

STONEWATER FUNDING PLC STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ending 31 March 2020



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Directors

The directors who have held office during the year were:

John Bruton
Tariq Kazi
Chris Edis (from 1 July 2020)

John Weguelin (until 30
September 2019)

Nicholas Harris
Hugh Shields (Chair, from 1 July 2020)
Peter Hammond (Chair, until 31 March
2020)
George Blunden (until 30 September
2019)

Secretary and registered office

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

Principal bankers

Barclays Bank
Level 27
1 Churchill Place
London
E14 5HP

Principal solicitors

Devonshires Solicitors
30 Finsbury Circus
London EC2M 7 DT

Auditors

BDO LLP
55 Baker Street
London
W1 7EU

Company registered number: 8190978

Strategic report and Directors' report

Strategic report

Principal activities

The principal activity of Stonewater Funding PLC ("the company") is to act as the capital markets issuance vehicle for the Stonewater Group.

Business review

Turnover for the year was £11.9m (2019: £10.1m) which predominantly consisted of interest receivable from group companies and management fees.

A gift aid payment of £148,500 was pledged to Stonewater (5) Limited for the year (2019: £72,795), of which £25,000 was paid in the year, and £123,500 will be paid within 9 months of year end.

In September 2019, Stonewater Funding PLC issued another £25m of its retained 3.375% Bond maturing November 2045. The bonds were issued at a premium, and the net clean proceeds were £28.9m. Proceeds were on lent to Stonewater (5) Ltd in January 2020 for general corporate funding purposes.

Also in September 2019, Stonewater Funding PLC issued a further £28m of the 3.375% Bonds maturing November 2045 on a deferred basis, for settlement in September 2021. The bonds were issued at a premium, and the net clean proceeds will be £30.0m.

In total Stonewater Funding has £103m of bonds that it has sold on a deferred basis which will fund in March and September 2021. £72m of the 3.375% bond remains retained by the company.

In November 2019, the company extended its shelf facility with PGIM Inc, for an amount up to US\$75m, which allows it to issue Senior Secured Notes with maturities up to 30 years. This shelf facility will be available for Stonewater Funding PLC for a period of 3 years from Nov 2019.

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

The Notes issued to PGIM Inc and the US Private Placement have Group financial covenants: Interest Cover of 1:1 (annual) and 1.1:1 (3 years); Gearing: Total Debt not to exceed 70% of historic cost of properties. The bond issues do not have financial covenants.

Both the bonds and the notes are secured by the assets of each borrower to whom proceeds are on lent, and there are cross guarantees in place if on enforcement there is a shortfall in security.

In December 2019, S&P Global revised its rating outlook for Stonewater Limited from negative to stable and re-affirmed its A+ long-term issuer credit rating. It also re-affirmed the A+ rating on bonds issued by Stonewater Funding PLC.

Future outlook

The company will continue to act as the capital markets issuance vehicle for the Stonewater group.

Strategic report and Directors' report

Principal risks and uncertainties

The company on-lends the proceeds from its funding to three of the Group's Registered Providers: Stonewater Ltd, Stonewater (2) Ltd and Stonewater (5) Ltd.

The main risk facing the company is that it is unable to make interest or principal payments to the Note and Bondholders when they fall due. This risk is mitigated as the company on lends funds under secured loan agreements which are backed by the housing assets of each borrower; and cross guarantees which cover any shortfall in the security and any unpaid interest and fees in respect of the loans. If there are any payments which are not made to Stonewater Funding PLC, or if the borrowers are in breach of the loan agreement with the company in another way, then the company can enforce the security under the loan agreement.

Further risk mitigation is evidenced by the annual credit ratings given by S&P Global Ratings and Moody's Investor Services which evidence that the financial performance of the Stonewater Group is deemed to be strong.

The risks arising from the Covid-19 pandemic relate to the ability of the entities to which the company has made loans (all of which are members of the Stonewater group) to continue to meet their obligations under the loans. These are addressed in the going concern section of the Accounting policy note.

Financial risk management

Risk management objectives and policies

The Group finance team is responsible for the management of funds and control of associated risks and is accountable to the Stonewater Limited Board and the Stonewater Funding PLC Board.

Interest rate risk/hedging

The company currently borrows on a fixed rate basis from the capital market and then on lends these funds to Stonewater Limited, Stonewater (2) Ltd and Stonewater (5) Ltd on a similar fixed rate basis. As such, the company does not bear any risk, apart from the underlying credit risk of Stonewater Limited, Stonewater (2) Ltd and Stonewater (5) Ltd, which is discussed below. The company does not have any hedging activities.

Credit risk

All of the company's capital markets financing proceeds are on lent to Stonewater Limited, Stonewater (2) Ltd and Stonewater (5) Ltd, which represent the only credit risk to the company. The credit risk is mitigated through a number of factors, including the housing asset security which stands behind the loans to Stonewater Limited, Stonewater (2) Ltd and Stonewater (5) Ltd, the overall creditworthiness of the Group, the guarantees that Stonewater Limited, Stonewater (2) Ltd and Stonewater (5) Ltd have issued to the company and the contractual protections in the loan agreements themselves.

Strategic report and Directors' report

Risk and Assurance

The Group Risk and Assurance Committee is responsible for ensuring that internal controls are adequate and effective and that the organisation's approach to risk management is commensurate with risk appetite. The committee approves the internal audit work plan and reviews internal audit findings. It considers significant issues relating the financial statements and also recommends the appointment of internal and external auditors.

Section 172 statement

The company was formed for the sole purpose of raising debt finance for the Stonewater Group. It is a wholly owned subsidiary and does not have any employees. The directors, accordingly, do not consider that the interests of the company's employees, the impact of the company's operations on the community and the environment or the need to act fairly between members of the company are relevant to the proper discharge of their duty under section 172. Each of these factors is considered by the wider group. Given the purpose of the company the relevant stakeholder groups are therefore the investors in the listed debt and the parent group.

The Board of Stonewater Funding Plc consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of those stakeholders, and in doing so have regard (amongst other matters) to:

- a) the likely consequences of any decision in the long term,
- b) the need to foster the company's business relationships with suppliers, customers and others, and
- c) the desirability of the company maintaining a reputation for high standards of business conduct.

As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours. The intention is to nurture our reputation, through both the construction and delivery of our plan, that reflects our responsible behaviour.

The Board considers the following to be the key decisions and considerations it has made during the year to 31 March 2020.

Board decision

The Board considered and agreed the long-term strategy for the sole customer, the Stonewater Group.

Consideration

The need to put in place long-term business plans. This impacts all stakeholders as a robust strategy is the foundation for maintaining the trust of all our external stakeholders.

The Board approved the raising of finance in the US Private Placement market. The amount raised was limited by the disruption to the market at the time caused by Covid-19.

The need to respond to the financing needs of the Stonewater Group as determined by its business plan, and raise funding on competitive terms.

Strategic report and Directors' report

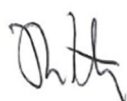
The Board held talks outside the usual Board meeting cycle and discussed and agreed the need to inform the market of the impact of Covid-19.

The need for transparency and to ensure an accurate information flow to the market, particularly concerning the unexpected impact of Covid-19.

The Board made the decision to Gift Aid profits to Stonewater (5) Limited.

This promotes the wider aims of the Stonewater Group in meeting the needs of its charitable beneficiaries.

The strategic report was approved on 17 July 2020 and signed on its behalf by:



John Bruton
Director

17 July 2020

Strategic report and Directors' report

Directors' report

The Directors present their report and financial statements for the year ended 31 March 2020.

Directors

The Directors who have held office in the year are listed under Directors and advisors on page 1.

Policy on payment of creditors

The company does not have any suppliers. Payments of interest to the bond and note holders are made by the due date as per the bond document.

Dividends

No dividends were recommended during the current year (2019: nil).

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a board member to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information. So far as they are aware there is no relevant audit information which they have not made the auditor aware of.

Auditor

BDO were re-appointed as Stonewater's external auditors for 2019/20 on 23 July 2019, by the Risk and Assurance Committee which oversees risk management and the audit function, and considers the annual financial statements and external and internal auditor's reports.

Strategic report and Directors' report

Statement of the Directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of the company and of the profit and loss of the company for the period.

In preparing these financial statements, the directors are required to:

- > Select suitable accounting policies and then apply them consistently,
- > Make judgements and estimates that are reasonable and prudent,
- > State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements,
- > Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

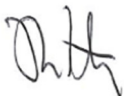
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with:-

- >The Companies Act 2006.

The directors have general responsibility for taking such steps as reasonably open to it to safeguard the assets of the company and to prevent and detect of fraud and other irregularities.

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

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



John Bruton
Director

17 July 2020

Independent auditor's report to the members of Stonewater Funding PLC

Opinion

We have audited the financial statements of Stonewater Funding PLC (the 'company') for the year ended 31 March 2020, which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2020 and of the profit for the year then ended;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company 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 and public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

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

Independent auditor's report to the members of Stonewater Funding PLC

Key audit matter

Recoverability of intercompany debt

As the company on-lends to three of the Group's Registered Providers, the principal risk facing the company is that these entities will be unable to make its interest or principal payments when they fall due. Recoverability of these balances is specifically tied to the future viability of the Group's Registered Providers and needs to be reviewed at each balance sheet date.

The directors of the company have confirmed their review of the viability assessments as demonstrated by the updated 30 year business plans prepared by the Group's Registered Providers and assessed that there are no factors or events that may cast reasonable doubt on the ability of them to continue to operate for the foreseeable future, and as a result, will be able to make their interest or principal payments when they fall due.

The updated 30 year business plans of the Groups' registered providers involve a number of subjective judgements, which have been impacted by the current Covid-19 pandemic. We have therefore spent significant audit effort in assessing the appropriateness of the assumptions involved, and as such this was identified as a Key Audit Matter.

Our response to the key audit matter

Our audit response involved the following procedures on the long term forecasts of the group to assess the ability of the registered providers to repay their debt to Stonewater Funding PLC:

- 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 company's market, strategy and profile in the customer base, and the potential impact that Covid-19 might have on these projections.
- Obtaining and assessing the availability of financing facilities, including the nature of facilities, repayment terms and financial covenants. We noted that management's detailed covenant projections show significant headroom for the duration of the period considered which is to 31 March 2027 as well as the longer term 30 year business plan.
- Consideration of the forecasts prepared by management and challenge of the key assumptions based on our knowledge of the business. As referred to in basis of preparation note, management has modelled reasonably possible downside scenarios to incorporate the expected impact of the Covid-19 pandemic. We have considered the appropriateness of the downside scenarios in respect of the impact of Covid-19 and challenged management to confirm that they have suitably addressed the inputs, which are most susceptible to change, including those in respect of revenue, margins and cost savings.
- 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. Scenarios modelled by management include a reverse stress test to analyse the impact on covenant compliance in a scenario with multiple adverse conditions including LIBOR rates, inflation, reduction in property sales and the level of voids and bad debt. We reviewed the reasonableness of the proposed mitigations and if they mitigations were entirely in the control of management to action.
- We have, in completing the review, considered the ability of the relevant Registered Providers to repay their debt to Stonewater Funding Plc as it falls due.

Independent auditor's report to the members of Stonewater Funding PLC

Key audit matter

Our response to the key audit matter

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. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality to be £120,000 (2019 - £100,000) which represents 1.0% revenue (2019 – 1.0% of revenue).

We used revenue as our chosen benchmark to determine materiality as the company on lends funds raised in the capital markets to group companies and therefore the revenue generated from these activities is the area that will have greatest impact on decisions made by users of the accounts.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 70% (2019 – 70%) of materiality. In setting the level of performance materiality. We considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Risk and Assurance Committee that misstatements in excess of £2,000 (2019 - £2,000), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the accounting processes and controls, the complexity of operations and the degree of estimation and judgement in the financial results.

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

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

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

Independent auditor's report to the members of Stonewater Funding PLC

compliance with laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and other laws and regulations application to a limited company in England.

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

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

Independent auditor's report to the members of Stonewater Funding PLC

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are 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 directors 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 directors are responsible for assessing the company'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 directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Other matters on which we are required to report

We were appointed by the directors on 23 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ending 31 March 2016 to 31 March 2020.

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

Our audit opinion is consistent with the additional report to the directors.

Independent auditor's report to the members of Stonewater Funding PLC

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP.

Philip Cliftlands, Senior Statutory Auditor

For and on behalf of BDO LLP, statutory auditor

Gatwick, United Kingdom

Date: 7 August 2020

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

Statement of comprehensive income

		2020	2019
	Note	£'000	£'000
Turnover		11,909	10,113
Administrative expenses		(72)	(121)
Operating profit		11,837	9,992
Interest payable and financing costs	4	(11,688)	(9,919)
Profit before tax		149	73
Tax on profit on ordinary activities	5	-	-
Profit and total comprehensive income for the year		149	73

All activities relate to continuing operations.

The notes on pages 17 to 23 form part of these financial statements.

Statement of financial position

Registered number: 8190978

		2020	2019
	Note	£'000	£'000
Non-current assets			
Debtors due after more than one year	6	326,055	297,343
Current assets			
Debtors due within one year	6	1,770	1,168
Cash at bank		38	1,006
		1,808	2,174
Creditors			
Creditors: amounts due in one year	7	(3,025)	(3,159)
Total assets less current liabilities			
		324,838	296,358
Creditors			
Creditors: amounts falling due after more than one year	8	(324,663)	(296,305)
Net assets			
		175	53
Capital and reserves			
Share capital	9	50	50
Income and expenditure reserve		125	3
		175	53

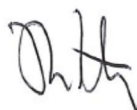
The notes on pages 17 to 23 form part of these financial statements.

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



Nicholas Harris

Director



John Bruton

Director

Statement of changes in equity

	Share Capital	Reserves
	£'000	£'000
Opening balance at 1 April 2019	50	3
Profit and total comprehensive income for the year	-	149
Distribution to group companies:		
-Transfer of taxable profit under gift aid	-	(25)
- Adjustment in relation to prior year	-	(2)
Balance at 31 March 2020	50	125
Opening balance at 1 April 2018	50	2
Profit and total comprehensive income for the year	-	73
Distribution to group companies:		
-Transfer of taxable profit under gift aid	-	(72)
Balance at 31 March 2019	50	3

The notes on pages 17 to 23 form part of these financial statements.



Notes to the financial statements

	General notes
1	Accounting policies
	Statement of comprehensive income related notes
2	Operating profit
3	Employee numbers, and Directors' remuneration
4	Interest payable and financing costs
5	Tax on surplus on ordinary activities
	Statement of financial position related notes
6	Debtors
7	Creditors: amounts falling due within one year
8	Creditors: amounts falling due after more than one year
9	Called up share capital
10	Ultimate parent undertaking and parent undertaking

Notes to the financial statements

1. Accounting policies

Stonewater Funding PLC is a public limited company, limited by shares, incorporated in England and Wales. It is a subsidiary of a public benefit entity. The registered office and number is disclosed on page 1.

The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the financial statements.

Basis of preparation

The financial statements of the Group and company are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS102 “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (FRS102).

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

The accounts are prepared under the historic cost basis, with the exception certain loans held at amortised cost where appropriate. 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 accounting policies.

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

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

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

The following principal accounting policies have been applied:

Going concern

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

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

The ability of the company to continue as a going concern is dependent on the condition of the members of the Stonewater group to which loans have been made. The Group has carried out a review of the business plans of each entity and concluded that they can be expected to continue as going concerns for at least the next 12 months from the date on which the financial statements were approved for release. Key considerations were access to liquidity, valuation of properties, expected rent arrears and bad debts and the market for new shared ownership properties that have been completed or are under construction. The Directors of the company are therefore satisfied that it can continue as a going concern itself.

Notes to the financial statements

Turnover

Turnover represents interest receivable on loans to other group companies and management fees receivable from other group companies. All turnover is generated within the UK.

Finance costs

Finance costs are charged to statement of comprehensive income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Tax and gift aid

The Company makes a qualifying donation of all taxable profits to a charitable group company. The gift aid paid during the year is reflected in the accounts and for any remaining taxable profit not paid by the year end we accrue the tax relief as we expect to pay within 9 months.

2. Operating profit

	2020	2019
	£'000	£'000
This is arrived at after charging:		
Auditors remuneration: audit services	12	12

3. Employees numbers and Directors remuneration

The directors are employed by and their remuneration is paid by Stonewater Limited.

The company does not have any employees.

The cost of employees is paid by Stonewater Limited.

Employee information, including pension costs, and directors' remuneration, are disclosed in the financial statements of Stonewater Limited, the ultimate parent company.

4. Interest payable and financing costs

	2019	2019
	£'000	£'000
Interest payable on bonds	11,956	10,203
Amortisation of bond premium	(313)	(293)
Bond discount	22	-
Bond issue fees	23	9
Total	11,688	9,919

Notes to the financial statements

5. Tax on profit on ordinary activities

Tax reconciliation	2020	2019
	£'000	£'000
Profit and total comprehensive income for the year	149	73
Transfer of taxable profit under gift aid	(27)	(72)
Gift aid pledged and to be paid within 9 months of the year end	(122)	(1)
Profit subject to Corporation Tax	-	-
Tax charge	-	-

6. Debtors

	2020	2019
	£'000	£'000
Due within one year:		
Amounts owed by group undertakings	1,770	1,168
	1,770	1,168
Due more than one year:		
Amounts owed by group undertakings	326,055	297,343
	326,055	297,343
Total debtors	327,825	298,511

Amounts due from group undertakings are due for repayment in line with the bond and note repayment obligations of the company.

7. Creditors – amounts falling due within one year

	2020	2019
	£'000	£'000
Interest accrual	1,889	1,591
Other creditors	13	9
Bond premium	453	296
Bond discounts	(28)	(22)
Issue costs	(15)	(15)
Amounts owed to group undertakings	713	1,300
	3,025	3,159

Notes to the financial statements

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

	2020	2019
	£'000	£'000
Bonds	315,289	290,289
Bond premium	11,523	7,989
Bond discount	(760)	(760)
Issue costs	(1,389)	(1,213)
	324,663	296,305

Bonds and notes

In September 2019, Stonewater Funding PLC issued another £25m of its retained 3.375% Bond maturing November 2045. The bonds were issued at a premium, and the net clean proceeds were £28.9m. Proceeds were lent to Stonewater (5) Ltd in January 2020 for general corporate funding purposes.

Also in September 2019, Stonewater Funding PLC issued a further £28m of the 3.375% Bonds maturing November 2045 on a deferred basis, for settlement in September 2021. The bonds were issued at a premium, and the net clean proceeds will be £30.0m.

In total Stonewater Funding has £103m of bonds that it has sold on a deferred basis which £75m of which will fund in March 2021 £75m and £28m in September 2021. £72m of the 3.375% bond remains retained by the company.

In November 2019, the company extended its shelf facility with PGIM Inc, for an amount up to US\$75m, which allows it to issue Senior Secured Notes with maturities up to 30 years. This shelf facility will be available for Stonewater Funding PLC for a period of 3 years from Nov 2019.

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

The Notes issued to PGIM Inc and the US Private Placement have Group financial covenants: Interest Cover of 1:1 (annual) and 1.1:1 (3 years); Gearing: Total Debt not to exceed 70% of historic cost of properties. The bond issues do not have financial covenants.

Both the bonds and the notes are secured by the assets of each borrower to whom proceeds are on lent, and there are cross guarantees in place if on enforcement there is a shortfall in security.

Notes to the financial statements

At 31 March 2020 the bonds and notes had a market value as follows:

	Market Value per £100	Total Market Value
	£	£'000
£125m of 5.034% 2042 bonds	136.25	170,310
£50m of 3.03% Series A notes	107.12	53,559
£50m of 3.06% Series B notes	107.81	53,906
£15.3m of 3.35% Series C notes	112.74	17,249
£75m of 3.375% 2045 Bonds ¹	114.29	85,714

¹ An additional £103m issued on a deferred basis with payment March and September 2021

The funds from the above issues have been lent to the other group companies who provide security for the borrowings.

The maturity of the bonds is as follows:

Maturity of Debt	Bond finance	Bond finance
	2020	2019
	£'000	£'000
In one year or less, or on demand	425	274
Issue costs <1 year	(15)	(15)
Within one year (note 7)	410	259
In more than one year but not more than two years	447	290
In more than two years but not more than five years	1,422	948
After five years	324,183	296,280
Issue costs	(1,389)	(1,213)
Greater than one year (note 8)	324,663	276,305
Total loans	325,073	276,564

9. Called up share capital

	2020	2019
	£'000	£'000
Allotted and issued and quarter paid:		
50,000 Ordinary shares of £1 each (25p paid)	13	13
Allotted and issued and unpaid:		
50,000 Ordinary shares of £1 each (75p unpaid)	37	37

The share capital of the Company consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income.

Notes to the financial statements

10. Ultimate parent undertaking and parent undertaking

The company is a subsidiary undertaking of Stonewater Limited which is the ultimate parent undertaking, a registered society under the Co-operative & Community Benefit Societies Act 2014 and a registered social housing provider with the Regulator of Social Housing.

The consolidated financial statements of Stonewater Limited are available to the public and may be obtained from the Company Secretary, Suite C Lancaster House, Grange Business Park, Enderby Road, Whetsone, Leicester, LE8 6EP.
