

Gentoo Sunderland Limited

Financial statements for the year ended 31 March 2016

Registered number: RS007303

Homes & Communities Agency (HCA) Registration Number: L4318

**Contents**

<b>STRATEGIC REPORT .....</b>	<b>3</b>
<b>OPERATING AND FINANCIAL REVIEW .....</b>	<b>4</b>
<b>MEMBERS, PROFESSIONAL ADVISORS AND BANKERS .....</b>	<b>15</b>
<b>REPORT OF THE BOARD OF MANAGEMENT.....</b>	<b>16</b>
<b>STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS.....</b>	<b>25</b>
<b>INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GENTOO SUNDERLAND LIMITED .....</b>	<b>26</b>
<b>PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME.....</b>	<b>28</b>
<b>STATEMENT OF FINANCIAL POSITION .....</b>	<b>29</b>
<b>STATEMENT OF CHANGES IN EQUITY .....</b>	<b>30</b>
<b>NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>31</b>

## **STRATEGIC REPORT**

### **Principal Activities**

Details of the principal activities can be found on pages 4 and 16.

### **Business Model**

Details of the key work streams undertaken to deliver our services can be found on page 6.

### **Business Review and Results**

Performance for the year can be found on pages 7 to 8.

### **Key Performance Indicators (KPIs)**

Details of the KPIs used and measured can be found on page 9.

### **Future Development**

Details of the future development can be found within the Operating and Financial Review on page 10.

### **Principal Risks and Uncertainties**

Details of the principal risks and uncertainties can be found on pages 11 to 12.

By order of the Board:

Approved by the Board of Members and signed on its behalf by:



Brian Spears  
Chairman  
10 August 2016

## Operating and Financial Review 31 March 2016

### Principal activities

Gentoo Sunderland is the primary asset-owning wholly owned subsidiary company of Gentoo Group (“the Group”) and is responsible for conducting the Group’s core business as a Registered Housing Provider. Where Group is referred to, this also applies to Gentoo Sunderland.

Gentoo Sunderland is a Housing Association with a vision to create great homes, strong communities and inspired people. It provides the management and landlord function to 29,704 housing units delivering a comprehensive housing management and repairs service and with a turnover of £139m, the organisation is one of the North East’s largest Housing Providers.

During the course of the year Gentoo Sunderland has had to make significant adjustments to its cost base and operating model due to the impact of the rent reduction following the July budget. Efficiencies have been made in service delivery whilst focusing on the core landlord offer and ensuring that service to customers has been maintained.

### Objectives and strategy

The Group’s vision is:

Great Homes – Strong Communities – Inspired People

The Group’s values are:

- Do the right thing
- Make a difference
- Work together
- Keep learning
- Give all you’ve got

The Association’s strategy is set out in the Group’s overall business strategy which has recently been reviewed and approved by the Group Board in March 2016. The Group Business Strategy sets the overall direction for the Group including the vision, values and strategic aims. The Group’s strategic aims are:

#### **Aim 1: Deliver outstanding service to customers so that people and communities thrive**

We will place people and communities at the heart of our delivery model providing local, responsive services tailored to individual needs. The range of services we provide will ensure that we protect our social housing assets, fulfil all expectations within the regulatory consumer standards, maximise income and promote greater tenancy and neighbourhood sustainability. We will review our service in line with the changing demographic profile and emerging needs of our customers. This is reflected in our Customer Strategy which was approved by the Group Board in May 2016. We will adopt a customer centric approach to ensure that an excellent service is delivered and that customers are given the opportunity to engage in wider community based activity.

## **Operating and Financial Review 31 March 2016 (continued)**

### **Aim 2: Actively manage our assets and develop new homes to meet local needs**

The safety and strength of the Group's asset base enables Gentoo to be financially viable, operate responsibly and deliver the objectives of the Group Business Strategy. The overall aim of our Asset Strategy is to deliver property solutions whilst protecting our assets. This will include active asset management and ensuring our stock is well maintained as well as growing the asset base through a significant development programme to meet local housing needs. This will enable the delivery of an outstanding, modern housing management service that enables individuals and neighbourhoods to thrive.

### **Aim 3: Support our people to deliver our vision and live our values**

Our people are vital to enable the vision in the most economic, effective and efficient way. As the Group re-focuses on its core activity we understand the need to create more financial and human capacity and recognise that our people are valuable assets to the Group. In order to achieve this we will create a shared clarity of purpose among all of our people. This will ensure that we create the conditions and opportunities for every employee to maximise their contribution, performance and productivity. This is articulated further in the Group's People Strategy which was approved in March 2016 and covers organisation design, learning and development, performance and reward, resource and talent planning, employee relations, organisation development, performance and metrics.

### **Aim 4: Work with others to build effective partnerships**

Gentoo operates within a wide network of partnerships and stakeholders in order to deliver its business activities. We recognise the importance of building and maintaining relationships with key partners including local authorities, government and regulatory bodies, funders, the voluntary sector and the many individuals we come into contact with. Continuing as a respected and trusted brand amongst our stakeholders and customers is crucial. Gentoo believes firmly in the ethos of social responsibility and can demonstrate that it is possible to be an effective and efficient business whilst contributing to society. We will continue to engage with our partners in order that we can maximise the contribution that the Group can make in an increasingly challenging business environment.

### **Aim 5: Be well governed and financially strong**

There is a foundational imperative for the Group to operate from a position of financial strength and effective governance. Gentoo and the sector as a whole are entering a period of unprecedented economic uncertainty and legislative challenge. Maintaining financial viability takes on even greater importance as a result of budget changes which will have a significant impact on the Group's income. The impact of the budget has been reflected in the revised 30 year business plan which demonstrates financial viability over the period. This is articulated further in the Group Finance Strategy which was approved in March 2016 and covers resources, financial governance, financial strength, financial risk management, financial information and intra group relations. The Group's governance has also been reviewed to ensure that the requisite skills and experience are in place and that the Group's approach to areas such as risk management, value for money and strategic planning are robust and compliant. The Group will seek to achieve and maintain the highest standards of governance and viability against the HCA economic standards.

The Business Strategy will be monitored by Group board through quarterly reporting. This will be supported by high level KPIs which will accompany financial reporting. The Group supporting strategies will also be reported to Group board at mid-year with exception reports where required.

## **Operating and Financial Review 31 March 2016 (continued)**

### **Business Model**

The range of services we provide ensures that we protect our social housing assets, fulfil all regulatory expectations, maximise income and promote greater tenancy and neighbourhood sustainability. Our service review programme ensures we are delivering services in line with the changing demographic profile and emerging needs of our customers. This is reflected in our Customer Strategy. We adopt a customer centric approach to ensure that an excellent service is delivered and that customers are given the opportunity to engage in wider community based activity.

Gentoo Sunderland have five business streams which define the service offer as follows:-

### **Housing Management**

The housing management service provides tenancy and estate management services to our customers including those accessing supported housing. The service provides support to our customers and delivers regular neighbourhood inspections. A particular area of support is in relation to income management and financial wellbeing. We provide a range of opportunities for our customers to access additional support whether that be one to one support covering budgeting, benefit advice or sign posting to specialist services where appropriate. We continue to carry out customer surveys to engage with our customers and understand their needs and aspirations. We also tackle issues within local areas in relation to anti-social behaviour and have a strong track record in resolving these issues.

### **Community**

We work very closely with the community and offer a range of information and opportunities for our customers to get involved. There is a structured involvement framework in place that supports resident led self-regulation and customer scrutiny. There is also a community volunteering programme in place which has grown significantly over 2015-16.

### **Repairs and Maintenance**

The repairs and maintenance service is a core function of Gentoo Group and ensures that our properties are sufficiently repaired and maintained as required at a time convenient to our customers. The services provided by our repairs and maintenance team include routine day to day repairs, void repairs, out of hours services, investment plan and specialist services such as gas servicing.

### **Grounds Maintenance**

Grounds maintenance covers all aspects of the maintenance and appearance of all Gentoo estates and associated land. Activities include but are not limited to: grass cutting, shrub and flower bed maintenance, arboriculture services, landscaping to new build properties and sites and void gardening.

### **Customer**

Gentoo Sunderland aims to ensure that the Group's brand is strengthened by delivering excellent customer services and products. Gentoo Sunderland operates the Group's customer service centre and deals with complaints and feedback ensuring that any suggestions are considered and implemented where appropriate. Customer facing services that are offered in addition to general housing management include a tenant contents insurance scheme and a concierge service.

**Operating and Financial Review 31 March 2016 (continued)**

**Performance and Development**

**Financial performance**

Turnover of £138.9m has been achieved (2015: £138.0m) and operating surplus (before donation to Group company) for the year is £30.3m (2015: £31.2m). We are reporting a surplus for the year, before taxation, of £0.2m (2015: £0.6m). This surplus includes a loss of £139k (2015: £285k profit) on land sales and the disposal of properties through 'Right to Buy' and 'Right to Acquire' and also a donation to Group company Gentoo Art of Living of £6.5m (2015: £7.2m). In addition, the figures reported include redundancy costs of £5.0m that relate to the Group's redundancy programme that commenced during the year. This deficit was in line with the Association's business plan submitted to the Homes and Communities Agency in October 2015.

The average rent has increased from £79.39 per week to £81.06 per week and our rent convergence has been achieved in line with expectations to deliver the Government's rent restructuring targets. We continue to perform strongly in respect of rent arrears and void management compared to our peers. Total current tenant arrears stood at 3.32% (of which standard arrears, i.e. payments directly from customers rather than those coming from housing benefit, was 2.16%) and void properties at 1.3% of stock. Management and maintenance costs per unit compare favourably to other large Housing Associations, as evidenced through recognised benchmarking which can be found in the Group financial statements, referred to in the Value for Money section, page 9.

**Asset Management**

We have invested over £597m modernising our housing stock over the past 15 years. In addition to this, we continue to look for opportunities to add to our development portfolio. This investment will help to ensure the long term sustainability of our housing stock.

Actively managing our housing stock is a key strategic aim of the Group. This is achieved by ensuring properties are invested in at the right time and in the right areas. This investment is delivered through our Investment programme.

Following actual capital spend of £26.3m throughout 2015-16, the total planned investment for 2016-17 is £24.3m. This investment plan is split into a number of key areas and schemes. The main areas of investment are as follows:

	<b>2015-16 actual spend £000's</b>	<b>2016-17 planned spend £000's</b>
Heating & Window Upgrade Programme	7,500	8,100
Roofing Programme	5,400	5,700
Structural Works Programme	3,800	2,000
Compliance Works	-	3,000
Refurbishment Programme	3,500	-
Other (electrical, smoke detection, modernisations)	6,100	5,500
<b>Total</b>	<b>26,300</b>	<b>24,300</b>

In addition to these schemes there are a range of other projects that have been designed to address the maintenance of the stock as well as meeting our regulatory and compliance requirements.

**Operating and Financial Review 31 March 2016 (continued)**

Within 2015-16 the Association commenced developments in connection with the HCA's 2015-18 Affordable Homes Programme which will supply 261 new homes, including 199 affordable rental properties within the city wide renewal project. The Association also achieved its targeted new build sale completions across its programme.

Within the new financial year the Association will be actively reviewing the HCA's £4.7billion Affordable Homes Programme for 2016-21 in line with the Government's intention to significantly increase new homes delivery. This is consistent with the objective within the Group Asset Strategy to deliver new homes and grow the asset base.

The table below summarises the overall results:

	2015-16	2014-15	2013-14	2012-13	2011-12
<b>Financial performance</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Turnover	138.9	138.0	130.0	125.2	128.5
Cost of sales	(10.3)	(12.5)	(8.3)	(5.9)	(21.2)
Operating costs	(98.2)	(94.6)	(90.7)	(85.3)	(103.8)
Donation to group company	(6.5)	(7.2)	(25.5)	(18.0)	-
(Deficit) / surplus on sale of fixed assets	(0.1)	0.3	-	(0.3)	0.5
<b>Operating surplus</b>	<b>23.8</b>	<b>24.0</b>	<b>5.5</b>	<b>15.7</b>	<b>4.0</b>
Interest payable and similar charges	(23.6)	(23.4)	(23.3)	(22.7)	(22.0)
Tax on surplus on operating activities	(3.8)	(4.1)	-	(1.6)	1.6
<b>Deficit for the financial year</b>	<b>(3.6)</b>	<b>(3.5)</b>	<b>(17.8)</b>	<b>(8.6)</b>	<b>(16.4)</b>
<b>Financial position</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
NBV of housing properties for letting	1,029.6	1,031.8	992.8	958.6	943.9
Revaluation and capital contribution reserves	442.2	452.7	463.2	479.0	467.7
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Current tenant rent arrears as a % of rent due*	3.3	3.2	2.8	2.8	1.9
Void loss	1.0	0.9	0.8	0.9	0.9
*including voids					
<b>Non-Financial performance</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
Stock numbers	28,923	29,030	28,980	28,975	29,160
Demolitions	23	25	68	215	271
New build	-	224	156	152	292
RTB/RTAs	84	106	94	106	20

Source: Financial statements / internal systems



## Operating and Financial Review 31 March 2016 (continued)

### Key Performance Indicators (KPIs)

KPIs are set in relation to the core activities. These targets and measurements enable benchmarking across the sector.

#### Income KPIs

The KPI targets for 2016-17 are both realistic and challenging. The budgeted income takes into account the 1% rent reduction. Whilst rents for our customers are reducing we anticipate that income collection will continue to be difficult over the coming year as the continuing impact of Welfare Reform and austerity affects our customers.

The target for current tenant arrears as a percentage of the rent debit for 2016-17 is 3.26%. This represents a 0.19% increase on the target for 2015-16 and compares favourably with the year end performance of 3.32%.

The target for rent collection as a percentage of rent due for 2016-17 is to achieve 99.89%, which is a reduction on the previous year target of 99.95% and compares to the year end performance of 99.73%.

The target for 2016-17 for former tenant arrears (FTAs) collection rates as a percentage of rent debit is 1.91%, this percentage is the same as the year end position 2015-16.

#### Void Management and Allocations KPI

The year presented us with significant challenges relating to turnover and related costs. It is anticipated that we will continue to face these challenges in the coming year as our customers feel the financial squeeze as a result of Welfare Reform and the wider austerity measures.

The target for the total number of voids at the year-end is the same as at the end of this financial year, 375 voids. This represents 1.30% of the total stock.

The target for total re-let days (standard and major voids combined) is 38 days. This represents an improvement on the year end position of 41.57 days. We are proposing to measure this target throughout the year through a more structured framework analysing the length of time each void takes to be reallocated and the associated costs.

The anticipated total rent loss from voids for 2016-17 is £1,259,750 which represents a 0.03% decrease on void rent loss as a percentage of the rent debit as at year end.

#### Value for Money (VfM)

The Association is an active contributor to the Value for Money objectives of its parent company (Gentoo Group Limited). Details of the Group's VfM objectives are described in detail in the Group financial statements, a full copy of the Group's VfM statement is available on the website ([www.gentoogroup.com/about-us/performance/value-for-money/](http://www.gentoogroup.com/about-us/performance/value-for-money/))

## **Operating and Financial Review 31 March 2016 (continued)**

### **Future development**

In terms of the affordable rented market, Gentoo Sunderland continues to be the dominant landlord in the City with around 85% of all affordable rented housing in the City being owned by Gentoo Sunderland. Demand continues to be high for the Group's rented housing with over 29,000 people registered for choice based lettings and consistently high overall average expressions of interest for available property. Inherent demand therefore remains strong with stable void levels, falling re-let times (inclusive of long term maintenance as well as ready to let voids) and high, if slightly falling expressions of interest. There are few areas of low demand in the stock and these are due to locally specific circumstances with no areas where there is zero demand.

At a strategic level, the City's strategic housing market assessment shows that within the City 12.4% of households surveyed are in need, more than a third of whom are in overcrowded households according to the "bedroom standard" model. In summary, against an assessment of need, the priorities within Sunderland are:

- More affordable rented housing and affordable housing for sale;
- Housing solutions for first time buyers;
- Provision of traditional family housing;
- Demolition of older, poorly maintained stock;
- The use of 'in lieu' affordable housing contributions to tackle empty homes.

Gentoo Sunderland continues to work closely with the local authority to address housing need and to ensure that future development and allocations policy are contributing to the City's housing provision.

### **Priorities for 2016-17**

As well as significantly adjusting the operating model and reducing the cost base, key priorities for Gentoo Sunderland for 2016-17 include:-

- Fulfil all objectives within the Group's Asset Strategy.
- Ensure full compliance with the Regulatory Standards.
- Implementing a new allocations system.
- Develop a new Customer Strategy (Approved by board May 2016).
- Continue to develop and implement interventions and processes to mitigate the risk of welfare reform in particular Universal Credit.
- Developing a people plan which supports the Group's new people strategy.
- Participate in and contribute towards all relevant, local, regional and national partnerships and develop new partnerships where appropriate.

## **Operating and Financial Review 31 March 2016 (continued)**

### **Key risks**

The Group has identified the following key risks:

#### ***Government Policy- Economic***

The Government has continued to react to the budget deficit by implementing a series of austerity measures that has had direct impacts on the Group through 1% rent reduction per annum over the next four years and the ongoing impact of welfare reforms. The Group undertook a major review of its structure and controllable cost position during the course of the year and is implementing a cost reduction plan and restructure that will aim to remove between £15m and £18.25m of controllable cost by March 2017 to create a lower operating cost base that can be maintained thereafter. This will include 330 full time equivalent redundancies with the revised structure due to be completed by March 2017.

#### ***Government Policy – Rental income planning and performance***

Changes to Government policy on welfare reform and the introduction of Universal Credit are continuing to impact the Group. Universal Credit was implemented during the year in Sunderland for new single claimants under the age of 25 and will be rolled out to the wider population in the coming years. There is a financial risk to our customers who will receive less benefit if they have a spare bedroom under the spare room subsidy as well as being expected to budget on a monthly basis, receiving Universal Credit directly without having the choice of paying the rental element first to their landlord. The income collection risk to Gentoo is being mitigated by focused activity on income management and working with customers to ensure that their income is maximised and that collection rates are maintained.

#### ***Health and Safety and Compliance***

Failure to focus and comply with all relevant legislation and health and safety obligations as an employer could result in accident, injury or death to staff or third parties leading to HSE interventions and potential fines and prosecution as well as the risk of HCA regulatory intervention should there be a risk of serious detriment to customers.

#### ***Pension fund liabilities***

As members of the defined benefit Local Government Pension Scheme (LGPS), there is potential for volatility in management costs and increased liability on the statement of financial position. It is therefore important that the Group has appropriately assessed assumptions used to value the defined benefit pension obligation. The Group will continue to review pension contribution assumptions through actuarial assessments and updates and assessment of the bond facility to match requirements.

#### ***Brexit***

The implications of 'Brexit' remain unclear but a period of economic weakness and uncertainty is expected which could lead to further government imposed economic austerity, a loss of confidence in the housing market and increased pressure on our development/sales programme. The Group has confirmed the security of its funding with its lenders and will continue to monitor economic indicators and assess the impact of government policy changes on the business plan. Our development programme is highly managed including phased construction, release and sales strategy.

## Operating and Financial Review 31 March 2016 (continued)

### Key risks (continued)

#### Financial Risk Management

We have a formal treasury management policy which is approved by the Board. The treasury policy reflects guidance issued by the HCA and changes in the economic climate. The policy addresses the financial credit, liquidity and interest rate risks.

**Credit risk.** We limit the amount invested with individual counterparties to ensure that the credit risk on investments is spread over a large proportion of institutions. All institutions must meet high credit criteria and are approved by the Assistant Chief Executive. The treasury policy includes a list of approved investment instruments.

**Liquidity risk.** We have sufficient committed loan facilities to deliver our approved plan. These facilities are held with a range of high calibre lenders. The duration of the loans are structured to minimise any re-financing risk.

**Interest rate risk.** We, as a borrowing subsidiary of Gentoo Group, borrow at both fixed and variable interest rates. Prudent assumptions are used when considering the mix of fixed and variable debt. The Group's fixed rate debt includes a fixed rate bond issue and embedded swaps within the loan agreements. These embedded swaps are not subject to cash calls required by stand-alone swaps. Our debt requirements are reviewed at least annually following the approval of our business plan.

#### Business Processes

We are continually looking for ways to improve our people, processes and services. We have continued to learn and develop new business improvement tools and techniques. A demonstration of this has been our investment in 'systems thinking' training, which focuses on putting the customer at the heart of our processes. Over the year we have carried out numerous reviews and the results demonstrate further progress towards this customer centric approach. The feedback from the exercise continues to inform both strategic and operational plans for the coming year.

#### Staff

Gentoo Sunderland applies the Group employee policy therefore the following information also applies to Gentoo Sunderland.

The world in which we operate is challenging but as a Group we are still aiming to be progressive, visionary and innovative. This does not happen by accident. It is only through the continued commitment of our staff that we can strive towards delivering our vision.

The Group currently employs staff across a range of professions and roles and whilst we have seen an 18% reduction in the workforce due to required cost savings we continue to operate with a low voluntary turnover rate and some employees have now worked with the Group for over 30 years. It's fair to say that working at Gentoo is not just a job; it's a career where individuals are supported through professional qualifications, training and development and on the job coaching and mentoring. The Group has a clear policy on equality and diversity in employment, which outlines how the organisation will treat existing and prospective employees fairly, ensuring that our services are accessible and sensitive to the needs of existing and potential staff. An example is the Group's commitment to being a recognised 'positive about disability' employer.

Our commitment to our people has seen the Group awarded gold status with Investors in People in September 2015.

## **Operating and Financial Review 31 March 2016 (continued)**

### **Staff (continued)**

Every single member of staff has a part to play in delivering our vision. It is the sum of every action by Gentoo employees that really makes our society a better place to live.

Gentoo is a progressive employer and we operate in an environment where staff understand our Vision and Values and are loyal in working for the Group. We value the input of our employees and therefore consult with and involve them via a range of mediums such as consulting with the four recognised trade unions and informally with staff via annual staff conferences and engagement surveys.

### **Operational buildings**

All offices are Equality Act 2010 compliant to provide access to our front-line services. We continue to review the delivery of our services through our regional offices to ensure that services are being delivered efficiently and effectively to customers across Sunderland.

### **Financial Review**

The Association's profit and loss account and other comprehensive income statement, statement of financial position and statement of changes in equity are shown on pages 28 to 30 of these accounts.

### **Accounting policies**

Gentoo Sunderland applies the Group accounting policies. The principal accounting policies of the Group are set out on pages 31 to 39 of the financial statements.

### **Housing properties**

Gentoo Sunderland previously adopted the EUV-SH valuation, for housing properties for letting. At the transition date (1 April 2014) it changed to deemed cost as permitted under FRS 102.

As at 31 March 2016, the Association owned 28,923 properties and managed a further 911 properties. The carrying value of housing fixed assets was £1,029.6m. Stock loss through 'Right to Buy' and 'Right to Acquire' has decreased with 84 properties sold during the year.

The Association has carried out an assessment of whether any impairment is required in accordance with the Statement of Recommended Practice 'Accounting by registered social housing providers Update 2014 ('SORP 2014'), further detail of the work performed in concluding that no provision for impairment is required is set out in note 1 and note 10 to the accounts.

### **Capital structure and treasury policy**

The Group has loan facilities in place which are accessible to Gentoo Sunderland.

### **Pension costs**

We operate a single pension scheme for all of our employees which is now a career average, Local Government Pension Scheme. We have made contributions to the scheme during the year in accordance with the levels set by the scheme actuaries. Our contribution rate was 20.5% for the full year. Details of the actuarial assumptions, and the current scheme deficit, are shown in the consolidated Group accounts note 25a.

**Operating and Financial Review 31 March 2016 (continued)**

**Going concern**

The Association meets its day to day working capital requirements through Group funding. The Association has received assurances from Group that this funding will continue to be made available

so as to allow the Association to meet their liabilities as they fall due, for the twelve month period following approval of these financial statements, and thereafter for the foreseeable future. Therefore, the directors believe that the Association is well placed to manage its business risks successfully despite the economic uncertainty.

After making enquiries, the directors have a reasonable expectation that the Association will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to prepare the financial statements on a going concern basis.

## Members, professional advisors and bankers

### Independent board members

Brian Spears (appointed 6 November 2015)  
Frederick McQueen (resigned 6 November 2015)  
James Scott (appointed 6 November 2015, resigned 6 February 2016)  
Jeffrey Platt (appointed 6 November 2015)  
John Moralee (resigned 6 November 2015)  
Leslie Hodgson (resigned 6 November 2015)  
Patricia Stoker (resigned 6 November 2015)  
Richard Beevers (appointed 27 July 2016)  
Susan Allen (appointed 6 November 2015)  
William Fullen (resigned 20 May 2015)

### Tenant board members

James Falade  
Juliana Heron (resigned 20 May 2015)  
Kathleen Dagg  
Leslie Herbert  
Raymond Grainger

### Local authority board members

Alan Emerson (resigned 25 February 2016)  
Doris MacKnight (resigned 25 May 2016)  
John Cummings  
Louise Farthing (resigned 25 May 2016)  
Paul Middleton (appointed 12 July 2016)  
Paul Stewart (appointed 12 July 2016)  
Thomas Wright

### Registered office

Emperor House  
2 Emperor Way  
Sunderland  
Tyne and Wear  
SR3 3XR

### Bankers

National Westminster Bank PLC  
52 Fawcett Street  
Sunderland  
SR1 1SB

### Independent auditor

KPMG LLP  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

## **Report of the Board of Management**

The Board of Management presents its report and the audited financial statements for the year ended 31 March 2016.

### **Principal activities**

Gentoo Sunderland is the primary asset-owning wholly owned subsidiary company of Gentoo Group ("the Group") and is responsible for conducting the Group's core business as a Registered Housing Provider. Where Group is referred to, this also applies to Gentoo Sunderland.

Gentoo Sunderland is a Housing Association with a vision to create great homes, strong communities and inspired people. It provides the management and landlord function to 29,704 housing units delivering a comprehensive housing management and repairs service and with a turnover of £138.9m, the organisation is one of the North East's largest Housing Providers.

### **Legal Status**

On 1 April 2016, Gentoo Sunderland, a Public Benefit Entity, converted from a Companies Act limited company to a Community Benefit Society.

### **Results for the year**

Gentoo Group is working with its partners to agree organisation structure changes to develop and implement a long term tax efficient governance structure. Gentoo Sunderland's deficit for the year of £3.6m (2015: £3.5m deficit) was fully forecast and in line with expectation. The deficit includes a donation to a group company, Art of Living, which is a Co-operative and Community Benefit Society (CBS), of £6.5m (2015: £7.2m).

### **Changes in fixed assets**

Changes in fixed assets are detailed in notes 10 and 11 of the accounts.

### **Officers' Insurance**

The Association has obtained Directors' and Officers' liability insurance for the Board of Management and staff.

### **Political contributions**

The Association made no political donations or incurred any political expenditure during the year (2015: £nil).

### **Board Members**

The Board members who held office during the year are stated on page 15. Where the term director is used within these financial statements this includes the Board of Members of the Association.

### **Corporate Governance**

On 1 April 2016, Gentoo Group converted to a Charitable Community Benefit Society (CBS), adopting a revised constitution based on the National Housing Federation Model Rules.



## **Report of the Board of Management (continued)**

### **Statement of Compliance**

Formerly the Group had adopted and reported compliance against its Corporate Governance Code of Practice which was based on 'The UK Corporate Governance Code' produced by the Financial Reporting Council. As part of its review of governance arrangements, the Board agreed to adopt the National Housing Federation Code of Governance 2015 (the Code) effective from 1 April 2015. An assessment of compliance with the Code of Governance and the Governance and Financial Viability Standard has been undertaken and reported to the Board setting out the status of compliance and evidence to support its status.

### **NHF Code of Governance 2015**

The self-assessment found two areas of non-compliance in relation to the NHF Code of Governance 2015 which require explanation. These are in relation to the maximum Board membership of 12 and maximum Board Member tenure of 9 years.

Prior to converting to CBS and adopting CBS Rules, the Board was comprised of 5 tenants, 5 Council Members and 5 Independent Members being a maximum of 15. From the 1 April 2016 under the revised Rules, the Board is comprised of up to four tenant Board Member, up to four Council Board Members and up to four Independent Board Members bringing board composition into compliance with the NHF Code of Governance.

In addition, the Group's former Code of Governance gave provision for a maximum tenure of 12 years, therefore during the year 3 Directors, Fred McQueen, Trish Stoker and John Moralee exceeded the NHF maximum requirement of 9 years. These Directors resigned at the AGM in November 2015.

Brian Spears was appointed as Chairman at the AGM in November 2015 following the retirement of Fred McQueen.

### **HCA Governance and Financial Viability Standard**

For the first time registered providers are required this year to certify their compliance with the Governance and Financial Viability Standard by their regulator, the Housing and Communities Agency. The Group monitors its ongoing compliance with both the economic and consumer regulatory standards and compliance is reported to the board on an annual basis with any changes or implications arising within the year being reported on an ad hoc basis.

Having considered the requirements of the HCA regulatory framework, the Board certify compliance with the NHF Code of Governance and the Governance and Financial Viability Standard, noting the exceptions and explanations provided above.

The Board of the Association are shown on page 15 and details of remuneration, along with the Executive Directors are provided in page 43-44 of the Financial Statements. The board members are drawn from a wide background bringing together commercial, financial, professional and local experience. Biographical information of the Board can be found on the Group's external website.

## Report of the Board of Management (continued)

The Board is ultimately responsible for the overall control of the Association, including the monitoring of its performance and the deployment of its resources. The remit of the Board is recorded in the Board Terms of Reference. The Board ensures that the Association operates effectively and within the terms of its internal governance and upholds the Group's vision, mission and values. The Board meets at least six times per year and holds a number of informal development days during the year also.

Day to day operating matters are dealt with by the Board and Managing Director from offices located within its geographical boundaries and in accordance with the Board's Terms of Reference and the Group's Delegation Scheme.

### Board and attendance during the year

Board Members attendance for the year ended 31 March 2016 is set out in the table below:-

NAME	9 meetings
Susan Allen	2 out of 4 <sup>1</sup>
John Cummings	2 out of 9
Kathleen Dagg	9 out of 9
Alan Emerson	6 out of 8 <sup>2</sup>
James Falade	7 out of 9
Louise Farthing	7 out of 9
William Fullen	1 out of 1 <sup>3</sup>
Raymond Grainger	9 out of 9
Leslie Herbert	7 out of 9
Juliana Heron	1 out 1 <sup>4</sup>
Leslie Hodgson	2 out of 5 <sup>5</sup>
Doris Macknight	8 out of 9
Frederick McQueen	5 out of 5 <sup>6</sup>
John Moralee	3 out of 5 <sup>7</sup>
Jeffrey Platt	3 out of 4 <sup>8</sup>
James Kevin Scott	1 out of 2 <sup>9</sup>
Brian Spears	4 out of 4 <sup>10</sup>
Patricia Stoker	2 out of 5 <sup>11</sup>
Thomas Wright	8 out of 9

- 1 Susan Allen was appointed as an Independent Member on 6 November 2015 therefore maximum attendance was 4
- 2 Alan Emerson resigned as a Council representative on 25 February 2016 therefore maximum attendance was 8
- 3 William Fullen resigned as an Independent Member on 20 May 2015 therefore maximum attendance was 1
- 4 Juliana Heron resigned as a Tenant Member on 20 May 2015 therefore maximum attendance was 1
- 5 Leslie Hodgson resigned as an Independent Member on 6 November 2015 therefore maximum attendance was 5
- 6 Frederick McQueen resigned as an Independent Member on 6 November 2015 therefore maximum attendance was 5

## Report of the Board of Management (continued)

- 7 John Moralee resigned as an Independent Member on 6 November 2015 therefore maximum attendance was 5
- 8 Jeffrey Platt was appointed as an Independent Member on 6 November 2015 therefore maximum attendance was 4
- 9 James Kevin Scott was appointed as an Independent Member on 6 November 2015 but sadly passed away late January 2016 therefore maximum attendance was 2. His termination was recorded at Companies House on 6 February 2016
- 10 Brian Spears was appointed as an Independent Member on 6 November 2015 therefore maximum attendance was 4
- 11 Patricia Stoker resigned as an Independent Member on 6 November 2015 therefore maximum attendance was 5

A Board Working Group has been established to assess the effectiveness of governance arrangements and has met three times in the year. The Group has considered matters such as the timing, format and frequency of board meetings, training and strategy days.

Overall Board effectiveness is comprised of an annual 360<sup>0</sup> appraisal process and periodic observation of Board meetings by an External Advisor with consideration to the Board's skills matrix. Processes are in place to review the performance of the Chair involving an External Advisor and the Group Chairman. A comprehensive Board programme has been developed. The next tranche of appraisals will be conducted in 2017.

### Risk and Audit Committee

The Risk and Audit Committee acts on behalf of Group Board to ensure appropriate controls are in place to safeguard assets and manage the attendant risks. The Risk and Audit Committee is also responsible for monitoring and reviewing a number of areas including the consistency of accounting policy, the integrity of financial statements, the adequacy of internal controls as regards financial operations and compliance, the proper management of risks and the selection of the external auditors. The Risk and Audit Committee must meet at least four times a year; however, it has met seven times during the year.

### Key Risks

The Group has an effective risk management process in place to facilitate the identification, monitoring and reporting of key risks and the implementation of mitigating action. A risk appetite framework has also been developed which is reported to Risk and Audit Committee on a regular basis and was reviewed by the Committee and Group Board in March 2016. This risk management framework includes the integration of risk into the business planning process, review of the external environment in which the Group operates including the risk profile published by the HCA and other industry bodies. Risk owners take responsibility for the identification and management of risk is supported by the Group Risk function. The risk management process is also supported by the Business Assurance Team who provide assurance over the key control framework within the Group and have a risk based approach to its audit planning process. The Risk and Audit Committee oversees the risk and internal control framework on behalf of the Board and makes recommendations to the Group Board where necessary. The Committee receives regular information regarding the Group's key corporate risks, key controls to mitigate these risks, movement in the risk assessment score, and further mitigating action required. The External Auditors also provide their view of the Group's risk profile. In the 2015-16 external audit plan the following key risks were highlighted:

## Report of the Board of Management (continued)

### *Development Housing - Impairment*

The Group continues to undertake significant committed development work in relation to on-going schemes which could lead to the carrying value of assets held within the statement of financial position being overstated, leading to impairment. To mitigate, Management's assessment of property valuations and impairment calculations is undertaken at least annually, with particular focus on land bank, outright sales and shared ownership properties.

### *Development Housing - Capitalisation Policy*

There is a risk of inconsistent accounting treatment of the capitalisation of costs relating to fixed assets. To mitigate, Management explained its capitalisation policy in terms of new development and major repair works, including the controls in place, and how it was compliant with FRS 102.

Other areas of focus included:

### *Funding/Going Concern*

The imposition of a new rent formula by the Government whereby rental income will reduce for the next 4 years will place significant pressure on the Group's ability to continue to deliver high quality services to our customers with year on year reduction in resources. To mitigate, the Group is undergoing a restructure of its services and cost base. It undertakes regular stress testing of the business plan and risk appetite and has robust financial modelling and budgetary control.

### *Pensions*

The pensions scheme FRS102 deficit has improved in recent years due to an improvement in the performance of the underlying assets. Although there has been improvement year on year, the value of the deficit remains highly sensitive to both the underlying assumptions used by the actuary, and the asset performance. Current market and economic uncertainty is expected to increase sensitivity further. To mitigate, the Group independently reviews the pension disclosures and liabilities calculated by actuaries of LGPS and provides security with an annual pension bond.

### *Welfare Reform*

Further implementation of the Governments welfare reforms will continue to adversely affect customers ability to pay their rent which will increase pressure on the Group's income collection rates. To mitigate, the Group has a well established welfare reform impact team which co-ordinates a communication strategy to inform and advice customers of changes in personal circumstances and a financial inclusion strategy which includes an internal money matters team which liaises with key partners and banks to manage the impacts upon customers.

### *Litigations*

Potential litigation and claims are highlighted to Risk and Audit Committee with provision or disclosure of items where considered probable and material.

These risks identified by the External Auditor are also represented in the Group's Key Corporate risks that is monitored by the Risk and Audit Committee.

**Report of the Board of Management (continued)**

Following an OJEU tender process, KPMG LLP were appointed as the Groups external auditor and corporation tax advisors in January 2013, taking effect from 1 April 2013 for a period of four years with the option to extend for a further one year period.

KPMG LLP provide some non-audit services, however assurances were provided by KPMG LLP in their proposal document prior to their appointment that the provision of these services does not represent a conflict of interests or a threat to their independence as external auditors. KPMG LLP have systems and processes in place to assess potential conflicts of interest as they arise and will notify management and the Risk and Audit Committee immediately should there be a risk of potential conflict of interest.

The policy on the provision of non-audit services by the External Auditor was reviewed by the Committee in March 2016 and compliance is monitored by the Committee. The Risk and Audit Committee also consider the performance of the External Auditor on at least an annual basis in line with their Terms of Reference and Schedule of Business.

Business Assurance Services operate within the Institute of Internal Auditors (IIA) Standards Framework. Compliance with the Standards was externally verified in March 2015.

The Members of the Committee during the year have been:

<b>NAME</b>	<b>RISK AND AUDIT COMMITTEE MEETINGS</b>
	<b>7 meetings</b>
Mary Coyle	7 out of 7
Jill Fletcher	0 out of 1 <sup>1</sup>
Hunada Nouss	7 out of 7
Fred McQueen	5 out of 5 <sup>2</sup>
Les Hodgson	5 out of 5 <sup>3</sup>
Susan Johnson	2 out of 3 <sup>4</sup>
Kevin James Scott	1 out of 1 <sup>5</sup>

1 Jill Fletcher resigned as Council Group Member on 28 May 2015 therefore maximum attendance was 1

2 Fred McQueen resigned on 6 November 2015 therefore maximum attendance was 5

3 Les Hodgson resigned on 6 November 2015 therefore maximum attendance was 5

4 Susan Johnson was appointed as a Risk Specialist by Group Board on 22 October 2015 therefore maximum attendance was 3

5 Kevin James Scott was appointed to RAC by Group Board on 22 October 2015. Sadly Kevin passed away late January 2016.

## Report of the Board of Management (continued)

### Work Undertaken by Risk and Audit Committee:

A schedule of business is approved by the Committee that sets out the activities of the committee with regard key areas of business, as well as its other items of business. During the year the Committee, among other things:

- Reviewed the Risk and Audit Committee Terms of Reference
- Received the Risk and Audit Committee Pilot Appraisal Report 2015
- Received the Enterprise Risk Management Framework & Policy Update
- Approved the Strategic Operational Audit & Resource Plan 2015-16 – 2019-20
- Approved the ICT Draft Internal Audit Plan
- Approved the Risk and Audit Committee Schedule of Business
- Received the Gentoo Group Limited Draft Audit Highlights Memo for the year ended 31 March 2015 – KPMG LLP
- Received the Draft Audited Accounts for the year ended 31 March 2015
- Reviewed and made recommendations to Group Board on the approval of the Value For Money Statement
- Received the mid Year Review of 2015-16 Operational Audit Plan
- Received Regulatory Updates
- Received the interim External Audit Management Letter
- Reviewed the non-Audit Fees Paid To The Statutory Auditor
- Received the Gentoo Group Limited Draft Audit Strategy and Planning Memorandum for the year ended 31 March 2016 – KPMG LLP
- Received the Financial Reporting Standard (FRS) 102 Update
- Approved the Governance Arrangements of the Special Purpose Vehicle
- Approved the Risk Management – Annual Plan 2016-17
- Approved the Group Policy Coordination: Grading and Approval Process
- Agreed the Committee Meetings for 2016-17
- Reviewed and made recommendations to Group Board on the annual report of the Risk Appetite Framework
- Received the Business Assurance Progress Report
- Received the Key Risk Review, including compliance with laws and regulations
- Reviewed the Risk and Compliance Map
- Received a report on the Health and Safety Statistics
- Received a report on insurance Claim Statistics
- Received the Fraud Issues 2015-16 report
- Received the Report on Internal Controls Assurance
- Received an update on the Corporate Manslaughter and Sentencing Guidelines
- Reviewed the Anti-fraud, Bribery and Corruption Policy
- Received a Transition Plan Update
- Received the Sector Risk Profile report
- Received reports on the follow up Review of Audit Recommendations
- Discussed the future of ISO Certifications
- Reviewed the framework to maintain the assets and liabilities register, including updates in relation to the assets and liabilities register action plan

## **Report of the Board of Management (continued)**

### **Effectiveness of Internal Control**

A key responsibility of the Board is to review, assess and confirm the adequacy and effectiveness of the Group's risk management and internal controls systems. The Board has delegated part of this responsibility to the Risk and Audit Committee. The role and work of the Risk and Audit Committee are described in the earlier paragraphs of this statement.

The Board's annual schedule of business, reporting arrangements and the work of the Risk and Audit Committee are designed to ensure that the significant areas of risk are reported on and considered during the course of the year. In addition to determining the risk appetite the Board specifically reviews its key corporate risks.

The Board receives its assurance on an annual basis on the effectiveness of the Group's risk management and internal control systems through the ongoing work of the Risk and Audit Committee and the annual report of Business Assurance Services in line with the requirements of the Group's Code of Governance.

### **Appointments and Remuneration Committee**

This Committee acts on behalf of Group Board to make recommendations to the relevant Board or Committee regarding the appointment of Members and remuneration. Membership of this Committee is provided in Gentoo Group consolidated accounts in the Report of the Board Management. The Committee is responsible for developing succession plans for the Boards and Committees of the Group. The Terms of Reference of the Committee is published on the Group's external website. The Committee meets at least once a year, however it has met six times during the financial year and has considered the following matters:

During the year the Committee has:

- Reviewed Board and Committee succession planning reports
- Overseen the recruitment process and appointments to Gentoo Sunderland Board and Risk and Audit Committee
- Considered and made recommendations to the relevant Board regarding the appointment/re-appointment of
  - The existing Directors of Gentoo Genie Ltd be appointed and Just Ask Genie Ltd
  - Brian Spears, Ian Self and Ian Porter as Directors of Gentoo Developments Ltd, a subsidiary of Gentoo Sunderland Ltd
  - Steve Lanaghan and Jeff Platt as Directors of Gentoo Homes Board and the appointment of John Harrison as interim Chair
  - Julie Shipley as Company Secretary and/or Director of the Group's dormant companies
  - Mary Coyle as Vice Chair of Group Board and John Dannell as Chair of Appointments and Remuneration Committee
- Considered Board recruitment protocols in relation to Disclosure and Barring Service checks
- Reviewed and approved remuneration proposals for the Group Executive based on advice provided by the appointed remuneration consultant
- Approved the remuneration of the Group Chairman and Vice Chair of Gentoo Sunderland

**Report of the Board of Management (continued)**

A Board Diversity Policy is in place which recognises and embraces the benefits of having a diverse Board. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

**Group Executive Team**

The Chief Executive Officer is assisted in their responsibilities by the Group Executive Team who are responsible for the strategic management of Gentoo Group and its business. The Group Executive Team meetings are chaired by the Chief Executive Officer and meet on at least a weekly basis. The team make recommendations to the Board on strategic and operational plans and others matters reserved for the Board where appropriate. The team is currently comprised of the Chief Executive Officer, Assistant Chief Executive, Executive Director of Assets and Investment, Managing Director (Gentoo Operations), and Director of Corporate Services.

**Employees**

See Operating and Financial Review pages 12 to 13.

**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 Association's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

**Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board:

Approved by the Board of Members and signed on its behalf by:



Brian Spears  
Chairman  
10 August 2016



## **Statement of directors' responsibilities in respect of the Strategic Report, the 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit for that 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Association will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Gentoo Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

## **Independent auditor's report to the members of Gentoo Sunderland Limited**

We have audited the financial statements of Gentoo Sunderland Limited ("the Association") for the year ended 31 March 2016 set out on pages 28 to 57. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the Association's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 128 of the Housing and Regeneration Act 2008. 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 Association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Association as at 31 March 2016 and of its deficit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

**Independent auditor's report to the members of Gentoo Sunderland Limited  
(continued)**

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

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

- 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.



Mick Thompson (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

17 August 2016

**Profit and Loss account and other comprehensive income**  
for the year ended 31 March 2016

	Note	2016		2015	
		£'000	£'000	£'000	£'000
<b>Turnover</b>	<b>2a</b>		<b>138,944</b>		138,033
Cost of sales	2a		<b>(10,328)</b>		(12,444)
<b>Gross profit</b>			<b>128,616</b>		125,589
Operating costs	2a		<b>(98,168)</b>		(94,644)
Donation to group company	2a		<b>(6,500)</b>		(7,200)
(Deficit) / surplus on disposal of fixed assets	6		<b>(139)</b>		285
<b>Operating surplus</b>			<b>23,809</b>		24,030

*Analysed as:*

Operating surplus before exceptional termination costs	<b>28,787</b>	24,030
Exceptional termination costs	<b>(4,978)</b>	-
<b>Operating surplus after exceptional termination costs</b>	<b>23,809</b>	24,030

Interest payable and similar charges	7	<b>(23,620)</b>	(23,468)
<b>Surplus on ordinary activities before taxation</b>		<b>189</b>	562
Tax on surplus on ordinary activities	9	<b>(3,768)</b>	(4,101)
<b>Deficit for the financial year</b>		<b>(3,579)</b>	(3,539)
<b>Other comprehensive income</b>			
Revaluation of housing properties		-	(36)
<b>Total comprehensive expense for the year</b>		<b>(3,579)</b>	(3,575)

**Statement of financial position**  
 at 31 March 2016

	Note	2016 £'000	2015 £'000
<b>Tangible fixed assets</b>			
Tangible fixed assets – housing properties	10	1,029,568	1,031,755
Tangible fixed assets – other	11	1,975	2,120
Investments	12	1,224	1,435
		<u>1,032,767</u>	<u>1,035,310</u>
<b>Current assets</b>			
Stock		42	-
Properties for sale	13	13,931	19,134
Debtors	14	7,275	10,945
		<u>21,248</u>	<u>30,079</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(12,236)</u>	<u>(11,612)</u>
<b>Net current assets</b>		<u>9,012</u>	<u>18,467</u>
<b>Total assets less current liabilities</b>		<u>1,041,779</u>	<u>1,053,777</u>
<b>Creditors: amounts falling due after more than one year</b>	16	505,063	513,482
<b>Capital and reserves</b>			
Revaluation reserve		141,121	144,492
Revenue reserve		94,562	87,603
Capital contribution reserve		301,033	308,200
		<u>536,716</u>	<u>540,295</u>
		<u>1,041,779</u>	<u>1,053,777</u>

These financial statements from pages 28 to 57 were approved by the Directors on 10 August 2016 and signed by:

  
 Brian Spears  
 Chairman

Registered Number: RS007303

**Statement of changes in equity**

	<b>Revaluation reserve £'000</b>	<b>Revenue reserve £'000</b>	<b>Capital contribution reserve £'000</b>	<b>Total equity £'000</b>
Balance at 1 April 2014	147,802	80,700	315,368	543,870
<b>Total comprehensive income for the period</b>				
Deficit	-	(3,539)	-	(3,539)
Transfer in respect of depreciation on revalued properties	(1,987)	1,987	-	-
Transfer in respect of realised losses on disposal of revalued properties	(1,287)	1,287	-	-
Realisation of capital contribution	-	7,168	(7,168)	-
Revaluation of housing properties	(36)	-	-	(36)
<b>Balance at 31 March 2015</b>	<b>144,492</b>	<b>87,603</b>	<b>308,200</b>	<b>540,295</b>
Balance at 1 April 2015	144,492	87,603	308,200	540,295
<b>Total comprehensive income for the period</b>				
Deficit	-	(3,579)	-	(3,579)
Transfer in respect of depreciation on revalued properties	(2,460)	2,460	-	-
Transfer in respect of realised losses on disposal of revalued properties	(911)	911	-	-
Realisation of capital contribution	-	7,167	(7,167)	-
<b>Balance at 31 March 2016</b>	<b>141,121</b>	<b>94,562</b>	<b>301,033</b>	<b>536,716</b>

**Notes to the financial statements**  
for the year ended 31 March 2016

**1. Accounting policies**

Gentoo Sunderland Limited (the “Association”) was a company limited by shares and incorporated and domiciled in the UK until 1 April 2016 when it converted to a Community Benefit Society and gained charitable status. The Association is also a Public Benefit Entity.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied and in accordance with applicable Accounting Standards in the United Kingdom and the Statement of Recommended Practice ‘Accounting by registered social housing providers Update 2014 (SORP 2014), and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

In the transition to FRS 102 from old UK GAAP, the Association has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Association is provided in note 26.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in the financial statements

- Fair value or revaluation as deemed cost – The previous GAAP revaluation at transition date has been used as deemed cost for Housing Properties for Letting.

The Association’s parent undertaking, Gentoo Group Limited includes the Association in its consolidated financial statements. The consolidated financial statements of Gentoo Group Limited are available to the public and may be obtained from Emperor House, 2 Emperor Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XR. In these financial statements, the Association is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes.

As the consolidated financial statements of Gentoo Group Limited include the equivalent disclosures, the Association has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Association proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

## **Notes to the financial statements (continued)**

for the year ended 31 March 2016

### **1. Accounting policies (continued)**

#### **1.1. Measurement convention**

The financial statements are prepared on the historical cost basis.

#### **1.2. Going concern**

The Association's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Board of Management on pages 16 to 24.

The Association meets its day to day working capital requirements through Group funding. The Association has received assurances from Group that this funding will continue to be made available so as to allow the Association to meet their liabilities as they fall due, for the twelve month period following approval of these financial statements, and thereafter for the foreseeable future. Therefore, the directors believe that the Association is well placed to manage its business risks successfully despite the economic uncertainty.

After making enquiries, the directors have a reasonable expectation that the Association will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to prepare the financial statements on a going concern basis.

#### **1.3. Material estimates and judgements**

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made are set out below.

##### *Recoverability of assets / impairment calculations*

From 1 April 2016, the Group has reduced social housing rents by 1% per annum and will continue to do so in each year until 2019/20 in accordance with the Housing and Planning Act 2016. Despite cost efficiency savings and other changes to the business, compliance with the new rent regime has resulted in a loss of net income for certain social housing property. This is a trigger for impairment.

As a result, we estimated the recoverable amount of its housing properties as follows:

- (a) determined the level at which recoverable amount is to be assessed (i.e. the asset level or cash generating unit (CGU) level). The CGU level represented the management area and a distinction between traditional stock and new build properties
- (b) estimated the recoverable amount of the cash-generating unit
- (c) calculated the carrying amount of the cash-generating unit and
- (d) compared the carrying amount to the recoverable amount to determine if an impairment loss has occurred.

Based on this assessment, we calculated the Depreciated Replacement Cost (DRC) of each CGU, using appropriate construction costs and land prices. Comparing this to the carrying amount of each scheme, it was concluded that no impairment charge was required against its social housing properties.



**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**1. Accounting policies (continued)**

**1.4. Classification of financial instruments issued by the Society**

In accordance with FRS 102, financial instruments issued by the Association are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Association to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the society; and
- (b) where the instrument will or may be settled in the Association's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Association's own equity instruments or is a derivative that will be settled by the Association's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Association's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

**1.5. Basic financial instruments**

*Trade and other debtors / creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Provision is made against rent arrears of current and former tenants as well as other miscellaneous debts to the extent that they may be irrecoverable.

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**1. Accounting policies (continued)**

**1.6. Tangible fixed assets**

*Housing properties held for letting*

Housing properties are principally properties available for rent and are stated at deemed cost less accumulated depreciation and accumulated impairment losses. Additions include the cost of acquiring land and buildings, development costs and expenditure incurred in respect of enhancements to existing properties. Depreciation is charged to the profit and loss and other comprehensive income statement to write down the value of housing properties on a straight line basis over the following useful economic lives.

**Housing property components: Depreciation life**

Bathrooms	25 years	New build structure	100 years
Boilers	10 years	PV invertors	8 years
Doors	30 years	PV panels	25 years
Electrical installations	30 years	Roof	60 years
Heating installations	15 years	Structure	80 years
Kitchens	20 years	Windows	30 years
Lifts	30 years		

No depreciation is charged for land. Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Association expects to consume an asset's future economic benefits.

*Shared ownership*

The costs of shared ownership properties are split between current and fixed assets on the basis of the first tranche portion. The first tranche portion is accounted for as a current asset and on disposal the first tranche sales proceeds are shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset. Subsequent tranches sold ('staircasing') are accounted for as disposals of housing properties.

*Garages held for letting*

Garages held for letting are stated at cost. Depreciation is provided to write down the value of garages on a straight line basis over their expected useful economic lives of 50 years.

*Cyclical repairs and maintenance*

A rolling programme of cyclical repairs and maintenance for housing properties is undertaken each year in accordance with operational requirements. The Group does not adopt a policy of providing for future repairs which are of a cyclical nature but incurs the expense in the period in which the liability arises.

*Works to existing properties*

Major repairs expenditure on housing properties is charged to the profit and loss and other comprehensive income statement as incurred.

The cost of enhancements, together with associated management expenses, is capitalised directly to the housing properties held for letting. Depreciation is charged on these enhancements in line with the accounting policy on housing properties.

## Notes to the financial statements (continued)

for the year ended 31 March 2016

### 1. Accounting policies (continued)

#### 1.6 Tangible fixed assets (continued)

##### *Disposal of housing properties*

Property sales and any profits thereon are recognised when the transaction becomes legally binding on both parties. Any foreseeable loss on any proposed property sale is recognised in the profit and loss account and other comprehensive income statement as soon as the decision is made to dispose of the property.

The Group sells its properties under the statutory regulations of 'Preserved Right to Buy' and 'Right to Acquire'. Profit or loss on sale of these properties are recognised after operating surplus or deficit.

##### *Housing properties in the course of construction*

Housing properties in the course of construction are stated at cost and are not depreciated.

##### *Other*

Other tangible fixed assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset plus any costs incurred in bringing the asset to its working condition for its intended use.

Depreciation is calculated to write off the cost or valuation of tangible fixed assets on a straight line basis over their estimated useful lives as follows:

Furniture, fixtures and fittings	5-20 years	Office equipment	3-10 years
IT equipment	3-5 years	Plant and machinery	10 years
Land and buildings	50 years	Vehicles	3-5 years

#### 1.7. Government grants

Government grants are included within accruals and deferred income in the statement of financial position and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

##### *Social Housing Grant*

Social Housing Grant (SHG) is initially recognised at fair value as a long term liability, specifically as deferred government grant income and released through the profit and loss as turnover income over the life of the structure of housing properties in accordance with the accrual method applicable to registered providers of social housing accounting for housing properties at cost.

For items where on transition to FRS102, an election has been taken to treat fair value as deemed cost, the performance method for accounting for grant has been applied as the fair value application as deemed cost is treated as a revaluation at the transition date and SHG in respect of those items has been taken to revenue reserves. An amount equivalent to SHG taken to revenue reserves is disclosed as a contingent liability reflecting the potential future obligation to repay SHG where properties are disposed.

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**1. Accounting policies (continued)**

**1.7. Government grants (continued)**

On disposal, SHG associated with those properties is transferred to either the Recycled Capital Grant Fund (RCGF) or the Disposal Proceeds Fund (DPF) until the grant is recycled or repaid to reflect the existing obligation under the social housing grant funding regime.

**1.8. Properties for sale**

Completed properties for outright sale and property under construction are valued at cost, and are included within stock. Cost comprises materials, direct labour and direct development overheads.

**1.9. Impairment excluding stocks, investment property and deferred tax assets**

*Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Association would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*Non financial assets*

The carrying amounts of the Association's non-financial assets, other than investment property, stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**1. Accounting policies (continued)**

**1.9. Impairment excluding stocks, investment property and deferred tax assets (continued)**

For assets carried at a depreciated historical cost basis the impairment loss is recognised in the profit and loss account and other comprehensive income statement immediately.

For assets that are carried at deemed cost less accumulated depreciation, an impairment loss is first set off against any revaluation surplus relating to the same assets in reserves and the balance of the loss is then treated as an expense in the profit and loss account and other comprehensive income statement.

**1.10. Employee benefits**

***Defined benefit plans***

*Group Plans*

The Association's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan and the net defined benefit liability are recognised fully by the Association which is legally responsible for the plan, which is Gentoo Group Limited. The Association then recognises a cost equal to its contribution payable for the period.

*Termination benefits*

Termination benefits are recognised as an expense when the Association is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Association has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

**1.11. Turnover**

Turnover is recognised when it is receivable or when conditions associated with the income have been met. It comprises:

- Rental income from tenants and leaseholders in the year, net of rent losses from voids;
- Sale of residential property;
- Receipts from the sale of the first tranche of shared ownership properties; and
- Income from other services included at the invoiced value (excluding value added tax) of goods and services supplied in the year.

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**1. Accounting policies (continued)**

**1.12. Expenses**

*Operating lease*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

*Finance lease*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

*Interest receivable and Interest payable*

Interest payable and similar charges include interest payable, and finance leases recognised in profit or loss using the effective interest method.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

**1.13. Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**1. Accounting policies (continued)**

**1.13. Taxation (continued)**

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

**1.14. Disposal proceeds fund**

The disposal proceeds fund is an internal fund used to recycle the proceeds of sale under 'Right to Acquire' procedures. This fund has been calculated and disclosed in accordance with determinations made under Disposal Proceeds Fund: Requirements of the Social Housing Regulator 2015'.

**1.15. Service charge sinking funds**

Where properties with communal facilities are sold under lease to tenants with the statutory 'Preserved Right to Buy' or 'Right to Acquire', a monthly service charge is levied.

Part of the service charge is retained in a sinking fund for major repairs. Interest is added annually to the fund.

**1.16. Value added tax (VAT)**

Although the Association is registered for VAT, a large proportion of its income, including rents, is exempt from VAT. The majority of expenditure is subject to VAT which cannot be reclaimed, and expenditure is therefore shown inclusive of VAT.

Partial exemption has been obtained for some business activities and the VAT recovered is credited to the profit and loss and other comprehensive income statement.

**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**2a. Particulars of turnover, cost of sales, operating expenditure and operating surplus**

All sales are made within the North East.

	Turnover	Cost of sales	Operating expenditure	2016 Operating surplus
	£'000	£'000	£'000	£'000
Social housing lettings (note 2b)	125,006	-	(98,168)	26,838
Other social housing activities:				
First tranche low cost home ownership sales	218	(217)	-	1
Properties developed for outright sale	5,430	(4,522)	-	908
	<b>130,654</b>	<b>(4,739)</b>	<b>(98,168)</b>	<b>27,747</b>
Activities other than social	8,290	(5,589)	-	2,701
Donation to group company	-	-	(6,500)	(6,500)
<b>Total</b>	<b>138,944</b>	<b>(10,328)</b>	<b>(104,668)</b>	<b>23,948</b>

	Turnover	Cost of sales	Operating expenditure	2015 Operating surplus
	£'000	£'000	£'000	£'000
Social housing lettings (note 2b)	122,050	-	(94,644)	27,406
Other social housing activities:				
First tranche low cost home ownership sales	73	(72)	-	1
Properties developed for outright sale	6,129	(5,107)	-	1,022
	<b>128,252</b>	<b>(5,179)</b>	<b>(94,644)</b>	<b>28,429</b>
Activities other than social	9,781	(7,265)	-	2,516
Donation to group company	-	-	(7,200)	(7,200)
<b>Total</b>	<b>138,033</b>	<b>(12,444)</b>	<b>(101,844)</b>	<b>23,745</b>



**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**2b. Particulars of turnover and operating expenditure from social housing lettings**

				2016	2015
	General needs housing £'000	Supported housing and housing for older people £'000	Shared ownership £'000	Total £'000	Total £'000
<b>Income</b>					
Rent receivable net of identifiable service charges	121,211	1,610	129	<b>122,950</b>	119,933
Service charge income	1,751	240	-	<b>1,991</b>	2,117
Amortised Government grants	65	-	-	<b>65</b>	-
<b>Turnover from social housing lettings</b>	<b>123,027</b>	<b>1,850</b>	<b>129</b>	<b>125,006</b>	<b>122,050</b>
<b>Operating expenditure</b>					
Management	(12,525)	(192)	-	<b>(12,717)</b>	(12,539)
Central services costs	(22,363)	-	-	<b>(22,363)</b>	(23,950)
Service charge costs	(920)	(222)	-	<b>(1,142)</b>	(1,184)
Routine maintenance	(25,029)	(184)	-	<b>(25,213)</b>	(26,178)
Asset management	(1,112)	-	-	<b>(1,112)</b>	(1,148)
Planned maintenance	(6,150)	-	-	<b>(6,150)</b>	(7,123)
Bad debts	(751)	-	-	<b>(751)</b>	(478)
Depreciation of housing properties	(23,236)	(506)	-	<b>(23,742)</b>	(22,044)
Other costs (restructure)	(4,978)	-	-	<b>(4,978)</b>	-
<b>Operating expenditure on social housing lettings</b>	<b>(97,064)</b>	<b>(1,104)</b>	<b>-</b>	<b>(98,168)</b>	<b>(94,644)</b>
<b>Operating surplus on social housing lettings</b>	<b>25,963</b>	<b>746</b>	<b>129</b>	<b>26,838</b>	<b>27,406</b>
Void losses*	(1,357)	-	-	<b>(1,357)</b>	(1,183)

\* (being rental income lost as a result of property not being let )

**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**3. Housing stock**

	Owned and managed No.	Managed but not owned No.	Owned but managed by others No.	2016 Total No.
<b>As at 31 March 2016:</b>				
<b>Number of units of social housing accommodation:</b>				
General needs rented	27,712	178	-	27,890
Affordable rented	726	-	-	726
Shared ownership	111	-	-	111
Housing for older people	187	-	-	187
Housing for older people – Affordable rented	42	-	-	42
Supported housing	14	-	130	144
Leasehold schemes – freehold retained	-	733	-	733
<b>Social total</b>	<b>28,792</b>	<b>911</b>	<b>130</b>	<b>29,833</b>
<b>Number of units of non-social housing accommodation:</b>				
Market rent – held for sale	1	-	-	1
<b>Non-social total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Total number of units</b>	<b>28,793</b>	<b>911</b>	<b>130</b>	<b>29,834</b>

**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**3. Housing stock (continued)**

	Owned and managed No.	Managed but not owned No.	Owned but managed by others No.	2015 Total No.
<b>As at 31 March 2015:</b>				
<b>Number of units of social housing accommodation:</b>				
General needs rented	27,910	178	-	28,088
Affordable rented	632	6	-	638
Shared ownership	110	-	-	110
Housing for older people	187	-	-	187
Housing for older people – Affordable rented	42	-	-	42
Supported housing	14	-	134	148
Leasehold schemes – freehold retained	-	730	-	730
<b>Social total</b>	<b>28,895</b>	<b>914</b>	<b>134</b>	<b>29,943</b>
<b>Number of units of non-social housing accommodation:</b>				
Market rent – held for sale	1	-	-	1
<b>Non-social total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Total number of units</b>	<b>28,896</b>	<b>914</b>	<b>134</b>	<b>29,944</b>

**4. Directors' and senior staff emoluments**

The emoluments were as follows:	<b>2016</b>	2015
	<b>£'000</b>	£'000
Non-executive directors	<b>13</b>	10
Executive directors and senior staff	<b>147</b>	159
Company contributions to defined contribution schemes	<b>18</b>	33
	<b>178</b>	202
	<b>2016</b>	2015
	<b>£'000</b>	£'000
Highest paid director	<b>147</b>	159
Pension contributions of the highest paid director	<b>18</b>	33
	<b>165</b>	192

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**4. Directors' and senior staff emoluments (continued)**

Salary banding for all directors and senior staff whose total remuneration exceeds £60,000 (excluding pension contributions) per annum is as follows:

	<b>2016</b>	2015
	<b>No.</b>	No.
£140,001 - £150,000	<b>1</b>	-
£150,001 - £160,000	-	1

<b>Board member</b>	<b>Board role</b>	<b>2016</b>
		<b>Emoluments</b>
		<b>£'000</b>
B Spears	Non Executive Director	4
F McQueen	Non Executive Director	7
T Wright	Non Executive Director	2
<b>Total</b>		<b>13</b>

**5. Employees**

The average number of persons (expressed as full time equivalents) employed by the Association (including directors) during the year, analysed by category, were as follows:

	<b>2016</b>	2015
	<b>No.</b>	No.
Directors and senior staff	<b>1</b>	1
Housing Management	<b>246</b>	238
Repairs and Maintenance	<b>466</b>	497
Asset Management	<b>37</b>	37
Apprentice	<b>2</b>	-
Operations	<b>123</b>	119
External Contracts	<b>47</b>	50
	<b>922</b>	942

The aggregate payroll costs of these persons were as follows:

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Wages and salaries	<b>24,229</b>	24,497
Social security costs	<b>1,704</b>	1,726
Pension contributions	<b>4,370</b>	4,493
Redundancy costs	<b>4,978</b>	-
	<b>35,281</b>	30,716

**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**5. Employees (continued)**

Salary banding for all employees whose total remuneration exceeds £60,000 (including executive directors) per annum is as follows:

	<b>2016</b>	2015
	<b>No.</b>	No.
£60,000 - £70,000	<b>8</b>	4
£70,001 - £80,000	<b>1</b>	1
£80,001 - £90,000	<b>2</b>	1
£100,001 - £110,000	<b>1</b>	1
£140,001 - £150,000	<b>1</b>	-
£150,001 - £160,000	<b>-</b>	1

**6. (Deficit)/ surplus on disposal of fixed assets**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Proceeds from sales	<b>3,328</b>	6,674
Cost of sales	<b>(33)</b>	(631)
Net book value of assets sold	<b>(3,074)</b>	(4,429)
Net book value of assets demolished	<b>(60)</b>	(186)
	<b>161</b>	1,428
Transfer to disposal proceeds fund (DPF)	<b>(300)</b>	(1,023)
Transfer to recycled capital grant fund (RCGF)	<b>-</b>	(120)
	<b>(139)</b>	285

**7. Interest payable and similar charges**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Interest payable on intercompany loan	<b>23,620</b>	23,468

**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**8. Expenses and auditor's remuneration**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
<i>Included in surplus / (deficit) are the following:</i>		
Depreciation:		
Social housing properties	<b>23,742</b>	22,044
Tangible fixed assets – other	<b>372</b>	342
 <i>Auditor's remuneration:</i>		
Audit of these financial statements (excluding VAT)	<b>30</b>	39

Amounts receivable by the Association's auditors and their associates in respect of services to the Association and its associates, other than the audit of the Association's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Association's parent, Gentoo Group Limited.

The Group undertakes a detailed impairment exercise annually and the carrying value of the Association's properties have been revised accordingly.

**9. Taxation**

**Total tax expense recognised in the profit and loss account**

	<b>2016</b>		2015
	<b>£'000</b>	£'000	£'000
<i>Current tax</i>			
Current tax on income for the period	<b>4,153</b>	4,101	
Adjustments arising in respect of prior periods	<b>(385)</b>	-	
Total current tax	<b>3,768</b>		4,101
 <i>Deferred tax</i>			
Origination and reversal of timing differences	-	-	
Change in tax rate	-	-	
Adjustments arising in respect of prior periods	-	-	
Total deferred tax	-		-
Total tax charge	<b>3,768</b>		<b>4,101</b>

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**9. Taxation (continued)**

The current tax charge for the year is higher (2015: *higher*) than the UK standard corporation tax rate of 20% (2015: 21%).

**Reconciliation of effective tax rate**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
(Loss) for the year	<b>(3,579)</b>	(3,539)
Total tax expense	<b>3,768</b>	4,101
	<hr/> <hr/>	<hr/> <hr/>
Profit excluding taxation	<b>189</b>	562
Tax using the UK corporation tax rate of 20% (2015: 21%)	<b>38</b>	118
Fixed asset differences	<b>3,953</b>	3,833
Expenses not deductible for tax purposes	<b>57</b>	207
Additional deduction for land remediation expenditure	-	(19)
Accelerated capital allowances / other timing differences	<b>(280)</b>	(38)
Total tax expense included in profit or loss	<b>3,768</b>	4,101
	<hr/> <hr/>	<hr/> <hr/>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020.

The Association has converted to a CBS, therefore, no provision for deferred tax has been made.

**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**10. Tangible fixed assets – housing properties**

	Housing properties held for letting £'000	Shared ownership £'000	Housing properties under construction £'000	Garages held for letting £'000	Total £'000
<b>Cost or valuation</b>					
At 1 April 2015	1,122,965	4,063	7,919	1,263	<b>1,136,210</b>
Additions	3,964	-	2,019	-	<b>5,983</b>
Enhancements	20,144	-	-	-	<b>20,144</b>
Schemes completed	1,671	217	(1,888)	-	-
Disposals	(3,271)	(109)	-	-	<b>(3,380)</b>
Demolitions	(46)	-	-	(17)	<b>(63)</b>
Category transfer	11	-	-	(11)	-
Transfer to other fixed assets	(66)	-	-	-	<b>(66)</b>
Transfer to other group company	(15)	-	-	-	<b>(15)</b>
Transfer from DPF	-	-	(1,355)	-	<b>(1,355)</b>
<b>At 31 March 2016</b>	<b>1,145,357</b>	<b>4,171</b>	<b>6,695</b>	<b>1,235</b>	<b>1,157,458</b>
<b>Depreciation</b>					
At 1 April 2015	104,218	59	-	178	<b>104,455</b>
Charged in the year	23,721	-	-	21	<b>23,742</b>
Disposals	(317)	-	-	-	<b>(317)</b>
Demolitions	(2)	-	-	(1)	<b>(3)</b>
Transfer from other fixed assets	13	-	-	-	<b>13</b>
<b>At 31 March 2016</b>	<b>127,633</b>	<b>59</b>	<b>-</b>	<b>198</b>	<b>127,890</b>
At 31 March 2015	1,018,747	4,004	7,919	1,085	1,031,755
<b>At 31 March 2016</b>	<b>1,017,724</b>	<b>4,112</b>	<b>6,695</b>	<b>1,037</b>	<b>1,029,568</b>

Depreciation has been charged on housing properties, on the basis of useful economic lives of the constituent components as set out in the Association 's accounting policy.

**Expenditure to works on existing properties:**

	2016 £'000	2015 £'000
Amounts capitalised – improvements	<b>20,144</b>	19,224
Amounts charged to profit and loss account and other comprehensive income statement	<b>6,150</b>	6,537
	<b>26,294</b>	25,761



**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**10. Tangible fixed assets – housing properties (continued)**

The Association has identified the reduction in future rental streams following the introduction of The Welfare Reform and Work Act 2016 as an indicator of potential impairment and has subsequently carried out an assessment of whether any impairment provision is required in accordance with the Statement of Recommended Practice Accounting by registered social housing providers update 2014 (SORP 2014). This assessment determined that the value in use of assets held for their service potential (VIU-SP) exceeds the carrying value of each of the Cash Generating Units (CGU's) and therefore no impairment provision is required.

In accordance with the SORP, the assessment utilised depreciated replacement cost as a reasonable estimate for VIU-SP. Depreciated replacement cost was calculated as being the lower of the cost of acquiring the assets on the open market or the cost of constructing an equivalent asset.

Reliance was placed upon a previous open market valuation of the Association's assets adjusted by a House Price Index relevant to the local area in order to estimate the cost of acquiring equivalent assets. The cost of constructing an equivalent asset was estimated using our own performance data from delivering new build schemes over recent years.

**11. Tangible fixed assets – other**

	Land and Buildings £'000	Furniture, fixtures and fittings £'000	Equipment £'000	Vehicles £'000	Total £'000
<b>Cost</b>					
At 1 April 2015	867	491	3,580	4	4,942
Additions	-	-	158	-	158
Transfer from housing properties	66	-	-	-	66
Disposals	-	-	(19)	-	(19)
<b>At 31 March 2016</b>	<b>933</b>	<b>491</b>	<b>3,719</b>	<b>4</b>	<b>5,147</b>
<b>Depreciation</b>					
At 1 April 2015	55	443	2,320	4	2,822
Charged in the year	22	17	333	-	372
Transfer to housing properties	(13)	-	-	-	(13)
Disposals	-	-	(9)	-	(9)
<b>At 31 March 2016</b>	<b>64</b>	<b>460</b>	<b>2,644</b>	<b>4</b>	<b>3,172</b>
<b>Net book value</b>					
At 31 March 2015	812	48	1,260	-	2,120
<b>At 31 March 2016</b>	<b>869</b>	<b>31</b>	<b>1,075</b>	<b>-</b>	<b>1,975</b>

All land and buildings are freehold.

**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**12. Investments**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Long term debtor	<b>1,144</b>	1,435
Investment property	<b>80</b>	-
	<b><u>1,224</u></b>	<u>1,435</u>

The long term debtor of £1,144k (2015: £1,435k) relates to the amount owed to Gentoo Sunderland as part of the HomeBuy Direct and Homebuyer Schemes.

**13. Properties for sale**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Properties under construction	<b>13,618</b>	18,222
Completed properties	<b>313</b>	912
	<b><u>13,931</u></b>	<u>19,134</u>

**14. Debtors**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Arrears of rent	<b>7,073</b>	6,642
Less: provision for bad and doubtful debts – rent	<b>(3,498)</b>	(2,917)
Trade debtors	<b>562</b>	1,920
Less: provision for bad debts	<b>-</b>	(77)
Other debtors	<b>294</b>	206
Prepayments and accrued income	<b>2,844</b>	5,171
	<b><u>7,275</u></b>	<u>10,945</u>

**15. Creditors: amounts falling due within one year**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Rent received in advance	<b>1,717</b>	1,734
Other creditors	<b>1,367</b>	1,686
Accruals and deferred income	<b>6,494</b>	3,769
Other tax and social security	<b>1,469</b>	1,901
Disposal proceeds fund (DPF)	<b>1,088</b>	2,132
Recycled capital grant fund (RCGF)	<b>101</b>	390
	<b><u>12,236</u></b>	<u>11,612</u>

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**16. Creditors: amounts falling due after more than one year**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Deferred capital grant	<b>9,526</b>	6,221
Amounts owed to group undertakings	<b>495,537</b>	507,261
	<b><u>505,063</u></b>	<u>513,482</u>

Gentoo Sunderland is financed by way of Group facilities. Gentoo Group Limited, the Association's parent Association, is the Principal Borrower and as such the principal financing transactions are shown in the financial statements of that Association. Interest is charged on to the subsidiaries. The financing is currently all secured by way of a fixed charge on the housing properties. Full details of the Group's facilities are given in the financial statements of Gentoo Group Limited.

**17. Social Housing Grant**

	<b>Housing Properties for letting</b>	<b>Housing properties under construction</b>	<b>Shared ownership properties for lettings</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>				
At 1 April 2015	6,221	-	-	6,221
Schemes completed in the year	-	-	-	-
Received during the year	-	3,370	-	3,370
Recycled on disposal	-	-	-	-
<b>At 31 March 2016</b>	<b><u>6,221</u></b>	<b><u>3,370</u></b>	<b><u>-</u></b>	<b><u>9,591</u></b>
<b>Amortisation</b>				
At 1 April 2015	-	-	-	-
Released in the year	65	-	-	65
<b>At 31 March 2016</b>	<b><u>65</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>65</u></b>
	<b><u>6,156</u></b>	<b><u>3,370</u></b>	<b><u>-</u></b>	<b><u>9,526</u></b>

**Notes to the financial statements (continued)**  
 for the year ended 31 March 2016

**18. Reconciliation of RCGF**

		<b>HCA</b>
		<b>£'000</b>
<b>Opening balance at 1 April 2015</b>		<b>390</b>
Recycling of grant:	New build	(289)
<b>Closing balance at 31 March 2016</b>		<b>101</b>

Amounts three years old or older where repayment may be required -

**19. Reconciliation of DPF**

		<b>HCA</b>
		<b>£'000</b>
<b>Opening balance at 1 April 2015</b>		2,132
<b>Inputs to DPF:</b>	Net receipts	300
	Interest accrued	11
<b>Use / allocation of funds:</b>	New build	(1,355)
<b>Closing balance at 31 March 2016</b>		<b>1,088</b>

Amounts 3 years old or older where repayment may be required -

**20. Capital commitments**

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Expenditure contracted for but not provided for in the financial statements	<b>16,884</b>	1,123
Expenditure authorised by the Board but not contracted	<b>18,471</b>	58,258
	<b>35,355</b>	59,381

The commitments will be funded through existing facilities.

A three year investment plan budget was approved by Board and will be funded by way of Group facilities.

**Notes to the financial statements (continued)**  
for the year ended 31 March 2016

**21. Other financial commitments**

Annual amounts payable under non-cancellable operating leases were as follows:

	<b>2016</b>		2015	
	<b>Land and buildings</b>	<b>Other</b>	Land and buildings	Other
	<b>£'000</b>	<b>£'000</b>	£'000	£'000
Operating leases which expire:				
Within one year	<b>88</b>	<b>1,439</b>	86	1,313
In the second to fifth years inclusive	<b>405</b>	<b>459</b>	-	1,462
Over five years	-	<b>7</b>	-	-
	<b>493</b>	<b>1,905</b>	86	2,775

During the year £1,474k (2015: £1,303k) was recognised as an expense in the profit and loss account in respect of operating leases.

**22. Related party transactions**

The Board of Management includes up to five members concurrently, as shown on page 15, who are tenants of the Association. The terms of the tenancy arrangements are consistent with those offered to other tenants and at the end of the year no amount was due to the Association in respect of these members.

The Board of Management also includes up to five members concurrently, as shown on page 15, who are elected members of the City of Sunderland Council. The Association undertakes transactions with the Council at arm's length in the normal course of business.

*Identity of related parties with which the Association has transacted*

The Association is a wholly owned subsidiary of Gentoo Group Limited.

Amounts owed from / (to) related parties (all subsidiaries or former subsidiaries of Gentoo Group Limited).

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Gentoo Group Limited	<b>(502,522)</b>	(455,215)
Gentoo Developments Limited	<b>8,620</b>	-
Romag Limited	<b>(41)</b>	166
Gentoo Construction Limited	-	(47,873)
Gentoo Homes Limited	<b>(1,600)</b>	(4,351)
Gentoo Art of Living	<b>6</b>	12
	<b>(495,537)</b>	(507,261)

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**23. Analysis of Intra group transactions**

Intra group trading is undertaken at arm's length and is predominantly tender/market driven. During the year the Association had the following intra-group transactions with non-regulated entities:

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Gentoo Construction Limited – planned maintenance and new build	<b>1,650</b>	11,342
Gentoo Homes Limited – renewal plan	<b>6,485</b>	16,314
Romag Limited – PV on homes	<b>2,903</b>	2,954
Art Of Living – donation	<b>6,500</b>	7,200
	<b>17,538</b>	37,810

**24. Ultimate parent undertaking**

The immediate and ultimate controlling party and parent undertaking is Gentoo Group Limited, a Registered Housing Provider. Copies of the Annual Report and Accounts can be obtained from the Company Secretary, Gentoo Group Limited, Emperor House, 2 Emperor Way, Doxford International Business Park, Sunderland, SR3 3XR.

**25. Explanation of transition to FRS 102 from old UK GAAP**

As stated in note 1, these are the Association's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2016 and the comparative information presented in these financial statements for the year ended 31 March 2015.

In preparing its FRS 102 statement of financial position, the Association has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Association's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

**Notes to the financial statements (continued)**  
for the year ended 31 March 2016

**26. Explanation of transition to FRS 102 from old UK GAAP (continued)**

*Reconciliation of equity*

	Note	1 April 2014 comparative			31 March 2015 comparative		
		£'000	£'000	£'000	£'000	£'000	£'000
		UK GAAP	Effect of transition to FRS 102	FRS 102	UK GAAP	Effect of transition to FRS 102	FRS 102
<b>Fixed Assets</b>							
Tangible fixed assets – housing properties	a	1,018,738	3,275	1,022,013	1,005,265	26,490	1,031,755
Tangible fixed assets - other		1,966	-	1,966	2,120	-	2,120
Investments		1,611	-	1,611	1,435	-	1,435
		<u>1,022,315</u>	<u>3,275</u>	<u>1,025,590</u>	<u>1,008,820</u>	<u>26,490</u>	<u>1,035,310</u>
<b>Current assets</b>							
Properties for sale		19,625	-	19,625	19,134	-	19,134
Debtors		7,344	-	7,344	10,945	-	10,945
		<u>26,969</u>	<u>-</u>	<u>26,969</u>	<u>30,079</u>	<u>-</u>	<u>30,079</u>
<b>Creditors:</b> amounts falling due within one year		(7,138)	-	(7,138)	(11,612)	-	(11,612)
<b>Net current assets</b>		<u>19,831</u>	<u>-</u>	<u>19,831</u>	<u>18,467</u>	<u>-</u>	<u>18,467</u>
<b>Total assets less current liabilities</b>		<u>1,042,146</u>	<u>3,275</u>	<u>1,045,421</u>	<u>1,027,287</u>	<u>26,490</u>	<u>1,053,777</u>
<b>Creditors:</b> amounts falling due after more than one year	b	500,346	1,205	501,551	507,261	6,221	513,482
<b>Capital and reserves</b>							
Revaluation reserve	c	190,550	(42,748)	147,802	169,028	(24,536)	144,492
Revenue reserve	d	35,882	44,818	80,700	42,798	44,805	87,603
Capital contribution reserve		315,368	-	315,368	308,200	-	308,200
		<u>541,800</u>	<u>2,070</u>	<u>543,870</u>	<u>520,026</u>	<u>20,269</u>	<u>540,295</u>
		<u>1,042,146</u>	<u>3,275</u>	<u>1,045,421</u>	<u>1,027,287</u>	<u>26,490</u>	<u>1,053,777</u>

**Notes to the financial statements (continued)**

for the year ended 31 March 2016

**26. Explanation of transition to FRS 102 from old UK GAAP (continued)**

*Notes to the reconciliation of equity*

- a) *The Association opted to apply transitional arrangements under FRS102 35.10(C) for first time adopters to elect to measure an item of fixed assets at its fair value at the date of transition and use that fair value as its deemed cost at that date. This is coupled with the implementation of accruals method in relation to grants, where the capital grant is initially recognised as a creditor due in more than one year under deferred grant income and amortised over the life of the fixed asset structure as recommended by SORP 2014.*
- b) *Restatement of creditors following implementation of accruals method for grants, as above.*
- c) *Restatement of revaluation reserve following implementation of accruals method for grants and adoption of deemed cost as a method of accounting for housing properties.*
- d) *Restatement of revenue reserve following implementation of accruals method for grants and adoption of deemed cost as a method of accounting for housing properties.*

*Reconciliation of deficit for 31 March 2015*

	Note	Adopted UK GAAP £'000	Effect of transition to FRS 102	FRS 102 £'000
Turnover		138,033	-	138,033
Cost of sales		(12,444)	-	(12,444)
Gross profit		125,589	-	125,589
Operating costs		(94,644)	-	(94,644)
Donation to group company		(7,200)	-	(7,200)
Operating surplus		23,745	-	23,745
Profit / (loss) on disposal of fixed assets	a	299	(14)	285
Interest payable and similar charges		(23,468)		(23,468)
Surplus on ordinary activities before taxation	a	576	(14)	562
Tax on surplus / (deficit) on ordinary activities		(4,101)	-	(4,101)
Deficit for the financial year and total comprehensive deficit for the financial year	a	(3,525)	(14)	(3,539)



**Notes to the financial statements (continued)**  
for the year ended 31 March 2016

**26. Explanation of transition to FRS 102 from old UK GAAP (continued)**

*Notes to the reconciliation of deficit*

- (a) *Restatement of profit on disposal of fixed assets following amended asset values after implementation of accruals method for grants and adoption of deemed cost as a method of accounting for housing properties.*