Registered number: 19412R

STONEWATER (2) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

STONEWATER (2) LIMITED

COMPANY INFORMATION

Board members	Sheila Collins (Chairman) Doug Wright Anne Dokov Peter Hammond (resigned 1 April 2020) Tariq Kazi Nicholas Harris Andrew Lawrence Claire Kearney Juliana Crowe Jennifer Bennett Hugh Shields Brian Roebuck (resigned 1 April 2020) Angus Michie (appointed 1 June 2020) Chris Edis (appointed 1 April 2020)
Company secretary	Anne Harling
Community Benefit Society Number	19412R
Regulator of Social Housing Number	L0173
Registered office	Suite C, Lancaster House Grange Business Park Enderby Road Leicester. LE8 6EP
Independent auditors	BDO LLP 55 Baker Street London W1U 7EU
Bankers	Barclays Bank Level 27 1 Churchill Place London E14 5HP
Solicitors	Devonshires Solicitors 30 Finsbury Circus London EC2M 7DT
Solictors (for Governance)	Trowers and Hamlins LLP 55 Princess Street Manchester M2 4EW

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2021

Introduction

The Board presents its report and audited financial statements for Stonewater (2) Limited (the "Association") for the year ended 31 March 2021.

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 2021-2025

Our Strategic Plan 2021-25 was prepared at the end of a year when we have seen immense changes to society and businesses as a result of the Covid-19 pandemic. We had to adapt quickly to working in different ways and ensure we could continue to deliver a high standard of service to our customers. 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 in March 2020. This allowed us to focus on adapting and retaining essential services for our customers while taking the opportunity to re-imagine the way we do things.

The Plan focuses on Stonewater '25, an ambitious programme to build the Stonewater of the future and help us deliver our Customer Promise "We're proud to make things personal. If it matters to our customers, it matters to us". Stonewater '25 will build on the changes we have already made in how we operate, while continuing to put customers at the heart of everything we do, and help us become an even stronger and more inclusive business that is equipped to face future challenges.

The Strategic Plan sets out our priorities for the next four years. The objectives and associated outcomes we will achieve over the period of this plan 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 the Strategic Plan 2021-25 for the next four years and the objectives we have set take account of our assessment of the operating environment for housing, the opportunities available to us, and the challenges we face. As we move towards a post-pandemic world, we will all be living and working differently compared to pre-pandemic days.

The way we deliver our services will continue to evolve in response to these changes as we move towards our Future Operating Model. However, our focus will remain on providing quality services for our customers, delivering more much needed new homes and making a positive contribution to the communities we serve.

External environment

Back to the "new normal"

The Covid-19 pandemic was an unpredictable event that has caused significant political upheaval, societal change and, tragically, the deaths of millions.

However, with the UK’s vaccine rollout leading the world and the easing of lockdown restrictions gathering pace, we are seeing a return to ‘normality’ – though one that will not be the same as before. What the ‘new normal’ looks like, and if it will remain the same or if we will return to old norms, is yet to be seen.

With support for businesses coming to an end in the coming months, there will inevitably be some upheaval. Small businesses and the self-employed, especially in the hospitality sector, are still feeling the impact on their livelihoods and this impact will be felt for many years to come.

With the easing of restrictions, the Government is now looking to get back to what it promised at the 2019 General Election: levelling-up, achieving sustainability, and making the most of the possibilities of Brexit.

Housing associations like Stonewater have a vital role to play in supporting the recovery from Covid-19 and the achievement of these political ambitions. We are both an employer to many, and the provider of safety, security, and support to tens of thousands of people throughout these challenging times. We will need to continue to be flexible, dynamic and reactive to ensure that we can operate effectively as a landlord and as a business.

We have regularly kept our stakeholders updated on our work to support customers and staff throughout the pandemic, including sending regular updates to all of our constituency MPs and local authority leaders – meeting with many of them to provide further information.

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

Housing supply and affordability

After a period of downing tools during the initial lockdown, the construction industry has largely returned to normal – though there are still issues arising from Covid-19, such as a shortage of materials. Despite these challenges, we are determined that we, and our new homes, will play a key role in economic and societal recovery.

However, we need to look at how we adapt our homes to both the changing needs of our customers now, and those in the future. This means that we need to look at how our current homes work and think about what our new homes should include to better allow flexible working.

We also need to make sure that we are building enough new affordable homes in the right places so that we can support people to live where they want to live, and in homes that they can afford. This will contribute to reducing homelessness and building on the work of the ‘Everyone In’ scheme at the start of the pandemic.

Key statistics include:

- In 2020, 127,580 homes were started in England, of which 23,500 belong to housing associations.
- In 2020, 148,620 homes were completed in England, of which 25,500 were delivered by housing associations.
- Between 1 April 2020 and 30 September 2020, 35,809 affordable houses (Affordable Rent, Social Rent, Intermediate Rent, Affordable Home Ownership and Affordable Tenure TBC) were started in England, excluding non-Homes England London delivery.
- 79% of housing starts on site by housing associations were for affordable homes
- Between July and September 2020, 68,680 households were initially assessed as homeless or threatened with homelessness and owed a statutory homelessness duty.
- Between September to November 2020, UK employment was estimated at 75.2%, 1.1% lower than a year earlier.

In Government there has finally been some consistency, with incumbent Housing Minister, Christopher Pincher holding the post for 16 months – the longest reign since Brandon Lewis left the role in 2016.

The last year has seen two significant proposals for policy change in our sector – the Planning for the Future planning reforms White Paper in August and the Social Housing White Paper in November. Over the next 12 months we expect to see the Government legislate to bring forward elements of both White Papers. We have engaged with the Government on both documents, and will continue to do so, and are already ensuring that we are prepared to meet the changes that are required as soon as we are able to.

Likewise, building safety is a major topic in both the sector and politics. Stonewater is fortunate that our stock is largely comprised of houses and low-rise apartment blocks, and as a result we have not been impacted by the fire safety issues that others in the sector have. Our Homes Directorate will continue to work closely with other colleagues and the sector to ensure that are customers are not impacted by any changes and ensure that our homes are safe and fit for habitation.

Environment and sustainability

The Government has been clear that the environment will remain central to its agenda for the remainder of this Parliament, launching more ambitious carbon reduction targets in recent months. The publication of the 10-Point Plan for a Green Industrial Revolution was a welcome move, and we look forward to further progress being made in the run-up to the COP26 Summit in Glasgow in November.

This is an issue that is very close to Stonewater's heart. There are approximately 4 million homes in the UK socially rented, but only 56% of current social housing stock meets EPC band C. As a sector we are doing better than most, but at the current rate of retrofit we are on track to miss the Government's ambition to get to band C by some 60 years.

We estimate that it will cost £20,000 to £25,000 on average to retrofit each social home – approximately £4.3 billion every year for the next 25 years, which is a sizeable cost. A survey by Savills in late 2020 found that only 7% of housing association leaders see it as a short-term priority, and 22% see it as a long-term priority.

For Stonewater, we have been able to lead in this area. In July 2020, a report produced by the leading independent think tank, the Institute for Public Policy Research (IPPR) and funded by Stonewater, All Hands to the Pump: A Home Improvement Plan for England, was published. The report was well-received by both sector and political stakeholders and has had significant influence on Government and Labour Party policies regarding housing retrofit and decarbonisation.

Alongside this, we have sought to raise this issue's profile by meeting with Ministers and civil servants at the Department for Business, Energy and Industrial Strategy (BEIS) and the Ministry of Housing, Communities and Local Government (MHCLG), select committee members and backbenchers. In March 2021, our Executive Director, Patrick Chauvin gave evidence to the House of Commons Business, Energy and Industrial Strategy

Select Committee on decarbonisation as the only housing association representative.

Our Chief Executive Officer, Nicholas Harris, has also been invited to be part of the National Housing Federation's CEO-level Sustainability Strategy Group, which will lead the sector in developing a roadmap to decarbonising our stock.

While there is a long way to go still on decarbonisation, we have led the way in this area and ensured that it is high on the agenda. We will continue to do so into 2021 and beyond.

Most importantly, this is a key way that we can help our customers out of fuel poverty. Stonewater recently joined the End Fuel Poverty Coalition, and will this year lead its Social Housing Working Group to look at ways to reduce the impact of fuel poverty on customers.

Government policy and changes to welfare options

The Government introduced a new programme for the next parliament at the Queen's Speech and in May 2021. It is expected that the next year will see legislation to ground rents and leasehold reform, changes to the planning system, and adult social care reform, which will be followed closely.

While there is no expectation of any significant changes to the benefit system in the coming years, we have been pleased to see a number of other reforms, including:

- An increase in the Affordable Homes Programme to its largest level yet
- A drive to improve the quality of design in housing, as well as proposals for a new 'zonal' planning system championed by Stonewater
- The announcement that the Government wants to see 600,000 heat pumps being installed per year by 2028
- The introduction of a new Social Housing Decarbonisation Fund, worth at least £3.8bn over 10 years to fund the retrofitting of social homes
- The promise of a Heat and Building Strategy which sets a pathway for the decarbonisation of heat in buildings
- New funding to support domestic abuse survivors and homeless people

Meanwhile we have recently seen the Domestic Abuse Bill pass into law, as well as the announcement of a new Domestic Abuse Strategy and Violence Against Women and Girls Strategy. These are welcome developments and will be important policies that we will continue to champion and influence. Stonewater is committed to our work to protect those who have fled from domestic abuse – including those in Stonewater's dedicated domestic abuse victim housing – and will be working to demonstrate our thought leadership in this space.

Governance structure

Board
The Board has responsibility for setting Stonewater's 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 pages 3-5. The Board comprised 12 members at 31 March 2021, including one executive member.

Stonewater Group
During the year Stonewater undertook a partial collapse of its group structure, reducing the number of registered providers in the Group from five to three. Following an independent review which suggested four options, the Board accepted a recommendation of a transfer of engagements from Stonewater (3) Limited and Stonewater (4) Limited to Stonewater Limited, the ultimate parent of the Group in July 2020. Following a period of consultation with customers and other key stakeholders, the Board approved the transfer of engagements in January 2021. The restructure creating streamlined administration, greater flexibility and increase capacity within the group. The financial consents were finalised with lenders and the transfer of engagements was effective from

31st March 2021.

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

Governance arrangements in response to Covid-19
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. During 2020/21 Board meetings were held more frequently than usual, using video conferencing. This, facilitated timely decisions during a rapidly developing situation and enabled the Board, in partnership with the Executive Directors' Group (EDG), to continue to provide strong direction and oversight of operational performance. The governance structure and arrangements were reviewed and changes implemented in late 2020, to provide a reimagined structure which reflects the continuing need for strong leadership and efficiency in decision taking (see also section on committees and panels below). Board meetings are now held montly.

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 in which Stonewater works. The Board has set targets for improving diversity across the governance structure. At 31 March 2021, the Board comprised 42% female members, 17% from a Black, Asian or minority ethnic background and two members identifying as disabled. The Board consists of members whose ages span five decades.

The Board undertakes an annual appraisal of its performance, culminating in the identification of key targets for the year ahead. In 2020/21 these were to build an effective Board, enhance the customer experience, growth and develop and approach to economy, effectiveness and efficiency gains. 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:

- Build an effective Board – the Board undertook two away day activities during the past year. While social distancing rules meant that it was not possible to hold events in one location, new mechanisms for creating a strong team were used, such as informal coffee cup sessions and focus group discussions, via video conferencing. Induction for new members also included opportunities for one to one meetings with colleagues and subject specialists. A full learning & development programme was delivered throughout the year.
- Enhance the customer experience - KPIs are monitored by the Board on a quarterly basis.
- Achieve growth targets – 671 units were handed over towards our internal target of 679 per annum.
- Develop an approach to economy, effectiveness and efficiency gains. Stonewater's approach to value for money was reviewed during the year and the strategy updated. Regulatory value for money metrics are monitored by the Board on a quarterly basis, with the finance panel providing assurance on delivery. A new value creation challenge and assurance panel was established to oversee Stonewater's holistic approach encompassing efficiency and effectiveness as well economic gains.

Other actions for improvement arising from the appraisal are monitored through the governance action plan by the Governance and People Challenge & Assurance Panel. Individual members are required to play an active role in the work of the Board and its committees or panels. 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

During the 2020/21 financial year, Stonewater complied fully with the chosen code the 2015 National Housing Federation (NHF) Code of Governance. The Board adopted the updated 2020 National Housing Federation (NHF) Code of Governance in December 2020. In accordance with NHF guidance, the first report of compliance against this new code will appear in the 2021/22 accounts.

Shareholding policy

Under the rules for each registered society in the Stonewater group, the Group Board retains discretion over the issue of shares. The current policy is that Stonewater operates a closed membership with shares only issued to individuals who are Board members.

Committees and Panels

The governance structure supporting the board was reviewed during the year to provide for more agile and responsive decision making in the volatile operating environment. This new structure, implemented in late October 2020, comprises two committees and five challenge and assurance panels. Each of the committees and panels is chaired by a Board member and includes places for independent members. Meetings are held remotely, as and when required. The arrangements were reviewed as part of Stonewater's regulatory in depth assessment in early 2021 and an internal audit undertaken after 6 months of operation, confirmed that they provide good governance oversight of Stonewater's operations.

Nominations and Remuneration Committee
Oversees the recruitment and remuneration of non-executives, the Chief Executive and the Executive Directors. Advises the Board on annual pay reviews for Stonewater employees.

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

Assets and Development Challenge & Assurance Panel
Oversees Stonewater's growth and home investment programmes, including sustainability initiatives.

Customer Experience Challenge & Assurance Panel
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.

Finance Challenge & Assurance Panel
Oversees Stonewater's finances and exercises borrowing and treasury powers.

Governance and People Challenge & Assurance Panel
Oversees Stonewater's governance arrangements and employee terms and conditions of service, other than those which are reserved for the Board.

Value Creation Challenge & Assurance Panel
Oversees the delivery of efficiency and effectiveness gains.

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 accounts.

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

Principal risks and uncertainties

New, emerging and high scoring risks are monitored through the Strategic and Critical 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 Stonewater 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.

Performance in the year

Total comprehensive income for the year was £8.8m (2020: £19.4m)

Key performance indicators

Rental income lost through voids is 0.70% (2020: 0.96%)
Gross arrears on average were 5.72% (2020: 5.16%)

During 2020/21 our income collection for the Group was 99.5%. While we saw arrears growth as a result of the pandemic this was contained to 0.56% for the Association against a sector predicted average of 0.83% (HouseMark).

Following the initial spike in arrears at the outset of the pandemic the likely impact on the gross arrears year end outturn was modelled and the target was adjusted in year to 6%. We were encouraged that the actual year end outturn was 5.31%.

Through the pandemic we have adopted a customer focused, flexible approach including introducing 'deferred' and 'flexible' payment arrangements supporting customers to navigate through challenging circumstances to sustain their tenancy. We have moved to 'agile working' while introducing new technology to make it as easy as possible for customers to pay. In addition, we have invested in developing and procuring new technology to ensure that we are maximising customer contact and productivity - targeting resources to where it has the greatest impact. We have also worked with specialist 'not for profit' organisations to establish referral pathways for personalised 'wrap around' support including financial inclusion and wellbeing - helping meet the diverse needs of our customers. We have also delivered an effective multi-channel communications strategy in relation to income maximisation resulting in over 30,000 customers contacts, ensuring customers are informed and are able to access help and support.

In addition to our work on income maximisation we have continued to build on the processes within our national lettings team, introducing new digital ways of working and have continued to forge strong partnerships with contractors. As a result in 2020/21 our average lettings time reduced from 29.82 to 20.68 days. This in large part has contributed to our Group void loss for 2020/21 reducing from 1.58% to 0.72%.

Responsive repairs satisfaction on average was 84.3% (2020: 93.11%) which exceeded our target of 83%. We have moved to a different customer insight tool, Rant and Rave, and as such have needed some time to allow this to bed in and gain customer confidence in its use. In addition we clearly also experienced the ramifications of the Covid-19 pandemic, and resulting periods of de-mobilisation and re-mobilisation of non-emergency repairs and maintenance services, meaning that some customers have had to wait longer for their non-emergency repairs to be completed. This was further compounded by access to labour due to some of our supply chain partners, especially those also operating contracts across the South East, being heavily impacted by staff / operatives having to self-isolate or shield. We are already seeing steady performance improvements, with our responsive repairs service now routinely delivering above target satisfaction performance. This is based on the mobilisation of several new contracts and improved contract management arrangements across those already working with us; along with all pre-pandemic service standards having been reinstated.

Operating margin including surplus from 1st tranche sales but excluding surplus on disposal of fixed assets 31.6% (2020: 31.0%). 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.

People strategy

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

Pay gap reporting

Stonewater's 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.

We have recently transformed our frontline housing services so that we can better respond to customer demand regardless of geography or issue. We have created teams of ‘business experts’ in frontline Customer Partner roles, focused on enhancing our customer relationship through high quality customer journeys for specific casework and enquiry types. We are proud to prioritise the personal feel of our virtual casework, tailoring our approach to each individual and benefitting from being able to act faster to coordinate work with partnering contractors and agencies.

In the last year we have established a relationship with “Community Catalyst” – they are a social enterprise working in partnerships across the UK to try to make sure that people who need support to live their lives can be part of strong, inclusive, communities with real opportunities to connect, create and contribute. We chose to work with them with the intention of creating sustainable systems and communities that are nurturing and people feel able to thrive and value each other’s contribution and strengths. From March 2021 to September 2021 we will work with community Catalyst in three pilot areas, Southampton, Bedford and Calderdale to support customers to build a better community for themselves, using their skills, ambitions and those of people in the wider community.

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. Building on our commitment to put customers at the heart of everything we do, we have created a new Customer Voice and Influence function including customer communications, engagement, complaints and feedback. The aligning of these business arears will help ensure that we are truly a ‘listening organisation’ and our customers’ voices, feedback and experience influence, shape and direct the development and delivery of our services. Building on our existing approach but also innovating we seek to find new exciting ways to listen, engage and communicate with our customers as we bring the government’s Charter for Social Housing Residents and the National Housing Federation’s Together with Tenants Charter alive.

In addition, to ensuring we are listening and learning at each customer ‘touchpoint’ we continue to work with our customers to shape our customer engagement ‘toolkit’. This ‘toolkit’ provides a comprehensive offer of informal and formal opportunities to shape our services and true flexibility, meeting diverse customer circumstance. The ‘toolkit’ includes ‘Customer Experience Challenge and Assurance Panel’ (CXCAP), Customer Scrutiny Panel, our ‘friends of Scrutiny’ group, the ‘Customer Hubb’ (our digital forum of over 700 customers), adhoc focus and survey groups and social media.

Through effective governance including the CXCAP consisting of colleagues, customers, and Board Members we ensure that the voice of our customers is amplified throughout the organisation, and there is appropriate scrutiny to ensure we are truly listening, learning and delivering on our commitment to put customers at the heart of how we deliver our services.

Customer insight

Our approach to customer insight allows us to have a better understanding of our customers; who they are and what they expect of our services. Our customer personas are embedded throughout Stonewater, demonstrating our customer’s needs, opinions and aspirations and so better enabling us to tailor how we develop and deliver our services so that they are cost effective and provide great customer experiences across the business. We use a variety of customer engagement and involvement channels to feedback on and design our services with customers, including our Customer Scrutiny Panel; user-based design on digital services and in retirement living; and online Review Panels on policies.

Suppliers

At Stonewater, we place great value on the significant contribution made by our supply partners, irrespective of their size or the volume of work they complete for us each year. Therefore, maintaining strong and positive relationships is crucial to ensure the effective delivery of a variety of services to our business.

We do this through this through two simple, but effective principles; clear and regular communication with all suppliers, through agreed mediums and ensuring that all payments are made early or on time, in line with agreed schedules in each contractual agreement. By following these two principles, we provide clarity to businesses and ensure that we contribute positively to their financial security and well-being during difficult and uncertain times.

Homes England

Stonewater has been a development partner with Homes England for over 15 years delivering affordable homes across England. During that period, Stonewater has secured grant funding from Homes England to deliver a variety of tenures including Social Rent, Affordable Rent, Rent to Buy and Shared Ownership. The relationship with Homes England has always been open, transparent, strong and committed which has enabled Stonewater to deliver a much needed affordable homes across the country.

Stonewater has an existing Strategic Partnership with The Guinness Partnership (TGP) and Homes England (HE) to deliver a total of 4,500 new grant funded homes by March 2024 with grant funding of £224m (some exceptions can run to March 2025 by specific agreement with HE). This is the largest allocation with the current Strategic Partnership.

Funders

We maintain strong relationships with our Bank and Capital Market Funders by ensuring they are updated on Stonewater’s operational and financial performance. Relevant operational information is published on Stonewaters’ investor pages on our website and both half year and annual performance information is published there too. Update meetings are held regularly.

Equality, diversity and inclusion

Stonewater has adopted the Social Housing Equality Framework (SHEF) to support and drive the organisation’s equality and diversity agenda. Our EDI Board is chaired by the Executive Director Corporate Services and is taking action to achieve the SHEF Achieving Level across the business as a whole.

When looking at our Board, Executive and Operational Delivery Group combined, our diversity is as follows
Gender – 58% Male 42% Female
Ethnicity – 88% White 12% BAME
Sexuality – 88% identify as heterosexual 12% identify as LGBTQ+
Disability – 96% non-disabled 4% disabled
Age span – 5 decades

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 2021, is available via the website modern-slavery-and-human-trafficking-statement.

Financial inclusion

Through the pandemic we have adopted a customer focused, flexible approach to ensure that no customer faces debt enforcement action where they are actively working with us to improve their situation. This flexible approach has included ‘deferred’ and ‘flexible payment’ arrangements enabling customers to tailor their rent payments for an agreed period of time, supporting customers to navigate through challenging circumstances to sustain their tenancy.

Our Income Management colleagues are equipped to provide holistic customer advice and signpost to specialist organisations where appropriate. In addition, we have worked with a specialist ‘not for profit’ organisation providing financial inclusion and wellbeing services, establishing a referral pathway for customers who are struggling. We have also invested to develop and procure new technology to ensure that we are targeting our resources to those customers who need it the most.

Throughout the pandemic we have delivered a multi-channel communications strategy to ensure customers are informed and encouraged to speak to us if they are struggling. This has resulted in over 30,000 customers contacts over the year.

We continue to work with Experian on rental data sharing to improve our customers' access to favourable financial services through their credit rating. We also work with customers at the tenancy outset to identify those customers at the earliest opportunity who may struggle financially and ensure that we support customers to start their tenancy on the best possible footing.

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 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 have been made to Stonewater's operations during 2020/21 in response to the Coronavirus (COVID-19) pandemic. The board and executive team have followed Government and regulatory guidance in implementing revised working practices, including a move to remote service delivery across the business. 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. During the initial stages of the Pandemic, to ensure strong governance oversight and efficient decision making, the Board met fortnightly. From September 2020, a monthly meeting pattern has been established. Experience of the pandemic has also led to changes to the wider governance structure to deliver more agile decisions 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 to the best of its knowledge compliance with its adopted code of governance and the regulatory governance, financial viability standard as set by Regulator of Social Housing.

Compliance with the regulatory standards

The latest regulatory judgement issued by the Regulator of Social Housing in March 2021 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 remains compliant with the standard.

BOARD MEMBERS' REPORT
FOR THE YEAR ENDED 31 MARCH 2021

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 2020/21 on 17 July 2020.

This report was approved by the board on 20 July 2021 and signed on its behalf.

SCollins

Sheila Collins (Chairman)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER (2) LIMITED

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2021 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 Cummunity Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

We have audited the financial statements of Stonewater (2) Limited (“the Association”) for the year ended 31 March 2021 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).

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 Auditors' 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, which includes 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 sufficent and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the board members’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the board with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER (2) LIMITED

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

We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where we are required by the Cooperative 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 12, 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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Association and the industry in which it operates, we identified that the principal laws and regulations that directly affect the financial statements to be the Co-operative and Community

Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

In addition the Association is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: employment law, data protection and health and safety legislation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence if any.

Audit procedures performed by the engagement team included:

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading minutes of meeting of those charged with governance, and reviewing correspondence with HMRC;
- Challenging assumptions made by management in their significant accounting estimates in particular in relation to the net realisable value of properties held for sale; and
- In addressing the risk of fraud through management override of controls; testing the appropriateness of journal entries and other adjustments, in particular any journals posted to cash and material journal adjustments.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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.

BDO LLP

55 Baker Street
London
W1U 7EU

Date: 22 July 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £000	2020 £000
Turnover	4	**61,774**	*55,976*
Cost of sales	4	**(5,317)**	*(4,042)*
Operating costs	4	**(36,945)**	*(34,575)*
Surplus on disposal of housing properties	4,9	**2,120**	*8,103*
Loss on disposal of other fixed assets	9	**-**	*(82)*
Operating surplus		**21,632**	*25,380*
Interest receivable and similar income	10	**5**	*140*
Interest payable and expenses	11	**(11,250)**	*(11,052)*
Change in fair value of non hedged financial instruments	11	**1,353**	*(833)*
Surplus for the year		**11,740**	*13,635*
Other comprehensive income for the year			
Actuarial (losses)/gains on defined benefit pension scheme	25	**(8,837)**	*9,219*
Movement in fair value of hedging financial instruments	11	**5,888**	*(3,489)*
Other comprehensive (loss)/income for the year		**(2,949)**	*5,730*
Total comprehensive income for the year		**8,791**	*19,365*

The notes on pages 23 to 58 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	Note	2021 £000	2021 £000	*2020 £000*	*2020 £000*
Fixed assets					
Housing properties	14		**644,104**		*573,540*
Other tangible fixed assets	15		**764**		*763*
			644,868		*574,303*
Current assets					
Properties held for sale	16	**6,173**		*7,846*	
Debtors	17	**3,525**		*3,076*	
Restricted cash	18	**1,544**		*1,544*	
Cash and cash equivalents		**31,265**		*21,936*	
		42,507		*34,402*	
Creditors: amounts falling due within one year	19	**(27,389)**		*(29,336)*	
Net current assets			**15,118**		*5,066*
Total assets less current liabilities			**659,986**		*579,369*
Creditors: amounts falling due after more than one year	20		**(557,048)**		*(492,484)*
Pension liability	25		**(13,654)**		*(6,392)*
Net assets			**89,284**		*80,493*
Capital and reserves					
Other reserves			**(24,539)**		*(30,427)*
Profit and loss account			**113,823**		*110,920*
			89,284		*80,493*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 20 July 2021.

S Collins | Nicholas Harris

Sheila Collins
Chairman

Nicholas Harris
Board member

Anne Harling
Secretary

The notes on pages 23 to 58 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2021

	Cashflow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2020	(30,427)	110,920	80,493
Comprehensive income for the year			
Surplus for the year	-	11,740	11,740
Actuarial losses on pension scheme	-	(8,837)	(8,837)
Movement in fair value of hedging financial instruments	5,888	-	5,888
At 31 March 2021	(24,539)	113,823	89,284

The notes on pages 23 to 58 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Cashflow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2019	(26,938)	88,066	61,128
Comprehensive income for the year			
Profit for the year	-	13,635	13,635
Actuarial gains on pension scheme	-	9,219	9,219
Change in fair value of hedged financial instruments	(3,489)	-	(3,489)
At 31 March 2020	(30,427)	110,920	80,493

The notes on pages 23 to 58 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

2.1 Basis of preparation of financial statements

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 2021 and these financial statements may be obtained from Stonewater's registered address as disclosed on the Company Information page.

The following principal accounting policies have been applied:

2.2 Going concern

After making enquiries and reviewing the 30-year financial plan, updated for current economic and business assumptions 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 concern basis.

Stress testing covered the impact on our business of key economic factors, 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 adverse movements in inflation and interest rates. 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 continue to be uncertain, 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 2021 we had £31.3m of cash and £100m of undrawn facility, which exceed contractual commitments less grant by £24.5m. In addition the Group has a tranche of guaranteed future funding receivable in September 2021 of £28m.

2. Accounting policies (continued)

2.3 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.

2.4 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.

2.5 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.

2.6 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.

2.7 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.

2. Accounting policies (continued)

2.8 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

2.9 Schemes managed by agents

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

2.10 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.

2.11 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.

2. Accounting policies (continued)

2.12 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.

2.13 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.

2. Accounting policies (continued)

2.13 Fixed assets and depreciation (continued)

The range of estimated useful economic useful lives in years are:

Boilers	- 15
Kitchens	- 20
Lifts	- 20
Heating systems	- 30
Bathrooms and wetrooms	- 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.

2.14 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.

2.15 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.

2. Accounting policies (continued)

2.16 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:

Freehold buildings	- 100
Site equipment	- 5 to 25
Fixtures and fittings	- 5
Datacentre (IT infrastructure)	- 5
IT equipment and software	- 5

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.

2.17 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 basis.

2.18 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.

2.19 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. In the majority of cases the unit basis is used.

2. Accounting policies (continued)

2.20 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.

2.21 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.

2.22 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.

2.23 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.

2.24 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.

2.25 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.

2.26 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.

2. Accounting policies (continued)

2.27 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.

2.28 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.

2.29 Leasehold sinking funds

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

2.30 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.

2. Accounting policies (continued)

2.31 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.

2.32 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.

2.33 Income and expenditure reserve

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

3. Judgments 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.

A method appropriate to each type of asset has been used.

> 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

3. Judgments in applying accounting policies (continued)

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 and operating surplus/(deficit) - Current Year

	Note	Turnover 2021 £000	Cost of Sales 2021 £000	Operating costs 2021 £000	Surplus on disposal of fixed assets 2021 £000	Operating surplus / (deficit) 2021 £000
Social housing lettings	5	55,217	-	(36,945)	-	18,272
Other social housing activities						
First tranche shared ownership sales		6,557	(5,317)	-	-	1,240
Surplus on disposal of fixed assets	9	-	-	-	2,120	2,120
Total		61,774	(5,317)	(36,945)	2,120	21,632

4. Particulars of turnover, costs of sales, operating costs and operating surplus/(deficit) - Prior Year

	Note	Turnover 2020 £000	Cost of Sales 2020 £000	Operating costs 2020 £000	Surplus on disposal of fixed assets 2020 £000	Operating surplus / (deficit) 2020 £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

5. Particulars of the income from social housing lettings

Association	**General Needs 2021 £000**	**Supported / Housing for older people 2021 £000**	**Shared ownership 2021 £000**	**Affordable Rent 2021 £000**	**Total 2021 £000**	*Total 2020 £000*
Rent receivable net of identifiable service charges	**37,036**	**1,867**	**2,962**	**5,953**	**47,818**	*44,120*
Service charge income	**2,603**	**1,187**	**710**	**134**	**4,634**	*4,208*
Net rent receivable	**39,639**	**3,054**	**3,672**	**6,087**	**52,452**	*48,328*
Amortised government grants (note 21)	**2,111**	**131**	**116**	**14**	**2,372**	*2,414*
Other income	**342**	**1**	**50**	**-**	**393**	*135*
Income from social housing lettings	**42,092**	**3,186**	**3,838**	**6,101**	**55,217**	*50,877*

. **5. Particulars of the expenditure from social housing lettings (continued)**

Association	**General Needs 2021 £000**	**Supported / Housing for older people 2021 £000**	**Shared ownership 2021 £000**	**Affordable Rent 2021 £000**	**Total 2021 £000**	*Total 2020 £000*
Management	**(8,561)**	**(503)**	**(1,246)**	**(1,107)**	**(11,417)**	*(11,062)*
Service charge costs	**(2,503)**	**(1,558)**	**(240)**	**(58)**	**(4,359)**	*(3,744)*
Routine maintenance	**(7,332)**	**(205)**	**(25)**	**(427)**	**(7,989)**	*(7,661)*
Planned maintenance	**(2,043)**	**(28)**	**-**	**(17)**	**(2,088)**	*(1,664)*
Major repairs (note 14a)	**(968)**	**(33)**	**10**	**(16)**	**(1,007)**	*(1,186)*
Bad debts	**(495)**	**(2)**	**(1)**	**(77)**	**(575)**	*(481)*
Depreciation on housing properties – annual charge (note 7 and 14)	**(7,757)**	**(386)**	**(444)**	**(580)**	**(9,167)**	*(8,596)*
Depreciation on housing properties – accelerated on disposal of components (note 7 and 14a)	**(190)**	**(4)**	**-**	**(3)**	**(197)**	*(380)*
Impairment on housing properties (note 7)	**(246)**	**-**	**-**	**-**	**(246)**	*(31)*
Reversal of impairment (note 7)	**-**	**100**	**-**	**-**	**100**	*230*
Expenditure on social housing lettings	**(30,095)**	**(2,619)**	**(1,946)**	**(2,285)**	**(36,945)**	*(34,575)*
Operating surplus/(deficit) on social housing lettings	**11,997**	**567**	**1,892**	**3,816**	**18,272**	*16,302*
Void losses	**(252)**	**(30)**	**9**	**(25)**	**(298)**	*(470)*

6. Units of housing stock

	At the start of the year	Additions	Disposals	Reclassific ations	At the end of the year
	Number	Number	Number	Number	Number
General needs	7,022	206	(5)	(16)	7,207
Affordable	841	128	-	-	969
Shared ownership	1,042	85	(13)	(12)	1,102
Supported housing	58	-	-	7	65
Housing for older people	330	8	-	-	338
Other	7	-	-	-	7
Total owned	9,300	427	(18)	(21)	9,688
Accomodation managed for others	1,623	18	(9)	21	1,653
Total managed accomodation	10,923	445	(27)	-	11,341
Units managed by other associations	173	-	(4)	-	169
Total owned and managed accomodation	11,096	445	(31)	-	11,510
Units under construction	564	-	-	-	795

7. Operating Surplus

	2021 £000	2020 £000
This is arrived at after charging/(crediting):		
Depreciation of housing properties		
-annual charge (note 5 and 14)	**9,167**	*8,596*
-accelerated depreciation (note 5 and 14)	**197**	*380*
Depreciation of other tangible fixed assets (note 15)	**119**	*60*
Impairment of housing properties (note 5 and 14)	**246**	*31*
Reversal of impairment of housing properties (note 5 and 14)	**(100)**	*(230)*
Operating lease charges	**143**	*249*

Audit fees for the years ending 31 March 2021 and 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

Association	Shared ownership properties	Other housing properties	Voluntary Right to Buy	Total	Total
	2021	**2021**	**2021**	**2021**	*2020*
	£000	**£000**	**£000**	**£000**	*£000*
Disposal proceeds	2,787	871	1,200	4,858	13,416
Net book value of disposals (note 14a)	(1,442)	(602)	(360)	(2,404)	(4,898)
Other costs	(76)	(210)	(48)	(334)	(497)
Surplus on disposal of fixed assets	1,269	59	792	2,120	8,021

10. Interest receivable

	2021 £000	2020 £000
Other interest receivable	**5**	*140*
Total	**5**	*140*

11. Interest payable and financing costs

	2021 £000	2020 £000
Interest on loans and overdrafts	**7,953**	*8,836*
Amortisation of issue costs	**191**	*249*
Interest payable to group undertakings	**4,781**	*2,819*
Interest capitalised on construction on housing properties (note 14c)	**(1,811)**	*(1,247)*
Recycled capital grant fund (note 22)	**5**	*23*
Net interest on net defined benefit liability (note 25)	**131**	*372*
Total	**11,250**	*11,052*
Movement in fair value of non-hedging financial instruments	**(1,353)**	*833*
Movement in fair value of hedging financial instruments	**(5,888)**	*3,489*

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. Fixed asset investments

At 31 March 2020 Stonewater (2) Limited held 100% of the share capital of two registered social landlords, Stonewater (3) Limited and Stonewater (4) Limited. As detailed on page 5, at 31 March 2021 the Stonewater Group undertook a transfer of engagements from these two entities to Stonewater Limited, the ultimate parent of the Group.

As the transfer of all stock, property and other assets and all engagements of both entities was made with no consideration and no share in Stonewater Limited was issued to any shareholder of Stonewater (3) Limited or Stonewater (4) Limited, both entities have ceased operating and they no longer have share capital.

14. a) Tangible fixed assets housing properties

	Housing properties held for lettings	Housing properties for letting under construction	Shared ownership properties held for lettings	Shared ownership under construction	Total
	£000	£000	£000	£000	£000
Cost:					
At 1 April 2020	**595,088**	**22,669**	**55,524**	**9,219**	**682,500**
Additions:					
- construction costs	**-**	**43,875**	**-**	**20,617**	**64,492**
- replaced components	**2,403**	**-**	**-**	**-**	**2,403**
- completed properties	**15,391**	**-**	**204**	**-**	**15,595**
Transfer to completed properties	**19,515**	**(19,515)**	**7,434**	**(7,434)**	**-**
Disposals:					
- staircasing (note 9)	**-**	**-**	**(1,585)**	**-**	**(1,585)**
- replaced components	**(560)**	**-**	**-**	**-**	**(560)**
- other sales (note 9)	**(1,169)**	**-**	**-**	**-**	**(1,169)**
At 31 March 2021	**630,668**	**47,029**	**61,577**	**22,402**	**761,676**
Depreciation:					
1 April 2020	**104,371**	**-**	**4,330**	**-**	**108,701**
Charge for the year (note 5 and 7)	**8,722**	**-**	**445**	**-**	**9,167**
Disposals:					
- staircasing (note 9)	**-**	**-**	**(143)**	**-**	**(143)**
- other sales (note 9)	**(195)**	**-**	**-**	**-**	**(195)**
- replaced components	**(363)**	**-**	**-**	**-**	**(363)**
At 31 March 2021	**112,535**	**-**	**4,632**	**-**	**117,167**
Provision for impairment:					
At 1 April 2020	**259**	**-**	**-**	**-**	**259**
Charge for the year (note 5 and 7)	**246**	**-**	**-**	**-**	**246**
Release in the year (note 5 and 7)	**(100)**	**-**	**-**	**-**	**(100)**
At 31 March 2021	**405**	**-**	**-**	**-**	**405**
Net book value:					
At 31 March 2021	**517,728**	**47,029**	**56,945**	**22,402**	**644,104**
At 31 March 2020	*490,458*	*22,669*	*51,194*	*9,219*	*573,540*

. **14. b) Tangible fixed assets housing properties - Net Book Value analysis**

	2021	*2020*
	£000	*£000*
The net book value of housing and other properties comprises:		
Freehold	**615,922**	*544,776*
Long leasehold	**28,182**	*28,764*
Total	**644,104**	*573,540*
Interest capitalisation:		
Interest capitalised in the year (note 11)	**1,811**	*1,247*
Cumulative interest capitalised	**16,999**	*15,188*
Rate used for capitalisation	**3.8%**	*4%*
Works to properties:		
Improvements to existing properties capitalised	**2,403**	*4,243*
Major repairs expenditure to statement of comprehensive income (note 5)	**1,007**	*1,186*
	3,410	*5,429*
Total social housing grant received or receivable to date as follows:		
Capital grant held in deferred income (note 21)	**198,097**	*196,186*
Recycled capital grant fund (note 22)	**4,108**	*3,872*
Amortised to statement of comprehensive income in year (note 5)	**2,372**	*2,414*
Write back amortisation on disposals (note 21)	**(160)**	*(305)*
Cumulative amortisation to income and expenditure reserve	**27,252**	*25,040*

Properties held for security
The Association had 8,509 properties pledged as security at 31 March 2021 with a net book value of £452.5m (2020: 7,442 properties, £391.0m). The Association had 964 completed assets that have not been charged, with a net book value of £122.2m (2020: 2415 assets, NBV £250.2m).

. **14. c) Impairment**

A full impairment review was carried out at 31 March 2016 and no material impairment was identified. At 31 March 2021 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 £246k (2020: £31k) in respect of properties held for lettings. In addition, £100k impairment was reversed during the year (2020: £230k).

The schemes impaired are as follows:

Scheme	**Charge/ (Reversal) £'000**	**No. of units affected**	**Carrying value prior to Impairment**
General Needs scheme	246	33	3,138
Supported Housing scheme	(100)	4	95
Total	**146**	**37**	**3,233**

The breakdown of the brought forward impairment balance is as follows:

Scheme	**Brought forward £'000**	**Reason for Impairment**
General Needs scheme	159	Recoverable amount exceeded NBV
Supported Housing scheme	100	Dilapidation costs re Lease surrender
Total	**259**	

15. Other tangible fixed assets

	Freehold office £000	Furniture and office equipment £000	Total £000
Cost or valuation			
At 1 April 2020	440	2,283	2,723
Additions	-	126	126
Disposals	-	(19)	(19)
At 31 March 2021	440	2,390	2,830
Depreciation			
At 1 April 2020	395	1,565	1,960
Charge for the year	15	104	119
Disposals	-	(13)	(13)
At 31 March 2021	410	1,656	2,066
Net book value			
At 31 March 2021	30	734	764
At 31 March 2020	45	718	763

16. Properties held for sale

	2021 £000	2020 £000
Housing properties for sale:		
Work in progress	**5,716**	*7,493*
Completed properties	**416**	*-*
Other properties for sale	**41**	*353*
	6,173	*7,846*

17. Debtors

	2021 £000	2020 £000
Rent and service charge arrears	**3,639**	*4,052*
Less: Provision for doubtful debts	**(1,010)**	*(1,532)*
	2,629	*2,520*
Service costs to be charged in future periods	**248**	*-*
Amounts owed by Group undertakings	**572**	*182*
Other debtors	**73**	*3*
Social housing grants receivable	**3**	*371*
	3,525	*3,076*

18. Restricted cash

	2021 £000	2020 £000
Brought forward	**1,544**	*1,456*
(Withdrawals)/ additions	**-**	*88*
Carried forward	**1,544**	*1,544*

Restricted cash of £1,544,000 (2020: £1,544,000) primarily represents cash which is held in escrow as part of the Association's financing arrangements.

19. Creditors: Amounts falling due within one year

	2021 **£000**	*2020* *£000*
Housing loans external (note 24)	**13,001**	*13,681*
Issue costs external (note 24)	**(151)**	*(170)*
Housing loans internal (note 24)	**18**	*39*
Issue costs internal (note 24)	**(27)**	*(7)*
Trade creditors	**2**	*2*
Amounts owed to group undertakings	**4,850**	*6,926*
Other taxation and social security	**11**	*66*
Accruals and deferred income	**61**	*554*
Accrued interest	**658**	*748*
Retentions	**78**	*10*
Other creditors	**3,639**	*3,212*
Leaseholder sinking funds	**1,477**	*1,302*
Deferred capital grant fund (note 21)	**2,407**	*2,407*
Recycled capital grant fund (note 22)	**1,365**	*566*
	27,389	*29,336*

20. Creditors: Amounts falling due after more than one year

	2021 **£000**	*2020* *£000*
Housing loans external (note 24)	**151,824**	*179,825*
Issue costs external (note 24)	**(619)**	*(735)*
Housing loans internal (note 24)	**174,901**	*75,961*
Issue costs internal (note 24)	**(756)**	*(159)*
Deferred capital grant (note 21)	**195,690**	*193,779*
Recycled capital grant fund (note 22)	**2,743**	*3,306*
Derivative financial instruments	**33,265**	*40,507*
	557,048	*492,484*

21. Deferred capital grant

	2021 £000	2020 £000
At 1 April	**196,186**	*194,406*
Grants received during the year	**4,100**	*5,057*
Transfer to RCGF (note 22)	**(967)**	*(1,927)*
Transfer from RCGF (note 22)	**736**	*466*
Transfer from intercompany	**145**	*326*
Released to income in the year (note 5)	**(2,372)**	*(2,414)*
Write back amortisation on disposals (note 14c)	**160**	*305*
Other movements	**109**	*(33)*
At 31 March	**198,097**	*196,186*
Amounts due for repayments:		
-within one year (note 19)	**2,407**	*2,407*
-greater than one year (note 20)	**195,690**	*193,779*
	198,097	*196,186*

22. Recycled capital grant fund (RCGF)

	RSH 2021 £000	RSH 2020 £000
At 1 April	**3,872**	*2,623*
Grants recycled from deferred capital grants (note 21)	**967**	*1,927*
Transfer to group members	**-**	*(235)*
Interest accrued (note 11)	**5**	*23*
New build (note 21)	**(736)**	*(466)*
At 31 March	**4,108**	*3,872*
Amounts due for repayments:		
-within one year (note 19)	**1,365**	*566*
-within two to three years (note 20)	**2,743**	*3,306*
	4,108	*3,872*

23. Disposal proceeds fund (DPF)

	RSH 2021 £000	*RSH 2020 £000*
At 1 April	-	*(66)*
Inputs to fund:		
Transfer from other group members	-	*66*
At 31 March	-	*-*

24. Loans and borrowings - current year

Maturity of debt:	Bank loans 2021 £000	Bond finance 2021 £000	Bond on-lending 2021 £000	Other loans 2021 £000	Total 2021 £000
In one year or less, or on demand	10,853	1,959	18	189	13,019
Issue costs <1 year	(151)	-	(27)	-	(178)
Within one year (note 19)	10,702	1,959	(9)	189	12,841
In more than one year but not more than two years	10,928	2,105	12	211	13,256
In more than two years but not more than five years	29,909	7,307	34	788	38,038
After five years	91,505	4,293	174,855	4,778	275,431
Issue costs	(619)	-	(756)	-	(1,375)
Greater than one year (note 20)	131,723	13,705	174,145	5,777	325,350
Total loans	142,425	15,664	174,136	5,966	338,191

Bond lending includes £174.1m (2020: £75.8m) from Stonewater Funding Plc, a fellow group member.

The amount of drawn debt secured on property assets is £339.8m (2020: £269.5m).

. **24. Loans and borrowings - prior year**

Maturity of debt:	Bank loans 2020 £000	Bond finance 2020 £000	Bond on-lending 2020 £000	Other loans 2020 £000	Total 2020 £000
In one year or less, or on demand	*11,690*	*1,821*	*39*	*170*	*13,720*
Issue costs <1 year	*(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)*
Greater 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*

25. Pension commitments

The Company operates a Defined benefit pension scheme.

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 completed 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 company 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 company to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the company 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 company 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.

Similarly, actuarial valuations of the scheme were carried out as at 30 September 2019 to inform the liabilities for accounting year ends from 31 March 2020 to 28 February 2021 inclusive, and as at 30 September 2020 to inform the liabilities for accounting year ends from 31 March 2021 to 28 February 2022 inclusive.

The liabilities are compared, at the relevant accounting date, with the company’s fair share of the Scheme’s total assets to calculate the company’s net deficit or surplus.

25. Pension commitments (continued)

Reconciliation of present value of plan liabilities:

	2021 £000	*2020 £000*
Reconciliation of present value of plan liabilities		
At the beginning of the year	**58,342**	*67,433*
Expenses	**40**	*40*
Interest cost	**1,368**	*1,543*
Actuarial gains (losses) due to scheme experience	**(1,502)**	*(628)*
Actuarial gains (losses) due to changes in demographic assumptions	**266**	*(595)*
Actuarial gains (losses) due to changes in financial assumptions	**14,464**	*(7,821)*
Benefits paid and expenses	**(1,659)**	*(1,630)*
At the end of the year	**71,319**	*58,342*

Reconciliation of present value of plan assets:

	2021 £000	*2020 £000*
At the beginning of the year	**51,950**	*50,532*
Interest income on plan assets	**1,237**	*1,171*
Experience on plan assets (excluding amounts included in interest income) – gain	**4,391**	*175*
Contributions by employer	**1,746**	*1,702*
Benefits paid plus expenses	**(1,659)**	*(1,630)*
At the end of the year	**57,665**	*51,950*

25. Pension commitments (continued)

Composition of plan assets:

	2021 £000	2020 £000
Equities	**9,190**	*7,598*
Debt	**5,088**	*4,216*
Liability driven investment	**14,655**	*17,242*
Cash	**351**	*222*
Property	**2,328**	*2,043*
Other bonds	**3,407**	*2,962*
Infrastructure	**3,845**	*3,866*
Alternatives	**18,801**	*13,801*
Total plan assets	**57,665**	*51,950*

	2021 £000	2020 £000
Fair value of plan assets	**57,665**	*51,950*
Present value of plan liabilities	**(71,319)**	*(58,342)*
Net pension scheme liability	**(13,654)**	*(6,392)*

The amounts recognised in statement of comprehensive income are as follows:

	2021 £000	2020 £000
Administration expenses	**40**	*40*
Net interest costs (note 11)	**131**	*372*

25. Pension commitments (continued)

Analysis of actuarial loss recognised in the statement of comprehensive income

	2021 £000	*2020 £000*
Experience on plan assets (excluding amounts included in interest income) – gain	**4,391**	*175*
Actuarial gains and (losses)	**1,502**	*628*
Change in financial assumptions – gain (loss)	**(14,464)**	*7,821*
Change in demographic assumptions – gain (loss)	**(266)**	*595*
Total amount recognised in Other Comprehensive Income - gain (loss)	**(8,837)**	*9,219*

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2021 was £5,628,000 (2020: £1,346,000).

Principal actuarial assumptions at the Statement of financial position date

	2021 %	*2020 %*
Discount rate	**2.17**	*2.38*
Future salary increases	**3.86**	*2.62*
Future pension increases	**2.9**	*1.79*
Inflation assumption - RPI	**3.28**	*2.62*
Inflation assumption - CPI	**2.86**	*1.62*
Mortality rates		
- for a male aged 65 now	**21.6**	*21.5*
- at 65 for a male aged 45 now	**22.9**	*22.9*
- for a female aged 65 now	**23.5**	*23.3*
- at 65 for a female member aged 45 now	**25.1**	*24.5*

26. Operating leases

	2021 £000	*2020 £000*
Amounts payable as lessee		
Not later than one year	-	*153*
Later than one year and not later than five years	-	*231*
	-	*384*

27. Capital commitments

	2021 £000	*2020 £000*
Stock purchase exchanged but not completed	-	*15,359*
Commitments contracted but not provided for construction	**267,933**	*104,231*
Commitments approved by the Board but not contracted for construction	**78,407**	*118,291*
	346,340	*237,881*

Capital commitments will be funded from £54.0m (2020: £35.0m) SHG with the reminder funded from property sales of £66.6m (2020: £56.0m) and external borrowing/surplus £225.7m (2020: £146.9m).

28. Share Capital

	2021 £000	*2020 £000*
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.

29. Related party disclosures

Intra group transactions

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

The charge for the design and build services was £13,889k (2020: £10,991k) plus 2.5% admin charge of £347k (2020: £280k), a total recharge of £14,236k (2020: £11,271k).

The Association transacted with a non-regulated entity: Stonewater Developments Limited, a company that provides development services to the Association. The charge for the services was £6,053k (2020: £4,413k) plus 2.5% admin charge of £151k (2020: £110k), a total charge of £6,204k (2020: £4,523k).

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.

Intra group liabilities

The Association has a loan in place with Stonewater Funding PLC. At 31 March 2021 the outstanding amount was £174.1 million (2020: £75.8 million).

	2021	*2020*
	£000	*£000*
Loan balance after issue costs (note 24)	**174,136**	*75,834*
Interest charged	**4,781**	*2,819*

A US Private Placement ("PP") was issued in March 2020 and Stonewater Funding PLC drew £75m of the PP proceeds on 17 June 2020. Net proceeds were onlent to Stonewater (2) Ltd in two stages. £67.5m for value 1 July 2020, and £7.5m for value 23 July 2020. The delayed onlending was due to a delay in the valuation of collateral pledged against the PP, caused by the ongoing coronavirus pandemic.

In March 2021, £75m of the 3.375% Bonds maturing November 2045, which had been sold on a deferred basis, settled with Stonewater Funding PLC. Proceeds from the £75m bond were onlent to Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited on 3 March 2021. Stonewater (2) Limited received £25m of the £75m.

For both issues above, the on lending is secured by fixed charges over the housing properties of the ultimate borrower. Cross guarantees by cover any shortfall in the security and any unpaid interest and fees in respect of the onlent funds.

At 31 March 2021 the potential shortfall covered by the guarantees was nil as the valuation of the housing properties pledged 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 the Company Information page.