STONEWATER

Stonewater Limited

Report of the Board of Management, Strategic Report and Financial Statements

For the year ending 31 March 2018

Our Vision

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

Contents

Albone Avenue, Arlesey.

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 **31,500 homes** across 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, foyers and women's refuges.

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

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

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

Over the past year, we have built 612 homes, and have plans to increase our build programme to reach 1,000 homes a year from 2019/20.

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

> 425 affordable rent
> 187 shared ownership

At 31 March 2018, we were in contract to build 930 homes.

Work continued on Stonewater's stock rationalisation programme. The asset team achieved gross sales of £19.3m (2017 £18.2m) for this programme, which equates to surplus of £11.9m (2017 £7.0m). 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.

612
new homes built

425
affordable rent

187
shared ownership rent

930
homes contracted to build

£19.3m
gross sales achieved by the asset team

(2017 £18.2m)

£11.9m
surplus (on sales achieved by the assets team)

(2017 £7.0m)

Everything we do 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.

We provide homes for people from a range of backgrounds.

Our Values

Ethical
We take responsibility and are accountable for our decisions. When we make a promise, we keep it. We are inclusive, professional and honest.

Ambitious
We are driven and competitive, always seeking the best solutions for our organisation and our customers. We aim to be a landlord, partner and employer of choice.

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

Agile
By being adaptable and open-minded, we 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.

Board members

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 and is also a non-executive director of an insurance company.

Sheila Collins

Sheila is a solicitor who has many years' experience as non executive director on the boards of various not for profit organisations. For 12 years she was the Chair of Royal Bournemouth and Christchurch Hospitals Foundation Trust and currently sits on the Board of Bournemouth University. Sheila has a wealth of experience in the governance of large complex organisations. She is currently Chair of the Governance and HR Committee and also sits on the Assets and Development Committee.

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 Investments Funds Sub Committee in Worcestershire. She was appointed to the Stonewater board on 1 October 2017.

Anne Dokov

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. Anne is Chair of the Housing Committee.

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.

Patrick Symington

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

Patrick chairs the Risk and Audit Committee. He was appointed on 1 July 2017.

John Weguelin

John is an investment banker; he has extensive experience of leading, motivating and directing multi-functional and diverse teams. His interests include property development, leadership, and change management. John chaired the Finance Committee until 10 April 2018.

Michael Collins – Deputy Chair

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

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.

Doug Wright

Doug is a development and finance professional. He operates as a consultant for vulnerable people for the repair and improvement of their homes. Doug chairs the Asset and Development Committee.

Nicholas Harris

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

Sue Terry and Colin Small

Both resigned from the Board on 26 September 2017. We thank them for their contributions, and wish them well for the future.

Tariq Kazi

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 a financial consultant 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. Tariq chairs the Finance Committee. He was appointed to the Stonewater board on 13 March 2018.

Executive officers and advisors

Executive officers

Nicholas Harris
Chief Executive

John Bruton
Deputy Chief Executive, and
Executive Director of Finance

Sue Shirt
Executive Director of Housing

Jonathan Layzell
Executive Director of Development

David Blower
Executive Director of Corporate Services

Scott Baxendale
Executive Director of Assets

Secretary and registered office

Anne Harling
Suite C, Lancaster House
Grange Business Park
Enderby Road
Whetstone
Leicester
LE8 6EP

Principal bankers

Barclays Bank
Level 27
1 Churchill Place
London
E14 5HP

Principal solicitors

Devonshires Solicitors
30 Finsbury Circus
London
EC2M 7DT

Auditors

BDO LLP
Two Snowhill
Birmingham
B4 6GA

Our mission

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

Chairman's statement

George Blunden – Chair of Board

As Stonewater enters its fourth 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.

Nationwide, the demand for good quality, affordable housing has never been greater, and Stonewater is agile, ready and fully-equipped to address this need, whilst also maintaining the highest quality of customer service.

Our growth and ambition is underpinned by excellent financial status – we hold the highest possible ratings for Governance (G1) and Viability (V1) from the Regulator of Social Housing, and also have an A2 credit rating* from Moody's, with a stable outlook.

Our investment plan includes a comprehensive refurbishment of our retirement living and supported homes, and we are also investing in building more new, much-needed homes than ever before, as we play our part in helping to solve Britain's housing crisis.

As part of this, we are ensuring we are in the best possible position to secure a significant proportion of the Government's recently-announced £2bn additional funding for building 300,000 new homes by the mid 2020s.

As ever, I am immensely proud of Stonewater and all we achieve. My thanks go to the board, committees, management team and staff for their committed and enthusiastic approach to running our business and to providing exemplary care to our customers. It is the people at the heart of Stonewater who contribute to the organisation's success.

George Blunden
Chair of Board

* In June 2018, Stonewater was given a long-term rating of A+ by independent credit ratings agency, S&P Global Ratings.

Highlights

Governance rating	Viability rating	Moody's rating
G1	V1	A2

Chief Executive's statement

Nicholas Harris – Chief Executive

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 proactive and our growth plans significant and ambitious.

Stonewater is committed to its role as one of the leading housing providers in the UK. Over the past year, we have built over 600 new homes and we are fiercely ambitious to grow that number to a minimum of 1,000 homes per year from 2019/2020.

Our financial position remains robust, with a turnover of £187.2m and a total surplus of £39m for this financial year. Over the past year we have spent £73.8m on building new homes, and £13m on upgrading our existing portfolio of stock.

We are not resting on our laurels. The UK is in the grip of a housing crisis and we are passionate about doing all we can to help alleviate the pain of homelessness. The number of homeless households has increased by 64% from 2010 to 2017[1], affecting almost 79,000 households. Shockingly, this has a direct and terrible impact on the youngest and most vulnerable in our society, as over 120,000[2] children currently have nowhere to call 'home'. Rough sleeping is also on the rise, increasing by 169% between 2010 and 2017[3]. A further proportion of people fall into the 'hidden homeless' category as they do not qualify for housing assistance but are forced to spend their lives 'sofa surfing' between friends and relatives.

We know that there has been an 11%[4] drop in the availability of social housing and our plans to build more homes than ever before are directly aimed at addressing that deficit. Our commitment to our vision is at the centre of all we do, and we continue to be committed to the care of our customers.

Our organisation is nothing, however, without the commitment, passion and determination of our people. I would like to express my thanks to our board, management and staff for their hard work and dedication to maintaining our success, and to building Stonewater's future.

Nicholas Harris
Chief Executive

Highlights

Turnover	Total surplus	New homes built
£187.2m	£39m	600

Report of the Board of Management and Strategic Report

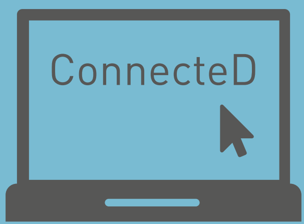
Highlights of the year

We have achieved a great deal over the last 12 months.

During the year we have:

Delivered over **600 new homes.**

Launched **ConnecteD**, our Digital Transformation Programme, and **delivered** the **first phase** of the programme.



Delivered the second year of our **£9 million investment** in our **retirement living schemes.**

Delivered a really **effective campaign** to let empty homes to **new customers.**

Achieved a **'One to Watch'** rating in the **Best Companies survey.**

ONE TO WATCH
BEST COMPANY
2018

Our values:

Ethical – We take responsibility and are accountable for our decisions. When we make a promise, we keep it. We are inclusive, professional and honest.

Ethical

Report of the Board of Management and Strategic Report

Strategic Plan 2017-2022

Our Strategic Plan is our compass on this journey. The objectives and associated outcomes we are seeking to achieve are set out under three key themes:

Customer Experience

Growth and Influence

Business Excellence

Stonewater colleagues share a planning session.

Customer Experience

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

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.

Stonewater homes under construction.

Business Excellence

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 five 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. We are working against a backdrop of budget constraints, continuing welfare reform and emerging government policy.

We are also in a period of economic uncertainty as a result of Brexit. However our strong financial position, combined with our clear vision, means we are able to respond positively to a challenging external environment and stay true to our goals. Our Strategic Plan underpins our purpose. It is designed around the needs of our customers, the vision of our board, the clear leadership of our executive team, the capability of our management, the passion of our staff, and commitment from our stakeholders and working partners.

Stonewater colleagues.

Report of the Board of Management and Strategic Report

Performance against our Strategic Plan in 2017/18

Customer Experience

Our aim is to deliver effective and consistent services to our customers, and to listen to their feedback so we can use this to help shape our services. We use digital channels to widen customer involvement in our service design. We are also making our services more accessible, through flexible working and our ConnecteD digital programme, which will enable our customers to 'self-serve'.

Objectives		
1. Deliver an effective service that meets the diverse needs and aspirations of our customers.	**2.** Deliver retirement living services that meet the needs and aspirations of our customers.	**3.** Deliver supported housing services that meet the needs of our customers and the aspirations of the business.
Outcomes		
i. Customer satisfaction has increased to 86% by March 2022. ii. An approach to measuring outputs on digital transactions is agreed by March 2019.	A viable retirement living portfolio that has achieved a customer satisfaction level of 90% by March 2022.	80% of clients to have maintained sustainable, long term independent living (12 months plus) after moving on from Stonewater's supported housing service by March 2021.
Actions		
> Introduce new online services to customers from January 2019. > Ensure improvements identified by the Customer Scrutiny Panel are delivered by March 2020. > Develop a new Customer Involvement Strategy to strengthen our approach to customer engagement and involvement by March 2020. > Deliver the Customer Contact Strategy by December 2020. > Deliver the Customer Insight Strategy to sustain customer satisfaction and design services around customer experience by March 2022.	> Agree tenure neutral wellbeing service propositions by January 2019 > Deliver the Health and Wellbeing initiative by May 2019. > Deliver the Digital Inclusion initiative by May 2019. > Continue to implement the retirement living investment plan by March 2022.	> Subject to the outcome of the Government's review, agree our approach to tenancy sustainability for supported housing by December 2018. > Develop a robust supported housing KPI reporting framework by March 2019. > Develop a supported housing Customer Insight Framework as part of the development of a wider Customer Insight Strategy by April 2019. > Achieve a recognised accreditation for the delivery of quality Domestic Abuse services by March 2020. > Deliver the Supported Housing Strategy by November 2020.

Growth and Influence

We are committed to delivering new homes across a range of tenures to meet the challenges of the housing crisis in England. Our Growth Strategy takes account of Government policy, with an increased emphasis on flexibility of tenure and providing opportunities for a range of home ownership and rental options.

Our size and financial strength gives us the opportunity to be a leading voice in the sector, and influence national and local agendas. We will continue to raise our profile and engage with a range of stakeholders to promote the interests of the sector and Stonewater.

Objectives

4. Deliver an ambitious programme to provide more homes for people in need.	**5.** Develop an increased range of housing options from home ownership to affordable rented homes to meet the changing needs of the market.	**6.** Build a reputation as a thought leader in the sector with influence on national and local agendas.

Outcomes

At least 3,750 new homes completed by March 2022.	Alternative rental and home ownership products which are affordable and sustainable are available by March 2019.	Stonewater is perceived as a thought leader for: our Customer Contract offering; young people's (Foyer) services; domestic violence refuges; and older people's services, by March 2022.

Actions

> Deliver the pipeline programme of 1,750 new homes between April 2018 and March 2020. > Build on the pipeline programme to deliver additional new homes to meet the development target by March 2022. > Develop a proactive and strategic approach to identifying opportunities for inorganic growth and potential merger partners.	> Agree a market intelligence approach, (including location, finish and design) to developing and offering properties for market rent and sale by September 2018. > Agree an approach to alternative forms of construction (including modular manufacture) to deliver more environmentally sustainable homes in the context of skills shortages, and the drive for efficiency/value for money, by March 2019. > Agree and implement a voluntary agreement of Right to Buy to participate in the Phase 2 pilot by September 2019. > Agree options for offering home ownership products to our existing tenants by September 2019.	> Develop and deliver the PR Strategy to increase positive press coverage and increase brand awareness by March 2019. > Develop and deliver the Public Affairs programme by March 2019. > Develop and deliver the Internal Communications Strategy by March 2019. > Review and update the PR Strategy, Public Affairs programme and Internal Communication Strategy by March 2019.

Report of the Board of Management and Strategic Report

Performance against our Strategic Plan in 2017/18

Business Excellence

We are committed to operating efficiently so we can provide more affordable housing. The need for this has been reinforced by the reductions in social rents until 2019-20 and the implications of welfare reform. Our aim is to maximise our income, get the best return on our investments, and continue to deliver efficiency savings in all areas of our work.

ConnecteD, our digital programme, will transform the way we work as a business, and help us to achieve better value for money. We are also building a culture of high performance though the delivery of our People Strategy, and embedding equality and diversity into our day-to-day working through our Equality and Diversity Strategy.

Objectives		
7. Achieve consistently high standards of performance for our business critical key performance indicators on income collection and compliance.	**8.** Invest in and support our people to attract, develop and retain a highly motivated workforce who will deliver our strategic objectives.	**9.** Manage our resources efficiently and effectively, and maximise the return on our assets to ensure we have the financial capacity to deliver our priorities.
Outcomes		
i. Performance for our business critical KPIs is top quartile compared with our benchmark peer group. ii. The digital transformation programme to support high performance has been implemented by December 2020.	Stonewater is recognised as one of the best places to work in the UK by March 2021. (Measured by achievement in the 'The Sunday Times Best Companies to Work For' survey).	i. Social housing cost per unit has reduced to £3.46k by March 2022. ii. Stonewater understands the net present value (NPV) of all of its assets and is able to appraise assets for optimisation by November 2018.
Actions		
Business critical KPIs > Complete a lean review of income maximisation and debt management processes, and implement changes by October 2018. > Agree a good practice approach to Income Management, taking account of the wider range of housing options, by October 2018. > Review, assess and implement MIS (Management Information Systems) proactive arrears module by April 2019. > Implement and deliver a compliance programme for asbestos management and fire safety by March 2019.	> Develop an approach to Organisation Design, and resource and capacity planning to ensure we have the right people in the right place, by September 2018. > Deliver the People Strategy, as measured by improved employee engagement, by March 2019. > Deliver the 'Digital People Services Programme' to engage, develop and equip colleagues through digitalisation of HR, L&D & OD services by March 2019.	> Review value for money (VfM) KPIs and reporting arrangements to ensure ongoing compliance with the new Value for Money Standard by September 2018. > Implement software to create the net present value (NPV) of all assets by November 2018. > Deliver the Offices Review Strategy by December 2018. > Agree an Environmental Strategy by December 2018. > Complete the new Procurement Plan, and procure the new responsive repairs and voids contracts for the South West by March 2019.

Actions		
> Improve data collection and implement new compliance management systems by March 2019. > Develop and deliver a Housing continuous improvement plan by March 2020.		> Deliver ongoing and new value for money savings by March 2019. > Carry out option appraisals on retirement living schemes identified for review by March 2019. > Dispose of 381 poorly performing assets by March 2021. > Re-procure cleaning and gardening contracts for the South by April 2019, and complete a three-year phased re-procurement for other regions by April 2021.
Digital Transformation > Complete rationalisation and integration of all Stonewater IT systems and architecture by August 2018. > Design the future operating model by March 2019. > Deliver the Digital Programme, to improve the digital experience for colleagues and customers, by December 2020.		

Many of our schemes incorporate public spaces, including play areas.

Report of the Board of Management and Strategic Report

Group financial performance

Turnover

Turnover increased by £6.6m (3.6%) as a result of higher rental income due to increased housing stock and increased shared ownership sales.

Maintenance

Routine maintenance expenditure for the year was £23.5m (compared to £21.5m in 2017). The cost of planned works and major repairs charged to the income and expenditure account was £14.2m (compared to £11.6m in 2017). The normal cycle of works means that expenditure varies from year to year.

Capital expenditure on replacement components was £13.1m (compared to £10.6m in 2017).

Operating margin on social lettings

The operating margin on social housing letting decreased from 35.4% to 30.7%, mainly due to a higher spend on major repairs due to retirement living rebranding, increased depreciation, and increased management costs due to higher staff costs.

Implications of the Grenfell Tower fire

One of Stonewater's schemes, a high rise block, has been undergoing defect correction works relating in part to the fire safety of the building.

A contract was tendered in 2017, for work commencing in 2018 for a period of 12 months to remedy outstanding defects. Stonewater's Board approved that all the residents of the block should move out for the duration of the works. During this financial year, Stonewater has incurred costs for moving residents, compensation payments and has also sustained a loss against rental and service charge income. Stonewater has bought back the equity of the shared ownership units prior to the commencement of reparation works, with the intention to sell this equity back once the works are completed.

During this financial year, the scheme was reviewed for impairment and it was concluded that an impairment of £1m be provided in the 2017/18 accounts.

Statement of comprehensive income

	2018	2017
	£'000	£'000
Turnover	**187,225**	180,597
Operating costs	**(117,300)**	(109,161)
Cost of sales	**(15,490)**	(12,074)
Operating surplus	**54,435**	59,362
Net interest charges and finance costs	**(33,422)**	(32,214)
Surplus on disposal of fixed assets	**15,620**	9,900
Movement in fair value of non-hedged instruments	**2,402**	(8,739)
Surplus for financial year	**39,035**	28,309
Actuarial gains on defined benefit scheme	**432**	730
Movement in fair value of hedged instruments	**15,261**	3,921
Total comprehensive income for the year	**54,728**	32,960

Housing properties

Housing properties increased by a net of £34.8m which comprises of £92.4m additions, £14.2m transfer to stock, £15.3m disposals and £28.1m depreciation and impairment charges.

Total reserves

Total reserves increased by £54.8m due to £39.5m increase in income and expenditure reserves and £15.3m reduction in cash flow reserves.

Pension costs

Stonewater participates in three pensions schemes: The Dorset County Pension Fund (DCPF) which is accounted for as a defined benefit scheme under section 28 of FRS102, the Social Housing Pension Scheme (SHPS) which is a multi-employer defined benefit scheme, and 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 £4.0m from £4.4m last year. The value of the assets increased from £5.4m to £5.5m. 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.

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.

Statement of financial position

	2018 **£'000**	2017 £'000
Housing properties less depreciation	**1,695,197**	1,660,440
Other fixed asset	**5,164**	6,035
Net current assets	**66,323**	14,821
Total assets less current liabilities	**1,766,684**	1,681,296
Loans due after one year	**(1,527,810)**	(1,496,524)
Other long term liabilities and provisions	**(213)**	(455)
Pension liability	**(3,991)**	(4,377)
Net assets	**234,670**	179,940
Cash flow hedge reserve	**(80,041)**	(95,302)
Income and expenditure reserves	**314,711**	275,242
Total reserves	**234,670**	179,940

Report of the Board of Management and Strategic Report

Capital structure and treasury

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

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

> Group borrowings and subsequent debt management.

> Investment of surplus funds.

> Relationship with bankers, lenders and advisors.

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 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.

Capital structure

The group's policy is to raise debt finance through bilateral loans and capital markets issuance. In 2016/17, Stonewater Funding PLC issued £100m in secured notes sold to companies in the Pricoa group. £75m of the proceeds were on-lent to Stonewater Limited and £25m to Stonewater (2) Limited. During the year, Stonewater Funding PLC also issued £250m bonds, fully retained for future sale. Both the Pricoa notes and the retained bonds have similar security and limited cross guarantee arrangements to Stonewater's original bond.

During the year Stonewater Limited and Stonewater (3) Limited each borrowed £25m from Affordable Housing Finance PLC.

The group has funding from 10 lenders. Total loan facilities at 31 March 2018 were £1,087m (2017: £1,000m) of which £234m were undrawn (2017: £223m).

Cash flows

Net cash from operating activities for the year was £71.1m (2017: £76.0m), a decrease of £4.9m compared to the previous year.

Net cash outflow from investment activities was £42.9m (2017: £48.1m) mainly due to £75.1m spend on construction of new homes (2017: £66.7m).

Net cash derived from financing activities was £41.4m (2017: £36.0m cash consumed) mainly due to £77.2m net increase in loans.

Cash and cash equivalents at 31 March 2018 were £107.8m, a £69.6m increase from previous year.

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 2018, cash balances were £107.8m (2017: £38.2m) and the balance of short term investments was £4.6m (2017: £3.7m). Cash and committed facilities exceeded the group's contracted obligations by £155m (2017: £113m). The excess of committed facilities over capital commitments is to ensure that committed development is fully funded.

As at 31 March 2018, derivative exposure positions with counterparties (after use of thresholds) was £69.9m (2017: £106.1m). This exposure was met entirely by charged property security (2017 by £105.8m of property security) and £0.3m of cash collateral.

Loan covenants

Stonewater's performance against covenants is as follows:

	2017/18	Covenant
Interest cover		
Stonewater Ltd	**201%**	>110%
Stonewater (2) Ltd	**270%**	>110%
Stonewater (3) Ltd	**363%**	>105%
Gearing		
Stonewater Ltd	**69%**	<85%
Stonewater (2) Ltd	**37%**	<65%
Stonewater (3) Ltd	**30%**	<50%

Our 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.

Ambitious

Report of the Board of Management and Strategic Report

Key performance indicators

We have set ambitious targets for our 'business critical' key performance indicators, which focus on maintaining our rental income, and compliance with statutory and regulatory requirements. Our targets are based on achieving top quartile compared to a benchmarking peer group of similar sized housing associations. A zero tolerance target is set for all Health and Safety Compliance key performance indicators.

We monitor progress against these targets throughout the year and report on performance to our board and its sub-committees. Real time business information is delivered to our desktops so that we can monitor performance and take corrective action where necessary.

Our board has overall responsibility for our performance. However, our customers play a key role in shaping the design and delivery of our services, and hold our board to account through our Customer Scrutiny Panel.

Overall satisfaction

Over 60% of customers commented within the last quarter as to why they were satisfied with services they receive from Stonewater. The main theme was that the services meet their expectation; with good and helpful customer service. A large percentage of customers also commented that their satisfaction was due to the fact that they had no issues, no problems and no complaints with Stonewater and the service.

The overriding theme for the dissatisfied customer group relates to the standard of their home and the repairs service. People had issues with the length of the process; lack of communication or of a poor standard. This theme is also echoed in feedback about the estates service.

Our annual company day gives Stonewater colleagues the chance to catch up with each other and learn about our future strategy.

Voids and arrears

Void loss as a % of total rent increased during the year. Average void loss of 2.1% was higher than the Stonewater target (1.25%). The void loss performance has improved in the last quarter of the year and the percentage moved closer to the target.

Average re-let time (days) increased from 46 days at the start of the year to 70 days at the end of the year. This was significantly higher than the peer group upper quartile of 23.9 days and the Stonewater target of 40 days. The performance has improved in the last quarter and the average re-let time moved closer to the target.

Gross arrears as a % of total rent and service charge due increased during the year.

Average gross arrears during the year of 4.29% was higher than the peer group upper quartile (3.41%) and the Stonewater target (3.41%).

Business Critical KPIs

	Actual 2017-18	Target 2018-19	Target 2019-20	Target 2020-21	Target 2021-22
Total rent and service charge received as a % of total due	**99.37%**	98.97%	99.23%	99.49%	99.74%
Gross arrears as % of total rent and service charge due	**4.29%**	3.41%	3.14%	2.86%	2.59%
Number of properties that are non-compliant with Landlord Gas Safety Records	**0**	0	0	0	0

Value for Money (VfM)

Our Strategic Plan for 2017-22 sets out what we will do and how we will do it, retaining significant emphasis on VfM.

Although we live in ever-changing times, VfM remains integral to everything we do. It is a regulatory obligation to deliver good value, but we also know that the pursuit of VfM allows us 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.

Our Strategic Plan sets out our annual and five-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

Stonewater manages around 31,500 homes for families and individuals across England.

Our Value for Money vision

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

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Our review of the year is built around the three themes of our Strategic Plan of Customer Experience, Growth and Influence, and Business Excellence, and how our VfM approach has been demonstrated in the delivery of our objectives:

Customer Experience

Retirement living

Stonewater is continuing to invest in retirement living schemes, and in 2016/17 we agreed to deliver an indicative investment in our retirement living stock of £9m over a seven-year period.

The works will deliver modern, functional and high-quality design, specifically developed for the comfort of older adults, and achieving an agreed Stonewater standard.

So far, Stonewater has completed seven retirement living schemes. A further thirteen are due to be completed during 2018/19.

Compliance

All properties were fully gas safety compliant at the year-end, exceeding top quartile performance when compared to our peer group.

All properties that required a fire risk assessment were compliant at the year-end.

Growth and Influence

New homes

We are committed to delivering new homes to meet the challenges of the housing crisis in England and the changing needs of the market.

Our Growth Strategy sets out our approach to delivering new homes across a range of tenures. Our business plan aims to support delivery of at least 2,650 new homes by 2022.

In 2018, we were awarded £3.3m funding by Homes England to build more new homes through its Shared Ownership and Affordable Homes Programme. This funding enhanced our development programme, enabling us to build 612 new affordable homes. The properties were a mix of shared ownership (187) and rented tenures (425). We are continuing to engage with the Regulator of Social Housing on grant funding for more affordable homes.

Business Excellence

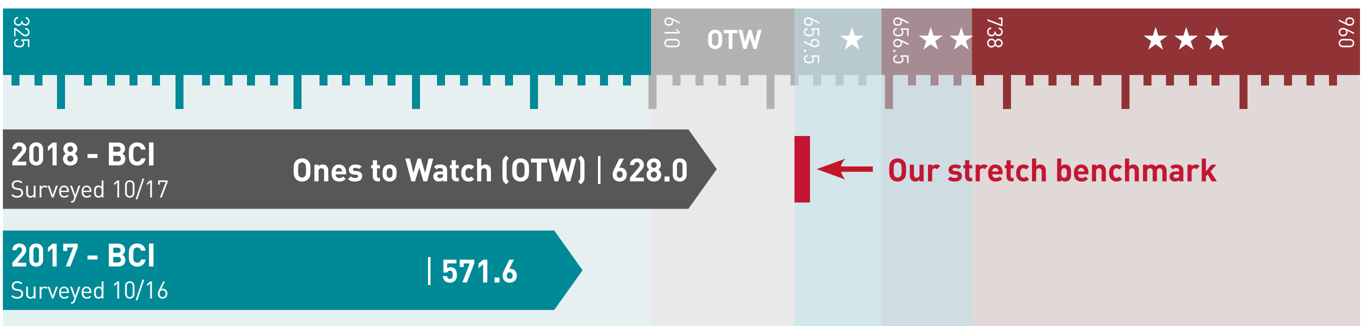
Best Companies

Our Best Companies survey employee satisfaction results have improved significantly. We achieved a 'Ones to Watch' (OTW) rating in 2017, and our stretch benchmark for next year is to achieve a one star rating.

Our office strategy

Through our Offices Review Strategy, we have reduced our office portfolio from 15 offices (at the time of merger), which were over-sized and inefficiently located, to ten offices by March 2018.

We aim to provide modern, flexible and attractive working environments. The strategy has resulted in significant efficiency savings for us.



Reporting on VfM

Stonewater's board has delegated the detailed governance oversight of VfM to the Finance Committee, whose terms of reference include:

- Oversight of budget and treasury management including VfM targets during setting stage.
- Development of a VfM strategy and oversight of its implementation.
- Identification of VfM targets and monitoring of progress towards achieving these.

During the year, the Finance Committee and board have received detailed updates on the progress of the VfM Strategy and the savings made through integration and re-procurement.

The VfM report is submitted to the Finance Committee together with quarterly group results.

The VfM report includes achievements to date versus agreed targets and sets out any new initiatives identified in the quarter.

Following a statutory consultation by the Regulator of Social Housing a new Value for Money Standard, a supporting Code of Practice and VfM metrics came into effect on 1 April 2018. The VfM metrics suite consists of seven metrics with which to measure performance, and establish how that performance compares to peers.

Stonewater's performance is shown below:

In 2017/18 we have achieved:

VfM savings

£5.8m

Recurring VfM savings

£6.6m

Value for Money metrics

	Actual 2016-17	**Actual 2017-18**	Target 2018-19	Target 2019-20	Target 2020-21	Target 2021-22
1. Reinvestment	5.4%	**5.3%**	11.6%	9.4%	8.1%	7.9%
2. New Supply Delivered						
a. Social housing units %	2.2%	**2.1%**	4.1%	3.3%	3.0%	3.3%
b. Non-social housing units %	-	**-**	-	-	0.1%	0.1%
3. Gearing	39.3%	**43.6%**	45.6%	47.6%	48.0%	48.1%
4. EBITDA MRI Interest Cover	196.4%	**168.9%**	171.3%	173.2%	191.5%	173.8%
5. Social Housing Cost Per Unit (£k)	2.9	**3.2**	3.2	3.2	3.1	3.4
6. Operating Margin						
a. Social housing lettings	35.5%	**30.7%**	31.9%	30.9%	32.1%	33.2%
b. Overall	33.0%	**29.1%**	31.1%	29.7%	30.1%	31.8%
7. Return on Capital Employed (ROCE)%	4.1%	**4.0%**	3.6%	3.4%	3.6%	3.8%

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Value for Money metrics

	Global Accounts average sector 2016-17	Stonewater's Actual 2017-18
1. Reinvestment %	5.7%	**5.3%**
2. New Supply Delivered		
a. Social housing units %	1.5%	**2.1%**
b. Non-social housing units %	1.8%	**-**
3. Gearing %	49.9%	**43.6%**
4. EBITDA MRI interest cover %	172.3%	**168.9%**
5. Social Housing Cost Per Unit (£k)	3.6	**3.2**
6. Operating Margin		
a. Social housing lettings	34.1%	**30.7%**
b. Overall	25.8%	**29.1%**
7. Return on Capital Employed (ROCE) %	4.3%	**4.0%**

Metrics definitions

1) Reinvestment
This metric looks at the investment in properties as a percentage of the value of total properties held.

2) New supply delivered
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.

3) Gearing %
This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance.

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.

5) 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.

6) Operating margin
The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account.

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 resource.

Value for Money achievements 2017/18

The £5.85million Value for Money achievements during the year are attributable to the below.

Assets

> £0.3m saving from the relocation of the assets support team to the Leicester office and the introduction of shift-work which resulted in a headcount reduction of nine posts from 21 FTE to 12.

Corporate

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

> £2.0m net benefit from disposal of an office.

> £1.2m refurbishment no longer required on three offices which have been closed.

Development

> £1.7m from securing better land acquisitions and build contracts were achieved on a number of schemes.

> £50k from savings achieved on fencing, remedial works, utility bills and white goods.

Finance

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

> £0.2m proceeds from the Pricoa bond which enabled refinancing of other liabilities.

Recurring annual savings

The recurring annual savings relate to savings achieved in the past two years, which will see the benefits of going forward.

Recurring annual savings achieved during the year were £6.6m mainly due to harmonisation of employee terms and conditions, office rationalisation, and re-negotiation of maintenance contracts and social value on retirement living activities.

Local schoolchildren help with the installation of a time capsule to mark the completion of Stonewater's 2,000th new home.

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Value for Money targets for 2018/19

A total of £2.8m has been identified as new VfM initiatives.

Assets

A target of £1.0m has been set and comprises of:

> £0.3m responsive contract.

> £0.1m target for procurement of capital items.

> £0.3m ground source heat pump income.

> £0.3m additional surplus negotiated on sale of flats at Eastleigh.

Corporate

> 8% saving on IT revenue budget (£0.4m).

Finance

> £0.2m interest costs savings.

Development

> £0.7m which includes £0.5m land acquisition and build costs.

Housing

> Social housing of retirement living activities of £0.5m per annum.

Efficiency

Stonewater has continued to invest further resources into the disposals and acquisitions team delivering significant returns.

It continued to implement the rationalisation strategy set in 2013. Surpluses on disposal for the year were £12.3m (2017: £9.9m).

Sustainability

Whilst developing a new Sustainability Strategy, work has begun to focus on improving the energy efficiency of our homes to increase the average SAP rating to 72 (compared to a UK national average of 57).

At 31 March 2018 the average SAP rating of Stonewater properties was 72 (2017: 73).

Procurement and outsourcing

Stonewater's specialist procurement team has adopted a five year plan which has identified £6.2m of potential savings, of which £0.9m has been achieved in 2017/18.

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.

External environment

Housing supply and affordability

We continue to operate in an environment where housing supply and affordability are of paramount concern. 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 2017

> The number of households who are homeless increased by 64%. This means there are currently 79,000 homeless households.

> Approximately 120,000 children live in these homeless households and therefore have nowhere to call 'home'.

> The number of rough sleepers has increased by 169%. An estimated 4,700 people currently sleep rough, although homeless charities believe the actual figure is higher.

> Figures on homeless households and rough sleepers for this period do not include the 'hidden homeless': 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.

Government policy and changes to welfare options

Set against 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 the change.

> The 1% rent settlement.

In the Autumn 2017 budget, the Chancellor's spotlight fell on a number of issues relating to housing. This included the resurrection of the Voluntary Right to Buy scheme, with £200m being made available for a pilot scheme in the West Midlands launched in July 2018. He also announced that local councils will now be able to borrow more money to build housing in unaffordable areas, and a change to planning regulations which will help to supply and support smaller house building companies. The Government's overall focus is on increasing the density of existing housing to meet demand, rather than excessive building on the green belt. There will also be an emphasis on building in cities and in transport hub locations.

In her speech at the Conservative Party conference in October 2017, Prime Minister Theresa May announced that £2bn additional funding will be made available for the construction of new social and affordable housing. She also announced the 1% rent settlement, which in real terms means Stonewater will be able to increase its ambitions to build more houses in its business plan.

In November 2017, housing association debt was reclassified from public liability to private.

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Demographic changes

Due to a number of factors including increased life expectancy and migration, the population of England is set to rise from an estimated 54.3 million in 2014 to 58.4 million in 2024.

This increase, coupled with factors including a 12% increase in the number of single-person households, means that housing is more in demand than ever before. We are also experiencing an unprecedented rise in the number of older people in the UK population. Statistics show that by 2039:

> The number of people aged 85 and over will more than double, to reach 3.6 million.

> The number of people aged 100 and over will increase dramatically, from 14,000 at mid-2014 to 83,000.

> 1 in 12 of the population will be aged 80 or over.

This ageing population will see a shift in the type of housing and additional support required, as people choose sheltered or supported living, or require help to enable them to remain in their own home.

Regulation

The Regulator of Social Housing (RSH) continues to focus on 'co-regulation'. Under this approach, the RSH's engagement with registered providers is risk-based, with a focus on protecting social housing assets from undue risk.

The Housing and Planning Act 2016 has reduced the regulation of registered providers, with the requirement to gain regulatory consent for restructures, constitutional changes and disposals replaced by a system of notification.

The latest regulatory judgement issued by the Regulator of Social Housing in November 2017 confirms that Stonewater meets the requirements set out in the Governance and Financial Viability standard of the 2015 Regulatory Framework with the top ratings of G1 (the provider meets the requirements on governance set out in the Governance and Financial Viability standard), and V1 (the provider meets the requirements on viability set out in the Governance and Financial Viability Standard and has the capacity to mitigate its exposures effectively). Since then the board has undertaken a self-assessment of compliance with the Governance and Viability standard, taking account of the NHF Code of Practice, and confirms that Stonewater is compliant with the standard.

Residents in our Retirement Living schemes are learning new skills, thanks to our digital inclusion programme.

Organisational structure, governance and risk management

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

Board

The board is responsible for the proper and effective management of Stonewater. The board, working with the Executive Directors Group (EDG) led by the Chief Executive, undertakes this role through strategic direction, establishing a framework for delegation, and holding the EDG to account for performance. This includes accountability to customers and other stakeholders, such as funding providers and partner local authorities. Board members and the EDG are listed on pages 6-8. The board comprised twelve members at 31 March 2018 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 2018 was 57 years.

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As at 31 March 2018 Stonewater Limited had four registered provider subsidiaries:

Stonewater (2) Limited

Stonewater (3) Limited

Stonewater (4) Limited

Stonewater (5) Limited

Stonewater also has three wholly-owned commercial subsidiaries:

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

> Stonewater Funding PLC
A company which provides external funding for the group via the capital markets.

> Stonewater Commercial Limited
Currently dormant.

Stonewater Developments
A new company has been incorporated on 13 June 2018. It is a wholly-owned commercial subsidiary.

The board undertakes an annual appraisal of its performance, culminating in the identification of key targets for the year ahead.

In 2017/18 these were:

- Improve customer experience.
- Optimise growth.
- Deliver digital programme.
- Meet KPI and VfM targets.

Other actions for improvement arising from the appraisal are monitored through the governance action plan by the Governance and HR Committee. Individual members are required to play an active role in the work of the board and its committees. Each member has an individual annual appraisal, which provides an opportunity to review performance during the year and set objectives for the year ahead.

Specific development needs identified through the appraisal are fed into the board learning and development programme.

Code of Governance

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

We comply with all aspects of the code of governance and the RSH's Governance and Financial Viability standard.

Shareholding policy

Under the association's rules, the group board retains discretion over the issue of shares in the association and current policy is we operate a closed membership, with shares only issued to individuals who are board members.

Committees

The board is supported by five functional committees and a task and finish group, each of which is chaired by a board member. The Risk and Assurance Committee, the Housing Committee and the Digital & IT Task and Finish group each include places for independent members.

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

Executive Directors Group

Stonewater has an experienced Executive Directors Group which manages the day to day running of the business. The Executive team consists of the Chief Executive and five Executive Directors.

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 Risk Register. The Executive Director Group and the Risk and Assurance Committee keep the register under review to ensure that it fully reflects the risks to the delivery of Stonewater's operations and Strategic Plan. Designated managers are responsible for each identified risk area and the Risk and Assurance Manager oversees progress against actions to mitigate risks.

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

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

The key strategic risks at present are:

1. National policy volatility
2. Growth
3. Long term finance
4. Cyber security
5. Digitalisation (to include future operating model)
6. Leadership
7. Recruitment and retention of skilled staff
8. Value for Money (VfM)
9. Health and Safety (including fire safety)
10. Procurement

Stonewater's risk management process involves risk identification and assessment, the allocation of risk owners to manage risk, implementation of controls and review of the residual risks after controls are implemented. Assurance mapping is used to ensure that actions taken to manage the risks are within Stonewater's agreed risk appetite.

Corporate communications

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

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

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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. We have completed our second year of taking part in the 'Sunday Times Best Companies to Work For' survey to establish a baseline for improving employee engagement and working together to improve this measure year-on-year. So far we have improved across all factors and all teams year-on-year, and this year we achieved a 'Ones to Watch' rating.

We also have an active Stonewater People Committee who consult, inform and engage with colleagues as widely as possible. The People Committee have informed and influenced the implementation of the integration change programme in order that the best outcomes for the company can be achieved.

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

We have appointed 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.

Our People Strategy is designed to:

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

Our values:

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.

Passionate

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Relationships

Customer engagement

At Stonewater, we strive to put the customer at the heart of all we do. 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 programme is designed to do just that. Improving and enhancing digital channels including our Customer hubb enables two-way feedback regardless of the location of our customers and staff.

Customer insight

We are committed to maintaining a positive relationship with our customers, listening to their feedback and adjusting our service in response.

Improving service delivery

We have a new Customer Offer, which we are sharing with customers in tenancy packs. This details the relationship between Stonewater and the customer, and the behaviours and actions that are expected on both sides.

Our new 'Reward' scheme clearly outlines levels of expectation on the part of Stonewater and the customer. People achieving Silver level will receive all the benefits laid out in the Customer Offer. Customers who achieve Gold, the highest level of Reward, will benefit from enhanced services and benefits. Those on the Bronze level will not be meeting the required level of behaviour and will need to improve.

Equality and diversity

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 Developing 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 2018, Stonewater published its gender pay gap figure: 22%. Stonewater has participated in the mandatory publication of our gender pay gap. Work, including a benchmarking exercise, is underway to address the gap.

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 2018, is also available via the website: **www.stonewater.org**

Financial inclusion

We continue to support customers affected by the bedroom tax and benefit changes. We have been preparing for the roll out of Universal Credit; keeping abreast of good practice and partnering with other registered providers. We have used our normal communication channels to inform and advise on benefit changes and how customers will be affected. We continue to promote a credit union as an option for customers. We continue to work with Experian on rental data sharing in order to improve access to favourable financial services for our customers.

Future prospects

Stonewater reviewed its business plan in April 2018. The principal change from the previous year's plan is to extend the development programme to 1,000 units per annum from 2019/20. This takes advantage of increased financial capacity following the Government rent settlement announcement. Inflation expectations have fallen in the medium term, which is reflected in the plan.

Rents

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

Assumptions

Year 1 of the plan, 2018/19, is based on the final budget.

Other assumptions are summarised below:

Inflation – Consumer Price Index (CPI)
2.5% for 2019/20, and 2% thereafter.

London Interbank Offered Rate (LIBOR)
0.79% in 2018/19, rising to 3% by 2025/26 and 4% from 2028/29 onwards.

Earnings
CPI only until 2021/22 followed by CPI + 1% thereafter.

Maintenance and development costs
CPI + 1.5% until 2022/23, CPI + 1% until 2030/31, CPI only thereafter.

Other costs
CPI + 0.5% throughout.

Voids and bad debts
Voids 1.25% for year 1 and 1% thereafter; bad debts 1% throughout.

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

Expected income and expenditure is as follows:

Development over the next five years is planned to total over 5,000 affordable rent, shared ownership, and rent to buy units.

In addition, a limited build for sale programme is included in the plan.

The plan has been stress tested for a 'perfect storm' of events that the board considers might affect the plan. Further stress testing confirmed the resistance to falls in stock disposals and inability to make projected efficiencies.

Following the Government announcement regarding rent settlement, the main source of uncertainty continues to be the outcome of negotiations with the EU on the terms of Britain leaving the EU.

The immediate impact is sustainable within the plan but there could be further effects on financial markets, the wider economy and Government policy.

Celebrating another successful Stonewater development.

Report of the Board of Management and Strategic Report

Income Statement	2018-19	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m	£m
Rent and Services Charges	163.0	167.0	175.3	185.0	194.1
Other Income	2.3	2.4	2.4	2.5	2.6
Less: Voids	(2.0)	(1.7)	(1.8)	(1.9)	(1.9)
Amortised Government Grant	7.0	7.1	7.3	7.4	7.4
Income from Social Housing Lettings	**170.3**	**174.8**	**183.2**	**193.0**	**202.2**
Management and Service Costs	55.0	59.6	59.0	59.2	59.8
Responsive and Planned Maintenance	32.4	30.5	32.2	33.9	36.0
Bad Debts	2.0	1.7	1.8	1.9	1.9
Property Depreciation	25.0	27.3	29.9	32.2	34.6
Merger Savings and Other Costs	-	-	-	0.1	-
Total Operating Costs	**114.4**	**119.1**	**122.9**	**127.3**	**132.3**
Surplus on Social Housing Lettings	**55.9**	**55.7**	**60.3**	**65.7**	**69.9**
Other Income	3.8	3.9	6.5	8.2	10.7
Surplus on Sale of Properties	6.4	7.8	7.8	8.5	8.8
Surplus Before Interest	**66.1**	**67.4**	**74.6**	**82.4**	**89.4**
Net Interest	(34.0)	(33.4)	(35.5)	(37.6)	(41.6)
Movement in Financial Instruments	1.0	1.0	1.0	1.0	1.0
Retained Surplus	**33.1**	**35.0**	**40.1**	**45.8**	**48.8**
Capitalised Components	15.1	14.8	11.9	24.2	25.2

Business planning, risk and internal controls assurance

Purpose

The statement of internal controls provides information to both internal and external stakeholders on how efficiently 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 for 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 and accreditations, etc.

In meeting its responsibilities, the board has adopted a risk-based approach to internal controls, which are embedded within the normal management and governance process.

This approach includes the regular evaluation of the nature and extent of risks to which Stonewater is exposed to:

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

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

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

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

Business planning, risk and internal controls assurance

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. The internal auditor's opinion for 2017/18 is that the organisation has an adequate and effective framework for risk management, governance and internal control.

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.

Report of the Board of Management and Strategic Report

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

The board is responsible for preparing the Board's Report and the Financial Statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law and social housing legislation require the board to prepare financial statements for each financial year. Under those regulations the board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of the group and associations income and expenditure in the period.

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

> Select suitable accounting policies and then apply them consistently.

> Make judgements and estimates that are reasonable and prudent.

> State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements.

> Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and association will continue in business.

The board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and association and enable them to ensure that its financial statements comply with:

> The Co-operative and Community Benefit Societies Act 2014.

> The Accounting Direction for Private Registered Providers of Social Housing 2015.

> The Housing and Regeneration Act 2008.

The board has general responsibility to take such steps as are reasonably open to it to safeguard the assets of Stonewater and to prevent and detect fraud and other irregularities.

Financial statements are published on Stonewater's website in accordance with UK legislation governing the preparation and dissemination of financial statements. The maintenance and integrity of the corporate and financial information on Stonewater's website is the responsibility of the board. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

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.

Auditors

BDO LLP were appointed as Stonewater's external auditors for 2017/18 on 27 July 2017.

The report of the board was approved on 24 July 2018 and signed on its behalf by:

George Blunden
Chair of Board

Grangewood Manor, Leicester Forest East.

Our values:

Agile – By being adaptable and open-minded, we proactively make the most of opportunities. Our innovation and collaboration helps drive continuous improvement.

Agile

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 2018 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 cash flow statement 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 2018 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 Financial Reporting Council'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.

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.

Due to the nature of the entity and its activities no key audit matters were identified.

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 of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Independent auditor's report to the members of Stonewater Limited

We determined materiality for the financial statements as a whole to be £29,443,000 (2017 - £27,400,000) which represents 1.6% of total assets (2017 - 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 £4,149,000 (2017 - £4,100,000), which is 5.0 % of adjusted operating profit (2017 - 5.0%).

We used total 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 £14,445,000 (2017 - £13,400,000) with a specific materiality set at £1,926,000 (2017 - £1,950,000).

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% (2017 – 65%) 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 £589,000 for areas considered using financial statement materiality and £83,000 for areas considered using specific materiality (2017 - £548,000 / £82,000), 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.

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 UK 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 are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information including the Chairman's Statement, Chief Executive's statement and the Report of the Board of management and Strategic report 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 statement of the board's responsibilities set out on page 42, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board are responsible for assessing the 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.

Independent auditor's report to the members of Stonewater Limited

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Use of our report

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

BDO LLP

BDO LLP

Date: 8 August 2018

Kyla Bellingall (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom

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

Our values:

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.

Commercial

Consolidated and Association statement of comprehensive income

	Note	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Turnover	4	187,225	180,597	105,169	102,835
Cost of sales	4	(15,490)	(12,074)	(8,975)	(8,948)
Operating costs	4	(117,300)	(109,161)	(71,698)	(64,747)
Operating surplus	4,7	54,435	59,362	24,496	29,140
Surplus on disposal on fixed assets	11	15,620	9,900	2,526	3,039
Interest receivable and similar income	12	221	154	641	519
Interest payable and financing costs	13	(33,643)	(32,368)	(17,387)	(15,529)
Movement in fair value of non-hedged financial instruments	13	2,402	(8,739)	403	(6,796)
Surplus for the financial year		39,035	28,309	10,679	10,373
Actuarial gains on defined pension benefit scheme	29	432	730	432	730
Movement in fair value of hedged financial instruments	13	15,261	3,921	9,425	3,140
Total comprehensive income for the year		54,728	32,960	20,536	14,243

All activities relate to continuing operations.

The notes on pages 55 to 94 form part of these financial statements.

Consolidated and Association statement of financial position

	Note	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Fixed assets					
Tangible fixed assets - housing properties	15	**1,695,197**	1,660,440	**823,956**	798,709
Other tangible fixed assets	16	**5,164**	6,035	**3,432**	2,260
Investment	17	**-**	-	**50**	50
Total fixed assets		**1,700,361**	1,666,475	**827,438**	801,019
Current assets					
Properties held for sale	18	**11,201**	12,421	**7,497**	9,106
Trade and other debtors	19	**16,306**	11,714	**14,183**	18,890
Short term investments	20	**4,604**	3,735	**1,800**	1,334
Cash and cash equivalents		**107,827**	38,181	**52,674**	8,938
		139,938	66,051	**76,154**	38,268
Creditors: Amounts falling due in one year	21	**(73,615)**	(51,230)	**(49,377)**	(28,351)
Net current assets		**66,323**	14,821	**26,777**	9,917
Total assets less current liabilities		**1,766,684**	1,681,296	**854,215**	810,936
Creditors: Amounts falling due after more than one year	22	**(1,527,810)**	(1,496,524)	**(767,825)**	(744,455)
Provisions for liabilities and charges	28	**(213)**	(455)	**(213)**	(454)
Pension scheme liability	29	**(3,991)**	(4,377)	**(3,991)**	(4,377)
Net assets		**234,670**	179,940	**82,186**	61,650
Capital and reserves					
Share capital	30	**-**	-	**-**	-
Cashflow hedge reserve		**(80,041)**	(95,302)	**(49,163)**	(58,588)
Income and expenditure reserve		**314,711**	275,242	**131,349**	120,238
		234,670	179,940	**82,186**	61,650

The notes on pages 55 to 94 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 July 2018.

G Blunden
Chair of the Board

N Harris
Board Member

A Harling
Secretary

Consolidated and Association statement of changes in reserves

	Group Cashflow hedge reserve £'000	Group Income and expenditure reserve £'000	Group Total £'000	Association Cashflow hedge reserve £'000	Association Income and expenditure reserve £'000	Association Total £'000
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
Balance at 1 April 2016	(99,219)	246,200	146,981	(61,727)	109,135	47,408
Reclassification	(4)	4	-	(1)	-	(1)
Surplus for the year	-	28,309	28,309	-	10,373	10,373
Actuarial gains on defined benefit pension scheme	-	731	731	-	730	730
Movement in fair value of hedged financial instruments	3,921	-	3,921	3,140	-	3,140
Balance at 31 March 2017	(95,302)	275,244	179,942	(58,588)	120,238	61,650

Consolidated statement of cash flow

	Note	Group 2018 £'000	Group 2017 £'000
Cash flows from operating activities			
Surplus for the financial year		**39,035**	28,309
Adjustments for non-cash items			
Depreciation and impairment		**29,455**	26,536
Deferred Government Grants amortisation		**(7,193)**	(7,089)
Interest payable and financing costs		**33,643**	32,368
Interest receivable and similar income		**(221)**	(154)
Surplus on the sale of fixed assets		**(15,620)**	(9,900)
Net Fair Value losses recognised in the income and expenditure (financial instruments)		**(2,402)**	8,739
(Increase) in trade and other debtors		**(2,215)**	(1,485)
Increase/(decrease) in trade and other creditors		**(4,311)**	2,113
Increase/(decrease) in properties held for sale		**1,220**	(3,188)
Decrease in provisions		**(242)**	(243)
Net cash generated from operating activities		**71,149**	76,006
Cash flow from investing activities			
Proceeds from sale of fixed assets		**30,127**	18,236
Purchase of fixed assets		**(75,155)**	(66,723)
Purchase of other fixed assets		**(2,343)**	(2,379)
Receipt of grant		**4,458**	2,768
Net cash used in investing activities		**(42,913)**	(48,098)
Cash flow from financing activities			
Interest paid on loans		**(34,189)**	(35,388)
Interest received		**221**	154
Decrease in short term investment		**(869)**	11,359
New loans – bank		**153,490**	-
Loan repayments		**(77,243)**	(12,123)
Net cash (used)/generated from financing activities		**41,410**	(35,998)
Net increase/(decrease) in cash and cash equivalents		**69,646**	(8,090)
Cash and cash equivalents at beginning of year		**38,181**	46,271
Cash and cash equivalents at end of year		**107,827**	38,181

St Dunstan's Place, Burbage.

Notes to the financial statements

General notes

Statement of comprehensive income related notes

Statement of Financial Position related notes

Notes to the financial statements

1. Legal status

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

2. Accounting policies

Basis of preparation

The financial statements of the Group and Association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102) and the Housing SORP 2014 "Statement of Recommended Practice for Registered Social Housing Providers" and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

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

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

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

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

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

The following principal accounting policies have been applied:

Basis of consolidation

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

Uniform accounting policies have been adopted across the group, and inter-company transactions and balances between have therefore been eliminated in full.

Going concern

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

Turnover

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

Turnover represents rental and service charge income receivable (net of void losses), grants from local authorities and Homes England, income from shared ownership first tranche sales, grant amortisation and other income, all of which arise in the UK.

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.

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

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.

Notes to the financial statements

Properties for sale

Properties developed for outright sale are included in turnover, cost of sales and operating costs. Properties developed for shared ownership sale are divided into first tranche sales and other sales. First tranche sales are included within turnover, cost of sales and operating costs. Subsequent tranches (staircasing) are shown separately, and are included in surplus of disposal of fixed assets in the Statement of Comprehensive Income.

Service charges

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

Schemes managed by agents

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

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.

Cost of sales

Cost of sales represents 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.

(Development overhead costs are capitalised to the extent in which they directly attribute to bringing schemes into a working condition. Such expenditure is inclusive of in-house development staff, surveyor costs, and a proportion of other staff in other departments which work on development activity).

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 group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

Tangible fixed assets – housing properties

Housing properties constructed or acquired (including land) on the open market are stated at cost less depreciation and impairment (where applicable).

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

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

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

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

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 recognised within the surplus of disposal of fixed assets in the Statement of Comprehensive Income.

Notes to the financial statements

Government and other grants

Social Housing Grant (SHG) is receivable from Homes England.

Grant is carried as deferred income in the statement of financial position and released to the Statement of Comprehensive Income on a systematic basis over the useful economic lives of the asset for which it was received.

In accordance with Housing SORP 2014, the useful economic life of the housing property structure has been selected (see table of useful economic lives).

Social housing grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the Statement of Comprehensive Income.

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

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

Grant is amortised even if there are no related depreciation charges.

Recycled Capital Grant Fund

On the occurrence of certain relevant events, primarily the sale of dwellings, the Regulator of Social Housing (RSH) and Greater London Authority (GLA) can direct Stonewater to recycle capital grants or to make repayments of the recoverable amount. The group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the RSH with interest unless the regulator agrees an extension.

Balances held in the Recycled Capital Grant Fund which are required to be used within one year from the Statement of Financial Position date are held in 'creditors due within one year'. Funds which are required to be used in a time frame of greater than one year are held in 'creditor due after more than one year'.

Disposal Proceeds Fund

Receipts from Right to Acquire (RTA) sales were required to be retained in a ring-fenced fund that can only be used for providing replacement housing. The sales receipts, less eligible expenses, are credited to the Disposal Proceeds Fund. The RSH communicated its intention that from 1 April 2017, credits arising from RTA sales should instead be credited to the Recycled Capital Grant Fund. Existing balances held in the Disposal Proceeds Fund should remain and be used in line with policy. In effect, the Disposal Proceeds Fund will no longer exist as a separate fund after 31 March 2020.

Balances held in the Disposal Proceeds Fund which are required to be used within one year from the Statement of Financial Position date are held in 'creditors due within one year'. Funds which are required to be used in a time frame of greater than one year are held in 'creditor due after more than one year'.

Depreciation of housing property

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

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

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

The cost of housing property and components is depreciated over the useful economic lives of the assets on the following basis:

Description	Estimated economic life (years)
Boiler	15
Kitchen	20
Heating systems and bathrooms	30
Windows	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.

Notes to the financial statements

Impairment of fixed assets

The housing property portfolio for the group is assessed for indicators of impairment at each Statement of Financial Position date, and any impairment in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of income generating unit exceeds the higher of its net realisable value or its value in use.

Impairment reviews are carried out in accordance with the Statement of Recommended Practice for registered social housing providers (SORP), with consideration of the following impairment indicators:

> Development issues

> Change in legislation

> Average void time/change in demand

> Proportion of properties vacant

> Loss made on property sales

> Schemes being redeveloped/demolished

Cash generating units are defined as schemes.

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 social housing landlords in exchange for non-monetary assets, or a combination of monetary and non-monetary assets, are measured at fair value. 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

Under low cost home ownership arrangements, the group disposes of a long lease on low cost home ownership housing units for a share ranging between 25% and 75% of value.

The buyer has the right to purchase further proportions up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

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

Tangible fixed assets – other

Other tangible fixed assets, other than investment properties, are stated at historic 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.

The group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is de-recognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the period in which they are incurred.

Notes to the financial statements

Depreciation of other tangible 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 economic life (years)
Freehold buildings	100
Leasehold and buildings	Per lease agreement
Fixtures and fittings	5
Motor vehicles	4
Computers	3

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognised within surplus on disposal of fixed assets in the Statement of Comprehensive Income.

Properties held for sale

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

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

Debtors and creditors

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

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.

Concessionary loans

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

> To further its public benefit objectives.

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

> Not repayable on demand.

These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. The group had no such loans outstanding at year end. During the financial year 2017/18 the group had one concessionary loan from Stonewater (2) Limited to Stonewater (4) Limited. This loan was repaid in May 2017.

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 instrument 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.

Notes to the financial statements

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 Constant Net Asset Value (CNAV) money market funds where capital preservation is the priority. These are valued on an amortised cost basis. Following the change in regulation for existing EU money market funds these investments are required to change to Low Volatility Net Asset Value (LVNAV) investments before 21 January 2019.

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.

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.

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.

Provision for liabilities

The group has recognised provisions for dilapidations of the office buildings and restructure costs. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the Statement of Financial Position date. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at the present value using a discounted rate. The unwinding of the discount is recognised as finance cost in income and expenditure in the period it arises.

Pension costs

Contributions to the group's defined contribution pension scheme are charged to the Statement of Comprehensive Income in the year in which they become payable.

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

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

Notes to the financial statements

Contingent liabilities

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

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

Income and expenditure reserve

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

Cash flow reserve

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

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

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

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

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

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

> 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.

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

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

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

> Negative compensation clauses in loan agreement. As a result of a review of our loans, we do not believe that any of the contractual provisions in our loan agreements:

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

Therefore the loans were considered to be basic financial instruments.

Notes to the financial statements

Other key sources of estimation uncertainty:

> **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.

> **Hedge accounting effectiveness**
A prospective test is performed at hedge inception and at each reporting date, under the critical terms method, and using a hypothetical derivative set up so that it matches the hedging instrument, but in the opposite direction.

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

Those derivative 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) Retail Price Index (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.

> **Valuation of swaps**
All swaps are valued at fair value by discounting expected cashflows at the risk free forward rate curve. This valuation is adopted across the registered provider sector. Had we adjusted for debt value, the derivatives would have had a value of £91.9m at 31 March 2018, compared to the fair value adopted of £109.2m.

Notes to the financial statements

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

	Note	Turnover 2018 £'000	Cost of sales 2018 £'000	Operating costs 2018 £'000	Operating surplus/(deficit) 2018 £'000
Social housing lettings	5	166,597	-	(115,445)	51,152
Other social housing activities					
First tranche low costs home ownership sales		20,578	(15,490)	-	5,088
Development staff costs		-	-	(815)	(815)
Charitable donations		50	-	(1,000)	(950)
Activities other than social housing activities					
Other		-	-	(40)	(40)
Total		**187,225**	**(15,490)**	**(117,300)**	**54,435**

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

Notes to the financial statements

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

	Note	Turnover 2018 £'000	Cost of sales 2018 £'000	Operating costs 2018 £'000	Operating surplus/(deficit) 2018 £'000
Social housing lettings	5	**93,272**	**-**	**(69,883)**	**23,389**
Other social housing activities					
First tranche low costs home ownership sales		**11,847**	**(8,975)**	**-**	**2,872**
Development staff costs		**-**	**-**	**(815)**	**(815)**
Charitable donations		**50**	**-**	**(1,000)**	**(950)**
Total		**105,169**	**(8,975)**	**(71,698)**	**24,496**

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

Notes to the financial statements

4(c). Group segmental analysis

	Customer Services 2018 £'000	Development 2018 £'000	Assets management 2018 £'000	Central Services 2018 £'000	Total 2018 £'000	Total 2017 £'000
Turnover	182,195	1,273	3,361	396	187,225	180,597
Cost of sales	(15,490)	-	-	-	(15,490)	(12,074)
Operating costs	(111,155)	(1,244)	(3,284)	(1,617)	(117,300)	(109,161)
Operating surplus/(deficit)	55,550	29	77	(1,221)	54,435	59,362

Notes to the financial statements

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

	General needs	Supported and housing for older people	Shared ownership	Affordable	**Total 2018**	Total 2017
	£'000	£'000	£'000	£'000	**£'000**	£'000
Income						
Rent receivable net of identifiable service charges	105,143	14,129	5,588	15,229	**140,089**	138,969
Service charge income	9,333	7,464	1,376	236	**18,409**	17,667
Net rent receivable	**114,476**	**21,593**	**6,964**	**15,465**	**158,498**	**156,636**
Amortised Government grants (note 23)	5,692	875	248	378	**7,193**	7,089
Other income	527	200	127	52	**906**	69
Income from social housing lettings	**120,695**	**22,668**	**7,339**	**15,895**	**166,597**	**163,794**
Expenditure on social housing lettings						
Management	(21,016)	(3,803)	(2,128)	(4,251)	**(31,198)**	(28,952)
Service charge costs	(7,807)	(8,054)	(758)	(365)	**(16,984)**	(16,358)
Routine maintenance	(18,265)	(3,519)	(134)	(1,572)	**(23,490)**	(21,471)
Planned maintenance	(4,137)	(390)	(15)	(197)	**(4,739)**	(5,336)
Major repairs	(5,107)	(4,005)	(216)	(141)	**(9,469)**	(6,300)
Bad debts	(1,070)	(201)	(45)	(165)	**(1,481)**	(1,207)
Depreciation on housing properties – annual charge (note 7 and 15)	(19,160)	(3,104)	(1,181)	(2,796)	**(26,241)**	(24,626)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 15)	(641)	(184)	-	(8)	**(833)**	(819)
Impairment (note 7)	(230)	-	(1,110)	(140)	**(1,480)**	(671)
Reversal of Impairment (note 7)	-	-	470	-	**470**	77
Expenditure on social housing lettings	**(77,433)**	**(23,260)**	**(5,117)**	**(9,635)**	**(115,445)**	**(105,663)**
Operating surplus/(deficit) on social housing lettings	**43,262**	**(592)**	**2,222**	**6,260**	**51,152**	**58,131**
Void losses	**(1,578)**	**(1,180)**	**(119)**	**(475)**	**(3,352)**	**(2,595)**

Notes to the financial statements

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 £'000	**Total 2018 £'000**	Total 2017 £'000
Income						
Rent receivable net of identifiable service charges	42,376	6,544	1,750	11,192	**61,862**	60,787
Service charge income	5,037	4,251	384	150	**9,822**	9,765
Net rent receivable	**47,413**	**10,795**	**2,134**	**11,342**	**71,684**	**70,552**
Amortised Government grants (note 23)	2,547	508	61	331	**3,447**	3,302
Other income	12,263	2,283	1,105	2,490	**18,141**	16,992
Income from social housing lettings	**62,223**	**13,586**	**3,300**	**14,163**	**93,272**	**90,846**
Expenditure on social housing lettings						
Management	(20,281)	(3,723)	(2,047)	(4,228)	**(30,279)**	(30,066)
Service charge costs	(4,030)	(4,420)	(258)	(296)	**(9,004)**	(9,119)
Routine maintenance	(7,667)	(1,687)	(46)	(1,123)	**(10,523)**	(8,300)
Planned maintenance	(1,478)	(131)	(5)	(114)	**(1,728)**	(1,800)
Major repairs	(2,624)	(1,822)	(94)	(129)	**(4,669)**	(2,013)
Bad debts	(233)	(105)	(12)	(136)	**(486)**	(463)
Depreciation on housing properties – annual charge (note 7 and 15)	(7,201)	(1,995)	(525)	(2,015)	**(11,736)**	(10,655)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 15)	(118)	(117)	-	(6)	**(241)**	(418)
Impairment on housing properties (note 7)	-	-	(1,099)	(118)	**(1,217)**	(363)
Expenditure on social housing lettings	**(43,632)**	**(14,000)**	**(4,086)**	**(8,165)**	**(69,883)**	**(63,197)**
Operating surplus/(deficit) on social housing lettings	**18,591**	**(414)**	**(786)**	**5,998**	**23,389**	**27,649**
Void losses	**(680)**	**(665)**	**(6)**	**(291)**	**(1,642)**	**(1,247)**

Notes to the financial statements

6. Units of housing stock

	Group 2018 Number	Group 2017 Number	Association 2018 Number	Association 2017 Number
General needs	20,845	21,012	8,537	8,569
Affordable	2,796	2,381	1,720	1,473
Shared ownership	2,438	2,267	755	664
Supported housing	435	489	260	312
Housing for older people	2,392	2,434	1,241	1,231
Other	528	528	22	22
Total owned	29,434	29,111	12,535	12,271
Accommodation managed for others	1,320	1,394	82	80
Total managed accommodation	30,754	30,505	12,617	12,351
Units managed by other associations	412	348	210	122
Total owned and managed accommodation	31,166	30,853	12,827	12,473
Units under construction	930	988	340	488

Notes to the financial statements

7. Operating surplus

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
This is arrived at after charging/(crediting):				
Depreciation of housing properties				
- annual charge (note 5 and 15)	**26,241**	24,626	**11,736**	10,665
- accelerated depreciation (note 5 and 15)	**833**	819	**241**	418
Depreciation of other tangible fixed assets (note 16)	**1,371**	1,686	**1,018**	1,420
Impairment of housing properties (note 5 and 15)	**1,480**	671	**1,217**	440
Reversal of impairment of housing properties (note 5 and 15)	**(470)**	(77)	**-**	(77)
Operating lease charges – land and building	**701**	661	**345**	661
Operating lease charges – other	**223**	215	**223**	215
Auditors remuneration				
- audit of these financial statements	**92**	79	**72**	66
- other services	**35**	26	**-**	2

Audit remuneration of £92,000 (including VAT) (2017:£79,000) represents the audit fee for all group entities.

Notes to the financial statements

8. Employees

	Group 2018 £'000	Group 2017 £'000
Staff costs consists of:		
Wages and salaries	**21,653**	19,913
Social security costs	**2,325**	2,010
Other pension costs	**947**	779
Redundancy	**236**	538
Total	**25,161**	23,240

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

	Group 2018 FTE	Group 2017 FTE
Total	**651**	612

Notes to the financial statements

9. Directors' and senior executives' remuneration

The directors are defined as the members of the Board of Management, the Chief Executive and the Executive Directors' Group disclosed on pages 6-8.

	Group 2018 £'000	Group 2017 £'000
Executive directors' emoluments	**933**	897
Amounts paid to non-executive directors	**156**	160
Compensation for loss of office	**-**	131
Pension contributions	**49**	62
Benefits in kind	**16**	54
Total	**1,154**	1,304

The highest total paid is to the Chief Executive in respect of emoluments, and the value was £197,000 (2017: £162,000). Pension contributions of £12,000 (2017: £11,000) were made to SHPS on his behalf.

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

The remuneration paid to staff (including Executive Directors' Group) earning over £60,000 upwards is:

Band	**Group 2018 Number**	Group 2017 Number
£60,000 - £69,999	**13**	15
£70,000 - £79,999	**8**	4
£80,000 - £89,999	**5**	4
£90,000 - £99,999	**2**	1
£100,000 - £109,999	**1**	2
£110,000 - £119,999	**-**	4
£120,000 - £129,999	**1**	-
£130,000 - £139,999	**3**	1
£150,000 - £159,999	**1**	1
£160,000 - £169,999	**-**	1
£190,000 - £199,999	**1**	-
Total	**35**	33

Notes to the financial statements

10. Board members' remuneration

Name	Group 2018 £	Group 2017 £
Mr G Blunden	25,000	25,000
Mrs S Collins	15,000	15,000
Mr P Hammond	15,000	15,000
Mrs S Terry	7,500	15,000
Mr J Weguelin	14,250	15,000
Ms A Dokov	15,000	15,000
Mr B Roebuck	10,833	15,000
Mr D Wright	15,000	15,000
Dr M Collins	15,000	15,000
Mr C Small	7,500	15,000
Mr P Symington	11,250	-
Ms J Crowe	5,000	-
Total	**156,333**	160,000

Notes to the financial statements

11. Surplus on disposal of fixed assets

Group	Shared ownership 2018 £'000	Other housing properties 2018 £'000	Other fixed assets 2018 £'000	Total 2018 £'000	Total 2017 £'000
Disposal proceeds	8,489	19,347	2,291	30,127	18,236
Cost of disposals	(5,110)	(7,482)	(1,915)	(14,507)	(8,336)
Surplus on disposal of fixed assets	3,379	11,865	376	15,620	9,900

Association	Shared ownership 2018 £'000	Other housing properties 2018 £'000	Other fixed assets 2018 £'000	Total 2018 £'000	Total 2017 £'000
Disposal proceeds	2,866	4,673	11	7,550	21,456
Cost of disposals	(2,138)	(2,696)	(190)	(5,024)	(18,417)
Surplus on disposal of fixed assets	728	1,977	(179)	2,526	3,039

12. Interest receivable and similar income

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Interest receivable from group undertakings	-	-	528	454
Interest receivable and similar income	221	154	113	65
Total	221	154	641	519

Notes to the financial statements

13. Interest payable and financing costs

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Interest on loans and overdrafts	35,528	33,532	13,251	13,057
Interest payable to group undertakings	-	-	5,399	4,095
Interest capitalised on construction on housing properties (note 15c)	(2,725)	(3,020)	(1,675)	(2,520)
Recycled capital grant fund (note 24)	23	18	11	10
Disposal proceeds fund (note 25)	2	2	-	-
Net interest on pension fund	815	1,836	401	887
Total	**33,643**	32,368	**17,387**	15,529
Other financing costs through income and expenditure				
Movement in fair value of non-hedged financial instruments	2,402	(8,739)	403	(6,796)
Other financing costs through other comprehensive income				
Movement in fair value of hedged financial instruments	15,261	3,921	9,425	3,140

14. Taxation on surplus on ordinary activities

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

There is a small tax charge of £1,459 in respect of the prior year.

Notes to the financial statements

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 2017	1,754,782	20,647	129,163	9,611	1,914,203
Reclassification	(11,074)	12,548	(8,054)	6,580	-
Additions:					
- construction costs	-	40,515	-	33,364	73,879
- completed properties	4,146	-	1,317	-	5,463
- replaced components	13,100	-	-	-	13,100
Transfer to completed properties	50,637	(50,637)	21,254	(21,254)	-
Transfer to properties held for sale	(103)	-	(67)	(14,098)	(14,268)
Disposals:					
– staircasing	-	-	(5,391)	-	(5,391)
– other sales	(11,948)	-	-	-	(11,948)
– components	(2,326)	-	-	-	(2,326)
At 31 March 2018	**1,797,214**	**23,073**	**138,222**	**14,203**	**1,972,712**
Depreciation					
At 1 April 2017	245,277	-	6,799	-	252,076
Charge for the year (note 5)	25,893	-	1,181	-	27,074
Disposals during the year:					
– staircasing	-	-	(168)	-	(168)
- replaced components	(2,116)	-	-	-	(2,116)
- other	(2,048)	-	-	-	(2,048)
At 31 March 2018	**267,006**	**-**	**7,812**	**-**	**274,818**
Provision for impairment					
At 1 April 2017	987	230	470	-	1,687
Charge for the year (note 5)	370	-	1,110	-	1,480
Released during the year (note 5)	-	-	(470)	-	(470)
At 31 March 2018	**1,357**	**230**	**1,110**	**-**	**2,697**
Net book value					
At 31 March 2018	**1,528,851**	**22,843**	**129,300**	**14,203**	**1,695,197**
At 31 March 2017	1,508,518	20,417	121,894	9,611	1,660,440

Notes to the financial statements

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 2017	829,468	14,987	53,361	4,794	902,610
Reclassification	(10,846)	12,549	(8,283)	6,580	-
Additions:					
- construction costs	-	21,957	-	17,876	39,833
- completed properties	1,861	-	2,754	-	4,615
- replaced components	5,060	-	-	-	5,060
Transfer to completed properties	30,937	(30,937)	12,969	(12,969)	-
Transfer to properties held for sale	-	-	-	(6,891)	(6,891)
Disposals:					
- staircasing	-	-	(2,228)	-	(2,228)
- other sales	(2,736)	-	-	-	(2,736)
- components	(768)	-	-	-	(768)
At 31 March 2018	**852,976**	**18,556**	**58,573**	**9,390**	**939,495**
Depreciation					
At 1 April 2017	101,303	-	1,611	-	102,914
Charge for the year (note 5)	11,452	-	525	-	11,977
Disposals during the year					
- staircasing	-	-	145	-	145
- replaced components	(1,287)	-	-	-	(1,287)
- other	(414)	-	-	-	(414)
At 31 March 2018	**111,054**	**-**	**2,281**	**-**	**113,335**
Provision for impairment					
At 1 April 2017	987	-	-	-	987
Charge for the year (note 5)	118	-	1,099	-	1,217
At 31 March 2018 (note 5)	1,105	-	1,099	-	2,204
Net book value					
At 31 March 2018	**740,817**	**18,556**	**55,193**	**9,390**	**823,956**
At 31 March 2017	727,178	14,987	51,750	4,794	798,709

This reclassification for both group and association represents an adjustment made in 2017/18 following a full review of our various Asset Management systems. Changes were made to the classification of assets a) tenure status of assets and b) changes made to the split between assets under construction and assets completed. The net effect of this adjustment was nil.

Notes to the financial statements

15(c). Tangible fixed assets housing properties

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
The net book value of housing and other properties comprises:				
Freehold	**1,619,730**	1,583,669	**796,733**	772,345
Long leasehold	**75,467**	76,771	**27,223**	26,364
	1,695,197	1,660,440	**823,956**	798,709

	£'000	£'000	£'000	£'000
Interest capitalisation				
Interest capitalised in the year (note 13)	**2,725**	3,020	**1,675**	2,520
Cumulative interest capitalised	**39,481**	36,576	**20,800**	19,125
Rate used for capitalisation	**3.9%**	4.3%	**3.9%**	4.3%
Works to properties				
Improvements to existing properties capitalised	**13,100**	10,636	**5,060**	4,765
Major repairs expenditure to income and expenditure account (note 5)	**9,469**	6,300	**4,669**	2,013
	22,569	16,936	**9,729**	6,778

	£'000	£'000	£'000	£'000
Total social housing grant received or receivable to date as follows:				
Capital grant held in deferred income (note 23)	**582,896**	590,436	**275,805**	275,375
Recycled capital grant fund (note 24)	**7,262**	5,727	**3,290**	2,692
Disposal proceeds fund (note 25)	**434**	808	**103**	103
Amortised to income and expenditure account in year (note 5)	**7,193**	7,089	**3,447**	3,302
Write back amortisation on disposals (note 23)	**(1,201)**	(573)	**(374)**	(185)
Cumulative amortisation to reserves	**61,296**	55,934	**31,265**	28,192

In the current year, Stonewater Limited entered into a stock transaction with another social landlord. Housing properties with a fair value of £483,398 were purchased in cash. This value includes original Government grant funding of £160,830 which has an obligation to be recycled in accordance with the original grant funding terms and conditions. Stonewater Limited is responsible for the recycling of the grant in the event of the housing properties being disposed.

Notes to the financial statements

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.

Stonewater's 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 Stonewater 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 Cost (DRC) calculations were used in the assessment.

One scheme comprising of a high rise block, undergoing defective correction work was identified, and an impairment charge was made in the accounts – see 'Implications of the Grenfell Tower Fire' page 20.

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 17/18. Three of these schemes were found to be impaired and a charge has been taken to the Income and Expenditure Statement. Other schemes which were triggered for impairment review as a result of an overspend to original appraisal were tested, but no further schemes was 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 £1.5m (2017: £0.7m) in respect of general needs completed properties and properties under construction.

In addition, £0.5m impairment was reversed during the year (2017: £0.1m). The impairment reversal related to one scheme comprising of 12 units that were impaired prior to 2016/17 as void properties. The properties were subsequently sold during 2017/18.

Properties held for security

Stonewater Limited had 8,742 properties pledged as security at 31 March 2018 (2017: 8,022 properties).

Notes to the financial statements

16. Other tangible fixed assets – Group

	Freehold office £'000	Furniture and office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Costs					
At 1 April 2017	3,728	6,287	2,745	88	12,848
Additions	34	388	1,921	-	2,343
Disposal	(2,842)	(67)	(1,195)	(30)	(4,134)
At 31 March 2018	**920**	**6,608**	**3,471**	**58**	**11,057**
Depreciation					
At 1 April 2017	1,652	3,728	1,345	88	6,813
Charge for year (note 7)	76	451	844	-	1,371
Elimination on disposal	(1,135)	(27)	(1,099)	(30)	(2,291)
At 31 March 2018	**593**	**4,152**	**1,090**	**58**	**5,893**
Net book value					
At 31 March 2018	**327**	**2,456**	**2,381**	**-**	**5,164**
At 31 March 2017	2,076	2,559	1,400	-	6,035

16. Other tangible fixed assets – Association

	Freehold office £'000	Furniture and office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Costs					
At 1 April 2017	105	1,134	2,745	88	4,072
Additions	34	373	1,921	-	2,328
Disposal	-	(67)	(1,195)	(30)	(1,292)
At 31 March 2018	**139**	**1,440**	**3,471**	**58**	**5,108**
Depreciation					
At 1 April 2017	3	376	1,345	88	1,812
Charge for year (note 7)	-	178	844	-	1,018
Elimination on disposal	-	(26)	(1,098)	(30)	(1,154)
At 31 March 2018	**3**	**524**	**1,091**	**58**	**1,676**
Net book value					
At 31 March 2018	**136**	**916**	**2,380**	**-**	**3,432**
At 31 March 2017	102	758	1,400	-	2,260

Notes to the financial statements

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

18. Properties held for sale

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Housing properties for sale:				
Work in progress	7,377	8,291	5,083	5,933
Completed properties	3,824	4,130	2,414	3,173
	11,201	12,421	7,497	9,106

The stock figure above includes capitalised interest of £328k (2017: £402k).

Notes to the financial statements

19. Trade and other debtors

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Within 1 year				
Rent and service charge arrears	11,951	9,438	6,587	4,853
Less: provision for doubtful debts	(3,346)	(2,324)	(1,623)	(1,058)
	8,605	7,114	4,964	3,795
Amounts owned by group undertaking	-	-	4,918	11,204
Other debtors	1,401	1,856	827	1,207
Pre-payment and accrued income	4,994	2,184	2,607	2,175
Social Housing grant receivable	1,306	560	867	509
	16,306	11,714	14,183	18,890

20. Short term investments

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Brought forward	3,735	15,094	1,334	10,910
Additions/(Withdrawals)	869	(11,359)	466	(9,576)
Carried forward	4,604	3,735	1,800	1,334

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

Notes to the financial statements

21. Creditors – amounts falling due within one year

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Housing loans (note 26)	30,960	13,974	16,686	4,860
Issue costs (note 26)	(447)	(655)	(269)	(315)
Trade creditors	3,596	3,763	3,135	2,620
Other creditors	17,567	15,488	10,064	7,680
Taxation and social security	1,130	828	969	767
Accruals and deferred income	1,617	923	1,213	696
Accrued interest	4,610	3,331	2,519	1,734
Retentions	1,845	2,174	250	305
Amounts owed to group undertakings	-	-	7,294	3,074
Recycled capital grant fund (note 24)	2,815	1,604	1,293	810
Disposal proceeds fund (note 25)	126	375	-	-
SHPS pension deficit	2,576	2,519	1,071	1,032
Leaseholder sinking funds	7,220	6,906	5,152	5,088
	73,615	51,230	49,377	28,351

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

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Housing loans external (note 26)	822,105	762,944	262,252	303,164
Issue costs (note 26)	(5,037)	(4,189)	(2,785)	(2,816)
Housing loans internal (note 26)	-	-	155,377	80,984
Derivatives financial instruments (note 27)	109,178	126,841	69,315	79,144
SHPS pension deficit	13,913	15,936	5,761	6,619
Deferred capital grant (note 23)	582,896	590,436	275,805	275,375
Recycled capital grant fund (note 24)	4,447	4,123	1,997	1,882
Disposal proceeds fund (note 25)	308	433	103	103
	1,527,810	1,496,524	767,825	744,455

Notes to the financial statements

23. Deferred capital grant

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
At 1 April	590,436	595,377	275,375	283,828
Grants received during the year	4,458	3,395	3,541	2,562
Transfer to RCGF and DPF (notes 24 and note 25)	(1,316)	(1,064)	(921)	(32)
Transfer from inter-company	-	-	1,506	(7,698)
Released to income in the year (note 5)	(7,193)	(7,089)	(3,447)	(3,302)
Write back amortisation on disposals	1,201	573	374	185
Other movements	(4,690)	(756)	(623)	(168)
At 31 March	582,896	590,436	275,805	275,375

24. Recycled capital grant fund (RCGF) – Group

	RSH 2018 £'000	GLA 2018 £'000	Total 2018 £'000	RSH 2017 £'000	GLA 2017 £'000	Total 2017 £'000
At 1 April	5,527	200	5,727	4,700	278	4,978
Inputs to fund:						
Grants recycled from deferred capital grants (note 23)	2,955	-	2,955	1,795	-	1,795
Transfer to income	-	-	-	-	(79)	(79)
Interest accrued (note 13)	21	2	23	17	1	18
Recycling of grant:						
New build (note 23)	(1,263)	-	(1,263)	(985)	-	(985)
Other	-	(180)	(180)	-	-	-
At 31 March	7,240	22	7,262	5,527	200	5,727
Amounts due for repayments:						
- within 1 year (note 21)	2,793	22	2,815	1,425	179	1,604
- within 2 to 3 years (note 22)	4,447	-	4,447	4,102	21	4,123
	7,240	22	7,262	5,527	200	5,727

Notes to the financial statements

24. Recycled capital grant fund (RCGF) – Association

	RSH 2018 £'000	GLA 2018 £'000	Total 2018 £'000	RSH 2017 £'000	GLA 2017 £'000	Total 2017 £'000
At 1 April	2,492	200	2,692	2,070	278	2,348
Inputs to fund:						
Grants recycled from deferred capital grants (note 23)	1,397	-	1,397	637	-	637
Interest accrued (note 13)	9	2	11	9	1	10
Recycling of grant:						
New build (note 23)	(476)	-	(476)	(136)	-	(136)
Repayment of grant to GLA	-	-	-	-	(79)	(79)
Other	(154)	(180)	(334)	(88)	-	(88)
At 31 March	3,268	22	3,290	2,492	200	2,692
Amounts due for repayments:						
- within 1 year (note 21)	1,271	22	1,293	631	179	810
- within 2 to 3 years (note 22)	1,997	-	1,997	1,861	21	1,882
	3,268	22	3,290	2,492	200	2,692

25. Disposal proceeds fund (DPF)

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
At 1 April	808	553	103	-
Inputs to fund:				
Grants recycled (note 23)	-	474	-	103
New development and repairs to existing properties (note 23)	(376)	(221)	-	-
Interest Accrued (note 13)	2	2	-	
At 31 March	434	808	103	103
Amounts due for repayments:				
- within 1 year (note 21)	126	375	-	-
- within 2 to 3 years (note 22)	308	433	103	103
	434	808	103	103

Notes to the financial statements

26. Loans and borrowings – Group

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

Maturity of debt:	Bank loans 2017 £'000	Bond finance 2017 £'000	Other loans 2017 £'000	Total 2017 £'000
In 1 year or less, or on demand	12,279	1,470	225	13,974
Issue costs <1 year	(644)	(11)	-	(655)
Within 1 year (note 21)	11,635	1,459	225	13,319
In more than 1 year but not more than 2 years	29,467	1,580	247	31,294
In more than 2 years but not more than 5 years	67,635	5,477	846	73,958
After 5 years	305,955	338,559	13,178	657,692
Issue costs	(3,774)	(415)	-	(4,189)
Greater than 1 year (note 22)	399,283	345,201	14,271	758,755
Total loans	410,918	346,660	14,496	772,074

Approximately £300m of the bank loans which has maturity greater than five years will mature between five to 18 years. There is no particular concentration of maturities in any particular financial year. All of the bank loans mature within 24 years.

Of the £353m bond finance, £225m has got 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 2018 were £1,087m (2017: £1,000m) of which £234m were undrawn (2017: £223m).

Notes to the financial statements

26. Loans and borrowings – Association

Maturity of debt:	Bank loans 2018 £'000	Bond Finance 2018 £'000	Other loans 2018 £'000	Total 2018 £'000
In 1 year or less, or on demand	**16,217**	**346**	**123**	**16,686**
Issue costs <1 year	**(71)**	**(198)**	**-**	**(269)**
Within 1 year (note 21)	**16,146**	**148**	**123**	**16,417**
In more than 1 year but not more than 2 years	**4,998**	**349**	**81**	**5,428**
In more than 2 years but not more than 5 years	**17,800**	**1,146**	**300**	**19,246**
After 5 years	**168,860**	**218,509**	**5,586**	**392,955**
Issue costs	**(856)**	**(1,929)**	**-**	**(2,785)**
Within more than 1 year (note 22)	**190,802**	**218,075**	**5,967**	**414,844**
Total loans	**206,948**	**218,223**	**6,090**	**431,261**

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

Notes to the financial statements

27. Financial instruments – Group

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

	Note	Group 2018 £'000	Group 2017 £'000
Financial assets:			
Financial assets measured at historical costs			
- Trade receivables	19	**8,605**	7,114
- Other receivables	19	**2,707**	2,423
- Investments in short term deposits	20	**4,604**	3,735
- Cash and cash equivalents		**107,827**	38,181
Total financial assets		**123,743**	51,453
Financial liabilities:			
Financial liabilities measured at amortised cost			
- Loans payable	26	**847,581**	772,074
Financial liabilities measured at historical cost			
- Trade creditors	21	**3,596**	3,763
- Other creditors	21	**57,044**	53,812
Derivatives financial instruments measured at fair value comprise interest swaps	22	**109,178**	126,841
Total financial liabilities		**1,017,399**	956,490

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

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

Derivative financial instruments are measured at full 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 unto floating to fixed interest rate swaps. These result in the group paying 4.5% (2017: 4.5%) and receiving LIBOR (though cash flows are settled on a net basis) and effectively fix the total interest cost on loans and interest rates swaps at 4.2% (2017: 4.0% per annum).

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS102 and had a fair value of £109.2m (2017: £126.8m) at the Statement of Financial Position date.

The cash flows arising from the interest rate swaps will continue until their maturity, which ranges from one year to 30 years. The reduction in fair value of £17.6m in the period is split between £15.6m reduction (2017: £3.9m) recognised in other comprehensive income, for hedges, and £2.1m (2017: £8.9m) within finance costs for non-hedges.

Association: the derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a fair value of £69.3m (2017: £79.1m) at the Statement of Financial Position date.

The movement in fair value in the period of £7.8m (2017: £3.2m) recognised in other comprehensive income for hedges and £0.1m (2017: £6.8m) for non-hedges.

Notes to the financial statements

28. Provisions for liabilities and charges

Group	Dilapidations £'000
At 1 April 2017	455
Charged to income and expenditure	
Allocations	(241)
At 31 March 2018	**213**

Association	Dilapidations £'000
At 1 April 2017	454
Allocations	(241)
At 31 March 2018	**213**

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

Notes to the financial statements

29. Pensions

Several pension schemes are operated by the group.

A) Social Housing Pension Scheme

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

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

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

B) Defined benefit pension scheme, Dorset County Council

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

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

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

Group	**2018 £'000**	2017 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	**9,829**	9,651
Current service costs	**45**	40
Interest costs	**252**	309
Change in financial assumptions	**(299)**	986
Change in demographic assumptions	**-**	14
Experience gain on defined benefit obligation	**-**	(858)
Estimates benefits paid net of transfers in	**(316)**	(323)
Contribution by scheme participants	**11**	10
At the end of the year	**9,522**	9,829

Notes to the financial statements

29. Pensions

	2018 £'000	2017 £'000
Reconciliation of fair value of plan assets		
At the beginning of the year	**5,452**	4,626
Interest income on plan assets	**139**	147
Return on assets less interest	**133**	814
Other actuarial gains	**-**	58
Administration expenses	**(4)**	(4)
Contributions by employer	**116**	124
Contributions by fund participants	**11**	10
Estimated benefits paid plus unfunded net transfer in	**(316)**	(323)
At the end of the year	**5,531**	5,452
Fair value of plan assets	**5,531**	5,452
Present value of plan liabilities	**(9,522)**	(9,829)
Net pension scheme liability	**(3,991)**	(4,377)
Amounts recognised in other comprehensive income are as follows:		
Included in administrative expenses:		
- Service costs	**45**	40
- Administration expenses	**4**	4
	49	44
Amounts included in other finance costs		
Net interest costs	**113**	162
Analysis of actuarial loss recognised in other comprehensive income		
Return on fund assets in excess of interest	**133**	814
Other actuarial gains on assets	**-**	58
Change in financial assumptions	**299**	(986)
Change in demographic assumptions	**-**	(14)
Experience gain on defined benefit obligation	**-**	858
	432	730

Notes to the financial statements

29. Pensions

	2018 £'000	2018 %	2017 £'000	2017 %
Composition of plan assets				
Equities	**2,989**	**54**	3,059	56
Liability Driven Investment	**724**	**13**	809	15
Cash	**78**	**1**	61	1
Other bonds	**388**	**7**	625	12
Diversified Growth Fund	**334**	**6**	236	4
Property	**558**	**10**	479	9
Infrastructure	**200**	**4**	182	3
Hedge Fund	**-**	**-**	1	-
Multi Asset Credit	**260**	**5**	-	-
Total plan assets	**5,531**	**100**	5,452	100

	2018 %	2017 %
Principal actuarial assumptions used at the Statement of Financial Position date		
Discount rates	**2.55**	2.60
Future salary increases	**4.35**	4.60
Future pension increases	**2.35**	2.60
Inflation assumptions - RPI	**3.35**	3.50
Inflation assumptions - CPI	**2.35**	2.60
Mortality rates		
For a male aged 65 now	**24.0**	23.9
For a female aged 65 now	**26.1**	26.0
At 65 for a male member aged 45 now	**26.2**	26.1
At 65 for a female member aged 45 now	**28.4**	28.3

Notes to the financial statements

30. Share capital – Association

	2018 £	2017 £
At 1 April	**10**	19
Shares issued in the year	**3**	-
Shares cancelled in the year	**(2)**	(9)
At 31 March	**11**	10

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

31. Operating leases

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

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Amounts payable as lessee				
Not later than 1 year	**816**	673	**544**	400
Later than 1 year and not later than 5 years	**2,221**	1,808	**1,702**	1,169
Later than 5 years	**282**	130	**236**	49
	3,319	2,611	**2,482**	1,618

32. Capital commitments

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Commitments contracted but not provided for construction	**94,600**	94,400	**31,337**	40,762
Commitments approved by the board but not contracted for construction	**93,784**	53,167	**54,931**	25,142
	188,384	147,567	**86,268**	65,904

Capital commitments for the group will be funded from £14.6m SHG (2017:£8.2m), with the remainder funded from property sales £54.6m (2017: £48.7m) and external borrowing £119.2m (2017: £90.7m).

Capital commitments for the association will be funded from £8.2m SHG (2017: £5.7m), with the remainder funded from property sales £26.5m (2017: £26.2m) and external borrowing £51.6m (2017: £34.0m).

Notes to the financial statements

33. Related party disclosures

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

Intra group revenue

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

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

Total income for the year from non-regulated entities was:

	2018 £'000	2017 £'000
Staff costs recharge to Stonewater Procurement Ltd	**1,555**	1,497
Management services provided to Stonewater Procurement Limited and Stonewater Funding PLC	**444**	439

Intra group costs

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

The Association also receives financial services from Stonewater Funding PLC.

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

	2018 £'000	2017 £'000
Charge for the design and build service provided by Stonewater Procurement Limited	**31,067**	33,149
2.5% admin charge	**777**	829
Management fee charged by Stonewater Funding PLC	**120**	120

Intra group liabilities

Stonewater Limited has a loan in place with Stonewater Funding PLC. At 31 March 2018 the outstanding amount was £155.6m (2017: £80.9m).

Stonewater (2) Limited has a loan in place with Stonewater Funding PLC. At 31 March 2018 the outstanding amount was £46.5m (2017: £21.6m).

Stonewater (5) Limited has a loan in place with Stonewater Funding PLC. At 31 March 2018 the outstanding amount was £31.0m (2017: £31.0m).

	2018 £'000	2017 £'000
Loan balance (including issue costs)	**233,018**	133,559
Interest charged	**8,022**	6,292

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 2018, the potential shortfall covered by the guarantee was nil as the valuation of the security provided by Stonewater Limited, Stonewater (2) Limited and Stonewater (5) exceeded the amount required.

34. Post balance sheet events

The Group purchased 309 tenanted properties on 23 April 2018 from The Guinness Partnership Limited at a cost of £23.8m. The properties consist of two schemes which are located in Coventry. The first scheme is Tanyard Farm and is located in Tile Hill, about three to four miles from Coventry town centre. This estate consists of two- to four-bedroom houses with a total of 176 houses. The second scheme is Woodway Park and is located in Woodway Park, about five miles from Coventry town centre. This estate consists of two- to three-bedroom houses and one- to two-bedroom flats. In total there are 133 properties.

On 27 June 2018, the Association cancelled three swaps with Credit Suisse. Two of the swaps had a 2014 maturity date and the other matured in 2022.

Stoney Meadow,
North Mundham,
West Sussex.

References

1. Homeless households in temporary accommodation

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https://www.insidehousing.co.uk/news/news/number-of-households-living-in-temporary-accommodation-rises-again-55435
and House of Commons Library
http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN02110

2. Number of children affected by homelessness

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3. Number of rough sleepers

Homeless.org
https://www.homeless.org.uk/facts/homelessness-in-numbers/rough-sleeping/rough-sleeping-our-analysis
and Ministry of Housing, Communities and Local Government - Rough Sleeping Statistics Autumn 2017, England
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/682001/Rough_Sleeping_Autumn_2017_Statistical_Release_-_revised.pdf

4. Availability of new homes including social housing

New Homes built in England 2016-17 - Ministry of Communities and Local Government - Housing supply; net additional dwellings, England: 2016-17
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/659529/Housing_Supply_England_2016-17.pdf
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https://www.insidehousing.co.uk/news/news/social-and-affordable-lettings-drop-by-40000-54369

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