association's financial statements.



# Report of the Board of management and Strategic report

## Business planning, risk and internal controls assurance

### Purpose

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

### Responsibility

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

### Approach

Stonewater has adopted the three lines of defence assurance framework, whereby we employ qualified staff and put appropriate policies and procedures in place; monitor performance through management activity and governance reporting and seek external assurance through audits, accreditations etc.

#### > Identification and evaluation of key risks

Stonewater's risk management process involves risk identification and assessment, the allocation of risk owners to manage risk, implementation of controls and review of the residual risks after controls are implemented. Assurance mapping is used to inform the actions taken to manage the risks to ensure these are focused on maintaining operations within the board's risk appetite.

#### > 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 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.

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

## Report of the Board of management and Strategic report

### Confirmation from the board

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.

### Governance and Viability Standard – Regulation

The latest regulatory judgement, issued by the Regulator of Social Housing in November 2018, 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 Code of Practice, and confirms that Stonewater is compliant with the standard.

Since then the board has undertaken a self-assessment of compliance with the Governance and Viability standard, taking account of the Code of Practice, and confirm that Stonewater meets the regulatory requirements under each of the standards.

## Statement of the Board's responsibilities in respect of the Board's report and the financial statements

The board members are responsible for preparing the report of the board 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 members 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 members are 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; 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 members are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Financial statements are published on the association'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 the association's website is the responsibility of the board members. The board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### **Disclosure of information to auditors**

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

BDO LLP were appointed as Stonewater (2) Limited's external auditors for 2018/19 on 24 October 2018

The report of the Board was approved on 23 July 2019 and signed on its behalf by:



**George Blunden**  
Chair of Board



# Independent auditor's report to the members of Stonewater (2) Limited

## **Opinion**

We have audited the financial statements of Stonewater (2) Limited ("the Association") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- >give a true and fair view of the state of the Association's affairs as at 31 March 2019 and of the Association's surplus for the year then ended;
- >have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- >have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

## **Basis for opinion**

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

We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Conclusions relating to going concern**

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

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

# Independent auditor's report to the members of Stonewater (2) Limited

## **Other information**

The board are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information including the Report of the Board of Management and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

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

We have nothing to report in this regard.

## **Matters on which we are required to report by exception**

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

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

## **Responsibilities of the board**

As explained more fully in the statement of the board's responsibilities set out on page 14, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Independent auditor's report to the members of Stonewater (2) Limited

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

### **Use of our report**

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



Philip Cliftlands  
6 August 2019

Philip Cliftlands  
For and on behalf of BDO LLP, statutory auditor  
55 Baker Street  
United Kingdom

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



## Statement of comprehensive income

		2019	2018
	Note	£'000	£'000
Turnover	4	56,264	53,160
Cost of sales	4	(4,666)	(2,032)
Operating costs	4	(33,072)	(33,623)
Surplus on disposal of housing properties	4,9	2,975	10,437
Surplus on disposal of other fixed assets	4,9	-	554
<b>Operating surplus</b>	<b>4,7</b>	<b>21,501</b>	<b>28,496</b>
Interest receivable and similar income	10	148	67
Interest payable and financing costs	11	(11,443)	(11,381)
Change in fair value of non hedged financial instruments	11	(385)	1,853
<b>Surplus for the year</b>		<b>9,821</b>	<b>19,035</b>
Change in fair value of hedged financial instruments	11	(247)	4,703
Actuarial losses on defined benefit pension scheme	25	(3,693)	-
Net impact of initial recognition of multi-employer defined benefit pension scheme	25	(5,596)	-
<b>Total comprehensive income for the year</b>		<b>285</b>	<b>23,738</b>

All activities relate to continuing operations.

The notes on pages 21 to 49 form part of these financial statements.

## Statement of financial position

		2019	2018
	Note	£'000	£'000
<b>Fixed assets</b>			
Housing properties	13	538,680	519,258
Other tangible fixed assets	14	858	807
Investments	15	-	-
<b>Total fixed assets</b>		<b>539,538</b>	<b>520,065</b>
<b>Current assets</b>			
Properties held for sale	16	3,715	2,033
Trade and other debtors	17	9,904	2,246
Current asset investments	18	1,456	1,510
Cash and cash equivalents		32,815	40,291
		47,890	46,080
Creditors: amounts due in one year	19	(25,690)	(26,687)
<b>Net current assets</b>		<b>22,200</b>	<b>19,393</b>
<b>Total assets less current liabilities</b>		<b>561,738</b>	<b>539,458</b>
Creditors: amounts falling due after more than one year	20	(483,709)	(478,615)
Pension scheme liabilities	25	(16,901)	-
<b>Net assets</b>		<b>61,128</b>	<b>60,843</b>
<b>Capital and reserves</b>			
Share capital	26	-	-
Cashflow hedge reserve		(26,938)	(26,691)
Income and expenditure reserve		88,066	87,534
		<b>61,128</b>	<b>60,843</b>

The notes on pages 21 to 49 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 23 July 2019.



**G Blunden**  
Chair of the Board



**N Harris**  
Board Member



**A Harling**  
Secretary



## Statement of changes in reserves

	Cashflow hedge reserve	Income & expenditure reserve	Total
	£'000	£'000	£'000
Balance at 1 April 2018	(26,691)	87,534	60,843
Surplus for the year	-	9,821	9,821
Actuarial losses on defined benefit pension scheme	-	(3,693)	(3,693)
Impact of the initial recognition of multi-employer defined benefit scheme	-	(5,596)	(5,596)
Change in fair value of hedged financial instruments	(247)	-	(247)
<b>Balance at 31 March 2019</b>	<b>(26,938)</b>	<b>88,066</b>	<b>61,128</b>
Balance at 1 April 2017	(31,394)	68,499	37,105
Surplus for the year	-	19,035	19,035
Change in fair value of hedged financial instruments	4,703	-	4,703
Balance at 31 March 2018	(26,691)	87,534	60,843

The notes on pages 21 to 49 form part of these financial statements.



## Notes to the financial statements

	<b>General notes</b>
1	Legal status
2	Accounting policies
3	Judgements in applying accounting policies and key sources of estimation uncertainty
	<b>Statement of comprehensive income related notes</b>
4	Particulars of turnover, cost of sales, operating costs and operating surplus
5	Particulars of the income and expenditure from social housing lettings
6	Units of housing stock
7	Operating surplus
8	Employees, Directors, and senior executive remuneration
9	Surplus of disposal of fixed assets
10	Interest receivable and similar income
11	Interest payable and financing costs
12	Taxation on surplus on ordinary activities
	<b>Statement of financial position related notes</b>
13	Tangible fixed assets – housing properties
14	Other tangible fixed assets
15	Fixed asset investments
16	Properties held for sale
17	Debtors
18	Current asset investments
19	Creditors: amounts falling due within one year
20	Creditors: amounts falling due after more than one year
21	Deferred capital grant
22	Recycled capital grant fund
23	Disposal proceeds fund
24	Loans and borrowings
25	Pensions
26	Share capital
27	Operating leases
28	Capital commitments
29	Related party disclosures

## 1. Legal status

Stonewater (2) Limited is registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a social housing provider. The Association is a public benefit entity.

## 2. Accounting policies

### Basis of preparation

The financial statements of the Association have been prepared on a going concern basis, under the historical cost basis of accounting in accordance with Financial Reporting Standard 102 (FRS102). Amendments to FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland: Multi-employer defined benefit plans" have been adopted early. This has resulted in changes to the accounting policy for the SHPS multi-employer scheme from the start of the reporting period. This means that accounting for SHPS has not been consistently applied as compared to reporting in prior years. Further information on the impact of early adopting these requirements is set out in note 25.

FRS102 is the applicable standard in the United Kingdom and the Republic of Ireland and the Housing SORP 2014 "Statement of Recommended Practice for Registered Social Housing Providers" and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The financial statements are presented in Sterling (£'000) except where specifically stated otherwise.

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

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

The information is included in the consolidated financial statements of Stonewater Limited as at 31 March 2019 and these financial statements may be obtained from Stonewater's registered address as disclosed on page 1.

The following principal accounting policies have been applied:

### Going concern

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

## Notes to the financial statements

### Turnover

Turnover represents rental and service charge income, grants receivable from local authorities and from Homes England, income from shared ownership first tranche sales, and proceeds from property sales, grant amortisation and other income, all of which arises in the UK.

- Rental income is measured at fair value of the consideration received or receivable and represents the amount receivable for the services rendered net of any voids.
- The amortisation of social housing grant is applied by the accruals model in accordance with FRS102, and the income is released over the life of the associated structure component.
- Fixed service charge income is recognised in the year to which it relates variable service charge income is recognised in the year the related cost is recognised.
- Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

### Revenue recognition

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

### Cost of sales

Cost of sales represents development/construction costs including capitalised interest, direct overheads incurred during the course of development of those properties and marketing and other incidental costs incurred during the course of the sale of those properties.

In addition to the land costs originally stocked under construction attributable to each sales transaction, included within costs of sales are expenses relating to fees expended in promotion developments through the planning system which are written off to the statement of comprehensive income until the viability of such a development is reasonably secure, after which such costs are capitalised in accordance with the accounting policy in respect of land and properties held for sale. At the date a sale is recognised the relevant proportion of costs inclusive of in house development staff, shared ownership sales staff, and a proportion of other staff in other departments which work on development activity attributable to that sale are taken to cost of sales.

### Operating costs

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



## Notes to the financial statements

### Properties for sale

Properties developed for shared ownership sale are divided into first tranche sales and other sales. First tranche sales are included within turnover, cost of sales and operating costs.

Subsequent tranches (staircasing) are shown separately within the surplus on sale of housing properties before operating surplus in the statement of comprehensive income. All other sales of fixed asset properties are shown in surplus on sale of housing properties in the statement of comprehensive income.

### Service charges

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

### 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.

### Government and other grants

Social Housing Grant (SHG) is receivable from Homes England, and is accounted for using the accruals method of accounting for government grants and any new grant received is included as part of creditors. The grant is recognised within income when amortised over the useful economic life of the asset. Grant is amortised even if there are no related depreciation charges.

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 26)

SHG received against new schemes, which are under construction is included as a long term liability. Amortisation becomes active once the unit is in active management

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

SHG can be recycled by the Association under certain circumstances such as if a property is sold, or if another relevant event takes place. In these cases, the SHG can be recycled for use on projects approved by Homes England and is held on the statement of financial position as a liability in the recycled capital grant fund. However, SHG may need to be repaid in certain circumstances.

## Notes to the financial statements

### Disposal proceeds fund

The purpose of the fund was to provide replacement-housing properties for rent, at no greater cost than the properties provided through the approved programme. If unused within a three year period, it will be repayable to Homes England.

The development team have an ambitious programme, and it's expected that any disposal proceeds are likely to be used before they are due for repayment.

The RSH communicated its intention that from 1<sup>st</sup> April 2017, credits arising from RTA sales should instead be credited to the Recycled capital grant fund, therefore the DPF fund no longer is required.

### Housing properties

Housing properties constructed or acquired (including land), 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

Cost comprises of acquiring of land and buildings, development costs, and interest charges incurred during development. In addition staff costs attributable to bring the housing property to bringing housing property into the working condition for their intended use.

Housing properties in the course of construction are stated at cost and not depreciated and are transferred to completed properties when they are ready for letting.

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.

Expenditure on replaced components is capitalised if the component is classified as being wholly replaced. Any remaining net book value of the replaced component is disposed of and recognised as accelerated depreciation.

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

Gains and losses on disposals of housing properties are determined by comparing the proceeds with the carrying amount, incidental costs of sales and amortised grant written back are recognised within surplus on disposal of fixed assets in the statement of comprehensive income.

## Notes to the financial statements

### Fixed assets and depreciation:-

Freehold land is not depreciated. The useful economic lives of all tangible fixed assets are reviewed annually.

Housing components are depreciated from the month following replacement. The range of estimated useful economic useful lives are:

Description	Estimated economic life (years)
Boilers	15
Kitchens	20
Lifts	20
Heating systems	30
Bathrooms and wet rooms	30
Windows and doors	35
Electrics	40
Roof cover	70
Structure	100

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

Social housing grant (SHG) is amortised to income over 100 years for social housing lettings.

Where a purchase of completed properties is made, including transfer of properties between Group entities, the useful lives of the components are adjusted to reflect the actual remaining lives of the properties, using the information obtained from the other social landlord during due diligence. Where accurate cost information on the components is not available, the cost for each unit is apportioned based on the pre-determined assumptions that the Group uses for new build properties.



## Notes to the financial statements

### Impairment

An annual review is undertaken of existing social housing properties to determine if there have been indicators of impairment in the current financial year for assets which may have suffered an impairment loss. The review is done on a scheme level, which is deemed to be a cash-generating unit. Impairment reviews are carried out in accordance with the Housing SORP, with consideration of the following impairment indicators: -

- >Development Issues
- >Change in legislation
- >Average void time/change in demand
- >Material reduction on market value
- >Schemes being redeveloped/demolished

If there is an indicator of an impairment, the recoverable amount of any affected asset is estimated and compared to the carrying amount. If the estimated recoverable amount is lower than the carrying amount, then the carrying amount is adjustment down to the recoverable value and an impairment loss is recognised as operating expenditure.

### Other fixed assets

Other tangible fixed assets 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.

### Depreciation of other fixed assets

Freehold 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	Estimated useful life (years)
Freehold buildings	100
Site equipment	5 to 25
Fixtures and fittings	5
Datacentre (IT Infrastructure)	5
IT equipment and software	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.

Residual values for other tangible fixed assets are assumed to be nil.

Gains and losses on disposals of other fixed assets are determined by comparing the proceeds with the carrying amount and incidental costs of sales and are recognised within Surplus on disposal of fixed assets in the statement of comprehensive income.

## Notes to the financial statements

### Allocation of costs for mixed tenure and shared ownership developments

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

### Shared ownership properties and staircasing

Shared ownership sales are treated under the SORP 2014 as follows:-

- Shared ownership properties are split proportionately between current and fixed assets based on the first tranche proportion
- The first tranche proportion is classed as a current asset and related sales proceeds are included in turnover.
- The remaining element is classed as a fixed asset, and included in housing properties at cost, less any provisions needed for depreciation or impairment.

### 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, and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

### 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 costs.

### Impairment of rental and other trade receivables

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

### Rent and service charge agreements

The Association has made 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 are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost), FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Association has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated in the Statement of Financial Position at historical cost. Loans and investments that are payable or receivable within one year are not discounted.



## Notes to the financial statements

### Financial liabilities and equity

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

### Cash and cash equivalents

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

The Association invests in highly rated Low Volatility Net Asset Value (LVNAV) money market funds where capital preservation is the priority. These are valued on an amortised cost basis.

### Finance costs

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

### Derivative financial instruments and hedged 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 statement of comprehensive income.

### Leased assets: Lessee

All leases are considered to be operating leases. Their annual rentals are charged to statement of comprehensive income 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 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.



## Notes to the financial statements

### Pension costs

The Association participates in the multi-employer defined benefit Social Housing Pension Scheme (SHPS).

For financial years ending on or after 31 March 2019, the way in which the defined benefit pension obligation in SHPS is stated in the financial statements has changed. Previously there has been insufficient information available to account for these obligations on a defined benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, the obligation has been accounted for by stating the present value of agreed future deficit repayment contributions.

For financial years ending on or after 31 March 2019 sufficient information is available to account for the obligations on a defined benefit basis. The information provided during the year gives the liability at 31 March 2018 however, as this information only became available in the current year and after the financial statements for the prior year had been authorised for issue, the change in accounting has been recorded on the first day of the current year, with no restatement of comparatives, in accordance with the requirements set out in: "Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland: Multi-employer defined benefit plans. The true comparative information is represented by the SHPS deficit reduction creditor as set out in the comparatives to the creditors' notes.

The liability recognised for the present value of the deficit agreement (£8,592,000) has been derecognised and the net pension deficit at 31 March 2019 (£9,289,000) has been recognised through the statement of comprehensive income in the year.

Under defined benefit accounting the Scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the statement of financial position. The current service cost and costs from settlements and curtailments are charged to operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements are reported in statement of comprehensive income.

### 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.

### Cashflow reserve

Cashflow hedge reserve is created from the movement in the fair value of hedging derivatives that are assumed as effective. The cashflow reserve will be released over the life of the instruments to which it relates.

### Income and expenditure reserve

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

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

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

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

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

> 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.

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

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

Other key sources of estimation uncertainty:

### > Tangible fixed assets (note 13 and 14)

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



## Notes to the financial statements

### > 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 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 is made for the non-effective part of hedge.

### > Valuation of Swaps

We have used a clearing house valuation for all SWAPs held by the Group. This method is adopted across the registered provider sector. We have not used the debit value adjustment (DVA) as there is no current requirement under FRS 102 to hold SWAPs at DVA adjusted value.

### > Social Housing Pension Scheme

The critical selection of financial and actuarial assumptions in relation to defined benefit scheme obligation based on best estimates derived from the Associations' policies and practices and their applications to the pension scheme operated by the Association where appropriate and confirmed with actuaries where these are beyond management expertise, e.g. Mortality tables have been chosen based on published research by the Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries. Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses.

The Association has relied upon the information provided by the actuary for SHPS. The discount rate used is given in note 25, along with the assumptions regarding mortality rates for scheme members.



## Notes to the financial statements

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

		Turnover	Cost of sales	Operating costs	Surplus on disposal of fixed assets	Operating surplus
	Note	2019	2019	2019	2019	2019
		£'000	£'000	£'000	£'000	£'000
Social housing lettings	5	50,216	-	(33,072)	-	17,144
Other social housing activities						
First tranche low costs home ownership sales		6,048	(4,666)	-	-	1,382
Surplus on disposal of fixed assets	9	-	-	-	2,975	2,975
<b>Total</b>		<b>56,264</b>	<b>(4,666)</b>	<b>(33,072)</b>	<b>2,975</b>	<b>21,501</b>

		Turnover	Cost of sales	Operating costs	Surplus on disposal of fixed assets	Operating surplus
	Note	2018	2018	2018	2018	2018
		£'000	£'000	£'000	£'000	£'000
Social housing lettings	5	50,408	-	(33,623)	-	16,785
Other social housing activities						
First tranche low costs home ownership sales		2,752	(2,032)	-	-	720
Surplus on disposal of fixed assets	9	-	-	-	10,991	10,991
		53,160	(2,032)	(33,623)	10,991	28,496

## Notes to the financial statements

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

	General needs	Supported and housing for older people	Shared ownership	Affordable	Total 2019	Total 2018
	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	35,647	1,504	2,632	3,750	<b>43,533</b>	43,590
Service charge income	2,659	730	646	59	<b>4,094</b>	4,258
<b>Net rent receivable</b>	<b>38,306</b>	<b>2,234</b>	<b>3,278</b>	<b>3,809</b>	<b>47,627</b>	47,848
Amortised government grants (notes 13b and 21)	2,100	136	126	36	<b>2,398</b>	2,438
Other income	153	-	38	-	<b>191</b>	122
<b>Turnover from social housing lettings</b>	<b>40,559</b>	<b>2,370</b>	<b>3,442</b>	<b>3,845</b>	<b>50,216</b>	50,408
<b>Expenditure on letting activities</b>						
Management	(7,546)	(310)	(1,203)	(729)	<b>(9,788)</b>	(9,666)
Service charge costs	(1,999)	(1,025)	(232)	(66)	<b>(3,322)</b>	(3,685)
Routine maintenance	(6,941)	(308)	(16)	(353)	<b>(7,618)</b>	(7,272)
Planned maintenance	(1,726)	(23)	(6)	(66)	<b>(1,821)</b>	(1,721)
Major repairs (note 13b)	(1,143)	(427)	(38)	(28)	<b>(1,636)</b>	(2,260)
Bad debts	(201)	(3)	19	(98)	<b>(283)</b>	(563)
Depreciation on housing properties (notes 7 and 13b)	(7,349)	(312)	(379)	(566)	<b>(8,606)</b>	(8,696)
Impairment on housing properties (note 7 and 13b)	-	(100)	-	-	<b>(100)</b>	(230)
Reversal of impairment	102	-	-	-	<b>102</b>	470
<b>Operating expenditure on lettings</b>	<b>(26,803)</b>	<b>(2,508)</b>	<b>(1,855)</b>	<b>(1,906)</b>	<b>(33,072)</b>	(33,623)
<b>Operating surplus on lettings</b>	<b>13,756</b>	<b>(138)</b>	<b>1,587</b>	<b>1,939</b>	<b>17,144</b>	16,785
<b>Void losses</b>	<b>(357)</b>	<b>(61)</b>	<b>(25)</b>	<b>(14)</b>	<b>(457)</b>	(719)



## Notes to the financial statements

### 6. Units of housing stock

	2019	2018
	Number	Number
General needs housing	6,940	6,923
Affordable housing	762	680
Shared ownership	1,236	1,180
Supported Housing	70	71
Housing for older people	232	232
Other	506	505
<b>Total owned</b>	<b>9,746</b>	<b>9,591</b>
Accommodation managed for others	903	895
<b>Total managed accommodation</b>	<b>10,649</b>	<b>10,486</b>
Units managed by other associations	161	165
<b>Total owned and managed accommodation</b>	<b>10,810</b>	<b>10,651</b>
Units under construction	266	282

### 7. Operating surplus

	2019	2018
	£'000	£'000
This is arrived at after charging:		
Depreciation of housing properties		
-annual charge (note 5 and 13a)	<b>8,439</b>	8,372
-accelerated depreciation (note 5)	<b>167</b>	324
Depreciation of other tangible fixed assets (note 14)	<b>146</b>	175
Impairment of housing properties (note 5 and 13a)	<b>100</b>	230
Reversal of Impairment of housing properties	<b>(102)</b>	(470)
Operating lease rentals	<b>214</b>	356

Audit fees for the year ending 31 March 2019 are borne by the Parent company, Stonewater Limited, and are disclosed in the consolidated financial statements.

### 8. Employees, Directors' and senior executive remuneration

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



## Notes to the financial statements

### 9. Surplus on disposal of fixed assets

	Shared ownership	Other housing properties	Voluntary right to buy	Total	Total
	2019	2019	2019	2019	2018
	£'000	£'000	£'000	£'000	£'000
Housing properties:					
Disposal proceeds	3,843	2,409	120	<b>6,372</b>	18,249
Net book value (note 13a)	(1,920)	(647)	(48)	<b>(2,615)</b>	(8,658)
Other costs	(93)	(675)	(14)	<b>(782)</b>	1,400
Surplus on disposal	<b>1,830</b>	<b>1,087</b>	<b>58</b>	<b>2,975</b>	10,991

### 10. Interest receivable and similar income

	2019	2018
	£'000	£'000
Interest receivable and similar income	<b>148</b>	61
Interest from group entities	-	6
Total	<b>148</b>	67

### 11. Interest payable and financing costs

	2019	2018
	£'000	£'000
Bank loans and overdrafts	<b>9,505</b>	9,603
Interest payable to group undertakings	<b>2,239</b>	1,793
Interest capitalised on construction on housing properties (note 13b)	<b>(665)</b>	(391)
Recycled capital grant fund (note 22)	<b>19</b>	9
Disposal proceeds fund (note 23)	<b>1</b>	1
Net interest on net defined benefit liability (note 25)	<b>344</b>	366
Total	<b>11,443</b>	11,381
Other financing costs through income and expenditure		
Change in fair value of non hedged financial instruments	<b>(385)</b>	1,853
Other financing costs through other comprehensive income		
Change in fair value of hedged financial instruments	<b>(247)</b>	4,703

### 12. Taxation on surplus on ordinary activities

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

## Notes to the financial statements

### 13(a). Tangible fixed assets housing properties

	Housing properties held for lettings	Housing properties for letting under construction	Shared ownership completed	Shared ownership under construction	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost:</b>					
At 1 April 2018	558,938	4,144	48,428	2,531	614,041
Reclassification	1,039	(1,288)	256	(7)	-
<b>Additions:</b>					
- Construction costs	-	18,061	-	8,493	26,554
- Replaced components	4,254	-	-	-	4,254
Transferred to completed properties	13,107	(13,107)	6,224	(6,224)	-
Disposals – staircasing sales (note 9)	-	-	(2,096)	-	(2,096)
Disposals – other sales (note 9)	(1,062)	-	-	-	(1,062)
Disposals – replaced components	(585)	-	-	-	(585)
<b>At 31 March 2019</b>	<b>575,691</b>	<b>7,810</b>	<b>52,812</b>	<b>4,793</b>	<b>641,106</b>
<b>Depreciation:</b>					
At 1 April 2018	90,299	-	4,024	-	94,323
Reclassification	88	-	(88)	-	-
Charge for the year (note 5 and 7)	8,227	-	379	-	8,606
Disposals – staircasing sales (note 9)	-	-	(176)	-	(176)
Disposals – replaced components	(418)	-	-	-	(418)
Disposals – other (note 9)	(367)	-	-	-	(367)
<b>At 31 March 2019</b>	<b>97,829</b>	<b>-</b>	<b>4,139</b>	<b>-</b>	<b>101,968</b>
<b>Provision for impairment:</b>					
At 1 April 2018	230	230	-	-	460
Charge for the year (note 5 and 7)	(2)	-	-	-	(2)
<b>At 31 March 2019</b>	<b>228</b>	<b>230</b>	<b>-</b>	<b>-</b>	<b>458</b>
<b>Net book value:</b>					
<b>At 31 March 2019</b>	<b>477,634</b>	<b>7,580</b>	<b>48,673</b>	<b>4,793</b>	<b>538,680</b>
At 31 March 2018	468,409	3,914	44,404	2,531	519,258



## Notes to the financial statements

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

	2019	2018
	£'000	£'000
The net book value of housing and other properties (note 13a) comprises:		
Freehold	509,356	489,490
Long leasehold	29,324	29,768
	<b>538,680</b>	519,258
Interest capitalisation:		
Interest capitalised in the year (note 11)	665	391
Cumulative interest capitalised	13,941	13,276
Rate used for capitalisation	4%	3.9%
Works to properties:		
Improvements to existing properties capitalised	4,254	2,750
Major repairs expenditure to income and expenditure account (note 5)	1,636	2,260
	<b>5,890</b>	5,010
Total social housing Grant received or receivable to date as follows:		
Capital grant held in deferred income (note 21)	194,406	196,866
Recycled capital grant fund (note 22)	2,623	2,588
Disposal proceeds fund (note 23)	66	190
Amortised to income and expenditure account in year (note 5)	2,398	2,438
Write back amortisation on disposals (note 21)	(169)	(647)
Cumulative amortisation to reserves	<b>22,931</b>	20,702

#### Impairment

A full impairment review was carried out at 31 March 2016 and no material impairment was identified. At 31 March 2019 we considered whether any specific indicators of impairment at scheme or property level exist and identified:

During the current year, the Association has recognised an impairment loss of £100k (2018: £230k) in respect of properties held for lettings. No units in management were impacted by the impairment loss calculated. In addition, £102k impairment was reversed during the year (2018: £470k).

#### Properties held for security

The Association had 7,608 properties pledged as security at 31 March 2019 (2018: 7,577 properties).



## Notes to the financial statements

### 14. Other tangible fixed assets

	Freehold office	Furniture and office equipment	Total
	£'000	£'000	£'000
<b>Cost:</b>			
At 1 April 2018	781	2,047	2,828
Additions	14	183	197
At 31 March 2019	795	2,230	3,025
<b>Depreciation:</b>			
At 1 April 2018	591	1,430	2,021
Charge for year (note 7)	52	94	146
At 31 March 2019	643	1,524	2,167
<b>Net book value:</b>			
At 31 March 2019	152	706	858
At 31 March 2018	190	617	807

### 15. Fixed asset investments

Name	Country of incorporation	Proportion of voting rights/ordinary share capital held	Nature of business	Nature of entity
Stonewater (3) Limited	England	100%	Registered provider of social housing	Registered social landlord
Stonewater (4) Limited	England	100%	Registered provider of social housing	Registered social landlord

### 16. Properties held for sale

	2019	2018
	£'000	£'000
Housing properties for sale:		
Work in progress	3,147	1,346
Completed properties	525	687
Other properties for sale	43	-
	3,715	2,033

## Notes to the financial statements

### 17. Debtors

	2019	2018
	£'000	£'000
Rent and service charge arrears	3,316	2,967
Less: provision for doubtful debts	(1,071)	(860)
	2,245	2,107
Amounts owed by group undertaking	5,275	13
Other debtors	1	115
Prepayments and accrued income	2,231	-
Social housing grant receivable	152	11
	9,904	2,246

All amounts are due within one year.

### 18. Current asset investments

Short term investments of £1,456,000 (2018: £1,510,000) are represented by amounts held in Escrow accounts and bank deposits

### 19. Creditors – amounts falling due within one year

	2019	2018
	£'000	£'000
Housing loans external (note 24)	13,477	12,158
Issue costs external (note 24)	(140)	(19)
Housing loans internal (note 24)	39	1,580
Trade creditors	2	129
Other creditors	4,002	3,436
Taxation and social security	66	128
Accruals and deferred income	976	274
Accrued interest	793	1,353
Retentions	50	123
Amounts owed to group undertakings	1,688	4,728
Deferred capital grant (note 21)	2,409	-
Recycled capital grant fund (note 22)	702	1,330
Disposal proceeds fund (note 23)	66	125
Social housing pension (SHPS)	-	1,329
Leaseholder sinking funds	1,560	1,593
	25,690	26,687

The liability for the SHPS for 2018/19 is shown as pension scheme liabilities in the statement of financial position. The details of the pension liability are included in pensions note 25, as per the accounting treatment set out in the accounting policy note 2.



## Notes to the financial statements

### 20. Creditors – amounts falling due after more than one year

	2019	2018
	£'000	£'000
Housing loans external (note 24)	178,466	191,892
Issue costs external (note 24)	(861)	(631)
Housing loans internal (note 24)	76,001	46,347
Derivatives financial instruments	36,185	35,555
SHPS pension deficit	-	7,263
Deferred capital grant (note 21)	191,997	196,866
Recycled capital grant fund (note 22)	1,921	1,258
Disposal proceeds fund (note 23)	-	65
	<b>483,709</b>	<b>478,615</b>

The liability for the SHPS for 2018/19 is shown as pension scheme liabilities in the statement of financial position. The details of the pension liability are included in pensions note 25, as per the accounting treatment set out in the accounting policy note 2.

### 21. Deferred capital grant

	2019	2018
	£'000	£'000
At 1 April	196,866	203,734
Grants received during the year	357	-
Transfer to RCGF (note 22)	(1,346)	(546)
Transfer from RCGF (note 22)	77	-
Transfer to/(from) intercompany	361	(402)
Released to income in the year (note 5)	(2,398)	(2,438)
Write back amortisation on disposals (note 13)	169	647
Other movements	320	(4,129)
At 31 March	194,406	196,866
Amounts due for repayments:		
-within 1 year (note 19)	2,409	-
-within 2 to 3 years (note 20)	191,997	196,866
	<b>194,406</b>	<b>196,866</b>



## Notes to the financial statements

### 22. Recycled capital grant fund (RCGF)

	HCA	HCA
	2019	2018
	£'000	£'000
At 1 April	2,588	2,573
<b>Inputs to fund:</b>		
Grants recycled from deferred capital grant (note 21)	1,346	546
Transfer to group members	(1,253)	(540)
Interest accrued (note 11)	19	9
<b>Recycling of grant:</b>		
New build (note 21)	(77)	-
<b>At 31 March</b>	<b>2,623</b>	<b>2,588</b>
<b>Amounts due for repayments:</b>		
-within 1 year (note 19)	702	1,330
-within 2 to 3 years (note 20)	1,921	1,258
	<b>2,623</b>	<b>2,588</b>

### 23. Disposal proceeds fund (DPF)

	HCA	HCA
	2019	2018
	£'000	£'000
At 1 April	190	462
<b>Inputs to fund:</b>		
Transfer from other group members	(125)	(273)
Interest accrued (note 11)	1	1
<b>At 31 March</b>	<b>66</b>	<b>190</b>
<b>Amounts to be released:</b>		
Within 1 year (note 19)	66	125
In more than 1 year (note 20)	-	65
	<b>66</b>	<b>190</b>

Withdrawals from the disposal proceeds fund were used for approved grants on new build schemes.

## Notes to the financial statements

### 24. Loans and borrowings

Maturity of debt:	Bank loans	Bond finance	Bond on-lending	Other loans	Total
	2019	2019	2019	2019	2019
	£'000	£'000	£'000	£'000	£'000
In one year or less, or on demand	11,627	1,697	39	153	<b>13,516</b>
Issue costs	(127)	-	(13)	-	<b>(140)</b>
<b>Within one year (note 19)</b>	<b>11,500</b>	<b>1,697</b>	<b>26</b>	<b>153</b>	<b>13,376</b>
In more than one year but not more than two years	11,690	1,821	40	170	<b>13,721</b>
In more than two years but not more than five years	30,499	6,327	137	635	<b>37,598</b>
After five years	112,654	9,338	75,825	5,331	<b>203,148</b>
Issue costs	(700)	-	(161)	-	<b>(861)</b>
<b>Within more than one year (note 20)</b>	<b>154,143</b>	<b>17,486</b>	<b>75,841</b>	<b>6,136</b>	<b>253,606</b>
<b>Total loans</b>	<b>165,643</b>	<b>19,183</b>	<b>75,867</b>	<b>6,289</b>	<b>266,982</b>

Maturity of debt:	Bank loans	Bond finance	Bond on-lending	Other loans	Total
	2018	2018	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000
In one year or less, or on demand	10,328	1,580	50	200	<b>12,158</b>
Issue costs	(11)	-	(8)	-	<b>(19)</b>
<b>Within one year (note 19)</b>	<b>10,317</b>	<b>1,580</b>	<b>42</b>	<b>200</b>	<b>12,139</b>
In more than one year but not more than two years	11,627	1,697	50	153	<b>13,527</b>
In more than two years but not more than five years	33,471	5,885	172	570	<b>40,098</b>
After five years	121,374	11,565	46,109	5,566	<b>184,614</b>
Issue costs	(500)	-	(131)	-	<b>(631)</b>
<b>Within more than one year (note 20)</b>	<b>165,972</b>	<b>19,147</b>	<b>46,200</b>	<b>6,289</b>	<b>237,608</b>
<b>Total loans</b>	<b>176,289</b>	<b>20,727</b>	<b>46,242</b>	<b>6,489</b>	<b>249,747</b>

Bond on lending includes £75.8m (2018: £46.2m) from Stonewater Funding Plc, a fellow group member

## 25. Pensions

### Social Housing Pension Scheme

The Association participates in the Social Housing Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A recovery plan has been put in place with the aim of removing this deficit by 30 September 2026.

The Scheme is classified as a 'last-man standing arrangement'. Therefore the Group is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the Scheme. Participating employers are legally required to meet their share of the Scheme deficit on an annuity purchase basis on withdrawal from the Scheme.

For financial years ending on or before 28 February 2019, it has not been possible for the Group to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the Group has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the Group to account for the Scheme as a defined benefit scheme.

For accounting purposes, two actuarial valuations for the scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in conjunction with the Group's fair share of the Scheme's total assets to calculate the Group's net deficit or surplus at the accounting period start and end dates.



## Notes to the financial statements

### 25. Pensions continued

	SHPS
	<b>2019</b>
	<b>£'000</b>
Fair value of plan assets	50,532
Present value of plan liabilities	(67,433)
<b>Defined benefit liability recognised</b>	<b>(16,901)</b>
<b>Reconciliation of fair value of plan assets:</b>	
At the beginning of the year	48,040
Interest income on plan assets	1,230
Experience on plan assets (excluding amounts included in interest income) – gain	1,145
Contributions by employer	1,554
Contributions by fund participants	252
Benefits paid plus expenses	(1,689)
<b>At the end of the year</b>	<b>50,532</b>
<b>Reconciliation of present value of plan liabilities:</b>	
Defined benefit obligation at start of period	(62,049)
Current service cost	(370)
Expenses	(39)
Interest expense	(1,574)
Contributions by plan participants	(252)
Actuarial losses due to scheme experience	(474)
Actuarial losses due to changes in demographic assumptions	(194)
Actuarial losses due to changes in financial assumptions	(4,170)
Benefits paid and expenses	1,689
<b>Defined benefit obligation at the end of the year</b>	<b>(67,433)</b>
<b>Amounts recognised in statement of comprehensive income are as follows:</b>	
<b>Included in administrative expenses:</b>	
Service costs	<b>370</b>
Administration expenses	<b>39</b>
<b>Amounts included in other finance costs:</b>	
Net interest costs (note 11)	<b>344</b>

## Notes to the financial statements

### 25. Pensions continued

	SHPS
	2019
	£'000
<b>Analysis of actuarial loss recognised in statement of comprehensive income:</b>	
Experience on plan assets (excluding amounts included in interest income) – gain	1,145
Experience gains and losses arising on the plan liabilities – loss	(474)
Change in financial assumptions – loss	(4,170)
Change in demographic assumptions – loss	(194)
<b>Total actuarial losses</b>	<b>(3,693)</b>

	SHPS
	2019
	£'000
<b>Analysis of net impact of the initial recognition of the multi-employer defined benefit pension scheme</b>	
Assets per actuary at 31/03/2018	48,040
Liabilities per actuary at 31/03/2018	(62,049)
Opening deficit	<b>(14,009)</b>
Current SHPS Pension Liability 31/03/2018 (note 19)	(1,329)
Non-current SHPS Pension Liability 31/03/2018 (note 20)	(7,263)
<b>Total recognised 2017/18</b>	<b>(8,592)</b>
Impact of payments made in year	<b>(179)</b>
<b>Net impact of the initial recognition of the multi-employer defined benefit pension scheme</b>	<b>(5,596)</b>

	SHPS
	2019
	£'000
<b>Composition of plan assets:</b>	
Equities	8,503
Debt	3,870
Liability driven investment	18,481
Cash	97
Property	1,880
Other Bonds	2,358
Infrastructure	2,650
Alternatives	12,693
<b>Total plan assets</b>	<b>50,532</b>



## Notes to the financial statements

### 25. Pensions continued

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £2,375,000.

	2019
Principal actuarial assumptions used at the statement of financial position date:	%
Discount rates	
Discount rate	2.31
Inflation assumptions - RPI	3.29
Inflation assumptions - CPI	2.29
Future pension increases	2.37
Future salary increases	3.29
Mortality rates:	Years
Male retiring in 2019	21.8
Female retiring in 2019	23.5
Male retiring in 2039	23.2
Female retiring in 2039	24.7

### 26. Share capital

	2019	2018
	£	£
At 1 April	12	11
Shares issued in the year	3	3
Shares cancelled in the year	(3)	(2)
At 31 March	12	12

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

### 27. Operating leases

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

	2019	2018
	£'000	£'000
Amounts payable as Lessee		
Not later than 1 year	237	273
Later than 1 year and not later than 5 years	384	519
Later than 5 years	-	47
	621	839



## Notes to the financial statements

### 28. Capital commitments

	2019	2018
	£'000	£'000
Commitments contracted but not provided for Construction	<b>54,690</b>	37,954
Commitments approved by the Board but not contracted for Construction	<b>34,813</b>	8,557
	<b>89,503</b>	46,511

Capital commitments for the Association will be funded from £13.0m (2018: £1.4m) SHG, with the remainder funded from property sales £31.0m (2018: £14.7m) and existing funds and external borrowing £45.5m (2018: £30.4m).

# Notes to the financial statements

## 29. Related party disclosures

### Intra group transactions

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

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

The charge for the design and build services was £13,467k (2018: £7,568k) plus 2.5% admin charge of £337k (2018: £189), a total recharge of £13,804k (2018: £7,757k).

The Association transacted with a non-regulated entity: Stonewater Developments Limited, a company that provides development services to the Association. The charge for the land was £2,316k (2018: £nil) plus 2.5% admin charge of £58k (2018: £nil), a total charge of £2,374k (2018: £nil).

### Intra group liabilities

The Association has a loan in place with Stonewater Funding PLC. At 31 March 2019 the outstanding amount was £75.8m (2018: £46.2 million)

	2019	2018
	£'000	£'000
Loan Balance after issue costs (note 24)	75,867	46,242
Interest Charged	2,135	1,793

Stonewater Funding PLC has on lent the proceeds of its 5.034% 2042 bond issue to Stonewater Ltd, Stonewater (2) Limited and Stonewater (5) Limited. The on lending is secured by fixed charges over the housing properties of each borrower. Cross guarantees by each of the three cover any shortfall in the security and any unpaid interest and fees in respect of the on lent funds.

At 31 March 2019 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.

In November 2018, Stonewater Funding PLC sold £50 million of its retained 3.375% 2045 Bonds in a private placement. The Bonds were sold at a discount to market and the net clean proceeds were £49.2m. At the end of January 2019, £19.7m of the Bond proceeds were on lent to Stonewater Limited and £29.6m to Stonewater (2) Limited.

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

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



