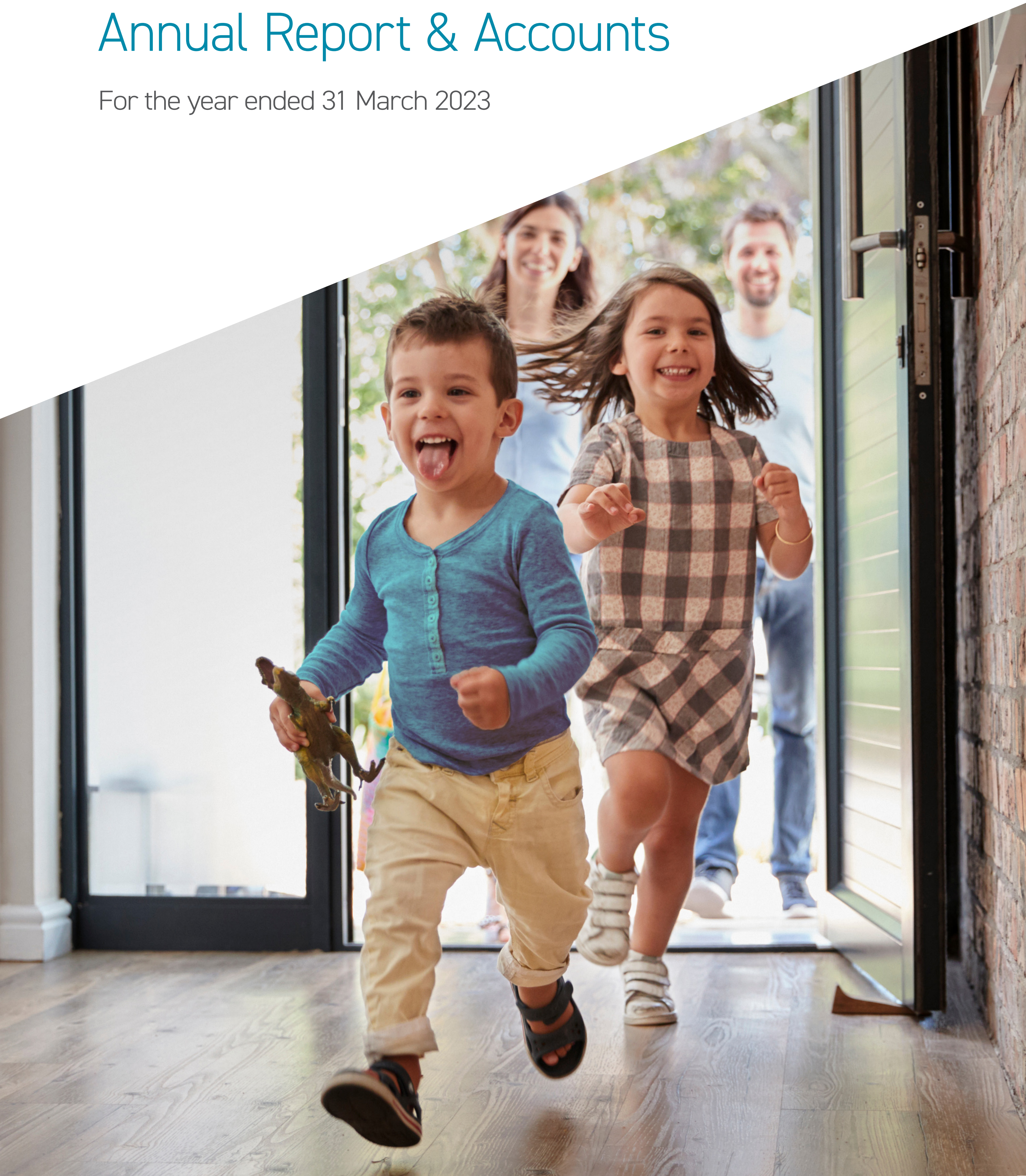
STONEWATER

Stonewater Limited

Annual Report & Accounts

For the year ended 31 March 2023



Our Vision

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

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Registered Society No: 20558R

Regulator of Social Housing Registration No: L1556

About Stonewater

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

We manage around 36,000 homes across England for more than 78,000 customers, and provide affordable properties for general rent, shared ownership and sale, alongside specialist accommodation such as retirement and supported living schemes for older and vulnerable people, domestic abuse refuges, LGBTQ+ Safe Spaces, and young people's foyers.

Driven by our Vision of everyone having the opportunity to have a place that they can call home, we provide homes to customers across England whose housing needs cannot be met by the open market, particularly in terms of both affordability and security.

We aim to become a truly customer-driven organisation by building a relationship built on respect, honesty, transparency, and a commitment to equality, diversity and inclusion.

Stonewater has an annual turnover of around £239m and £2.4bn in fixed assets, and a rating of A, with a negative outlook, by an independent credit rating agency, S&P Global Ratings.

We are proud of our G1/V1 governance and viability rating, which reflects our strength and agility in delivering a significant number of affordable new homes, supported by our good governance and financial controls. Our financial and investment decisions are underpinned by robust processes and procedures that will ensure Stonewater remains financially resilient for the benefit of our existing and future customers and our counterparties.

Our customers

- A considerable proportion (39%) of our general needs customers are families with dependent children.
- 38% of our customers are older people (55+).
- 64% of our tenancies last for five years and longer.
- Our specialist housing provides support for many vulnerable groups within our society, this includes: young people, young families, those with mental health issues and learning disabilities, and those suffering domestic abuse.
- We also provide accommodation on behalf of a number of support agencies across the country, who use our properties to deliver services to people including those who are homeless, suffering domestic abuse, have mental or physical support needs, young people, drug and alcohol recovery, and ex-offenders.

Providing new homes is at the core of what we do as an organisation. As a housing association with a strong social purpose, we are committed to addressing the challenges of the current economic conditions, affecting both our customers and our sector.

Over the past year, we have built 963 homes (2022: 836), which is broken down into:

- 667 affordable rent, social rent, rent to buy
- 288 shared ownership
- 8 open market.

At 31 March 2023, we were in contract to build 3,440 homes (2022: 3,181).

During 2022/23, 33 (2022: 34) void properties were sold. These are typically properties with limited stock in the vicinity or perhaps require some modernisation or a low EPC rating which we do not want to retain. 141 units were sold as sector sales to another housing provider. 119 units were sold via staircasing where shared owners chose to buy a further proportion of the property. 15 units were sold through the Right to Buy and Right to Acquire schemes.

About Stonewater

Everything we do is guided by our Vision, Mission and Values.

Our Vision

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

Our Mission

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

Our Values

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

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

Ambitious

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

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

Passionate

We genuinely care and are committed and motivated to always do the best we can.

Our enthusiasm and energy at every touchpoint inspires us to be an organisation everyone can be proud to be associated with.

Agile

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

Our innovation and collaboration helps drive continuous improvement.

Commercial

We are an efficient and astute organisation with a clear focus on delivering value for money.

Organisational efficiency translates into more homes for those who need them and improved choice and services for our customers.

Ethical

We take responsibility and are accountable for our decisions.

When we make a promise, we keep it.

We are inclusive, professional and honest.

Board members, chief officers and advisors

The Board

Sheila Collins
(Chairman of the Board)

Sheila has a wealth of experience in the governance of large complex organisations as well as that of smaller charities. She has served at board and trustee level across a number of different not-for-profit sectors including roles on the board of Bournemouth University and Macmillan Caring Locally. A retired solicitor, Sheila also brings a commercial perspective and a passion for the diversity and inclusion agenda.

Sheila was previously Chairman of the Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust.

Nicholas Harris
(Chief Executive)

Nicholas became Stonewater's CEO in 2016, having been CEO of Raglan Housing Association since January 2010. Prior to this, he held the CEO position at Raven Housing Trust for seven years and Group Operations Director for the Swaythling Housing Group for seven years. He has extensive experience in both the social housing sector and local authorities, and considerable knowledge in socio-economic regeneration matters.

Claire Kearney
(Chair of Technology Challenge and Assurance Panel)

After more than 20 years' experience in the publishing industry, Claire now works as an independent technology consultant, championing a user-centric approach to the provision of online services.

Claire brings experience of creating and implementing digital services which align with strategic aims, alongside promoting high standards of web governance.

Tariq Kazi
(Resigned September 2022)

Tariq is a professional accountant and corporate treasurer, who has experience of working across different sectors, including audit, commercial banking, central government and local authorities, as well as social housing. He is currently Director of Corporate Finance at Southern Housing (formerly Optivo) and has a special interest in people, culture and innovation. Tariq has served as a magistrate and, as a non-executive, he has undertaken a number of roles including as a member of the social housing regulation committee, board member of the Leasehold Advisory Service, membership of a housing association treasury committee and trustee of three charities. He is also a current member of the National Housing Federation's Board Member Group on Equality, Diversity & Inclusion as well as trustee and treasurer of the New Economics Foundation.

Jennifer Bennett
(Chair of Governance and People Challenge & Assurance Panel, Chair of Nominations and Remuneration Committee)

During her career as a solicitor working for clients in the social housing sector, Jennifer specialised in governance matters, securitisation, asset management and leasehold law.

She has also held a number of voluntary roles, including, a Non-Executive Director of Portsmouth Hospitals NHS Trust, an independent Member of Winchester City Council Standards Committee, a Non-Executive Director of Parity Trust, which provides loan finance for community-based projects, and a Trustee of the Roberts Centre, a registered charity providing housing and support to families and children in Portsmouth.

She is a founding member of Portsmouth Housing Community Trust established in 2019.

The Board

Anne Dokov (Resigned 5 August 2022)
(Senior Independent Director, Chair of the Governance and People Challenge & Assurance Panel, Chair of Nominations and Remuneration Committee)

Anne's career has been mainly in the public sector, particularly in local government. She has extensive experience of governance, organisational change and development, programme management and specialist knowledge of diversity, inclusion and human resources. She is a Lay Member of the Disciplinary Tribunal for the Chartered Institute of Legal Executives.

Juliana Crowe
(Chair of the Customer Experience Challenge and Assurance Panel)

Juliana has over 25 years' experience of working in the social housing sector, most recently as the housing director for a large Midlands based housing group. Previously she worked for the London Boroughs of Southwark, Tower Hamlets and Greenwich. She is a member of the European Structural Investments Funds Sub Committee (ESIF) in Worcestershire.

She has extensive experience at all levels of asset management, estate and housing management of inner city estates and rural affordable homes, with expertise in building sustainable communities. She has previously been the Chair of the Chartered Institute of Housing (CIH) West Midlands Board and a Trustee of HACT (the charity of the social housing sector).

In her spare time, Juliana is helping to build a school in the upper region of Ghana in memory of her father.

Andrew Lawrence
(Chair of the Risk and Assurance Committee)

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

Hugh Shields
(Resigned June 2022)

(Chair of the Finance Challenge & Assurance Panel, Chair of Technology Task and Finish Group)

Hugh's career has spanned a variety of complex organisations, including investment banking where he has held a number of directorships. His career has also encompassed leading on policy development within the accounting profession and responding to the digital challenge, most recently through work for the Institute of Chartered Accountants of Scotland. Hugh's interest in social housing and the wider not-for-profit sector is informed by his association with the homeless charity, Centrepoint, and his role as a member of the Church Commissioners' Audit Committee.

Chris Edis
Chair of the Finance Challenge & Assurance Panel

Chris is a chartered accountant with extensive experience in top tier financial services institutions. An experienced executive and finance director, Chris is currently the Finance Director, Commercial Banking, of Lloyds Banking Group plc, bringing experience in strategy, treasury, liquidity, and capital management.

Board members, chief officers and advisors

The Board

Angus Michie
(Chair of the Homes & Development Challenge & Assurance Panel)

Angus is a qualified chartered surveyor in the planning and development discipline with 30 years' experience in the residential development industry. He has a real passion for creating places for people to live that are attractive, well designed and sustainable. Angus spent 25 years with the Berkeley Group. As Divisional Chairman of a number of their operating businesses in London, the South East and the Midlands, he was responsible for a number of the Group's joint ventures with the Prudential and various local authorities. Angus is the Managing Director of SevenCapital which develops residential and mixed use communities across London, the Midlands and the South East.

Heather Bowman

Heather is an experienced executive and non-executive director having worked in social housing and the third sector for over 35 years. Most recently she was Chief Operating Officer at Sovereign, one of the largest housing associations, and is currently a board member with Raven Housing Trust and the Housing Plus Group. She is passionate that safe, secure, and good quality homes in great places give individuals, families and communities choices and opportunities to thrive. Heather is Stonewater's trustee on the Longleigh Foundation board.

Barry Hoffman
(Appointed 1 October 2022)

Barry is an experienced FTSE Group HR Director with an MBA and corporate governance expertise. With a track record in change management and HR, both in the UK and globally, he has developed a strong focus on delivering shareholder value and driving transformational change. Barry is also an experienced non-executive director, having supported boards on governance, executive succession, remuneration and organisational change.

Hursh Shah
(Appointed 1 October 2022)

Hursh is a qualified accountant and finance professional with treasury, capital market and corporate finance experience. He is currently Head of Capital Markets at British Land responsible for managing existing finance and raising new finance and manages relationships with stakeholders including debt investors and rating agencies. He has also been involved in the formation and operations of joint ventures between British Land and its partners and is director for a number of these joint ventures.

Martin Large
(Appointed 1 January 2023)

Martin is the current chair of Greenoak Housing Association Ltd, which joined Stonewater Group in 2023.

He holds significant senior management and board experience in the housing sector. This includes his work as the former Chief Executive Officer (CEO) of GLE Group (London local authorities' regeneration and business investment, development and services group), former non-executive director roles at Pocket Living Ltd and Selwood Housing Society Ltd, and as the former Vice-Chair at Hexagon Housing Association.

Chief Officers

Nicholas Harris
Chief Executive

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

Sue Shirt
Chief Customer Officer

Sue has worked at an executive level in a range of organisations for the past 19 years.

She has dedicated her career to improving and modernising housing services, driving organisations to challenge their service delivery to meet the changing expectations of customers. Her focus is to ensure that we always demonstrate respect for those we serve and for each other, and that the customer remains central to decision making.

Sue was part of the team which created Stonewater, focusing in particular on the development of customer-facing services and tenant scrutiny. Prior to this, her roles included housing consultant for a range of organisations, managing director for a rural Large Scale Voluntary Transfer (LSVT) and head of service in a former coal field regeneration area.

She is a graduate in economics, a Fellow of the Chartered Institute of Housing and a Member of the Chartered Management Institute. Sue is a trustee for a domestic violence charity.

Gareth Lloyd
Chief Information and Transformation Officer

Gareth joined Stonewater as Chief Information & Transformation Officer in 2023, bringing 18 years' experience as a CIO, COO and CDO in both the private and public sectors, working in the UK and internationally.

He has previously served as a non-executive director for a social housing group in the South West. His experience includes high profile data programmes, sustainable digital transformation, Internet of Things programmes and Mergers and Acquisitions. He has a keen interest in using tech and data for social good.

Anne Costain
Chief Financial Officer

Anne is a chartered accountant and corporate treasurer. She has worked in housing for the past eight years, as Deputy CFO and CFO of Radian Housing Association based near Southampton, and following their merger with Yarlington, as Director of Resources at Thrive Homes in Hemel Hempstead.

Before working in housing, Anne worked in manufacturing for a number of organisations, from SMEs to Fortune 500 and FTSE 250, as well as investment banking and insurance, and was Finance Director for De La Rue, in its currency and supply chain divisions.

David Blower (Resigned 31 March 2023)
Executive Director of Corporate Services

David has worked in the industry since 1993 and is passionate about creating high-performing cultures where individuals are equipped to succeed. Initially building his career in finance, he held a number of senior finance posts before moving into this wider role on the formation of Stonewater in 2015. He leads a multi-functional team that is driving the business forward across a range of disciplines, including people, technology, risk and assurance, communications, strategic planning, performance and data.

He is a chartered certified accountant and holds an MBA from Warwick Business School.

Patrick Chauvin
Chief Officer Safety, Assets and Sustainability

Patrick is a highly experienced property and asset management professional. He has held senior management positions across a range of disciplines within the housing sector, including Director of Asset Services at Amicus Horizon and Head of Strategic Portfolio at Circle.

He's a qualified building surveyor with extensive experience in housing and construction. His career began in private practice, working for high-profile clients on construction projects.

From there he moved into the housing sector, working on City Challenge in Newham. He then held a number of senior positions within Home Group, one of the largest housing associations in the UK. From there he moved to Amicus Horizon and was part of the executive management team that transformed it into one of the highest performing organisations. He was then appointed to a senior position within Circle Housing as Head of Strategic Portfolio and was subsequently appointed Head of Neighbourhood Planning for Clarion Housing Group, the largest Housing Association in the UK.

Jonathan Layzell
Chief Growth & Development Officer

Jonathan has an extensive background in delivering new homes with a particular personal interest in rural housing and the long term sustainability of rural communities.

He is also interested in how Registered Providers can use investment in new homes to support the growth of the construction sector as well as the wider economy. Stonewater's development programme is strong and ambitious and is among the largest in the sector.

Jonathan is responsible for the strategic delivery of Stonewater's housing development programmes including the implementation of innovative affordable rental and shared ownership schemes.

Secretary and registered office

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

Advisors

Principal bankers	Auditor	Solicitors	Solicitors (Governance)
Barclays Bank Level 27 1 Churchill Place London E14 5HP	**BDO LLP** 55 Baker Street London W1U 7EU	**Devonshires Solicitors** 30 Finsbury Circus London EC2M 7DT	**Trowers and Hamlins LLP** 55 Princess Street Manchester M2 4EW

Chairman's statement

Last year, in common with so many others, I was shocked and saddened to read the detail in the coroner's ruling surrounding the tragic death of young Awaab Ishak in Rochdale.

Quite rightly, this ruling sent shockwaves around the sector and became the defining moment for me of 2022.

Like many housing associations, we have reflected on this news deeply and solemnly, taken stock and are determined to be more proactive, develop better strategies and work smarter in this digital age to prevent anything like this from happening again. A safe and affordable home is surely the bedrock from which we can build successful lives and communities, and we are reminded and humbled by the increased scrutiny of this sector from the Government.

Stonewater's Vision, for everyone to have the opportunity to have a place that they can call home – is more important than ever. Providing affordable homes to people in housing need, managing and maintaining them so they're safe, and sustaining those tenancies, remains our core purpose.

During the past year, inflation has skyrocketed into double digits, posing a threat to our standard of living. In parallel, investment requirements have increased for us. This is particularly the case in our existing homes, where repairs and maintenance spending continues to accelerate. As we move towards net zero-carbon homes by 2050, we are strengthening our damp and mould processes.

As situations have arisen, Stonewater has been able to respond thanks to its financial strength and agility. It makes me proud to know we are here for all our customers, especially when they need us. In the past financial year, this has meant we have:

- Continued to provide practical solutions for customers facing financial hardship, including offering flexible rent payments, help with accessing benefits and £0.5m worth of individual hardship grants through our charity partner, the Longleigh Foundation.
- Delivered 963 energy efficient new homes.
- Let more than 2,087 homes to people whose circumstances mean their needs are not met by the open market.
- Maintained our G1/ V1 governance and viability ranking from the Regulator of Social Housing.
- Achieved an increase in turnover of £14 million, which allows us to continue improving our existing homes and invest in modern, efficient customer services.

While we have put a lot of focus on addressing the current challenges, we never forget our responsibility to the future of the organisation and our customers. That's why in the past year we have:

- Created a reimagined and restructured organisation that works more efficiently following the transfer of engagements from Stonewater (2) Limited to Stonewater Limited on 31 March 2023.
- Welcomed Greenoak Housing Association to our group.
- Continued to upgrade our older homes to meet EPC Level C or equivalent by 2030.
- Completed our 5,000th new home since Stonewater formed in 2015.
- Been awarded 'Advanced Employer' status, after completing the 'Investing in Ethnicity Maturity Matrix'.
- Published our latest Environmental, Social and Governance report and Environmental Strategy which show our commitment to tread more lightly on our planet.

I am very proud of what we have accomplished and would like to thank Nicholas Harris and the Chief Officer Group for providing clear leadership in the face of a challenging operating environment. It's clear to me that everyone at Stonewater is committed to doing the right thing for customers and each other.

Undoubtedly, we will face continued – and new – challenges in 2023 – but we will meet these together, demonstrating our resilience, adaptability and our empathy in supporting customers throughout the cost of living crisis and others which may come.

I remain optimistic that we will see more stability and better times for us all in 2023.

Sheila Collins

Sheila Collins
Chairman

Chief Executive's statement

This year more than ever, I want to pay tribute to all colleagues and partners at Stonewater who work tirelessly and with great empathy to provide services and support customers.

Like Sheila, I would like to begin by reflecting on the tragic death of little Awaab Ishak, who died from exposure to mould in his family home at only two years old. Providing safe, affordable, and healthy housing is a responsibility of all housing associations. We already have a legally binding 'decent homes' standard in our sector (which Stonewater homes meet), but in light of Awaab's death, Michael Gove, Secretary of State for Levelling Up, Housing and Communities, instructed registered providers to conduct comprehensive damp and mould assessments and take appropriate measures. It is absolutely right that this received proper attention and we remain fully supportive of those measures put in place to ensure such a tragedy never happens again.

This increased scrutiny of our sector has come on top of other issues that are affecting our customers' daily lives. Colleagues continue to support customers facing the ongoing cost-of-living crisis while implementing new measures. It is important to me that our organisation reflects the communities in which we operate. We employ colleagues who respect our customers and understand them, who reject the stigma that customers of social housing still encounter. Our colleagues make a difference because they keep our Customer Promise at the heart of all they do: "We're proud to make things personal. If it matters to our customers, it matters to us."

Through technology investments, we are also better able to tailor our services to our customers' needs, and we continue to train our colleagues to ensure our Customer Promise is being fulfilled. This is reflected in our four-star rating on Trustpilot and by us retaining our two-star Best Companies rating, as well as being awarded 'Advanced Employer' status, after completing the 'Investing in Ethnicity Maturity Matrix'.

While organisations across the country, including housing associations, are regularly targeted in cyber-attacks, our IT team has achieved Cyber Essentials Plus for Stonewater, an accreditation demonstrating our high standard of security.

Although there have been challenges to overcome, the past year has seen many remarkable accomplishments, including:

- Continuing to push forward with our net zero strategy, with innovative use of alternative energy technologies, alongside our extensive retrofit programme of existing homes.
- Bringing Greenoak Housing Association into our family of companies. We come together with a shared commitment to deliver sustainable homes.
- Colleagues who have supported the life-changing work of our charity partner Longleigh Foundation through Give As You Earn and Pennies from Heaven donations.
- Simplifying our group structure so we can give investors a clearer picture and access funding more efficiently.
- And securing an additional £100m of bank revolving credit facility (RCF) funding and £71m from the Affordable Homes Guarantee Scheme (AHGS), which allows us to continue working towards our future ambitions.

While there will always be more we can do, we should be proud of what we have accomplished in 2022. The delivery of our 5,000th home is testament to Stonewater's crucial role in alleviating the nation's housing shortage. It is something we can truly celebrate.

Nicholas Harris
Chief Executive

Report of the Board of Management and Strategic Report

Stonewater's Strategic Plan 2022-30: Progress update

We launched our new eight-year strategy in July 2022. Our Strategic Plan 2022-30 reflects the board's current priorities and insight from customers. It has been developed with colleagues, and reflects how we believe we can maximise the value we provide in a challenging operating environment.

Our Strategic Plan 2022-30 sets out a range of ambitious targets and deliverables which will mean we do the right things, in the right ways, for the right reasons. In essence, we will lead on building quality, affordable homes, offering inclusive, efficient services, while championing sustainable practice and communities. It further documents our long-term commitments to align with our current development and investment programme and sets out how we will deliver our Vision and Mission, under three overarching strategic objectives:

- **Provide customer-centred services** that are proactive and efficient, and that help us to retain and attract customers.
- **Supply, manage, and maintain homes and neighbourhoods** that are safe, connected, efficient, affordable, and flexible.
- **Maximise the value** we provide to our customers and communities through decision-making and initiatives that support environmental and social sustainability.

These are supported by four enablers - activities and investment we undertake to support the delivery of our objectives:

Governance and Viability

- We will practice strong governance and we will continue to deliver our legal and regulatory responsibilities through effective performance and assurance frameworks.
- Our financial viability will enable us to respond to our operating environment, and deliver our Mission of offering quality homes and services for people whose needs are not met by the open market.

People and Culture

- As an exceptional place to work, we will have the organisational capability required to deliver our strategic objectives. Our organisational design will enable agility, responding effectively to an ever-changing operating environment and embracing the opportunities offered through innovation and new technology.
- Our values-based culture will be embedded across all areas of operations, ensuring our Customer Promise and Values are at the heart of decision making.

Data and Technology

- Technology will continue to play a pivotal role in delivering consistently good services and a great customer experience.
- Our homes, old and new, will benefit from the use of technology to increase environmental sustainability and customer wellbeing.
- Data will support effective decision making and actions that enhance the homes and services we provide to our customers.

Partnerships and Innovation

- We will develop sustainable, value adding partnerships across all areas of our business based on a culture of mutual trust and collaboration.
- As thought leaders, we will continue to innovate with partners across the housing sector and beyond.
- Performance against these objectives is set out in the Value for Money and performance sections of this report.

Customer-centred Services	Quality Homes and Neighbourhoods	Maximising Value
Provide customer-centred services that are proactive and efficient, and that help us to retain and attract customers. We will:	Supply, manage, and maintain homes and neighbourhoods that are safe, connected, efficient, affordable, and flexible. We will:	Maximise the value we provide to our customers and communities through decision making and initiatives that support environmental and social sustainability. We will:
Be a customer-led business, developing a trusting relationship with our customers and communities where they are engaged and confident that we will deliver for them.	Continue to grow, providing more affordable homes for those in the greatest need.	Provide excellent value, balancing the needs of existing customers and the need for new affordable housing.
Take a more proactive approach to our services, addressing concerns before they become issues.	Provide safe, connected and efficient homes and housing options that meet the changing needs of our customers old and new.	Maximise the social value attained across all activities and partnerships.
Be efficient and effective in the delivery of services, getting things right first time and ensuring high levels of customer satisfaction.	Work with our customers and partners to develop happy and healthy neighbourhoods.	Minimise our impact on the environment through the delivery of our services, and support our customers to do the same, increasing the efficiency of their homes through investment and guidance.

Group financial performance

Our turnover increased this year by £13.6 million. Increased income came from £12.5m rental income, £2.9m service charge income, £0.5m from open market sales, £0.8m other income and £0.2m from amortisation of government grants. This was partly offset by a £3.3m reduction in receipts from shared ownership first tranche sales.

Our rental income has grown by 7.8% from last year (2022: growth of 5%). Rental income increased due to the handover of 963 new units (2021: 836), rent increase of 4.1% (2022: 1.5%), and the addition of homes following Greenoak Housing Association joining the Stonewater Group in January 2023.

Operating costs have increased to £157.3m from £139.6m, driven by an increase in maintenance and management costs. The overall costs reflect increased volumes of repairs, ongoing maintenance and improvements for our customers' existing homes and the investment in our transformation programme to drive future efficiencies.

Surplus on disposal of fixed assets includes that generated from staircasing, where shared owners increase their ownership share in their homes. Demand remained strong during the year, with our proceeds from staircasing receipts totalling £14m (2022: £12.7m).

The operating margin, excluding surplus on disposal of fixed assets, is 22% from 24%. This has decreased from the previous year due to the increase in operating costs. Impairment sustained in the year is a key driver to explain some of this year on year increase in operating costs. If the impairment charge of £5.2m is excluded the operating margin would be 24%.

Stonewater Group's surplus for the year of £53.8m (2022: £23.9m) was higher than the prior year mainly because of the recognition of a one-off gain when Greenoak Housing Association joined the Stonewater Group in January 2023.

The surplus generated for the year will continue to be reinvested into our development programme, enhancing our systems and providing excellent customer service.

The Group's liquidity remains strong. At 31 March 2023, Stonewater had £473m of available but undrawn bank facilities (2021: £417m).We continue to deliver our significant on-going development programme while maintaining a resilient balance sheet.

The Group continues to maintain a strong financial position with net assets increasing by £75m to £480m in the year (2022: £405m). Our housing properties portfolio grew by £197m to £2,418m (2022: £2,221m) with additions from a mix of capital maintenance works and continued growth from our development programme.

Pension costs

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

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

Stonewater's deficit in the DCPF reduced from £4.3m to £1.9m. The value of the assets decreased from £6.2m to £5.6m, and the obligation reduced from £10.5m to £7.5m.

The latest valuation of the scheme was performed as at 31 March 2022 by a professionally qualified actuary using the Projected Unit Method.

Stonewater's deficit in the SHPS decreased to £16.5m from £16.7m last year. The fair value of the assets comprising Stonewater's share of the scheme is £74.0m (2022:£113.4m) and the liabilities are £90.5m (2022: £130.1m).

Consolidated statement of comprehensive income	**2023 £'000**	2022 £'000
Turnover	**238,977**	225,426
Operating costs	**(157,291)**	(139,636)
Cost of sales	**(30,123)**	(31,103)
Surplus on disposal of fixed assets	**14,204**	11,020
Share of operating profit in joint venture	**-**	-
Operating surplus	**65,767**	65,707
Operating margin (excluding surplus on disposal of fixed assets)	**22%**	*24%*
Acquisition of business	**21,356**	-
Share of loss made by joint venture	**(18)**	-
Net interest	**(42,084)**	(39,178)
Movements in fair value of non-hedging instruments	**8,771**	(2,583)
Surplus for the year	**53,792**	23,946
Actuarial gains/(losses) on defined pension schemes	**(585)**	8,080
Amounts recycled from Cash flow hedge reserve	**4,015**	4,480
Year end revaluation of hedging financial instruments	**17,969**	19,650
Total comprehensive income for the year	**75,191**	56,156

Statement of financial position	**2023 £'000**	2022 £'000
Tangible fixed assets - housing properties	**2,418,003**	2,220,778
Other tangible fixed assets	**10,075**	10,389
Share of liabilities from joint venture	**(18)**	-
Net current assets	**131,275**	113,515
Total assets less current liabilities	**2,559,335**	2,344,682
Creditors due after more than one year	**(2,060,553)**	(1,918,295)
Provisions for liabilities and charges	**(359)**	(541)
Pension scheme liability	**(18,391)**	(21,005)
Net assets	**480,032**	404,841
Cash-flow hedge reserve	**(14,893)**	(36,877)
Income and expenditure reserve	**494,925**	441,718
Total reserves	**480,032**	404,841

Treasury management

Treasury management policy

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

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

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

Derivatives are used to manage the interest rate exposure arising from variable rate bank debt.

The Group's interest rate policy for borrowings is to be between 60% and 100% fixed. If refinancing of floating rate bank debt with bond funding resulted in an enduring over fixed position, the position would be corrected.

As at 31 March 2023, 88.7% (2022: 94.6%) of borrowings were at fixed interest rates or hedged by floating to fixed interest rate swaps.

Sustainable finance

As part of our aspiration for a more sustainable future, Stonewater has established a Sustainable Finance Framework, which sets out the work being done on sustainability. Stonewater publishes an ESG (Environment, Social and Governance) report annually.

The framework enabled Stonewater to attract new efficient funding and to broaden its investor base by issuing its debut sustainability bond in September 2021. Proceeds from the issue were allocated in accordance with the Sustainable Finance Framework (SFF). The SFF aligns with internationally recognised principles and outlines how our bond will be entered into. We recognise the importance of supporting the vision put forward by the United Nations Sustainable Development Goals (SDG) and the SFF has enabled us to improve our transparency to stakeholders and, where we believe to be possible, align debt instruments to specific SDGs relevant to our business.

Debt structure

The Group's policy is to raise debt finance through bilateral loans and capital markets issuances.

All of Stonewater Funding debt has similar security and limited cross guarantee arrangements to the Group.

In March 2023 Stonewater Limited secured £70m from the Affordable Homes Guarantee Scheme, a government backed bond scheme aimed at supporting the delivery of affordable housing.

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

At 31 March 2023, the assets and liabilities of Stonewater (2) Limited were transferred to Stonewater Limited by a transfer of engagements. The transfer required the approval from a number of the Group's Lenders. At the same time as seeking lender approval, the bank covenants for the debt in Stonewater (2) Limited were renegotiated to align to those of Stonewater Limited.

Total loan facilities and bond debt at 31 March 2023 amounted to £1,861m (2022: £1,719m) of which £477m was undrawn (2022: £472m).

Cash-flows

Net cash from operating activities for the year was £92.7m (2022: £98.2m), a decrease of £5.5m compared with the previous year.

Net cash outflow from investment activities was £188.4m (2022: £206.3m), mainly due to £222.8m investment in housing assets less grant receipt of £37.3m (2022: £216.4m less grant receipt £14.4m).

Liquidity

The Group maintains a list of investment limits for authorised organisations with which it will place deposits based on short-term credit ratings.

As at 31 March 2023, cash balances were £59.3m (2022: £136.7m) and the balance of restricted cash was £7.2m (2022: £4.7m).

Cash balances are purposefully significantly lower than in prior years to reduce cost of carry. Cash and committed facilities, excluding restricted cash, exceeded the Group's contracted obligations for the next 18 months less grant by £234.2m (2022: £271.4m).

The excess of committed facilities over capital commitments is to ensure that committed developments for the next 18 months are fully funded.

As at 31 March 2023, the exposure position with counterparties on standalone derivatives was £12m (2022: £42.7m) and after the use of unsecured thresholds £0.0m (2022: £28.8m). This exposure was secured by charged property security.

Loan covenants

Stonewater Limited's actual performance for the year against its loan covenants is as follows:

	Covenant	Performance
Interest cover*	Must be > 110%	202%
Gearing	Must be < 70% of assets	51%

*Interest cover for Stonewater Limited is tested against the annual results and also against the rolling average of the results of the last three years. The ratio shown for Stonewater Limited is the three-year average which is the test with the lowest headroom.

Report of the Board of Management and Strategic Report

Value for Money (VfM) and performance against our strategic objectives

Stonewater's approach

Creating value for customers is at the heart of Stonewater's services and projects. The Board's approach to Value for Money reflects our Vision 'For everyone to have the opportunity to have a place that they can call home' and our Customer Promise: 'We're proud to make things personal. If it matters to our customers, it matters to us'. This means we go beyond monetary savings to deliver social value through the investment of our resources. In doing so, we seek to maximise gains for customers through all strands of our activities and operations.

In the current inflationary market with increasing demand on our customers' financial resources, there are limited opportunities to increase income to the organisation. Instead, we seek to safeguard current income streams while extracting maximum value from costs incurred. Our approach to achieving this is documented in our strategies, including those on:

- **Growth** - delivering homes to meet a range of needs in targeted geographical areas
- **Portfolio options (acquisitions and disposals)** – deriving optimal benefit from fixed assets
- **Treasury management** – minimising the cost of funds, minimising credit risk and ensuring sufficient liquidity is available

This has been another year of considerable change as society and the economy deals with the challenging macroeconomic outlook. Despite the inevitable impact on activities, Stonewater has continued to embed the move from traditional Value for Money towards broader value maximisation across all aspects of the business. This cultural change continues to be supported through organisational structures, the internal control framework, the decision methodology for new projects and opportunities, and learning and development for colleagues.

Value maximisation for customers

Measuring value maximisation

Our Strategic Plan 2022-30 objectives flow from the Vision and support our Mission of offering quality homes and services for people whose needs are not met by the open market. As part of the annual review of the plan, the Board sets measurable outcome targets for each objective, against which we assess value for money gains.

We continue to base our assessment of value for money on the three Es of Economy, Efficiency and Effectiveness. These are about making the best use of our resources to achieve the intended strategic outcomes:

- **Economy** — minimising the cost of resources used while having regard to quality – **spending less**
- **Efficiency** — the relationship between the output from goods or services and the resources to produce them – **spending well**
- **Effectiveness** — the extent to which objectives are achieved and the relationship between intended and actual impacts – **spending wisely**

These can be summarised as cost effectiveness – making the best use of our resources to achieve the intended outcomes to maximise value for our customers.

In addition to the Strategic Plan outcome targets, the Board sets value for money targets, which cover the seven metrics included in the Value for Money Standard published by the Regulator of Social Housing on 1 April 2018. These include social housing cost per unit, which is based on the management, service charge, maintenance, major repair, and other social housing costs that a registered provider incurs divided by the number of properties to which these costs relate.

Social housing cost per unit compared to our peer group (based on Global Accounts) is used as a 'broad brush' measure for demonstrating economy in the delivery of our strategic objectives. Where possible, we benchmark our performance for our outcome targets against a Housemark peer group of registered providers, which is based on our size and geographical spread. We also benchmark against our own past performance, through regular KPI reporting to the Board, committees and panels and the Executive team. We review these KPIs annually and the Board sets targets for each which drive further value for money gains across the business.

Demonstrating efficiency is the most complex of the three Es to measure as it looks at the relationship between the outcomes achieved compared to the cost incurred in doing so. We use benchmarking against a suitable peer group of registered providers to measure whether we are efficient in the delivery of our strategic objectives. If our baseline costs, measured by the social housing cost per unit, are lower than, or in line with, those of our peer group and the outcome achieved is the same as, or better than, that of our peer group, we have demonstrated efficiency.

Assessing performance

The Board monitors progress towards achieving our strategic objective outcome targets during the year. Reporting against these targets has been expanded this year to demonstrate the extent to which value maximisation is being achieved through each objective. The Board gains assurance on the delivery of economic gains through the work of the Finance Challenge and Assurance Panel.

Report of the Board of Management and Strategic Report

Performance against strategic plan objectives – 2022/23

Customer centred services

This objective works to ensure we effectively engage with our customers, developing universally good services that are built around them, flexible, and tailored to their needs. It sets out our approach to delivering more proactive services and facilitating and signposting support for customers where it's needed. It outlines our aspirations to deliver efficient, consistent, and reliable services that improve the customer experience: Maximising the resolution of enquiries at the first point of contact, increasing the provision of digital services, and being underpinned by streamlined processes.

The actions towards meeting this objective

Strategic objective	Outcome measure	Target 2023	Result 2023	2022 Benchmark (peer group)	Demonstrates VfM Ec	Demonstrates VfM Effic	Demonstrates VfM Effec
Provide customer-centred services that are proactive and efficient to help us retain and attract customers	Overall satisfaction with services (transactional)	84%	83.6%	n/a	√	√	√
	% of tenancies terminated within two years	0.9%	0.8%	n/a		√	√
	Avoidable contact	10%	16%	n/a		√	√
	First-time resolution of customer enquiries	70%	74.5%	n/a		√	√
	% of transactions via our digital channels	35%	41%	26.3%	√	√	√
	Resolution of complaints at stage one	94%	82.4%	n/a	√	√	√
	Housing Ombudsman determinations found against Stonewater (% of total complaints)	0.5%	0.4%	n/a		√	√
	Responsive repairs customer satisfaction (transactional)	84%	84.4%	n/a	√	√	√

Key: Ec-Economy Effic-Efficiency Effec-Effectiveness

Overall satisfaction with services (transactional)

Customer satisfaction is at 83.6%, which is close to our 84% target. The rating combines our customers' satisfaction with repairs and our Customer Service Centre services. Responsive repairs continue to be a key driver in customer satisfaction and the service continued to face sector-wide challenges through the year. It has been reassuring to see consistently good performance in areas such as lettings and the Customer Service Centre and anti-social behaviour (ASB). Our Scrutiny Panel has now started their review into how we can best manage customer expectations of our ASB service. The Panel will report their recommendations to Board in the summer.

We have also increased the capacity within our Customer Relations team which will mean that we can sustain improvement in complaints satisfaction through increasing customer contact, having greater oversight of commitments to ensure speedy completion and enabling more complaints to be closed, therefore generating a higher volume of survey responses.

Customer demand for support around the cost-of-living crisis, repairs and rent and service charge remained high towards the latter part of the financial year. Specifically, 2,599 contacts were received in relation to the rent and service charge review. To manage this, we have put in place significant colleague capacity to support customers appropriately, including one to one financial health checks for any customers in need of extra assistance. Building on this model, we are seeking to adopt a more agile approach allowing us to deploy existing operational resources to areas of greatest need.

Tenancies terminated within two years

This is at 0.8% which is better than our target of 0.9%. We have continued to provide a dedicated triage service and have spoken to more than 3,000 customers to answer queries, with 2,900 of these being given one to one support. This has included advice on budgeting, grants, benefits, employability and making referrals to the Longleigh Foundation and Circles of Support.

The tenancy team continues to offer a range of support options from free, impartial, one-to-one sessions to talk to customers about a range of financial topics, including managing debt, budgets and energy bills, to putting them in touch with our in-house experts and partner organisations for further support and advice.

Avoidable contact

Avoidable contact, which measures the percentage of inbound calls classified as service failure was lower than the target. The Customer Service Centre continues to work closely with colleagues through the review of improving automation and proactive customer contact. We are also working closely with our contractors to better manage and the repairs and maintenance and remobilisation of these contracts.

First-time resolution of customer enquiries

This was 74.5% against a target of 70%. Our service model continues to support delivering services right first time; enhancing digital services; and evolving a national specialist approach to provide expert support for customers where they need it.

Transactions via our digital channels

In 2022/23, we further developed our online platforms so even more customers can have their say. 1,475 customers (2022: 900) are members of our Customer Hubb (Help Us Be Better) online community – a place where our customers can come together to ask questions, feedback about our services, have conversations, share information, discuss hobbies and post pictures. It's also where we come together with our customers to celebrate and mark important equality, diversity and inclusion days like Pride, Black History Month and International Women's Day.

Around 2,000 customers regularly read our quarterly newsletter, Here to Help, and our Customer Annual Review for 2021-22 has been viewed more than 3,000 times; we use these publications to make the customer voice heard.

Resolution of complaints at stage one

Resolution at stage one is at 82.4% which is 11.6% below target. This reflects changes in the operating environment, driven by the Housing Ombudsman Service (HOS)'s Complaint Handling Code, which requires us to promote escalation to stage two in our stage one complaint responses and across our customer communication platforms. We will update next year's target to reflect this. In March, 380 new cases were raised at stage one, which is the highest we have ever recorded, and 68 stage two complaints (the third highest monthly stage two figure to date). This increase in complaint volume is linked to the Government's "Social Housing Complaints – Make Things Right" campaign, which focuses on repairs and safety related issues.

Housing Ombudsman determinations found against Stonewater (% of total complaints)

This is at 0.4%, which is slightly better than our target of 0.5%. Our ability to respond effectively and resolve complaints is vital. Our performance is regulated by the Housing Ombudsman's Complaint Handling Code, setting out good practice that allows landlords to respond to complaints effectively and fairly

Responsive repairs customer satisfaction (transactional)

We have continued to provide the best possible service to our customers and, in the past 12 months, have averaged more than 750 monthly interactions with our customers to help us track performance and allocate resources where they are needed most. We have also invested in a new team to increase our 'right first time' repairs service as well as working with our repair partners to increase their direct labour, reducing reliance on sub-contractors and helping to improve stability.

Report of the Board of Management and Strategic Report

Quality homes and neighbourhoods

This objective sets out our aspiration to continue to grow and maximise our capacity to provide quality affordable homes to those in need. It outlines planned investment in our homes ensuring their ongoing safety, efficiency and suitability for our customers. It also sets out our commitment to continue to work with our customers and partners to enable happy and healthy neighbourhoods.

Strategic objective	Outcome measure	Target 2023	Result 2023	2022 Benchmark (peer group)	Demonstrates VfM Ec	Effic	Effec
Supply, manage and maintain homes that are safe, connected, efficient, affordable and flexible and support happy and healthy neighbourhoods	Gas compliance	100%	99.87%	99.96%	√	√	√
	Number of outstanding fire risk assessments	0	5	n/a		√	√
	Homes owned by Stonewater	34,900	32,212	n/a		√	√
	Annual increase in homes managed on behalf other housing providers	689	492	n/a		√	√
	EPC/RdSAP band C compliance	77%	76.3%	n/a	√	√	√
	Emergency repairs completed on time	97%	99.3%	n/a	√	√	√

Key: Ec-Economy Effic-Efficiency Effec-Effectiveness

Gas compliance and fire risk assessments

The number of our homes with a valid landlord's gas safety certificate was 99.87% but failed to reach the target of 100% at year-end. This is caused by 28 homes for which access could not be gained to service gas components. Almost all of our properties had an in-date fire risk assessment apart from five homes for which access could not be gained. Appropriate action is under way to access these properties.

Homes owned by Stonewater

Despite a challenging year, we generally performed well against targets for new homes, with results becoming steadily better towards the end of the financial year. 963 new homes completed compared to the target of 1,200 which was 237 homes below target. Of the homes completed, 69% were made up of shared ownership and homes for affordable rent, social rent and rent to buy. The remainder of our completed homes were for private sale.

In January 2023, Greenoak Housing Association became a subsidiary of Stonewater Group bringing with it 479 homes in Surrey and Sussex. Greenoak has an award-winning track record in leading on environmental sustainability, working closely with its partners to increase the supply of affordable housing and creating sustainable communities. It is expected the relationship will also deliver:

- a new national Centre of Excellence for zero carbon development and retrofit, which will pioneer exemplar projects, standards and processes to achieve genuine sustainability.
- the creation of a new 'future-proof' brand for selected developments, to accelerate the provision of energy efficient and sustainable homes.
- the expansion of direct service provision and apprenticeship opportunities through new pilot schemes to enhance asset management and support the development of much needed trades skills, particularly to drive delivery and operation of zero carbon projects.

Stonewater entered into a joint venture with Thakeham Homes (Thakeham Newick LLP) in February 2023 to develop a site for 39 homes – 24 of which will be sold on the open market and Stonewater will purchase the affordable units. Stonewater owns 50% of the LLP through Stonewater Limited which has provided a senior loan of £6.3m and Stonewater Developments Limited which has provided a junior loan of £1m to Thakeham Newick LLP.

The junior loan and a senior loan from Stonewater Limited are secured on the assets of the joint venture and the interest rate on both is base rate plus a margin of 5%.

Homes managed on behalf of other housing providers

There are currently 748 homes owned by others under Stonewater's management which is above the target of 689. 665 of these are part of the Legal & General Affordable Homes (LGAH) partnership which is an increase of 200 units from 2021/22. We continue to pursue stock management opportunities.

Energy Performance Certificate (EPC)/Reduced Data Standard Assessment Procedure (RdSAP) band C compliance

The number of our homes with EPC/RdSAP band C compliance was 76.3% but failed to reach the target of 77% at year-end. Our retrofit programme experienced some slippage in 2022/23. As a result, we expect circa 130 homes to be completed during 2023/24.

Emergency repairs completed on time

99.3% of emergency repairs were completed within 24 hours, significantly ahead of the target of 97%.

Maximising value for money

This objective sets out our approach to delivering value, in its broadest sense, in all we do. This means delivering value for our customers in terms of the services they receive and the quality of their homes, as well as our ability to continue to grow so that more people can benefit from affordable housing. It sets out the additional work we will continue to invest in to generate social value through support to our customers and beyond. We recognise the importance of environmental sustainability for our customers and future generations and this objective sets out challenging targets to achieve this.

Strategic objective	Outcome measure	Target 2023	Result 2023	2022 Benchmark (peer group)	Demonstrates VfM Ec	Effic	Effec
Maximise the value we provide to our customers and communities through decision making and initiatives that support environmental and social sustainability	Total operating margin	26.4%	21.6%	23.3%	√	√	√
	Return on capital employed (ROCE)	2.8%	2.7%	3.2%	√	√	√
	New Stonewater land and build completed homes are fossil fuel free	25%	43%	n/a		√	√
	New Stonewater S106 approved homes are fossil fuel free	25%	38%	n/a		√	√
	Average re-let time for all homes (days)	19.5	19.6	n/a		√	√
	% gross arrears	6.0%	5.5%	n/a	√	√	√
	Income collected as a percentage of total due	99.5%	98.5%	n/a	√	√	√
	% of shared ownership homes void for more than six months	5.0%	5.5%	n/a	√	√	√
	Average sales time from handover to sale completion (weeks)	15	15	n/a	√	√	√

Key: Ec-Economy Effic-Efficiency Effec-Effectiveness

Total operating margin

The operating margin shows how efficient our business is overall. Our operating margin (excluding surplus on disposal of housing properties disposals) of 22.0% was below our target of 26.4% mainly due to increased operating costs.

Return on capital employed (ROCE)

Return on capital employed (ROCE) compares the operating surplus to total assets, less current liabilities, and indicates the efficient investment of our capital. Our ROCE was 2.7%, slightly lower than our target of 2.8%

Fossil fuel free homes

106 land and build homes were completed as fossil fuel free. This represents a result of 43% which is significantly higher than our target of 25%. Eleven s106 homes were completed as fossil fuel free. This represents a result of 38% which is higher than our target of 25%.

Average re-let time for all homes (days)

Our average re-let time of 19.6 days was slightly outside our target of 19.5 days. At Stonewater we believe that everyone should have the opportunity to have a place to call home and in Lettings this Vision runs through everything we do.

Gross arrears

Gross arrears ended the year at 5.5% inside our target of 6%, which is a positive result against the backdrop of worsening economic conditions presented by rising inflation and the cost of living crisis for residents.

Income collected as a percentage of total due

The overall rent collection rate finished the financial year at 98.5% against a target of 99.5%, which was close to our target.

Shared ownership homes void for more than 6 months

Shared ownership homes void after more than 6 months ended the year at 5.5% slightly outside our target of 5% or lower. At the end of the financial year, there were 14 properties void for longer than the 26-week sales period allowed in our appraisal model. Of the 14 properties, 7 are forecast to complete in April 2023 with the rest to complete later in 2023/24.

Average sales time from handover to sale completion (weeks)

We ended the year on target. Stonewater currently receives around 350 sales enquiries per week – a tenfold increase from three years ago. As part of the ongoing commitment to improving the service provision, we embarked on a project, in the year, to implement a digital system that will automate much of the current sales process from the enquiry stage to completion. By doing so, we will address three key issues: improve customer satisfaction, improve colleague welfare and improve sales void times by enabling more efficient transactions and market launches.

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Economy gains

As part of our approach to ensure we are demonstrating economy in the delivery of our strategic objectives, we set targets for Value for Money (VfM) cash savings for each Stonewater Directorate as part of our annual budget setting process.

We monitor and report on progress against these targets every quarter to our Finance Challenge and Assurance Panel. Savings include other grants received for investment in our homes, contract negotiations, procurement savings and use of internal resources to deliver services rather than outsourcing.

Savings are calculated using internal methodologies which include measuring how much less has been spent in a period with any adverse budget variances being offset against savings.

Other measures include identifying cash savings resulting from the re-procurement of goods and services, grants received for investment in our homes and renegotiation of existing contracts.

Our performance against our target for 2022/23 is set out in the table below.

£'000	Result 2023	Target 2023	2022 Result
Value for Money cash savings	**8,900**	5,400	6,500

Summarised below are some of the Value for Money achievements and initiatives delivered in the year:

- £3.2m negotiated savings on land acquisitions and build contracts.
- £0.8m procurement savings on the boiler replacement programme.
- £0.4m savings from the use of in-house mobile associates to carry out site visits and estate inspections. This initiative has been approved for a further two years with more savings expected in these years.
- £0.4m savings on the average sales time for shared ownership sales.
- £0.2m savings on technology licensing needs across the organisation.
- £0.1m savings on the use of digital meeting platforms thereby reducing staff travel and subsistence costs.
- £0.2m savings on our office space leases following renegotiations.

Regulatory Value for Money (VfM) Metrics

The Regulator for Social Housing (RSH) has outlined what it expects registered providers to deliver in relation to Value for Money (VFM) in its VfM Standard 2018. The VFM Standard requires that an organisation understands its costs and the outcomes of delivering specific services, and the underlying factors which impact these costs.

The Regulator has defined seven metrics which enable us to compare against the whole global accounts sample.

Metric	Stonewater 2022/23 Actual	Stonewater 2022/23 Target	Global Accounts: Global Accounts 2021/22 Median	Global Accounts: Stonewater 2021/22 Actual	Global Accounts: Stonewater 2021/22 Quartile
1. Reinvestment %	11.6%	11.2%	6.5%	10.0%	UQ
2a. New supply delivered % (social housing units)	3.0%	4.6%	1.4%	2.8%	UQ
2b. New supply delivered % (non-social housing units)	n/a	n/a	0.0%	0.02%	n/a
3. Gearing %	54.4%	42.8%	44.1%	49.4%	MQ
4. EBITDA MRI interest cover %	106.3%	144.5%	145.7%	144.0%	LQ
5. Headline social housing cost per unit £	£4,001	£3,787	£4,150	£3,560	LQ
6a. Operating margin % (social housing lettings only)	22.7%	28.2%	23.3%	28.3%	MQ
6b. Operating margin % (overall)	21.6%	26.4%	20.5%	24.3%	MQ
7. Return on capital employed (ROCE)	2.6%	2.7%	3.2%	2.8%	LQ

Reinvestment

This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held, with a number of 11.6% which is an improvement from the prior year.

New supply delivered % (social and non-social)

These metrics set out the number of new units (social or non-social) that have been acquired or developed in the year as a proportion of the total units owned at period end. New supply delivered was slightly below our target due to handover delays. 2022/23 performance was in the upper quartile when compared to the 2021/22 Global Accounts whole sample.

Gearing

This metric measures net loans (incl. finance lease obligations) as a percentage of the value of housing properties. Our net debt increased by £217 million, this was offset by an increase in housing assets of £212 million. We remain within our lender covenant and risk appetite set by the Board.

EBITDA MRI

This measures the level of operating surplus (including expenditure on capitalised major repairs and excluding depreciation and amortisation) compared to total interest payable. It also includes profits on first tranche and outright sales, which can be more volatile. Although the 106.3% target is below our target of 144.5%, we do not target or budget for one off non-cash impairment, therefore adjusting for impairment, this metric would be 120.2%. The metric is also reflective of the investment in our core social operations to maintain services and sustained planned repairs investment.

Headline social housing cost per unit

Assesses the costs that Stonewater incurs to manage social housing properties divided by the number of units managed. Our headline social housing operating cost per home increased to £4,001 (2022: £3,560) and was higher than our target, primarily due to an increase in service costs, responsive costs and planned maintenance.

Operating margin

The operating margin demonstrates the profitability of operating assets. Our operating margin excluding all sales of 21.6% is below our target of 26.4% due to an increase in maintenance, management and service charge costs, partly offset by increased income. Social housing lettings operating margin was also below target. Our operating margin overall for 2022/23 was above the median level for the 2021/22 Global Accounts whole sample and social housing lettings operating margin was below the median.

Return on capital employed (ROCE)

ROCE is a measure of the efficient investment of our resources. Annual operating surplus is divided by capital employed (total assets minus current liabilities). The majority of our housing stock is held on the balance sheet at historical cost. Our ROCE was slightly below our target partly due to an impairment charge of £5.2m and increased operating costs.

Environmental, Social and Governance (ESG) Reporting

As ESG reporting increasingly becomes a key driver for investors and stakeholders, we are developing our reporting against key metrics and most notably the Sustainability Reporting Standard (SRS). This will provide access to wider funding opportunities and ensure goal congruence between ESG, VfM and social value initiatives. The implementation of the Stonewater sustainability strategy, coupled with the adoption of a sustainable financing framework, demonstrates the long-term VfM commitment to deliver fair, affordable and sustainable housing for future generations to enjoy. Stonewater issued a £250m sustainability bond in September 2021.

Asset management

Our core business is to provide high quality housing and support services to meet the needs of existing and future customers. To do this, we spend a large proportion of our annual net expenditure on developing new homes, together with improving and maintaining our existing properties.

Asset investment decisions have long lead times and, once implemented, can affect customers' experiences for many years. Over such long periods of time, there can be major changes in customers' expectations, the economy and the requirements of government, regulators and funders. To be prepared for such changes, those managing physical assets are required to think far ahead. Stonewater's property portfolio includes a diverse range of age, design and construction types. The investment approach is flexible in recognition of this diverse portfolio.

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

Building safety and compliance

In the last year we have centralised our safety and compliance functions into a new Building Safety and Compliance Directorate, to ensure customer safety is prioritised; recruiting a new Director of Building Safety & Compliance, Head of Fire Safety, Head of Gas and Head of Building Safety.

Over the next two years we will be aligning our health and safety and compliance management systems to the internationally recognised ISO45001 standard, in addition to developing a fire safety management system in accordance with British Standard 9997; demonstrating our aspiration to be the best in sector and deliver our commitment to provide safe homes for our customers.

We are on a journey to deliver building safety case files for the four directly managed high rise residential buildings within our management and can confirm that we have completed all external wall remediation for all our building over 18 metres or seven storeys in height.

We are now starting the process of reviewing our lower rise blocks to ensure external walls and balcony attachments are compliant.

We will be working collaboratively with customers over the next year to help us co-design a new engagement strategy and assist us in re-designing our services; ensuring that we put the needs of customers at the heart of delivery.

We continue to be a signatory of the 'Building a Safer Future Charter' and regularly attend sector meetings with other housing associations and local authority partners to inform and contribute to sector best practice standards in this space.

We are investing in our colleagues to support their personal and professional development to ensure they have the necessary skills, knowledge and experience to deliver services for our customers and prioritise building safety, and we continue to work collaboratively with Hampshire & the Isle of Wight fire and rescue service as our primary authority partner.

During the last quarter our internal auditors completed an audit of our gas safety management system and we received a Substantial assurance outcome.

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Stonewater has an ambitious Environmental Strategy. As part of this, we are continuously developing our plan to reduce the organisation's carbon emissions, supporting the government's target to become net zero by 2050. We have long-term targets in place to enhance the efficiency of new and existing homes as well as mitigating the impact of climate change on our homes and customers.

Our biggest emissions as a housing organisation comes from our existing homes. It is our ambition to upgrade all our homes to a minimum energy efficiency rating of EPC Band C by 2030. Our retrofit programme has begun and this year we completed retrofit works on 127 homes. This included installing or renewing internal and external insulation, fitting heat pumps, high heat retention storage heaters and solar PV.

Our retrofit programme is continuing and we have secured more than £9m in funding to make energy efficiency improvement works to more than 800 homes across England. The funding from the Department for Energy Security and Net Zero (DESNZ)'s Social Housing Decarbonisation Fund (SHDF) Wave 2.1 will improve the energy efficiency and reduce running costs for customers, contributing to lowering the carbon footprint.

We continue to build as sustainably as possible as well as ensuring our homes are affordable lo live in. To help this all our Land and Build developments approved in 2022/23 have space and water heating provided by non-fossil fuel solutions. We are also well advanced in delivering homes utilising Modern Methods of Construction.

With the energy crisis having a huge effect on households, it has never been more pressing to involve customers in conversations about energy efficiency and their environmental impact. We have utilised digital methods to support customer throughout the energy crisis.

We harnessed social media to engage with as many people as possible, and organised Facebook Live events featuring expert panel discussions and customer Q&A sessions focused on energy and the cost of living crisis.

These included our digital Customer Energy Hub, providing a wealth of the most up-to-date information and advice on how to reduce energy consumption and bills. We also created a series of accompanying online videos around the subject.

The hub provides information on cutting energy consumption and CO2 emissions, using heating systems efficiently, financial support available from government and other agencies, how to use smart meters to monitor energy use and much more.

Stonewater holds a Gold rating in its Sustainable Homes Index for Tomorrow (SHIFT) accreditation. SHIFT is an independent assessment and accreditation scheme that demonstrates organisations are delivering against challenging environmental targets. The SHIFT assessment measures organisations against 21 environmental criteria, including CO2 emissions, water use, landfill waste and response to climate change risks. Stonewater is committed to improving our SHIFT rating year on year and achieving a Platinum accreditation by 2030.

Responsive repairs and planned maintenance

Our long-term partnering contractor relationships continue to develop and grow in strength with continued focus on how they can evolve to meet the challenges and changes faced across the sector. Our robust contract management framework supports and compliments our contracts and following a recent internal audit we received substantial assurance to our approach. Our contractors provide a customer-centric service for both responsive repairs and planned investment programmes. They give us valuable insight into what our homes need to ensure they are safe and well maintained.

Throughout 2022/23 we have continued to deliver our robust, data led damp, mould and condensation process; utilising a range of customer insight and property information to risk stratify our stock base and proactively engage with those households who are most likely to be experiencing or at risk of experiencing damp, mould and condensation. Many customer-facing communications have been developed to support this.

We responded to the Regulator of Social Housing's request for a full response in relation to our approach to damp, mould and condensation. We completed a robust self-evaluation of this service, as recommended by the Housing Ombudsman, which is a live document that is regularly reviewed and updated.

All customer facing colleagues have received specialist damp, mould and condensation training, focusing on both the technical management and customer focused response to this. In addition, e-learning on this topic is available to all Stonewater colleagues.

Progress with this service is routinely reported to our Customer Scrutiny Panel, Chief Officer Group and Stonewater Board.

Procurement and outsourcing

Over the past 12 months, the Procurement team has produced a strategy for supporting Stonewater over the next three years. Focusing on five key themes, the strategy intends to shift the culture of purchasing within the organisation to one which is proactive, with significant time given to the planning and sourcing of each requirement. This will give greater benefits to colleagues and customers over a longer period of time, maximise the value of all costs paid out and allow us to focus on the key strategic ambitions of the organisation such as delivering increased sustainability and social value.

Information within the Contracts Register has improved significantly in the past 12 months, including splitting the master records into Directorate-specific areas to allow more focused support to be provided to all stakeholders. This has been enhanced by a slight restructure in the team and the addition of more targeted administrative support to improve the volume and quality of all data held within the team. Power BI functionality has been employed to enhance the reports obtained from the master data set, with further work and improvements planned for this year. The use of Microsoft SharePoint has shifted more towards the recording and monitoring of compliance data linked to the contracts, with work ongoing between the Procurement and Health & Safety teams to maximise the potential benefits for Stonewater colleagues.

The effects of the Covid-19 pandemic and Brexit are still being felt within supply chains and issues have been exacerbated by the war in Ukraine driving up fuel and other commodity pricing. With the UK experiencing prolonged high inflation across a variety of goods and services, there have been challenges for Stonewater and our supply partners. Costs continue to be high and it has put significant pressure on a number of Stonewater's suppliers over the past 12 months. The Procurement team continues to monitor risks through Dun & Bradstreet, receiving real-time updates on a daily basis regarding the financial stability of all recognised and live suppliers. A full policy has been drafted, outlining the frequency of checks, dependent on a supplier's rating, along with escalations within the business if the potential risk exceeds Stonewater's appetite in this area.

Customer satisfaction

Our Voice of the Customer programme, using Rant & Rave's fast feedback platform allows us to understanding how we are performing against our Customer Promise. The feedback received is used by our operational teams to remove any areas of frustration and dissatisfaction from our services, ultimately improving customer experience. During 2022/23, 83.6% of our customers told us that they were satisfied with the service they had received from Stonewater. The key drivers of satisfaction for our customers were colleagues' professionalism, and more specifically receiving a call back and the speed of delivery of our services.

External environment

The past 12 months have seen significant change in the UK – especially in Westminster. This time last year, Boris Johnson was still Prime Minister (PM) and was looking forward to bringing forward his agenda to level up the UK.

The months that followed saw great change, with the Johnson premiership ending over the handling of the conduct of the Deputy Chief Whip and then a long leadership election that meant the Government was effectively on pause for several months. After a fraught leadership election, Liz Truss' time in office was brief but highly impactful – both introducing impressive packages of support for those impacted by the cost of living crisis on the one hand and, on the other, a spike in interest rates that will continue to affect homeowners for years to come. Rishi Sunak – the third PM in a year – is now looking to stabilise the economy and prepare his party for a General Election, which is likely to happen next year.

Last year's accounts highlighted that the cost of living crisis would be the defining issue for the coming years, and this remains the case. For Stonewater, this year has been one of looking at where we can support our customers with targeted support, grants and advice. As an employer, we will continue to ensure that our colleagues – the majority of whom are now working remotely – are supported to live and work effectively and without fear of financial difficulties, as well as being able to support our customers.

Gearing up for a General Election

All eyes are now on the next General Election, which must be held by 28 January 2025 but will likely be in the latter half of 2024. The polls have shown a Labour lead for some time, although Rishi Sunak has made up ground since becoming PM. While Labour gains in the next election are certainly expected following a series of political crises for the Government and PMs since the outbreak of the Covid-19 pandemic, there is no assumption that Labour will win a clear majority– and there could be a hung Parliament.

Political parties and the Government will have this looming election in their minds as they engage with voters, with business, create new policy or amend existing legislation.

For the Conservatives, Rishi Sunak is likely to run on a campaign of demonstrating confidence, competence, and leadership on key policy areas, such as the Windsor Framework agreement and strong economic handling. He may want to frame the election campaign as asking the electorate for a 'first full term Rishi' Government rather than an extension of the 14 years the Conservatives will have been in power by 2024.

On the Labour side, policy is likely to be developed that shows a credible alternative to the current Conservative administration – with a focus on distancing themselves from the style of opposition under Jeremy Corbyn. Greater engagement with business and the private sector is already under way on the Labour side, while Keir Starmer will want to continue the appearance of his party being a 'Government-in-waiting' for as long as possible up to the election.

Everything each party does from now will be with an eye on the election and winning votes through new policy. The Conservative Government's next set-piece events – an Autumn Budget and King's Speech before Christmas, and a Spring Budget in 2024, will seek to include 'giveaways' to the public and focus on the agenda that the party believes will win it another term.

For Labour, the challenge will be to make its policy agenda known to the public without the benefit of being able to enact it yet. We are now beginning to see where Labour's thinking is on housing policy, with the party recently pledging to:

- Introduce a mortgage guarantee scheme to give first-time buyers first refusal on new homes in their area.
- Stop entire developments being sold off-plan to overseas investors.
- Reform planning to build more "genuinely affordable homes".

The party has also pledged to freeze council tax this year under a Labour Government and set out plans to revitalise high streets and local

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communities with business rates cuts, revamping empty shops and tackling anti-social behaviour with 13,000 more neighbourhood police and PCSOs.

For Stonewater, it will be vital to continue to engage with both Government and Opposition Parties to ensure that their manifesto policies have the interests of our customers at heart. We have already had some success with our engagement on net zero and housing retrofit, with policies advocated in reports by the Institute for Public Policy Research, which Stonewater has supported, being adopted by different parties. Throughout everything we do in the run-up to the election, our customers will remain central.

Responding to the Government agenda

There are a number of policy areas that are at the forefront of the political agenda which have a direct impact on Stonewater. This in particular stems from a critical focus from the Levelling Up and Housing Secretary, Michael Gove, on housing quality and improving standards in the social housing sector following the damp and mould scandal, campaigning by activist Kwajo Tweneboa, and tragedies such as the death of Awaab Ishak.

Social housing and management

The Social Housing Regulation Bill, which is soon to complete its passage through Parliament, is set to have a significant impact on the social housing sector by giving social housing residents greater rights of redress. Key aspects of the Bill include:

- The death of Awaab Ishak has also left its mark on the Bill, with the Government introducing 'Awaab's Law' to the Bill, creating a requirement for landlords to fix reported health hazards within specified timeframes.
- A consultation will be launched later in the year to set timeframes on how long landlords will have to investigate and to make repairs, which will be written into tenancy agreements, enabling tenants to hold their landlords to account by law if they fail to provide a decent home.
- The Housing Ombudsman will be able to instruct landlords to measure their service against guidance on a variety of issues such as damp and mould, as well as improvements to insolvency arrangements, data protection and the requirement for written reports after inspections.
- All senior social housing managers will be required to gain a housing management qualification.

Stonewater welcomes the ambition of the reforms and is under no illusion that achieving this necessary ambition will be quick - but it is vital to ensure we are the best landlords we can be for our customers in this very challenging time.

We have been on this journey for some time. Our work in this space includes (but is not limited to):

- The development of our Customer Strategy, recognising our customer voice and truly understanding what matters most.
- Our work on professionalisation across the sector.
- Our investment in digital transformation to ensure services are both innovative and inclusive.
- Our continuing commitment to the net zero agenda through both retrofit and sustainable new development – ensuring homes that are affordable today and also fit for the future.

As the measures in the Bill are implemented, we will be ensuring that we participate in any opportunity to shape the final measures.

Social housing funding and delivery reform

In light of the cost of living crisis and high inflation, following consultation with the sector, the Government implemented a 7% cap on the increase of social housing rents for 2023/24 – with an exemption for supported housing. Stonewater welcomed the cap as it acknowledged the significant role the sector plays in providing vital affordable housing and services, and shielded customers from an unthinkable CPI+1% rent increase and the burden of those higher payments during the cost of living crisis.

It is expected that there will be a consultation this year on the rent settlement for 2024/25, with which Stonewater will engage. With significant challenges for our customers, including those in Retirement Living housing, Stonewater is doing everything we can to support our customers through our charitable arm, the Longleigh Foundation, and through broader advice services.

The Government also consulted on the proposed Infrastructure Levy, which comes as part of the Levelling Up and Regeneration Bill which will receive royal assent in the coming months. Stonewater responded to this consultation highlighting how it may impact the delivery of new affordable homes, while also engaging with members of the House of Lords to seek amendments to strengthen the delivery of affordable housing under the new system.

Delivery will be affected by the implementation of the Levelling Up and Regeneration Bill, which is currently in the House of Lords. The Bill will be the mechanism for the delivery of housing and planning reform but has taken many years to move forward. It has been met with hostility from some Government backbench MPs, who are concerned about the strain new homes would put on their local communities and infrastructure.

As part of the Bill, a consultation was held on reforms to the National Planning Policy Framework (NPPF), which will seek to:

- Build beautiful and refuse ugliness
- Secure the infrastructure needed to support development
- Ensure more democratic engagement with communities on local plans
- Ensure better environmental outcomes
- Empower communities to shape their neighbourhoods.

This consultation will shape a "wider review of the NPPF to follow royal assent of the Levelling Up and Regeneration Bill". It will be vital to ensure that this future review protects and enhances the delivery of new affordable homes for everyone who needs them.

Environment and sustainability

Sustainability and decarbonisation continues to be a key area for the sector – in particular how to overcome the significant challenge of funding the retrofit of social housing across the UK. This has taken on even greater importance given the ongoing energy bills crisis – and the Government has responded to the challenge of net zero by creating a new Department for Energy Security and Net Zero, tasked with leading on all items pertaining to energy and net zero.

There continues to be significant interest in this from across the political divide, from the 10-Point Plan for a Green Industrial Revolution to the Heat and Building Strategy. Our campaigning and advocacy work in this area has developed too, with "GreenGo: Unlocking an energy efficiency and clean heat revolution" (a follow-up to the 2020 Stonewater report All Hands to the Pump) being published in January 2023. The GreenGo report has already been influential in the development of Government and opposition policies, and we look forward to making further progress on ensuring that progress is made in the years to come. With energy bills playing a significant role in the cost of living crisis, it is more important than ever that solutions to this challenge are met.

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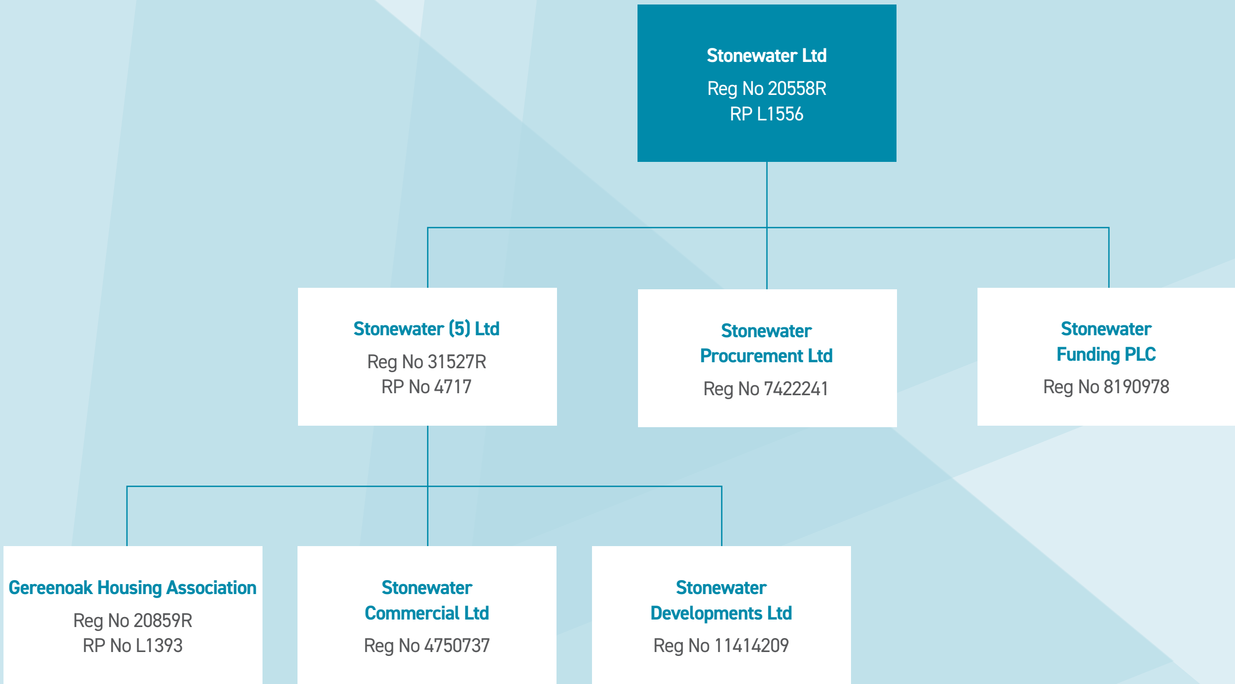
Organisational structure, governance and risk management

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

Group structure



Joint venture

Thakeham Newick LLP
Reg No OC444579
50% Stonewater Limited
50% Thakeham Homes

As at 31 March 2023, Stonewater Limited has two registered provider subsidiaries:

- Stonewater (5) Limited
- Greenoak Housing Association Limited

Stonewater also has four wholly-owned commercial subsidiaries:

- Stonewater Developments Limited – a company which supports the Stonewater registered provider entities with their development activity by widening the scope of potential developments by selling fully or partially developed dwellings on the open market to Group entities. The company also provides design and build services to other Group companies.
- Stonewater Funding PLC – a company which provides external funding for the Group via the capital markets and private placements.
- Stonewater Commercial Limited – currently dormant.
- Stonewater Procurement Limited – currently non-trading.

During the year Stonewater undertook a partial collapse of its Group structure, reducing the number of registered providers in the Group from three to two. Following an independent review in the financial year, the Board accepted a recommendation of a transfer of engagements from Stonewater (2) Limited to Stonewater Limited, the ultimate parent of the Group. The restructure created streamlined administration, greater flexibility and increased capacity within the Group. The financial consents were finalised with lenders and the transfer of engagements was effective from 31 March 2023. This new approach maximises the financial capacity to deliver the planned investment in existing and also new homes.

In addition to the partial Group restructure, Greenoak Housing Association became a subsidiary of Stonewater Group at 31 December 2022. Greenoak Housing Association Ltd is a charitable housing association managing more than 550 homes across Surrey and Sussex. Registered with and regulated by Homes England and the Regulator of Social Housing, Greenoak provides affordable homes for people to rent or buy.

Stonewater also entered a joint venture with Thakeham Homes (Thakeham Newick LLP) in February 2023 to develop a site for 39 homes – 24 of which will be sold on the open market and Stonewater will purchase the affordable units. Further details are provided in note 17.

Report of the Board of Management and Strategic Report

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. The Board comprised 12 members at 31 March 2023, including one executive member, as set out on pages 6-9.

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 Group to stakeholders.

Governance arrangements

The Board is supported by two committees and five challenge and assurance panels, each of which includes one or more independents whose skills and experience supplement those of the board member. The governance structure provides agility and efficiency in decision taking with panels and committees being convened as and when needed and Board meetings scheduled on a monthly basis. All transactional business is undertaken remotely, which provides for rapid implementation of new strategies and policies and, from a practical perspective, enables us to secure maximum benefit from members by giving flexibility around meeting times.

Skills, qualities and experience required by the Board

To discharge its responsibilities for setting the strategic direction and overseeing performance, 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. The succession plan and annual review of terms of office ensures that the governance structure maintains the appropriate breadth of expertise to take Stonewater forward and achieve its strategic objectives. During the year, a new Board member with human resources/organisational development experience was recruited to fill an identified skills gap arising from turnover on the Board.

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 2023, the Board comprised 42% (2022: 50%) female members, 18% (2022: 17%) from a Black, Asian or minority ethnic background, and two members (2022: one member) who identify as disabled. The Board consists of members whose ages span four decades.

The Board undertakes an annual collective review of its performance, culminating in the identification of key targets for the year ahead. Progress against these targets is monitored through quarterly reporting against sub-targets and the final position is assessed through the annual collective board review at the end of the year. Four objectives were set for 2022/23 and headline performance against these was:

Objective	Performance
Prepare for post-pandemic world and ensure post-pandemic opportunities are considered	Comprehensive assessment of operating environment informed board away day to set direction of future strategic plan. Inorganic growth strategy reviewed and updated. All Directorates restructured and further changes implemented as needs identified to provide capacity to deliver opportunities.
Develop approach to Environmental, Social and Governance (ESG) compliance	Sustainable Finance Framework adopted. Sustainability reporting standard adopted and reported against. Retrofit programme in progress to bring properties to EPC band C. Sustainable Housing Index for Tomorrow ('SHIFT') gold rating status achieved.
Improve use of customer insight to inform decision making	Framework for capturing insights embedded. This includes data gathered from customer calls and digital interactions through the MyHome online portal, feedback from transactional and other surveys and learning from complaints.

Other actions for improvement arising from the annual review 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 review with the relevant chair. This provides an opportunity to review performance during the year and set objectives for the year ahead with any specific development needs identified feeding into the member learning and development programme.

Code of Governance

The Board has adopted the 2020 National Housing Federation (NHF) Code of Governance and was fully compliant with it at 31 March 2023.

Shareholding policy

Under the rules for each registered society in the Stonewater Group, the parent 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 comprises two committees, five challenge and assurance panels and a task and finish group. Each of these is chaired by a board member and includes places for independent members. The succession plan includes arrangements to ensure that the Board continues to have access to specialist experts through these committees and panels.

Nominations and Remuneration Committee

Oversees the recruitment and remuneration of non-executives; the Chief Executive and the Chief Officers. Advises the Board on annual pay reviews for Stonewater employees.

Risk and Assurance Committee

Oversees the risk management and internal control framework, including the insurance provision and the audit function; considers the annual financial statements and external and internal auditors' reports.

Customer Experience Challenge & Assurance Panel

Oversees front-facing delivery of services, ensuring that Stonewater has knowledge and understanding of the impact of the service provision on customers and its wider 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.

Homes and Development Challenge & Assurance Panel

Oversees Stonewater's growth and home investment programmes, including sustainability initiatives and compliance performance.

Chief Officer Group

Stonewater has an experienced Chief Officer Group which manages the day-to-day running of the business.

The senior team consists of the Chief Executive Officer and five Chief Officers.

The details of the Chief Officer Group are disclosed on page 9.

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.

Risks and uncertainties

New, emerging and high scoring risks are monitored through the strategic and critical operations risk register. The Chief Officer 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. The Operational Directors Group members and specialist leads are responsible for the identified risk areas and the Company Secretary oversees progress against actions to mitigate risks.

The Board has adopted a risk appetite statement which sets out the nature and levels of risk it is prepared to take in order to achieve the strategic objectives. Performance against this is kept under review facilitated through the use of metrics to enable the committees and panels to assess, and provide assurance to the Board on, whether performance remains within the risk appetite parameters for the areas under their remit. The Chief Officer Group and each of the committee and panel identifies any emerging risks that could take operations outside of the risk appetite and escalates to the Board through regular reporting. The Risk and Assurance Committee provides overall assurance to the Board that risks are being managed appropriately.

In addition to the overarching risk appetite, the Board has also received regular reports on the particular risks arising from the volatile operating environment. During the last year these have covered the impact of the war in Ukraine, the cost of living crisis as well as Brexit and the pandemic on the availability of operatives and the supply chain. This has been informed by bespoke risk parameters on the impact on Stonewater's customers, colleagues, contractors and suppliers and financial status.

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

Report of the Board of Management and Strategic Report

Key strategic risks

The following are the key strategic risks that the Board considers, and the actions that have been taken to mitigate these and strengthen controls. The Board is continuing to monitor the dynamic operating environment and implement further actions to ensure that the risks arising are managed appropriately and activities remain within the agreed risk appetite.

	Risk responses	
	Examples of controls in place	**Actions during the year to strengthen controls**
Financial capacity and income collection performance limits the delivery of growth and business transformation	• Treasury management strategy monitoring • Regular stress testing • Monitoring the metrics that are used in the credit rating process • Income collection and arrears performance monitoring	• Business plan and stress-testing which demonstrate ability to withstand various economic stresses • Implementation of proactive arrears tool • Proactive work with customers to address risks arising from cost of living crisis including increases in rent and service charges
The governance structures and processes are not aligned to the evolving regulatory environment	• Board succession plan • Annual board, panel and committee review process • Regular board review and stress testing of operating environment • Policy and strategy review framework	• In-year review of the operating environment as part of monitoring and reporting progress on delivery of the Strategic Plan • Implementation of Board succession plan • Adoption of 2022 NHF Code of Conduct • Participation in national interest groups and at national political and sector conferences
Customer insight is not embedded in business design and service review processes	• Voice of the Customer strategy • Customer engagement toolbox • Dedicated customer insights team • Independent methodology for customer satisfaction • Dedicated team managing complaints process	• Self-assessment against the Housing Ombudsman Service (HOS) Complaints Handling Code • Learning from complaints and Ombudsman cases • Re-procurement customer feedback surveys • Establishment of Communications Steering Group overseeing customer communications campaigns
Stonewater does not meet its health & safety obligations as a landlord, employer, developer and provider of care and support services	• Specialist team in place with subject experts embedded across the business • KPIs monitored by the board and Homes & Development Panel • Compliance issues monitored by the Risk and Assurance Committee • Oversight of activity by safety management committee and specialist sub-groups • Management plans in place for key risk areas, e.g. fire, asbestos etc.	• New Building Safety function created to manage Stonewater's four blocks falling under requirements of new legislation. • Plans established for compliance with new legislation on building safety and fire safety • Further development of the suite of KPIs • Work towards publication of fire risk assessments allowing all key stakeholders to access in real time
Stonewater's damp and mould strategy is not implemented effectively	• Overarching health and safety policy • Damp, mould and condensation (DMC) policy • Full stock survey identifying Category 1 and 2 risks • Mandatory DMC learning and development programme for relevant colleagues and e-learning module available to all colleagues	• Full and timely engagement with the Regulator of Social Housing with regards to DMC • DMC reporting implemented • DMC customer communications plan implemented • Additional, specialist DMC resources established to ensure dedicated focus
Uncertainty about Government post-pandemic priorities inhibits strategic planning	• Compliance with regulatory and Government guidance • Regular review of operating environment supported by specialist agencies on public affairs and public relations • Stress testing • Future funding in place for forthcoming expenditure • Bespoke risk appetite measures for risks arising from operating environment	• Implementation of a new 10-year Strategic Plan • Action plan to implement the requirements of new social housing legislation • Non-executive and executive away days with focus on operating environment and strategic priorities. • Inorganic growth opportunities pursued. • Development plan implemented
Investment decisions do not give appropriate weight to competing strategic agendas e.g. environment, safety, growth, digitalisation	• Strategic plan monitoring • Growth strategy monitoring • Regular stress testing • Environmental strategy • Environmental Sustainable Homes Index for Tomorrow (SHIFT) 'gold' status • Value for Money strategy	• New strategic plan implemented • Level 2 status achieved against Portfolio, Programme, and Project Management Maturity Model • Default structure adopted for open book contracts for both SME and major contractors • Implementation of requirements of Social Housing Bill

Failure to embrace new technology and to invest in appropriate technological solutions	• IT strategy in place • Specialist consultants engaged to advise on strategic implementation • IT investment supporting delivery of future operating model • Business Design and Technology Group provide oversight of strategy, availability, security and risks	• Strategy for updating IT systems approved • Technology Challenge and Assurance Panel established to develop and oversee future technology strategy • Implementation of data management strategy • Establishment of a Technology Challenge and Assurance Panel to give governance oversight of technology strategy and provide assurance to the board
Failure to meet environmental objectives or mitigate the impact of climate change upon Stonewater and customers	• Environmental accreditation specifically for Social • Housing (SHIFT) – 'gold' status • Environmental social governance framework • Environmental strategy and action plan • Fuel engagement strategy and action plan	• Grant secured through Social Housing Decarbonisation Fund wave 2.1. • Work towards establishing a long term carbon reduction and net zero target • Sustainability Business Partner post established to oversee the external verification of carbon footprint methodology • Lobbying to influence national policy on, and secure greater support & grant funding towards, retrofit
Resilience of Stonewater's IT systems to cyber attacks	• Operational and governance oversight of IT Strategy • Cyber Essentials Plus accreditation • Modern security appliances and systems to protect against cyber attack • Cyber security strategy – aligned to National Institute of Standards and Technology Cyber Security Framework	• Implementation of additional security systems and processes • Review of the disaster recovery plan • Business continuity exercises relating to cyber incidents held and learning implemented • OneTrust privacy and governance IT platform implemented
Partnerships and supply chain relationships do not deliver objectives	• Procurement procedures and contract management system • Contracts managed by nominated managers, with regular partnership management meetings • Regular Dun & Bradstreet checks undertaken on main contractors to ensure early visibility of any financial challenges • Value maximisation strategy	• Regular monitoring of supply chain and implementation of actions as needed to address issues arising with monthly reports to the board • Regular monitoring of financial status of key partners and suppliers with monthly reports to the board • Implementation of cost sharing vehicle with Platform Housing Group via Platform Property Care, covering West Rural portfolio • Implementation of new arrangements with development contractors to help secure materials
Stonewater's leaders do not have the capacity to set and deliver the Strategic Plan and/or the supporting staff team does not have capacity to undertake the full range of responsibilities delegated to them	• Board succession plan • Digitalised recruitment processes • Specialist recruitment team and employer branding supported by recruitment advertising specialist • Learning and development programme • Comprehensive benefits package for employees • Chief Officer succession plan • Board role description including key competencies. • Specialist recruitment agency retained for non-executive and executive vacancies • Bespoke leadership development programme undertaken by all people managers • Non-executive learning & development plan supported by budget	• New board member with HR expertise appointed • New executive post of Chief Information and Transformation Officer created • People Strategy – reviewed and updated • Resource capacity monitored by the board monthly against bespoke risk appetite parameter • Revised project resource, change impact, change readiness and capacity planning implemented • Organisational development activity to support digital transformation and Strategic Plan projects • Development of digital online learning tools and products • Review of retention and recruitment undertaken • New board member with HR expertise appointed • New post of Chief Information and Transformation Officer created

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Effects of material estimates and judgements upon performance

The following are the material judgements and estimates affecting performance.

Impairment

Management assesses the housing properties for indicators of impairment at each balance sheet date. Where indicators exist, a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. Judgements in assessing the level of cash generating units and the recoverable amounts could lead to increases or decreases in the impairment provision.

We continue to work with our partners to assess and manage the impact of the current operating environment including supply chain disruptions.

Consideration of property development costs

Management determines 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, we then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on the members' best estimate of sales value based on economic conditions within the area of development.

Useful lives of depreciable assets

We set out the expected useful lives of our assets in the accounting policies in note 1. Management reviews its estimate of the useful lives of depreciable assets periodically, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and information and communication technology (ICT) equipment, changes to decent homes standards which may require more frequent replacement of key components and changes to the ability to let the property which may reduce the economic life of the property. Our policies are well developed.

Accumulated depreciation at 31 March 2023 was £398.7m (2022: £373.6m), with the total charge in year of £32.0m (2022: £29.9m).

Defined benefit pension scheme obligations

At 31 March 2023, we had two defined benefit pension schemes, both closed to new members, the Social Housing Pension Scheme (SHPS) and the Dorset County Pension Fund defined benefit pension scheme (DCPF).

Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Management estimates these factors, using qualified actuaries, in determining the net pension obligation in the balance sheet (see note 31). Variations in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses (as analysed in note 31). The net liability of both schemes at 31 March 2023 was £18.4m (2022: £21m).

Bad debt provision

We make a provision for the likelihood of debtors failing to pay. Our assumptions bandings are based on the type of debt (including customer analysis) and length of time the debt remains unpaid.

Valuation of swaps

All swaps are valued at fair value by discounting expected cash flows at the risk free forward rate curve. This valuation is adopted across the registered provider sector.

People Strategy

Stonewater's five-year People Strategy was developed in 2016 and set out our ambition to become one of the best companies to work for in the UK. Having delivered this rating ahead of schedule, we have developed a new strategy for the next five years. We have identified 10 cultural accelerators that we believe will help us go further, quicker towards becoming an exceptional place to work.

We have worked in partnership with the Information & Participation Association for many years, who are experts in the field of employee relations, to continuously develop the skills and contribution of our active Colleague Forum. This forum is attended by senior leaders, to ensure the colleague voice is heard and people are involved in decisions that affect them. This cross-company group widely consult, inform and engage with colleagues across the organisation.

Equality, Diversity and Inclusion continues to be central to all that we do, from recruitment and selection, through learning and development, appraisal and promotion, to retirement. We are fully committed to creating and sustaining an environment free from discrimination, harassment and victimisation.

Leadership and management development remain a key priority and we are designing a new suite of support and learning for our managers, from those just stepping up into leadership roles, right through to our Chief Officers and Board members.

We work hard to ensure that all decisions relating to employment practices are objective, free from bias, and based solely on work criteria and individual merit. For example, we have applied the principles of the Rooney Rule into our 'Opportunity Pledge'. This includes avoiding recruitment panels that are single gender and ideally diverse across a range of protected characteristics.

Also, where candidates meet the criteria for senior roles, we ensure those interviewed include candidates from under-represented groups. We have also developed four colleague Employee Networking Groups; 2GeTher – the Black, Asian and Minority Ethnic network, Spectrum – the LGBTQ+ network, Inspire – the Disability network and Alliance – the Gender Equality network. We also have a number of listening groups for topics that really matter to colleagues such as Menopause, Men, Carers and our latest, Neuro-Diversity. These groups ensure that colleagues from under-represented parts of our workforce have an opportunity to use their voice to effect change and play a huge part in our organisation's commitment to be a diverse and inclusive place to work.

Our in-house recruitment team works closely with our recruitment advertising partner, Blue Octopus to ensure that we recruit people who share our Values and fit well within our culture. We are continuing with our Digital People Services Programme. This enables more self-service, automates Human Resources (HR) and Learning and Development (L&D) products and services and ultimately improves the colleague experience to ensure that we are making the most of digitalisation.

Our unique approach to hybrid is working well, with the majority of colleagues continuing to choose to work from home most of the time. We are proud of the range of benefits we have provided to support this way of working and the ability to offer truly flexible working arrangements to support people with diverse needs, such as caring for dependents, parenting, grand parenting, disabilities and location. We provide bespoke online training, developed in-house on a range of topics for colleagues and customers, ranging from safeguarding, domestic abuse and resilience. Our regular manager briefings enable us to keep managers and colleagues informed about matters that affect them.

We also continue to support colleagues through our unique benefits such as the BUPA employee assistance programme, BHSF health, our myOwnHome supported housing scheme, Home Work Space and Environmental Loans and our Wellbeing Toolkit (mind, money, munch, move).

Our People Strategy is designed to:

- Deliver our Strategic Plan objectives and long term vision to be an exceptional place to work.
- Ensure that colleagues are engaged, developed and equipped to deliver excellent services to customers.
- Continuously improve employee engagement so that colleagues feel proud, committed and are advocates for our organisation.
- Offer a best-in-class employee offer, designed to attract and retain a talented and motivated workforce.
- Develop the skills, knowledge and confidence of our workforce to ensure colleagues feel empowered to make decisions on behalf of our customers and are digitally confident and capable, in order to deliver our Customer Promise.
- Ensure that colleagues have the tools to deliver great services to customers.

Report of the Board of Management and Strategic Report

Relationships

We work alongside our Charity Partner, the Longleigh Foundation to support our customers to thrive in their homes and communities. This partnership enables us to support customers through individual and crisis grants, with customers receiving in total over £500k in grants each year. In addition through the Longleigh Foundation, customers have access to 'Circles of Support', a range of specialist organisations providing support in relation to financial, mental and physical wellbeing.

In addition to Longleigh, we work with charities and businesses across the country to create a growing database of organisations that can offer support and grants to our customers. This year the team also partnered with LEAP, a free service, which is helping people keep warm and reduce their energy bills without costing them any money.

We have continued to develop our stakeholder relationships with local authorities (LAs) and ensuring we remain a responsive, proactive partner. With new development schemes we work with our LA partners in ensuring that our schemes are addressing local needs and that we form effective letting strategies to develop sustainable communities.

In the last year we have proactively worked with partner LAs to ensure they meet their need around the worsening refugee crises in Afghanistan and Ukraine. We have identified and allocated 11 homes for refugees and have accommodated 14 families across six local authorities (Bedford, North Somerset, Calderdale, Swindon, Southampton and Craven).

Our relationship with the University of Stirling has continued to grow as we delivered the Inclusive living via Technology-Enabled support (INVITE) project. The research between the University and our Retirement Living services was to explore how technology can maximise opportunities to support residents to live well and safely, including when they develop conditions such as dementia. The research report was published in the last year and the findings will be used to develop good practice guidance for implementation of technology-enabled support that emphasises equality, inclusive design and linking people together within inclusive environments. It has had a wide reach and led to us developing a relationships with the Department of Health and Social Care.

On employability, training and volunteering, we have established partnerships with various training providers as well as employers through attending careers fairs in some priority areas. We promote our employability offer through a variety of channels, including our Customer Hubb, newsletter, targeted emails and via our frontline staff. So far we have had 39 customers respond to our promotion and we have contacted them to discuss the support they need. Some of the support customers have received included; CV and interview support, digital upskilling, volunteering placements and more. We also have strong partnerships with training providers who can deliver various upskilling opportunities including the National Careers Service, Prince's Trust, Strive Training and Babington, to name a few.

Customer engagement

Customer engagement at Stonewater is all part of how we listen, learn and work with our customers to co-create solutions and deliver better customer experiences.

In 2022/23, Stonewater launched its Customer Strategy, highlighting the importance we place on listening to our customers' feedback to improve our services. This work is led by our specialist Customer Voice and Influence team, which brings together our customer communications, engagement and complaints teams to champion the customer voice.

In the last financial year, we directly engaged with more than 3,000 customers, working with them to shape our services and gain a greater understanding of their needs. This included our plans to embed the Tenant Satisfaction Measures throughout our business, which will ensure our customers are at the heart of our drive to improve services.

Our Customer Scrutiny Panel is at the heart of our approach to co-regulation and plays a critical role in influencing and improving our services. In 2022/23, the panel worked with Stonewater to review our terms of reference, as well as making 32 recommendations to help Stonewater as part of their Contact and Communications Service review.

Our priority for the coming year is preparing for new consumer regulation and making sure our customers are at the heart of how we develop our support and services.

Customer influencing groups

Our customers like to get involved in lots of different ways, and we are continuing to innovate how we work so every customer can have their say and get involved in whatever way works for them.

We have delivered a full programme of customer consultation events over the last 12 months, and more than 200 customers have joined us to provide feedback about the issues which matter most to them. These have included key areas such as our responsive repairs service, our complaint policy and our sustainability strategy.

We have also been proactively seeking customer insight, and more than 2,900 customers replied to our surveys such as our financial support consultation, which has helped us to put additional support in place to assist customers.

Our Friends of Scrutiny group gives customers an opportunity to be part of the wider Scrutiny network. Over the year, almost 40 customers contributed to focus groups, online surveys, consultations and share their views and feedback. They also fed back on our customer communication, including our customer films, Customer Annual Review and other publications.

Alongside this, we have co-created an Ageing Well Board and Network, which 45 customers attend and give us some valuable insight into our services from the perspective of people aged over 55. Meanwhile, our Customer Complaints Panel reviewed 11 cases during the year and made 37 recommendations which have all been implemented.

In the community

It is really important to us that we are able to maximise customer influence over how we deliver our services, and we find that direct engagement with the people in our communities is a great way to do this.

During 2022/23, we delivered 64 face to face events in our Retirement Living schemes to make sure our customers could have their say on how we should approach the issues facing them, most notably how we can manage the rising cost of communal energy.

We also run regular consultation events seeking direct feedback from customers in communities about issues like parking, garden projects and anti-social behaviour, to make sure our community and neighbourhood work is customer-led at all times.

We always seek ways to include as many customers as possible in our engagement work, and a great example of this is the way we have created new ways for survivors of domestic abuse to tell us how we can improve our services.

Using online surveys and QR codes at specialist support schemes, we have been able to make sure that customers are able to have a say from an environment where they feel safe and comfortable, and the results from these activities have helped us to deliver more relevant support. In 2022/23, 95.7% of domestic abuse survivors that who are living in our schemes told us that they felt equipped and ready for independent living on leaving our services.

Another valuable group of customers we work with is our 23 community champions, our team of customer volunteers dedicated to improving the appearance of their local area. This involves feeding back on the standard of grounds maintenance and reporting any community-wide concerns such as parking and anti-social behaviour. This complements the work we undertake in our communities and over the last year, Community Champions have submitted around 22 community investment ideas.

We have established a framework to sustain and grow local activity developed through the Communities Can initiative and we are promoting what we have learned to the wider organisation. We have conducted our annual local authority mapping exercise, this allows us to use all of our internal and external data to identify our key LAs for community work over the next 12 month period. This mapping exercise uses the data from a number of directorates across the business and we are working with key partners to look at what matters most to our customers in these areas.

Our customers have also told us how important it is for us to be present and visible within their communities. Last year we introduced our mobile associates, a national pool of trusted and trained, flexible colleagues, local to our communities. Our mobile associates, can be deployed to sites efficiently and responsively, delivering our estate inspections programme, providing an onsite presence and delivering a variety of site-based tasks. Over the year they have carried out 5,000 site visits and scheme inspections.

Connecting digitally

In 2022/23, we further developed our online platforms so even more customers can have their say. We supported an active community of 1,948 on our Facebook community group and hosted four Facebook Live events with around 400 customers attending each one or watching it back at a time that suited them. These events allow our customers to see behind the scenes, meet some of our team and our partners, and give customers a chance to get answers to any questions they have about specific service areas. This has been really important as we have been supporting customers during the cost of living crisis, making sure we are providing customers with information so they know how we can help.

We also support an online network of inclusion groups focused on sight impairment; hearing impairment; being neurodiverse or having reduced mobility. These online groups are a way for customers with lived experience of a disability to influence the way we do things. The groups have contributed to a number of work programmes over 2022/23, including our fire safety and aids and adaptations projects.

Customer insight

Our approach to customer insight allows us to have a better understanding of who our customers are and what they expect of our services. Our customer personas are embedded throughout Stonewater, demonstrating their needs, opinions and aspirations. Knowing this enables 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 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 wellbeing during difficult and uncertain times. We paid invoices received during 2022/23 within an average of 23 days.

Report of the Board of Management and Strategic Report

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, and strong and committed, which has enabled Stonewater to deliver much-needed affordable homes across the country.

Stonewater has an existing Strategic Partnership with The Guinness Partnership and Homes England to deliver:

- 4,500 new grant funded homes by March 2024 with grant funding of £224m.
- 4,180 high-quality affordable homes by 2029 with grant funding of £249.9m.

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 Stonewater's investor relations area 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, diversity and inclusion (EDI) agenda. Our EDI Board is chaired by the Chief Growth & Development Officer, and is taking action to achieve the SHEF 'Excellent' level across the business as a whole.

When looking at our Board, Chief Officer Group and Operational Delivery Group combined, our diversity is as follows:

Gender	58% Male, 42% Female
Ethnicity	82% White, 18% Black, Asian and Minority Ethnicity
Sexuality	88% identify as heterosexual, 12% identify as LGBTQ+
Disability	96% non-disabled, 4% disabled
Age span	19 - 60+

Pay gap reporting

Stonewater is committed to equality of all its employees including the treatment and pay of men and women. From April 2017, all UK employers with more than 250 employees were required by law to publish a number of details relating to the gender pay gap in their organisation. Under current requirements for gender pay gap reporting, gender is reported in a binary way that recognises only men and women.

During April 2023, we published our latest gender pay gap data as at 5 April 2022. This report shows a fall in our performance, with the median gender pay gap being 20.41% (2021: 18.14%). Stonewater remains vigilant in guarding against pay inequality, and while we do not believe that the gender pay gap reported is attributable to paying men and women differently for the same or equivalent work, we regularly monitor practices to ensure this remains the case. We recognise that across the UK economy, men are more likely than women to be in senior roles (especially very senior roles at the top of organisations), while women are more likely than men to be in front-line roles at the lower end of the organisation. In addition, men are more likely to be in construction, technical and IT-related roles, which attract higher rates of pay than other positions at similar levels of seniority. This pattern from the UK economy is broadly reflected in the make-up of Stonewater's workforce, where the majority of front-line customer facing roles are women, and most executive director roles are held by men. In addition, most of the relatively highly paid technical roles e.g. IT are held by men and not women. We are continuing to work to improve our performance in this area. For example, through our Gender Equality Group and continuing with our leadership development programme, as well as ensuring our employee policies support family friendly principles. Also our pay structure, introduced in 2019, is underpinned by a proprietary job evaluation system. In addition, we undertook a full equal pay audit in the latter part of 2019 and will complete a repeat of this process during the first half of 2023. Our full report is available on our website.

We have also voluntarily reported on our Black, Asian and Minority Ethnicity (BAME) pay gap data again this year and this year's outcomes reveal a slowing of progress in our achievements to date, with a median Ethnicity pay gap of 9.48% (2022: 18.14%). While our employee diversity has increased we recognise there is still work to do to create a more diverse workforce and continue to take action to address this, such as supporting the work of our employee networking groups and the development of an ethnicity pay gap action plan.

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

Modern slavery and human trafficking

Stonewater's **Modern slavery and human trafficking statement**, under the Modern Slavery Act 2015, for the financial year ending 31 March 2023, is available via our website at the link above.

Financial inclusion

We have continued to develop a customer-focused, flexible approach through our Income Maximisation Strategy which enhances our support offer for customers due to the cost of living placing more challenges on limited resources. We are able to support customers with 'flexible' payment arrangements to help them through unexpected circumstances, as well as offering advice, support and guidance for those struggling with the challenges of general everyday costs.

During the year our specialist income team secured over £163k in Discretionary Housing Payments for customers. We also set up a new partnership with StepChange Debt Charity to provide enhanced support on debt, budgeting, benefits and ensuring all customers have access to financial guidance when they need it.

We have continued to work closely with the Longleigh Foundation with three key initiatives designed to support customers experiencing financial hardship:

1. Referring customers for individual grants, helping customers cope with the impact of difficult, unexpected and unknown crisis situations as well as those known situations that are about to happen, but that will still cause financial hardship, such as moving home.
2. The Circles of Support programme offers customers holistic and wraparound support in three areas of their life: economic, emotional and physical wellbeing. Colleagues can refer customers into the programme or they can choose to self-refer. Financial support is provided by Clean Slate which works with customers on budgeting and income maximisation, making referrals to StepChange for our customers experiencing more complex financial difficulties.
3. Our Kickstart project was established in October 2022 and re-engineered our onboarding process to support new customers better with the emotional and financial pressures of moving home. This project also provides a dedicated specialist resource to avoid new customer debt and minimise low-level debt through prevention, enhanced monitoring and early intervention. Since its formation, this project has reduced the number of new customers in debt by 20%.

   We additionally provide three specialist roles embedded in our frontline customer facing teams focused on employability, grants, other third sector support and fuel poverty. These roles work directly with customers, signposting and facilitating them to support to improve financial circumstances, living environments and emotional wellbeing.

In January 2023, we contacted all customers to remind them of our financial inclusion offer and that we are here to help them navigate the cost of living crisis. This received more than 2,200 responses and the insight gathered has enabled us to enhance our support offer ahead of further communication surrounding our annual rent review.

We have provided a dedicated triage service and have spoken to more than 3,000 customers to answer queries, with 2,900 of these being given one to one support. This has included advice on budgeting, grants, benefits, employability and making referrals to the Longleigh Foundation and Circles of Support as appropriate.

We continue to seek to influence national policy; campaigning for better support for heat network customers, promoting social tariffs, improving connectivity within homes and linking customers to opportunities with partners locally.

Report of the Board of Management and Strategic Report

Future prospects

The key assumptions included in the business plan are:

Year 1 of the plan, 2023/24, is based on the final budget.

Rents

Rents on social and affordable rent properties increases under the new rent settlement of CPI + 1% until 2024/25, though capped at 7% for 2024/25.

Increases of CPI only are assumed thereafter.

Inflation – Consumer Price Index (CPI)

6% for 2024/25, 2.5% in 2025/26, and 2% thereafter.

SONIA (Sterling Overnight Index Average)

3.5% in 2023/24, rising to 4% over the following years, then long-term rate of 3% from 2032/33.

Earnings

CPI + 0.5%, rising to CPI + 1% from 2026/27 thereafter.

Maintenance and development costs

CPI + 2.5% until 2027/28, CPI + 1% until 2033/34, CPI only thereafter.

Other costs

CPI + 0.5% throughout.

Voids and bad debts

Voids 0.8%, rising to 1%. Bad debts at 1%, rising to 1.25%, with a 1% long-term rate from 2026/27.

Pension contributions

SHPS annual recovery payments per latest review schedule for 2022/23.

Following the Group restructure, additional financial capacity has been freed up within the Group, with the continued aim to provide homes for people in need.

The 2023 forecasts cover the challenging economic climate of high inflation and increasing interest rates.

Development over the next five years is planned to total 5,700 social rent, affordable rent, shared ownership and Rent to Buy units. This period covers the end of the initial Strategic Partnership Programme (SPP) with Homes England covering the delivery of 1,500 homes, and the start of the second SPP approved in September 2021, in which Stonewater was successful in securing further grant funding.

The plan has been stress tested for a 'perfect storm' of events the Board considers might affect the plan. Further stress testing confirms resistance to the factors modelled, including adverse movements in inflation, interest, sales values and high value one-off financial events. It is apparent that the impact of inflation on costs, over the next few years maybe challenging to Stonewater. The stress testing of the plan considers more extreme economic scenarios than the one currently being experienced.

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

Expected Income and expenditure	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m
Turnover	276.1	305.6	328.8	321.4	340.7
Cost of sales	(31.2)	(36.8)	(45.2)	(26.7)	(30.2)
Operating costs	(174.8)	(189.2)	(197.7)	(205.7)	(215.3)
Surplus on disposal of fixed assets	6.5	5.2	7.3	7.6	8.0
Operating surplus	**76.6**	**84.8**	**93.2**	**96.6**	**103.2**
Net interest	(45.7)	(54.1)	(57.8)	(62.9)	(67.9)
Movement in fair value of non-hedging financial instruments	0.3	0.3	0.3	0.2	0.2
Surplus for the year	**31.1**	**31.1**	**35.7**	**33.9**	**35.5**
Capitalised components	31.9	32.7	31.6	41.4	43.4

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 colleagues 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 through:

- Identification and evaluation of key risks
  Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. The Chief Officer 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. The Board has adopted the NHF Code of Conduct 2022 reflecting Stonewater's stance on the quality, integrity and ethics of its non-executives and 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, all of which support Stonewater's continued compliance with the NHF Code of Conduct.
- 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.

Stonewater's operations have continued to evolve during 2022/23 in response to the changing operating environment. The Board has received regular reports on key risk areas, including the cost of living crisis and its impact on our customers and business costs. Bespoke risk indicators have been developed to enable the Board to ensure that operations remain within the risk appetite.

A suite of performance indicators, scenario models and risk appetite measures are in place to inform Board decisions and performance monitoring. The Board's priority is 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 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.

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 November 2022 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.

Statement of the Board's responsibilities in respect of the Board of Management and Strategic Report and the financial statements

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

Co-operative and Community Benefit Society law and social housing legislation require the Board 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.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and Association will continue in business.

The Board members are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Association's transactions, and disclose with reasonable accuracy at any time the financial position of the Group and 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, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 and the Accounting Direction for Private Registered Providers of Social Housing 2022. They are also responsible for safeguarding the assets of the Group and 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 2018.

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

Disclosure of information to auditors

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

BDO LLP were appointed as Stonewater's external auditors for 2022/23 on 27 July 2022 by the Board.

The report of the Board was approved on 18 August 2023 and signed on its behalf by:

Sheila Collins
Chairman of Board

Independent auditor's report to the members of Stonewater Limited

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2023 and of the Group's and the Association's surplus for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been properly prepared in accordance with the requirements of 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 2022.

We have audited the financial statements of Stonewater Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2023, which comprise the consolidated and Association statement of comprehensive income, the consolidated and Association statement of financial position, the consolidated and Association statement of changes in reserves, the consolidated statement of cash flows 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 Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Risk and Assurance Committee.

Independence

Following the recommendation of the Risk and Assurance Committee, we were appointed by the Board on 6 October 2015 to audit the financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 8 years, covering the years ended 31 March 2016 to 31 March 2023.

We remain independent of the Group and the Parent Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Association.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Board's assessment of the Group and the Parent Association's ability to continue to adopt the going concern basis of accounting included:

- Assessment of the internal forecasting process to confirm the projections are prepared by appropriate personnel that are aware of the detailed figures in the forecast but also to have a high-level understanding of the entity's market, strategy and profile in the customer base.
- Obtaining and assessing the availability of financing facilities, including the nature of facilities, repayment terms and financial covenants. We considered management's financial covenant compliance calculations through to December 2024 and concluded on the consistency of such calculations with the ratios stated in the relevant lender agreements.
- Consideration of the forecasts prepared by management and challenge of the key assumptions based on our knowledge of the business. As referred to in the going concern accounting policy note, management have performed stress testing on the financial plan. We have reviewed the stress testing scenarios modelled by management, which include assessing the impact on covenant compliance when sensitising the model for changes in interest rates, inflation, reduction in property sales and the level of bad debt. We did not note any significant omissions from the stress testing performed.
- We challenged management on the suitability of the mitigating actions identified by management in their assessment and the quantum and period ascribed to these mitigating actions. We reviewed the reasonableness of the proposed mitigations and if the mitigations were entirely in the control of management to action.
- We considered the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and stress test scenario.

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 Group and the Parent 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.

Overview

Coverage	*98.8% (2022: 100%) of Group surplus before tax* *99.7% (2022: 100%) of Group revenue* *99.1% (2022: 100%) of Group total assets*		
Key audit matters		2023	2022
	Net realisable value of property developed for sale	✓	✓
Materiality	*Group financial statements as a whole*		
	£7.6m (2022: £7.05m) based on 8% (2022: 8%) of adjusted operating surplus		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Board that may have represented a risk of material misstatement.

The only significant components for Group purposes were the parent entity and Stonewater Funding PLC based on their size and risk characteristics. We have performed statutory audits on all components in the group deemed to be a significant component and two of the three non significant components for the purposes of reporting on their individual financial statements and for group/consolidation purposes. For the remaining non-significant component we have performed a review of the component auditors relevant working papers. In summary all components have been reviewed by the group auditors other than Greenoak Housing Association.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

The group audit team maintained an open dialogue with the component audit team throughout the audit and performed review of the component audit team working papers that were deemed significant to the consolidated financial statements.

Key audit matters

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

Key audit matter		How the scope of our audit addressed the key audit matter
Net realisable value of property developed for sale This relates to items included in note 18 of the financial statements. This area also represents a key judgement made by management as described on page 63	As explained in the accounting policies, properties developed for sale, including shared ownership first tranches and properties developed for outright sale, are measured at the lower of cost and net realisable value resulting in an amount recognised in the balance sheet of the Group of £60,880,000 (2022: £45,161,000) and of the Association of £59,201,000 (2022: £43,316,000). For properties in development at the balance sheet date, an assessment is needed of an expected selling price and costs to complete and sell. Due to the volume of properties under construction and the level of judgement involved in estimating both selling price and costs to complete, we considered there to be a significant risk that the carrying amount of properties developed for sale is misstated and was therefore a key audit matter.	Having obtained management's assessment of the net realisable value of properties developed for sale, we tested this on a sample basis. Our samples were chosen from the populations of items that represented both developments under construction as well as completed developments at year-end. For a sample of completed properties we agreed the amounts involved to supporting documentation where the property was sold post-year end. For a sample of properties under development we performed the following procedures: • obtained details of the expected costs to complete and sell from the scheme budget for that development and agreed the budgeted contracted cost of the development to the latest contract documentation. • Compared the incurred expenditure at the balance sheet date to the estimated amount at that date. • Considered the completeness of the estimated costs by reviewing the contracts to confirm these are fixed price contracts. • Reviewed minutes and held discussions with the development team for any evidence of contractors seeking to renegotiate contracts indicating that the current costs to complete are inaccurate. We also compared for the same sample of properties the estimated sales proceeds to third party supporting evidence, for example estate agent valuations. We assessed the accuracy of cost forecasting by looking at outturn costs compared to budget on schemes that completed in the year. We stress-tested the appraisals for a number of properties under development. These stress tests looked at the impact of increasing costs to complete and reducing sales prices by a range of percentages up to 10%. We then considered if this had a material impact on the level of impairment required.
Key observations:		
We noted no material exceptions through performing these procedures.		

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Association financial statements	
	2023	2022	2023	2022
Materiality	£7.60m	£7.05m	£7.22m	£4.52m
Basis for determining materiality	8% of adjusted operating surplus	8% of adjusted operating surplus	8% of adjusted operating surplus	8% of adjusted operating surplus
Performance materiality	£5.320m	£4.935m	£5.054m	£3.164m
Basis for determining performance materiality	70% of materiality	70% of materiality	70% of materiality	70% of materiality

Rationale for the benchmark applied

TThe benchmark used for determining materiality is adjusted operating surplus. The adjustments to operating surplus are to deduct the profit on open market sales and the surplus in the disposal of fixed assets and adding back the depreciation charge.

We have used this benchmark as we considered items affecting the adjusted operating surplus to be the area of the financial statements with the greatest interest to the principal users and the area with the greatest impact on investor and lender decisions.

We have determined that 70% of materiality is an appropriate basis for performance materiality based on our previous experience of the audit and factors such as the low levels of misstatements previously identified, partially offset by the number of areas in the financial statements subject to significant estimation uncertainty.

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, based on a percentage of between 2.9% and 95% (2022: 2.8% and 64.1%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Significant component materiality ranged from £220,000 to £7,220,000 (2022: £200,000 to £3,164,000). In the audit of each component, we further applied performance materiality levels of 70% (2022: 70%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Risk and Assurance Committee that we would report to them all individual audit differences in excess of £152,000 (2022: £141,000) for the Group and differences in excess of £144,000 (2022: £90,000) for the Association. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Board are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- the Association has not kept proper books of account;
- the Association has not maintained a satisfactory system of control over its transactions;
- the financial statements are not in agreement with the Association's books of account; or
- we have not received all the information and explanations we need for our audit.

Responsibilities of the Board

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

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

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:

Non-compliance with laws and regulations

Based on:

- our understanding of the Group and the industry in which it operates;
- discussion with management and those charged with governance; and
- obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations

we considered the significant laws and regulations 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 2022.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be employment law, Financial Conduct Authority ("FCA") regulations, the Regulator of Social Housing's Regulatory Standards, data protection and health and safety legislation.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance and internal audit reports for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override through accounting estimates and inappropriate journal entries.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation; and
- Challenging assumptions made by management in their significant accounting estimates in particular in relation to the net realisable value of properties developed for sale (see Key Audit Matter), the valuation of defined benefit pension liabilities and the valuation of derivative financial instruments.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 is available 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.

DocuSigned by:
BDO LLP
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BDO LLP
Statutory Auditor
London, UK
Date 20 September 2023

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

Consolidated statement of comprehensive income for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	4	238,977	225,426
Cost of sales	4	(30,123)	(31,103)
Operating costs	4	(157,291)	(139,636)
Surplus on disposal of fixed assets	4 & 11	14,204	11,020
Operating surplus	7	65,767	65,707
Acquisition of business	35	21,356	-
Share of loss made by joint venture	17	(18)	-
Interest receivable and similar income	12	1,046	116
Interest payable and financing costs	13	(43,130)	(39,294)
Movement in fair value of non-hedged financial instruments	13	8,771	(2,583)
Surplus for the year before tax		53,792	23,946
Taxation	14	-	-
Surplus for the year		53,792	23,946
Actuarial (losses)/gains on defined benefit pension scheme	31	(585)	8,080
Amount recycled from cash flow hedge reserve	26	4,015	4,480
Year-end revaluation of hedging financial instruments	26	17,969	19,650
Total comprehensive income for the year		75,191	56,156

The notes on pages 57 to 90 form part of these financial statements.

Association statement of comprehensive income for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	4	230,938	218,869
Cost of sales	4	(28,925)	(30,399)
Operating costs	4	(149,457)	(134,701)
Surplus on disposal of fixed assets	4 & 11	14,045	10,744
Operating surplus	7	66,601	64,513
Interest receivable and similar income	12	518	237
Interest payable and financing costs	13	(40,198)	(36,648)
Movement in fair value of non-hedged financial instruments	13	8,771	(2,583)
Surplus for the year before tax		35,692	25,519
Taxation	14	-	-
Surplus for the year		35,692	25,519
Actuarial (losses)/gains on defined benefit pension scheme	31	(585)	8,080
Amounts recycled from cash flow hedge reserve	26	4,015	4,480
Year-end revaluation of hedging financial instruments	26	17,969	19,650
Total comprehensive income for the year		57,091	57,729

The notes on pages 57 to 90 form part of these financial statements.

Consolidated statement of financial position as at 31 March 2023

	Note	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Fixed assets					
Tangible fixed assets housing properties	15		2,418,003		2,220,778
Other tangible fixed assets	16		10,075		10,389
Share of joint venture liabilities	17		(18)		-
			2,428,060		2,231,167
Current assets					
Properties held for sale	18	60,880		45,161	
Debtors	19	103,148		25,148	
Restricted cash	20	7,227		4,653	
Cash and cash equivalents		59,312		136,685	
		230,567		211,647	
Creditors: amounts due within one year	21	(99,292)		(98,132)	
			131,275		113,515
Total assets less current liabilities			2,559,335		2,344,682
Creditors: amounts falling due after more than one year	22		(2,060,553)		(1,918,295)
Provisions for liabilities					
Provisions	27	(359)		(541)	
Pension liability	31	(18,391)		(21,005)	
			(18,750)		(21,546)
Net assets			480,032		404,841
Capital and reserves					
Cash flow hedge reserve			(14,893)		(36,877)
Income and expenditure reserve			494,925		441,718
			480,032		404,841

The notes on pages 57 to 90 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 18 August 2023.

Sheila Collins
Chairman of the Board

Nicholas Harris
Board Member

Anne Harling
Secretary

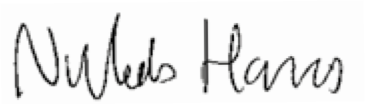
Association statement of financial position as at 31 March 2023

		2023	2023	2022	2022
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets - housing properties	15		**2,380,517**		2,203,638
Other tangible fixed assets	16		**9,225**		9,854
Investments	17		**50**		50
			2,389,792		2,213,542
Current assets					
Properties held for sale	18	**59,201**		43,316	
Debtors	19	**102,073**		25,529	
Restricted cash	20	**5,290**		4,653	
Cash and cash equivalents		**25,546**		106,461	
		192,110		179,959	
Creditors: amounts falling due within one year	21	**(103,109)**		(108,085)	
Net current assets			**89,001**		71,874
Total assets less current liabilities			**2,478,793**		2,285,416
Creditors: amounts falling due after more than one year	22		**(1,966,052)**		(1,826,970)
Provisions for liabilities					
Provisions	27	**(359)**		(541)	
Pension liability	31	**(18,391)**		(21,005)	
			(18,750)		(21,546)
Net assets			**493,991**		436,900
Capital and reserves					
Cash flow hedge reserve			**(14,893)**		(36,877)
Income and expenditure reserve			**508,884**		473,777
			493,991		436,900

The notes on pages 57 to 90 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 18 August 2023.

Sheila Collins
Chairman of the Board



Nicholas Harris
Board Member

Anne Harling
Secretary

Consolidated statement of changes in reserves for the year ended 31 March 2023

	Note	Cash flow hedge reserve £'000	Income and expenditure reserve £'000	Total reserves £'000
At 1 April 2022		(36,877)	441,718	**404,841**
Surplus for the year		-	53,792	**53,792**
Actuarial gains on defined benefit pension scheme (DCC)	31	-	2,482	**2,482**
Actuarial losses on defined benefit pension scheme (SHPS)	31	-	(3,067)	**(3,067)**
Amounts recycled from cash flow hedge reserve	26	4,015	-	**4,015**
Year-end revaluation of hedging financial instruments	26	17,969	-	**17,969**
At 31 March 2023		(14,893)	494,925	**480,032**

	Note	Cash flow hedge reserve £'000	Income and expenditure reserve £'000	Total reserves £'000
At 1 April 2021		*(61,007)*	*409,692*	*348,685*
Surplus for the year		-	*23,946*	*23,946*
Actuarial losses on defined benefit pension scheme (DCC)	31	-	*840*	*840*
Actuarial losses on defined benefit pension scheme (SHPS)	31	-	*7,240*	*7,240*
Amounts recycled from cash flow hedge reserve	26	*4,480*	-	*4,480*
Year-end revaluation of hedging financial instruments	26	*19,650*	-	*19,650*
At 31 March 2022		*(36,877)*	*441,718*	*404,841*

The notes on pages 57 to 90 form part of these financial statements.

Association statement of changes in reserves for the year ended 31 March 2023

	Note	Cash flow hedge reserve £'000	Income and expenditure reserve £'000	Total reserves £'000
At 1 April 2022		(36,877)	473,777	**436,900**
Surplus for the year		-	35,692	**35,692**
Actuarial gains on defined benefit pension scheme (DCC)	31	-	2,482	**2,482**
Actuarial losses on defined benefit pension scheme (SHPS)	31	-	(3,067)	**(3,067)**
Amounts recycled from cash flow hedge reserve	26	4,015	-	**4,015**
Year end revaluation of hedging financial instruments	26	17,969	-	**17,969**
At 31 March 2023		(14,893)	508,884	**493,991**

	Other reserves £'000	Income and expenditure reserve £'000	Total reserves £'000
At 1 April 2021	*(61,007)*	*440,178*	*379,171*
Surplus for the year	-	*25,519*	*25,519*
Actuarial losses on defined benefit pension scheme (DCC)	-	*7,240*	*7,240*
Actuarial losses on defined benefit pension scheme (SHPS)	-	*840*	*840*
Amounts recycled from cash flow hedge reserve	*4,480*	-	*4,480*
Year-end revaluation of hedging financial instruments	*19,650*	-	*19,650*
At 31 March 2022	*(36,877)*	*473,777*	*436,900*

The notes on pages 57 to 90 form part of these financial statements.

Consolidated statement of cash flows

	Group 2023 £'000	*Group 2022 £'000*
Surplus for the financial year	53,792	*23,946*
Carrying value of fixed assets disposed	14,941	*9,671*
Adjustments for:		
Accelerated depreciation and depreciation of fixed assets - housing properties	34,763	*31,099*
Impairment of fixed assets - housing properties	5,226	*68*
Depreciation and impairment of other fixed assets	3,737	*3,640*
Amortised grant	(7,308)	*(7,139)*
Net fair value (gains)/losses recognised in income and expenditure account	(8,771)	*2,583*
Interest payable and finance costs	43,130	*39,294*
Difference between pension cost and employer contributions	(3,724)	*(2,700)*
Fair value gain on acquisition of subsidiary	(21,936)	*-*
Share of operating deficit in joint venture	18	*-*
Interest received	(1,046)	*(116)*
(Increase)/decrease in trade and other debtors	(3,152)	*8,935*
Increase in properties held for sale	(15,719)	*(12,520)*
Decrease in provisions	(182)	*(15)*
(Decrease)/Increase in trade and other creditors	(1,057)	*1,405*
Net cash generated from operating activities	**92,712**	*98,151*
Cash flows from investing activities		
Purchase of fixed assets - housing properties	(222,758)	*(216,342)*
Purchase of other fixed assets	(3,901)	*(4,493)*
Receipt of grant	37,322	*14,448*
Investment in joint venture	(4,684)	*-*
Cash arising from acquisition of subsidiary	4,561	*-*
Interest received	1,046	*116*
Net cash outflow from investing activities	**(188,414)**	*(206,271)*
Cash flows from financing activities		
Interest paid	(46,750)	*(41,642)*
Increase in short term investment	(2,574)	*(7)*
New bank loans	96,618	*15,220*
Bond proceeds	3,740	*275,920*
Bond payments	(13,706)	*-*
Repayment of bank loans	(18,999)	*(134,812)*
Other loans	-	*-*
Net cash received in financing activities	**18,329**	*114,679*
Net (decrease)/increase cash and cash equivalents	**(77,373)**	*6,559*
Cash and cash equivalents at the beginning of the year	136,685	*130,126*
Cash and cash equivalents at the end of the year	59,312	*136,685*


HODGES GROVE

Notes to the financial statements

1. Legal status

Stonewater Limited is registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a social housing provider. The Association is a public benefit entity. On 31 March 2023, Stonewater (2) Limited was merged into Stonewater Limited by way of transfer of engagement which was treated as a Group reconstruction and so merger accounting has been applied.

Merger accounting involves combining all of the results and cash flows of all the parties involved from the beginning of the financial period in which the merger occurs. The comparative amounts are restated by including the results for all the combining entities for the previous accounting period and by combining their statement of financial positions as at the previous reporting date. Group reconstructions can be accounted for using merger accounting if certain criteria are met. The Board consider that merger accounting is appropriate because the transfer of engagements meets the following key criteria:

a) The ultimate equity holders remain the same and the rights of each equity holder relative to others are unchanged.
b) No non-controlling interest in the net assets of the Group was altered as no non-controlling interest exists.
c) The entities are Co-operative and Community Benefit Societies, and the Co-operative and Community Benefit Societies Act 2014 does not prohibit the use of merger accounting.

As the Board consider that all criteria were met, merger accounting was required to be applied in the preparation of the Association's financial statements.

Full disclosure is outlined in note 35.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Stonewater includes the Co-operative and Community Benefit Societies Act 2014 (and related group accounts regulations), the Housing and Regeneration Act 2008, FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland," the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018, "Accounting by registered social housing providers" and the Accounting Direction for Private Registered Providers of Social Housing 2022.

The financial statements are prepared under the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

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

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

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

2.2 Basis of consolidation

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

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

Stonewater Limited's interest in joint ventures is accounted for using the equity method. Details of joint ventures are shown in note 17 to the financial statements.

The results of Greenoak Housing Association Limited are included within the consolidated statement of comprehensive income for the three month period from 1 January 2023.

Greenoak Housing Association joined Stonewater Group for nil consideration and has been accounted for as a gift, with any excess of the fair value of assets received over the fair value of liabilities being recognised as a gain in the statement of comprehensive income.

2.3 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 Group and 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.

The current economic environment has been challenging for both customers and the organisation. Starting with Covid and Brexit-related labour and material supply challenges, inflationary pressures have now been exacerbated by the war in Ukraine, coupled with significant increases in UK energy costs. Stress testing covered the impact on our business of

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key economic factors, we considered increase in capital and revenue works to achieve EPC B, 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. Although the plans do not exceed covenant safeguards, the more severe stresses may approach or exceed the covenants. The principal remedy in these 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.

We have a policy of maintaining cash, highly liquid funds and committed bank facilities equal to contractual commitments (less grant associated with them) for the following 18 months. At 31 March 2023, Stonewater had £33.7m of cash, £25.6m of short term investments that are highly liquid and £477m of undrawn facilities, which exceeded contracted obligations less grant by £236.5m.

2.4 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.

- Rent and service charge income receivable (net of void losses), is recognised on an accruals basis as they fall due.
- The amortisation of social housing grant is applied by the accrual model in accordance with FRS102, and the income is released over the life of the associated structure component.
- Fixed service charge income is recognised in the year to which it relates. Variable service charge income is recognised in the year the related cost is recognised.
- Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.
- Intra-Group income and expenditure is included in turnover and operating costs in the financial statements of the Association but is eliminated within the Group consolidated financial statements.
- Other income relates to management fee for services provided to leaseholders and administration fees in relation to extension of leases. There are recognised on receivable basis.

2.5 Operating segments

As there are publicly traded securities within the Group, a requirement arises to disclose information about Group operating segments under IFRS 8, even though the Group does not report under IFRS. Segmental information is disclosed in note 4(a) and 5(a) and as part of the analysis of housing properties in note 15. Information about income, expenditure and assets attributable to material operating segments are based on the nature and function of assets held rather than geography. This is appropriate based on the similarity of the services, nature of risks, type of customer and nature of regulatory environment across all geographical locations in which the Group operates. Operating segments are analysed along the lines of information presented to the Chief Operating Decision Maker who for the purpose of these accounts is determined to be the Board.

2.6 Joint ventures

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties and the parties have rights to the net assets of the arrangement. The Group's interest in joint ventures is accounted for using the equity method of accounting. Under this method, the consolidated statement of comprehensive income includes the Group's share of the operating results, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the Group. In the consolidated statement of financial position, the Group's share of the identifiable net assets attributable to its joint ventures are shown separately. Within individual entities, these joint ventures are recognised as investments and accounted for at cost. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

2.7 Business combinations

Where there is a business combination that is in substance a gift, any excess of the fair value of the assets received over the fair value of the liabilities assumed is recognised as a gain in the statement of comprehensive income. The gain represents the gift of the value of one entity to another and shall be recognised as income. Where the fair value of the liabilities exceeds the fair value of the assets, the loss represents the net obligation assumed and shall be recognised as an expense in the statement of comprehensive income, below operating surplus.

Costs directly attributable to the execution of business combinations that are in substance a gift are recognised within the overall gain or loss on the gift of net assets.

2.8 Properties for sale

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

Sales of 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.

2.9 Service charges

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

2.10 Schemes managed by agents

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

2.11 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.

2.12 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.

2.13 Value added tax

A large proportion of the Group's income comprises rental income, which is exempt for VAT purposes and gives rise to a partial exemption calculation. Expenditure is therefore shown inclusive of VAT. Recoverable VAT arising from partially exempt activities is credited to the consolidated statement of comprehensive income.

2.14 Coronavirus Job Retention Scheme

Stonewater participated in the job retention, or furlough, scheme during the prior year. Amounts received under the scheme have been coded to other income in the income and expenditure account and are reported as such.

2.15 Government and other grants

Social Housing Grant (SHG) is receivable from Homes England, and is accounted for using the accrual 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 60).

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.

2.16 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 are the staff costs attributable to bringing housing property into working condition for their intended use.

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

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

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

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

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

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2.17 Fixed assets and depreciation
Freehold land is not depreciated. The useful economic lives of all tangible fixed assets are reviewed annually. Housing components are depreciated from the month following replacement.

The estimated useful lives range as follows:

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

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

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

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

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

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

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

2.19 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.

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

Description	Estimated economic life (years)
Freehold office	100
Furniture and office equipment	5 to 25
Computer equipment	3 or 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.

2.21 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.

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

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

2.24 Shared ownership properties and staircasing

Shared ownership sales are treated 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.

2.25 Properties held for sale

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

2.26 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.

2.27 Impairment of rental and other trade receivables

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

2.28 Rent and service charge agreements

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

2.29 Loans, investments and short term deposits

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

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

Under FRS102 a substantial modification of the terms of an existing financial liability or a part of is treated as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group assesses whether Debt has been substantially modified by comparing a number of subjective factors pre- and post-refinancing, including changes to the contractually loan cash flows. If determined that the loan has not been substantially modified the amortisation period for issue costs is adjusted to the new loan maturity and no gain or loss on modification is recognised. If the modification is substantial the remaining unamortised issue costs associated with the loan are written off and the costs associated with the new loan are amortised over the life of the new loan.

2.30 Cash and cash equivalents

Cash and cash equivalents in the Group's consolidated financial position consist of cash at bank, deposits and investments in low volatility net asset value (LNAV) money market funds. In all cases capital preservation is key.

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

2.31 Derivative instruments and hedge accounting

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

Derivatives are accounted for in accordance with Section 12 of FRS 102. Derivatives are financial instruments held at fair value through profit or loss.

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

On the early termination, sale or exercise of swaps the difference between the cash paid on termination, sale or expiry of the swap and the balance sheet value of the swap if a profit is classified as interest receivable and if a loss interest payable.

If the item that the swap is hedging is still in existence at the time of the early termination, sale or exercise the accumulated balance in the cash flow hedge reserve relating to the swap is released to interest payable over the remaining life of the hedging item. Otherwise the balance relating to the swap in cash flow hedge reserve is written off.

Where a loan is modified and it has been assessed as a non-

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substantial modification and the hedge documentation allows for the replacement of the hedged item by another similar loan the hedging relationship with the stand alone derivative continues.

2.32 Interest rate benchmarks
In the accounts the Group has applied the December 2019 Amendments to FRS 102: Interest rate benchmark reform. The amendments provide relief in applying the requirements of hedge accounting to certain hedges, including allowing the Group to assume that interest rate benchmarks on which hedged cash flows are based (e.g. LIBOR) will not be altered as a result of interest rate benchmark reform. Consequently, hedging relationships that may have otherwise been impacted by interest rate benchmark reform have remained in place and no additional ineffective portion of the hedge has been recognised.

2.33 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.

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

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

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

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

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

2.38 Finance costs
For Stonewater bonds and notes, finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount including any premium recognised. Issue costs are initially recognised as a reduction in the proceeds of the instrument.

For all other borrowings, finance costs are charged on a historic cost basis.

2.39 Pension costs
The Group participates in a number of defined contribution and defined benefit pension schemes.

Contributions to the Group's defined contribution pension schemes are charged to the comprehensive income statement in the year in which they come payable.

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 the statement of comprehensive income.

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

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

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

The movement in fair value of the financial instrument is made of two parts the interest paid (which is recycled from other comprehensive income to the income and expenditure statement) and the year end revaluation of the financial instrument.

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

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

- Whether there are indicators of impairment of the Group'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, we then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on the members' best estimate of sales value based on economic conditions within the area of development.
- What constitutes a cash-generating unit when indicators of impairment require there to be an impairment review.

Other key sources of estimation uncertainty:

- The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense. Assumptions used are based on actuarial advice.
- Determining the appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.

Valuation of swaps

All swaps are valued at fair value by discounting expected cash flows at the risk free forward rate curve. This valuation is adopted across the registered provider sector. Savills was appointed during the year to value the swaps and has a large team of specialists with backgrounds in banking, accounting, treasury, and surveying.

Tangible fixed assets (note 15 and 16)

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

Pensions

The critical selection of financial and actuarial assumptions in relation to defined benefit scheme obligation based on best estimates derived from the Group's policies and practices and their applications to all the pension schemes operated by the Group where appropriate and confirmed with actuaries where these are beyond management expertise, e.g. mortality tables, have been chosen based on published research by the

Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries.

Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses. Mortality rates for scheme members are set out in note 31.

The Association has relied upon the information provided by the actuary for SHPS and DCC pension schemes. Using information provided from one of our actuaries for the DCC pension scheme, the table below illustrates the sensitivities of the discount rate, long term salary increases, pension increases and deferred revaluation and life expectancy on the total obligation. The discount rate used is given in note 31, along with the inflation rates, CPI and RPI that were used in the calculations.

Sensitivity analysis			£'000		
Adjustment to discount rate	+0.5%	+0.1%	0.0%	-0.1%	-0.5%
Present value of total obligation	7,095	7,449	7,542	7,637	8,037
Projected service cost	27	31	32	33	38
Adjustment to long term salary increase	**+0.5%**	**+0.1%**	**0.0%**	**-0.1%**	**-0.5%**
Present value of total obligation	7,563	7,546	7,542	7,538	7,522
Projected service cost	32	32	32	32	32
Adjustment to pension increase and deferred revaluation	**+0.5%**	**+0.1%**	**0.0%**	**-0.1%**	**-0.5%**
Present value of total obligation	8,024	7,635	7,542	7,451	7,105
Projected service cost	38	33	32	31	27

Adjustment to life expectancy assumptions	+ 1 Year	None	-1 Year
Present value of total obligation	7,875	7,542	7,224
Projected service cost	33	32	31

Notes to the financial statements

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

Group	Note	Turnover £'000 2023	Cost of sales £'000 2023	Operating costs £'000 2023	Surplus on disposal of fixed assets £'000 2023	Operating surplus/(deficit) £'000 2023
Social housing lettings	5	203,427	-	(156,277)	-	**47,150**
Other social housing activities						
First tranche shared ownership sales		34,131	(28,925)	-	-	**5,206**
Development staff costs		-	-	(761)	-	**(761)**
Surplus on disposal of fixed assets	11	-	-	-	14,204	**14,204**
Other social housing activities		-	-	(253)	-	**(253)**
		34,131	**(28,925)**	**(1,014)**	**14,204**	**18,396**
Non-social housing activities						
Open market sales		1,419	(1,198)	-	-	**221**
Total		**238,977**	**(30,123)**	**(157,291)**	**14,204**	**65,767**

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

Group	Note	Turnover £'000 2022	Cost of sales £'000 2022	Operating costs £'000 2022	Surplus on disposal of fixed assets £'000 2022	Operating surplus/(deficit) £'000 2022
Social housing lettings	5	187,082	-	(134,156)	-	**52,926**
Other social housing activities						
First tranche shared ownership sales		37,381	(30,399)	-	-	**6,982**
Development staff costs		-	-	(1,351)	-	**(1,351)**
Charitable donations		-	-	(4,050)	-	**(4,050)**
Job retention		12	-	-	-	**12**
Surplus on disposal of fixed assets	11	-	-	-	11,020	**11,020**
Other social housing activities		**-**	**-**	**(79)**	**-**	**(79)**
Non-social housing activities						
Open market sales		951	(704)	-	-	**247**
Total		**225,426**	**(31,103)**	**(139,636)**	**11,020**	**65,707**

Charitable donation is money donated to Longleigh Foundation to support its charitable causes.

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

Association	Note	Turnover £'000 2023	Cost of sales £'000 2023	Operating costs £'000 2023	Surplus on disposal of fixed assets £'000 2023	Operating surplus/(deficit) £'000 2023
Social housing lettings	5	196,807	-	(148,697)	-	48,110
Other social housing activities						
First tranche shared ownership sales		34,131	(28,925)	-	-	5,206
Development staff costs		-	-	(760)	-	(760)
Surplus on disposal of fixed assets	11	-	-	-	14,045	14,045
Activities other than social housing activities		-	-	-	-	-
Other social housing activities		-	-	-	-	-
		34,131	**(28,925)**	**(760)**	**14,045**	**18,491**
Non-social housing activities						
Open market sales		-	-	-	-	-
Total		**230,938**	**(28,925)**	**(149,457)**	**14,045**	**66,601**

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

Association	Note	Turnover £'000 2022	Cost of sales £'000 2022	Operating costs £'000 2022	Surplus on disposal of fixed assets £'000 2022	Operating surplus/(deficit) £'000 2022
Social housing lettings	5	181,476	-	(129,329)	-	52,147
Other social housing activities						
First tranche shared ownership sales		37,381	(30,399)	-	-	6,982
Open market sales		-	-	-	-	-
Development staff costs		-	-	(1,322)	-	(1,322)
Charitable donations		-	-	(4,050)	-	(4,050)
Job retention		12	-	-	-	12
Surplus on disposal of fixed assets	11	-	-	-	10,744	10,744
Activities other than social housing activities		-	-	-	-	-
Other social housing activities		-	-	-	-	-
		37,393	**(30,399)**	**(5,372)**	**10,744**	**12,366**
Non-social housing activities						
Open market sales		-	-	-	-	-
Total		**218,869**	**(30,399)**	**(134,701)**	**10,744**	**64,513**

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

Group	General needs 2023 £'000	Supported and housing for older people 2023 £'000	Shared ownership 2023 £'000	Affordable rent 2023 £'000	Total 2023 £'000	Total 2022 £'000
Income on social housing lettings:						
- Rent receivable net of identifiable service charges	115,260	13,428	10,631	34,143	**173,462**	160,929
- Service charge income	9,508	8,553	1,514	805	**20,380**	17,527
Net rent receivable	**124,768**	**21,981**	**12,145**	**34,948**	**193,842**	178,456
Amortised government grants (note 23)	5,650	778	276	604	**7,308**	7,139
Other income	1,947	156	174	-	**2,277**	1,487
Income on social housing lettings	**132,365**	**22,915**	**12,595**	**35,552**	**203,427**	187,082

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

Group	General needs 2023 £'000	Supported and housing for older people 2023 £'000	Shared ownership 2023 £'000	Affordable rent 2023 £'000	Total 2023 £'000	Total 2022 £'000
Management	(39,023)	(719)	(394)	(455)	**(40,591)**	(36,856)
Service charge costs	(11,633)	(10,991)	(1,091)	(1,190)	**(24,905)**	(21,817)
Routine maintenance	(28,726)	(1,945)	(227)	(1,573)	**(32,471)**	(27,819)
Planned maintenance	(6,448)	(218)	(27)	(194)	**(6,887)**	(6,681)
Major repairs (note 15c)	(6,847)	(2,276)	(168)	(529)	**(9,820)**	(8,757)
Bad debts	(1,096)	(254)	2	(266)	**(1,614)**	(1,090)
Depreciation of housing properties - annual charge (note 7 and 15a)	(21,964)	(2,954)	(1,797)	(5,319)	**(32,034)**	(29,970)
Depreciation of housing properties - accelerated on disposal of components (note 7 and 15a)	(2,576)	(57)	(5)	(91)	**(2,729)**	(1,098)
Impairment on housing properties (note 7 and 15a)	(1,553)	-	(2,641)	(1,263)	**(5,457)**	(482)
Reversal of impairment (note 7 and 15a)	135	-	96	-	**231**	414
Expenditure on social housing lettings	**(119,731)**	**(19,414)**	**(6,252)**	**(10,880)**	**(156,277)**	(134,156)
Operating surplus on social housing lettings	**12,634**	**3,501**	**6,343**	**24,672**	**47,150**	52,926
Void losses	(1,036)	(520)	61	(223)	**(1,718)**	(1,717)

Notes to the financial statements

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

Association	**General needs 2023 £'000**	**Supported and housing for older people 2023 £'000**	**Shared ownership 2023 £'000**	**Affordable rent 2023 £'000**	**Total 2023 £'000**	Total 2022 £'000
Income on social housing lettings:						
Rent receivable net of identifiable service charges	109,553	12,573	10,487	33,901	166,514	154,703
Service charge income	8,834	8,150	1,459	804	19,247	16,600
Net rent receivable	**118,387**	**20,723**	**11,946**	**34,705**	**185,761**	171,303
Amortised government grants (note 23)	5,496	738	270	599	7,103	6,956
Other income	2,972	342	335	294	3,943	3,217
Income on social housing lettings	**126,855**	**21,803**	**12,551**	**35,598**	**196,807**	181,476

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

Association	**General needs 2023 £'000**	**Supported and housing for older people 2023 £'000**	**Shared ownership 2023 £'000**	**Affordable rent 2023 £'000**	**Total 2023 £'000**	Total 2022 £'000
Management	(38,910)	(682)	(425)	(500)	**(40,517)**	(36,707)
Service charge costs	(10,704)	(10,480)	(1,033)	(1,187)	**(23,404)**	(20,613)
Routine maintenance	(27,298)	(1,880)	(238)	(1,559)	**(30,975)**	(26,332)
Planned maintenance	(6,202)	(218)	(26)	(193)	**(6,639)**	(6,470)
Major repairs (note 15c)	(6,333)	(1,572)	(167)	(527)	**(8,599)**	(8,250)
Bad debts	(1,023)	(247)	2	(267)	**(1,535)**	(1,028)
Depreciation of housing properties - annual charge (note 7 and 15b)	(20,859)	(2,796)	(1,777)	(5,277)	**(30,709)**	(28,748)
Depreciation of housing properties - accelerated on disposal of components (note 7 and 15b)	(2,491)	(33)	(5)	(91)	**(2,620)**	(1,086)
Impairment on housing properties (note 7 and 15b)	(439)	-	(2,641)	(850)	**(3,930)**	(481)
Reversal of impairment (note 7 and 15b)	135	-	96	-	**231**	386
Expenditure on social housing lettings	**(114,124)**	**(17,908)**	**(6,214)**	(10,451)	**(148,697)**	(129,329)
Operating surplus on social housing lettings	**12,731**	**3,895**	**6,337**	25,147	**48,110**	52,147
Void losses	(967)	(493)	61	(218)	**(1,617)**	(1,646)

Notes to the financial statements

6. Units of housing stock

Group	At the start of the year Number	Acquired from merger Number	Additions Number	Disposals Number	Reclassifications Number	At the end of the year Number
General needs	21,072	204	238	(165)	(112)	21,237
Affordable	4,287	8	460	(30)	99	4,824
Shared ownership	3,107	2	296	(32)	(84)	3,289
Supported housing	452	-	32	(2)	(11)	471
Housing for older people	2,206	134	1	-	(2)	2,339
Other	33	19	3	-	(3)	52
Total owned	**31,157**	**367**	**1,030**	**(229)**	**(113)**	**32,212**
Accommodation managed for others	3,686	112	309	(41)	112	4,178
Total managed accommodation	**34,843**	**479**	**1,339**	**(270)**	**(1)**	**36,390**
Units managed by other associations	590	-	-	-	1	591
Total owned and managed accommodation	**35,433**	**479**	**1,339**	**(270)**	**-**	**36,981**
Units under construction	3,182	-	807	-	(549)	3,440

6. Units of housing stock

Association	At the start of the year Number	Additions Number	Disposals Number	Reclassifications Number	At the end of the year Number
General needs	20,019	238	(164)	(76)	20,017
Affordable	4,255	460	(30)	101	4,786
Shared ownership	3,048	296	(32)	(83)	3,229
Supported housing	444	32	(2)	(16)	458
Housing for older people	2,074	-	-	(41)	2,033
Other	33	3	-	(1)	35
Total owned	**29,873**	**1,029**	**(228)**	**(116)**	**30,558**
Accommodation managed for others	3,637	282	(41)	111	3,989
Total managed accommodation	**33,510**	**1,311**	**(269)**	**(5)**	**34,547**
Units managed by other associations	590	1	-	5	596
Total owned and managed accommodation	**34,100**	**1,312**	**(269)**	**-**	**35,143**
Units under construction	3,142	807	-	(523)	3,426

7. Operating Surplus

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
This is arrived at after charging/(crediting):				
Depreciation of housing properties				
- annual charge (note 5 and 15)	32,034	29,970	30,709	28,748
- accelerated depreciation (note 5 and 15a)	2,729	1,098	2,620	1,086
Depreciation of other tangible fixed assets (note 16)	3,737	3,551	3,701	3,527
Impairment of housing properties (note 5 and 15)	5,457	482	3,930	481
Reversal of impairment of housing properties (note 5 and 15)	(231)	(414)	(231)	(386)
Impairment of other tangible fixed assets (note 16)	-	89	-	89
Operating lease charges – land and building	489	470	489	470
Operating lease charges – other	136	157	136	157

Audit remuneration of £186,000 (excluding VAT) (2022: £90,000) represents the audit fee for all Group entities. The Association fee is £131,000 (excluding VAT) (2022: £69,000). Total fees for other services were paid by the Group and Association of £32,240 (excluding VAT) (2022: £28,000) relating to: EMTN programme reporting £22,000 (2022: £20,000), loan covenant reporting £3,935 (2022: £3,567) and services for grant fund reporting to Homes England £6,315 (2022: £4,306).

8. Employees

Staff costs were as follows:

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

	2023 Number	2022 Number
FTE	746	663
Total expenditure was as follows:		
	2023 £'000	2022 £'000
Staff costs consist of:		
Wages and salaries	29,336	26,395
Social security costs	2,953	2,589
Other pension costs	1,317	1,225
Redundancy	150	174
Total	33,756	30,383

Headcount and salaries for Greenoak Housing Limited are reflected in the above numbers for the three month period commencing January 2023.

The increase in the FTE mainly is due to additional employees from Greenoak Housing Association Limited.

Notes to the financial statements

9. Directors' and senior executives' remuneration

The directors are defined as the members of the Board of Management, the Chief Executive and the Chief Officers disclosed on page 9.

	Group 2023 £'000	Group 2022 £'000
Executive directors' remuneration	1,317	1,365
Amounts paid to non-executive directors (note 10)	166	170
Pension contributions	52	48
Benefits in kind	21	33
Total	1,556	1,616

The highest total paid is to the Chief Executive in respect of remuneration, and the value was £258,000 (2022: £249,000), in addition pension contributions of £10,327 (2022: £10,292) were made to SHPS on his behalf.

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

Band	2023 Number	2022 Number
£60,000-£69,999	25	27
£70,000-£79,999	16	23
£80,000-£89,999	15	10
£90,000-£99,999	12	12
£100,000-£109,999	4	4
£110,000-£119,999	6	7
£120,000-£129,999	3	1
£140,000-£149,999	1	1
£170,000-£179,999	0	1
£180,000-£189,999	1	1
£190,000-£199,999	2	2
£200,000-£209,999	2	1
£210,000-£219,999	1	1
£250,000-£259,999	0	1
£260,000-£269,999	1	0
	89	92

10. Non-executive board member's remuneration

	Group 2023 £	Group 2022 £
Mrs. H Bowman	11,000	7,000
Mrs. S Collins	26,500	26,500
Mr. T Kazi	7,000	13,000
Mr. H Shah	8,500	-
Ms. A Dokov	8,000	16,000
Mr. B Hoffman	5,500	-
Mr. D Wright	-	8,000
Ms. J Crowe	16,000	16,000
Ms. C Kearny	14,750	11,000
Mr. A Lawrence	16,000	16,000
Ms. J Bennett	16,000	16,000
Mr. H Shields	4,000	16,000
Mr. C Edis	14,333	11,000
Mr. A Michie	16,000	13,500
Mr. M Large	2,458	-
	166,041	170,000

11. Surplus on disposal of fixed assets

Group	Shared ownership properties 2023 £'000	Other housing properties 2023 £'000	Total 2023 £'000	Total 2022 £'000
Disposals proceeds	14,011	14,697	**28,708**	21,679
Net book value of disposals (note 15a)	(7,935)	(7,006)	**(14,941)**	(9,671)
Other costs/write backs	(187)	624	**437**	(988)
	5,889	**8,315**	**14,204**	11,020

Association	Shared ownership properties 2023 £'000	Other housing properties 2023 £'000	Total 2023 £'000	Total 2022 £'000
Disposals proceeds	13,882	14,480	**28,362**	21,103
Net book value of disposals (note 15a)	(7,871)	(6,923)	**(14,794)**	(9,383)
Other costs/write backs	(184)	661	**477**	(976)
	5,827	**8,218**	**14,045**	10,744

12. Interest receivable and similar income

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Interest receivable from group undertakings	-	-	**446**	216
Interest receivable and similar income	**1,046**	116	**72**	21
	1,046	116	**518**	237

13. Interest payable and financing costs

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Interest on loans and overdrafts	**46,575**	42,332	**24,351**	22,357
Amortisation of issue costs	**1,292**	1,231	**1,461**	1,390
Interest payable to Group undertakings	-	-	**19,111**	17,170
Interest capitalised on construction on housing properties (note 15c)	**(5,507)**	(4,931)	**(5,484)**	(4,931)
Recycled capital grant fund (note 24)	**245**	19	**234**	19
Net interest on net defined benefit liability (note 31)	**525**	643	**525**	643
Total	**43,130**	39,294	**40,198**	36,648
Fair value (gains)/losses on hedging financial instruments recognised in income or expenditure				
Change in fair value of non-hedging financial instruments	**(324)**	5,884	**(324)**	5,884
Ineffective portion of hedging financial instruments	**(8,447)**	(3,301)	**(8,447)**	(3,301)
	(8,771)	2,583	**(8,771)**	2,583

14. Taxation

The non-registered providers within the Group structure would be subject to corporation tax, however their taxable profits are transferred to Stonewater (5) Limited by qualifying charitable donation within nine months of the year end so no tax liability crystalises.

Notes to the financial statements

15(a). Tangible fixed assets housing properties

Group	Housing properties held for lettings £'000	Housing properties for letting under construction £'000	Shared ownership properties held for lettings £'000	Shared ownership under construction £'000	**Total £'000**
Cost:					
At 1 April 2022	2,136,196	168,880	228,382	65,625	**2,599,083**
Additions:					
Construction costs	-	146,316	-	48,425	**194,741**
Component replacements	27,904	-	4,218	-	**32,122**
Acquisition of properties	22,657	-	-	-	**22,657**
Transfer to completed properties	128,454	(128,454)	32,518	(32,518)	**-**
Land bank	986	-	-	-	**986**
MyOwnHome scheme	-	-	1,649	-	**1,649**
Disposals:					
Staircasing (note 11)	-	-	(8,361)	-	**(8,361)**
Replaced components	(6,722)	-	(80)	-	**(6,802)**
Other sales (note 11)	(9,471)	-	-	-	**(9,471)**
At 31 March 2023	**2,300,004**	**186,742**	**258,326**	**81,532**	**2,826,604**
Depreciation:					
At 1 April 2022	362,183	-	11,485	-	**373,668**
Charge for the year (note 5 and 7)	30,233	-	1,801	-	**32,034**
Disposals during the year:	-	-	-	-	**-**
Staircasing (note 11)	-	-	(426)	-	**(426)**
Replaced components	(4,069)	-	(4)	-	**(4,073)**
Other sales (note 11)	(2,465)	-	-	-	**(2,465)**
At 31 March 2023	**385,882**	**-**	**12,856**	**-**	**398,738**
Provision for impairment:					
At 1 April 2022	934	-	3,685	18	**4,637**
Charge for the year (note 5 and 7)	1,950	855	2,337	315	**5,457**
Release for the year (note 5 and 7)	(135)	-	(78)	(18)	**(231)**
At 31 March 2023	**2,749**	**855**	**5,944**	**315**	**9,863**
Net book value:					
At 31 March 2023	**1,911,373**	**185,887**	**239,526**	**81,217**	**2,418,003**
At 31 March 2022	1,773,079	168,880	213,212	65,607	**2,220,778**

On the acquistion of Greenoak Housing Association, Stonewater carried out a valuation on the completed housing properties portfolio acquired, using that amount as fair value. Stonewater engaged JLL Valuers Limited to value housing properties on an Existing Use Value for Social Housing (EUV-SH) basis. More information can be found in note 35.

The fair value of housing properties of £24,080k (note 35) differs from the value recorded in note 15a (acquisition of properties - £22,657k) due to a inter group land transfer that was completed after the valuation.

Government grants of £7.7m associated with housing properties acquired from the business combination with Greenoak Housing Association Limited were included within the Gain arising from Gift of Net Assets within the consolidated statement of comprehensive income. As these properties were included at fair value on acquisition, no grant is disclosed within creditors. In the event of the housing properties being disposed of, Stonewater is responsible for the repayment or the recycling of the grant.

15(b). Tangible fixed assets housing properties

Association	Housing properties held for lettings £'000	Housing properties for letting under construction £'000	Shared ownership properties held for lettings £'000	Shared ownership under construction £'000	**Total £'000**
Cost:					
At 1 April 2022	2,093,317	178,383	228,954	65,049	**2,565,703**
Additions:					
Construction costs	-	149,698	-	48,425	**198,123**
Component replacements	22,794	-	4,194	-	**26,988**
Transfer to completed properties	126,964	(126,964)	32,518	(32,518)	**-**
Land bank	1,941	-	-	-	**1,941**
MyOwnHome scheme	-	-	1,649	-	**1,649**
Disposals:					
Staircasing (note 11)	-	-	(8,293)	-	**(8,293)**
Replaced components	(6,521)	-	(69)	-	**(6,590)**
Other sales (note 11)	(9,384)	-	-	-	**(9,384)**
At 31 March 2023	**2,229,111**	**201,117**	**258,953**	**80,956**	**2,770,137**
Depreciation:					
At 1 April 2022	346,327	-	11,101	-	**357,428**
Charge for the year (note 5 and 7)	28,928	-	1,781	-	**30,709**
Disposals during the year:	-	-	-	-	**-**
Staircasing (note 11)	-	-	(422)	-	**(422)**
Replaced components	(3,966)	-	(4)	-	**(3,970)**
Other sales (note 11)	(2,461)	-	-	-	**(2,461)**
At 31 March 2023	**368,828**	**-**	**12,456**	**-**	**381,284**
Provision for impairment:					
At 1 April 2022	934	-	3,685	18	**4,637**
Charge for the year (note 5 and 7)	423	855	2,337	315	**3,930**
Release for the year (note 5 and 7)	(135)	-	(78)	(18)	**(231)**
At 31 March 2023	**1,222**	**855**	**5,944**	**315**	**8,336**
Net book value:					
At 31 March 2023	**1,859,061**	**200,262**	**240,553**	**80,641**	**2,380,517**
At 31 March 2022	1,746,056	178,383	214,168	65,031	**2,203,638**

Notes to the financial statements

15(c). Tangible fixed assets housing properties

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
The net book value of housing and other properties comprises:				
Freehold	**2,348,125**	1,883,349	**2,314,173**	1,869,794
Long leasehold	**69,878**	337,429	**66,344**	333,844
	2,418,003	2,220,778	**2,380,517**	2,203,638
Interest capitalisation:				
Interest capitalised in the year (note 13)	**5,507**	4,931	**5,484**	4,931
Cumulative interest capitalised	**61,364**	55,857	**57,730**	52,246
Rate used for capitalisation %	**3.7%**	3.7%	**3.7%**	3.7%
Works to properties:				
Improvements to existing properties capitalised Note 15a	**32,122**	18,819	**26,988**	17,460
Major repairs expenditure to income and expenditure account (note 5)	**9,820**	8,757	**8,599**	8,250
Total social housing grant received or receivable to date as follows:				
Capital grant held in deferred income (note 23)	**694,168**	665,392	**680,163**	651,175
Recycled capital grant fund (note 24)	**10,553**	10,110	**9,983**	9,613
Amortised to statement of comprehensive income in year (note 5)	**7,308**	7,139	**7,103**	6,956
Write back amortisation on disposals (note 23)	**(1,532)**	(425)	**(1,478)**	(422)
Cumulative amortisation to reserves	**91,689**	85,913	**57,769**	52,144

15(d). Tangible fixed assets housing properties - Impairment

The Group considers individual schemes to represent separate cash-generating units (CGUs) when assessing for impairment in accordance with the requirements of FRS102 and SORP 2018. The Group's review takes into account efficiencies from having groups of properties held together and the fact that properties are usually acquired as schemes rather than individual properties and are assessed as such for development purposes.

The Group's policy for impairment is to record a loss when the recoverable amount of a cash generating unit is less than its carrying value. A cash generating unit for the purposes of the Group is a scheme.

According to the SORP, there are a number of indicators of impairment to consider:

- A contamination or other similar issue that was not identified as part of the planning of a development which results in a material increase in development costs. For example, identification of asbestos which requires material additional expenditure for removal of the asbestos in order to complete the development.
- A change in government policy, regulation or legislation which has a material detrimental impact on the development programme or scheme. For example, a change in health and safety legislation resulting in a material increase in expenditure incurred to ensure compliance with the new regulations or a change to the rent regime which has a material impact on the net income that is expected to be collected (i.e. the rental income less relevant expenditure) for a social housing property.
- A change in demand for a property that is considered irreversible. For example, a material increase in the level of voids exceeding those originally forecast and which is not anticipated to reverse in future periods without material additional expenditure being incurred.
- A material reduction in the market value of properties in those circumstances where assets are intended or expected to be sold or where the occupant has the right to purchase under shared ownership arrangements.
- Obsolescence of a property, or part of a property, for example, where it is probable that a plan to regenerate existing properties by demolishing them or replacing components of existing properties will go ahead.

The Stonewater Group assessed its portfolio for indicators of impairment at the balance sheet date 31 March 2023. At 31 March 2023, Stonewater reviewed on the basis of the above indicators as well as taking into account global factors such as inflation that would impact cost, market value as well as demand for a property. As Stonewater reviews its properties based on EUV-SH there is no reason to conclude that properties will not remain occupied, More than ever social housing will be in demand so this does not suggest that our portfolio is impaired as a result of the crisis.

Stonewater looked at the indicators above and assessed their impact including the value in use - service potential and those having an impact are set out below.

Nine new schemes required impairment in the year of which two schemes required impairment due to expected losses at the sale of 1st tranche.

Nine schemes with prior impairment charge were reconsidered for impairment charge/release in this financial year. These were reviewed again with the latest outturn projections, of which four schemes required additional charge and the remaining five schemes received partial release.

The schemes impaired are as follows:

Group Scheme	Charge/ (reversal) £'000	No, of units affected	Carrying value prior to impairment £'000
Active development scheme 1	(33)	10	2,505
Active development scheme 2	(26)	5	1,377
Active development scheme 3	(37)	9	2,456
Active development scheme 4	8	2	635
Active development scheme 5	56	10	2,534
Active development scheme 6	29	6	1,273
Active development scheme 7	97	14	3,687
Active development scheme 8	153	14	3,934
Active development scheme 9	413	4	1,514
Active development scheme 10	398	9	3,867
Affordable rent scheme 1	(129)	1	415
Affordable rent scheme 2	(5)	4	580
Affordable rent scheme 3	299	19	5,879
General needs scheme 1	57	33	3,011
General needs scheme 2	306	45	6,455
General needs scheme 3	1,113	32	4,511
High rise block 1	2,452	32	2,452
Land bank 1	75	-	400
Total	**5,226**	**249**	**47,485**

Association Scheme	Charge/ (reversal) £'000	No, of units affected	Carrying value prior to impairment £'000
Active development scheme 1	(33)	10	2,505
Active development scheme 2	(26)	5	1,377
Active development scheme 3	(37)	9	2,456
Active development scheme 4	8	2	635
Active development scheme 5	56	10	2,534
Active development scheme 6	29	6	1,273
Active development scheme 7	97	14	3,687
Active development scheme 8	153	14	3,934
Active development scheme 10	398	9	3,867
Affordable rent scheme 1	(129)	1	415
Affordable rent scheme 2	(5)	4	580
Affordable rent scheme 3	299	19	5,879
General needs scheme 1	57	33	3,011
General needs scheme 2	306	45	6,455
High rise block 1	2,452	32	2,452
Land bank 1	75	0	400
Total	**3,700**	**213**	**41,460**

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

Group Scheme	Brought forward £'000	Reason for impairment
Active development scheme 1	140	Cost to value exceeds 100%
Active development scheme 2	35	Above 4% excess on outturn
Active development scheme 3	37	Cost to value exceeds 100%
Active development scheme 4	10	Cost to value exceeds 100%
Active development scheme 5	229	Cost to value exceeds 100%
Affordable rent scheme 1	139	NBV exceeded recoverable amount
Affordable rent scheme 2	189	NBV exceeded recoverable amount
General needs scheme 1	367	NBV exceeded recoverable amount
High rise block 1	3,490	Cost of remedial works
Total	**4,636**	

Association Scheme	Brought forward £'000	Reason for impairment
Active development scheme 1	140	Cost to value exceeds 100%
Active development scheme 2	35	Above 4% excess on outturn
Active development scheme 3	37	Cost to value exceeds 100%
Active development scheme 4	10	Cost to value exceeds 100%
Active development scheme 5	229	Cost to value exceeds 100%
Affordable rent scheme 1	139	NBV exceeded recoverable amount
Affordable rent scheme 2	189	NBV exceeded recoverable amount
General needs scheme 1	367	NBV exceeded recoverable amount
High rise block 1	3,490	Cost of remedial works
Total	**4,636**	

Properties held for security

The Group had 28,548 properties pledged as security at 31 March 2023 with a net book value of £1,648.4m (2022: 28,327 properties, £1,643.2m). The Group had 5,278 completed assets that have not been charged, with a net book value of £438.4m (2022: 4,454 properties, £302.7m). There are some properties that are not suitable for security charging.

The Association had 27,259 properties pledged as security at 31 March 2023 with a net book value of £1,598.8m (2022: 27,088 properties, £1,591.9m). The Association had 4,806 completed assets that have not been charged, with a net book value of £412.0m (2022: 4,300 assets, NBV £290.9m). There are some properties that are not suitable for security charging.

Notes to the financial statements

16. Other tangible fixed assets

Group	Freehold office £'000	Furniture and office equipment £'000	Computer equipment £'000	Total £'000
Cost or valuation				
At 1 April 2022	582	10,212	13,684	**24,478**
Additions	-	2,162	1,739	**3,901**
Assets acquired	110	-	-	**110**
Disposals	(11)	(458)	(260)	**(729)**
At 31 March 2023	**681**	**11,916**	**15,163**	**27,760**
Depreciation				
At 1 April 2022	420	5,316	8,353	**14,089**
Charge for the year	5	666	3,066	**3,737**
Disposals	(61)	(80)	-	**(141)**
At 31 March 2023	**364**	**5,902**	**11,419**	**17,685**
Net book value				
At 31 March 2023	**317**	**6,014**	**3,744**	**10,075**
At 31 March 2022	162	4,896	5,331	**10,389**

16. Other tangible fixed assets

Association	Freehold office £'000	Furniture and office equipment £'000	Computer equipment £'000	Total £'000
Cost or valuation				
At 1 April 2022	579	9,632	13,686	**23,897**
Additions	-	1,637	1,739	**3,376**
Disposals	(90)	(94)	(261)	**(445)**
At 31 March 2023	**489**	**11,175**	**15,164**	**26,828**
Depreciation				
At 1 April 2022	422	5,268	8,353	**14,043**
Charge for the year	-	635	3,066	**3,701**
Disposals	(61)	(80)	-	**(141)**
At 31 March 2023	**361**	**5,823**	**11,419**	**17,603**
Net book value				
At 31 March 2023	128	5,352	3,745	**9,225**
At 31 March 2022	157	4,364	5,333	9,854

17. Fixed asset investments

Name	Country of incorporation	Proportion of voting rights/ ordinary share capital	Nature of business	Nature of entity
Stonewater (2) Limited	England	100%	Registered provider of social housing	Registered Social Landlord
Stonewater (5) Limited	England	100%	Registered provider of social housing	Registered Social Landlord
Greenoak Housing Association Limited	England	100%	Registered provider of social housing	Registered Social Landlord
Stonewater Procurement Limited	England	100%	Non-Trading	Incorporated company
Stonewater Funding PLC	England	100%	Funding/Finance company	Incorporated company
Stonewater Commercial Limited*	England	100%	Dormant company	Incorporated company
Stonewater Developments Limited*	England	100%	Development/Building company	Incorporated company
Thakeham Newick LLP	England	50%	Development/Building company	Limited liability partnership

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

*The Association has indirect ownership of these companies.

In February 2023 Stonewater entered into a joint venture with Thakeham. At 31 March 2023 Stonewater Limited owns 50% of the Thakeham Newick LLP and has lent Thakeham Newick LLP £3.684m in total, which has been provided by a senior loan of £6.3m from Stonewater Limited and a junior loan of £1m from Stonewater Developments Limited, The partnership has been formed to develop a site at Newick, East Sussex, delivering 39 homes in total.

At 31 March 2023 Stonewater Limited's share of the net liabilities and operating loss for the period in the joint venture was £18k (2022: £nil).

18. Properties held for sale

	Group 2023 £'000	Group 2022 £'000	**Association 2023 £'000**	Association 2022 £'000
Housing properties for sale:				
Shared ownership work in progress	**53,008**	40,987	**51,329**	40,158
Shared ownership completed properties	**6,854**	1,752	**6,854**	1,752
Open market sales	**-**	951	**-**	-
Other property sales	**1,018**	1,471	**1,018**	1,406
	60,880	45,161	**59,201**	43,316

Notes to the financial statements

19. Trade and other debtors

Debtors: amounts due within one year	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Rent and service charge arrears	11,455	11,841	10,857	11,353
Less: Provision for doubtful debts	(3,216)	(3,660)	(2,995)	(3,461)
	8,239	8,181	7,862	7,892
Service costs to be charged in future periods	5,866	4,686	5,267	4,154
Amounts owed by Group undertakings	-	-	1,405	1,355
Other debtors	73,633	1,430	73,116	1,277
Prepayments and accrued income	2,697	2,268	2,710	2,268
Social housing grants receivable	8,029	8,583	8,029	8,583
Amounts due from joint ventures	4,684	-	3,684	-
	103,148	25,148	102,073	25,529

Amounts owed by Group undertakings represent intercompany balances which are unsecured, interest free and are settled throughout the year.

Included in other debtors is £70m due from the Affordable Homes Guarantee Scheme (AHGS) as the property security was not in place at the time of the bond issue. This was released to cash in April 2023 when the property security was charged. In addition, £2.1 million was placed in a restricted account for the scheme to cover future obligations as set out by the scheme rules. The primary objective of the scheme is to provide long-term, lower-cost, fixed rate debt to registered providers to enable them to deliver more affordable homes than would otherwise have been the case.

20. Restricted cash

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Brought forward	4,653	4,646	4,653	4,645
Additions	4,118	7	2,181	8
Transferred out	(1,544)	-	(1,544)	-
Carried forward	7,227	4,653	5,290	4,653

Restricted cash primarily represents cash which is held in escrow as part of the Group and Association's financing arrangements.

21. Creditors: amounts falling due within one year

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Housing loans external (note 25)	16,698	21,823	16,513	21,463
Issue costs (note 25)	(1,491)	(1,330)	(1,231)	(1,083)
Housing loans internal (note 25)	-	-	6	185
Issue costs internal (note 25)	-	-	(215)	(181)
Trade creditors	84	1,637	83	1,637
Amounts owed to group undertakings	-	-	32,400	31,389
Taxation and social security	1,904	2,128	1,895	1,958
Other creditors	19,506	14,172	16,237	13,533
Accruals and deferred income	26,209	23,304	13,784	13,930
Retentions	7,061	5,828	-	-
Accrued interest	6,611	6,786	2,358	2,513
Deferred capital grant (note 23)	7,224	7,126	7,044	6,945
Recycled capital grant fund (note 24)	5,709	3,185	5,270	3,045
Derivatives financial instruments (note 26)	1,775	6,607	1,775	6,607
Leaseholder sinking fund	8,002	6,866	7,190	6,144
	99,292	98,132	103,109	108,085

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

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Housing loans external (note 25)	1,367,386	1,225,206	615,458	476,954
Issue costs external (note 25)	(8,817)	(8,220)	(3,958)	(3,267)
Bond on lending (note 25)	-	-	669,813	669,702
Issue costs internal (note 25)	-	-	(3,289)	(3,334)
Deferred capital grant (note 23)	686,944	658,266	673,119	644,230
Recycled capital grant fund (note 24)	4,844	6,925	4,713	6,568
Derivatives financial instruments (note 26)	10,196	36,118	10,196	36,117
	2,060,553	1,918,295	1,966,052	1,826,970

Notes to the financial statements

23. Deferred capital grant

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
At 1 April	**665,392**	651,385	651,175	636,932
Grants received during the year	**36,768**	19,783	36,766	19,782
Transfer to RCGF (note 24)	**(2,420)**	(2,178)	(2,357)	(2,120)
Transfer from RCGF (note 24)	**2,221**	3,140	2,221	3,139
Released to income in the year (note 5)	**(7,308)**	(7,139)	(7,103)	(6,956)
Write back amortisation on disposals (note 15c)	**1,532**	425	1,478	422
Other movements	**(2,017)**	(24)	(2,017)	(24)
At 31 March	**694,168**	665,392	680,163	651,175
Amounts due for repayments:				
- within one year (note 21)	**7,224**	7,126	7,044	6,945
- greater than one year (note 22)	**686,944**	658,266	673,119	644,230
	694,168	665,392	680,163	651,175

24. Recycled capital grant fund (RCGF)

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
At 1 April	**10,109**	11,052	**9,613**	10,613
Inputs to fund:				
Grants recycled from deferred capital grants (note 23)	**2,420**	2,178	**2,357**	2,120
Interest accrued (note 13)	**245**	19	**234**	19
Recycling of grant:				
New build (note 23)	**(2,221)**	(3,140)	**(2,221)**	(3,139)
At 31 March	**10,553**	10,110	**9,983**	9,613
Amounts due for repayments:				
- within one year (note 21)	**5,709**	3,185	**5,270**	3,045
- greater than one year (note 22)	**4,844**	6,925	**4,713**	6,568
	10,553	10,110	**9,983**	9,613

25. Loans and borrowings

Group Maturity of debt	Bank loans 2023 £'000	Bond finance 2023 £'000	Other loans 2023 £'000	Total 2023 £'000
In one year or less, or on demand	15,768	548	382	**16,698**
Issue costs <1 year	(1,195)	(296)	-	**(1,491)**
Within one year (note 21)	14,573	252	382	**15,207**
In more than one year but not more than two years	15,872	567	425	**16,864**
In more than two years but not more than five years	194,748	2,504	1,590	**198,842**
After five years	213,379	927,839	10,462	**1,151,680**
Issue costs	(3,189)	(5,628)	-	**(8,817)**
Greater than one year (note 22)	420,810	925,282	12,477	**1,358,569**
Total loans	**435,383**	**925,534**	**12,859**	**1,373,776**

During the year, the Group received proceeds of £70m from the Affordable Homes Guarantee Scheme (AHGS). All of the bank loans mature by 2036. Of the £931m bond finance, £615m has a repayment date between 2040 and 2050.

The Group has entered into floating to fixed interest rate swaps. These are accounted for as a cash flow hedge (note 26).

Loans are secured by specific charges on the housing properties of the Group. Total loan facilities at 31 March 2023 were £1,861m (2022: £1,719m) of which £477m were undrawn (2022: £472m). The amount of drawn debt secured on property assets is £1,384m (2022: £1,247m).

Before hedging is applied, the Group has 75% fixed interest rates, with an average rate of 2.8%. The 25% variable interest rates are at SONIA plus margin.

Group Maturity of debt	Bank loans 2022 £'000	Bond finance 2022 £'000	Other loans 2022 £'000	Total 2022 £'000
In one year or less, or on demand	18,663	2,818	342	21,823
Issue costs <1 year	(1,054)	(276)	-	(1,330)
Within one year (note 21)	17,609	2,542	342	20,493
In more than one year but not more than two years	15,768	2,977	382	19,127
In more than two years but not more than five years	136,888	10,185	1,427	148,500
After five years	190,490	856,038	11,051	1,057,579
Issue costs	(2,614)	(5,606)	-	(8,220)
Greater than one year (note 22)	340,532	863,594	12,860	1,216,986
Total loans	358,141	866,136	13,202	1,237,479

Notes to the financial statements

25. Loans and borrowings (continued)

Association Maturity of debt:	Bank loans 2023 £'000	Bond finance 2023 £'000	Bond on lending 2023 £'000	Other loans 2023 £'000	Total 2023 £'000
In one year or less, or on demand (note 21)	15,768	363	6	382	**16,519**
Issue costs <1 year (note 21)	(1,195)	(36)	(215)	-	**(1,446)**
Within one year (note 21)	14,573	327	(209)	382	**15,073**
In more than one year but not more than two years	15,870	367	21	425	**16,683**
In more than two years but not more than five years	194,748	1,806	116	1,590	**198,260**
After five years	213,379	176,811	669,676	10,462	**1,070,328**
Issue costs	(3,191)	(767)	(3,289)	-	**(7,247)**
Greater than one year (note 22)	420,806	178,217	666,524	12,477	**1,278,024**
Total loans	435,379	178,544	666,315	12,859	1,293,097

The amount of drawn debt secured on property assets is £1,302m (2022: £1,168m).

Association Maturity of debt:	Bank loans 2022 £'000	Bond finance 2022 £'000	Bond on lending 2022 £'000	Other loans 2022 £'000	Total 2022 £'000
In one year or less, or on demand (note 21)	18,662	2,459	185	342	21,648
Issue costs <1 year (note 21)	(1,054)	(29)	(181)	-	(1,264)
Within one year (note 21)	17,608	2,430	4	342	20,384
In more than one year but not more than two years	15,768	2,626	171	381	18,946
In more than two years but not more than five years	136,889	8,999	617	1,426	147,931
After five years	190,491	109,323	668,914	11,051	979,779
Issue costs	(2,613)	(654)	(3,334)	-	(6,601)
Greater than one year (note 22)	340,535	120,294	666,368	12,858	1,140,055
Total loans	358,143	122,724	666,372	13,200	1,160,439

Bond on lending is the process by which funds raised by Stonewater Funding PLC are on lent to Group members

26. Financial Instruments

The Group's financial instruments held at fair value through the profit and loss may be analysed as follows:

Group	Note	Group 2023 £'000	Group 2022 £'000
Derivative financial instruments designated as cash flow hedges due within one year	21	**1,414**	5,188
Other derivative financial instruments due within one year	21	**361**	1,419
Derivative financial instruments designated as cash flow hedges > one year	22	**5,516**	24,047
Other derivative financial instruments > one year	22	**4,680**	12,070
Total		**11,971**	42,724

To hedge the volatility of floating interest rates that it is charged on bank loans, the Group has entered into standalone derivatives with a notional amount of £195.6m (2022: £195.6m). All the derivatives are interest rate swaps with the majority swapping floating rates of interest to fixed rates of interest. For accounting, where possible the Group designates a hedging relationship between the derivative and the bank loan (the hedged item). Swaps with a notional amount of £117.6m (2022: £119.0m) have been designated as cash flow hedges.

Over the next seven years swaps with a notional amount of £70.3m (2022: £77.5m) which are designated as cash flow hedges will mature.

There was a £22.0m (2022: £24.1m)reduction in the fair value of hedging value of hedging instruments recognised in other comprehensive income, comprising £4.0m (2022: £4.5m) recycled from the cash flow hedge reserve, and £18.0m (2022: £19.6m) being the year end revaluation of hedging financial instruments.

The derivatives which are not designated for accounting purposes as cash flow hedges still reduce the volatility of Stonewater's floating interest rate exposure. The majority of these swaps mature in the period 2027 and then 2031-2035.

Overall, the Group pays 3.6% (2022: 3.5%) fixed and receives SONIA (though cash flows are settled on a net basis) on its standalone swap portfolio. After taking into account the derivatives, the Group pays an average interest rate on its borrowings of 3.3% (2022: 3.4% per annum).

The cash flows of the instruments were analysed to identify the payments and receipts due within one year and these are disclosed above and in Note 21.

27. Provisions for liabilities and charges

Group	Dilapidations £'000	Total £'000
At 1 April 2022	**541**	**541**
Charged to profit or loss	**(182)**	**(182)**
At 31 March 2023	**359**	**359**

Association	Dilapidations £'000	Total £'000
At 1 April 2022	**541**	**541**
Charged to profit or loss	**(182)**	**(182)**
At 31 March 2023	**359**	**359**

Notes to the financial statements

28. Share capital

Authorised, allotted, called up and fully paid	2023	2022
	£	£
11 (2022 - 11) shares of £1 each	11	11

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

29. Operating leases

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

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Amounts payable as lessee:				
Not later than one year	606	616	606	616
Later than one year and not later than five years	1,463	1,708	1,463	1,708
Later than five years	-	42	-	42
	2,069	2,366	2,069	2,366

30. Capital commitments

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Commitments contracted but not provided for construction	734,000	758,191	732,247	755,499
Commitments approved by the Board but not contracted for construction	105,004	134,240	105,004	134,239
Total	839,004	892,431	837,251	889,738

The above capital commitments for the Group are projected to be funded from £156.3m SHG (2022: £139.9m) and property sales of £192.7m (2022: £186m) with the remainder funded from operating cash flow and external borrowings £490m.

Capital commitments for the Association will be funded from £155m SHG, with the remainder funded from property sales £192.7m and external borrowing/surplus £489.6m.

31. Pensions

Three schemes are operated by the Group. The tables below set out the impact of the pension scheme movements on the statement of other comprehensive income, and the statement of financial position.

Other comprehensive income	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Actuarial gains/(losses)				
DCC	2,482	840	2,482	840
SHPS	(3,067)	7,240	(3,067)	7,240
Total	(585)	8,080	(585)	8,080

Statement of financial position	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Pension liability				
DCC	1,906	4,336	1,906	4,336
SHPS	16,485	16,669	16,485	16,669
	18,391	21,005	18,391	21,005

a. The Social Housing Pension Scheme (SHPS) defined benefit scheme

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

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, 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 2020. This valuation revealed a deficit of £1,560m. A Recovery Plan has been put in place with the aim of removing this deficit by 31 March 2028.

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

For accounting purposes, a valuation of the scheme is carried out with an effective date of 30 September each year. The liability figures from this valuation are rolled forward for accounting year-ends from the following 31 March to 28 February inclusive.

The latest accounting valuation was carried out with an effective date of 30 September 2022. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March 2023 to 29 February 2024 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.

b. Defined benefit pension scheme Dorset County Council (DCC)

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

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2022 by a qualified independent actuary. Contributions to the scheme are made by the Group based on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees. The latest valuation was carried out as at 31 March 2022 and set contributions for the period from 1 April 2023 to 31 March 2026. The actuarial gain for the year of £2,482,000 (2022: gain of £840,000) has been recognised in the statement of comprehensive income.

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

c. Social Housing (SHPS) Defined contribution scheme

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

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

Notes to the financial statements

31. Pensions (continued)

	DCC 2023 £'000	SHPS 2023 £'000	**Total 2023 £'000**	Total 2022 £'000
Fair value of plan assets	5,636	74,028	**79,664**	119,662
Present value of plan liabilities	(7,542)	(90,513)	**(98,055)**	(140,667)
Net pension scheme liability	**(1,906)**	**(16,485)**	**(18,391)**	**(21,005)**
Reconciliation of fair value of plan assets:				
At the beginning of the year / initial recognition	6,192	113,470	**119,662**	115,073
Interest income on plan assets	158	3,161	**3,319**	2,489
Return on assets less interest	(440)	(42,399)	**(42,839)**	2,028
Other actuarial gains	(67)	-	**(67)**	-
Administration expenses	(5)	-	**(5)**	(5)
Contributions by employer	141	3,745	**3,886**	3,514
Contributions by fund participants	18	-	**18**	16
Estimated benefits paid plus expenses	(361)	(3,949)	**(4,310)**	(3,453)
At the end of the year	**5,636**	**74,028**	**79,664**	**119,662**
Reconciliation of present value of plan liabilities				
Defined benefit obligation at start of period / initial recognition	(10,528)	(130,139)	**(140,667)**	(146,858)
Current service cost	(77)	-	**(77)**	(84)
Expenses	-	(80)	**(80)**	(82)
Interest expense	(269)	(3,575)	**(3,844)**	(3,132)
Contributions by plan participants	(18)	-	**(18)**	(16)
Actuarial gains/(losses) due to scheme experience	(926)	1,420	**494**	(6,706)
Actuarial gains due to changes in demographic assumptions	271	216	**487**	2,075
Actuarial gains due to changes in financial assumptions	3,644	37,696	**41,340**	10,683
Benefit paid and expenses	361	3,949	**4,310**	3,453
At the end of the year	**(7,542)**	**(90,513)**	**(98,055)**	**(140,667)**
Amounts recognised in the statement of comprehensive income are as follows:				
Included in administrative expenses				
Service costs	77	-	**77**	84
Administration expenses	5	80	**85**	87
	82	80	**162**	171
Amounts included in other finance costs				
Net interest costs (note 13)	111	414	**525**	643

31. Pensions (continued)

	DCC 2023 £'000	SHPS 2023 £'000	**Total 2023 £'000**	Total 2022 £'000
Analysis of actuarial loss recognised in other comprehensive income				
(Loss)/return on fund assets in excess of interest	(440)	(42,399)	**(42,839)**	2,028
Other actuarial losses	(67)	-	**(67)**	-
Gains in financial assumptions	3,644	37,696	**41,340**	10,683
Gains in demographic assumptions - gains	271	216	**487**	2,075
Experience (loss)/gain on defined benefit obligation	(926)	1,420	**494**	(6,706)
Total actuarial (losses)/gain	2,482	(3,067)	**(585)**	8,080

	DCC 2023 £'000	SHPS 2023 £'000	**Total 2023 £'000**	Total 2022 £'000
Composition of plan assets				
Equities	3,514	1,381	**4,895**	25,067
Liability driven investment	30	34,095	**34,125**	32,431
Cash	94	723	**817**	825
Other bonds	367	-	**367**	7,881
Diversified growth fund	379	-	**379**	408
Property	453	5,420	**5,873**	6,564
Infrastructure	427	8,456	**8,883**	8,507
Multi asset credit	372	-	**372**	284
Secured income funds	-	-	**-**	8,856
Debt	-	5,560	**5,560**	28,839
Alternatives	-	18,393	**18,393**	-
Total	5,636	74,028	**79,664**	119,662

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2023 was a loss of £39,520,000 (2022: £4,517,000).

	DCC 2023 %	SHPS 2023 %	**DCC 2022 %**	SHPS 2022 %
Principal actuarial assumptions used at the statement of financial position date:				
Discount rate	4.8	4.87	**2.6**	2.79
Future salary increases	3.85	3.76	**4.35**	4.17
Future pension increases	2.85	2.76	**3.35**	2.91
Inflation assumptions - RPI	-	3.19	**-**	3.54
Inflation assumptions - CPI	2.85	2.76	**3.35**	3.17
Maturity rates:				
For a male ages 65 now	22.2	21.0	**23.1**	21.1
For a female aged 65 now	24.2	23.4	**24.7**	23.7
At 65 for a male member aged 45 now	23.5	22.2	**24.4**	22.4
At 65 for a female member aged 45 now	25.6	24.9	**26.1**	25.2

Notes to the financial statements

32. Related party disclosures

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

During the year end 31 March 2023, Stonewater Limited acquired land from Greenoak Housing Association, a subsidiary of Stonewater Group, for £1.925m.

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

The Association recharges the staff costs to Stonewater Developments Limited.

The Association provides management services to other Group companies including non-regulated entities. The management fee is calculated under different methods which includes number of units in each company, development spend and asset spend. For non-regulated entities, the management fee is based on % of corporate overheads. The intercompany agreement between the Association and other Group companies sets out that the management fee is determined by the Group Finance Director on the basis that the cost allocation is both fair and reasonable.

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

	2023	2022
	£'000	£'000
Staff costs recharge to Stonewater Developments Limited	**2,856**	2,132
Management services provided to Stonewater Developments Limited and Stonewater Funding PLC	**539**	508

Intra Group costs

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

The Association receives financial services from Stonewater Funding PLC.

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

	2023	2022
	£'000	£'000
Charge for the design and build service provided by Stonewater Development Limited	**119,631**	94,348
2.5% admin charge from Stonewater Development	**2,991**	2,360
Charge for development services provided by Stonewater Developments Limited	**27,293**	28,419
2.5% admin charge from Stonewater Developments Limited	**682**	707
Management fee charged by Stonewater Funding PLC	**315**	318

Intra Group liabilities

Stonewater Limited has loans in place with Stonewater Funding PLC. At 31 March 2023 the outstanding amount was £669.9m (2022: £669.9m).

Stonewater (5) Limited has a loan in place with Stonewater Funding PLC. At 31 March 2023 the outstanding amount was £78.2m (2022: £78.2m).

	2023	2022
	£'000	£'000
Loan balance provided by Stonewater Funding PLC (after issue costs) (note 25)	**748,371**	748,084
Interest charged by Stonewater Funding PLC	**21,960**	19,595

Under the facilities, the loans, which are repayable at various dates through to 2050, are secured by fixed charges over the housing properties of Stonewater Limited and Stonewater (5) Limited; cross guarantees cover any shortfall in the security and any unpaid interest and fees in respect of the loans.

At 31 March 2023, the potential shortfall covered by the guarantee was nil as the valuation of the security provided by Stonewater Limited and Stonewater (5) exceeded the amount required.

33. Net debt reconciliation

	1 April 2022	Cash flows	Other non-cash changes	**31 March 2023**
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	136,685	(77,373)	-	**59,312**
Bank loans	(358,141)	(77,956)	(3,670)	**(439,767)**
Bond finance	(866,136)	9,966	(75,288)	**(931,458)**
Other loans	(13,202)	337	6	**(12,859)**
Derivatives	(42,724)	4,343	26,410	**(11,971)**
Net debt	**(1,143,518)**	**(140,683)**	**(52,542)**	**(1,336,743)**

The definition of debt in the gearing covenants in Stonewater's loan facilities does not include the mark to market of derivatives.

34. Contingent liabilities

Stonewater has been notified by the administrators of Armour Risk Management of a potential legal claim of which the maximum potential payment is £1,211,574.

As at 31 March 2023, Stonewater is uncertain as to the potential outcome of the case and is currently disputing this through its solicitors.

35. Mergers

On 31 March 2023, Stonewater (2) a registered provider of social housing, effected a transfer of engagement to the ultimate parent of the Group, Stonewater Limited.

At 31 March 2023, Stonewater Limited had net assets of £356m and Stonewater (2) Limited £138 m. No material adjustments were required to align accounting policies.

The following tables present the results for each entity pre-merger and the combined post-merger figures. The post-merger figures include eliminations of where the entities had intercompany transactions and are therefore not simply the sum of the two entities for each line.

	Pre-merger		Post-merger
Analysis of comprehensive income 2022/23	**Stonewater Limited**	**Stonewater (2) Limited**	**Stonewater Limited**
	£'000	**£'000**	**£'000**
Operating surplus	**36,613**	**15,943**	**52,556**
Surplus on sale of fixed assets	9,866	4,179	14,045
Interest receivable	351	167	518
Interest and financing costs	(25,723)	(14,475)	(40,198)
Movement in fair value of financial instruments	3,921	5,597	9,518
Surplus for the year	**25,028**	**11,411**	**36,439**
Actuarial (loss) on pension schemes	(585)	0	(585)
Change in fair value of hedged financial instruments	2,232	1,783	4,015
Year-end revaluation of hedging instruments	7,697	9,525	17,222
Total comprehensive income	**34,372**	**22,719**	**57,091**

Notes to the financial statements

35. Mergers (continued)

Analysis of comprehensive income 2021/22	Pre-merger		Post-merger
	Stonewater Limited	Stonewater (2) Limited	Stonewater Limited
	£'000	£'000	£'000
Operating surplus	**34,030**	19,741	53,771
Surplus on sale of fixed assets	7,164	3,580	10,744
Interest receivable	215	22	237
Interest and financing costs	(23,783)	(12,865)	(36,648)
Movement in fair value of financial instruments	(4,458)	1,875	(2,583)
Surplus for the year	**13,168**	**12,353**	**25,521**
Actuarial gain on pension schemes	4,778	3,302	8,080
Change in fair value of hedged financial instruments	1,123	3,357	4,480
Total comprehensive income	**19,069**	**19,012**	**38,081**

Combinations that are in substance a gift

On 31 December 2022, Greenoak Housing Association (Co-operative and Community Benefit number 20859R) joined Stonewater Group, becoming a 100% subsidiary of Stonewater (5) Limited for nil consideration.

As such the excess of the fair value of assets received over the fair value of liabilities has been recognised as a gain in the statement of comprehensive income.

	Book value	Fair value	Fair value adjustment
	£'000	£'000	£'000
Fixed assets			
Housing properties	21,599	24,080	2,481
Other tangible fixed assets	230	110	(120)
	21,829	**24,190**	**2,361**
Current assets			
Rent and service charge arrears	48	48	-
Other debtors	116	116	-
Cash and bank and in hand	4,561	4,561	-
	4,725	**4,725**	**-**
Creditors: amounts falling due within one year	(579)	(579)	-
Net current assets	**4,146**	**4,146**	**-**
Total assets less current liabilities	**25,975**	**28,336**	**2,361**
Creditors: amounts falling due after more than one year			
Loans	(6,618)	(6,400)	218
Social housing grant	(7,676)	-	7,676
Total net assets	**11,681**	**21,936**	**10,255**

The fair value of assets acquired on 31 December 2022, as set out in the note above, is £21,936k. The value of the gift, net assets recognised on the statement of comprehensive income is £21,356k. The difference relates to fees that have been incurred as part of the business combination.

Description	Amount £'000
Fair value gain on acquisition	21,936
Less: fees incurred as part of business combination	(580)
Total	**21,356**

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