STONEWATER

Stonewater Limited

ANNUAL REPORT & ACCOUNTS

31 MARCH 2019

Our vision

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

What's inside

Community Benefit Society Number 20558R.
Regulator of Social Housing Number L1556.

About Stonewater

Stonewater is proud to be one of the UK's leading social housing providers.

We manage around **32,000** homes in England, and provide affordable properties for general rent, shared ownership and sale, alongside specialist accommodation such as retirement and supported living schemes for older and vulnerable people, young people's foyers and women's refuges.

Customer focus

In the context of housing demand and supply in the UK, our customers represent a diverse community of households who rent, who buy, and for a relatively small number, where we provide support as a stepping stone.

We provide homes to customers across England whose housing needs cannot be met by the open market, particularly in terms of both affordability and security.

> A large proportion of our customers are families with dependent children
> Most of our customers are in either full or part-time employment
> A significant proportion of our customers are older people on lower incomes
> 60% of our tenancies last for 5 years or more
> Our specialist housing provides support for vulnerable young people, those with mental health issues and those suffering domestic abuse

Building homes

We will continue to deliver our ambitions to build more homes and provide services that meet the needs of our customers.

Over the past year, we have built 548 homes (2018: 612), and have plans to increase our build programme to reach 1,500 handovers a year from 2022/23 and have a good pipeline of development to achieve this.

For the past year, this figure is broken down into:

> 340 affordable rent, social rent, rent to buy
> 208 shared ownership

At 31 March 2019, we were in contract to build 1,092 homes.

Work continued on Stonewater's stock rationalisation programme. The Assets team achieved gross sales of £10.4m (2018: £19.3m) for this programme, which generated a surplus of £5.9m (2018: £11.9m). These sums will be re-invested in new homes that are more energy efficient and cost less to maintain, delivering continued efficiencies for the business.

The way we deliver our services to our customers is guided by our vision, mission and values.

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

We believe that in order to be successful, we have to build our foundations on strong values:

Ambitious

We are driven and competitive, always seeking the best solutions for our organisation and our customers.

We aim to be a landlord, partner and employer of choice.

Passionate

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

Agile

By being adaptable and open-minded, we proactively make the most of opportunities.

Our innovation and collaboration helps drive continuous improvement.

Commercial

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

Ethical

We take responsibility and are accountable for our decisions.

When we make a promise, we keep it.

We are inclusive, professional and honest.

Board members, executive officers and advisors

THE BOARD

GEORGE BLUNDEN
(Chair)

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

NICHOLAS HARRIS
(Chief Executive)

Nicholas has extensive experience in both the social housing sector and local authorities, and considerable knowledge of issues relating to socio-economic regeneration.

ANDREW LAWRENCE
(Chair of the Risk and Assurance Committee) (from 1 January 2019)

Andrew is a chartered accountant with a special interest in corporate governance, strategic leadership, risk management, cultural change and innovation. Formerly a finance director in the commercial and international development sectors, he now has a portfolio of non-executive director roles in organisations in which he is passionate about the organisational purpose. Andrew is Chair of Bron Afon Community Housing, a community mutual social enterprise in South Wales, a director of Baptist Insurance Company plc, Chair of the Audit and Risk Committee of the Intellectual Property Office, and trustee of a number of charities.

JENNIFER BENNETT
(from 1 October 2018)

Jennifer is a nationally recognised social housing solicitor and her areas of expertise include governance, securitisation, asset management and leasehold law. During her 30 years in the sector she has also held a number of voluntary roles, including as a non-executive director of Portsmouth Hospitals NHS Trust, an independent member of Winchester City Council Standards Committee, a non-executive director of Parity Trust (which provides loan finance for community-based projects) and a trustee of the Roberts Centre, a registered charity providing housing and support to families and children in Portsmouth. Jennifer is a member of the Chartered Institute of Housing.

CLAIRE KEARNEY
(from 1 October 2018)

After more than 20 years' experience in the publishing industry, Claire now works as an independent technology consultant, championing a user-centric approach to the provision of online services. Claire brings experience of creating and implementing digital services which align with strategic aims, alongside promoting high standards of web governance through committee experience.

TARIQ KAZI
(Chair of Finance Committee)

Tariq is a professional accountant and corporate treasurer who has experience of working across different sectors, including audit, commercial banking and local authorities, as well as the housing sector. He is currently Head of Treasury for Optivo and has a special interest in people, culture and innovation. Tariq was previously a member of the social housing regulation committee, a member of a housing association treasury committee and a trustee of two charities.

JOHN WEGUELIN

John is an investment banker, with extensive experience of leading, motivating and directing multi-functional and diverse teams. His interests include property development, leadership and change management. John is also a Board member for Sovereign Housing Association.

JULIANA CROWE

Juliana is Housing and Communities Director of a West Midlands-based housing group, with over 25 years' housing experience. Previously she worked for the London Boroughs of Southwark, Tower Hamlets and Greenwich. She is a member of the European Structural Investment Funds (ESIF) sub-committee in Worcestershire.

ANNE DOKOV
(Chair of the Housing Committee)

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

BRIAN ROEBUCK

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

DOUG WRIGHT
(Chair of the Asset and Development Committee)

Doug is a development and finance professional. He operates a consultancy for vulnerable people, for the repair and improvement of their homes.

PETER HAMMOND

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

PATRICK SYMINGTON
(Chair of the Risk and Assurance Committee) (until 30 November 2018)

MICHAEL COLLINS
(Chair of the Digital Transformation and IT strategy group) (until 30 September 2018)

SHEILA COLLINS
(Chair of the Governance and HR Committee) (until 30 September 2018)

(Appointed as Chair of the Board from 1 October 2019)

Board members, executive officers and advisors

EXECUTIVE OFFICERS

NICHOLAS HARRIS
Chief Executive

Prior to becoming Stonewater's Chief Executive in 2016, Nicholas worked as Chief Executive Officer at Raglan Housing from 2010 and previously at Raven Housing Trust. He has extensive experience in both the social housing sector and local authorities, and considerable knowledge in socio-economic regeneration matters.

SCOTT BAXENDALE
Executive Director of Assets

Scott has 33 years' experience in housing, 18 of which in an executive capacity. He joined Raglan as part of a new executive team and has extensive experience of business transformation. Prior to this, he worked on the formation of Paragon Community Housing Group.

SUE SHIRT
Executive Director of Customer Experience

Sue has 29 years' housing experience, including 16 years as an executive. Before Stonewater, she worked as managing director and operations director for an LSVT. She is an Economics graduate, Fellow of the Chartered Institute of Housing and trustee for a domestic violence charity.

JOHN BRUTON
Deputy Chief Executive and
Executive Director of Finance

Before the formation of Stonewater, John had been Director of Finance at Raglan since 2001. Previously, he was Financial Controller at Metropolitan Housing Partnership and did audit and advisory work at KPMG. He is a chartered accountant and has a postgraduate degree in mathematics.

JONATHAN LAYZELL
Executive Director of Development

Jonathan has an extensive background in delivering homes with a particular interest in rural housing and sustainability of rural communities. He is also interested in how Registered Providers can use investment in new homes to support growth in the construction sector and wider economy.

DAVID BLOWER
Executive Director of Corporate Services

David has worked in the industry since 1993, in a number of senior finance roles before taking up the role of Executive Director of Corporate Services at Stonewater in 2015. David is a chartered certified accountant and holds an MBA from Warwick Business School.

SECRETARY AND REGISTERED OFFICE

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ADVISORS

PRINCIPAL BANKERS

Barclays Bank
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London
E14 5HP

AUDITORS

BDO LLP
55 Baker Street
London
W1U 7EU

SOLICITORS

Devonshires Solicitors
30 Finsbury Circus
London EC2M 7DT

SOLICITORS (GOVERNANCE)

Trowers and Hamlins LLP
55 Princess Street
Manchester M2 4EW

Our mission

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

Chair's statement

As Stonewater enters its fifth year of existence, we remain as committed as ever to our vision: for everyone to have the opportunity to have a place that they can call home. Since our inception in January 2015, we have worked hard to become one of the UK's leading social housing providers, gaining a good reputation in the sector for our robust business efficiency and impressive growth.

GEORGE BLUNDEN CHAIR

There is no doubt that, along with the rest of the housing sector, we continue to face significant challenges in these politically uncertain and economically turbulent times. This makes it all the more important that, however the future unfolds, our organisation retains the strength and flexibility to rise to these challenges and thrive.

Despite this tough operating environment, we can be proud of our many achievements over the last year.

Financially, we are in good shape. We have increased our turnover by 1.9%, and run a successful campaign which has reduced our void rental loss by £1.4m.

We have built 548 new homes as part of our ambitious development programme, continued investing in improvements to our existing housing stock and harnessed the latest technology to improve customer service.

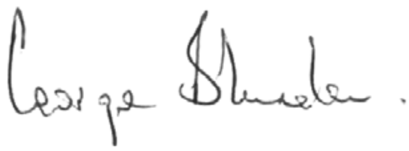
Recently, we were delighted to finalise a new strategic partnership deal with The Guinness Partnership and Homes England. The government agency's £224m funding will enable us to work together to provide a total of 4,500 high quality affordable homes by 2022.

By accelerating our development programme in this way, we will be able to play a greater role in tackling the national housing crisis – particularly vital work at a time when homelessness continues to rise across the UK.

Our external success is very much driven by the internal dedication of colleagues and I was immensely pleased to see Stonewater recognised as being a great place to work, with the accolade of two 'Best Companies' awards in the past year – a fantastic reflection of our 'one team' philosophy.

So while it is with some sadness that I step down as Chair (from September 2019), I have every confidence that I leave Stonewater in great shape and good hands. We extend a warm welcome to Sheila Collins, who brings a wealth of expertise and fresh thinking as the new Chair. I would also like to extend my deepest personal thanks and appreciation to Board and Committee members (both past and present) who I have had the privilege of working alongside over the course of my tenure. And of course, to the Executive team and every colleague who has been part of my Stonewater journey.

I have every faith in Stonewater's continuing success in realising its vision, whatever future years may hold.



GEORGE BLUNDEN CHAIR

Highlights

Turnover
£ 190.7m

Total surplus
£22.4m

New homes built
548

Chief Executive's statement

Stonewater continues to prove itself to be a strong and agile organisation, embedding our place as one of the UK's leading social housing providers. Our statement of financial position remains robust, our staff agile and our growth plans significant and ambitious.

NICHOLAS HARRIS CHIEF EXECUTIVE

This resilience and adaptability puts us in a strong position to predict and respond to our evolving social and political landscape, so we can successfully move with these fast-changing times.

We have achieved a great deal over the last year, rolling out a range of initiatives to ensure we deliver high quality homes and services, hand in hand with excellent customer experience.

Our new Customer Experience Directorate aims to improve our understanding of customers and their changing needs, so we can develop our services. We also recently launched an online customer self-serve portal as part of our digital ConnecteD programme, which is transforming the way we do business.

Alongside structural changes to make sure our organisation is fit for future challenges, we have made impressive strides forward in our financial position – significantly increasing turnover, reducing void losses and cutting interest costs.

In line with our commitment to tackling the UK's housing crisis and rise in homelessness, our ambitious development programme is on schedule to deliver at least 1,500 much-needed new homes every year from 2022/23. We are also pleased to be working with The Guinness Partnership to provide an extra 4,500 affordable homes by 2022, having recently secured the largest strategic partnership to date with Homes England.

None of our work would be possible without the dedication and loyalty of our people. So we were delighted to see our achievements and ambitions recognised nationally with our ranking in the Sunday Times Top 25 Housing Associations, as well as being listed in the Sunday Times list of Top 100 Best Not-For-Profit Companies to work for.

Much of our success is driven by the compelling vision and leadership shown by our Board, and not least by our Chair George Blunden. I'd like to record Stonewater's sincere appreciation and my own personal thanks to George as he steps down after nine years' service in the role with both Stonewater and Raglan.

George's passion, dedication and expertise is very much at the heart of Stonewater's success and he will be very much missed by all of us. George's influence and presence has been integral to our organisational journey and, perhaps most importantly, to the creation of so many new homes and thriving communities which are so desperately needed. The legacy of his leadership leaves Stonewater in a strong position to meet whatever challenges lie ahead and I have every confidence Stonewater will continue to grow and flourish.

Nicholas Harris

NICHOLAS HARRIS CHIEF EXECUTIVE

Highlights

Sunday Times Top 100 Best Not-For-Profit Companies

Governance (G1) rating — Regulator of Social Housing

Viability (V1) rating — Regulator of Social Housing

Report of the Board of Management and Strategic Report

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.

Our priorities for the next three 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.

> Our turnover increased by £3.5m and our business has grown by 1.9% year on year.

GROUP FINANCIAL PERFORMANCE

- Our turnover increased by £3.5m and our business has grown by 1.9% year on year. Rental income increased due to the handover of 548 new units.
- Operating costs increased by £1.0m, mainly due to increased maintenance costs and an increased charitable donation.
- The operating margin excluding surplus on disposal of fixed assets is 30%, which is 1% higher than previous year. This KPI better reflects the trend in operating surplus, as disposal of fixed assets can vary year on year.
- The decrease in surplus on disposal of fixed assets is due to a large sector sale that took place in 2018.
- Net interest charges include £10.7m loss on early termination of interest rate swaps.
- Net impact of the initial recognition of multi-employer defined benefit scheme is shown for the first time in the statutory accounts.
- Total comprehensive income generated for the year will continue to be reinvested into our development programme, enhancing our systems and providing excellent customer service.

Consolidated statement of comprehensive income	2019 £'000	2018 £'000
Turnover	190,724	187,225
Operating costs	(118,255)	(117,300)
Cost of sales	(16,085)	(15,490)
Surplus on disposal of fixed assets	9,422	15,620
Operating surplus	65,806	70,055
Operating margin excluding surplus on disposal of fixed assets (%)	*30%*	*29%*
Net interest charges and finance costs	(42,053)	(33,422)
Movement in fair value of non-hedged instruments	(1,368)	2,402
Surplus for financial year	22,385	39,035
Actuarial (losses)/gains on defined benefit schemes	(6,922)	432
Net impact of the initial recognition of multi-employer defined benefit scheme	(10,876)	-
Movement in fair value of hedged instruments	10,601	15,261
Total comprehensive income for the year	15,188	54,728

Report of the Board of Management and Strategic Report

GROUP FINANCIAL PERFORMANCE — CONTINUED

- The Group's statement of financial position has continued to build in strength. We have taken out £65.3m on new bonds over the year, raised £75m of bonds two years forward, and increased our revolving facilities by £70m. We continue to deliver an ambitious development programme, which we aim to ensure that our balance sheet is resilient to.
- Housing properties increased by a net of £79m, which comprises £116m additions, £10m disposals and £27m depreciation and impairment charges.

Total reserves

Total reserves increased by £15.2m, due mainly to £4.6m increase in income and expenditure reserves and £10.6m reduction in cash flow reserves.

Pension costs

Stonewater participates in three pensions schemes: The Dorset County Pension Fund defined benefit pension scheme (DCPF) and the Social Housing Pension Scheme (SHPS) (which is a multi-employer defined benefit scheme), which are both accounted for as defined benefit schemes under section 28 of FRS102, and the SHPS defined contribution scheme.

From 1 April 2011 the SHPS defined benefit scheme was closed to new members. New employees are offered the SHPS defined contribution scheme, with the employer matching the employees' contribution levels.

Stonewater's deficit in the DCPF reduced to £3.8m from £4.0m last year. The value of the assets increased from £5.5m to £5.6m. The last formal valuation of the scheme was performed as at 30 November 2016 by a professionally qualified actuary using the Projected Unit Method. The market value of the scheme's assets at the valuation date was £2,249m. The valuation revealed a shortfall of assets compared with the value of liabilities of £452m, equivalent to a past service funding level of 83.0%.

During the year the employer contribution rate was between 7% and 8.3%, depending on the level of benefit provided, plus deficit contributions of 7.5% of pensionable salaries.

Stonewater has recognised a defined benefit liability of £32.6m for SHPS, being the deficit in the plan. 2018/19 is the first year that sufficient actuarial information has been provided to account for the scheme as a defined benefit scheme and the accounts reflect the adjustment of £10.9m for this initial recognition. The fair value of the assets comprising Stonewater's share of the scheme is £96.6m.

Statement of financial position	2019 £'000	2018 £'000
Housing properties less depreciation	**1,776,052**	1,695,197
Other fixed asset	**8,877**	5,164
Net current assets	**79,093**	59,300
Total assets less current liabilities	**1,864,022**	1,759,661
Creditors due after one year	**(1,677,414)**	(1,520,787)
Other long term liabilities and provisions	**(340)**	(213)
Pension liability	**(36,410)**	(3,991)
Net assets	**249,858**	234,670
Cash flow hedge reserve	**(69,440)**	(80,041)
Income and expenditure reserves	**319,298**	314,711
Total reserves	**249,858**	234,670

TREASURY MANAGEMENT

Treasury management policy

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

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

> Group borrowings and subsequent debt management.
> Investment of surplus funds.
> Relationship with bankers, lenders and advisors.

Derivatives are not used for speculative purposes or in such a way that an additional exposure to market forces is created.

The Group's interest rate policy for borrowings is to be between 50% and 100% fixed. If refinancing of floating rate bank debt with bond funding resulted in an enduring over fixed position, the position would be corrected.

As at 31 March 2019, 90.1% of borrowings were at fixed interest rates or hedged by floating to fixed interest rate swaps.

"The Group's statement of financial position has continued to build in strength.

Debt structure

The Group's policy is to raise debt finance through bilateral loans and capital markets issuance. In November 2018, Stonewater Funding PLC:

> Sold £15.3m in Series C Senior Secured Notes at a rate of 3.35% in a private placement to investors managed by PGIM Inc. These notes are due in November 2043. The proceeds of the issue were then on lent to Stonewater Limited at the end of November 2018.
> 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.
> In March 2019, Stonewater Funding PLC sold £75 million of its retained 3.375% 2045 bonds, on a two-year deferred basis, in a private placement. £125m of the 3.375% bonds are still retained for future sale.

Both the PGIM Inc notes and the retained bonds have similar security and limited cross guarantee arrangements to Stonewater's original bond.

During the year, Group companies have renewed and increased revolving credit facilities, which are used as a principal source of liquidity for future commitments.

The Group has funding from 10 lenders. Total loan facilities at 31 March 2019 amounted to £1,152m (2018: £1,087m), of which £234m was undrawn (2018: £234m).

Cash flows

Net cash from operating activities for the year was £57.0m (2018: £71.1m), a decrease of £14.1m compared with the previous year.

Net cash outflow from investment activities was £91.6m (2018: £42.9m), mainly due to £113.2m investment in housing assets (2018: £75.1m).

Liquidity

The Group maintains a list of investment limits for authorised organisations with which it will place deposits based on short-term credit ratings. As at 31 March 2019, cash balances were £102.3m (2018: £107.8m) and the balance of short term investments was £4.6m (2018: £4.6m). Cash and committed facilities exceeded the Group's contracted obligations by £183m (2018: £252m). The excess of committed facilities over capital commitments is to ensure that committed development is fully funded.

As at 31 March 2019, derivative exposure positions with counterparties was £99.9m (2018: £109.2m) and after the use of thresholds £60m (2018: £69.2m). This exposure was secured entirely by charged property security (as was the case in 2018).

Loan covenants

Stonewater's performance against covenants is as follows:

Interest cover*:		
Stonewater Ltd	195%	>110%
Stonewater (2) Ltd	225%	>110%
Stonewater (3) Ltd	350%	>105%

Gearing:		
Stonewater Ltd	79%	<85% of net worth, including Social Housing Grant
Stonewater (2) Ltd	40%	<65% of assets
Stonewater (3) Ltd	33%	<50% of assets

*Covenants shown are the three year averages

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

VALUE FOR MONEY (VFM) AND PERFORMANCE

At Stonewater, we aim to achieve Value for Money (VfM) in everything we do. It is embedded into our Strategic Plan, which sets out what we plan to do and how we expect to deliver it.

Our Strategic Plan sets out our annual and four-year objectives. Five VfM tests are applied against these objectives and outcomes, and these run like a 'golden thread' through all we do:

1. Doing the right things
2. Doing things economically
3. Maximising the return from our people
4. Maximising the return from our assets
5. Achieving outcomes that are right and sustainable

Our VfM strategy considers monetary savings as well as our performance against our own internal targets (set during budget) and bench marked against our peer group (based on Global Accounts). In addition, we continue to deliver an approach, which builds on efficiencies, and best practice, whilst also trying to deliver sustainable options where possible.

Our approach has been built around the three themes in our Strategic Plan of Customer Experience, Growth and Influence, and Business Excellence.

Customer Experience	Growth and Influence	Business Excellence

Customer Experience

Retirement living has had continued investment, completing a total of 24 schemes to date and with another 14 in the programme for 2019/20 and 2020/21. The work has and continues to deliver modern, functional and high quality design, discretely developed for the comfort of older adults, and achieving an agreed Stonewater standard.

Through our investment in our digital strategy, we have introduced mobile technology for colleagues working remotely, improving the efficiency of services to customers. In addition, we have invested in digital inclusion sessions for customers in retirement living, completing sessions for over 2,000 customers to enable them to adapt to the changing environment around them.

MyHome

This summer saw the roll out of MyHome, our new customer self-serve portal which we have co-created with customers. The initial launch saw an improved design and usability, and we will be expanding this to include repairs online later in the year. Stonewater has extended its Wi-Fi provision for customers and continues to hold workshops in partnership with We Are Digital as part of the digital inclusion work with residents. Customers who complete this six-week digital inclusion training are then gifted the equipment to encourage ongoing use.

Report of the Board of Management and Strategic Report

VALUE FOR MONEY (VFM) AND PERFORMANCE — CONTINUED

Growth and Influence

During 2018/19, Stonewater has delivered 548 new homes, all of which are energy efficient to ensure they are affordable to run for our customers. This also helps to minimise the impact of our homes on the environment. Our new developments are also sympathetic to their local environment and Stonewater is dedicated to enhancing the biodiversity of our schemes wherever possible.

Some of Stonewater's new developments this year have included edible planting and community allotments. We have also signed up to an initiative to ensure that for every home we build, we plant six trees to replace the number of trees used in the development of each of our homes, and we involve our staff and the local community in this process.

Stonewater has an ambitious environmental strategy. Whilst we aim to deliver as many new homes as possible, it is important that they are energy efficient, and we consider and invest in renewable energy such as solar photovoltaic and efficient heating systems such as heat pumps.

We continue to seek to innovate and adopt new technology, such as battery storage, and seek ways to improve the efficiency of our development programme, for example through the use of offsite construction.

An already ambitious development plan has been accelerated by the announcement in October 2018 of £224m funding from Homes England for a new strategic partnership with Guinness to begin building 4,500 high-quality, affordable homes by 2022. This accelerated delivery means Stonewater will deliver 4,850 affordable homes over the next four years.

We are also continuing to improve the quality of our homes, with a whole stock condition survey to focus investment where it is needed in the next year.

Planting trees in partnership with the Community Forest Trust

Three Stonewater colleagues and our South Asian Women's Refuge were shortlisted for the 2019 national Women In Housing Awards

“Stonewater always strives to get it right. They are always looking for new innovative ways to improve. They also keep up with modern technology. The work ethic, the people, and the role and my manager are all the reasons Stonewater is a great place to work.

One of the responses received for “What makes this a great place to work”.

Business Excellence

We have achieved a one star rating with Best Companies, which was two years ahead of our target. By investing in our people, our culture and values, we became a 'Sunday Times 100 Best Company to Work For' within the not-for-profit category during 2019.

Stonewater scored highly in all categories of the survey, particularly 'My Manager' and 'My Team', and across all categories the engagement scores improved from the previous year.

In the next year Stonewater will look to deliver:

> A new operating model
> Creation of the customer experience directorate, designed not only to meet but to anticipate our customers' expectations
> An improved level of colleague engagement, measured by achievement in the 'The Sunday Times Best Companies to Work For' survey

In addition to these themes, we have also delivered cash savings associated with restructure of departments, re-tenders and through a vigorous procurement process.

Each area of the business has clear and measurable targets, which are set during the budgeting process. The results are reported quarterly to finance committee which includes achievements to date versus agreed targets and sets out any new initiatives identified in the quarter.

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

VALUE FOR MONEY (VFM) AND PERFORMANCE — CONTINUED

During 2018/19, we achieved the following VfM savings, totalling £1.9m:

- Assets reprocurement of responsive repairs - £0.6m
- Negotiations on acquisitions of new properties and build costs - £0.5m
- Social return for housing for older people - £0.3m
- Other VfM items consist of savings achieved on interest due to renegotiation of loans, energy efficiencies and other economic benefits - £0.5m

Regulatory Value for Money

The Regulator of Social Housing (RSH) published a new Value for Money Standard on 1 April 2018. The standard includes seven measures with which to measure performance and establish how that performance compares to peers.

When comparing against peers it must be taken into account that some variances may be due to business decisions i.e. increase in maintenance could be as a result of wanting to enhance customer satisfaction.

It is a regulatory obligation to deliver good VfM, and to gain the maximum benefit from our resources and the money we spend. In turn, this ensures we can continue to invest in the homes and services so desperately needed in our communities.

Stonewater's performance and comparison to average sector metrics are shown below. Stonewater has therefore maintained or improved its performance on each of these VfM measures with the exception of new supply. This is a short term timing issue and the rate for 2019/20 is projected to be 2.6%.

LQ = Lower quartile **MQ = Median quartile**

Metric	Description	Median per Global Accounts 2018	Stonewater per Global Accounts 2018	Stonewater Quartile	Period 12 2018/19
1) Reinvestment %	This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held	6.0%	5.5%	LQ	7.8%
2) New supply delivered %					
A) New supply delivered (social housing units) %	This metric sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units managed at period end	1.2%	2.1%	MQ	2.0%
B) New supply delivered (non-social housing units) %	This metric sets out the number of new non-social housing units that have been acquired or developed in the year as a proportion of non-social housing units managed at period end	0%	-	-	0%
3) Gearing %	This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance	42.9%	43.6%	MQ	45.3%
4) Earnings before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest cover %	The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a RP generates against interest payments	206.0%	172.7%	LQ	183.1%
5) Headline social housing cost per unit	The unit cost metric assesses the headline social housing cost per unit which is made up of the main components of management, service charge costs, maintenance, major repairs and other social housing costs	£3,397	£3,234	LQ	£3,250
6) Operating Margin %					
A) Operating Margin (social housing lettings only)	The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account	32.1%	30.7%	LQ	32.4%
B) Operating Margin (overall)		28.9%	29.1%	MQ	29.6%
7) Return on capital employed (ROCE)	This metric compares operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources	4.1%	3.9%	LQ	3.5%

Asset management

Stonewater's asset management strategy 2018 - 2021 sets out our approach to stock investment and disposal, maximising asset value whilst balancing the social purpose of the business. The strategy pulls together the key factors that are involved in the management of a large and complex asset portfolio into one overarching document. It is explicitly linked to Stonewater's Business Plan and wider Strategic Objectives. It sets out the strategic framework for the three years until 2021 with regard to growth, stock condition and planned investment, and provides a solid basis for the medium and long-term management of Stonewater's property assets.

Stonewater's vision is for 'everyone to have the opportunity to have a place that they can call home.' Our core business is to provide high quality housing and support services to meet the needs of existing and future customers. To do this we spend a large amount of our annual net expenditure on developing new homes, together with improving and maintaining our existing properties.

Asset investment decisions have long lead times and, once implemented, can affect customers' experiences for many years. Over such long periods of time there can be major changes in customers' expectations, the economy and the requirements of Government, regulators and funders. To be prepared for such changes, those managing physical assets are required to think far ahead.

Following the tragic events at Grenfell Tower in June 2017, resident safety continues to be our number one priority. In response to this, we have reviewed the construction of our buildings and have also undertaken a major review of our fire safety strategy. Grenfell should not have happened and we will do everything possible to ensure that this type of incident never occurs at a Stonewater property.

Stonewater is one of the UK's 25 largest social housing providers with 32,000 homes under management, operating across a large geographical footprint. Our property portfolio includes a diverse range of age, design and construction types. The investment approach is flexible in recognition of this diverse portfolio.

Stonewater provides homes which are welcoming, well maintained and offer facilities that meet customers' expectations and aspirations. The effective use of assets starts at the development stage and continues through the life of the property to eventual disposal. Active asset management is about maximising and maintaining the value of our property assets and investing appropriately to meet corporate objectives.

The asset management strategy (AMS) is set out in five sections:

1 Details the operating environment, outlining the customer base and the size and make-up of the property portfolio.

2 Describes the 'what and how' of the key objectives that the AMS will deliver.

3 Outlines the other main strategies that are incorporated into the main AMS.

4 Describes the medium and long-term investment plans together with the operational arrangements for the delivery of key services.

5 Summarises the action plan that we will use to transform the strategy from a written document into a range of achievements within the three-year period covered by this strategy.

Key deliverables:

- Contribute towards the medium-term growth target of 50,000 homes by purchasing (in sector) 300 properties in 2018/19
- Dispose of 381 units over the next three years through 300 trade sales and 81 open market sales
- Deliver safe homes by ensuring 100% compliance across all assets
- Reduce the total cost per unit for all maintenance services and be in the upper quartile for benchmarked cost by 2023
- Be in the upper quartile for benchmarked costs for the delivery of repairs and capital programmes by 2023
- Deliver significant VfM cost savings through re-procurement of our maintenance contracts by 2021
- Deliver self-service for repairs for all our customers who can access online by December 2019
- Maintain and improve our homes by investing £75m by 2023
- Reduce costs for residents by identifying costs for improving the energy efficiency of the assets to a minimum band E by 2020, a minimum Band D by 2025 and a minimum band C by 2030
- Increase year on year the Net Present Value (NPV) of the stock over the life of the current strategy
- Identify 100% of underperforming assets (those with a negative NPV) and options to appraise to determine the most cost effective solution by 2019
- Contribute towards local communities by incorporating an Employment and Skills Plan in three new regional contracts for repairs and voids by 2021
- Improve the quality of asset data and Business Plan forecasting by surveying 20% of the stock each year for the next five years

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VALUE FOR MONEY (VFM) AND PERFORMANCE — CONTINUED

Sustainability and compliance

Stonewater directly employs a dedicated team to oversee Health & Safety Compliance.

This team includes chartered professionals who belong to bodies such as the Institute of Occupational Safety and Health, and Institution of Fire Engineers.

Stonewater have adopted a health & safety organisational model based upon HSG65; 'Plan-Do-Check-Act', and regularly hold Health & Safety Meetings, fed by respective specialist area groups, and chaired by a member of the Executive.

The Compliance Team offer advice and guidance across the whole organisation, and also are licenced to provide the IOSH 'Managing Safely' course in-house.

Procurement and outsourcing

Contract management is a key deliverable for VfM and Stonewater's specialist procurement team has adopted a three-year plan which has identified £2.35m of potential savings. The team are working closely with Finance to implement a fully approved process to validate any proposed savings that occur through contract management activities this year and beyond.

We have embarked upon a reprocurement of our repairs, voids, and gas servicing and maintenance contracts across the whole business on a price per property (PPP) basis. This is divided into six regional contract areas. The first contracts for the South East and South West regions went live in June 2018 and June 2019 respectively. The letting of these contracts has realised an aggregate saving for the business of 20% against previous spend.

The remaining four contracts are all out to market in four lots, two going live in June 2020 and a further two in December 2020. We expect that similar levels of savings will be achieved for these as have been for the first two regions. The contracts allow for planned maintenance and capital works to be added in future (subject to satisfactory performance and a further VfM review of the PPP contract).

In addition to the savings generated from the contract side, moving to large monthly invoices rather than invoices based upon individual schedule of rates reduces the administrative burden within the business.

The contracts have been and are being procured through competitive tender with negotiation. The key issue underpinning the procurement is the ability of the contractors to be able to deliver Stonewater's digital ambitions for customer self-service. This will allow the business to generate further VfM savings.

Our Orchid Acre Close residents received wooden trugs, gardening gloves and seeds to plant in the scheme's community garden

Social return on investment (SROI)

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

- Complete stock and neighbourhood profiles
- Strategic tool and project structure
- Calculations of our social impact
- Automatic generation of reports detailing performance against targets and aligned to the financial year
- An assessment of our local economic impact

We continue to invest in the local community through our community investment fund.

One of the successful projects this year has been a fabulous new facility in Swindon, which has recently been created with help from Stonewater's community fund.

Situated next door to the Swindon Foyer in Swindon's Old Town, our Supported Housing Team has transformed this former hairdressers into an invaluable resource for Stonewater and the wider community.

The Annexe will be run as a social enterprise by our supported housing customers in Swindon. It is combining an initiative to rent the space out to local businesses as a location for meetings, training and small conferences, along with community events and activities. The space is already providing a home for 'Out Of The Can', a monthly group for young people identifying as LGBTQ+, and other requests to use the space are coming in.

During the year, Stonewater has also made a significant donation to the Longleigh Foundation of £3m.

Our performance

In addition to Value for Money, we have set ambitious targets for our 'business critical' key performance indicators.

One of our key targets at Stonewater is aiming to achieve best quartile compared to a benchmarking peer group of similar sized housing associations. One of our key indicators is cost per unit:

	2018/19 Cost per unit £	2017/18 Cost per unit £	2017/18 Sector (median) £
Management	**953**	1,001	1,024
Average cost of responsive repairs	**153**	130	n/a
Maintenance	**909**	918	907
Major repairs	**683**	734	720

	2018/19	2017/18	2017/18
Customer satisfaction %	**79%**	80%	87%
Number of new homes built	**548**	612	n/a
Void re-let time (days)	**29**	50	n/a

We continue to increase the level of investment on maintenance to ensure that our homes are fully functional and meet our customers' needs.

Customer satisfaction

During 2018/19, 79% of customers were satisfied with the services they received from Stonewater. The key themes were helpful and friendly staff delivering timely and reliable services, in particular repairs and maintenance.

The recent establishment of the Customer Experience Directorate will further embed the primacy of customer experience within Stonewater, as will a continued review of all customer insight to inform the development and delivery of customer facing services.

We are working to enhance our residents' digital skills in our retirement living schemes

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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 individuals/families who are homeless increased by 71%. This means there are currently 82,000 homeless individuals/families

> Approximately 123,000 children live in these homeless families 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 individuals/ families 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. This started under former Housing Minister, Gavin Barwell MP, who launched the Housing White Paper 'Fixing our broken housing market', in February 2017. This 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 despite Brexit taking up much parliamentary and media time.

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.

Stonewater hopes that housing will remain a priority once the Brexit uncertainty is overcome.

Despite this priority, Brexit 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 poses key risks for organisations like Stonewater – including on finances, ability of contractors to fulfil contracts, impact on residents' day-to-day lives, and the 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 very proactive. At January's Executive Directors Group 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 about the actions we are taking as things evolve.

Welcoming Ben Bradshaw MP to our young people's foyer in Exeter

“We are proud of the work that our supported housing, foyers and refuges do to support people in need.

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 four years of 1% rent reductions, which caused a number of housing associations to look to significantly cut costs and find ways to become more efficient, 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 has given more direction to the sector, as well as leading to the creation of strategic partnerships. Stonewater finalised its strategic partnership deal with The Guinness Partnership 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. We are proud of the work that our supported housing, foyers and refuges 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 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 refuges.

Meanwhile, as modern methods of construction (MMCs) 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.

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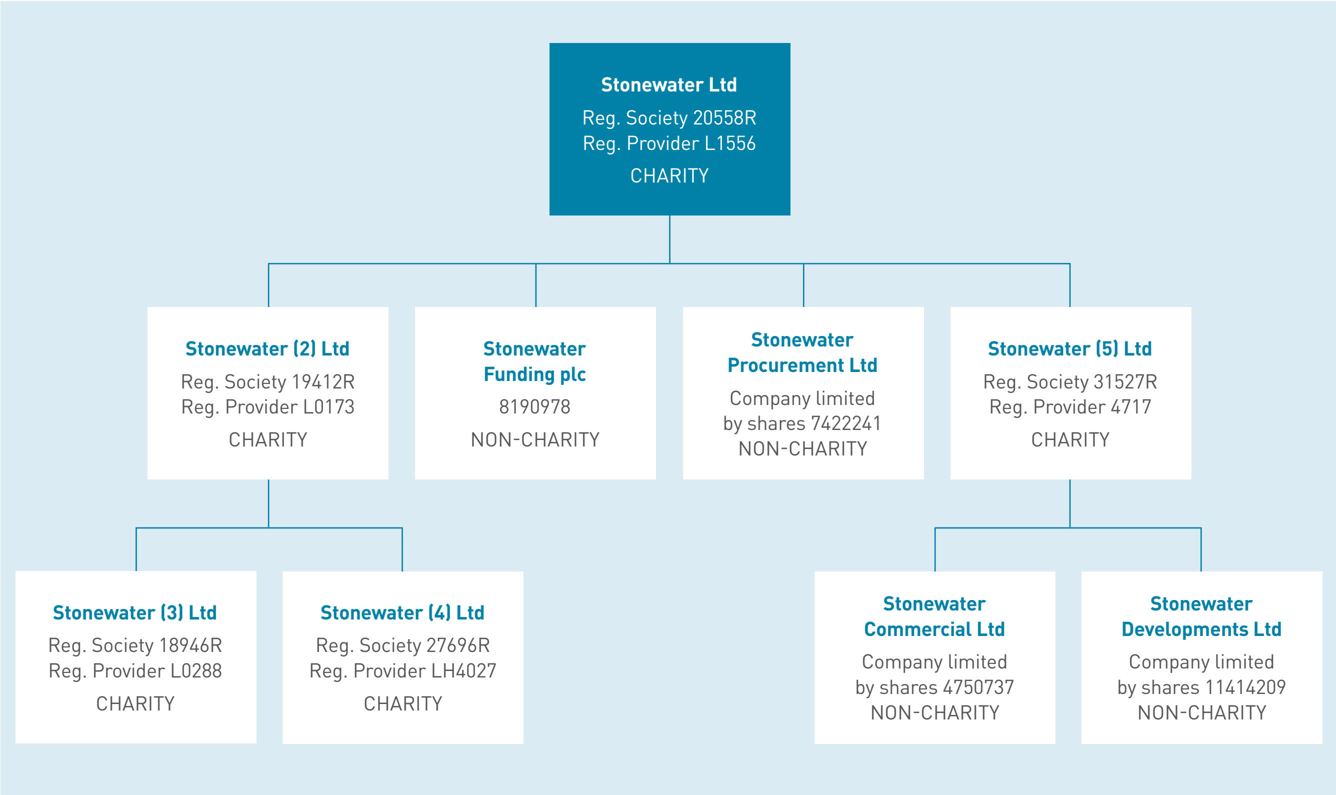
ORGANISATIONAL STRUCTURE, GOVERNANCE AND RISK MANAGEMENT

The Group structure is illustrated below; Stonewater Limited is the parent in the Group.



As at 31 March 2019, Stonewater Limited had four registered provider subsidiaries:

> Stonewater (2) Limited

> Stonewater (3) Limited
(indirect holding, subsidiary of S2)

> Stonewater (4) Limited
(indirect holding, subsidiary of S2)

> Stonewater (5) Limited

Stonewater also has four wholly-owned commercial subsidiaries:

> Stonewater Procurement Limited
– a company which provides design and build services for new properties

> Stonewater Developments Limited
– incorporated on 13 June 2018, a company which supports the Stonewater registered provider entities with their development activity by widening the scope of potential developments by selling fully or partially developed dwellings on the open market to Group entities. The company will also provide design and build services to other Group companies

> Stonewater Funding PLC
– a company which provides external funding for the Group via the capital markets

> Stonewater Commercial Limited
– currently dormant

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 pages 1-3. The Board comprised 12 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.

Skills, qualities and experience required by the Board

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

In addition, the Board seeks to have a membership that reflects the diversity of Stonewater's residents and the communities where we work. The Board has set targets for improving diversity across the governance structure. The current Board comprises 25% female members, 17% from a black or minority ethnic background and one member identifies as disabled. The average age of the membership at 31 March 2019 was 57 years.

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 and 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 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 KPIs are monitored by the board on a quarterly basis

> Board succession
– targets for Board and committee member recruitment met

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.

Shareholding policy

Under Association rules, the Group Board retains discretion over the issue of shares in the Association and current policy is that we operate a closed membership with shares only issued to individuals who are Board members.

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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 Development and Technology Committee include places for independent members.

Each of the Board committees undertakes an annual self-assessment, which reviews how the committee has fulfilled its terms of reference and worked together as a team during the year. During the review, targets for the year ahead and improvements to the committee's operations are identified. The particular areas of focus for each of the committees during 2018/19 are shown, and will be assessed in the 2019 collective appraisals.

> Assets and Development Committee

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

During the year, the Committee has been focusing on:

- Growth strategy
- Stock rationalisation

> Finance Committee

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

During the year, the Committee has been focusing on:

- Ensuring funding is available for growth
- Value for Money assessment and reporting
- Regulatory compliance

> 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, and reviews staff terms and conditions.

During the year, the Committee has been focusing on:

- Board succession, including induction
- Staff recruitment, retention and reward
- Contributing to merger opportunities as they arise

> 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.

During the year, the Committee has been focusing on:

- Customer satisfaction and involvement
- Performance monitoring
- Defining Stonewater's housing offer

> Risk and Assurance Committee

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

During the year, the Committee has been focusing on:

- Knowledge of emerging risks and continuous improvements in risk management
- Efficiency and effectiveness of external audit service

> Digital and New Business Development and Technology Committee (formerly the Digital and IT Task and Finish Group)

Oversees the implementation of Stonewater's digital and IT strategies, with 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 the Chief Executive and five Executive Directors

The details of the Executive Directors Group are outlined on page 8.

Celebrating the refurbishment of The Lodge retirement living scheme, near Bedford

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 can be found on our website **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. 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.

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KEY STRATEGIC RISKS

	Risk responses	
	Examples of controls in place	**Actions during the year to strengthen controls**
Uncertainty about, and changes in, Government policy inhibit strategic planning	> Specialist support via PR and public affairs agencies > Regular Board review and stress testing of operating environment > Brexit action plan	> In-year review of the operating environment as part of monitoring and reporting progress on delivery of the Strategic Plan > Participate in national interest groups and at national political and sector conferences
Stonewater's financial viability reduces	> Treasury Management strategy monitoring > Regular stress testing > Credit rating	> Improve flexibility of short term funding and cash management > Identify new funding
Opportunities for growth through development and sector stock sales are not identified and effectively pursued	> Growth strategy monitoring > Regular stress testing > Available funding	> Map procurement methodology, timing and location of future programme > Develop understanding of the market to balance competitiveness with financial sustainability > Recruit and retain staff
Resilience of Stonewater's IT systems to cyber attacks	> Operational and governance oversight of IT Strategy > Cyber essentials accreditation > Modern security appliances and systems to protect against cyber attack	> Implement additional security systems and processes > Implement regular assessment of internal controls and security architecture > Increase colleague awareness
Lack of leadership concentration on broader issues of strategy, policy and overall performance monitoring	> Board succession plan regularly monitored through governance structure, informed by annual audit of members' skills and gap analysis > Member learning and development programme, monitored through governance structure > Leadership training provided to managers	> Recruitment of new chair and new Board members > Delivery of learning and development programme > Complete actions in governance action plan
Stonewater's offer does not attract and retain people with the skills and experience required to deliver the Strategic Plan	> Independent benchmarking of executive and senior manager salaries > Specialist reward role to develop pay framework, gender pay gap data, job evaluation and external benchmarking. > Monitoring of changes to staff establishment and turnover	> Implement new pay framework > Develop employer brand > Develop resource strategy
Stonewater does not meet its health and safety obligations as a landlord, employer, developer and provider of care and support services	> Specialist team in place with subject experts embedded across the business > Oversight of activity by Safety Management Committee and specialist sub-groups > Management plans in place for key risk areas e.g. fire, asbestos etc	> Implement compliance modules across all assets compliance activities. > Further develop the suite of KPIs > Roll out digitalisation of compliance processes
Value for Money targets are not met	> Value for Money (VfM) targets monitored through quarterly reports to the Finance Committee > Strategy for re-procurement of large contracts and periodic checks on existing contracts > Contract management arrangements	> Implement initiatives to achieve VfM gains and develop a methodology of capturing and recording VfM actions across the organisation > Deliver plan to achieve target operating margin > Deliver plan to achieve top quartile performance on social housing cost per unit
Digitalisation of services and establishment of upgraded IT systems are not implemented effectively, leading to a decline in customer satisfaction	> Governance oversight of overall strategy, risks and benefits realisation > Delivery of projects monitored by projects board > Change toolkits support organisational change and heat maps used to assess implementation impact	> Develop post-digitalisation Future Operating Model > Maximise customer accessibility to digital services > Identify the outcomes with potential for most impact to improve customer trust with Stonewater and achieve business efficiencies
Procurement processes are not documented and embedded	> Dedicated team of qualified staff lead procurement > Procedures for procurement process and standing orders are regularly communicated > Monitoring of procurement strategy	> Review procedures and strategy > Deliver training across business > Complete procurement action plan to include a forward plan of contracts to be procured

PEOPLE STRATEGY

Our five-year People Strategy was developed in 2016 and sets out our ambition to become one of the best companies to work for in the UK. Having delivered this rating ahead of schedule, we have now set ourselves a new stretch target of becoming an exceptional place to work.

We also have an active Stonewater People Committee which consults, informs and engages with colleagues as widely as possible. The People Committee has informed and influenced the implementation of the integration change programme in order that the best outcomes for the company can be achieved.

Leadership and management development remains a key priority to enable the development of our Strategic Plan. Stonewater is committed and is actively working towards equality, diversity and inclusion in all that we do, from recruitment and selection, through learning and development, appraisal and promotion, to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment practices will be objective, free from bias, and based solely on work criteria and individual merit.

We have an in-house recruitment team to ensure that we recruit for aptitude and a good fit with our developing culture. Stonewater recognises that the people it employs have a direct impact on business results and are driving forward our digital people services programme to improve the colleague experience.

Our People Strategy is designed to:

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

> "Stonewater is committed and is actively working towards equality, diversity and inclusion in all that we do.

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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 more commercialised and more than just social housing providers, working in partnership with local authorities and charities to give back to the communities they work in.

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.

We work with artists to create public art with local significance at many of our schemes

Customer engagement

We place our customers at the heart of what we do, investing in understanding customer needs and aspirations to provide services which support their ability to thrive in communities. 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 further shape our services to meet their diverse needs.

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. We let customers know that we are committed to continuous improvement in the services we offer them, and we encourage them to let us know what they think.

We are especially focused on improving digital access for our customers and staff, and our ConnecteD digital programme is designed to do just that. Improving and enhancing digital channels enables two-way feedback regardless of location.

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. This is allowing us to understand our customers better, 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 a Group level, 82.4% of our customers are either very or fairly happy with the services they receive from us.

Equality, diversity and inclusion

Stonewater has adopted the Social Housing Equality Framework (SHEF) to support and drive the organisation's equality and diversity agenda. The Corporate Equality Group is taking action to achieve the SHEF Achieving Level across the business as a whole.

Gender pay gap

Stonewater is committed to equality in treatment and pay of men and women. From April 2017, all UK employers with more than 250 employees were required by law to publish a number of details relating to the gender pay gap in their organisation.

In April 2019, Stonewater published its mean gender pay gap figure: 20%. The Group has participated in the mandatory publication of our gender pay gap. A range of actions are underway to remove this gap.

Further information can be found at **www.stonewater.org/about-us/performance/**

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 available via the website: **modern-slavery-and-human-trafficking-statement**

Financial inclusion

We provide information via our website and Customer hubb to keep customers up to date with benefit changes. Our colleagues are trained about welfare benefits and are able to identify customers who require specialist support, who are then signposted 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 customers' access to favourable financial services through their credit rating.

> We place our customers at the heart of what we do.

Report of the Board of Management and Strategic Report

FUTURE PROSPECTS

Stonewater reviewed its business plan in June 2019. The principal change from the previous year's plan is to extend the development programme to 1,500 units per annum from 2022/23. This takes advantage of increased financial capacity and grant funding from the Strategic Partnership, with Homes England, in conjunction with Guinness.

The key assumptions included in the business plan are:

> Year 1 of the plan, 2019/20, is based on the final budget.

Rents
Rents on social and affordable rent properties will fall by 1% in 2019/20, followed by increases under the new rent settlement of CPI + 1% for 5 years. We assume increases of CPI only thereafter.

Inflation – Consumer Price Index (CPI)
2% from 2020/21 and thereafter.

London Interbank Offered Rate (LIBOR)
0.8035% in 2019/20, rising to 3% by 2024/25 and 4% from 2029/30 onwards.

Earnings
CPI only, rising to CPI + 1% from 2023/24 thereafter.

Maintenance and development costs
CPI + 1.5% until 2023/24, CPI + 1% until 2031/32, CPI only thereafter.

Other Costs
CPI + 0.5% throughout.

Voids and bad debts
Voids 1% throughout, and bad debts 0.8% throughout.

Pension contributions
SHPS annual recovery payments per latest review schedule.

Expected Income and Expenditure is as follows:

Income statement	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Rent and service charges	164.1	173.6	185.6	197.5	210.6
Other income	2.2	2.3	2.3	2.4	2.5
Less: voids	-1.6	-1.7	-1.9	-2.0	-2.1
Amortised Government grant	7.0	7.0	7.4	7.8	8.1
Income from social housing lettings	171.7	181.2	193.4	205.7	219.1
Management and service costs	64.8	64.5	64.8	62.3	63.3
Responsive and planned maintenance	29.7	29.7	31.4	32.4	32.3
Bad debts	1.3	1.4	1.5	1.6	1.7
Property depreciation	27.8	28.5	32.3	36.4	40.5
Other costs	0.0	0.0	0.0	0.1	0.1
Total Operating Costs	123.6	124.1	130.0	132.8	137.8
Surplus/(Deficit) on social housing lettings	48.1	57.1	63.4	72.9	81.3
Other income	3.6	3.7	6.6	6.9	9.5
Surplus on sale of properties	23.0	7.3	7.9	8.5	8.9
Surplus before interest	74.7	68.1	77.9	88.3	99.7
Net interest	-32.5	-35.8	-39.1	-44.5	-50.6
Movement in FV	1.1	1.1	1.1	1.1	1.1
Retained Surplus	**43.3**	**33.4**	**39.9**	**44.9**	**50.2**
Capitalised components	16.6	16.5	19.2	20.6	18.7

Development over the next five years is planned to total over 6,200 social rent, affordable rent, shared ownership and rent to buy units. This includes 1,500 units as part of the Strategic Partnership Programme in partnership with Homes England approved in the autumn of 2018, for which Stonewater will incur £262m of expenditure and receive £76m of grant. Additionally, there is a limited build for sale programme.

The plan has been stress tested for a 'perfect storm' of events the Board consider might affect the plan. Further stress testing confirmed the resistance to falls in stock disposals and failure to make planned efficiencies.

Additional stress-testing modelled the effect of an adverse Brexit outcome. The main source of uncertainty concerns the impact of Britain leaving the EU and the outcome of negotiations. The immediate impact is sustainable within the plan but there could be further effects on financial markets, the wider economy and government policy.

Where remedies are required to ensure compliance with bank covenants, priorities have been set within parameters set by the Board.

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 good policies and procedures in place; monitor these through management activity and governance reporting; and seek external assurance through audits, accreditations etc.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls, which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which Stonewater is exposed to:

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

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

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

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

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

Confirmation from the Board

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

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

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

Compliance with the regulatory standards

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').

Statement of the Board's responsibilities in respect of the Board 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 Group and 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'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 Limited

Opinion

We have audited the financial statements of Stonewater Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2019 which comprise the consolidated and Association statement of comprehensive income, the consolidated and Association statement of financial position, the consolidated and Association statement of changes in reserves, the consolidated statement of cash flow 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 Group's and of the Association's affairs as at 31 March 2019 and of the Group's and 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 Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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 Group and 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 Group's or 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.

Helping young families to find a home of their own

Independent auditor's report to the members of Stonewater Limited — continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition and measurement of liabilities related to the Social Housing Pension Scheme and related presentation and disclosure

As disclosed in note 29 and in the accounting policies a method for the determination of sufficient information for full defined benefit accounting has been determined and information to facilitate inclusion of the share of assets and liabilities on the balance sheet has been provided to the Association and Group. FRS 102 has also been amended to reflect accounting requirements in such an event. The policy and note explain that these changes have been early-adopted and explain the how this change has been reported in respect of:

> De-recognising the previously recognised SHPS deficit reduction liability
> Recognising the Association's share of the assets and liabilities of SHPS
> The value of the assets and liabilities recognised
> The effect on the opening and closing balances.

This was a key audit matter because of the effect of this adjustment on the financial statements, including disclosures, the level of judgement and estimation involved in the determination of amounts to recognise, the timeliness of the provision of relevant information and the level of audit attention given to these changes.

Our response to the key audit matter

Our specific audit testing in this regard included:

- A determination of whether the accounting entries had been made in accordance with the requirements of the revised FRS 102. Our work included specific consideration of the related disclosures. We assessed the following against the requirements of the standard in this respect:
  - The updated SHPS-related accounting policies
  - The disclosure concerning the early adoption of new requirements
  - The reporting of key judgements and estimates and
  - The discussion of the accounting implications of the change of approach to calculation of the SHPS liability within the pension note.
- Securing appropriate audit evidence in respect of SHPS-related accounting entries and disclosures from a number of key sources including:
  - The Scheme Trustee
  - Control assurance provider
  - An auditor's pension and actuarial expert

  Our work in respect of each involved appropriate involvement in setting the scope of the work and assessing suitability of the output derived from other sources as audit evidence and covered both the opening and year-end positions.
- Performing testing, on a sample basis, of certain inputs to the SHPS tool which were derived from the Association's records and considered the appropriateness of assumptions used in calculating the outputs at each of the relevant dates.

Key observations

Our work identified no misstatements or inappropriate application of judgement or estimation. Based on our procedures, we noted no exceptions and found management's key assumptions to be within a reasonable range and the effect of the changes related to the SHPS liability to be appropriately disclosed.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £31,000,000 (2018 - £29,443,000) which represents 1.6% of total assets (2018 – 1.6% of total assets).

We also apply a specific materiality level for all items comprising operating profit (including related disclosures) as that term is defined for the purposes of the entities lending covenants. This therefore involves adjusting operating profit for depreciation, amortisation, impairment, gift aid receipts and the net profit/loss on non-outright sale properties.

The specific materiality level that we applied was £7,400,000 (2018 - £4,149,000), which is 8.0% of adjusted operating profit (2018 - 5.0%).

We used gross assets and adjusted operating profit as our chosen benchmarks to determine materiality and for specific materiality as these are considered to be the areas of the financial statements of greatest interest to the principal users of the financial statements and the areas which will have greatest impact on investor and lender decisions.

Materiality for the parent company was set at £15,000,000 (2018 - £14,445,000) with a specific materiality set at £3,200,000 (2018 - £1,926,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality was set at 70% (2018 – 70%) of materiality or specific materiality depending on the financial statement area being audited. In setting the level of performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Risk and Assurance Committee that misstatements in excess of £620,000 (2018 - £598,000) for areas considered using financial statement materiality and £148,000 (2018 - £83,000) for areas considered using specific materiality which were identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting component in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

Extent to which the audit is capable of detecting irregularities, including fraud

The extent to which the audit is capable of detecting irregularities is affected by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud usually are inherently more difficult to detect than irregularities that result from error.

As part of the audit, we gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We considered the Association's compliance with laws and regulations that have

Independent auditor's report to the members of Stonewater Limited — continued

a direct impact on the financial statements such as the Co-operative and Community Benefit Societies Act 2014 (and related Directions and regulations), the Housing and Regeneration Act 2008 and other laws and regulations application to a registered social housing provider in England. We also considered the risks of non-compliance with the other requirements imposed by the Regulator of Social Housing, and we considered the extent to which non-compliance might have a material effect on the Group financial statements.

We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries of the board and of management and enquiries of third parties, where information from that third party has been used by the Association in the preparation of the financial statements.

There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Board that represented a risk of material misstatement due to fraud.

Classification of components

A full scope statutory audit was carried out for each subsidiary that we considered to be a significant component of the Group.

Audit work on all components was performed by BDO LLP both for the purposes of reporting on the individual financial statements and for Group/consolidation purposes. The only significant component for Group purposes were the parent entity, Stonewater (2) Limited and Stonewater (3) Limited.

Other information

The Board is responsible for the other information. Other information comprises the information included in the Annual Report and Financial Statements, 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 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 for the financial year for which the financial statements are prepared is not consistent with the financial statements;

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

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

> The parent 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 Board members' responsibilities statement set out on page 39, 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 is responsible for assessing the Group and 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 Group or the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 (FRC) website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters

Following the recommendation of the Risk and Assurance committee, we were appointed by the Board on 24 October 2018 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Risk and Assurance committee.

Use of our report

This report is made solely to the members of the Association, as a body, 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.

BDO LLP

PHILIP CLIFTLANDS
Senior Statutory Auditor

For and on behalf of BDO LLP,
Statutory Auditor
Gatwick
United Kingdom

Date 6 August 2019

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

Consolidated and Association statement of comprehensive income

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Turnover	4	**190,724**	187,225	**104,085**	105,169
Cost of sales	4	**(16,085)**	(15,490)	**(8,461)**	(8,975)
Operating costs	4	**(118,255)**	(117,300)	**(71,155)**	(71,698)
Surplus on disposal of fixed assets	11	**9,422**	15,620	**4,409**	2,526
Operating surplus	4,7	**65,806**	70,055	**28,878**	27,022
Interest receivable and similar income	12	**2,988**	221	**3,062**	641
Interest payable and financing costs	13	**(34,296)**	(33,643)	**(16,937)**	(17,387)
Amount transferred from cashflow hedge reserve	13	**(10,745)**	-	**(10,745)**	-
Movement in fair value of non-hedged financial instruments	13	**(1,368)**	2,402	**390**	403
Surplus for the year		**22,385**	39,035	**4,648**	10,679
Actuarial (losses)/gains on defined benefit pension scheme	29	**(6,922)**	432	**(2,843)**	432
Net impact of the initial recognition of multi-employer defined benefit pension scheme	29	**(10,876)**	-	**(4,230)**	-
Movement in fair value of hedged financial instruments	13	**10,601**	15,261	**9,655**	9,425
Total comprehensive income for the year		**15,188**	54,728	**7,230**	20,536

All activities relate to continuing operations.

The notes on pages 46 to 83 form part of these financial statements.

Consolidated and Association statement of financial position

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Fixed assets					
Tangible fixed assets - housing properties	15	**1,776,052**	1,695,197	**846,868**	823,956
Other tangible fixed assets	16	**8,877**	5,164	**6,868**	3,432
Investment	17	**-**	-	**50**	50
Total fixed assets		**1,784,929**	1,700,361	**853,786**	827,438
Current assets					
Properties held for sale	18	**23,320**	11,201	**12,685**	7,497
Trade and other debtors	19	**23,954**	16,306	**20,282**	14,183
Short-term investments	20	**4,554**	4,604	**1,796**	1,800
Cash and cash equivalents		**102,251**	107,827	**50,466**	52,674
		154,079	139,938	**85,229**	76,154
Creditors: amounts falling due in one year	21	**(74,986)**	(80,638)	**(42,594)**	(52,702)
Net current assets		**79,093**	59,300	**42,635**	23,452
Total assets less current liabilities		**1,864,022**	1,759,661	**896,421**	850,890
Creditors: amounts falling due after more than one year	22	**(1,577,414)**	(1,520,787)	**(789,532)**	(764,500)
Provisions for liabilities and charges	28	**(340)**	(213)	**(340)**	(213)
Pension scheme liability	29	**(36,410)**	(3,991)	**(17,133)**	(3,991)
Net assets		**249,858**	234,670	**89,416**	82,186
Capital and reserves					
Share capital	30	**-**	-	**-**	-
Cashflow hedge reserve		**(69,440)**	(80,041)	**(39,508)**	(49,163)
Income and expenditure reserve		**319,298**	314,711	**128,924**	131,349
Total capital and reserves		**249,858**	234,670	**89,416**	82,186

The notes on pages 46 to 83 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

Consolidated and Association statement of changes in reserves

Group	Group £'000 Cashflow hedge reserve	Group £'000 Income and expenditure reserve	Group £'000 Total	Association £'000 Cashflow hedge reserve	Association £'000 Income and expenditure reserve	Association £'000 Total
Balance at 1 April 2018	(80,041)	314,711	234,670	(49,163)	131,349	82,186
Surplus for the year	-	**22,385**	**22,385**	-	**4,648**	**4,648**
Actuarial gains on defined benefit pension scheme (DCC)	-	**192**	**192**	-	**192**	**192**
Actuarial losses on defined benefit pension scheme (SHPS)	-	**(7,114)**	**(7,114)**	-	**(3,035)**	**(3,035)**
Net impact of the initial recognition of the multi-employer defined benefit pension scheme	-	**(10,876)**	**(10,876)**	-	**(4,230)**	**(4,230)**
Movement in fair value of hedged financial instruments	**10,601**	-	**10,601**	**9,655**	-	**9,655**
Balance at 31 March 2019	**(69,440)**	**319,298**	**249,858**	**(39,508)**	**128,924**	**89,416**
Balance at 1 April 2017	(95,302)	275,244	179,942	(58,588)	120,238	61,650
Surplus for the year	-	39,035	39,035	-	10,679	10,679
Actuarial gains on defined benefit pension scheme	-	432	432	-	432	432
Movement in fair value of hedged financial instruments	15,261	-	15,261	9,425	-	9,425
Balance at 31 March 2018	(80,041)	314,711	234,670	(49,163)	131,349	82,186

The notes on pages 46 to 83 form part of these financial statements.

Consolidated statement of cash flow

	Group 2019 £'000	Group 2018 £'000
Cash flows from operating activities		
Surplus for the year	22,385	39,035
Proceeds from sale of fixed assets	19,364	30,127
Adjustments for non-cash items		
Depreciation and impairment	29,129	29,455
Deferred Government grants amortisation	(7,023)	(7,193)
Interest payable and financing costs	34,296	33,643
Amount transferred from cashflow hedge reserve	10,745	-
Interest receivable and similar income	(471)	(221)
Profit on disposal of derivative	(2,518)	-
Surplus on the sale of fixed assets	(9,422)	(15,620)
Movement in fair value of hedged financial instruments	1,368	(2,402)
Increase in trade and other debtors	(10,025)	(2,215)
Decrease in trade and other creditors	(634)	(4,311)
(Increase)/decrease in properties held for sale	(12,119)	1,220
Increase/(decrease) in provisions	127	(242)
Net cash generated from operating activities	**75,202**	**101,276**
Cash flow from investing activities		
Purchase of fixed assets	(112,342)	(75,155)
Purchase of other fixed assets	(4,010)	(2,343)
Receipt of grant	7,253	4,458
Net cash used in investing activities	**(109,099)**	**(73,040)**
Cash flow from financing activities		
Interest paid on loans	(37,113)	(34,189)
Interest received	471	221
Increase/(decrease) in short term investment	50	(869)
New loans	95,366	153,490
Loan repayments	(30,453)	(77,243)
Net cash generated from financing activities	**28,321**	**41,410**
Net (decrease)/increase in cash and cash equivalents	(5,576)	69,646
Cash and cash equivalents at beginning of year	107,827	38,181
Cash and cash equivalents at end of year	**102,251**	**107,827**

The notes on pages 46 to 83 form part of these financial statements.

Notes to the financial statements

GENERAL NOTES

1. Legal status

Stonewater 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 accounting

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Stonewater includes the Co-operative and Community Benefit Societies Act 2014 (and related group accounts regulations), the Housing and Regeneration Act 2008, FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland," the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018, "Accounting by registered social housing providers" and the Accounting Direction for Private Registered Providers of Social Housing 2019.

The accounts are prepared under the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

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

In the preparation of these financial statements, 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" 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 29.

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

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

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical
- No cash flow statement has been presented for the parent company
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole

Going concern
The Group's key activities, together with the potential risks, are set out in the Strategic Report. The Board has a reasonable expectation that the Group and Association have adequate resources to continue in operational existence for the foreseeable future and continues to adopt the going concern basis in preparing the annual financial statements.

Basis of consolidation
The consolidated financial statements present the results of Stonewater Limited and its subsidiaries ('the Group') as if they formed a single entity.

Uniform accounting policies have been adopted across the Group, and intercompany transactions and balances between have therefore been eliminated in full.

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
- Intra-group income and expenditure is included in turnover and operating costs in the financial statements of the Association but is eliminated within the Group consolidated financial statements

Operating segments
There are publicly traded securities within the Group and therefore a requirement to disclose information about Group operating segments under IFRS 8. Segmental information is disclosed in note 4(c) and as part of the analysis in note 15. Information about income, expenditure and assets attributable to material operating segments are based on the nature and function of assets held rather than geography. This is appropriate based on the similarity of the services, nature of risks, type of customer and nature of regulatory environment across all geographical locations in which the Group operates. Operating segments are analysed along the lines of information presented to the Chief Operating Decision Maker who for the purpose of these accounts is determined to be the Board.

Properties for sale
Properties developed for shared ownership sale are divided into first tranche sales and staircasing 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 Group adopts a mixture of fixed and variable methods 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.

Notes to the financial statements – continued

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 incurred during construction attributable to each sales transaction, included within costs of sales are expenses relating to fees expended in promotion developments through the planning system. These 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 a 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.

Value Added Tax

The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the 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 49).

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.

Disposal proceeds fund (DPF)

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 has an ambitious programme and it's expected that any disposal proceeds are likely to be used before they are due for repayment.

The Regulator of Social Housing communicated its intention that from 1 April 2017, credits arising from Right To Acquire (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 acquiring of land and buildings, development costs, and interest charges incurred during development. In addition are the staff costs attributable to bringing housing property into 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 and incidental costs of sales and amortised grant written back are recognised within surplus on disposal of fixed assets in the statement of comprehensive income.

Fixed asset 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 lives are:

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

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

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 – continued

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 adjusted 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 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.

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.

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

Acquisition of housing properties from other social landlords
Housing properties acquired from other Housing Associations are measured at fair value, measured at the purchase price. Grant associated with the transfers is assumed to be fully amortised and therefore not recognised in the statement of financial position. On disposal of the properties the grant must be recorded on the statement of financial position where the obligation to repay or recycle exists.

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

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

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

Bonds and bond on lending are recorded using the effective interest rate method.

Cash and cash equivalents
Cash and cash equivalents in the Group's consolidated statement of financial position consists of cash at bank, deposits and short-term highly liquid investments with an original maturity/weighted average maturity of three months or less.

The Group 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.

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

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

With the exception of swaps with cancellation options and inflation linked swaps the Group has designated each against either existing drawn floating rate debt or against highly probable floating rate debt. To the extent the hedge is effective, movements in fair value are recognised in other comprehensive income and result in a change in the cashflow hedge reserve. Any movements in fair value relating to ineffectiveness (other than our own or counterparty credit risk) are recognised in income and expenditure.

On the early termination of swaps, the difference between the cash paid to terminate the swaps and the balance sheet value of the swaps if a profit is classified as interest receivable, and if a loss, interest payable. Any balance in cashflow hedge reserve relating to the terminated swap is written off through interest payable.

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.

Provision for liabilities
Provisions are included where there is a probable but not certain economic obligation. Any provision included is expected to cover the future liability and is recognised in the statement of financial position.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the statement of financial position date.

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

Notes to the financial statements – continued

Contingent liabilities

A contingent liability is disclosed for a possible obligation of a past event, 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.

Finance costs

For Stonewater bonds and notes, finance costs 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 including any premium recognised. Issue costs are initially recognised as a reduction in the proceeds of the instrument.

For all other borrowings, finance costs are charged on an amortised cost basis.

Pension costs

The Group 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 (Association: £3,647,000, Group: £16,849,000) has been derecognised and the net pension deficit at 31 March 2019 (Association: £7,265,000, Group: £17,990,000) has been recognised through the statement of comprehensive income.

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.

Income and expenditure reserve

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

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.

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 members' best estimate of sales value based on economic conditions within the area of development
- The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense. Assumptions used are based on actuarial advice
- 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

Hedge accounting effectiveness

A prospective test is performed at hedge inception and at each reporting date, under the critical terms method, using a hypothetical derivative that matches the cash flows of the hedged item.

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

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

Other key sources of estimation uncertainty

- **Valuation of swaps**
  All swaps are valued at fair value by discounting expected cash flows at the risk free forward rate curve. This valuation is adopted across the registered provider sector. Had we applied credit and funding valuation adjustments, the derivatives would have had a value of £99.9 million at 31 March 2019, compared to the fair value adopted of £84.7million.

- **Tangible fixed assets (note 15 and 16)**
  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.

- **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 Group's policies and practices and their applications to all the pension schemes operated by the Group 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. Mortality rates for scheme members are set out in note 29.

  The Association has relied upon the information provided by the actuary for SHPS. The discount rate used is given in note 29, along with the inflation rates, CPI and RPI that were used in the calculations.

Notes to the financial statements – continued

STATEMENT OF COMPREHENSIVE INCOME-RELATED NOTES

4(a). Particulars of turnover, costs of sales, operating costs and operating surplus/(deficit)

Group	Note	Turnover 2019 £'000	Cost of sales 2019 £'000	Operating costs 2019 £'000	Surplus on disposal of fixed assets 2019 £'000	Operating surplus/(deficit) 2019 £'000
Social housing lettings	5	169,858	-	(114,070)	-	**55,788**
Other social housing activities						
First tranche shared ownership sales		20,718	(16,085)	-	-	**4,633**
Development staff costs		-	-	(1,083)	-	**(1,083)**
Charitable donations		148	-	(3,001)	-	**(2,853)**
Surplus on disposal of fixed assets	11	-	-	-	9,422	**9,422**
Activities other than social housing activities						
Other		-	-	(101)	-	**(101)**
Total		**190,724**	**(16,085)**	**(118,255)**	**9,422**	**65,806**

Group	Note	Turnover 2018 £'000	Cost of sales 2018 £'000	Operating costs 2018 £'000	Surplus on disposal of fixed assets 2018 £'000	Operating surplus/(deficit) 2018 £'000
Social housing lettings	5	166,597	-	(115,445)	-	51,152
Other social housing activities						
First tranche shared ownership sales		20,578	(15,490)	-	-	5,088
Development staff costs		-	-	(815)	-	(815)
Charitable donations		50	-	(1,000)	-	(950)
Surplus on disposal of fixed assets	11	-	-	-	15,620	15,620
Activities other than social housing activities						
Other		-	-	(40)	-	(40)
Total		**187,225**	**(15,490)**	**(117,300)**	**15,260**	**70,055**

4(b). Particulars of turnover, costs of sales, operating costs and operating surplus/(deficit)

Association	Note	Turnover 2019 £'000	Cost of sales 2019 £'000	Operating costs 2019 £'000	Surplus on disposal of fixed assets 2019 £'000	Operating surplus/(deficit) 2019 £'000
Social housing lettings	5	93,338	-	(67,071)	-	**26,267**
Other social housing activities						
First tranche shared ownership sales		10,625	(8,461)	-	-	**2,164**
Development staff costs		-	-	(1,083)	-	**(1,083)**
Charitable donations		122	-	(3,001)	-	**(2,879)**
Surplus on disposal of fixed assets	11	-	-	-	4,409	**4,409**
Total		**104,085**	**(8,461)**	**(71,155)**	**4,409**	**28,878**

Association	Note	Turnover 2019 £'000	Cost of sales 2019 £'000	Operating costs 2019 £'000	Surplus on disposal of fixed assets 2019 £'000	Operating surplus/(deficit) 2019 £'000
Social housing lettings	5	93,272	-	(69,883)	-	23,389
Other social housing activities						
First tranche shared ownership sales		11,847	(8,975)	-	-	2,872
Development staff costs		-	-	(815)	-	(815)
Charitable donations		50	-	(1,000)	-	(950)
Surplus on disposal of fixed assets	11	-	-	-	2,526	2,526
Total		**105,169**	**(8,975)**	**(71,698)**	**2,526**	**27,022**

Notes to the financial statements – continued

4(c). Group segmental analysis

Group	Customer Experience 2019 £'000	Development 2019 £'000	Asset management 2019 £'000	Central Services 2019 £'000	**Total 2019 £'000**
Turnover	188,454	466	1,365	439	**190,724**
Cost of sales	(16,085)	-	-	-	**(16,085)**
Operating costs	(114,897)	(398)	(1,070)	(1,890)	**(118,255)**
Surplus on disposal of fixed assets	-	-	9,422	-	**9,422**
Operating surplus/(deficit)	**57,472**	**68**	**9,717**	**(1,451)**	**65,806**

Group	Customer Experience 2018 £'000	Development 2018 £'000	Asset management 2018 £'000	Central Services 2018 £'000	Total 2018 £'000
Turnover	182,195	1,273	3,361	396	187,225
Cost of sales	(15,490)	-	-	-	(15,490)
Operating costs	(111,155)	(1,244)	(3,284)	(1,617)	(117,300)
Surplus on disposal of fixed assets	-	-	15,620	-	15,620
Operating surplus/(deficit)	55,550	29	15,697	(1,221)	70,055

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

Group	General needs £'000	Supported and housing for older people £'000	Shared ownership £'000	Affordable rent £'000	Total 2019 £'000	Total 2018 £'000
Income from social housing lettings						
Rent receivable net of identifiable service charges	106,176	12,637	6,197	19,141	**144,151**	140,089
Service charge income	8,901	6,732	1,649	370	**17,652**	18,409
Net rent receivable	**115,077**	**19,369**	**7,846**	**19,511**	**161,803**	158,498
Amortised government grants (note 23)	5,569	797	217	440	**7,023**	7,193
Other income	859	83	90	-	**1,032**	906
Income from social housing lettings	**121,505**	**20,249**	**8,153**	**19,951**	**169,858**	166,597
Expenditure on social housing lettings						
Management	(20,559)	(3,692)	(2,242)	(4,332)	**(30,825)**	(31,198)
Service charge costs	(7,818)	(7,911)	(851)	(511)	**(17,091)**	(16,984)
Routine maintenance	(19,762)	(2,823)	(72)	(1,415)	**(24,072)**	(23,490)
Planned maintenance	(4,774)	(326)	(10)	(217)	**(5,327)**	(4,739)
Major repairs (note 15a)	(5,051)	(2,815)	(283)	(197)	**(8,346)**	(9,469)
Bad debts	(726)	(145)	35	(207)	**(1,043)**	(1,481)
Depreciation on housing properties – annual charge (note 7 and 15)	(19,617)	(2,554)	(1,146)	(3,276)	**(26,593)**	(26,241)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 15a)	(441)	(43)	-	(9)	**(493)**	(833)
Impairment on housing properties (note 7)	-	(360)	(64)	(91)	**(515)**	(1,480)
Reversal of Impairment (note 7)	103	-	38	95	**236**	470
Expenditure on social housing lettings	**(78,646)**	**(20,669)**	**(4,595)**	**(10,160)**	**(114,070)**	(115,445)
Operating surplus/(deficit) on social housing lettings	**42,859**	**(420)**	**3,558**	**9,791**	**55,788**	51,152
Void losses	**(1,071)**	**(732)**	**(47)**	**(156)**	**(2,006)**	(3,352)

Notes to the financial statements – continued

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

Association	General needs £'000	Supported and housing for older people £'000	Shared ownership £'000	Affordable rent £'000	**Total 2019 £'000**	Total 2018 £'000
Income from social housing lettings						
Rent receivable net of identifiable service charges	42,242	6,359	2,062	12,732	**63,395**	61,862
Service charge income	4,526	3,838	691	206	**9,261**	9,822
Net rent receivable	**46,768**	**10,197**	**2,753**	**12,938**	**72,656**	71,684
Amortised government grants (note 23)	2,464	427	58	376	**3,325**	3,447
Other income	11,759	2,003	1,203	2,392	**17,357**	18,141
Income from social housing lettings	**60,991**	**12,627**	**4,014**	**15,706**	**93,338**	93,272
Expenditure on social housing lettings						
Management	(19,885)	(3,592)	(2,186)	(4,303)	**(29,966)**	(30,279)
Service charge costs	(4,228)	(4,071)	(451)	(372)	**(9,122)**	(9,004)
Routine maintenance	(7,682)	(1,104)	(22)	(873)	**(9,681)**	(10,523)
Planned maintenance	(2,007)	(179)	-	(129)	**(2,315)**	(1,728)
Major repairs (note 15b)	(3,006)	(753)	(231)	(155)	**(4,145)**	(4,669)
Bad debts	(316)	(102)	9	(81)	**(490)**	(486)
Depreciation on housing properties – annual charge (note 7 and 15)	(7,031)	(1,396)	(506)	(2,219)	**(11,152)**	(11,736)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 15b)	(158)	(14)	-	(7)	**(179)**	(241)
Impairment on housing properties (note 7)	-	-	(41)	(91)	**(132)**	(1,217)
Reversal of Impairment (note 7)	-	-	38	73	**111**	-
Expenditure on social housing lettings	**(44,313)**	**(11,211)**	**(3,390)**	**(8,157)**	**(67,071)**	(69,883)
Operating surplus on social housing lettings	**16,678**	**1,416**	**624**	**7,549**	**26,267**	23,389
Void losses	(425)	(504)	(5)	(128)	**(1,062)**	(1,642)

6. Units of housing stock

	Group 2019 Number	Group 2018 Number	Association 2019 Number	Association 2018 Number
General needs	**21,527**	21,196	**8,486**	8,537
Affordable	**3,100**	2,796	**1,839**	1,720
Shared ownership	**2,662**	2,438	**894**	755
Supported housing	**432**	435	**258**	260
Housing for older people	**2,303**	2,421	**1,218**	1,241
Other	**529**	528	**22**	22
Total owned	**30,553**	29,814	**12,717**	12,535
Accommodation managed for others	**1,349**	1,320	**91**	82
Total managed accommodation	**31,902**	31,134	**12,808**	12,617
Units managed by other associations	**452**	412	**253**	210
Total owned and managed accommodation	**32,354**	31,546	**13,061**	12,827
Units under construction	**1,092**	930	**538**	340

7. Operating surplus

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
This is arrived at after charging/(crediting):				
Depreciation of housing properties				
- annual charge (note 5 and 15)	**26,593**	26,241	**11,152**	11,736
- accelerated depreciation (note 5 and 15)	**493**	833	**179**	241
Depreciation of other tangible fixed assets (note 16)	**1,765**	1,371	**1,511**	1,018
Impairment of housing properties (note 5 and 15)	**515**	1,480	**132**	1,217
Reversal of impairment of housing properties (note 5 and 15)	**(236)**	(470)	**(111)**	-
Operating lease charges – land and building	**695**	701	**481**	345
Operating lease charges – other	**205**	223	**205**	223
Auditors' remuneration				
- audit of these financial statements	**106**	92	**73**	72
- other services	**13**	35	**13**	-

Audit remuneration of £106,000 (including VAT) (2018: £92,000) represents the audit fee for all Group entities.

Notes to the financial statements – continued

8. Employees

The average number of employees expressed as full-time equivalents FTE (calculated based on 37.5 hours) during the year, also total expenditure was as follows:

	Group 2019 £'000	Group 2018 £'000
FTE	**694**	651
Staff costs consist of:		
Wages and salaries	**23,635**	21,653
Social security costs	**2,440**	2,325
Other pension costs	**964**	947
Redundancy	**95**	236
Total	**27,134**	25,161

9. Directors' and senior executives' remuneration

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

	Group 2019 £'000	Group 2018 £'000
Executive directors' remuneration	**959**	933
Amounts paid to non-executive directors	**159**	156
Pension contributions	**48**	49
Benefits in kind	**30**	16
Total	**1,196**	1,154

The highest total paid is to the Chief Executive in respect of remuneration, and the value was £193,000 (2018: £197,000). In addition, pension contributions of £12,000 (2018: £12,000) were made to SHPS on his behalf.

The remuneration paid to staff (including Executive Management Team) earning over £60,000 (including performance related pay, benefits in kind and pension contributions paid by the employer) is:

Band	Group 2019 Number	Group 2018 Number
£60,000 - £69,999	**28**	13
£70,000 - £79,999	**11**	10
£80,000 - £89,999	**8**	5
£90,000 - £99,999	**8**	5
£100,000 - £109,999	**5**	2
£110,000 - £119,999	**-**	1
£130,000 - £139,999	**-**	-
£140,000 - £149,999	**1**	2
£150,000 - £159,999	**2**	2
£160,000 - £169,999	**1**	-
£170,000 - £179,999	**1**	1
£200,000 - £209,999	**1**	1
Total	**66**	42

10. Board members' remuneration

Name	Group 2019 £'000	Group 2018 £'000
Mr G Blunden	25,000	25,000
Mrs S Collins	7,500	15,000
Mr T Kazi	15,000	-
Mr P Hammond	15,000	15,000
Mrs S Terry	-	7,500
Mr J Weguelin	15,000	14,250
Ms A Dokov	15,000	15,000
Mr B Roebuck	10,000	10,833
Mr D Wright	15,000	15,000
Dr M Collins	7,500	15,000
Mr C Small	-	7,500
Mr P Symington	10,000	11,250
Ms J Crowe	10,000	5,000
Ms C Kearny	5,000	-
Mr A Lawrence	3,958	-
Ms J Bennett	5,000	-
Total	158,958	156,333

Notes to the financial statements – continued

11. Surplus on disposal on fixed assets

Group	Shared ownership properties 2019 £'000	Other housing properties 2019 £'000	Voluntary Right to Buy 2019 £'000	**Total 2019 £'000**	Total 2018 £'000
Disposal proceeds	8,742	10,375	247	**19,364**	30,127
Net book value of disposals (note 15a)	(5,238)	(3,437)	(59)	**(8,734)**	(15,123)
Other costs	(124)	(1,059)	(25)	**(1,208)**	616
Surplus on disposal of fixed assets	**3,380**	**5,879**	**163**	**9,422**	15,620

Association	Shared ownership properties 2019 £'000	Other housing properties 2019 £'000	**Total 2019 £'000**	Total 2018 £'000
Disposal proceeds	3,077	6,227	**9,304**	7,550
Net book value of disposals (note 15b)	(2,125)	(2,078)	**(4,203)**	(4,695)
Other costs	(57)	(635)	**(692)**	(329)
Surplus on disposal of fixed assets	**895**	**3,514**	**4,409**	2,526

12. Interest receivable and similar income

	Group 2019 £'000	Group 2018 £'000	**Association 2019 £'000**	Association 2018 £'000
Interest receivable from group undertakings	**-**	-	**318**	528
Interest receivable and similar income	**2,988**	221	**2,744**	113
Total	**2,988**	221	**3,062**	641

The increase from prior year is due to cash profit realised on the termination of swaps.

13. Interest payable and financing costs

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Interest on loans and overdrafts	**36,190**	35,528	**11,673**	13,251
Interest payable to group undertakings	**-**	-	**6,320**	5,399
Interest capitalised on construction of housing properties (note 15c)	**(2,717)**	(2,725)	**(1,453)**	(1,675)
Recycled capital grant fund (note 24)	**55**	23	**26**	11
Disposal proceeds fund (note 25)	**2**	2	**1**	-
Net interest on net defined benefit liability (note 29)	**766**	815	**370**	401
Total	**34,296**	33,643	**16,937**	17,387

Other financing costs through income and expenditure				
Movement in fair value of non-hedged financial instruments	**(1,368)**	2,402	**390**	403
Amount transferred from cashflow hedge reserve	**(10,745)**	-	**(10,745)**	-
Other financing costs through other comprehensive income				
Movement in fair value of hedged financial instruments	**10,601**	15,261	**9,655**	9,425

The loss of £10,745k results from the early termination of £30m of interest rate swaps which were accounted for as cashflow hedges. This non-cash loss represents the write-off of the balance held in the cashflow hedge reserve which related to these swaps. Stonewater paid £8,227k to terminate the swaps and the cash profit of £2,518k realised on the termination of the swaps is included in interest receivable (note 12).

14. Tax on surplus on ordinary activities

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

Notes to the financial statements – continued

STATEMENT OF FINANCIAL POSITION-RELATED NOTES

15(a). Tangible fixed assets housing properties

Group	Housing properties held for lettings £'000	Housing properties for letting under construction £'000	Shared ownership held for lettings £'000	Shared ownership under construction £'000	Total £'000
Cost:					
At 1 April 2018	**1,797,214**	**23,073**	**138,222**	**14,203**	**1,972,712**
Reclassification	1,039	(1,288)	256	(7)	-
Additions:					
– construction costs	-	53,102	-	26,645	79,747
– replaced components	13,736	-	-	-	13,736
– completed properties	23,694	-	259	-	23,953
Transfer to completed properties	35,512	(35,659)	20,757	(20,610)	-
Disposals:					
– staircasing (note 11)	-	-	(5,557)	-	(5,557)
– other sales (note 11)	(4,932)	-	-	-	(4,932)
– components	(1,637)	-	-	-	(1,637)
At 31 March 2019	**1,864,626**	**39,228**	**153,937**	**20,231**	**2,078,022**
Depreciation:					
At 1 April 2018	**267,006**	**-**	**7,812**	**-**	**274,818**
Adjustment to opening balance	232	-	(88)	-	144
Charge for the year (note 5 and 7)	25,794	-	1,148	-	26,942
Disposals during the year					
– staircasing (note 11)	-	-	(319)	-	(319)
– replaced components	(1,155)	-	-	-	(1,155)
– other (note 11)	(1,436)	-	-	-	(1,436)
At 31 March 2019	**290,441**	**-**	**8,553**	**-**	**298,994**
Provision for impairment:					
At 1 April 2018	**1,357**	**230**	**1,110**	**-**	**2,697**
Reclassification	230	(230)	-	-	-
Charge for the year (note 5 and 7)	451		64	-	515
Reversal of impairment (note 5 and 7)	(198)		(38)		(236)
At 31 March 2019	**1,840**	**-**	**1,136**	**-**	**2,976**
Net book value:					
At 31 March 2019	**1,572,345**	**39,228**	**144,248**	**20,231**	**1,776,052**
At 31 March 2018	1,528,851	22,843	129,300	14,203	1,695,197

15(b). Tangible fixed assets housing properties

Association	Housing properties held for lettings £'000	Housing properties for letting under construction £'000	Shared ownership held for lettings £'000	Shared ownership under construction £'000	Total £'000
Cost:					
At 1 April 2018	**852,976**	**18,556**	**58,573**	**9,390**	**939,495**
Reclassifications	-	-	-	-	-
Additions:					
– construction costs	-	22,513	-	12,248	34,761
– completed properties	-	-	260	-	260
– replaced components	3,625	-	-	-	3,625
Transfer to completed properties	11,750	(11,750)	10,690	(10,690)	-
Disposals:					
– staircasing (note 11)	-	-	(2,224)	-	(2,224)
– other sales (note 11)	(2,749)	-	-	-	(2,749)
– components	(629)	-	-	-	(629)
At 31 March 2019	**864,973**	**29,319**	**67,299**	**10,948**	**972,539**
Depreciation:					
At 1 April 2018	**111,054**	**-**	**2,281**	**-**	**113,335**
Charge for the year (note 5 and 7)	10,824	-	507	-	11,331
Disposals during the year					
– staircasing (note 11)	-	-	(99)	-	(99)
- replaced components	(450)	-	-	-	(450)
- other (note 11)	(671)	-	-	-	(671)
At 31 March 2019	**120,757**	**-**	**2,689**	**-**	**123,446**
Provision for impairment:					
At 1 April 2018	**1,105**	**-**	**1,099**	**-**	**2,204**
Charge for the year (note 5 and 7)	91		41		132
Reversal of impairment (note 5 and 7)	(73)		(38)		(111)
At 31 March 2019	**1,123**	**-**	**1,102**	**-**	**2,225**
Net book value:					
At 31 March 2019	**743,093**	**29,319**	**63,508**	**10,948**	**846,868**
At 31 March 2018	740,817	18,556	55,193	9,390	823,956

Notes to the financial statements – continued

15(c). Tangible fixed assets housing properties

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
The net book value of housing and other properties comprises:				
Freehold	1,701,555	1,619,730	819,920	796,733
Long leasehold	74,497	75,467	26,948	27,223
	1,776,052	1,695,197	846,868	823,956
Interest capitalisation:				
Interest capitalised in the year (note 13)	2,717	2,725	1,453	1,675
Cumulative interest capitalised	42,198	39,481	22,253	20,800
Rate used for capitalisation	4.0%	3.9%	4.0%	3.9%
Works to properties:				
Improvements to existing properties capitalised	13,736	13,100	3,625	5,060
Major repairs expenditure to income and expenditure account (note 5)	8,346	9,469	4,145	4,669
	22,082	22,569	7,770	9,729
Total social housing grant received or receivable to date as follows:				
Capital grant held in deferred income (note 23)	588,882	582,896	283,922	275,805
Recycled capital grant fund (note 24)	7,421	7,262	3,467	3,290
Disposal proceeds fund (note 25)	310	434	104	103
Amortised to statement of comprehensive income in year (note 5)	7,023	7,193	3,325	3,447
Write back amortisation on disposals (note 23)	(634)	(1,201)	(332)	(374)
Cumulative amortisation to reserves	67,685	61,296	34,258	31,265

15(d). Tangible fixed assets housing properties – impairment

The Group considers individual schemes to represent separate cash-generating units (CGUs) when assessing for impairment in accordance with the requirements of FRS102 and SORP 2014.

Group review takes into account efficiencies from having groups of properties held together, and the fact that properties are usually acquired as schemes rather than individual properties and are assessed as such for development purposes.

The Group assessed its portfolio for indicators of impairment at the statement of financial position date. This is an annual process and includes looking at changes in government policy, materially higher than anticipated development costs, reduction in house market prices for shared ownership properties held for sale, changes to market demand for properties and obsolescence due to regeneration plans, and the properties with the most voids throughout the year.

A review of existing stock that was signalled by the indicators was carried out to compare the carrying amount (Net Book Value) net of grant and the recoverable amount. The existing use value (EUV), value in use (NPV) and depreciated replacement value (DRC) calculations were used in the assessment.

The review of active development schemes revealed schemes which have required an impairment charge. A contractor working on four Stonewater schemes, at various stages of development, went into administration during the financial year 2017/18. Three of these schemes were found to be impaired and a charge has been taken to statement of comprehensive income. Other schemes which were triggered for impairment review as a result of an overspend to original appraisal were tested, but no further schemes were found to be impaired.

A review of schemes with long-term void properties was undertaken and one scheme was identified where the recoverable amount was lower than the carrying amount and therefore an impairment charge was made in the accounts.

Following the review, the Group has recognised a total impairment loss of £0.5m (2018: £1.5m) in respect of general needs completed properties and properties under construction.

Impairment of £0.2m was reversed during the year (2018: £0.5m).

Properties held for security

Stonewater Limited had 9,136 properties pledged as security at 31 March 2019 (2018: 8,742 properties).

Notes to the financial statements – continued

16. Other tangible fixed assets – Group

Group	Freehold office £'000	Furniture and office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 April 2018	920	6,608	3,471	58	**11,057**
Additions	14	1,895	3,569	-	**5,478**
At 31 March 2019	934	8,503	7,040	58	**16,535**
Depreciation:					
At 1 April 2018	593	4,152	1,090	58	**5,893**
Charge for year (note 7)	54	480	1,231	-	**1,765**
At 31 March 2019	647	4,632	2,321	58	**7,658**
Net book value:					
At 31 March 2019	287	3,871	4,719	-	**8,877**
At 31 March 2018	327	2,456	2,381	-	**5,164**

16. Other tangible fixed assets – Association

Association	Freehold office £'000	Furniture and office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 April 2018	139	1,440	3,471	58	**5,108**
Additions	-	1,377	3,569	-	**4,946**
At 31 March 2019	139	2,817	7,040	58	**10,054**
Depreciation:					
At 1 April 2018	3	524	1,090	58	**1,675**
Charge for year (note 7)	2	277	1,232	-	**1,511**
At 31 March 2019	5	801	2,322	58	**3,186**
Net book value:					
At 31 March 2019	134	2,016	4,718	-	**6,868**
At 31 March 2018	136	916	2,380	-	**3,432**

17. Fixed asset investments

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

Investments held of £50,000 represent the Association's 50,000 £1 shares in Stonewater Funding PLC, £12,500 of which is paid and £37,500 is unpaid.

*The Association has indirect ownership of these registered social landlords and incorporated companies.

18. Properties held for sale

	Group 2019 £'000	Group 2018 £'000	**Association 2019 £'000**	Association 2018 £'000
Housing properties for sale:				
Work in progress	**13,629**	7,377	**6,231**	5,083
Completed properties	**4,319**	3,824	**3,379**	2,414
Other property sales	**3,975**	-	**3,075**	-
Work In Progress - Open market sales	**1,397**	-	**-**	-
	23,320	11,201	**12,685**	7,497

The stock figure above includes capitalised interest of £479k (2018: £328k).

Notes to the financial statements – continued

19. Trade and other debtors

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Rent and service charge arrears	**10,953**	9,698	**4,987**	4,601
Less: provision for doubtful debts	**(3,963)**	(3,346)	**(1,862)**	(1,623)
	6,990	6,352	**3,125**	2,978
Service costs to be charged in future periods	**3,084**	2,253	**2,937**	1,986
Amounts owned by group undertaking	**-**	-	**4,930**	4,918
Other debtors	**2,505**	1,401	**1,266**	827
Prepayment and accrued income	**5,012**	4,994	**2,628**	2,607
Social housing grant receivable	**6,363**	1,306	**5,396**	867
	23,954	16,306	**20,282**	14,183

20. Short-term investments

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Brought forward	**4,604**	3,735	**1,800**	1,334
(Withdrawals)/ additions	**(50)**	869	**(4)**	466
Carried forward	**4,554**	4,604	**1,796**	1,800

Short-term investments relate to deposits with a maturity of more than three months but less than one year and amounts held in escrow.

21. Creditors – amounts falling due within one year

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Housing loans external (note 26)	**22,678**	30,960	**4,328**	16,686
Issue costs (note 26)	**(442)**	(447)	**(206)**	(269)
Housing loans internal (note 26)	**-**	-	**189**	-
Trade creditors	**823**	3,596	**793**	3,135
Other creditors	**20,688**	17,567	**10,564**	10,064
Taxation and social security	**2,196**	1,130	**2,095**	969
Accruals and deferred income	**6,723**	1,617	**1,932**	1,213
Accrued interest	**4,510**	4,610	**1,538**	2,519
Retentions	**2,139**	1,845	**374**	250
Amounts owed to group undertakings	**-**	-	**12,135**	7,294
Deferred capital grant (note 23)	**7,064**	7,023	**3,339**	3,325
Recycled capital grant fund (note 24)	**1,485**	2,815	**608**	1,293
Disposal proceeds fund (note 25)	**310**	126	**104**	-
SHPS pension deficit	**-**	2,576	**-**	1,071
Leaseholder sinking funds	**6,812**	7,220	**4,801**	5,152
	74,986	80,638	**42,594**	52,702

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.

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

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Housing loans external (note 26)	**895,280**	822,105	**259,303**	262,252
Issue costs (note 26)	**(5,538)**	(5,037)	**(2,642)**	(2,785)
Housing loans internal (note 26)	**-**	-	**190,185**	155,377
Derivatives financial instruments (note 27)	**99,918**	109,178	**59,244**	69,315
SHPS pension deficit	**-**	13,913	**-**	5,761
Deferred capital grant (note 23)	**581,818**	575,873	**280,583**	272,480
Recycled capital grant fund (note 24)	**5,936**	4,447	**2,859**	1,997
Disposal proceeds fund (note 25)	**-**	308	**-**	103
	1,577,414	1,520,787	**789,532**	764,500

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 – continued

23. Deferred capital grant

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
At 1 April	**582,896**	590,436	**275,805**	275,375
Grants received during the year	**12,649**	4,458	**10,483**	3,541
Transfer to RCGF (note 24)	**(975)**	(2,955)	**(1,428)**	(1,397)
Transfer from RCGF (note 24)	**847**	1,263	**678**	476
Transfer from DPF (note 25)	**126**	376	**-**	
Transfer from intercompany	**-**	-	**1,334**	1,506
Released to income in the year (note 5)	**(7,023)**	(7,193)	**(3,325)**	(3,447)
Write back amortisation on disposals (note 15c)	**634**	1,201	**332**	374
Other movements	**(272)**	(4,690)	**43**	(623)
At 31 March	**588,882**	582,896	**283,922**	275,805
Amounts due for repayments:				
- within one year (note 21)	**7,064**	7,023	**3,339**	3,325
- greater than one year (note 22)	**581,818**	575,873	**280,583**	272,480
	588,882	582,896	**283,922**	275,805

24. Recycled capital grant fund (RCGF) – Group

Group	RSH 2019 £'000	GLA 2019 £'000	Total 2019 £'000	RSH 2018 £'000	GLA 2018 £'000	Total 2018 £'000
At 1 April	7,240	22	**7,262**	5,527	200	5,727
Inputs to fund:						
Grants recycled from deferred capital grants (note 23)	975	-	**975**	2,955	-	2,955
Transfer to income	-	-	**-**	-	-	-
Interest accrued (note 13)	53	2	**55**	21	2	23
Recycling of grant:						
New build (note 23)	(847)	-	**(847)**	(1,263)	-	(1,263)
Other	-	(24)	**(24)**	-	(180)	(180)
At 31 March	7,421	-	**7,421**	7,240	22	7,262
Amounts due for release to income:						
- within one year (note 21)	1,485	-	**1,485**	2,793	22	2,815
- within two to three years (note 22)	5,936	-	**5,936**	4,447	-	4,447
	7,421	-	**7,421**	7,240	22	7,262

24. Recycled capital grant fund (RCGF) – Association

Association	RSH 2019 £'000	GLA 2019 £'000	**Total 2019 £'000**	RSH 2018 £'000	GLA 2018 £'000	Total 2018 £'000
At 1 April	3,268	22	**3,290**	2,492	200	2,692
Inputs to fund:						
Grants recycled from deferred capital grants (note 23)	1,428	-	**1,428**	1,397	-	1,397
Transfer to income	-	-	**-**	-	-	-
Interest accrued (note 13)	24	2	**26**	9	2	11
Recycling of grant:						
New build (note 23)	(678)	-	**(678)**	(476)	-	(476)
Repayment of grant to GLA	-	(24)	**(24)**	-	-	-
Other	(575)	-	**(575)**	(154)	(180)	(334)
At 31 March	3,467	-	**3,467**	3,268	22	3,290
Amounts due for repayments:						
- within one year (note 21)	608	-	**608**	1,271	22	1,293
- within two to three years (note 22)	2,859	-	**2,859**	1,997	-	1,997
	3,467	-	**3,467**	3,268	22	3,290

25. Disposal proceeds fund (DPF)

	Group 2019 £'000	Group 2018 £'000	**Association 2019 £'000**	Association 2018 £'000
At 1 April	**434**	808	**103**	103
Inputs to fund:				
Grants recycled (note 23)	**(126)**	-	**-**	-
New development and repairs to existing properties (note 23)	**-**	(376)	**-**	-
Interest accrued (note 13)	**2**	2	**1**	-
At 31 March	**310**	434	**104**	103
Amounts due for repayments:				
- within one year (note 21)	**310**	126	**104**	-
- within two to three years (note 22)	**-**	308	**-**	103
	310	434	**104**	103

Notes to the financial statements – continued

26. Loans and borrowings – Group

Maturity of debt:	Bank loans 2019 £'000	Bond finance 2019 £'000	Other loans 2019 £'000	**Total 2019 £'000**
In one year or less, or on demand	20,133	2,297	248	**22,678**
Issue costs <one year	(326)	(116)	-	**(442)**
Within one year (note 21)	19,807	2,181	248	**22,236**
In more than one year but not more than two years	18,550	2,440	276	**21,266**
In more than two years but not more than five years	85,623	8,337	1,032	**94,992**
After five years	351,942	414,602	12,478	**779,022**
Issue costs	(2,491)	(3,007)	(40)	**(5,538)**
Greater than one year (note 22)	453,624	422,372	13,746	**889,742**
Total loans	473,431	424,553	13,994	**911,978**

Maturity of debt:	Bank loans 2018 £'000	Bond finance 2018 £'000	Other loans 2018 £'000	Total 2018 £'000
In one year or less, or on demand	28,442	2,176	342	30,960
Issue costs <one year	(215)	(232)	-	(447)
Within one year (note 21)	28,227	1,944	342	30,513
In more than one year but not more than two years	16,627	2,314	248	19,189
In more than two years but not more than five years	57,291	7,829	926	66,046
After five years	370,944	353,070	12,856	736,870
Issue costs	(1,686)	(3,351)	-	(5,037)
Greater than one year (note 22)	443,176	359,862	14,030	817,068
Total loans	471,403	361,806	14,372	847,581

All of the bank loans mature by 2043. There is no particular concentration of maturities in any particular financial year.

Of the £424.6m bond finance, £405.4m has a repayment date between 2042 and 2047.

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

Loans are secured by specific charges on the housing properties of the group. Total loan facilities at 31 March 2019 were £1,152 million (2018: £1,087 million) of which £234 million were undrawn (2018: £234 million).

26. Loans and borrowings – Association

Maturity of debt:	Bank loans 2019 £'000	Bond finance 2019 £'000	Bond on lending 2019 £'000	Other loans 2019 £'000	**Total 2019 £'000**
In one year or less, or on demand	4,094	153	189	81	**4,517**
Issue costs <one year	(129)	(18)	(59)	-	**(206)**
Within one year (note 21)	3,965	135	130	81	**4,311**
In more than one year but not more than two years	5,195	155	202	90	**5,642**
In more than two years but not more than five years	19,596	502	649	335	**21,082**
After five years	163,695	64,270	189,337	5,462	**422,764**
Issue costs	(1,275)	(467)	(900)	-	**(2,642)**
Greater than one year (note 22)	187,211	64,460	189,288	5,887	**446,846**
Total loans	191,176	64,595	189,418	5,968	**451,157**

Maturity of debt:	Bank loans 2018 £'000	Bond finance 2018 £'000	Bond on lending 2018 £'000	Other loans 2018 £'000	Total 2018 £'000
In one year or less, or on demand	16,217	149	197	123	16,686
Issue costs <one year	(199)	(13)	(57)	-	(269)
Within one year (note 21)	16,018	136	140	123	16,417
In more than one year but not more than two years	4,998	153	196	81	5,428
In more than two years but not more than five years	17,800	486	660	300	19,246
After five years	168,860	64,315	154,194	5,586	392,955
Issue costs	(1,336)	(498)	(951)	-	(2,785)
Greater than one year (note 22)	190,322	64,456	154,099	5,967	414,844
Total loans	206,340	64,592	154,239	6,090	431,261

Notes to the financial statements – continued

27. Financial instruments

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

	Note	Group 2019 £'000	Group 2018 £'000
Financial assets:			
Financial assets measured at historical cost			
— Trade and other debtors	19	**10,074**	8,605
— Other receivables	19	**8,868**	2,707
— Investments in short-term deposits	20	**4,555**	4,604
— Cash and cash equivalents		**102,251**	107,827
Total		**125,748**	123,743
Financial liabilities:			
Financial liabilities measured at amortised cost			
— Loans payable	26	**911,978**	847,581
Financial liabilities measured at historical cost			
— Trade creditors	21	**823**	3,596
— Other creditors	21	**48,603**	57,044
Derivatives financial instruments measured at fair value comprise interest swaps	22	**99,918**	109,178
Total		**1,061,322**	1,017,399

Financial assets measured at cost comprise trade debtors, other debtors, amounts owed by associated undertakings, cash, cash equivalents and investments in short-term deposits.

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

Derivative financial instruments are measured at fair value based at each reporting date.

Hedge of variable interest rate risk arising from bank loan liabilities

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the Group has entered into floating to fixed interest rate swaps. These result in the Group paying 4.9% (2018: 4.5%) and receiving LIBOR (though cash flows are settled on a net basis). These swaps fix the total interest cost on loans at 3.8% (2018: 4.2% per annum).

28. Provisions for liabilities and charges

Group	Dilapidations £'000	Total £'000
At 1 April 2018	213	**213**
Additions	127	**127**
At 31 March 2019	340	**340**

Association	Dilapidations £'000	Total £'000
At 1 April 2018	213	**213**
Additions	127	**127**
At 31 March 2019	340	**340**

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

29. Pensions

Three schemes are operated by the Group.

A) Social Housing Pension Scheme (SHPS) defined benefit scheme

Group 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, sets 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 – continued

29. Pensions – continued

B) Defined benefit pension scheme Dorset County Council (DCC)

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

A full actuarial valuation of the defined benefit scheme was carried out at 30 November 2016 by a qualified independent actuary. Contributions to the scheme are made by the Group based on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees. The next valuation will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2019 to 31 March 2022. The actuarial gain for the year of £192,000 has been recognised in the statement of comprehensive income.

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

C) Social Housing (SHPS) Defined contribution scheme

The Group also participates in the SHPS. It is funded and is contracted out of the state pension scheme.

The amount charged to the statement of consolidated income represents the contributions payable to the scheme in respect of the accounting period.

Statement of other comprehensive income	**Group 2019 £'000**	Group 2018 £'000	**Association 2019 £'000**	Association 2018 £'000
Pension liability				
DCC	**192**	432	**192**	432
SHPS	**(7,114)**	-	**(3,035)**	-
Total	**(6,922)**	432	**(2,843)**	432
Initial recognition of SHPS multi-employer DB scheme	**(10,876)**	-	**(4,230)**	-

Statement of financial position	**Group 2019 £'000**	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Pension liability				
Dorset	**3,830**	3,991	**3,830**	3,991
SHPS	**32,580**	-	**13,303**	-
Total	**36,410**	3,991	**17,133**	3,991

29. Pensions – continued

	DCC 2019 £'000	SHPS 2019 £'000	**Total 2019 £'000**	DCC – 2018 2018 £'000
Fair value of plan assets	5,583	96,579	**102,162**	5,531
Present value of plan liabilities	(9,413)	(129,159)	**(138,572)**	(9,522)
Net pension scheme liability	(3,830)	(32,580)	**(36,410)**	(3,991)
Reconciliation of fair value of plan assets:				
At the beginning of the year/ initial recognition	5,531	91,940	**97,471**	5,452
Interest income on plan assets	139	2,366	**2,505**	139
Return on assets less interest	107	1,866	**1,973**	133
Administration expenses	(4)	-	**(4)**	(4)
Contributions by employer	120	3,053	**3,173**	116
Contributions by fund participants	13	535	**548**	11
Estimated benefits paid plus unfunded net transfer in	(323)	(3,181)	**(3,504)**	(316)
At the end of the year	5,583	96,579	**102,162**	5,531
Reconciliation of present value of plan liabilities:				
Defined benefit obligation at start of period/ initial recognition	(9,522)	(118,957)	**(128,479)**	(9,829)
Current service cost	(47)	(757)	**(804)**	(45)
Expenses	-	(79)	**(79)**	-
Interest expense	(239)	(3,032)	**(3,271)**	(252)
Contributions by plan participants	(13)	(535)	**(548)**	(11)
Actuarial losses due to scheme experience	-	(248)	**(248)**	-
Actuarial gains/(losses) due to changes in demographic assumptions	510	(366)	**144**	-
Actuarial (losses)/gains due to changes in financial assumptions	(425)	(8,366)	**(8,791)**	299
Benefits paid and expenses	323	3,181	**3,504**	316
At the end of the year	(9,413)	(129,159)	**(138,572)**	(9,522)
Amounts recognised in other comprehensive income are as follows:				
Included in administrative expenses:				
Service costs	47	757	**804**	45
Administration expenses	4	79	**83**	4
	51	836	**887**	49
Amounts included in other finance costs				
Net interest costs (note 13)	100	666	**766**	113
Analysis of actuarial loss recognised in other comprehensive income:				
Return on fund assets in excess of interest	107	1,866	**1,973**	133
Change in financial assumptions	(425)	(8,366)	**(8,791)**	299
Change in demographic assumptions – gain (loss)	510	(366)	**144**	-
Experience loss on defined benefit obligation	-	(248)	**(248)**	-
Total actuarial losses	192	(7,114)	**(6,922)**	432

Notes to the financial statements – continued

29. Pensions – continued

	SHPS 2019 Group £'000	SHPS 2019 Association £'000
Analysis of net impact of the initial recognition of the multi-employer defined benefit pension scheme		
Assets per actuary at 31/03/2018	91,940	37,520
Liabilities per actuary at 31/03/2018	(118,957)	(48,435)
Opening deficit	(27,017)	(10,915)
Current SHPS pension liability 31/03/2018 (note 21)	(2,756)	(1,071)
Non-current SHPS pension liability 31/03/2018 (note 22)	(13,913)	(5,761)
Total recognised 2017/18	(16,489)	(6,832)
Impact of payments made in year	(348)	(147)
Net impact of the initial recognition of the multi-employer defined benefit pension scheme	**(10,876)**	**(4,230)**

	DCC 2019 £'000	SHPS 2019 £'000	Total 2019 £'000	DCC 2018 £'000
Composition of plan assets:				
Equities	2,832	16,251	**19,083**	2,989
Liability driven investment	724	35,321	**36,045**	724
Cash	168	186	**354**	78
Other bonds	396	4,506	**4,902**	388
Diversified growth fund	332	-	**332**	334
Property	609	3,594	**4,203**	558
Infrastructure	257	5,065	**5,322**	200
Multi-asset credit	265	-	**265**	260
Debt	-	7,397	**7,397**	-
Alternatives	-	24,259	**24,259**	-
Total	5,583	96,579	**102,162**	5,531

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £4,232,000.

29. Pensions – continued

	DCC 2019 %	SHPS 2019 %	DCC 2018 %
Principal actuarial assumptions used at the statement of financial position date:			
Discount rates:	**2.35**	**2.31**	2.55
Future salary increases	**4.45**	**3.29**	4.35
Future pension increases	**2.45**	**2.37**	2.35
Inflation assumptions - RPI	**3.45**	**3.29**	3.35
Inflation assumptions - CPI	**2.45**	**2.29**	2.35
Mortality rates:			
For a male aged 65 now	**22.9**	**21.8**	24.0
For a female aged 65 now	**24.8**	**23.5**	26.1
At 65 for a male member aged 45 now	**24.6**	**23.2**	26.2
At 65 for a female member aged 45 now	**26.6**	**24.7**	28.4

30. Share capital

Association	2019 £	2018 £
At 1 April	**11**	10
Shares issued in the year	**3**	3
Shares cancelled in the year	**(3)**	(2)
At 31 March	**11**	11

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

Notes to the financial statements – continued

31. Operating leases

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

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Amounts payable as lessee:				
Not later than one year	**973**	816	**736**	544
Later than one year and not later than five years	**2,001**	2,221	**1,617**	1,702
Later than five years	**395**	282	**395**	236
	3,369	3,319	**2,748**	2,482

32. Capital commitments

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Commitments contracted but not provided for construction	**157,713**	94,600	**69,314**	31,337
Commitments approved by the Board but not contracted for construction	**144,877**	93,784	**78,353**	54,931
	302,590	188,384	**147,667**	86,268

The above capital commitments for the Group are projected to be funded from £41.0 million SHG (2018: £14.6m) and first tranche sales of £95.8 million (2018: £54.6m), with the remainder funded from operating cashflow and external borrowings.

The above capital commitments for the association are projected to be funded from £20.0 million SHG (2018: £8.2m) and first tranche sales of £47.0 million, with the remainder funded from operating cashflow and external borrowing.

33. Related party disclosures

The Association transacts with a number of non-regulated entities: Stonewater Procurement Limited, a company which provides design and build services to other Group entities; Stonewater Funding PLC whose principal activity is to act as the capital markets issuance vehicle for the Group; and Stonewater Developments Limited, a company which supports the Stonewater registered provider entities with their development activity by widening the scope of potential developments by selling fully or partially developed dwellings on the open market to Group entities. The company will also provide design and build services to other Group companies.

Intra-Group revenue

The Association provides staff services to Stonewater Procurement Limited and Stonewater Developments Limited to manage various design and build projects.

The Association recharges the staff costs to Stonewater Procurement Limited and Stonewater Developments Limited.

The Association also provides management services to other Group companies including non-regulated entities. Total income for the year from the non-regulated entities was:

	2019 £'000	2018 £'000
Staff costs recharge to Stonewater Procurement Ltd and Stonewater Developments Ltd	**1,478**	1,555
Management services provided to Stonewater Procurement Ltd, Stonewater Developments Ltd and Stonewater Funding PLC	**418**	444

Intra-Group costs

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

The Association receives a full development service from Stonewater Developments Ltd, the recharge includes an admin fee based on 2.5% of the contract costs.

The Association receives financial services from Stonewater Funding PLC.

Total costs for the year paid to the non-regulated entities were:

	2019 £'000	2018 £'000
Charge for the design and build service provided by Stonewater Procurement Limited	**39,899**	31,067
2.5% admin charge from Stonewater Procurement	**997**	777
Charge for development services provided by Stonewater Developments Ltd	**6,174**	-
2.5% admin charge from Stonewater Developments Ltd	**154**	-
Management fee charged by Stonewater Funding PLC	**135**	120

Intra-Group liabilities

Stonewater Limited has loans in place with Stonewater Funding PLC. At 31 March 2019 the outstanding amount was £190.3m (2018: £155.6m).

Stonewater (2) Limited has loans in place with Stonewater Funding PLC. At 31 March 2019 the outstanding amount was £76.1m (2018: £46.5m).

Stonewater (5) Limited has a loan in place with Stonewater Funding PLC. At 31 March 2019 the outstanding amount was £30.9m (2018: £30.9m).

	2019 £'000	2018 £'000
Loan balance provided by Stonewater Funding (after issue costs) (note 26)	**297,267**	1,555
Interest charged by Stonewater Funding	**9,977**	8,022

Under the facilities the loans, which are repayable at various dates through to 2047, are secured by fixed charges over the housing properties of Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited; cross guarantees cover any shortfall in the security and any unpaid interest and fees in respect of the loans. At 31 March 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.

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STONEWATER