STONEWATER

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

For the year ended 31 March 2020

Community Benefit Society Number 19412R

Regulator of Social Housing Number L0173

Contents

Board Members	
George Blunden (Chairman until 30 September 2019) Sheila Collins (Chairman from 1 October 2019)	Brian Roebuck (until 1 April 2020)
Doug Wright	Anne Dokov
Peter Hammond (until 1 April 2020)	Tariq Kazi
Nicholas Harris	Andrew Lawrence
Claire Kearney	Juliana Crowe
Jennifer Bennett	Hugh Shields (from 1 October 2019)
John Weguelin (until 30 September 2019)	Angus Michie (from 1 June 2020)
Chris Edis (from 1 April 2020)	
Advisors	
Secretary and registered office	Principal Bankers
Anne Harling Suite C, Lancaster House Grange Business Park Enderby Road Whetstone Leicester LE8 6EP	Barclays Bank Level 27 1 Churchill Place London E14 5HP
Solicitors Devonshires Solicitors 30 Finsbury Circus London EC2M 7DT	Auditors BDO LLP 55 Baker Street London W1U 7EU
Solicitors (for Governance) Trowers and Hamlins LLP 55 Princess Street Manchester M2 4EW	

Report of the Board of management and Strategic report

The Board presents its report and audited financial statements for Stonewater (2) Limited (the 'Association') for the year ended 31 March 2020.

Nature of the business and principal activities

Stonewater (2) Limited is a Registered Society under the Cooperative and Community Benefit Societies Act 2014, with charitable status, and a Registered Provider with the Regulator of Social Housing (RSH). Its parent is Stonewater Limited (the 'Group' or 'Stonewater').

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

Our Vision

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

Our Mission

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

Our Values

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

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

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

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

Agile – We are on a journey, so we make sure we never stand still.
Our business dictates that change is both regular and rapid, so as an organisation we always stay one step ahead. Our approaches are flexible, adapting to evolve to individual people's needs or the latest legislation. We pride ourselves on high performance so we expect innovation and initiative to be a part of our every day. We are the smart housing services team, dynamic and slick enough to respond whenever and however change dictates it.

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

Stonewater's Strategic Plan 2019-2024

Due to the uncertainty as a result of the coronavirus pandemic we will update our existing Strategic Plan 2019-24, while reshaping the way we work and deliver our services to take account of the challenging circumstances.

Our Strategic Plan sets out our priorities and what we aim to achieve. The objectives and associated outcomes we aim to achieve are set out under three key themes:

Customer experience

- Deliver an effective service that meets the diverse needs and aspirations of our customers.
- Deliver Retirement Living services that meet the needs and aspirations of our customers.
- Deliver Supported Housing services that meet the needs of our customers and the aspirations of the business.

Growth and influence

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

Business excellence

- Achieve consistently high standards of performance for our business critical key performance indicators (KPIs) on income collection and compliance.
- Invest in and support our people in order to attract, develop and retain a highly motivated workforce who will deliver our strategic objectives.
- Manage our resources efficiently and effectively and maximise the return on investment in our assets to ensure we have the financial capacity to deliver our priorities.

Our priorities in our existing Strategic Plan 2019-24 for the next four years and the objectives we set took account of our assessment of the operating environment for housing, the opportunities available to us and the challenges we faced at the time the Plan was developed.

Along with others in the housing sector, we have had to adapt to change as a result of the impact of the Coronavirus pandemic. We responded quickly and positively, and by adopting safe new working practices we have been able to continue providing essential services to our customers. We also introduced new flexible payment arrangements to support those of our customers who are experiencing financial hardship as a direct result of the coronavirus outbreak. Our significant investment in new technology meant we were able to move quickly to a digitally enabled, home-working approach for the majority of our colleagues at the start of the lockdown.

We have been proactive in planning for the 'new normal' and have developed a programme of work to remobilise and re-imagine our business under the banner of Stonewater'20. We are following Government guidelines, including the Recovery Strategy and the subsequent new guide to working safely published on 12th May 2020. At all times, our plans and decisions will be made with the health, safety and well-being of our colleagues, customers and contractors at the forefront.

The way we work will be different in the future but our focus will remain on providing quality services for our customers, delivering more much needed new homes and making positive contributions to the communities we serve. Our plans to deliver this will be reflected in the update of our Strategic Plan for 2020-25.

External environment

A week is a long time in politics…

After several years of political uncertainty and focus on Brexit at the expense of almost everything else, the 2019 General Election was supposed to bring a new era of stability. A government with a strong majority, with fresh blood and representing areas of the country that the Conservative Party had never before.

The 'levelling up' agenda was supposed to be the focus of the Government. The 2020 Budget – Rishi Sunak's first as Chancellor – prioritised growing the economy in areas outside London and the South East, with major infrastructure spending planned to create jobs and economic stimulus across the UK.

But they say a week is a long time in politics: within a week many businesses were now working from home, businesses having to make difficult decisions, and shortly thereafter the 'lockdown' and social distancing began.

The environment we operate in has shifted beyond all recognition in a matter of months. Many people – particularly those who are self-employed – have seen their livelihoods cut and, tragically, lost in some cases. Millions of people have been furloughed, saving many jobs that would have otherwise been lost, but still businesses across the country are having to look at their headcounts and their balance sheets, and plan for a rocky road ahead.

For housing associations like Stonewater, there is a vital role to play. We are both an employer to many, but also relied on by tens of thousands of people to provide safety, security, and support through these challenging times. We will need to be flexible, dynamic, and reactive to ensure that we can operate effectively as a landlord and as a business.

We will have a key role to play in providing security and safety to our customers, but also to play a key role in the economic recovery.

With the situation remaining highly volatile we are continuing to monitor how things are evolving in our operating environment. We are constantly looking again and updating the information we send to our customers. We are keeping in touch with key local authorities and stakeholders to understand and ensure that they know they can rely on us to support their constituents – which many have told us they value. We are in close dialogue with our contractors to understand their positions and the situation with their supply chains. We are back on site delivering most of the schemes we were before lockdown began.

We are also retaining strong liquidity levels to deal with financial uncertainties. We are in a good position and feedback from partners indicates that we are being far more proactive than other registered providers even with the ongoing uncertainty around Covid-19. Finally, we are reassuring staff through regular emails, blogs and at team meetings, of the actions we are taking as things continue to evolve.

Housing supply and affordability

The Covid-19 pandemic has put many development sites on hold while the 'new normal' becomes clearer, but we are determined that we, and our new homes, should play a key role in the economic and social recovery.

When normality is restored, it is likely that the need for new homes that are good quality and affordable, will be as important as ever. We need to be aware of the changes in the relationship between work and the home – are our homes fit for working from home, for example. And tragically, more people than ever before are faced with homelessness and the cost of housing in many areas continues to rise above affordable levels. Those who have been off the streets since lockdown, in hotels and B&Bs will need somewhere to go after the hospitality industry resumes.

Key statistics include:

- It is estimated that there are more than 280,000 homeless people in England on any given night, including 236,000 people living in temporary accommodation.
- Approximately 130,000 children live in these homeless households and therefore have nowhere to call 'home'.
- Figures on homeless households and rough sleepers do not include the 'hidden homeless' or 'sofa surfers': people who do not have a home but also do not qualify for housing assistance.
- Supply of housing is not keeping up with demand. There has been an 11% drop in social housing availability and housing that is affordable for those on a low income.

Delivery of new housing was once again a key commitment of all political parties at the 2019 General Election, and remains the priority of the new Housing, Communities and Local Government team and new Housing Minister.

Since 2015 there has been a real shift in the Government's vision for the housing sector, with the goal of delivering 300,000 new homes per year. The Housing White Paper "Fixing our broken housing market" indicated a shift in strategy towards a more balanced approach to building new homes which meet the needs of people in all financial circumstances. It recognised the need to create more affordable rental homes, in addition to low cost home ownership options – we are engaging with Government on matters including the new First Homes consultation, and on ensuring there is recognition for the value of new affordable homes across multiple tenures. We look forward to the forthcoming White Paper on the planning system and hope that this will allow us to deliver more homes quickly.

Housing associations are seen as having a vital role in delivering new homes to solve the housing crisis even before Covid-19. However, there has been a consistent drive towards higher standards since the Grenfell Tower tragedy but also spurred by fires at other developments. The Government has introduced new safety standards for taller buildings, but safety has been a key priority for all developments. 2020 will see the publication of the long-awaited Social Housing White Paper, which should build on the Green Paper of 2018. We will continue to engage closely with Government, local government and our stakeholders to ensure that the policies that come from the White Paper are strong, clear and support our customers.

2020 was gearing up to be a crucial year for environmental policy, particularly with the UK hosting the COP26 conference. It is important that the environment and sustainability is not overshadowed too much by Covid-19, particularly in the housing and development sectors. Stonewater is working hard to deliver thought leadership on improving environmental standards in existing homes through our work with the Institute for Public Policy Research (IPPR), but our development team is constantly looking at new ways to increase, innovate and keep our carbon footprint down.

Government policy and changes to welfare options

There continues to be significant economic uncertainty due to the unknown impact on the economy of Covid-19, but there are signs that the Government is looking to return to progressing legislation that goes beyond Brexit for the first time in a while. Over the past couple of years, we have welcomed the following changes:

- The Government has introduced a drive towards better design in housing, with the view that building better quality homes will lead to a better public perception of housing and an understanding of social and economic benefits of new housing.
- The Government has shown long-term commitment to funding new affordable housing through the expansion of the Affordable Homes Programme
- The decision to make changes to the payment of Universal Credit, helping to prevent problems with rent arrears associated with claimants not receiving any benefits for long periods between payments.
- The Government has lifted the freeze on Local Housing Allowance rates, allowing rates to rise by inflation from April 2020. Other benefits including Universal Credit and those on the legacy system will also have the benefits freeze unfrozen from April.

A long-term ambition of Stonewater is to reduce homelessness and we are proud of our work in this area. We are particularly pleased that the Government has committed to eradicating homelessness by the end of this Parliament and welcome the £650m made available to help rough sleepers into permanent accommodation.

The reintroduction of the Domestic Abuse Bill to the House of Commons is particularly welcome too by our supported housing team. This is an important piece of legislation that will introduce a definition of domestic abuse of the first time. Stonewater will be monitoring the passage of the Bill and will work to ensure that it protects those who have fled from domestic abuse – including those in Stonewater’s dedicated domestic abuse victim housing.

Performance in the year

Total comprehensive income for the year was £19.6m (2019: £0.3m)

Key Performance indicators:

Rental income lost through voids is 0.96% (2019: 0.95%)
Gross arrears on average were 5.16% (2019: 4.62%)

Throughout 2019/20 the income team has continued to embed national working practices, with caseload distribution across Income Officers specifically focussing on low level, preventative debt and higher levels of debt where legal action has commenced. Preventative activities continue to be routinely undertaken, with examples including 'Welcome Wednesdays' and hand delivery of Notice of Seeking Possession (NOSP) letters in an attempt to address debt levels prior to commencing formal tenancy enforcement action. Furthermore, the team have continued to assist customers to make Discretionary Housing Payment (DHP) applications.

Responsive repairs satisfaction on average was 93.11% (2019: 92.22%)

Operating margin including surplus from 1st tranche sales but excluding surplus on disposal of fixed assets 31% (2019: 33%). This KPI better reflects trend in operating margin as disposals of fixed assets can vary significantly year or year. 1st tranche shared ownership sales are included in this number.

Governance structure

Board

The Board is responsible for the proper and effective management of Stonewater, providing overall strategic direction and ensuring that the organisation meets its strategic aims and objectives. The delegation and control framework established by the Board includes accountability to customers and other stakeholders, such as funding providers and partner local authorities. Board members are listed on page 1. The Board comprised 12 members at 31 March 2020, 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 uphold Stonewater's purpose, values, objectives and policies, share responsibility for decisions taken and represent the company.

Covid-19 duties of Board

Changes to governance arrangements were introduced at the end of March 2020 in response to the Government measures to control the Covid-19 pandemic. Two Board subcommittees were established with delegated authority to take decisions on behalf of the Board in relation to operational changes implemented as a result of the pandemic. Board meetings, using video conferencing, were instigated twice a month to facilitate timely decisions during a rapidly developing situation. During the period of the pandemic the Board, in partnership with the Executive Directors' Group (EDG), has continued to provide strong direction and oversight of operational performance.

Skills, qualities and experience required by the Board

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

In addition, the Board seeks to have a membership that reflects the diversity of Stonewater's customers and the communities where we work. The Board has set targets for improving diversity across the governance structure. At 31 March 2020, the Board comprised 42% female members, 17% from a black or minority ethnic background and two members identifying as disabled. The average age of the membership at 31 March 2020 was 61 years.

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

In 2019/20 these were to deliver a customer-centric service, growth and Board succession.

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

- Growth – 654 units handed over against our internal target of 653 for the Group. Homes England Strategic Partnership targets achieved with 260 of the 1500 homes in the programme started on site and cash take up of £29.5m.
- Service delivery – key KPI's are monitored by the Board on a quarterly basis.
- Maintain a cohesive Board team through Board succession – team building activities have been built into the Board calendar. Induction for new members includes opportunities for one to one meetings with colleagues and subject specialists, as well as opportunities to visit offices and Stonewater schemes.

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

Specific development needs identified through the appraisal feed into the member learning and development programme

Code of Governance

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

Committees

The Board is supported by seven functional committees, each of which is chaired by a Board member. Each of the Risk and Assurance Committee, the Customer Experience Committee, the Business Design and Technology Committee and the Managed Services Committee include places for independent members.

Each of the Board committees undertakes an annual self-assessment, which reviews how the committee has fulfilled its terms of reference and worked together as a team during the year.

During the review, targets for the year ahead and improvements to the committee's operations are identified. The particular areas of focus for each of the committees during 2019/20 are shown, and will be assessed in the 2020 collective appraisals. Two committees, Business Design and Technology and Managed Services Committee, have been newly formed and will set objectives as part of the 2020 collective appraisal process.

Assets and Development Committee

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

During the year, the committee has been focusing on:
- Implementation of the Homes England strategic partnership
- Opportunity and risk management
- Asset sales

Customer Experience Committee

Oversees front-facing delivery in relation to affordable landlord services, ensuring that Stonewater has knowledge and understanding of the impact of the service provision and Stonewater's activities on local communities.

During the year, the committee has been focusing on:
- Utilising customer insights
- Service delivery
- Monitoring technological developments within the operating environment

Finance Committee

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

During the year, the committee has been focusing on Value for Money assessment and reporting

Governance and People Committee

Oversees Board and Committee recruitment and performance, reviews members' remuneration and expenses, oversees the recruitment and performance of the Chief Executive, and reviews staff terms and conditions.

During the year, the committee has been focusing on:
- Board succession, including induction
- Implementation of the People Strategy
- Compliance with regulatory requirements

Risk and Assurance Committee

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

During the year, the committee has been focusing on ensuring:
- the operating environment is monitored and risks managed accordingly
- Stonewater's assurance framework remains appropriate for the business

Business Design and Technology Committee

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

Managed Services Committee

Oversees the mobilisation and delivery of Stonewater's contract with Legal and General Affordable Homes.

Executive Directors Group

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

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

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 and publications. Many may be found on our website (www.stonewater.org) and copies are also available on request.

Risks and uncertainties

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

The Board has also adopted a risk appetite statement which sets out the nature and levels of risk we are prepared to take in order to achieve our strategic objectives. Performance against this is kept under review facilitated through the use of metrics to enable the Board and committees to assess whether performance remains within the risk appetite parameters.

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

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

People strategy

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

Gender pay gap

Stonewater gender pay gap statement is available via the website: www.stonewater.org

Corporate communications

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

Value for Money

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

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

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

Relationships

We put customers at the heart of everything we do, investing in communities to create great places to live. Providing good quality, affordable homes for the people who need them most is our foundation but, above and beyond that, the way we deliver our services and work with customers is fundamental.

We also recognise that to become a great business we must look outwards to excel at customer service.

Understanding housing's relationship and interface with other areas of social policy (social care, health, financial inclusion, regeneration, employability and education), plus gaining deeper insight into our customer base, is vital to our success.

Customer engagement

Our customers are key to our success, and we invest in understanding customer needs and aspirations to provide services which support their ability to thrive in their communities. Our aim is to deliver innovative, effective and consistent services to our customers, and to listen to their feedback so we can use this to help further shape our services to meet their diverse needs.

We encourage our customers to engage with us and offer a range of involvement opportunities both online and face-to-face, including the Customer Scrutiny Panel, our Customer hubb (our digital forum), and through social media channels such as Facebook and Twitter. We emphasise to customers that we are committed to continuous improvement in the services we offer and we encourage them to let us know what they think.

We are especially focused on improving digital access for our customers and colleagues. Improving and enhancing digital channels enables two-way feedback regardless of where people are. We were early adopters in the National Housing Federation’s Together with Tenants plan, reinforcing Stonewater’s commitment to continuously nurture positive relationships with our customers and share our experience and good practice with the sector.

Customer insight
Our approach to customer insight allows us to have a better understanding of our customers value and what they value. This helps us to provide better, more tailored services delivered right first time to meet the needs of our diverse customer base.

During 2019/20, 78% of our customers told us that they were satisfied with the services they received from Stonewater. From 2020/21, we are introducing easier and quicker ways for customer feedback to be captured and focusing more on reducing time in which we respond to customer issues. Putting our Customer Promise at the centre of how we deliver services and invest in our colleagues, we will also be rolling out a customer service training programme across the whole of Stonewater.

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

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 2020, is available via the website modern-slavery-and-human-trafficking-statement.

Financial inclusion
We provide information via our website and Customer Hubb to keep customers up to date with benefit changes. Our colleagues are trained about welfare benefits and are able to identify customers who require specialist support, who are then signposted to national and local organisations that can provide this. We contact customers as they apply for Universal Credit to ensure they have the necessary support to complete their claim and set up a payment method.

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

Treasury policies and objectives

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

Going concern

The Board has reviewed the Association's five-year strategic plan and 30-year financial projections. This review took account of the Covid-19 pandemic and included stress testing and analysis of potential impact on covenants. The Board is fully satisfied that the Association has adequate resources to continue trading for the foreseeable future and therefore continues to adopt the going concern basis in preparing the Association's financial statements

Business planning, risk and internal controls assurance

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

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

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

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

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

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

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

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

Significant changes were made to Stonewater's operations towards the end of 2019/20 in response to the Coronavirus (Covid-19) pandemic. The Board and executive team have followed Government and regulatory guidance in implementing revised working practices. The actions taken in response to Government lockdown and social distancing measures included a move to remote service delivery, where possible, and a scaling back of the repairs service to focus on compliance and emergency works. The risks arising from the evolving operating environment have been carefully assessed at each stage to ensure that business activities remain within the Board's risk appetite.

The Board has also agreed additional controls to ensure that during the Covid-19 pandemic Stonewater remains a viable concern. These have included Board meetings twice a month to provide strong governance oversight and efficient decision taking. A suite of performance indicators, scenario models and risk appetite measures have been developed to inform board decisions and performance monitoring. The Board's priority has been to safeguard health and safety, along with other legal, regulatory and financial compliance. Revised and new policies and procedures have been put in place to reflect the revised operating environment and strengthen internal controls.

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 auditors have been kept informed of changes made to operations in response to the Coronavirus.

Confirmation from the Board

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

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

The Board is able to confirm compliance with its adopted code of governance and the regulatory Governance and Financial Viability standard as set by Regulator of Social Housing during the course of the year and up to the date of signing.

Compliance with the regulatory standards

The latest regulatory judgement issued by the Regulator of Social Housing in December 2019 confirms that Stonewater meets the requirements set out in the Governance and Financial Viability Standard of the 2015 Regulatory Framework with the top ratings of G1 (The provider meets the requirements on governance set out in the Governance and Financial Viability Standard) and V1 (The provider meets the requirements on viability set out in the Governance and Financial Viability Standard and has the capacity to mitigate its exposures effectively). Since then the Board has undertaken a self-assessment of compliance with the Governance and Viability Standard, taking account of the Code of Practice, and confirms that Stonewater is compliant with the standard.

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

The Board members are responsible for preparing the report of the Board and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the Board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2018 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board members are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. They are also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Disclosure of information to auditors

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

BDO LLP were appointed as Stonewater (2) Limited's external auditors for 2019/20 on 23 July 2019.

The report of the Board was approved on 17 July 2020 and signed on its behalf by:

Sheila Collins
Chairman of Board

Opinion
We have audited the financial statements of Stonewater (2) Limited ("the Association") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

>give a true and fair view of the state of the Association's affairs as at 31 March 2020 and of the Association's surplus for the year then ended;

>have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

>have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

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

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

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

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

>the Board members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

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 and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information including the Report of the Board of Management and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

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

We have nothing to report in this regard.

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

>the information given in the Report of the Board and Strategic report for the financial year for which the financial statements are prepared is not consistent with the financial statements;

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

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

>the Association financial statements are not in agreement with the accounting records and returns; or

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. 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 the Housing and Regeneration Act 2008 and the Co-operative and Community benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP.

Philip Cliftlands
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
United Kingdom
Date 7 August 2020

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

		2020	2019
	Note	**£'000**	£'000
Turnover	4	55,976	56,264
Cost of sales	4	(4,042)	(4,666)
Operating costs	4	(34,575)	(33,072)
Surplus on disposal of housing properties	4,9	8,021	2,975
Surplus on disposal of other fixed assets	4,9		-
Operating surplus	**4,7**	**25,380**	**21,501**
Interest receivable and similar income	10	140	148
Interest payable and financing costs	11	(11,052)	(11,443)
Movement in fair value of non hedging financial instruments	11	(833)	(385)
Surplus for the year		**13,635**	**9,821**
Movement in fair value of hedging financial instruments	11	(3,489)	(247)
Actuarial gains/(losses) on defined benefit pension scheme	25	9,219	(3,693)
Net impact of initial recognition of multi-employer defined benefit pension scheme	25	-	(5,596)
Total comprehensive income for the year		**19,365**	**285**

All activities relate to continuing operations.

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

Statement of financial position

		2020	2019
	Note	**£'000**	£'000
Fixed assets			
Tangible fixed assets - housing properties	13	573,540	538,680
Other tangible fixed assets	14	763	858
Investments	15	-	-
Total fixed assets		**574,303**	**539,538**
Current assets			
Properties held for sale	16	7,846	3,715
Trade and other debtors	17	3,076	9,904
Short term investments	18	1,544	1,456
Cash and cash equivalents		21,936	32,815
		34,402	47,890
Creditors: amounts falling due in one year	19	(29,336)	(25,690)
Net current assets		**5,066**	**22,200**
Total assets less current liabilities		**579,369**	**561,738**
Creditors: amounts falling due after more than one year	20	(492,484)	(483,709)
Pension scheme liability	25	(6,392)	(16,901)
Net assets		**80,493**	**61,128**
Capital and reserves			
Share capital	26	-	-
Cashflow hedge reserve		(30,427)	(26,938)
Income and expenditure reserve		**110,920**	88,066
Total capital and reserves		**80,493**	**61,128**

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

The financial statements were approved by the Board of Directors and authorised for issue on 17 July 2020

Sheila Collins
Chairman of the Board

Nicholas Harris
Board Member

Anne Harling
Secretary

Statement of changes in reserves

	Cashflow hedge reserve	Income and expenditure reserve	Total
	£'000	**£'000**	**£'000**
Balance at 1 April 2019	**(26,938)**	**88,066**	**61,128**
Surplus for the year		**13,635**	**13,635**
Actuarial gains on defined benefit pension scheme	-	**9,219**	**9,219**
Movement in fair value of hedging financial instruments	**(3,489)**	**-**	**(3,489)**
Balance at 31 March 2020	**(30,427)**	**110,920**	**80,493**
Balance at 1 April 2018	(26,691)	87,534	60,843
Surplus for the year	-	9,821	9,821
Actuarial losses on defined benefit pension scheme	-	(3,693)	(3,693)
Impact of the initial recognition of multi-employer defined benefit scheme	-	(5,596)	(5,596)
Movement in fair value of hedging financial instruments	(247)	-	(247)
Balance at 31 March 2019	(26,938)	88,066	61,128

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

1. Legal status

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

2. Accounting policies

Basis of preparation

The financial statements of the Association have been prepared on a going concern basis, under the historical cost basis of accounting in accordance with Financial Reporting Standard 102 (FRS102).

FRS102 is the applicable standard in the United Kingdom and the Republic of Ireland and the Housing SORP 2018 “Statement of Recommended Practice for Registered Social Housing Providers“ and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

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

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

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

The information is included in the consolidated financial statements of Stonewater Limited as at 31 March 2020 and these financial statements may be obtained from Stonewater’s registered address as disclosed on page 1.

The following principal accounting policies have been applied:

Going concern

After making enquiries and reviewing the 30-year financial plan, updated for Covid-19 including stress testing and analysis of potential impact on covenants, the Board has a reasonable expectation that the association has adequate resources to continue in operational existence for at least 12 months from the date on which the financial statements were approved for release. The financial statements have therefore been prepared on a going concerned basis.

In the analysis of potential impact of the Covid-19 on our business, we considered increase in rent arrears and bad debts, loss of rental income due to delayed handovers, temporary inability to sell new shared ownership properties and delays in work on building sites. The principal remedy in more stressed scenarios is to reduce development expenditure followed by reduction in capital repairs and achieving operating costs savings. We have modelled various scenarios and identified the limits that the business can withstand.

As circumstances are particularly uncertain and outside our control, we will continue to carry out formal reviews on a regular basis.

We have a policy of maintaining cash and committed bank facilities equal to contractual commitments (less grant associated with them). At 31 March 2020 we had £21.9m of cash, £1.5m short term investments and £85m of undrawn facilities, which exceeded the group's contracted obligations less grant by £23.8m. In addition we have three tranches of guaranteed future funding receivable in the next 18 months: £75m in June 2020, £75m in March 2021 and £28m in September 2021.

Turnover

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

Revenue recognition

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

• Rental income is measured at fair value of the consideration received or receivable and represents the amount receivable for the services rendered net of any voids.

• The amortisation of social housing grant is applied by the accruals model in accordance with FRS102, and the income is released over the life of the associated structure component.

• Fixed service charge income is recognised in the year to which it relates variable service charge income is recognised in the year the related cost is recognised.

• Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

Cost of sales

Cost of sales represents development/construction costs including capitalised interest, direct overheads incurred during the course of development of those properties and marketing and other incidental costs incurred during the course of the sale of those properties. Land costs originally incurred during construction are attributed to each sales transaction.

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

Operating costs

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

Properties for sale

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

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

Service charges

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

Schemes managed by agents

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

Value Added Tax

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

Government and other grants

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

In accordance with Housing SORP 2018 the useful economic life of the housing property structure has been selected (see table of useful economic lives on page 26)

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

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

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

Disposal proceeds fund

The Regulator of Social Housing communicated its intention that from 1 April 2017, credits arising from Right To Acquire (RTA) sales should instead be credited to the recycled capital grant fund, therefore the DPF fund no longer is required. In 2019/20 the remaining DPF fund in the Group was allocated fully to new build schemes, and has a nil balance at 31 March 2020.

Housing properties

Housing properties constructed or acquired (including land), excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are held at cost less any impairment. Cost comprises of acquiring of land and buildings, development costs, and interest charges incurred during development. In addition staff costs attributable to bring the housing property to bringing housing property into the working condition for their intended use.

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

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

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

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

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

Fixed assets and depreciation:-

Freehold land is not depreciated. The useful economic lives of all tangible fixed assets are reviewed annually. Housing components are depreciated from the month following replacement. The range of estimated useful economic useful lives are:

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

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

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

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

Impairment

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

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

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

Other fixed assets

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

Depreciation of other fixed assets

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

Description	Estimated useful life (years)
Freehold buildings	100
Site equipment	5 to 25
Fixtures and fittings	5
Datacentre (IT Infrastructure)	5
IT equipment and software	3

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

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

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

Allocation of costs for mixed tenure and shared ownership developments

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

Shared ownership properties and staircasing

Shared ownership sales are treated under the SORP 2018 as follows:-

- Shared ownership properties are split proportionately between current and fixed assets based on the first tranche proportion

- The first tranche proportion is classed as a current asset and related sales proceeds are included in turnover.

- The remaining element is classed as a fixed asset, and included in housing properties at cost, less any provisions needed for depreciation or impairment.

Properties held for sale

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

Debtors and creditors

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

Impairment of rental and other trade receivables

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

Rent and service charge agreements

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

Loans, investments and short-term deposits

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

Financial liabilities and equity

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

Cash and cash equivalents

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

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

Finance costs

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

Derivative financial instruments and hedging accounting

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

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

If an effective hedge becomes ineffective the accumulated balance in the cashflow hedge reserve is released to income and expenditure over the remaining life of the hedged item.

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.

Pension costs

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

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

For financial years ending on or after 31 March 2019 sufficient information is available to account for the obligations on a defined benefit basis.

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

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

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

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

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

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

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

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

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

> Determining the anticipated market value of the 3 categories of assets:

1. Void properties ear-marked for open market sale.
2. Completed but unsold shared ownership.
3. Properties under construction including shared ownership units.

The market values have been determined by external valuers using the market value assuming vacant possession method.

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

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

Other key sources of estimation uncertainty:

> Tangible fixed assets (note 13 and 14)
Tangible fixed assets are depreciated over their useful economic lives. The actual lives of the assets are assessed annually and may vary depending on a number of factors. For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

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

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

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

4. Particulars of turnover, costs of sales, operating costs, surplus on disposal of fixed assets and operating surplus

		Turnover	Cost of sales	Operating costs	Surplus on disposal of fixed assets	Operating surplus
	Note	**2020**	**2020**	**2020**	**2020**	**2020**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Social housing lettings	5	50,877	-	(34,575)	-	16,302
Other social housing activities:						
First tranche shared ownership sales		5,099	(4,042)	-	-	1,057
Surplus on disposal of fixed assets	9	-	-	-	8,021	8,021
Total		**55,976**	**(4,042)**	**(34,575)**	**8,021**	**25,380**

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

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

	General needs	Supported and housing for older people	Shared ownership	Affordable	**Total 2020**	Total 2019
	£'000	£'000	£'000	£'000	**£'000**	£'000
Rent receivable net of identifiable service charges	34,862	1,321	2,772	5,165	**44,120**	43,533
Service charge income	2,667	775	662	104	**4,208**	4,094
Net rent receivable	**37,529**	**2,096**	**3,434**	**5,269**	**48,328**	47,627
Amortised government grants (notes 13b and 21)	2,138	141	121	14	**2,414**	2,398
Other income	92	-	43	-	**135**	191
Income from social housing lettings	**39,759**	**2,237**	**3,598**	**5,283**	**50,877**	50,216
Expenditure on social housing lettings						
Management	(8,478)	(405)	(1,215)	(964)	**(11,062)**	(9,788)
Service charge costs	(2,305)	(1,019)	(377)	(43)	**(3,744)**	(3,322)
Routine maintenance	(6,842)	(332)	(59)	(428)	**(7,661)**	(7,618)
Planned maintenance	(1,555)	(34)	(3)	(72)	**(1,664)**	(1,821)
Major repairs (note 13b)	(990)	(190)	14	(20)	**(1,186)**	(1,636)
Bad debts	(386)	(31)	-	(64)	**(481)**	(283)
Depreciation on housing properties – annual charge (notes 7 and 13b)	(7,429)	(320)	(404)	(443)	**(8,596)**	(8,439)
Depreciation on housing properties – accelerated on disposal of components (note 7 and 13b)	(346)	(34)	-	-	**(380)**	(167)
Impairment on housing properties (note 7 and 13b)	(31)	-	-	-	**(31)**	(100)
Reversal of impairment (note 7)	42	188	-	-	**230**	102
Expenditure on social housing lettings	**(28,320)**	**(2,177)**	**(2,044)**	**(2,034)**	**(34,575)**	(33,072)
Operating surplus on social housing lettings	**11,439**	**60**	**1,554**	**3,249**	**16,302**	17,144
Void losses	(358)	(68)	(18)	(26)	**(470)**	(457)

6. Units of housing stock

	At the start of the year	Additions	Disposals	Reclassifications	At the end of the year
	Number	Number	Number	Number	**Number**
General needs	6,940	126	(5)	(39)	**7,022**
Affordable	762	84	-	(5)	**841**
Shared ownership	1,236	59	(24)	(229)	**1,042**
Supported housing	70	-	-	(12)	**58**
Housing for older people	232	125	(27)		**330**
Other	506	-	-	(499)	**7**
Total owned	9,746	394	(56)	(784)	**9,300**
Accommodation managed for others	903	8	(67)	779	**1,623**
Total managed accommodation	10,649	402	(123)	(5)	**10,923**
Units managed by other associations	161	9	(2)	5	**173**
Total owned and managed accommodation	10,810	411	(125)	-	**11,096**
Units under construction	266	298	-	-	**564**

7. Operating surplus

	2020	2019
	£'000	£'000
This is arrived at after charging/(crediting):		
Depreciation of housing properties		
-annual charge (note 5 and 13a)	**8,596**	8,439
-accelerated depreciation (note 5)	**380**	167
Depreciation of other tangible fixed assets (note 14)	**60**	146
Impairment of housing properties (note 5 and 13a)	**31**	100
Reversal of impairment of housing properties	**(230)**	(102)
Operating lease charges	**249**	214

Audit fees for the year ending 31 March 2020 are borne by the Parent company, Stonewater Limited, and are disclosed in the consolidated financial statements.

8. Employees, Directors' and senior executive remuneration

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

9. Surplus on disposal of fixed assets

	Shared ownership properties	Other housing properties	Voluntary Right to Buy	**Total**	Total
	2020	2020	2020	**2020**	2019
	£'000	£'000	£'000	**£'000**	£'000
Housing properties:					
Disposal proceeds	4,526	3,067	5,823	**13,416**	6,372
Net book value (note 13a)	(2,206)	(836)	(1,856)	**(4,898)**	(2,615)
Other costs	(63)	(341)	(93)	**(497)**	(782)
Surplus on disposal	**2,257**	**1,890**	**3,874**	**8,021**	2,975

10. Interest receivable and similar income

	2020	2019
	£'000	£'000
Interest receivable and similar income	**140**	148
Total	**140**	148

11. Interest payable and financing costs

	2020	2019
	£'000	£'000
Interest on bank loans and overdrafts	**9,085**	9,505
Interest payable to group undertakings	**2,819**	2,239
Interest capitalised on construction on housing properties (note 13b)	**(1,247)**	(665)
Recycled capital grant fund (note 22)	**23**	19
Disposal proceeds fund (note 23)	**-**	1
Net interest on net defined benefit liability (note 25)	**372**	344
Total	**11,052**	11,443
Other financing costs through income and expenditure:		
Movement in fair value of non hedging financial instruments	**(833)**	(385)
Other financing costs through other comprehensive income:		
Movement in fair value of hedging financial instruments	**(3,489)**	(247)

12. Taxation on surplus on ordinary activities

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

13(a). Tangible fixed assets housing properties

	Housing properties held for lettings	Housing properties for letting under construction	Shared ownership held for lettings	Shared ownership under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost:					
At 1 April 2019	575,691	7,810	52,812	4,793	641,106
Additions:					
- construction costs	-	25,750	-	9,557	35,307
- replaced components	4,243	-	-	-	4,243
- completed properties	9,005	-	-	-	9,005
Transferred to completed properties	10,891	(10,891)	5,131	(5,131)	-
Disposals:					
- staircasing (note 9)	-	-	(2,419)	-	(2,419)
- other sales (note 9)	(3,325)	-	-	-	(3,325)
- replaced components	(1,417)	-	-	-	(1,417)
At 31 March 2020	**595,088**	**22,669**	**55,524**	**9,219**	**682,500**
Depreciation:					
At 1 April 2019	97,829	-	4,139	-	101,968
Charge for the year (note 5 and 7)	8,572	-	404	-	8,976
Disposals during the year:					
- staircasing (note 9)	-	-	(213)	-	(213)
- other sales (note 9)	(633)	-	-	-	(633)
- replaced components	(1,397)	-	-	-	(1,397)
At 31 March 2020	**104,371**	**-**	**4,330**	**-**	**108,701**
Provision for impairment:					
At 1 April 2019	228	230	-	-	458
Charge for the year (note 5 and 7)	31	-	-	-	31
Release in the year (note 5 and 7)	-	(230)	-	-	(230)
At 31 March 2020	**259**	**-**	**-**	**-**	**259**
Net book value:					
At 31 March 2020	**490,458**	**22,669**	**51,194**	**9,219**	**573,540**
At 31 March 2019	477,634	7,580	48,673	4,793	538,680

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

	2020	2019
	£'000	£'000
The net book value of housing and other properties comprises:		
Freehold	**544,776**	509,356
Long leasehold	**28,764**	29,324
Total (note 13a)	**573,540**	538,680
Interest capitalisation:		
Interest capitalised in the year (note 11)	**1,247**	665
Cumulative interest capitalised	**15,188**	13,941
Rate used for capitalisation	**4%**	4%
Works to properties:		
Improvements to existing properties capitalised	**4,243**	4,254
Major repairs expenditure to statement of comprehensive income (note 5)	**1,186**	1,636
	5,429	5,890
Total social housing grant received or receivable to date as follows:		
Capital grant held in deferred income (note 21)	**196,186**	194,406
Recycled capital grant fund (note 22)	**3,872**	2,623
Disposal proceeds fund (note 23)	**-**	66
Amortised to statement of comprehensive income in year (note 5)	**2,414**	2,398
Write back amortisation on disposals (note 21)	**(305)**	(169)
Cumulative amortisation to income and expenditure reserve	**25,040**	22,931

Impairment
A full impairment review was carried out at 31 March 2016 and no material impairment was identified. At 31 March 2020 we considered whether any specific indicators of impairment at scheme or property level exist and identified:

During the current year, the Association has recognised an impairment loss of £31k (2019: £100k) in respect of properties held for lettings. In addition, £230k impairment was reversed during the year (2019: £102k).

Properties held for security
The Association had 7,442 properties pledged as security at 31 March 2020 with a net book value of £391.0m (2019: 7,608 properties, £344.7m).

14. Other tangible fixed assets

	Freehold office	Furniture and office equipment	Total
	£'000	**£'000**	**£'000**
Cost:			
At 1 April 2019	795	2,230	3,025
Additions	-	143	143
Disposals	(355)	(90)	(445)
At 31 March 2020	**440**	**2,283**	**2,723**
Depreciation:			
At 1 April 2019	643	1,524	2,167
Charge for year (note 7)	2	58	60
Disposals	(250)	(17)	(267)
At 31 March 2020	**395**	**1,565**	**1,960**
Net book value:			
At 31 March 2020	**45**	**718**	**763**
At 31 March 2019	152	706	858

15. Fixed asset investments

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

16. Properties held for sale

	2020	2019
	£'000	£'000
Housing properties for sale:		
Work in progress	**7,493**	3,147
Completed properties	**-**	525
Other properties for sale	**353**	43
	7,846	3,715

17. Debtors

	2020	2019
	£'000	£'000
Rent and service charge arrears	**4,052**	3,316
Less: provision for doubtful debts	**(1,532)**	(1,071)
	2,520	2,245
Amounts owed by group undertaking	**182**	5,275
Other debtors	**3**	1
Prepayments and accrued income	**-**	2,231
Social housing grant receivable	**371**	152
	3,076	9,904

All amounts are due within one year.

18. Short term investments

Short term investments of £1,544,000 (2019: £1,456,000) are represented by amounts held in Escrow accounts and bank deposits

19. Creditors – amounts falling due within one year

	2020	2019
	£'000	**£'000**
Housing loans external (note 24)	**13,681**	**13,477**
Issue costs external (note 24)	**(170)**	**(127)**
Housing loans internal (note 24)	**39**	**39**
Issue costs internal (note 24)	**(7)**	**(13)**
Trade creditors	**2**	**2**
Other creditors	**3,212**	**4,002**
Taxation and social security	**66**	**66**
Accruals and deferred income	**554**	**976**
Accrued interest	**748**	**793**
Retentions	**10**	**50**
Amounts owed to group undertakings	**6,926**	**1,688**
Deferred capital grant (note 21)	**2,407**	**2,409**
Recycled capital grant fund (note 22)	**566**	**702**
Disposal proceeds fund (note 23)	**-**	**66**
Leaseholder sinking funds	**1,302**	**1,560**
	29,336	**25,690**

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

	2020	2019
	£'000	£'000
Housing loans external (note 24)	**179,825**	178,466
Issue costs external (note 24)	**(735)**	(700)
Housing loans internal (note 24)	**75,961**	76,001
Issue costs internal (note 24)	**(159)**	(161)
Derivative financial instruments	**40,507**	36,185
Deferred capital grant (note 21)	**193,779**	191,997
Recycled capital grant fund (note 22)	**3,306**	1,921
	492,484	483,709

21. Deferred capital grant

	2020	2019
	£'000	£'000
At 1 April	**194,406**	196,866
Grants received during the year	**5,057**	357
Transfer to RCGF (note 22)	**(1,927)**	(1,346)
Transfer from RCGF (note 22)	**466**	77
Transfer to/(from) intercompany	**326**	361
Released to income in the year (note 5)	**(2,414)**	(2,398)
Write back amortisation on disposals (note 13)	**305**	169
Other movements	**(33)**	320
At 31 March	**196,186**	194,406
Amounts due for repayments:		
-within one year (note 19)	**2,407**	2,409
-greater than one year (note 20)	**193,779**	191,997
	196,186	194,406

22. Recycled capital grant fund (RCGF)

	RSH	RSH
	2020	2019
	£'000	£'000
At 1 April	**2,623**	2,588
Inputs to fund:		
Grants recycled from deferred capital grant (note 21)	**1,927**	1,346
Transfer to group members	**(235)**	(1,253)
Interest accrued (note 11)	**23**	19
Recycling of grant:		
New build (note 21)	**(466)**	(77)
At 31 March	**3,872**	2,623
Amounts due for repayments:		
-within one year (note 19)	**566**	702
-within two to three years (note 20)	**3,306**	1,921
	3,872	2,623

23. Disposal proceeds fund (DPF)

	RSH	RSH
	2020	2019
	£'000	£'000
At 1 April	**66**	190
Inputs to fund:		
Transfer from other group members	**(66)**	(125)
Interest accrued (note 11)	**-**	1
At 31 March	**-**	66
Amounts to for repayments:		
-within one year (note 19)	**-**	66
-within two to three years (note 20)	**-**	-
	-	66

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

24. Loans and borrowings

Maturity of debt:	Bank loans	Bond finance	Bond on-lending	Other loans	Total
	2020	2020	2020	2020	**2020**
	£'000	£'000	£'000	£'000	**£'000**
In one year or less, or on demand	11,690	1,821	39	170	**13,720**
Issue costs	(170)	-	(7)	-	**(177)**
Within one year (note 19)	**11,520**	**1,821**	**32**	**170**	**13,543**
In more than one year but not more than two years	10,853	1,959	44	189	**13,045**
In more than two years but not more than five years	42,902	6,798	140	708	**50,548**
After five years	104,439	6,908	75,777	5,069	**192,193**
Issue costs	(735)	-	(159)	-	**(894)**
Within more than one year (note 20)	**157,459**	**15,665**	**75,802**	**5,966**	**254,892**
Total loans	**168,979**	**17,486**	**75,834**	**6,136**	**268,435**

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

Bond lending includes £75.8m (2019: £75.8m) from Stonewater Funding Plc, a fellow group member

25. Pensions

Social Housing (SHPS) defined benefit scheme

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

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.
The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

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

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

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the Association to account for the Scheme as a defined benefit scheme. For accounting purposes, a valuation of the scheme was carried out with an effective date of 30 September 2018. The liability figures from this valuation were rolled forward for accounting year-ends from 31 March 2019 to 29 February 2020 inclusive. The liabilities are compared, at the relevant accounting date, with the Association's fair share of the Scheme's total assets to calculate the Association's net deficit or surplus.

Similarly, an actuarial valuation of the scheme was carried out as at 30 September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive.

25. Pensions continued

	SHPS	SHPS
	2020	2019
	£'000	£'000
Fair value of plan assets	**51,950**	50,532
Present value of plan liabilities	**(58,342)**	(67,433)
Net pension scheme liability	**(6,392)**	(16,901)
Reconciliation of fair value of plan assets:		
At the beginning of the year	**50,532**	48,040
Interest income on plan assets	**1,171**	1,230
Experience on plan assets (excluding amounts included in interest income) – gain	**175**	1,145
Contributions by employer	**1,702**	1,554
Contributions by fund participants	**-**	252
Benefits paid plus expenses	**(1,630)**	(1,689)
At the end of the year	**51,950**	50,532
Reconciliation of present value of plan liabilities:		
Defined benefit obligation at start of period	**(67,433)**	(62,049)
Current service cost	**-**	(370)
Expenses	**(40)**	(39)
Interest expense	**(1,543)**	(1,574)
Contributions by plan participants	**-**	(252)
Actuarial gains (losses) due to scheme experience	**628**	(474)
Actuarial gains (losses) due to changes in demographic assumptions	**595**	(194)
Actuarial gains (losses) due to changes in financial assumptions	**7,821**	(4,170)
Benefits paid and expenses	**1,630**	1,689
At the end of the year	**58,342**	(67,433)
Amounts recognised in statement of comprehensive income are as follows:		
Included in administrative expenses:		
Service costs	**-**	370
Administration expenses	**40**	39
Amounts included in other finance costs:		
Net interest costs (note 11)	**372**	344

25. Pensions continued

	SHPS	SHPS
	2020	2019
	£'000	£'000
Analysis of actuarial loss recognised in statement of comprehensive income:		
Experience on plan assets (excluding amounts included in interest income) – gain	**175**	1,145
Experience gains and losses arising on the plan liabilities – gain (loss)	**628**	(474)
Change in financial assumptions – gain (loss)	**7,821**	(4,170)
Change in demographic assumptions – gain (loss)	**595**	(194)
Total actuarial gains (losses)	9,219	(3,693)

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

	SHPS	SHPS
	2020	2019
	£'000	£'000
Composition of plan assets:		
Equities	**7,598**	8,503
Debt	**4,216**	3,870
Liability driven investment	**17,242**	18,481
Cash	**222**	97
Property	**2,043**	1,880
Other Bonds	**2,962**	2,358
Infrastructure	**3,866**	2,650
Alternatives	**13,801**	12,693
Total plan assets	51,950	50,532

25. Pensions continued

The actual return on the plan assets (including any changes in share of assets) over the period from 31 March 2019 to 31 March 2020 was £1,346,000 (2019: £2,375,000).

	2020	2019
Principal actuarial assumptions used at the statement of financial position date:	%	%
Discount rates:		
Discount rate	**2.38**	2.31
Inflation assumptions - RPI	**2.62**	3.29
Inflation assumptions - CPI	**1.62**	2.29
Future pension increases	**1.79**	2.37
Future salary increases	**2.62**	3.29
Mortality rates:	Years	Years
For a male aged 65 now	**21.5**	21.8
For a female aged 65 now	**23.3**	23.5
At 65 for a male member aged 45 now	**22.9**	23.2
At 65 for a female member aged 45 now	**24.5**	24.7

26. Share capital

	2020	2019
	£	£
At 1 April	**12**	12
Shares issued in the year	**2**	3
Shares cancelled in the year	**(2)**	(3)
At 31 March	**12**	12

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

27. Operating leases

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

	2020	2019
	£'000	£'000
Amounts payable as Lessee:		
Not later than one year	**153**	237
Later than one year and not later than five years	**231**	384
	384	621

28. Capital commitments

	2020	2019
	£'000	£'000
Stock purchase exchanged but not completed	**15,359**	-
Commitments contracted but not provided for construction	**104,231**	54,690
Commitments approved by the Board but not contracted for construction	**118,291**	34,813
	237,881	89,503

Capital commitments for the Association are projected to be funded from £35.0m (2019: £13.0m) SHG and property sales of £56.0m (2019: £31.0m), with the reminder funded from operating cashflow and external borrowing £146.9m (2019: £45.5m).

29. Related party disclosures

Intra group transactions

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

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

The charge for the design and build services was £10,991k (2019: £13,467k) plus 2.5% admin charge of £280k (2019: £337k), a total recharge of £11,271k (2019: £13,804k).

The Association transacted with a non-regulated entity: Stonewater Developments Limited, a company that provides development services to the Association. The charge for the land was £4,413k (2019: £2,316k) plus 2.5% admin charge of £110k (2019: £58k), a total charge of £4,523k (2019: £2,374k).

Intra group liabilities

The Association has a loan in place with Stonewater Funding PLC. At 31 March 2020 the outstanding amount was £75.8 million (2019: £75.8 million)

	2020	2019
	£'000	£'000
Loan Balance after issue costs (note 24)	75,834	75,867
Interest Charged	2,819	2,135

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

In March 2020, the company sold £75m of 3.04% Senior Secured Notes with maturity June 2050 in the US Private Placement market. The notes will be issued, and will fund, in June 2020. Proceeds are to be on lent to Stonewater (2) Limited.

At 31 March 2020 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.

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

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