Annual Report and Accounts 2017

gentoo

Contents

GENTOO GROUP LIMITED

ADDENDUM TO THE ANNUAL REPORT AND ACCOUNTS ENDING 31ST MARCH 2017

The following statement provides an updated position in relation to the compliance statements provided on pages 68 and 69.

Since these accounts were approved and signed in July 2017, including the Statement of Compliance and NHF Code of Governance 2015 and HCA Regulatory Framework sections forming part of those accounts, Gentoo has self-reported a potential governance issue to the Regulator as a result of which our governance rating has been placed under review. That issue is the subject of an ongoing, independent, external investigation which is intended, amongst other things, to assist us in determining whether we have in fact fully complied with the required outcomes for governance as set out in the Governance & Financial Viability Standard and its chosen Code of Governance (the NHF "Promoting board excellence for housing associations" 2015 edition). With the exception of those matters which are subject of the current independent, external review, and noting the explanations provided here, the Board continues to certify that it complies with the NHF Code of Governance 2015.

Ian Self
Chairman
Gentoo Group
6 September 2017

Executive and Advisers

The structure of the Board of Gentoo Group is made up of 13 members, comprising three local authority Councillors, seven independents, one tenant member, one co-optee and one executive member. The members of the Board are as follows:

Independent Board Members

Brian Spears (appointed 27 July 2016)
Colin Blakey (appointed 28 September 2016)
David Murtagh (appointed 1 February 2017)
Frank Nicholson (appointed 1 February 2017)
Ian Self
Keith Loraine (appointed 1 February 2017)
Mary Coyle

Local Authority Board Members

Barry Curran (appointed 22 June 2016)
Paul Stewart (appointed 22 June 2016)
Philip Tye

Executive Board Member

John Craggs

Tenant Board Member

Leslie Herbert (appointed 1 February 2017)

Co-optee

Chris Watson (appointed 1 February 2017)

During the year, the following Board Members resigned:

Independent Board Members

Barrington Billings (1 February 2017)
Hunada Nouss (1 February 2017)
John Walker (15 September 2016)
Richard Beevers (1 February 2017)

Tenant Board Member

John Dannell (1 February 2017)

Executive Board Member

Stephen Lanaghan (27 July 2016)

Committee Membership

Risk and Audit Committee

Barry Curran (appointed 22 June 2016)
David Murtagh (appointed 1 February 2017)
Frank Nicholson (appointed 1 February 2017)
Hunada Nouss (resigned 1 February 2017)
James Falade (resigned 1 February 2017)
Mary Coyle
Susan Johnson

Appointments and Remuneration Committee

Barrington Billings (resigned 1 February 2017)
Brian Spears (appointed 1 February 2017)
Chris Watson (appointed 1 February 2017)
John Dannell (resigned 1 February 2017)
John Walker (resigned 1 February 2017)
Keith Loraine (appointed 1 February 2017)
Leslie Herbert (appointed 1 February 2017)
Mary Coyle (resigned 1 February 2017)
Phillip Tye (appointed 22 June 2016)

Key Management Personnel

Chief Executive Officer

John Craggs

Executive Director (Finance)

Nigel Tooby

Executive Director (Operations)

Michelle Meldrum

Executive Director (Property)

Graham Gowland

Executive Director (Corporate Services)

Louise Bassett

Executive and Advisers (continued)

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

Bankers
National Westminster Bank plc
Sunderland City Branch
52 Fawcett Street
Sunderland
SR1 1SB

Funders
Nationwide Building Society
Treasury Department
King's Park Road
Moulton Park
Northampton
NN3 6NW

European Investment Bank (EIB)
98-100 Boulevard Konrad Adenauer
L-2950 Luxembourg-Kirchberg
Grand Duchy of Luxembourg

Lloyds Bank plc
Public and Community Sector
3rd Floor
25 Gresham Street
London
EC2V 7HN

Newcastle Building Society
Portland House
New Bridge Street
Newcastle upon Tyne
NE1 8AL

Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

The Housing Finance Corporation Limited (THFC)
4th Floor
107 Cannon Street
London
EC4N 5AF

Bank of Ireland
65 St Vincent Street
Glasgow
G2 5TH

Barclays Bank
83 Arygle Street
Glasgow
G2 8BJ

Funding Advisors
TradeRisks Limited
21 Great Winchester Street
London
EC2N 2JA

Registered office
Emperor House
2 Emperor Way
Doxford International Business Park
Sunderland
SR3 3XR

Chairman's Introduction

I am proud to introduce Gentoo's Annual Report and Accounts for the last time as I step down as Group Chairman. During my time at Gentoo, I have seen a number of significant changes in the housing sector, brought about by Government policy and a period of political uncertainty. The introduction of the 1% rent reduction in 2016 has been one of the biggest challenges we have faced. However we have responded well to its impacts and I am pleased to report that in 2016/17 we delivered more than £9m in efficiency savings.

A revised business plan was approved by the Board in March 2017 and presents a viable and sustainable financial position. We have ensured that the plan has also been stress tested against our top risks to give the Board assurance that risk is being effectively managed throughout the Group. We have a robust approach to risk mapping, with regular reviews of business performance. One of our top risks is income collection and the impact of Universal Credit on collection rates. Early intervention has ensured that our collection rates remain very high and we will continue to mitigate the impacts of Welfare Reform to the best of our ability and support customers with help and advice.

We continue to refocus on the core activity of our landlord and development functions, primarily based in Sunderland and the North East of England. As a result, turnover has reduced, but remains secure at £193.3m with a surplus of £8.3m. The performance of our landlord and development functions also continues to be strong. After completing a fundamental review of our operating model, we are delivering services in a different and effective way, with 96% of our customers satisfied with the service they receive from us. Gentoo Homes and Gentoo Developments have also had a record year, delivering 233 new homes across the North East for both rent and outright sale.

The Group's intention to focus on core activity has included a joint review of the future of the constitutional partnership with the West of Scotland Housing Association (WoSHA). This has amicably concluded that it would be timely and in the interests of both parties to bring the partnership to an end. This reflects a change in the political and funding environments as well as the Group seeking to refocus geographically in the North East and Sunderland areas. This will be subject to agreement through a tenant consultation process and regulatory sign off with a view to the partnership ending in the autumn of 2017.

In March 2017, we completed a 'Transfer of Engagements' to provide existing services through one single charitable housing association, Gentoo Group Limited. This resulted in Gentoo Sunderland Limited transferring all of its assets and liabilities to Gentoo Group Limited. In line with this, we have established an Operations Committee which will provide challenge and scrutiny of the Group's business activities. Reporting directly to the Board, they will ensure customers' views are represented in all Board decision making.

We have also recently welcomed new Board Members, who bring a diverse range of experience and skills. They will play an integral role in helping us to deliver our business strategy and I know they will make a positive impact on the Group's future.

Despite operating in a challenging environment, there have been many noteworthy highlights and achievements. We have won a number of awards that are well-respected in the sector. This includes being highly commended for our approach to meeting specialist housing needs in the UK Housing Awards and winning Social Housing Development of the Year at The Bricks Local Authority Building Control (LABC) Warranty Awards for our £14.3m Hillcrag development.

Forming new and strengthening our existing partnerships is one of our five strategic aims. Partnership working will make us more robust and help us to make a greater impact in our communities, as we see a number of funding cuts as a consequence of the austerity measures being felt within local Government. Over the past year, we have developed a number of new alliances that have allowed us to work towards our vision and aided us in securing £1.2m of funding to expand our services in Sunderland. This includes £0.5m from the Big Lottery Fund for the Big Project - a perpetrator engagement programme that will help make positive changes to behaviour.

We pride ourselves on being a responsible employer and we fundamentally believe that our staff are more inspired when we enable them to be themselves. With our continued work with Stonewall, we are committed to lesbian, gay, bi and trans (LGBT) workplace inclusivity and were very proud to again be named as a Star Performer.

We have also continued to invest in our staff through training, multi-skilling, management development programmes and apprenticeships; with 20 new apprentices joining us in the last year. This is all part of giving people new opportunities and experiences so we can ensure we have the right staff with the skill set we need for our future.

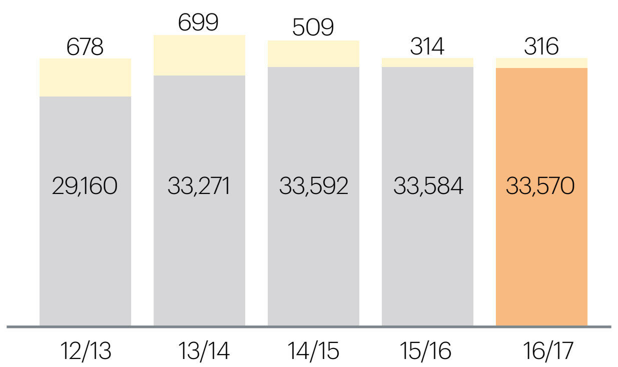
I would like to take the opportunity to thank all employees and non-executive members, within our governance structure, for their continued support on this journey. Despite another challenging 12 months, staff have continued to show true dedication and worked tirelessly to deliver on the Group's strategic aims, always ensuring we remain focused on our vision.

Ian Self
Chairman
Gentoo Group
26 July 2017

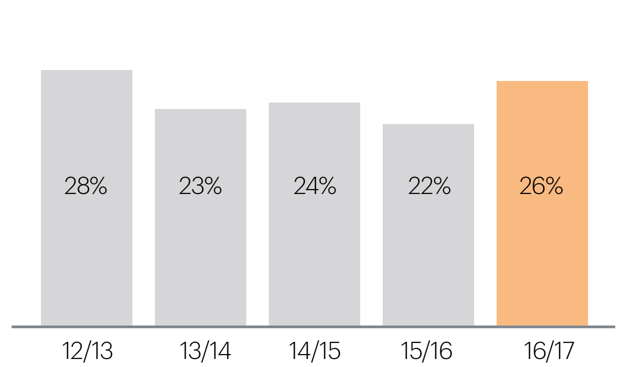
Financial and Operational Highlights

Non-social housing units
Social housing units

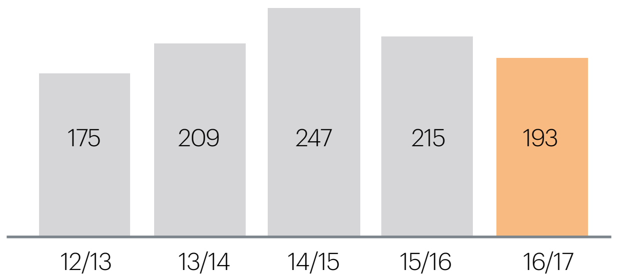
Units managed



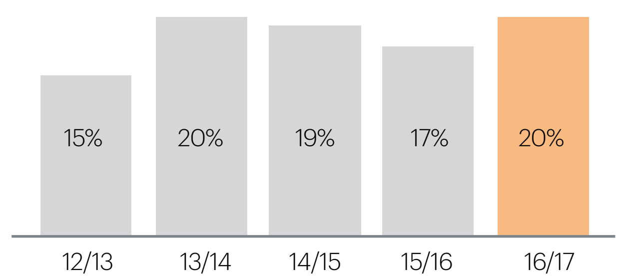
Operating margins - social housing lettings (%)



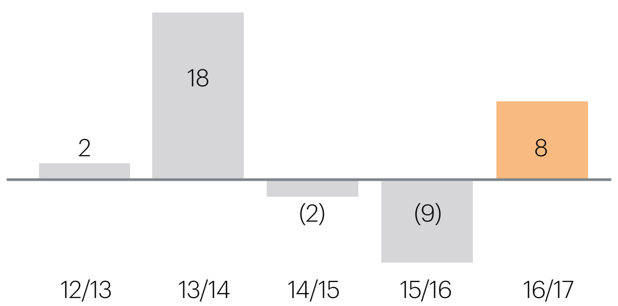
Turnover (£m)



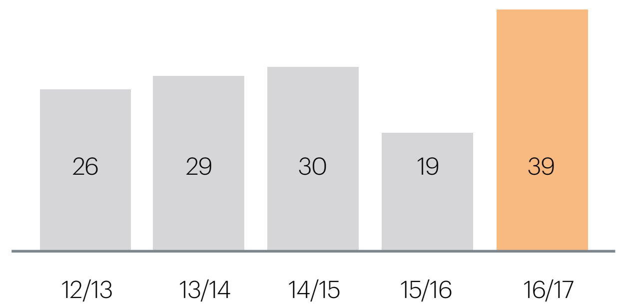
Property sales gross margins (%)



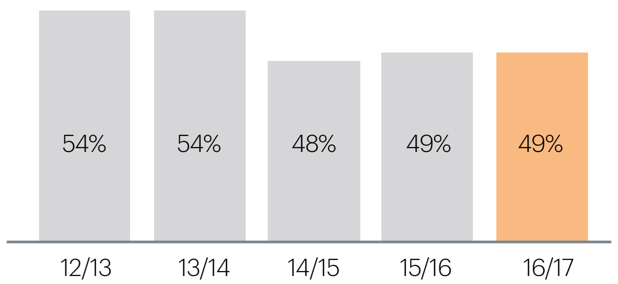
Surplus / (deficit) (£m)



Operating surplus (£m)

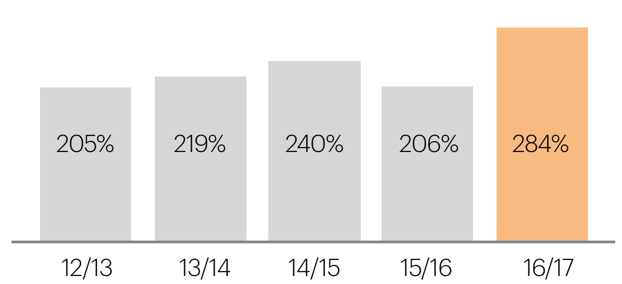


Gearing (%)



Gearing has been calculated as commercial and other loans as a % of total assets less current liabilities

Interest cover (%)



Interest cover has been calculated as operating surplus plus depreciation as a % of net interest payable

Our Vision and Strategy

Principal Activities
Gentoo Group is a housing association and our principal activities are the provision of affordable, rented accommodation to the social housing sector and the wider regeneration of our communities. During the year the Group also undertook home property development, building contract and property maintenance services, as well as Photovoltaic (PV) and glass services and care services to both the public and private sector.

`Gentoo Group' Structure
Under Gentoo Group's legal structure, Gentoo Group Limited is the parent company and is a Charitable Community Benefit Society registered with the Financial Conduct Authority (FCA) and is a not-for-profit Private Registered Provider (PRP) regulated by the Homes & Communities Agency (HCA). The Association also has exempt charitable status with HM Revenue and Customs, reference number EW41411 and is also a Public Benefit Entity.

Gentoo Group Limited

The parent company and Registered Provider of social housing. It also provides group-wide services including treasury and financial management, information technology (IT), technical, legal and human resources services

Registered Societies under Co-operative and Community Benefit Societies Act 2014	Private, non-charitable subsidiaries	Constitutional Partnership
Gentoo Art of Living provide a range of support services and housing options to help vulnerable people live well in our communities	**Gentoo Homes Limited** a residential property development company	**West of Scotland Housing Association** a charitable Registered Social Landlord in Scotland
Nuru Fund Limited aid disadvantaged client groups and the advancement of environmental improvement in developing countries	**Gentoo Developments Limited** a residential property development company	**Willowacre Trust** a registered charity in Scotland, to assist families and individuals within Glasgow and the surrounding areas to overcome difficulties and sustain their homes
	Gentoo Genie Limited a provider of FCA authorised Home Purchase Plans (HPP)	
	Genie Homeplan Limited a trust company that holds the legal title for assets subject to Home Purchase Plans (HPP) administered and provided by Gentoo Genie Limited	
	Gentoo Care Limited a provider of care services	

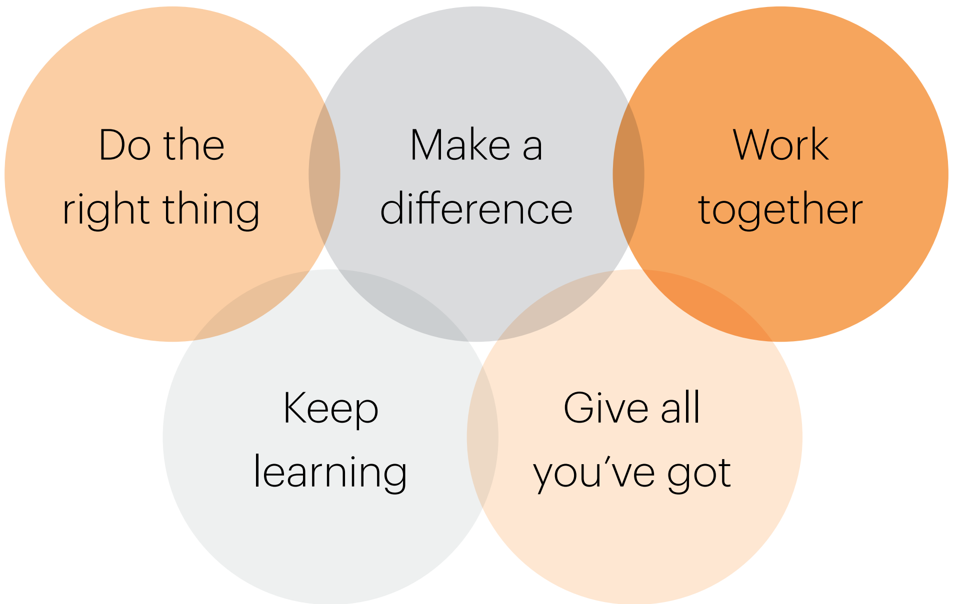
On 14 July 2016, the Group disposed of Romag Limited, a provider of PV and specialist glass and Romag PPM Limited, a provider of leased assets to Romag Limited. On 22 April 2017, the activities of Nuru Fund Limited were taken over by the North East charity, Comrades of Children Overseas (COCO), and became dormant from this date.

The Group also has a number of dormant companies, as detailed in note 16.

Each of our subsidiaries and divisions produce their own business plan and set their own operational targets. As we do not have shareholders, we do not distribute dividends. Instead, we aim to reinvest any profits made in accordance with our strategic aims.

Our Vision and Strategy (continued)

Vision



Our vision and values set the direction and culture of the Group. They ensure that the business is aligned around the desire to create sustainable homes and communities and to improve the lives of our customers.

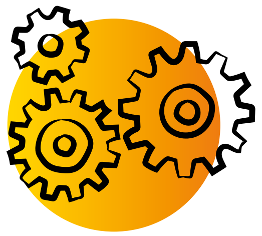
Group strategic aims

The Group business strategy sets the overall direction for the Group including the vision, values and strategic aims. The Group's strategic aims are:

Deliver outstanding service to customers so that people and communities thrive

Actively manage our assets and develop new homes to meet local needs

Support our people to deliver our vision and live our values



Work with others to build effective partnerships

Be well governed and financially strong

Progress against the Group's strategic aims is discussed quarterly by Group Board.

Delivering an outstanding service to customers so that people and communities thrive

100.54%*
Rent collected as a % of rent due

£474
Housing management direct cost per property

0.98%
Rent void loss as a % of rent due

96%
Resident satisfaction overall

£1.2m
External funding secured to help expand services in Sunderland

* rent collected includes collection of arrears as well as any rent paid in advance

> **“We have been supporting our financially vulnerable customers to manage their money through advice, support and signposting.”**

Gentoo is committed to delivering an outstanding customer service and treating all customers with fairness and respect. Our customer strategy was launched in April 2016, making clear our commitment to ensuring customers and communities thrive.

Understanding our customers is a priority for us. We involve and consult with our customers in a number of different ways, helping us to improve our product and service offer.

This year we were delighted to retain our ServiceMark accreditation, awarded by the Institute of Customer Service (ICS). This is based on customer satisfaction feedback and an assessment of employee engagement with our customer strategy.

We have been supporting our financially vulnerable customers to manage their money through advice, support and signposting, and we are pleased to report that we have exceeded our rent collection target this year. In addition, our void rent loss and housing management costs are favourable when benchmarked against others in the sector.

Our priority will be to continue to support customers through the challenge of Welfare Reform, mitigating the risks it brings to both them and our business.

Delivering an outstanding service to customers so that people and communities thrive (continued)

2016/17 Highlights

Involving customers
We work with our customers to co-create effective engagement structures which help us to improve our services. To complement this, we have a number of volunteers who, over the past year have contributed just under 2,500 hours of their time to make a difference in local communities.

Supporting customers
This year our positive engagement team were shortlisted in Business in the Community's (BITC) Responsible Business Awards. This is great recognition for the work our teams do to support perpetrators of anti-social behaviour (ASB) and other tenants with complex needs to make positive changes. We were also highly commended for our approach to tackling domestic abuse within the housing sector at the UK Housing Awards.

95
No. of customers who accessed our positive engagement service

110
No. of customers who accessed our victim support service

Maximising income
Our money matters team continue to support some of our most financially vulnerable customers, offering help with claiming benefits, budgeting and consolidating debt.

1,699
No. of customers referred to our team for money advice

£1m
Financial gains for customers

Understanding our customers
We have been collecting customer profile data for all of our customers. This will not only be used to help us understand our customers and tailor our services, it will also help us to plan for future housing needs.

26,000
No. of customer surveys completed

Inspiring people and improving local communities

In 2016 we were proud to hold our eighth Genfactor competition. As well as opening up doors in performing arts, taking part helps young people build confidence and realise their potential.

In addition, individuals, voluntary and community groups have benefitted from Aspire grants, helping to build stronger communities.

We also encourage staff, corporate partners and the local community to donate items to support those less fortunate. At Christmas more than 300 adults and children across Sunderland received toys, gift sets, clothing and toiletries, with food parcels delivered to local food banks.

94%
Customers satisfied with their neighbourhood

72
Aspire grants awarded

"As well as opening up doors in performing arts, taking part helps young people build confidence and realise their potential."

Delivering an outstanding service to customers so that people and communities thrive (continued)

Working in partnership

Local partnerships are really important when delivering services to customers. We regularly work with agencies such as the police and specialist organisations to ensure our customers feel safe and secure. Due to changes in funding we have been working with others to secure external funding to support us to expand our services.

This year we also teamed up with Sun FM and local primary schools to encourage people to take care of their community through the Next Generation Project. Hosted by Sun FM, Next Generation Projects allow school children to influence real life issues through the creation of their very own radio advert. The Gentoo sponsored project encourages people to take pride in their community, think of ideas on how to keep local areas safe and tidy and deal with issues such as fly tipping and mass litter.

In addition we pledged our support for the Great North Snowdogs – Tyne and Wear's biggest ever mass-participation event. The interactive trail featured more than 50 large Snowdog sculptures. We donated 10 small dogs to local communities and these small dogs were designed by local schools and young people. This was a great way for Gentoo to work with the local community and get people involved in using creativity as a learning tool.

Actively managing our assets and developing new homes to meet local needs

£785
Responsive repairs direct cost per property

£855
Major works direct cost per property

86%
Residents' satisfaction with our repairs service

233
New Homes Built
(164 for sale and 69 affordable rent)

99.98%
Gas servicing compliance

> **"Customer satisfaction with our repairs service continues to be closely monitored and we are currently above our performance target of 85%, a great achievement in a period of change."**

This year we have fundamentally reviewed our approach to asset management, which included the commencement of a stock condition survey that will allow us to plan for the future using robust data to inform investment planning. To support our new approach we are in the process of introducing a new Asset Management IT system along with continuing our roll out of hand held technology for front-line staff.

In addition, we have introduced a new staffing structure and developed a comprehensive asset management delivery plan that will ensure we protect our existing housing assets as well as develop new homes that meet local needs.

Our repairs and maintenance service has also undergone a fundamental service review to help ensure we provide value for money for our customers. The new delivery model has delivered a number of efficiencies and full implementation of this change plan is expected to take us up to March 2019. Customer satisfaction with our repairs service continues to be closely monitored and we are currently above our performance target of 85%, a great achievement in a period of change.

Actively managing our assets and developing new homes to meet local needs (continued)

2016/17 Highlights

Keeping our customers safe
In 2016 we moved to a 10 month gas safety check programme which produced excellent results. Our approach was recognised when we were shortlisted for the Gas Repairs and Maintenance Scheme of the Year at the Association of Gas Safety Managers Awards.

Managing our assets
We are delighted that our work around managing our assets has been validated by the Asset Management ISO 55001 certification.

Gentoo Homes and Gentoo Developments report another record year
Gentoo Homes and Gentoo Developments have delivered 233 new homes across the North East with an increased turnover of £44m and an operating profit of 10% on their regional sales programme.

Gentoo site manager wins regional LABC Award
Alan Hendry, who works on our £14.3m Hillcrag development based in High Ford, has been recognised for his vision for quality in construction and his outstanding contribution to site administration at the LABC Warranty Site Manager awards. This development will provide 132 new homes to rent.

More than 300 new homes given go-ahead for Sunderland
We are delighted that we have been given the go-ahead to build 312 new homes in Sunderland. Sunderland City Council's Planning Committee has granted planning permission for the homes, allowing us to start work on sites in High Usworth in Washington, Coaley Lane in Houghton-le-Spring and Broomhill in Hetton-le-Hole.

gentoohomes BERNICIA NORTH STAR Creating homes, building futures warranty LABC SITE MANAGER AWARDS 2017 WINNER

Verve Partnership secures £3.9m allocation for new homes
Our partnership with housing associations North Star and Bernicia, also known as the 'Verve Partnership', has been successfully awarded funding of £3.9m by the HCA, to fund a range of products that will help local people gain access to home ownership. Our share of the funding will be used to part fund a pilot project of 15 new shared-ownership homes across the North East.

Green light for 59 new homes to be built in Washington
Work started on building the new homes off Parkway Road in Glebe, adjacent to the AMF bowling alley and Washington Primary Care Centre in April. The majority of our new homes will be available to buy and a small number of homes available for affordable rent, with the development featuring two, three and four bedroom properties.

Supporting our people to deliver our vision and live our values

3.4%*

Staff turnover

6.4 days**

Average working days lost

88.4%**

Staff satisfied with Gentoo as an employer

99%**

Mandatory training compliance rate

* Excludes WoSHA and turnover relating to non-voluntary leavers
** Excludes WoSHA

"We have a strong track record of developing talent and supporting people to be the best they can be."

This year we have seen a number of organisational and structural changes. Employees affected by redundancy were supported using an in-house careers centre and we are delighted to report that 77% of leavers secured employment by their leave date.

Reducing our workforce by 20% has been a challenge, but despite this our staff remain committed and passionate with sickness and staff turnover levels below average for the sector.

As an investor in people, we recognise that our staff are our greatest asset. Following the launch of our people strategy in April 2016, our focus has been around organisational structure, learning and development, performance and reward, resourcing and talent planning, employee relations and organisational development.

We have a strong track record of developing talent and supporting people to be the best they can be. This is all part of our workforce planning, ensuring we have the right people with the right skills to deliver an outstanding level of service to our customers. All staff have played a part in helping us to build stronger and more vibrant communities and we are very proud of the difference they have made.

Supporting our people to deliver our vision and live our values (continued)

2016/17 Highlights

Employee wellbeing
Our staff have engaged in a range of programmes and initiatives that will help to improve both the physical and mental health of their colleagues. As a result, we have maintained our Continuing Excellence Status of the North East Better Health at Work Award. We have a number of champions who act as advocates, raising awareness and signposting to a wide-range of programmes and services.

A big focus this year was around raising awareness of mental health and the stigma associated with the illness, in the hope that more people will recognise the signs and seek support. Our mental health champions have been through a Mental Health First Aid (MHFA) training programme helping them to recognise the warning signs of when someone is struggling.

28
Domestic Violence Champions

45
Mental Health First Aiders

Partnership working
We have further strengthened our commitment to developing the region's workforce by forming a strategic partnership with Sunderland College. This collaboration will allow us to promote employment and career opportunities, further enhance the skills of our staff, and provide work experience opportunities through our apprenticeship scheme.

Diversity and inclusion
Once again we have been named as a Star Performer for our consistent strong approach to LGBT workplace inclusivity. We are the only organisation in the North East to achieve this accolade awarded by the charity Stonewall. This year we were also recognised as a Disability Confident Employer. We fundamentally believe that staff can be more inspired in a workplace that enables them to be themselves.

Investing in people
We were very proud to have been awarded the Investors in People Gold Standard Accreditation alongside the top 7% of accredited organisations across the UK who believe in realising the potential of their people.

disability confident EMPLOYER

Stonewall STAR PERFORMER

INVESTORS IN PEOPLE | Gold

Learning and development
This year we have launched our multi-skilling training programme for our repairs and maintenance team. This will give more than 150 of our employees a nationally recognised qualification and the skills to carry out basic repairs in a number of different disciplines, increasing the number of customer repairs we complete on the first visit.

In addition, 34 employees will undertake our management development programme, equipping new managers with the skills they need to be the best they can be.

20
New apprentices

3,548
No. of training days

81
Work experience placements

Reward and recognition
This year we held our annual 'Graftas' awards evening. This was dedicated to honouring the achievements of our staff and rewarding their commitment. More than 350 staff were nominated by their colleagues. In March 2017, Anna Redman, one of our apprentices also won 'Young Apprentice of the Year' at Sunderland's Young Achievers' Awards.

Working with others to build effective partnerships

We continue to work with many external organisations on a number of local, regional and national partnerships, all of which help us to work towards our vision and achieve our strategic aims. We believe that we are stronger together and our partnerships generate collective good for our staff, our customers and our business.

Over the past year we have built on a number of existing partnerships and relationships. In particular, we are working together with Sunderland City Council on a number of strategic and operational collaborative initiatives that will benefit the city and its residents.

We have also continued to influence on a number of key issues and amplify our voice through various representative business groups, such as Homes for the North, Northern Housing Consortium, North East England Chamber of Commerce and the National Housing Federation. We influence on issues connected to our vision, which affect our staff and our customers, because as a responsible business we believe that this is the right thing to do.

Being a responsible business is something we are well known for and we continue to work with key accreditation partners such as Stonewall and Business in the Community. We have retained our Stonewall Star Performer accreditation and continue to be one the UK's leading LGBT friendly employers.

We have developed a new and exciting strategic partnership with Sunderland College as we aim to develop the skills of our staff, including our new apprentices, to ensure our workforce is fit for the future. We continue to support Sunderland Work Discovery Week too, which is a partnership between the city's biggest employers that is key to supporting secondary school children with their post 16 career decisions.

Having strong relationships in Sunderland is important to us as a housing association with the majority of our homes and customers residing within the city. We continue to be part of various private and public sector groups which help us to stay connected and to deliver improved services for our customers. These include the city's Economic Leadership Board, Sunderland Vibrancy Group, Sunderland Partnership Board, Sunderland Business Group, Sunderland Domestic Violence Partnership and Sunderland Adult Safeguarding Board.

"We believe that we are stronger together and our partnerships generate collective good for our staff, our customers and our business."

We continue to be an industry leader in our work to prevent and raise awareness of domestic abuse prevention. Our local partnership with Barnardo's and Impact Family Services, known as the BIG Project, which works with perpetrators of domestic abuse to prevent them reoffending, was successful in attracting £0.5m in grant funding from the Big Lottery. Our work on this agenda has also received national recognition this year, with a news feature on BBC One's Breakfast News show, alongside other pieces of high profile news coverage in The Guardian newspaper and on BBC Radio 5 Live.

The Domestic Abuse Housing Alliance (DAHA) - a partnership between Gentoo, Peabody and domestic violence charity, Standing Together, continues to go from strength to strength. This past year it has attracted more than £0.6m in new grant funding from a variety of sources, including the Home Office and the Government's Tampon Tax Fund.

Working with others to build effective partnerships (continued)

Our partnerships are categorised into six key areas:

Lobbying and influence
We connect with influencing bodies and politicians to promote the Group's vision and strategy at local, regional and national levels, whilst influencing policy and key issues that impact on our staff, our customers and our business.

Housing
We connect with the sector and other housing associations through various bodies, benchmarking groups, development partnerships, research groups and subject specific working groups to share best practice and produce common good.

Business connectivity
We work with representative business bodies to network and stay connected with local and national initiatives, whilst keeping abreast of current affairs.

Accreditations
We work with accreditation partners that are aligned to our vision and values, to validate the work we do as a responsible business, seeking recognition and collaboration to enhance our offer to our customers and our staff.

Regulatory
We have effective and compliant relationships with regulatory and statutory bodies.

Community and grassroots
We connect with local community and grassroots groups through the public, private and third sectors, influencing and shaping neighbourhoods and communities for the better of our customers and Sunderland.

Being well governed and financially strong

G2/V2

Regulatory compliance

£193.3m

Turnover

£8.3m

Surplus

100%

Covenant compliance

559.07 tCO_2e

CO_2 reduction (CO_2 Tonne)

94%

Customers who feel their rent provides Value for Money (VfM)

Last year we submitted a business plan to the HCA, demonstrating how we would respond to the impact of the 1% rent reduction and associated policy changes. We had already set efficiency targets within our business plan, but these increased in order to ensure we were fit for the future. We set ourselves an ambitious transition plan and we are delighted to report that we are on track to make the required savings.

We have performed multi variate stress testing on our business plan which includes the top risks on our risk register, to give the Board assurance that we understand our risks and can respond appropriately should potential risks occur.

As a Group we have responded well to challenges within the sector and we continue to have a strong robust business plan that will ensure we have adequate resources both now and into the future. We continue to be a strong business with turnover in excess of £190m and 100% covenant compliance.

Being well governed and financially strong (continued)

2016/17 Highlights

Efficiency savings of £9m have been delivered
Efficiency savings of more than £9m have been achieved by the end of the year. Our future plans expect a further £4.8m to be saved in the 2017/18 budget and this will increase by £1.4m by 2019/20.

Appointment of new independent board members
We have welcomed new board members who will play an integral role in helping us to deliver our business strategy. The new members will bring something invaluable to the governance of Gentoo and will add to the existing skills of our board, bringing in expertise from a diverse range of backgrounds.

Conversion to one single registered community benefit society
In April 2016, Gentoo Sunderland Limited and Gentoo Group Limited converted to charitable community benefit societies. This is an efficient model that will ensure surpluses are retained for the benefit of our customers, it will also bring a range of benefits including access to new funding streams.

Following this we completed a 'Transfer of Engagements' on 31 March 2017, where Gentoo Sunderland Limited transferred its assets and liabilities to Gentoo Group Limited. This will further improve the effectiveness of our governance arrangements.

Romag and Academy 360
This year we completed the sale of Romag Limited and Romag PPM Limited to Clayton Glass Limited. During 2016/17 we have progressed discussions with Laidlaw Schools Trust (LST) in relation to transferring Academy 360 into their Multi Academy Trust. As part of that journey Gentoo entered into an agreement with LST which has enabled them to oversee the running of Academy 360, who will benefit from the expertise and knowledge the Trust has to offer.

Business review and results

Consolidated Statement of Comprehensive Income

	2016/17 £m	2015/16 £m	2014/15 £m	2013/14 £m	2012/13 £m
Turnover	193.3	215.3	247.0	209.5	175.2
Cost of sales and operating expenditure	(153.0)	(197.3)	(217.9)	(181.4)	(148.5)
Other operating income	0.2	0.4	-	-	-
(Deficit) / surplus on disposal of tangible assets	(1.6)	0.6	0.5	0.4	(0.4)
Operating surplus	**38.9**	**19.0**	**29.6**	**28.5**	**26.3**
Negative goodwill	-	-	-	12.8	-
Deficit on disposal of investments	(4.5)	-	(1.7)	-	-
Net interest charges	(25.2)	(25.4)	(25.3)	(23.4)	(23.1)
Change in value of investment property	(0.7)	-	--	-	
Taxation	(0.2)	(2.4)	(4.4)	-	(1.5)
Surplus / (deficit) for the year	**8.3**	**(8.8)**	**(1.8)**	**17.9**	**1.7**

Consolidated Statement of Financial Position

	2016/17 £m	2015/16 £m	2014/15 £m	2013/14 £m	2012/13 £m
NBV of Tangible assets – housing properties	1,227.1	1,235.6	1,240.5	1,219.3	997.5
Other tangible fixed assets and investments	69.2	73.1	72.0	67.4	76.9
Net current assets	36.0	38.3	26.5	39.6	43.2
Debtors due after one year	6.8	7.8	8.6	7.5	1.8
Total assets less current liabilities	**1,339.1**	**1,354.8**	**1,347.6**	**1,333.8**	**1,119.4**
Creditors due after one year	(776.5)	(799.6)	(775.2)	(762.0)	(599.9)
Deferred tax provision	-	-	(1.3)	(1.0)	(1.0)
Pension liability	(18.6)	(9.1)	(27.2)	(16.9)	(29.2)
Net assets	**544.0**	**546.1**	**543.9**	**553.9**	**489.3**
Revaluation reserve	165.7	168.8	173.0	171.6	183.0
Revenue reserve (incl pension reserve)	84.4	76.3	62.7	66.9	(16.2)
Other reserves	293.9	301.0	308.2	315.4	322.5
Total	**544.0**	**546.1**	**543.9**	**553.9**	**489.3**

Housing Stock Units (managed)

	2016/17 No.	2015/16 No.	2014/15 No.	2013/14 No.	2012/13 No.
Social housing	33,570	33,584	33,592	33,271	29,160
Non-social housing	316	314	509	699	678

Source: Financial statements / internal systems

Business review and results (continued)

Financial performance

Turnover has reduced by 10.2% to £193.3m (2016: £215.3m). Turnover from continuing operations has increased by 9.2% to £190.8m (2016: £174.7m). Of this, £141.7m is turnover from social housing activities which has decreased by 0.6% from £142.5m. This includes social housing lettings, amortised government grants and other Scottish Housing grants. The remaining turnover from non-social housing activities is dominated by open market property sales of £35.4m.

Operating expenditure, excluding cost of sales, has reduced by 14.0% to £115.0m (2016: £133.7m), of which £15.9m (2016: £16.5m) relates to housing management costs, £26.4m (2016: £26.8m) to the provision of maintenance; and £30.1m (2016: £29.6m) is depreciation of housing properties. Further costs of £4.0m in relation to restructuring the business were incurred in the year (2016: £11.3m).

Operating surplus

Operating surplus of £38.9m incorporates the restructuring cost of £4.0m, therefore the underlying performance was a surplus of £42.9m. This has increased by 42.1% on the 2016 value (£30.2m) predominantly as a result of the disposal of non-core businesses.

Social housing lettings margins have increased from 22.0% to 26.5%. Included within social housing costs are restructuring costs of £1.8m (2016: £5.0m).

Disposal of assets and investments

Stock loss through 'Right to Buy' and 'Right to Acquire' has increased with 125 properties (2016: 84) sold during the year.

Net interest charges of £25.2m are broadly in line with last year with a small reduction from £25.4m.

The **surplus for the year** for continuing operations (where discontinuing in the year relates to Romag Limited, Romag PPM Limited and Nuru Fund Limited) is £9.1m (2016: £3.9m surplus). Without the exceptional restructure costs and the deficit on disposal of a discontinued operation, the continuing operations would have recorded a surplus of £17.6m (2016: £14.8m) which constitutes the underlying surplus of the Group's continuing activities.

Movements in the market value of investments, held as a security for one of our loans, resulted in a net realised surplus of £0.7m (2016: £0.9m deficit).

The Group's statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows are shown on pages 72 to 79 of these accounts.

Effects of material estimates and judgements

Details of the material estimates and judgements accounting policy can be found in note 33.

Social housing lettings

January 2015 saw the introduction of the new service delivery model for our front line housing services. Neighbourhood Co-ordinators have a generic role with a patch of around 300 to 350 tenancies to manage. This generic focus on a small area enables them to get to know their customers and communities, allowing for a more personalised service. The front line officers are supported by specialist teams such as safety support and crisis, safeguarding, money matters and wellbeing.

Our supported housing teams continue to work with our more vulnerable customers, including victims and perpetrators of domestic abuse and anti-social behaviour, and those living with mental health, drug and alcohol issues. In addition, they also support our older and younger customers to live well and independently. The front line teams have also been able to work collaboratively with the money matters team to address the pressures relating to Welfare Reform. This remains one of the highest risks to the Group with the potential for a reduction in rental income. The money matters team provides budgeting advice and helps customers to maximise their income whilst helping them become more financially resilient. The team have had a positive influence on the impact of Welfare Reform.

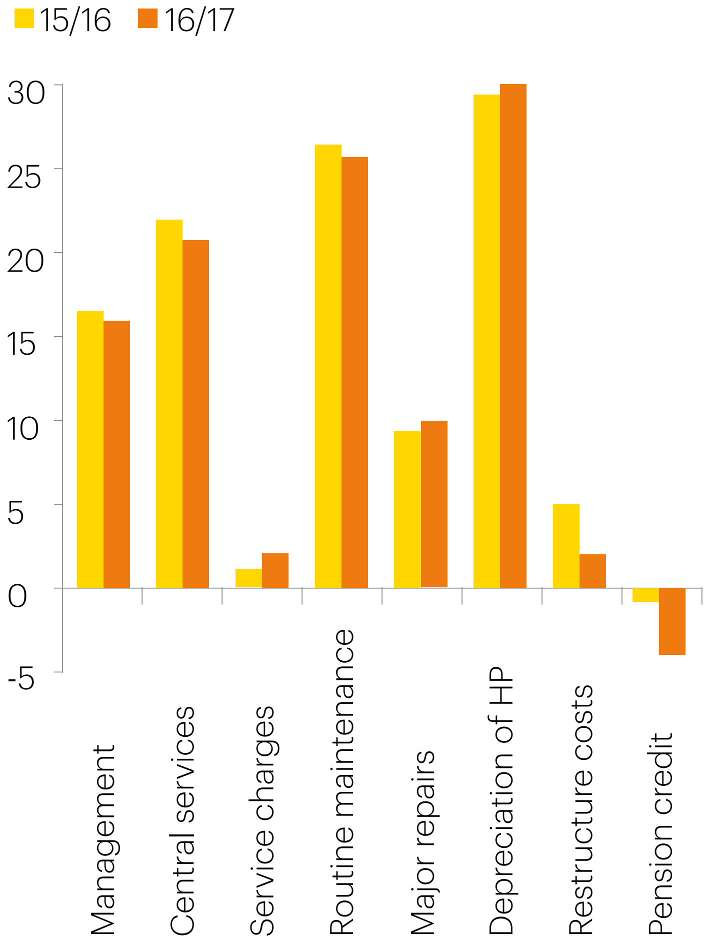
A key feature from 2016/17 was the review of our allocations system, procedures and policy. Policy changes were necessary for the conversion to a Charitable Benefit Society. The changes were agreed in September 2016 following stakeholder consultation and a new allocations system was procured. Work is ongoing with the final implementation due in late summer 2017. The centralised allocations team has significantly reduced in size and restructured in readiness for the launch of the new system.

Gentoo has been fortunate to continue with a new build programme for a mix of social housing units. The Central management area saw the introduction of 44 new build properties including bungalows and family homes at the Hillcrag development. The Castle Rise development on the North side of the city saw a further mixed development of 29 new build units.

Throughout 2016/17 a major review of repairs and maintenance took place with a phased implementation plan for 21 new proposals to service delivery. The proposed changes will continue through 2017/18.

We embarked upon a full stock condition survey in the year, which has redefined our planned works and led to an increased spend on structural works to deal with urgent gable repairs. This dominates our programme for the next five years.

Social Housing Lettings costs (£m)



Business review and results (continued)

Non-social housing activities

Turnover and performance on our commercial asset portfolio, which comprises retail and office units, has been maintained with a gross yield of 7.2% and a turnover of £1,040k. The Group has a strategy to rationalise vacant properties, and a key milestone in this strategy was the disposal of Hutchinson's Building on High Street West, Sunderland. In addition to our social housing and commercial properties, our portfolio includes a mix of other tenure types. In relation to market rented properties, we had 71 properties at the year end which generated rental income of £390k and a gross yield of 5.9%.

One of our commercial properties was reduced in value by £650k due to a change in use, which triggered the change in value of investment properties. The value of all of the other commercial assets remains unchanged.

Our Genie Home Purchase Plan (HPP) business continues to trade in rundown, having generated a profit of £259k in the year. The portfolio has decreased to a value of £6.8m and 69 customers.

Sales and development performance

This area of our business is delivered by Gentoo Homes and Gentoo Developments. The turnover from outright market property sales reduced marginally from £36.0m to £35.4m, with the total number of homes sold at 164 compared to 169 in 2016. Gross margins were 20%, compared to 17% in 2016. Our forward development programme is focused on the provision of high quality homes, across the North East region. Our product offer ranges from starter homes allowing opportunities for a route into affordable home ownership, through to executive level homes.

Consumer demand continues to be strong, benefiting from good mortgage availability and ongoing government support. A healthy forward order book and continued strong demand provides confidence that future trading remains on track to deliver both increased volume and profit levels for future years. This is further supported by a strong future pipeline of 452 plots successfully delivered through the planning system during 2016/17 with a further 418 plots contracted.

During the year Gentoo Homes secured a National House Builder Council (NHBC) regional 'Pride in the Job' award, a Silver Considerate Contractors award and an LABC Social Housing Development of the Year National award.

Furthermore, 69 affordable rental units were delivered and a further 130 are programmed to complete in the next financial year. We have also successfully been awarded funding to deliver 15 properties under the Government's Shared Ownership and Affordable Homes Programme 2016/21.

Pension costs

The Group operates three pension schemes as follows:

- Local Government Pension Scheme 'LGPS' which is a career average salary scheme. We have made contributions to the scheme during the year in accordance with the levels set by the scheme actuary. Our contribution rate has been at 20.5% for the full year.
- West of Scotland Housing Association (WoSHA) participates in the Scottish Housing Associations' Pension Scheme (SHAPS) which is funded and is contracted-out of the State pension scheme. The contribution rate for the year was 12.6% of pensionable salaries for both employer and employees.
- A defined contribution scheme with a contribution rate of 6%.

Details of the actuarial assumptions, and the current scheme deficit, are shown in note 4 of the Financial Statements.

Future developments

The Group is operating in an environment dominated by the impacts of Government policy and the ongoing application of austerity measures and as such we are entering the second year of the 1% year on year rent reduction. The business plan has been reviewed and stress tested to reflect the ongoing reduction in income. To date more than £9m savings have been achieved through cost reductions, and this has enabled the Group to continue to present a viable business plan.

The Government's Welfare Reform programme and the implementation of Universal Credit in particular, continue to present a key income risk to the Group. There are now more than 500 customers who are in receipt of Universal Credit. These numbers are expected to rise steadily over the coming years. The revised business plan has therefore been stress tested against the potential impacts of Welfare Reform on income collection.

Despite this challenging back drop, the Group has plans to continue with the build for sale programme, targeting 220 homes per year. In addition to this, 15 shared ownership homes are planned as part of the Government's Shared Ownership and Affordable Homes Programme 2016/21.

The data from our full stock condition survey that commenced during the year will inform our active asset management model. We will continue to keep this data up to date by undertaking a rolling programme so that every property undergoes a survey every five years. The data will also be stored in a new asset management system, which we are in the process of implementing.

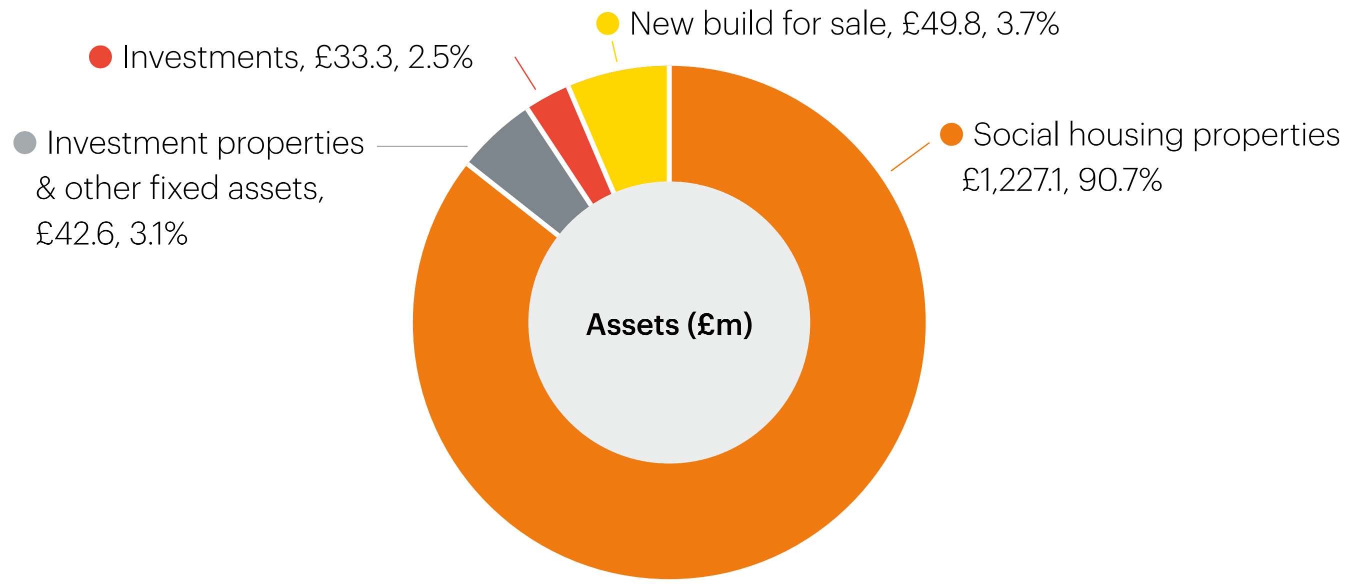
Business review and results (continued)

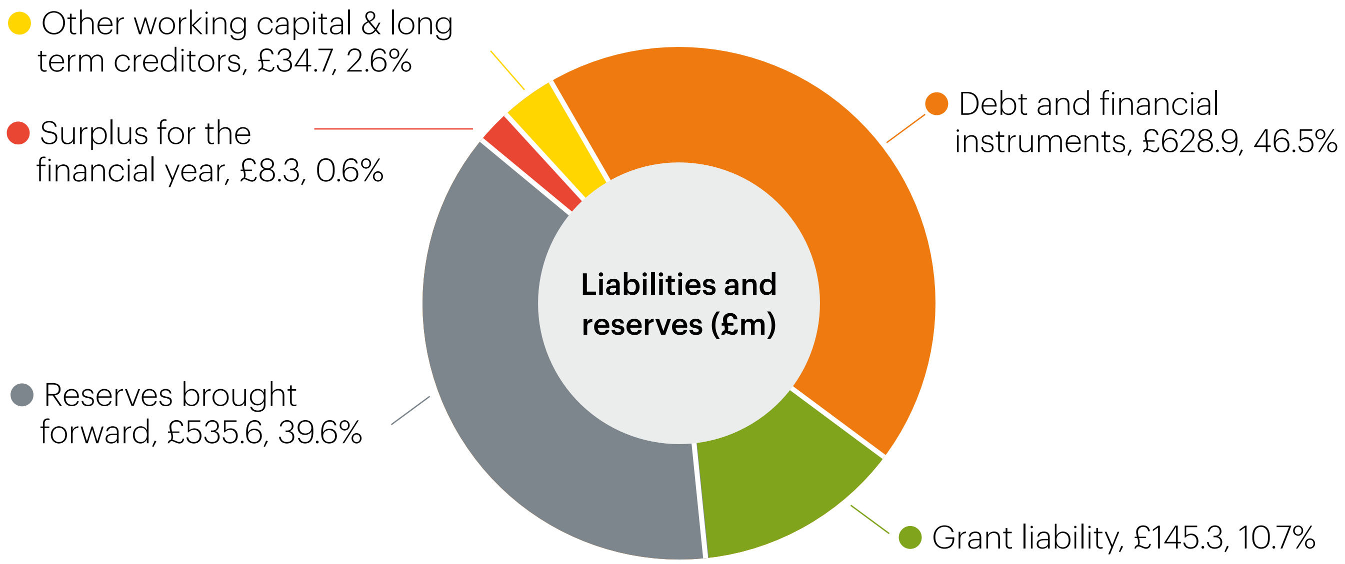
Financial position at year end
The Group's statement of financial position comprises primarily of £1,227.1m social housing assets (2016: £1,235.6m) at cost, and £15.0m (2016: £12.2m) of investment properties, which consist of both commercially rented and market rented properties.

Other tangible assets of £19.8m, (2016: £27.0m) are valued at cost, and are dominated by the land and buildings from which we run our business. The reduction in the year is as a result of the disposal of the Romag business.

Investments, held at market value, represent reserves held as security for one of our loans. The value at the year end was £33.3m, an increase of £0.7m on the prior year (£32.6m).

Net current assets, particularly debtors have reduced also due to the sale of the Romag business. Stock is dominated by properties for sale which has increased from £43.1m to £49.8m as a result of an increased number of active sites at the year end.





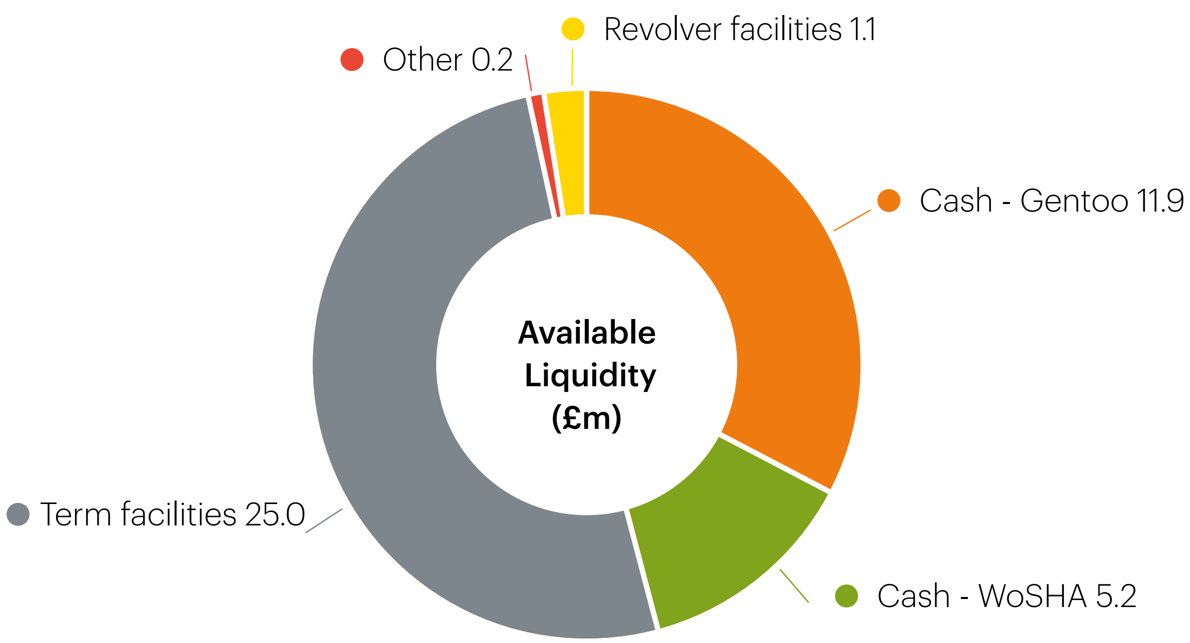
Capital structure and treasury management policy

The Group was established as a result of a large scale voluntary transfer (LSVT) of homes from Sunderland City Council in March 2001. The transfer was funded by a loan from T.H.F.C (Capital) PLC which was on lent from Sunderland (SHG) Finance Plc who raised the proceeds from a 40 year bond listed on the London Bond Market. Additional facilities have been secured to meet our ongoing regulatory commitment to maintaining our properties to the Government's Decent Homes Standard. These facilities are secured by specific charges on the social housing assets of the Association and the Association's debt levels are currently 49% (2016: 49%) of total assets less current liabilities which is comfortably within our agreed banking covenants.

Currently the Association has the following facilities:

- £203.2m (2016: £209.3m) syndicated loan facility, with Nationwide Building Society, acting as facility agent;
- £212.8m (2016: £212.8m) loan from T.H.F.C (Capital) PLC which has been on lent from Sunderland (SHG) Finance Plc;
- £93.7m (2016: £99.1m) loan facility provided by the European Investment Bank; and
- £100.0m loan facility provided by the Royal Bank of Scotland of which £25.0m (2016: £25.0m) is undrawn as at 31 March 2017.

All of the above facilities are provided via T.H.F.C. (Capital) PLC, as lender, acting as a funding intermediary to the Association.

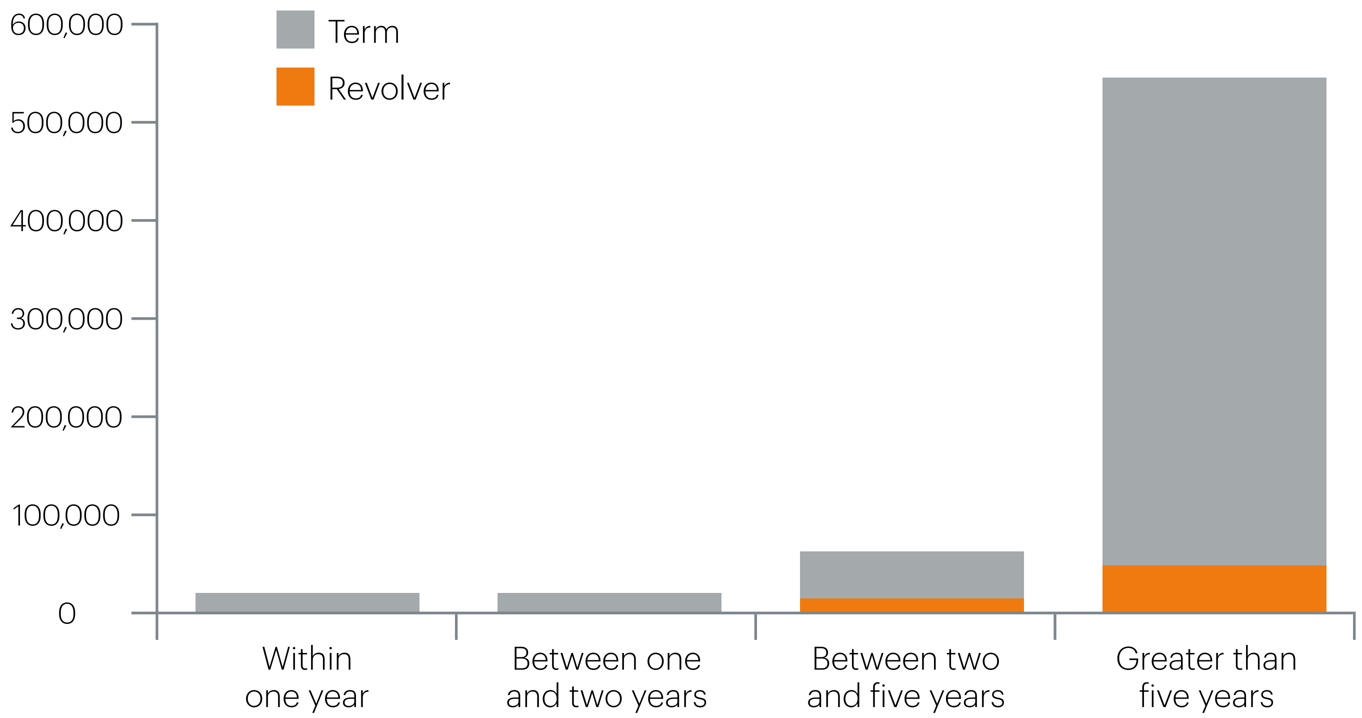


WoSHA has its own active treasury policy which is approved by its management committee. It manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held. At 31 March 2017 WoSHA had £55.9m (2016: £57.6m) in loan facilities and held deposits of £5.2m (2016: £6.3m).

The Group has a treasury management policy which adopts a prudent approach to our level of drawn fixed rate debt as a percentage of our total drawn debt. At the year end, the Association had 68% (2016: 63%) of its borrowings at fixed rates and WoSHA had 46% (2016: 45%) of its borrowings at fixed rates. We have entered into a number of basic 'embedded' fixing arrangements to protect us from the risk of adverse interest rate movements in future years.

At the year end, Group total commercial borrowings amounted to £643.0m (2016: £656.7m), £559.8m (2016: £582.5m) of which falls for repayment after more than five years. The policy ensures that the Group does not have to refinance material amounts of debt in any one year. The table below sets out our debt repayment profile. Our capital repayments over the next five years does not exceed 3.72% in any one year. Our financial plans, which are submitted to both the HCA and our funders, indicate that we will continue to comply with all our loan covenant tests. The Group has cash balances of £16.5m at March 2017 (2016: £23.0m), a minimum of £8.0m of which is held in money market funds to adhere to the Group's liquidity policy.

Debt repayment profile (£'000)



Capital structure and treasury management policy (continued)

Financial risk management
We have a formal treasury management policy which is approved by Group Board. The treasury policy reflects guidance issued by the HCA and changes in the economic climate. The policy addresses the key risks including: 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 number of institutions. All institutions must meet high credit criteria and are approved by the Executive Director (Finance). The treasury policy includes a list of approved investment instruments.

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

Interest rate risk
We borrow at both fixed and variable interest rates. Prudent assumptions are used when considering our mix of fixed and variable debt. Our fixed rate debt includes fixed rate loans embedded within our loan agreements. These basic embedded fixed rate loans 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.

Cash flows
Our cash flows for the year are shown on pages 78 and 79. The key points to highlight are:

£42.4m
(2016: £52.2m) cash generated from operating activities

Net
£22.5m
(2016: £24.3m) capital investment in both existing and new housing stock

Net
£8.4m
loans repaid in the year (2016: £13.4m of loans received)

The Group policy is not to hold significant cash balances, but to ensure that loan facilities are in place to fund future requirements. Short term cash balances are placed on short term, higher interest or overnight deposits at competitive rates.

Value for Money (VfM)

At Gentoo we have a continued commitment to VfM and good progress continued to be made in 2016/17 to further embed VfM within the Group. Group Board take a lead role in ensuring VfM is embedded within the Group and consider the VfM implications of all decisions they make. This is supported by the VfM Policy which sets out our key priorities which are as follows:

1. Ensure a robust approach to strategic decisions
2. Ensure the financial sustainability of the Group
3. Optimise the use of our assets to achieve our vision, values and strategic aims
4. Ensure robust management of all performance and costs
5. Ensure the Group's approach to VfM is transparent to all stakeholders
6. Maximise our capacity to achieve the Group's priorities by working in partnership and procuring goods and services in the most sustainable economic way possible
7. Maximise the value and capacity of our people
8. Deliver social and environmental value that achieves the Group's vision and values
9. Create a framework to measure our approach to VfM

During the year our business strategy and supporting asset, finance, people and customer strategies have been monitored with significant progress being made against each as we continue on our journey to refocus on core activity.

Following the 1% rent reduction we set ourselves an ambitious efficiency target and during 2016/17 we have reduced controllable costs by more than £9m. This has been achieved through the implementation of our transition plan, a significant piece of work that required a fundamental review of our operating model. In addition, we have £4.8m worth of savings/additional income built into 2017/18 budgets, with further efficiencies of £1.4m to be delivered in 2018/19 and 2019/20, bringing the overall saving to £15.5m.

In addition to the work underway through the transition plan, a number of other key achievements have been made in relation to VfM. The details of those achievements can be found in our full VfM Self-Assessment but detailed below are five of our key achievements in 2016/17:

£200k
savings from new build marketing budgets following a review of the marketing strategy

£100k
saving generated following a review of the gardening service provider to vulnerable customers

85%
of stock condition surveys completed

1,699
customers assisted in claiming over £400k in benefits or grants

£180k
of funding secured to support an up-skilling programme

Our plans moving forward include:

- Undertake a review of our treasury arrangements to ensure they offer the best value to the Group
- Procurement of the next four years of the Group's investment plan
- Implementation of the 2nd phase of the repairs review including a review of our maintenance stores provision
- Progress with customer consultation in relation to the disaggregation of WoSHA
- Review of reward and recognition across the Group

How we compare

We aim to measure or compare our VfM on a verifiable like for like basis with other organisations using a range of absolute costs and benchmarking activities. The main source of benchmarking for Gentoo is through HouseMark which is an integrated data gathering and analysis provider to the social housing sector. In addition, we use our relationships with other organisations in the sector to supplement this information to give a more detailed understanding.

We are also participating in the Sector Scorecard Pilot, which is a set of 15 indicators that are being proposed across the sector to benchmark efficiency.

Value for Money (VfM) (continued)

The table below summarises a number of our key VfM measures based on the Sector Scorecard criteria, incorporating some of the 15 indicators currently being piloted:

VfM Analysis	Gentoo Group 2016/17	Gentoo Group 2015/16	Gentoo Group 2014/15	HouseMark Benchmarking position 2015/16
Responsive repairs cost per property	£785	£811	£811	2nd quartile
Major works cost per property	£855	£857	£839	2nd quartile
% repairs completed at first visit	89%	87%	90%	3rd quartile
Current tenant rent arrears as a % of rent debit (excluding voids)	3.28%	3.41%	3.34%	2nd quartile
Rent collected as a % of rent due	100.54%	99.99%	99.41%	3rd quartile
Relet times – social housing properties	42 days	41 days	36 days	2nd quartile
Housing Management direct cost per property	£474	£512	£489	2nd quartile
Operating margin	20.8%	8.4%	11.8%	n/a
Headline social housing cost per unit	£2,874	£3,147	£3,031	n/a
Customer Satisfaction (VfM)	94%	79%*	79%*	1st quartile

Source: Financial statements / internal systems

* Survey only carried out every two years

The benchmarking data helps us to identify areas where further improvement can be made. We are using the benchmarking information to focus our business improvement work. By improving our operational performance, we can re-invest resources to deliver the Group's vision and strategic aims.

Optimising return on assets

As a property business it is important that we understand our return on assets, and have a strategy for optimising the future returns. Our current portfolio, excluding land, is as follows:

	2016/17			2015/16
Property portfolio	Carrying Value	Turnover	Gross Yield	Gross Yield
Social Housing Lettings	£1,202m	£137.9m	11.47%	11.28%
Market Rent	£6,605m	£0.390m	5.90%	6.24%
Commercial Property*	£7,781m	£0.650m	8.35%	11.65%
Rent to Buy	£5,560m	£0.280m	5.04%	4.74%
Shared Ownership	£8,447m	£0.130m	n/a	n/a
Mortgage Rescue	£1,793m	£0.120m	6.69%	6.62%

* Includes the reclassification of a property previously held within Land and Buildings

Whilst turnover for the assets shown above is broadly consistent since 2015, changes in our commercial property portfolio has had an impact on the yield.

In February 2017, Group Board approved a commercial sales strategy for the majority of the portfolio to reduce risk by retracting further from non-core activity and marketing surplus properties.

Our focus for 2016/17 was on improving the data we held on our assets and an independent consultant, Savills Plc, were commissioned to undertake a full stock condition survey. During the year 85% of our properties were surveyed with the remainder targeted to be surveyed during 2017/18. As well as giving us independent information for our stock, this work will also provide sufficient data for us to benchmark the rates we pay for a range of investment works against our peers and the wider sector. We have commenced work to refine our investment rules so that our stock is prioritised and planned efficiently and effectively.

Conclusion

Achieving VfM to support the Group's vision and strategic aims is of critical importance to the Group. We believe our current performance and future plans will help us to achieve these aims.

Our plans contain our commitment to achieve a high level understanding of our costs and achieving VfM in everything we do. This will ensure that we can focus our efforts on delivering our vision and strategic aims, whilst at the same time achieve the efficiency levels that are required as a result of efficiency targets.

Risk Management

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 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 Committee must meet at least four times a year; however, it has met eight times during the year.

Risk management
The Group is committed to ensuring that the management of risk underpins all business activities and that robust risk management procedures are in place throughout the Group.

The methodology used to safeguard the interests of our stakeholders, employees and general environment is laid down in the Group's enterprise risk management framework, which has the full support of the Group Executive Team and is approved annually by Group Board.

The risk management framework includes the integration of risk into the business planning process and a review of the external environment in which the Group operates, including the sector risk profile published by the HCA.

The Group's established risk management processes facilitate the identification, monitoring and reporting of key risks and the implementation of mitigating actions.

Risk governance
The Risk and Audit Committee oversee the risk and internal control framework on behalf of Group Board and makes recommendations to Group Board where necessary. The Committee receives regular information regarding the Group's risk profile, key corporate risks, controls and improvement plans.

Risk owners take responsibility for the identification and management of risk, supported by the Group's risk function and the business assurance team who provide assurance over the internal control framework within the Group, using a risk based approach to its audit planning process.

Group risk management processes include, but are not limited to:

- A Risk and Audit Committee with delegated authority from Group Board for oversight of risk and internal control processes
- An established '3 lines of defence' risk governance model
- A risk appetite statement and high level key risk indicators approved annually by Group Board
- Risk data specifically linked to strategic aims
- Transparent risk data flows - up, down and across the Group
- Established stress testing and regular valuation of cumulative risk exposures
- Risk updates to Group Board and Risk and Audit Committee

Risk Management (continued)

Key Risks

The Group's top five key corporate risks and mitigations are summarised below, showing risk rating and relevance to strategic aims.

Risk Rating	Relevance to our Strategic Aims
Very High	Deliver outstanding service to customers so that people and communities thrive
High	Actively manage our assets and develop new homes to meet local needs
Medium	Support our people to deliver our vision and live our values
Low	Work with others to build effective partnerships
Very Low	Be well governed and financially strong

Risk	Mitigation
Short notice changes to government policy or direction: Political and economic volatility continues due to the Government's need to reduce the deficit and the UK's exit from the European Union. This uncertainty affects financial and housing market confidence and long term stability within the sector.	The Group has restructured and reduced its cost base to mitigate the impact of changes in the rent formula and Welfare Reforms. We regularly review and stress test our long term financial plans to ensure resilience to future shocks. Key risk indicators including cash-flow and covenant tests are regularly monitored and reported.
Pension fund liabilities: As members of the defined benefit LGPS, there is potential for volatility in management costs and increased liability due to overly prudent discount rate and inflation assumptions during actuarial reviews.	It is critically 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 also match the insolvency indemnity arrangements to requirements.

Risk	Mitigation
Reputation and brand damage: The Group recognises that any incident that reduces trust amongst any stakeholder group has the potential to create reputational or brand damage, thereby reducing the Group's value.	The Group recently launched a new vision with strategic objectives focussed upon outstanding service, great homes, strong communities and inspired people.
Health and Safety: 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 Health and Safety Executive (HSE) interventions, potential fines and prosecution as well as the risk of HCA regulatory intervention should there be a risk of serious detriment to customers.	The Group has well established and robust health and safety procedures that are fully supported by Group Board and its Executives. The Risk and Audit Committee receives regular health and safety reports and is informed of all potential litigation and claims. The Group undertakes regular health and safety training with Executives, Non-Executives and all staff.
Housing market sales exposure: Any volatility or downturn in the local housing market could impact on sale margins and ongoing ability to sell properties. It could also have an impact upon carrying value of existing assets leading to future impairment.	Each new housing development is appraised on an individual site basis and further mitigation is achieved through strict control of working capital, phased development and 'build to order' wherever possible. Sales activity is supported by strong market analysis and access to a range of the Government's initiatives including Help to Buy, and access to funding at more preferential rates through the Builders Finance Fund.

Corporate Governance

Group Board
Group Board is ultimately responsible for the overall control and direction of the Group and its subsidiaries, including the monitoring of its performance and the deployment of resources. Group Board ensures that the Group operates effectively and within the terms of our internal governance and upholds the Group's vision and values.

The Group's governance arrangements have been restructured with Gentoo Group Limited and Gentoo Sunderland Limited converting to charitable community benefit societies on 1 April 2016, adopting revised constitutions based on the National Housing Federation Model Rules. Gentoo Sunderland Limited was subsequently consolidated with Gentoo Group Limited by means of a transfer of engagements on 31 March 2017. All assets and liabilities transferred to Gentoo Group Limited on this date and Gentoo Sunderland Board ceased to operate. Group Board has been re-populated as part of the governance restructure and an Operations Committee has been established in place of the Gentoo Sunderland Limited Board. The current Group Chair will stand down at the Annual General Meeting (AGM) in September 2017. The process to appoint a new Chair commenced in June 2017 with the appointment set to take effect from the AGM.

Group Board is comprised of one tenant Board Member, three Local Authority Board Members, up to seven Independent Board Members and up to two Executive Board Members (maximum of 12 Board Members in total). In addition, one co-optee has been appointed. Group Board and the Executive are shown on pages 4 and 5 and details of remuneration are provided on pages 101 to 102 in the Financial Statements.

Board Members are drawn from a wide range of backgrounds bringing together commercial, professional and local experience. Group Board meets a minimum of six times a year.

Changes to the timing, format and frequency of Board meetings, training and strategy days were implemented from 1 April 2016 on the recommendation of a Group Board working group who met to consider the effectiveness of governance arrangements. Current arrangements are under review and a formal review of effectiveness will be undertaken during the 2017/18 financial year.

Overall board effectiveness forms part of the appraisal process, comprised of an annual 360º peer and self-review exercise 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.

Group Board is supported by the Risk and Audit Committee, the Appointments and Remuneration Committee and the newly established Operations Committee.

Delegation
A number of key decisions and matters are reserved for Group Board and are not delegated to management or other subsidiary Boards and Committees. These include but are not limited to, the development of the Group's strategy, vision and values, major changes to the Group's corporate structure, changes to the Group's management and control structure and any changes to the Association's status. These and all other responsibilities and duties are recorded in Group Board's terms of reference.

Whilst Group Board is responsible for the overall strategy and policy of the Group, day to day matters are delegated to the Chief Executive Officer and other Executive Directors through the Group's Delegation Scheme.

Corporate Governance (continued)

Group Board

Ian Self
Chairman
Ian was appointed to Group Board in 2007 and became Group Chair in November 2015. He will be stepping down from Group Board at the AGM in September 2017.

Ian started his career at Washington Development Corporation in 1965, qualifying as a Chartered Town Planner in 1970. He left in 1980 to become Head of Development Control within Sunderland City Council and in 1988 joined Ward Hadaway Solicitors as Head of Development and Planning.

Actively involved in the Group's operations for a number of years, he brings a wealth of experience, particularly in relation to the locality of the City of Sunderland and the planning and development process in both the public and private sectors. Ian has a strong understanding of governance within the social housing sector as a non-executive.

John Craggs
Chief Executive Officer
The Chief Executive Officer of Gentoo Group, John has more than 35 years' experience working in the housing sector and is one of the industry's most respected figures. Currently Vice Chair of the North East Chamber of Commerce for Wearside, John has also held various other leadership roles across the North East region throughout his career, including five years as Chair of the Northern Housing Consortium and Chair of Sunderland Business Improvement District.

John is an advocate of responsible business and Gentoo is a longstanding member of Business in the Community's North East Leadership Board. John now leads Gentoo Group – one of the North East's largest housing providers and one of the UK's top developing housing associations. He is also an active member of the housing membership organisation, Homes for the North.

Mary Coyle, MBE, DL
Vice-Chair
Mary joined Group Board in 2013. A highly skilled and experienced board level executive, she has over 20 years' board trustee experience. She was the Chair of an NHS Clinical Commissioning Group until 2009 and was the Regional Director of Common Purpose for ten years. She brings significant experience in leadership development and particular expertise in board leadership and accountability; stakeholder engagement; partnership development; diverse networks and political awareness; and interpersonal and communication skills. Mary has developed a strong understanding of risk, particularly within the social housing sector.

Colin Blakey
Colin has had a distinguished career at Board level within the public, private and voluntary sectors and has held executive and non-executive roles. He has an in-depth knowledge of social and affordable housing, regeneration, planning and development activity in the North East, and was directly responsible for a number of new build and major regeneration schemes including Downhill, Sunderland.

Knowledgeable and experienced in Board corporate governance requirements, and while Chief Executive of Asset Trust Housing Association Colin worked closely with the regulatory team in the HCA to define and introduce a new regulatory regime for private registered providers.

Barry Curran
Councillor Barry Curran is one of Sunderland City Council's nominees appointed to Gentoo Group Board in 2016. This followed his term of office as the Mayor of Sunderland. Barry was first elected as Ward Councillor for St Peter's in May 2011.

Barry previously worked for the Local Authority (City Building Services) then Sunderland Housing Group and Gentoo for 30 years. He started his career with the Northern Gas Board and worked in the gas industry for over 40 years, joining the Local Authority in 1984. He was previously a former trade union convenor and Health and Safety representative for over 25 years and brings this knowledge and experience to his role as Board Member and to the Risk and Audit Committee, of which he is a member.

Leslie Herbert
Former policeman Les Herbert is now the tenant member of Group Board and Chair of the Operations Committee. He has been a member of Gentoo Sunderland's Board since 2012 and brings extensive experience to the Group role. He is also familiar with the Group's housing management and operational issues.

In addition to his service on the Board of Gentoo Sunderland and the Management Committees, he has served as a mentor and governor at various local schools and was formerly a member of the Sunderland Police Welfare Club Committee for 15 years. Les has experience of chairing his local residents' association and the staffing committee of a local school at which he is a governor.

Corporate Governance (continued)

Group Board (continued)

Keith Loraine, OBE
Keith has 40 years' experience in the housing sector, the last 24 as CEO of Isos Housing, which has always maintained a G1/V1 rating. Retiring in December 2016, he was awarded an OBE in recognition of his services to housing.

Keith joined Group Board to continue his career in the sector in a non-executive capacity, and has excellent knowledge of the local area and the wider North East through his role at Isos Housing. He brings with him a strong understanding of the requirements of the HCA as regulator.

David Murtagh
David Murtagh joins the Board as Chair of Risk and Audit Committee. A Chartered Accountant since 1989, he has held senior finance roles within the engineering and manufacturing sectors.

David has nine years' experience on the Board of Teesside-based Thirteen Group and his technical expertise and commercial experience is a welcome contribution to the skills on the Board. David has a strong understanding of risk, particularly in the context of social housing.

Frank Nicholson
Joining Group Board is Frank Nicholson, an experienced non-executive Director and former Managing Director of Vaux Breweries PLC in Sunderland. Frank has a broad range of skills, and, since 1999, has been employed in a wide variety of businesses including Northern Rock Foundation, Matfen Hall Hotel, the Port of Sunderland Board, Port of Tyne Authority, University of Sunderland, Lycetts and International Centre for Life.

Frank has a strong understanding of the North East from his extensive portfolio of past and current non-executive appointments and has a well-developed network within the North East business community.

Brian Spears
Brian Spears joined the Gentoo Sunderland Board as Chair in 2015 and Group Board in 2016. He brings considerable experience of housing and regeneration with a career spanning 40 years as a non-executive in local government, housing and regeneration including a previous role of Chairman of the Northern Housing Consortium and a Member of the North East Housing Board.

Brian has managed departments and organisations across a full range of Government services, and has vast experience in business planning, risk assessment and financial planning. He has a background in leading change, including the successful restructure of Durham City Council, bringing efficiencies and improving customer access to services.

Paul Stewart
Councillor Paul Stewart is one of Sunderland City Council's Nominees, appointed to Group Board in 2016. Spending most of his career working in Local Government, Paul was a support officer for 12 years dealing primarily with school finances, before changing direction to become a Human Resources Business Partner. He brings with him extensive knowledge of employment law and initiating successful change management within organisations.

He was previously Chair of the Port of Sunderland and the Portfolio Holder for Education. Most recently, he led the council move to become a "Co-operative Council" with the aim of promoting a closer working relationship with other local not-for-profit stakeholders. A school Governor for almost 30 years, Paul is currently Chair of Willowfields Primary School and Chair of Bishopwearmouth Co-operative Nursery.

Philip Tye
Councillor Philip Tye is one of Sunderland City Council's nominees appointed to Group Board in 2015. Previous to this, he sat on the Gentoo Sunderland Board between 2007 and 2008.

Philip was elected as a Ward Councillor for Silksworth in May 2006. He is currently an Operations Manager for a large North East manufacturing and construction company covering all operational matters for the business. He has been a school governor for over 20 years as well as being Chair of a local charity Youth Almighty Project (YAP).

Chris Watson
Co-optee
Chris Watson has been co-opted to Group Board. He is a civil engineer and Head of Strategic Asset Planning at Northumbria Water Ltd. He has extensive experience of complex asset management and working with the industry regulator, OFWAT.

From 2007 to 2015 he was a non-executive Director of Northumberland Tyne and Wear NHS Foundation Trust, which was rated outstanding by the CQC. Chris also brings strong health and safety understanding through his management of Northumbrian Water's capital plan and as a previous Director of Constructing Excellence in the North East.

It is anticipated that Chris will be appointed as a full Board member at the 2017 AGM when Ian Self steps down.

Group Executive Team

The Chief Executive Officer (CEO) is assisted in his 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 CEO and are held at least once a week. The team make recommendations to Group Board on strategic and operational plans and other matters reserved for Group Board where appropriate. The team is currently comprised of the CEO, Executive Director (Finance), Executive Director (Property), Executive Director (Operations), and Executive Director (Corporate Services).

Appointments and Remuneration Committee

This Committee acts on behalf of Group Board to make recommendations to the relevant Board or Committee regarding Board appointments and remuneration, in addition to executive remuneration. Membership of this Committee is provided on page 4. The Committee is responsible for developing succession plans for the Boards and Committees of the Group. The Committee meets at least once a year, however it has met eight times during this financial year and has, amongst other things, reviewed succession planning arrangements and the skill needs of the Group's Boards and Committees. The Committee has overseen the recruitment to Group Board and Operations Committee and the re-appointment of Directors. A report produced by an external adviser was presented to the Committee in respect of Board remuneration. The performance of the CEO and Executive remuneration was also reviewed by the Committee.

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 Group 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 Board recognises that diversity in respect to skills, knowledge and experience is represented on the Board, however other diverse characteristics could be better represented and this is an area that Group Board will seek to improve upon in future recruitment.

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 Committee is also responsible for monitoring and reviewing a number of areas including the consistency of accounting policies, 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 Committee meet at least four times a year; however, it has met eight times during the year.

The Risk and Audit Committee oversees the risk and internal control framework on behalf of Group Board making recommendations to Group Board where necessary. A schedule of business is approved by the Committee that sets out the activities of the Committee with regard to key areas of business, as well as its other items of business. In summary, during the year the Committee addressed the following issues:

Principal area of responsibility for the Audit Committee	Issues addressed in the year
Risk Management and Internal Control Framework	• Reviewed the Enterprise Risk Management Framework and Policy • Monitored the Group's key risks and mitigation plans • Conducted a number of 'deep dive' reviews of key strategic risks • Approved the strategic and operational audit resource plans • Monitored the outcome of individual audits • Monitored the implementation of audit recommendations • Received and considered health and safety reports and statistics • Received the annual report of the money laundering reporting officer and reviewed the anti-money laundering policy and procedures • Reviewed the arrangements in place to prevent and detect fraud and the annual fraud issues report
Internal Audit	• Reviewed the performance of the internal audit function
External Auditor	• Reviewed the audit and non audit fees of the external auditor and performance of the external auditor • Reviewed the audit planning memorandum and audit highlights memorandum • Approved the Group policies in relation to the independence of the external auditor • Reviewed the process for the appointment of the external auditor
Finance	• Received the mid-year management accounts • Reviewed the annual report and accounts

During the year the Committee met with both internal and external auditors without the executive present and met on its own without the executive present.

Corporate Governance (continued)

A review of committee effectiveness took place during the year facilitated by external advisers and the Group's external auditors, KPMG. An action plan was developed following the session that was monitored by the Committee.

Business Assurance operate within the Institute of Internal Auditors Standards Framework. Compliance with the Standards was externally verified in March 2015 and will be re-assessed during 2017/18.

Group Board and Committee membership details and meeting attendance

Name	Number of meetings attended out of (total number possible for individual)		
	Group Board	Risk and Audit Committee	Appointments and Remuneration Committee
	9 meetings	**8 meetings**	**8 meetings**
Barry Curran	5 (6)	6 (6)	
Brian Spears	4 (5)		1 (1)
Chris Watson (co-optee)	2 (2)		
Colin Blakey	4 (4)		
David Murtagh	2 (2)	1 (1)	
Frank Nicholson	2 (2)	0 (1)	
Ian Self (Chair)	9 (9)		
John Craggs	9 (9)		
Keith Loraine	2 (2)		1 (1)
Leslie Herbert	2 (2)		1 (1)
Mary Coyle	9 (9)	8 (8)	7 (7)
Paul Stewart	5 (6)		
Philip Tye	4 (9)		2 (5)
Susan Johnson		8 (8)	

The following Board Members resigned during the year:

Barrington Billings	6 (7)		6 (7)
Hunada Nouss	6 (7)	5 (7)	
James Falade		6 (7)	
John Dannell	7 (7)		7 (7)
John Walker	4 (4)		4 (4)
Richard Beevers	5 (7)		
Stephen Lanaghan	4 (4)		

Statement of Board's responsibilities in respect of the Strategic Report and the Financial Statements

The Board is responsible for preparing the Strategic Report and the Financial Statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Association and of the income and expenditure of the Group and the Association for that period.

In preparing these Financial Statements, the Board is 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 Association will continue in business.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Effectiveness of Internal Controls

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

Group 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, Group Board specifically reviews its key corporate risks.

Group 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.

Review of the Group's external auditors
Following an Official Journal of the European Union (OJEU) tender process, KPMG LLP were appointed as the Group's 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. A further OJEU tender process is currently being undertaken with the appointment of the auditor being announced at the forthcoming AGM.

KPMG LLP provides some non-audit services. 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 June 2017 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 as per their Terms of Reference and Schedule of Business.

Going concern
After making enquiries, Group Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements. Group Board approves annually the group business plan and its output which are submitted annually to the Regulator in the form of a Financial Forecast Return (FFR). Group Board is satisfied that covenant compliance is maintained throughout the life of the plan on the basis that the financial plan has been stress tested to withstand significant composite risks materialising without breaching lender covenants confirming the future viability of the Group.

Political contributions
The Association made £nil (2016: £nil) political donations and incurred £nil (2016: £nil) political expenditure during the year.

Statement of Compliance*
The HCA's governance standard requires all registered providers to adopt and comply with an appropriate code of governance ('Code') and certify compliance with its chosen Code together with certification of compliance with the HCA's Governance and Financial Viability Standard. The Group has adopted the National Housing Federation Code of Governance 2015.

NHF Code of Governance 2015 and HCA Governance and Financial Viability Standard
Group Board monitors its ongoing compliance with both the economic and consumer regulatory standards and compliance is formally assessed by Group Board on an annual basis.

The following explanations are provided in relation to compliance with the NHF Code of Governance 2015:

- Ian Self, Group Chairman has served ten years from May 2017. Ian has remained on the Board beyond nine years in order to provide board leadership during the governance restructure. Ian will stand down as a Board Member and Chair at the AGM in September 2017.
- One co-optee has been appointed to Group Board to provide effective Board succession planning, bringing Group Board size to 13. The Board size will return to 12 when Ian Self stands down at the AGM.
- Succession plans were superseded by the recent recruitment processes onto Group Board and Executive Team. The succession plan for the new Board and Committee structure will be revisited during the 2017/18 financial year.

Having considered the requirements of the HCA regulatory framework, Group Board certifies that it complies with the NHF Code of Governance 2015 and the Governance and Financial Viability Standard, noting the explanations provided above.*

* See addendum at page 3

Disclosure of information to auditor
The Board Members who held office at the date of approval of this Strategic 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 Board Member has taken all of the steps that they ought to have taken as a Board Member to make themselves aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

Auditor
In accordance with section 83 of the Co-operative and Community Benefit Societies Act 2014, the appointment of an auditor of the Association will be announced at the forthcoming AGM.

By order of the board:

Ian Self
Board Member
26 July 2017

John Craggs
Board Member
26 July 2017

Simon Walker
Secretary
26 July 2017

Independent auditor's report to Gentoo Group Limited

We have audited the financial statements of Gentoo Group Limited for the year ended 31 March 2017 set out on pages 72 to 128. 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 in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to it 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 67, the Association's Board is responsible for the preparation of financial statements which 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the Association as at 31 March 2017 and of the income and expenditure of the Group and the Association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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

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
31 July 2017

Consolidated statement of comprehensive income

for the year ended 31 March 2017

	Note	2017 Continuing operations £'000	2017 Discontinued operations £'000	2017 Total £'000	2016 Continuing operations £'000	2016 Discontinued operations £'000	2016 Total £'000
Turnover	3a	190,777	2,545	193,322	174,729	40,602	215,331
Cost of sales	3a	(35,591)	(2,447)	(38,038)	(19,449)	(44,172)	(63,621)
Gross profit / (loss)		155,186	98	155,284	155,280	(3,570)	151,710
Operating expenditure	3a	(114,186)	(831)	(115,017)	(124,596)	(9,072)	(133,668)
Other operating income	3a	213	-	213	352	-	352
(Deficit) / surplus on disposal of tangible fixed assets	6	(1,603)	-	(1,603)	563	10	573
Operating surplus / (deficit)		39,610	(733)	38,877	31,599	(12,632)	18,967
Analysed as:							
Operating surplus / (deficit) before exceptional termination costs		43,626	(733)	42,893	42,558	(12,331)	30,227
Exceptional termination costs	4	(4,016)	-	(4,016)	(10,959)	(301)	(11,260)
Operating surplus / (deficit) after exceptional termination costs		39,610	(733)	38,877	31,599	(12,632)	18,967
Deficit on disposal of discontinued operations	7a	(4,517)	-	(4,517)	-	-	-
Interest receivable and similar income	8	1,450	-	1,450	1,418	15	1,433
Interest payable and similar charges	9	(26,635)	(7)	(26,642)	(26,543)	(253)	(26,796)
Change in value of investment property	15	(650)	-	(650)	-	-	-
Surplus / (deficit) before taxation		9,258	(740)	8,518	6,474	(12,870)	(6,396)
Tax on surplus / (deficit)	11	(169)	-	(169)	(2,607)	163	(2,444)
Surplus / (deficit) for the financial year		9,089	(740)	8,349	3,867	(12,707)	(8,840)
Other comprehensive income							
Actuarial (loss) / gain in respect of pension scheme		(11,220)	-	(11,220)	12,030	-	12,030
Revaluation of fixed asset investments	16	718	-	718	(904)	-	(904)
Total comprehensive income for the year		(1,413)	(740)	(2,153)	14,993	(12,707)	2,286

The notes on pages 80 to 128 form part of the financial statements.

These financial statements were approved by the board on 26 July 2017 and were signed on its behalf by:

Ian Self
Board Member

John Craggs
Board Member

Simon Walker
Secretary

Association statement of comprehensive income

for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	3a	25,068	39,562
Cost of sales	3a	(1,000)	(9,590)
Gross profit		24,068	29,972
Operating expenditure	3a	(22,707)	(33,799)
Surplus on disposal of tangible fixed assets	6	14	118
Operating surplus / (deficit)		1,375	(3,709)
Analysed as:			
Operating surplus before exceptional termination costs		2,905	1,899
Exceptional termination costs	4	(1,530)	(5,608)
Operating surplus / (deficit) after exceptional termination costs		1,375	(3,709)
Deficit on disposal of investments	7b	(1,588)	(6,635)
Amounts written off investments	16	-	(14,630)
Interest receivable and similar income	8	24,577	24,651
Interest payable and similar charges	9	(24,727)	(25,181)
Gift aid receivable		795	-
Change in value of investment property	15	(650)	-
Deficit before taxation		(218)	(25,504)
Taxation on deficit	11	-	1,170
Deficit for the financial year		(218)	(24,334)
Other comprehensive income			
Actuarial (loss) / gain in respect of pension scheme		(11,220)	12,030
Revaluation of fixed asset investments	16	718	(904)
Total comprehensive income for the year		(10,720)	(13,208)

The notes on pages 80 to 128 form part of the financial statements.

These financial statements were approved by the board on 26 July 2017 and were signed on its behalf by:

Ian Self
Board Member

John Craggs
Board Member

Simon Walker
Secretary

Consolidated statement of financial position

at 31 March 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	12	**90**	234
Tangible fixed assets – housing properties	13	**1,227,131**	1,235,566
Tangible fixed assets – other	14	**19,770**	26,950
		1,246,991	1,262,750
Investments			
Investment properties	15	**15,043**	12,168
Other investments	16	**33,332**	32,614
HomeBuy loans receivable	17	**879**	1,230
		1,296,245	1,308,762
Current assets			
Stock	18	**50,357**	45,319
Debtors	19	**24,780**	17,872
Cash and cash equivalents	20	**16,486**	22,986
		91,623	86,177
Creditors: amounts falling due within one year	21	**(55,626)**	(47,879)
Net current assets		**35,997**	38,298
Debtors: amounts falling due after more than one year	24	**6,848**	7,819
Total assets less current liabilities		**1,339,090**	1,354,879
Creditors: amounts falling due after more than one year	25	**(776,477)**	(799,633)
Pension liability	4	**(18,620)**	(9,100)
Net assets		**543,993**	546,146
Capital and reserves			
Revaluation reserve		**165,690**	168,789
Revenue reserve (excluding pension reserve)		**127,937**	108,604
Pension reserve		**(43,500)**	(32,280)
Revenue reserve (including pension reserve)		**84,437**	76,324
Other reserve		**293,866**	301,033
		543,993	546,146

The notes on pages 80 to 128 form part of the financial statements.
These financial statements were approved by the board on 26 July 2017 and were signed on its behalf by:

Ian Self
Board Member

John Craggs
Board Member

Simon Walker
Secretary

Association statement of financial position

at 31 March 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	12	**90**	198
Tangible fixed assets – housing properties	13	**1,033,532**	10,562
Tangible fixed assets – other	14	**17,046**	18,619
		1,050,668	29,379
Investments			
Investment properties	15	**14,818**	11,863
Other investments	16	**33,332**	32,614
HomeBuy loans receivable	17	**879**	86
Investments in subsidiaries	16	**350**	350
		1,100,047	74,292
Current assets			
Stock	18	**13,933**	1,713
Debtors	19	**14,827**	474,089
Cash at bank and in hand		**8,054**	14,038
		36,814	489,840
Creditors: amounts falling due within one year	21	**(32,785)**	(22,803)
Net current assets		**4,029**	467,037
Debtors: amounts falling due after more than one year	24	**35,582**	-
Total assets less current liabilities		**1,139,658**	541,329
Creditors: amounts falling due after more than one year	25	**(640,845)**	(587,835)
Pension liability	4	**(18,620)**	(9,100)
Net assets / (liabilities)		**480,193**	(55,606)
Capital and reserves			
Revaluation reserve		**148,609**	6,832
Revenue reserve (excluding pension reserve)		**81,219**	(30,158)
Pension reserve		**(43,500)**	(32,280)
Revenue reserve (including pension reserve)		**37,719**	(62,438)
Other reserve		**293,865**	-
		480,193	(55,606)

The notes on pages 80 to 128 form part of the financial statements.
These financial statements were approved by the board on 26 July 2017 and were signed on its behalf by:

Ian Self
Board Member

John Craggs
Board Member

Simon Walker
Secretary

Registered number: RS007302

Consolidated statement of changes in reserves

	Revaluation reserve £'000	Revenue reserve £'000	Pension reserve £'000	Other reserve £'000	Total reserves £'000
Balance at 1 April 2015	172,979	106,991	(44,310)	308,200	543,860
Total comprehensive income for the year					
Deficit	-	(8,840)	-	-	(8,840)
Other comprehensive income					
Transfer in respect of depreciation on revalued properties	(2,375)	2,375	-	-	-
Transfer in respect of realised losses on disposal of revalued properties	(911)	911	-	-	-
Realisation of other reserve	-	7,167	-	(7,167)	-
Actuarial gain in respect of pension scheme	-	-	12,030	-	12,030
Revaluation of fixed asset investments	(904)	-	-	-	(904)
Balance at 31 March 2016	**168,789**	**108,604**	**(32,280)**	**301,033**	**546,146**
Balance at 1 April 2016	168,789	108,604	(32,280)	301,033	546,146
Total comprehensive income for the year					
Surplus	-	8,349	-	-	8,349
Other comprehensive income					
Transfer in respect of depreciation on revalued properties	(3,595)	3,595	-	-	-
Transfer in respect of realised losses on disposal of revalued properties	(222)	222	-	-	-
Realisation of other reserve	-	7,167	-	(7,167)	-
Actuarial loss in respect of pension scheme	-	-	(11,220)	-	(11,220)
Revaluation of fixed asset investments	718	-	-	-	718
Balance at 31 March 2017	**165,690**	**127,937**	**(43,500)**	**293,866**	**543,993**

Association statement of changes in reserves

	Note	Revaluation reserve £'000	Revenue reserve £'000	Pension reserve £'000	Other reserve £'000	Total reserves £'000
Balance at 1 April 2015		7,651	(5,739)	(44,310)	-	(42,398)
Total comprehensive income for the year						
Deficit		-	(24,334)	-	-	(24,334)
Other comprehensive income						
Transfer in respect of depreciation on revalued properties		85	(85)	-	-	-
Actuarial gain in respect of pension scheme		-	-	12,030	-	12,030
Revaluation of fixed asset investments		(904)	-	-	-	(904)
Balance at 31 March 2016		**6,832**	**(30,158)**	**(32,280)**	**-**	**(55,606)**
Balance at 1 April 2016		6,832	(30,158)	(32,280)	-	(55,606)
Total comprehensive income for the year						
Deficit		-	(218)	-	-	(218)
Other comprehensive income						
Transfer of engagements	34	140,959	111,695	-	293,865	546,519
Transfer in respect of depreciation on revalued properties		91	(91)	-	-	-
Transfer in respect of realised losses on disposal of revalued properties		9	(9)	-	-	-
Actuarial loss in respect of pension scheme		-	-	(11,220)	-	(11,220)
Revaluation of fixed asset investments		718	-	-	-	718
Balance at 31 March 2017		**148,609**	**81,219**	**(43,500)**	**293,865**	**480,193**

Consolidated statement of cash flows

for the year ended 31 March 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Surplus / (deficit) for the year	**8,349**	(8,840)
Adjustments for non cash items:		
Depreciation, amortisation and impairment	**32,618**	33,278
Interest receivable and similar income	**(1,450)**	(1,433)
Interest payable and similar charges	**26,642**	26,796
Loss / (gain) on disposal of tangible fixed assets	**1,603**	(573)
Loss on sale of discontinued operations	**4,517**	-
Deferred Government grant	**(3,631)**	(3,612)
Government grants utilised in the year	**(445)**	(1,909)
Taxation	**169**	2,444
	60,023	54,991
(Increase) / decrease in trade and other debtors	**(3,141)**	6,007
(Increase) / decrease in stock	**(7,490)**	4,418
(Decrease) / increase in trade and other creditors	**(11,761)**	1,064
Decrease in provisions and employee benefits	**(1,850)**	(1,220)
	(24,242)	10,269
Tax paid	**(2,210)**	(4,200)
Tax received	**488**	-
Net cash flows from operating activities	**42,408**	52,220

Consolidated statement of cash flows (continued)

for the year ended 31 March 2017

	2017 £'000	2016 £'000
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets - housing properties	**5,452**	4,384
Proceeds from sale of tangible fixed assets – other	**77**	695
Acquisition of tangible fixed assets - housing properties	**(131)**	(208)
Acquisition of tangible fixed assets – other	**(802)**	(4,769)
Capital expenditure on existing properties	**(18,907)**	(21,214)
Development of social housing properties	**(8,936)**	(7,239)
Disposal of subsidiary	**250**	(1,127)
Prior year transfer of engagements	**-**	329
Interest received	**1,426**	1,436
Capital grants repaid	**(50)**	(104)
Proceeds from receipt of Government grants	**3,273**	4,383
Net cash from investing activities	**(18,348)**	(23,434)
Cash flows from financing activities		
Proceeds from loans	**13,677**	32,482
Interest paid	**(26,403)**	(27,302)
Repayment of borrowings	**(22,124)**	(19,094)
Payment of finance lease liabilities	**(63)**	(246)
Net cash from financing activities	**(34,913)**	(14,160)
Net (decrease) / increase in cash and cash equivalents	**(10,853)**	14,626
Cash and cash equivalents at 1 April	**22,467**	7,841
Cash and cash equivalents at 31 March	**11,614**	22,467

1. Accounting policies

Legal status

Gentoo Group Limited (the "Association") was a company limited by guarantee 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 has charitable status with HM Revenue & Customs, reference number EW41411. The Association is also a Public Benefit Entity.

Basis of accounting

These financial statements have been 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, the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Housing SORP 2014: Statement of Recommended Practice for registered social housing providers ('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 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 disclosure:

- Cash Flow Statement and related notes.

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

Judgements made by Board Members, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the year are discussed in note 1.4.

1.1. Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: other financial instruments classified at fair value through the statement of comprehensive income:

- debtors: amounts falling due after more than one year
- fixed asset investments

1.2. Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 8 to 69.

The Group meets its day to day working capital requirements through the current account and its revolver facility. The Group meets its development programme requirements through a combination of grant and debt funding. Note 26 to the financial statements highlight the current level of debt and repayment terms. The current economic conditions create uncertainty particularly over the longer term availability of grant and bank finance.

The Group's forecasts and projections show that the Group should be able to continue to operate within the level of its current facilities and no matters have been drawn to its attention to suggest that future funding may not be forthcoming on acceptable terms.

1. Accounting policies (continued)

1.2. Going concern (continued)

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

1.3. Basis of consolidation

The consolidated accounts comprise the financial statements of Gentoo Group Limited, the parent company, and its subsidiary undertakings. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra group balances and transactions (including recognised gains arising from intra group transactions) are eliminated in full on consolidation. Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

1.4. Significant judgements and estimates

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 in note 33.

1.5. Foreign currency

Transactions in foreign currencies are translated to the relevant subsidiary's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

1.6. Classification of financial instruments issued by the Association

In accordance with FRS 102.22, 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 Association; 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. Accounting policies (continued)

1.7. 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.

Bad and doubtful debts

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.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Association's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.8. Other financial instruments

Financial instruments not considered to be basic financial instruments (other financial instruments)

The Genie Home Purchase Plan (HPP) is a 'complex financial instrument' under FRS 102 due to the potential link to upward HPI. The Genie HPP is initially recognised on the statement of financial position at the value the customer has committed to purchase the property. Subsequent to initial recognition, Genie HPP's are measured at fair value with changes recognised in profit or loss. The fair value is equal to the share retained by the Company in the property which is subject to a HPP valued at the original sales price. This equates to the minimum value to be received under the HPP contractual arrangement.

1. Accounting policies (continued)

1.9. Tangible fixed assets

Housing properties held for letting

Housing properties are principally properties available for rent and are stated at historical 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 statement of comprehensive income to write down the value of housing properties on a straight line basis over the following useful economic lives:

Housing property components: depreciation life

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

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 the 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.

No depreciation is charged for shared ownership properties where the occupier is responsible for the maintenance of the property.

Garages held for letting

Garages held for letting are stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write down the value of garages on a straight line basis over their expected useful economic life of 50 years.

Works to existing properties

Expenditure on housing properties that refurbishes or replaces an identified housing property component is capitalised. Major works to housing properties are capitalised where they increase the net rental stream or the life of the property. All other maintenance costs are charged to the statement of comprehensive income in the year they are incurred.

Disposal of housing properties

Property sales and any surplus thereon are recognised when the transaction becomes legally binding on both parties. Any foreseeable deficit on any proposed property sale is recognised in the statement of comprehensive income 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'. Surplus or deficit on sale of these properties are recognised before operating surplus or deficit.

1. Accounting policies (continued)

1.9. Tangible fixed assets (continued)

Housing properties under construction

Housing properties under construction are stated at cost and are not depreciated.

Other tangible fixed assets

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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 down the cost of tangible fixed assets on a straight line basis over their estimated useful economic lives as follows:

	Years		Years
Furniture, fixtures and fittings	5 - 20	Office equipment	3 - 10
IT equipment	3 - 7	Plant and machinery	3 - 15
Land and buildings	50	Vehicles	3 - 5

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 the last annual reporting date in the pattern by which the Association expects to consume an asset's future economic benefits.

1.10. Intangible assets

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Other intangible assets

Other intangible assets that are acquired by the Association are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of intangible asset acquired in a business combination are capitalised separately from goodwill if the fair value can be measured reliably at the acquisition date.

Amortisation

Amortisation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use.

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be five years.

The Association reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with FRS 102 Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

1. Accounting policies (continued)

1.11. Government grants

Government grants are included within accruals and deferred income in the statement of financial position and credited to the statement of comprehensive income 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 liability, specifically as deferred government grant income and released through the statement of comprehensive income as turnover over the life of the structure of housing properties in accordance with the accruals method applicable to registered providers of social housing accounting for housing properties at cost.

For items where on transition to FRS 102, 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.

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.

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

For assets that are carried at 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 statement of comprehensive income.

1.12. Disposal proceeds fund (DPF)

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'.

1.13. Recycling of capital grant fund (RCGF)

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until used to fund the provision of new properties. Where recycled grant is known to be repayable it is shown as a creditor within one year.

1.14. Other grants

Grants received from non-government sources are recognised using the performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specified future performance-related conditions is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

1. Accounting policies (continued)

1.15. Discontinued operations

Discontinued operations are components of the Group that have been disposed of at the reporting date and previously represented a separate major line of business or geographical area of operation.

They are included in the statement of comprehensive income in a separate column for the current and comparative periods, including the gain or loss on sale or impairment loss on disposal.

1.16. Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.

Subsequent to initial recognition,

i.) investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in surplus or deficit in the period that they arise; and

ii.) no depreciation is provided in respect of investment properties applying the fair value model.

Fair value of Investment Properties is determined annually by management using market data or where this is not available by using discounted cash flow analysis.

1.17. Stock

Properties for sale

Completed properties for outright sale and properties under construction are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises materials, direct labour and direct development overheads.

Raw materials and consumables

Stock is stated at the lower of cost and estimated selling price less costs to complete and sell.

1.18. Impairment excluding stock, investment properties and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through the statement of comprehensive income 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 the statement of comprehensive income. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through statement of comprehensive income.

1. Accounting policies (continued)

1.18. Impairment excluding stock, investment properties and deferred tax assets (continued)

Non-financial assets

The carrying amounts of the Association's non-financial assets, other than investment property, stock 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 are recognised in the statement of comprehensive income. 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.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.19. Employee benefits

Defined benefit plans

The Group (excluding WoSHA) participates in the Tyne and Wear Local Government Pension Fund (the 'Fund') which is a defined benefit scheme. WoSHA is a member of the Scottish Housing Association pension scheme.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Association's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Association determines the net interest expense / (income) on the net defined benefit liability / (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability / (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the statement of financial position date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Association's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Association recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the statement of comprehensive income.

1. Accounting policies (continued)

1.19. Employee benefits (continued)

Re-measurement of the net defined benefit liability / (asset) is recognised in other comprehensive income in the period in which it occurs.

Scottish Housing Association Pension Scheme (SHAPS)
WoSHA contributes to the two Scottish Housing Association Pension Schemes. The assets of the schemes are held separately from those of WoSHA in an independently administered fund.

The assets and liabilities of the SHAPS defined benefit scheme relating to a specific employer cannot be separately identified and as such only contributions paid in respect of employees are charged to the statement of comprehensive income. However, in accordance with FRS 102, the payments in respect of the past service deficit plan have been discounted and recognised as a provision within the financial statements.

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.

Defined contribution plans and other long term employee benefits
The Group participates in a defined contribution scheme.

A defined contribution plan is a post-employment benefit plan under which the Association pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

1.20. Turnover

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

- 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.

1.21. Expenses

Operating lease
Payments (excluding costs for services and insurance) made under operating leases are recognised in the statement of comprehensive income 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 surplus or deficit over the term of the lease as an integral part of the total lease expense.

1. Accounting policies (continued)

1.21. Expenses (continued)

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 charges on finance leases.

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

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

1.22. Taxation

Tax on the surplus or deficit for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income 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.

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 is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable surpluses.

1.23. Service charge sinking funds

Service charge sinking funds are recognised as creditors. Part of the service charge is retained in a sinking fund for major repairs. Interest is added annually to the fund.

1. Accounting policies (continued)

1.24. Value added tax (VAT)

The Association is included in a Group VAT registration which also includes Gentoo Care Limited and Gentoo Art of Living. Gentoo Homes Limited, Gentoo Developments Limited, West of Scotland Housing Association, Romag Limited (sold 14 July 2016) and Romag PPM Limited (sold 14 July 2016) all have separate VAT registrations. Gentoo Genie Limited is not VAT registered.

A large proportion of the Group's 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 statement of comprehensive income.

1.25. HomeBuy and other equity loans

The Group operated two loan schemes by lending a percentage of the cost to home purchasers. The schemes are now closed to new participants.

HomeBuy Direct Scheme
This is a low cost home ownership Government initiative. The Group and the Government provided assistance through an equal equity loan contribution to the purchaser, secured against the property. The loan is repaid as a result of a relevant event or on the 25th anniversary of the date of the loan agreement. The loan is interest free for the first five years. At the beginning of year six, interest becomes payable on the outstanding balance. The loans are reviewed annually for impairment. Redemption proceeds are allocated equally between the Group and the Government with any surplus or loss being recognised through the statement of comprehensive income.

Gentoo Homebuyer Loan Scheme
This is a low cost home ownership Group initiative. The Group provided assistance through a fixed loan contribution to the purchaser, secured against the property. The loan is repaid as a result of a relevant event or at the end of the 10th year of the date of the loan agreement. The loan is interest free for the first five years. At the beginning of year six, interest becomes payable on the outstanding balance. The loans are reviewed annually for impairment. Any loss on redemption is recognised through the statement of comprehensive income.

2. Disposal of businesses in the current period

Romag Limited and Romag PPM Limited have been disposed of in the year and have been classified as a discontinued operation. The prior year also reflects the disposal of Gentoo Construction Limited.

3a. Particulars of turnover, cost of sales, operating expenditure and operating surplus / (deficit)

Group	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Other operating income £'000	Deficit on disposal £'000	2017 Operating surplus / (deficit) £'000
Social housing lettings (note 3b)	141,697	-	(104,168)	-	-	37,529
Other social housing activities:						
Charge for support services	776	-	(1,870)	-	-	(1,094)
Other	1,151	-	(2,128)	-	-	(977)
Activities other than social housing activities:						
Properties developed for outright sale	35,383	(28,430)	(2,454)	-	-	4,499
Grant income	73	-	-	-	-	73
Other	14,242	(9,608)	(4,397)	213	-	450
Non-social housing activities	49,698	(38,038)	(6,851)	213	-	5,022
Deficit on disposal of tangible assets	-	-	-	-	(1,603)	(1,603)
Total	193,322	(38,038)	(115,017)	213	(1,603)	38,877

3a. Particulars of turnover, cost of sales, operating expenditure and operating surplus / (deficit) (continued)

Group	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Other operating income £'000	Surplus on disposal £'000	2016 Operating surplus / (deficit) £'000
Social housing lettings (note 3b)	142,460	-	(111,120)	-	-	31,340
Other social housing activities:						
First tranche low cost home ownership sales	218	(217)	-	-	-	1
Charge for support services	845	-	(1,494)	-	-	(649)
Other	1,244	-	(2,162)	-	-	(918)
Activities other than social housing activities:						
Properties developed for outright sale	36,035	(29,822)	(3,908)	-	-	2,305
Other	34,529	(33,582)	(14,984)	352	-	(13,685)
Non-social housing activities	**70,564**	**(63,404)**	**(18,892)**	**352**	**-**	**(11,380)**
Surplus on disposal of tangible assets	-	-	-	-	573	573
Total	**215,331**	**(63,621)**	**(133,668)**	**352**	**573**	**18,967**

The prior year has been updated to reflect some reclassifications.

Notes to the financial statements (continued)

for the year ended 31 March 2017

3a. Particulars of turnover, cost of sales, operating expenditure and operating surplus / (deficit) (continued)

Association	**Turnover £'000**	**Cost of sales £'000**	**Operating expenditure £'000**	**Surplus on disposal £'000**	**2017 Operating surplus / (deficit) £'000**
Social housing lettings (note 3b)	**319**	**-**	**(369)**	**-**	**(50)**
Other social housing activities:					
Other	**133**	**-**	**(133)**	**-**	**-**
Activities other than social housing activities:					
Other	**24,616**	**(1,000)**	**(22,205)**	**-**	**1,411**
Non-social housing activities	**24,616**	**(1,000)**	**(22,205)**	**-**	**1,411**
Surplus on disposal of tangible assets	**-**	**-**	**-**	**14**	**14**
Total	**25,068**	**(1,000)**	**(22,707)**	**14**	**1,375**

Association	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Surplus on disposal £'000	2016 Operating surplus / (deficit) £'000
Social housing lettings (note 3b)	477	-	(385)	-	92
Other social housing activities:					
Charge for support services	845	-	(1,494)	-	(649)
Other	114	-	(902)	-	(788)
Activities other than social housing activities:					
Properties developed for outright sale	11,169	(9,590)	-	-	1,579
Other	26,957	-	(31,018)	-	(4,061)
Non-social housing activities	**38,126**	**(9,590)**	**(31,018)**	**-**	**(2,482)**
Surplus on disposal of tangible assets	-	-	-	118	118
Total	**39,562**	**(9,590)**	**(33,799)**	**118**	**(3,709)**

The prior year has been updated to reflect some reclassifications.

3b. Particulars of turnover and expenditure from social housing lettings

Group	General needs housing £'000	Supported Housing and housing for older people £'000	Shared ownership £'000	2017 Total £'000	2016 Total £'000
Income					
Rent receivable net of identifiable service charges	**132,513**	**2,634**	**225**	**135,372**	136,290
Service charge income	**2,150**	**512**	**2**	**2,664**	2,558
Net rents receivable	**134,663**	**3,146**	**227**	**138,036**	138,848
Amortised Government grants	**3,609**	**-**	**22**	**3,631**	3,612
Other SH grant income	**30**	**-**	**-**	**30**	-
Turnover from social housing lettings	**138,302**	**3,146**	**249**	**141,697**	142,460
Operating expenditure					
Management	**(15,390)**	**(497)**	**(38)**	**(15,925)**	(16,471)
Central services costs	**(20,999)**	**-**	**-**	**(20,999)**	(22,363)
Service charge costs	**(1,987)**	**(368)**	**(2)**	**(2,357)**	(1,705)
Routine maintenance	**(26,064)**	**(287)**	**-**	**(26,351)**	(26,822)
Asset management	**(4,458)**	**-**	**-**	**(4,458)**	(1,056)
Major repairs expenditure	**(5,183)**	**(165)**	**-**	**(5,348)**	(7,932)
Bad debts	**(300)**	**(4)**	**-**	**(304)**	(828)
Depreciation of housing properties	**(29,194)**	**(875)**	**(51)**	**(30,120)**	(29,609)
Impairment of housing properties	**(176)**	**-**	**-**	**(176)**	-
Other costs (restructure)	**(1,821)**	**-**	**-**	**(1,821)**	(4,978)
Pension credit*	**3,691**	**-**	**-**	**3,691**	644
Operating expenditure on social housing lettings	**(101,881)**	**(2,196)**	**(91)**	**(104,168)**	(111,120)
Operating surplus on social housing lettings	**36,421**	**950**	**158**	**37,529**	31,340
Rent losses from voids**	**(1,324)**	**(28)**	**-**	**(1,352)**	(1,554)

*This represents the SHAPS pension credit and the difference between the contribution by employer and the current and past service costs in line with the actuarial report (note 4).

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

Notes to the financial statements (continued)

for the year ended 31 March 2017

3b. Particulars of turnover and expenditure from social housing lettings (continued)

Association	General needs housing £'000	Shared ownership £'000	2017 Total £'000	2016 Total £'000
Income				
Rent receivable net of identifiable service charges	**312**	**3**	**315**	412
Service charge income	**-**	**-**	**-**	61
Net rents receivable	**312**	**3**	**315**	473
Amortised Government grants	**4**	**-**	**4**	4
Turnover from social housing lettings	**316**	**3**	**319**	477
Operating expenditure				
Management	**(49)**	**-**	**(49)**	(52)
Service charge costs	**-**	**-**	**-**	(1)
Bad debts	**-**	**-**	**-**	(1)
Depreciation of housing properties	**(320)**	**-**	**(320)**	(331)
Operating expenditure on social housing lettings	**(369)**	**-**	**(369)**	(385)
Operating (deficit) / surplus on social housing lettings	**(53)**	**3**	**(50)**	92
Rent losses from voids*	**(3)**	**-**	**(3)**	(8)

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

4. Employees

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

	Group 2017 No.	**Association 2017 No.**	Group 2016 No.	Association 2016 No.
Executive directors and key management personnel	**6**	**6**	14	6
Managing housing services	**450**	**10**	407	106
Repairs and maintenance	**491**	**-**	532	-
Centre enabling services	**186**	**171**	336	278
Development and selling homes	**79**	**-**	79	-
Other operations	**117**	**2**	317	-
Apprentices	**14**	**14**	14	12
	1,343	**203**	1,699	402

The aggregate payroll costs of these persons were as follows:

	Group 2017 £'000	**Association 2017 £'000**	Group 2016 £'000	Association 2016 £'000
Wages and salaries	**38,298**	**7,371**	49,662	13,394
Social security costs	**3,625**	**782**	3,959	1,145
Contributions to:				
Group wide defined benefit plan	**6,048**	**1,227**	7,598	2,347
Defined contribution plan	**48**	**-**	111	-
SHAPS	**249**	**-**	647	-
	6,345	**1,227**	8,356	2,347
Redundancy costs	**4,016**	**1,530**	11,260	5,608
	52,284	**10,910**	73,237	22,494

4. Employees (continued)

Pension Schemes – Association

The disclosures below relate to the Tyne and Wear Pension Fund (the 'Fund') which is part of the Local Government Pension Scheme. Gentoo Group participates in the fund which provides defined benefits, based on members' career average pensionable salary.

Movements in present value of defined benefit obligation	**2017 £'000**	2016 £'000
At 1 April 2016	**194,640**	196,370
Current service cost	**7,260**	9,420
Past service cost	**610**	1,040
Interest expense	**6,730**	6,420
Contributions by members	**2,030**	2,640
Actuarial losses / (gains) on scheme liabilities	**63,450**	(14,940)
Net benefits paid out	**(6,880)**	(6,310)
At 31 March 2017	**267,840**	194,640

Movements in fair value of plan assets	**2017 £'000**	2016 £'000
At 1 April 2016	**185,540**	174,550
Interest income	**6,580**	5,890
Remeasurement: return on plan assets less interest income	**52,230**	(2,910)
Contributions by employer	**9,720**	11,680
Contributions by members	**2,030**	2,640
Benefits paid	**(6,880)**	(6,310)
At 31 March 2017	**249,220**	185,540

Expense recognised in the Statement of Comprehensive Income	**2017 £'000**	2016 £'000
Current service cost	**(7,260)**	(9,420)
Past service cost	**(610)**	(1,040)
Net interest on net defined benefit liability	**(150)**	(530)
Total expense recognised in the Statement of Comprehensive Income	**(8,020)**	(10,990)

4. Employees (continued)

The fair value of the plan assets and the return on those assets were as follows:

	2017 Fair value %	2016 Fair value %
Equities	**66.9**	66.1
Government bonds	**3.9**	3.7
Corporate bonds	**11.5**	11.6
Property	**9.2**	10.4
Cash	**2.6**	2.6
Other	**5.9**	5.6
	100.0	100.0

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2017 %	2016 %
Discount rate	**2.6**	3.5
Future salary increases	**3.5**	3.3
RPI inflation	**3.1**	2.9
CPI inflation	**2.0**	1.8
Pension increases	**2.0**	1.8
Pension accounts revaluation rate	**2.0**	1.8

	£'000	£'000
Actual return on plan assets	**58,810**	2,980

Last full actuarial valuation was performed on 31 March 2016.

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the statement of financial position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.8 years (male), 26.3 years (female).
- Future retiree upon reaching 65: 25.0 years (male), 28.6 years (female).

4. Employees (continued)

Pension Schemes – WoSHA

WoSHA participates in a multi-employer scheme which provides benefits to over 150 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

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

A full actuarial valuation for the scheme was carried out at 30 September 2015. This actuarial valuation showed assets of £616m, liabilities of £814m and a deficit of £198m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

From 1 April 2017 to 28 February 2022:	£25,735k per annum (payable monthly, increasing by 3% each 1st April)
From 1 April 2017 to 30 June 2025:	£727k per annum (payable monthly, increasing by 3% each 1st April)
From 1 April 2017 to 31 October 2026:	£1,239k per annum (payable monthly, increasing by 3% each 1st April)

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the scheme liabilities.

Where the scheme is in deficit and where WoSHA has agreed to a deficit funding arrangement the Association recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

	2017 £'000	2016 £'000
Present values of provision	**2,559**	5,473

Reconciliation of opening and closing provisions	2017 £'000	2016 £'000
Provision at 1 April	**5,473**	5,821
Unwinding of the discount factor (interest expense)	**120**	124
Deficit contribution paid	**(463)**	(450)
Remeasurements - impact of any change in assumptions	**74**	(22)
Remeasurements – amendments to the contribution schedule	**(2,645)**	-
Provision at 31 March	**2,559**	5,473

4. Employees – West of Scotland Housing Association

Statement of changes in income impact	2017 £'000	2016 £'000
Interest expense *	**120**	124
Remeasurements – impact of any change in assumptions *	**74**	(22)
Remeasurements – amendments to the contribution schedule **	**(2,645)**	-

*shown in the interest payable and similar charges line item

**shown in the operating expenditure line item

	2017 %	2016 %
Rate of discount	**1.06**	2.29

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

The following schedule details the deficit contributions agreed between WoSHA and the scheme at each year end period:

Deficit contributions schedule	2017 £'000	2016 £'000
Year 1	**504**	463
Year 2	**519**	477
Year 3	**534**	492
Year 4	**550**	506
Year 5	**519**	522
Year 6	**-**	537
Year 7	**-**	553
Year 8	**-**	570
Year 9	**-**	587
Year 10	**-**	605
Year 11	**-**	623
Year 12	**-**	321

WoSHA must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the statement of comprehensive income i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

It is these contributions that have been used to derive WoSHA's statement of financial position liability.

Defined contribution plans
The Group participates in a defined contribution pension plan for some Group employees.

The total expense relating to this plan in the current year was £48k (2016: £111k).

5. Directors' and key management personnel remuneration

	2017 £'000	2016 £'000
Non-Executive Directors remuneration	**151**	118
Executive Directors and key management personnel remuneration	**907**	1,091
Association contributions to group wide defined benefit plan	**65**	92
Compensation for loss of office	**338**	1,134
	1,461	2,435

Retirement benefits are accruing to five (2016: six) senior staff under a defined benefit scheme. The aggregate remuneration (excluding compensation for loss of office) of the Chief Executive Officer (highest paid director) were £234,805 (2016: £197,723) and association pension contributions of £nil (2016: £nil).

Board Member	Board role	2017 Remuneration £'000	2016 Remuneration £'000
Barrington Billings	Non-Executive Director	**8**	10
Barry Curran	Non-Executive Director	**8**	-
Brian Spears	Non-Executive Director	**7**	-
Christopher Watson	Non-Executive Director	**2**	-
Colin Blakey	Non-Executive Director	**12**	-
David Murtagh	Non-Executive Director	**2**	-
Frank Nicholson	Non-Executive Director	**2**	-
Hunada Nouss	Non-Executive Director	**8**	9
Ian Self	Chairman	**35**	32
Jill Fletcher	Non-Executive Director	**-**	2
John Dannell *	Non-Executive Director	**15**	12
John Walker	Non-Executive Director	**5**	19
Keith Loraine	Non-Executive Director	**2**	-
Leslie Herbert	Non-Executive Director	**2**	-
Mary Coyle	Non-Executive Director	**17**	16
Paul Stewart	Non-Executive Director	**8**	-
Philip Tye	Non-Executive Director	**10**	8
Richard Beevers *	Non-Executive Director	**8**	10
Total		**151**	118

*The Board Members also received an amount for compensation for loss of office

5. Directors' and key management personnel remuneration (continued)

Salary banding for directors and key management personnel whose total remuneration, including pensions, exceeds £60,000 per annum is as follows:

	Group 2017 No.	Group 2016 No.
£70,001 - £80,000	1	-
£120,001 - £130,000	1	-
£130,001 - £140.000	-	1
£140,001 - £150,000	1	-
£160,001 - £170,000	-	1
£190,001 - £200,000	-	1
£210,001 - £220,000	1	2
£230,001 - £240,000	1	-
£250,001 - £260,000	-	1
£300,001 - £310,000	-	1
£320,001 - £330,000	-	1
£400,001 - £410,000	1	-
£660,001 - £670,000	-	1

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

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Proceeds from sales	5,529	256	5,079	676
Cost of sales	-	-	(273)	(551)
Net book value of assets sold	(5,082)	(228)	(3,768)	(7)
Net book value of assets demolished	(1,176)	-	(61)	-
	(729)	28	977	118
Transfer to disposal proceeds fund	(924)	(14)	(300)	-
Transfer to recycled capital grant fund	-	-	-	-
Grant repaid	50	-	(104)	-
	(1,603)	14	573	118

7a. Deficit on disposal of a discontinued operation

Group	2017 £'000	2016 £'000
Proceeds from sale	250	-
Net book value of assets sold	(4,767)	-
	(4,517)	-

7b. Deficit on disposal of investments

Association	2017 £'000	2016 £'000
Proceeds from sale	250	-
Investment value	(1,838)	-
Waiver of intercompany loan	-	(6,635)
	(1,588)	(6,635)

8. Interest receivable and similar income

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Bank interest receivable	36	36	46	21
Interest receivable on treasury deposits	42	26	12	12
Interest receivable on fixed rate investments	1,372	1,372	1,375	1,375
Interest receivable from Group undertakings	-	23,143	-	23,243
	1,450	24,577	1,433	24,651

9. Interest payable and similar charges

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Interest on loans repayable within five years	830	497	632	632
Interest on loans repayable in more than five years by instalments	25,257	23,876	25,323	23,808
Bank fees and similar charges	211	204	348	350
	26,298	24,577	26,303	24,790
Interest payable capitalised on stock	-	-	(139)	(139)
	26,298	24,577	26,164	24,651
Interest on pension liability	344	150	632	530
Total interest payable and similar charges	26,642	24,727	26,796	25,181

10. Expenses and auditor's remuneration

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Included in surplus / (deficit) are the following:				
Depreciation:				
Housing properties	**30,120**	**320**	29,609	331
Other tangible fixed assets	**1,562**	**919**	2,428	1,146
Amortisation of intangible assets	**110**	**108**	92	91
Impairment loss on fixed assets				
Vehicles and equipment	**-**	**-**	1,149	-
Housing properties	**176**	**-**	-	-
Change in value of investment property	**650**	**-**	-	-
Restructuring costs	**4,016**	**1,530**	11,260	5,608
Auditor's remuneration:				
Audit of theses financial statements	**43**	**4**	18	4
Amounts receivable by the Association's auditor and its associates in the respect of:				
Audit of financial statements of subsidiaries of the Association	**89**	**-**	100	-
Audit-related assurance services	**38**	**38**	30	30
Taxation compliance services	**11**	**11**	11	11
Other tax advisory services	**41**	**41**	46	46
All other services	**111**	**111**	72	72

11. Taxation

Total tax charge / (credit) recognised in the statement of comprehensive income, other comprehensive income and equity

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Current tax				
Current tax on income for the period	**285**	**-**	4,162	-
Adjustments in respect to prior periods	**(116)**	**-**	(385)	-
Total current tax	**169**	**-**	3,777	-
Deferred tax				
Origination and reversal of timing differences	**-**	**-**	(1,075)	(920)
Change in tax rate	**-**	**-**	(56)	(48)
Adjustments arising in respect of prior periods	**-**	**-**	(202)	(202)
Total deferred tax	**-**	**-**	(1,333)	(1,170)
Total tax charge / (credit)	**169**	**-**	2,444	(1,170)

11. Taxation (continued)

Reconciliation of effective tax rate

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Surplus / (deficit) for the year	**8,518**	**(218)**	(6,396)	(25,504)
Tax at standard rate of 20% (2016: 20%)	**1,704**	**(44)**	(1,279)	(5,101)
Add:				
Chargeable losses	**-**	**-**	148	-
Expenses not deductible	**-**	**-**	5,286	4,060
Fixed asset differences	**-**	**-**	3,957	222
Unutilised losses	**-**	**-**	1,449	-
Short term timing differences	**-**	**-**	3	-
Reduction in tax rate on deferred tax balances	**-**	**-**	(1,630)	(8)
Prior period adjustments	**(116)**	**-**	(587)	(202)
Less:				
Utilisation of tax losses	**(24)**	**-**	-	-
Non-taxable income	**(12)**	**-**	(5,063)	-
Charitable tax exemptions	**(1,331)**	**44**	(1,866)	-
Deferred tax not recognised	**(52)**	**-**	2,026	(157)
Group relief surrendered	**-**	**-**	-	16
Total tax charge / (credit) included in profit or loss	**169**	**-**	2,444	(1,170)

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

12. Intangible assets

	Goodwill £'000	Licences £'000	Group Total £'000	Goodwill £'000	Licences £'000	Association Total £'000
Cost						
Balance at 1 April 2016	**494**	**24**	**518**	**448**	**24**	**472**
Disposal of company	(46)	-	(46)	-	-	-
Balance at 31 March 2017	**448**	**24**	**472**	**448**	**24**	**472**
Amortisation						
Balance at 1 April 2016	**280**	**4**	**284**	**268**	**6**	**274**
Amortisation for the year	90	20	110	90	18	108
Disposal of company	(12)	-	(12)	-	-	-
Balance at 31 March 2017	**358**	**24**	**382**	**358**	**24**	**382**
Net book value						
At 31 March 2016	214	20	234	180	18	198
At 31 March 2017	**90**	**-**	**90**	**90**	**-**	**90**

Amortisation is recognised in the following line items in the statement of comprehensive income:

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Operating expenditure	**110**	**108**	92	91

13. Tangible fixed assets – housing properties

Group	Housing properties held for letting £'000	Shared ownership £'000	Housing properties under construction £'000	Garages held for letting £'000	Total £'000
Cost					
Balance at 1 April 2016	1,405,957	9,739	8,179	1,385	**1,425,260**
Additions	(36)	-	9,115	-	**9,079**
Enhancements	18,907	-	-	-	**18,907**
Schemes completed	9,945	-	(9,945)	-	**-**
Disposals	(5,836)	(231)	-	-	**(6,067)**
Demolitions	(1,379)	-	-	(6)	**(1,385)**
Transferred from properties for sale	-	(4)	504	-	**500**
Category transfer	63	(63)	-	-	**-**
Transferred from DPF	-	-	(391)	-	**(391)**
Reclassification	(198)	10	-	-	**(188)**
Balance at 31 March 2017	**1,427,423**	**9,451**	**7,462**	**1,379**	**1,445,715**
Depreciation					
Balance at 1 April 2016	188,338	1,008	-	348	**189,694**
Depreciation charge for the year	30,049	51	-	20	**30,120**
Disposals	(1,005)	(4)	-	-	**(1,009)**
Demolitions	(208)	-	-	(1)	**(209)**
Impairment	176	-	-	-	**176**
Category transfer	16	(16)	-	-	**-**
Reclassification	(198)	10	-	-	**(188)**
Balance at 31 March 2017	**217,168**	**1,049**	**-**	**367**	**218,584**
Net book value					
At 31 March 2016	1,217,619	8,731	8,179	1,037	1,235,566
At 31 March 2017	**1,210,255**	**8,402**	**7,462**	**1,012**	**1,227,131**

Security
£1,043m (29,574 units) of completed properties net book value is held as security against debt (notes 21 and 25).

Impairment loss
There was an impairment charge during the year ended 31 March 2017 of £123k in relation to four properties that are awaiting demolition. This represents the full carrying value of the assets and a further £53k relates to 15 small one bedroom flats that have been identified for redevelopment at WoSHA.

Notes to the financial statements (continued)

for the year ended 31 March 2017

13. Tangible fixed assets – housing properties (continued)

Expenditure to works on existing properties:

	2017 £'000	2016 £'000
Amounts capitalised – improvements	**18,907**	21,214
Amounts charged to statement of comprehensive income	**5,348**	7,963
	24,255	29,177

Association	Note	Housing properties held for letting £'000	Shared ownership £'000	Housing properties under construction £'000	Garages held for letting £'000	Total £'000
Cost						
Balance at 1 April 2016		9,700	2,688	-	-	**12,388**
Enhancements		37	-	-	-	**37**
Disposals		(42)	(128)	-	-	**(170)**
Reclassification		(198)	12	-	-	**(186)**
Transferred from Group subsidiaries		50	-	-	-	**50**
Transfer of engagements	34	1,162,329	4,062	7,414	1,229	**1,175,034**
Balance at 31 March 2017		**1,171,876**	**6,634**	**7,414**	**1,229**	**1,187,153**
Depreciation						
Balance at 1 April 2016		1,729	97	-	-	**1,826**
Depreciation charge for the year		320	-	-	-	**320**
Disposals		(7)	(2)	-	-	**(9)**
Reclassification		(198)	12	-	-	**(186)**
Transfer of engagements	34	151,395	59	-	216	**151,670**
Balance at 31 March 2017		**153,239**	**166**	**-**	**216**	**153,621**
Net book value						
At 31 March 2016		7,971	2,591	-	-	10,562
At 31 March 2017		**1,018,637**	**6,468**	**7,414**	**1,013**	**1,033,532**

14. Tangible fixed assets – other

Group	Land and buildings £'000	Furniture, fixtures and fittings £'000	Vehicles and equipment £'000	Total £'000
Cost				
Balance at 1 April 2016	27,092	2,837	20,506	**50,435**
Additions	-	97	873	**970**
Disposals	47	(1,647)	(6,228)	**(7,828)**
Transfer to investment properties	(3,471)	(233)	(1)	**(3,705)**
Disposal of subsidiary	(1,391)	(35)	(5,714)	**(7,140)**
Balance at 31 March 2017	**22,277**	**1,019**	**9,436**	**32,732**
Depreciation				
Balance at 1 April 2016	5,426	2,369	15,690	**23,485**
Depreciation charge for the year	513	70	979	**1,562**
Disposals	-	(1,646)	(6,224)	**(7,870)**
Transfer to investment properties	(401)	(93)	-	**(494)**
Disposal of subsidiary	(287)	(2)	(3,432)	**(3,721)**
Balance at 31 March 2017	**5,251**	**698**	**7,013**	**12,962**
Net book value				
At 31 March 2016	21,666	468	4,816	26,950
At 31 March 2017	**17,026**	**321**	**2,423**	**19,770**

The net book value of land and buildings comprises:

	2017 £'000	2016 £'000
Freehold	**14,500**	18,977
Long leasehold	**2,526**	2,689
	17,026	21,666

Notes to the financial statements (continued)

for the year ended 31 March 2017

14. Tangible fixed assets – other (continued)

Association	Note	Land and buildings £'000	Furniture, fixtures and fittings £'000	Vehicles and equipment £'000	Total £'000
Cost					
Balance at 1 April 2016		22,119	2,329	10,375	**34,823**
Additions		-	89	855	**944**
Disposals		-	(1,547)	(5,872)	**(7,419)**
Transfer to investment properties		(3,471)	(233)	(1)	**(3,705)**
Transfer of engagements	34	933	391	3,373	**4,697**
Balance at 31 March 2017		**19,581**	**1,029**	**8,730**	**29,340**
Depreciation					
Balance at 1 April 2016		5,055	1,908	9,241	**16,204**
Depreciation charged for the year		451	51	417	**919**
Disposals		-	(1,546)	(5,872)	**(7,418)**
Transfer to investment properties		(401)	(93)	-	**(494)**
Transfer of engagements	34	85	377	2,621	**3,083**
Balance at 31 March 2017		**5,190**	**697**	**6,407**	**12,294**
Net book value					
At 31 March 2016		17,064	421	1,134	18,619
At 31 March 2017		**14,391**	**332**	**2,323**	**17,046**

The net book value of land and buildings comprises:

	2017 £'000	2016 £'000
Freehold	**11,865**	15,405
Long leasehold	**2,526**	1,659
	14,391	17,064

15. Investment properties

	Group freehold £'000	Association freehold £'000
Balance at 1 April 2016	12,168	11,863
Disposals	(66)	(66)
Transfer from other fixed assets	3,211	3,211
Transfer from group subsidiary	380	380
Fair value adjustment	(650)	(650)
Transfer of engagements (note 34)	-	80
At 31 March 2017	**15,043**	**14,818**

In accordance with FRS 102, investment properties are held at fair value and are not depreciated.

Management have reviewed the fair value of the investment properties as at 31 March 2017. In assessing the fair value of investment properties, an adjustment of £650k was required as a result of a change in intended future use. For the remaining properties, based on current and future rental cash inflows, the condition of the properties and the current housing market, the Directors consider the carrying value of investment properties to be an appropriate fair value.

16. Other Investments

Group and Association	Historical Cost £'000	Market Value £'000
At 1 April 2016	25,218	32,614
Revaluation as at 31 March 2017	-	718
At 31 March 2017	**25,218**	**33,332**

At 31 March 2017, the investment assets are additional security for one of our loans (see notes 21 and 25).

Association	Investment in subsidiaries 2017 £'000	Investment in subsidiaries 2016 £'000
Cost and net book value		
At 1 April	**350**	350
Additions	**-**	14,630
Impairment	**-**	(14,630)
Disposals	**-**	-
At 31 March	**350**	350

Notes to the financial statements (continued)

for the year ended 31 March 2017

16. Other Investments (continued)

The Association has the following investments in subsidiaries:

Subsidiary undertakings	Aggregate of capital and reserves £'000	Profit or (loss) for year / period £'000	Country of incorporation	Registered number	Class and percentage of shares held 2017
Registered provider (RP)					
Gentoo Sunderland Limited [1]	1,026,763	8,254	England	R007303	CBS
West of Scotland Housing Association [3]	12,522	2,935	Scotland	1828R(S) SC018486	CBS
Non-registered providers					
Gentoo Art of Living	57,660	(1,081)	England	IP31960R	CBS
Gentoo Care Limited	-	-	England	07728134	Ordinary – 100%
Gentoo Developments Limited	1,473	1,435	England	06192887	Ordinary – 100%
Gentoo Genie Limited	(656)	259	England	07083129	Ordinary – 100%
Gentoo Genie Admin Limited	100	-	England	08201449	Ordinary – 100%
Gentoo Homes Limited	1,773	795	England	04739226	Ordinary – 100%
Genie Homeplan Limited	-	-	England	07103094	Ordinary – 100%
Gentoo Ventures Limited	-	-	England	04565964	Ordinary – 100%
Sunderland Prospect 2 Limited	-	-	England	05929692	Ordinary – 100%
Willowacre Trust [2 3]	396	(43)	Scotland	SC073356 SC015567	Limited by guarantee
Subsidiaries becoming dormant in the year:					
Nuru Fund Limited	-	(35)	England	IP32102R	CBS

[1] Gentoo Sunderland Limited – a transfer of engagements was undertaken on 31 March 2017 and all assets and liabilities were transferred to Gentoo Group Limited

[2] Willowacre Trust immediate holding held by West of Scotland Housing Association

[3] Registered office is Camlachie House, 40 Barrowfield Drive, Glasgow, G40 3QH
All other companies registered office is Emperor House, 2 Emperor Way, Doxford International Business Park, Sunderland, SR3 3XR

17. HomeBuy loans receivable

	Group			Association		
	HomeBuy loans £'000	Other equity loans £'000	Total £'000	HomeBuy loans £'000	Other equity loans £'000	Total £'000
Loan advanced to borrowers at April 2016	**1,223**	**7**	**1,230**	**79**	**7**	**86**
Repaid during the year	(351)	-	(351)	-	-	-
Transfer of engagements (note 34)	-	-	-	793	-	793
Loan advanced to borrower at 31 March 2017	**872**	**7**	**879**	**872**	**7**	**879**

18. Stock

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Properties for sale				
Properties under construction	**32,051**	**-**	24,027	-
Completed properties	**3,709**	**320**	5,480	1,000
Properties held for resale	**944**	**-**	-	-
Land held for development *	**13,051**	**13,051**	13,618	-
	49,755	**13,371**	43,125	1,000
Raw materials and consumables	**602**	**562**	1,868	713
Work in progress	**-**	**-**	137	-
Finished goods and goods for resale	**-**	**-**	189	-
	602	**562**	2,194	713
	50,357	**13,933**	45,319	1,713

** Land held for development in the Association was as a result of the Transfer of Engagements (note 34)*

There are a number of developments that are funded by the HCA's Builders Finance Funding (BFF). This funding is secured by way of a first charge against the land to be developed, and is applicable to the following sites:

Calderstone Phase 2, Fenham	Hedley Meadows, Wylam	Meadow View Phase 2, Houghton-le-Spring
St Bartholomews, Benton	Orwell Grange, Carlton	Foxdale, Guisborough
Hart Village, Hartlepool	Landsdowne, Gosforth	Thurcroft, Doxford Park

19. Debtors

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Arrears of rent	**7,901**	**7,239**	7,816	82
Less: provision for bad and doubtful debts – rent	**(3,746)**	**(3,503)**	(3,726)	-
Net rental debtors	**4,155**	**3,736**	4,090	82
Trade debtors	**2,777**	**2,739**	3,236	811
Less: provision for bad debts	**(56)**	**(56)**	(105)	(92)
Amounts owed by group undertakings	**-**	**2,044**	-	468,652
Other debtors	**3,143**	**2,501**	3,555	2,642
Prepayments and accrued income	**14,761**	**3,863**	7,096	1,994
	24,780	**14,827**	17,872	474,089

20. Cash and cash equivalents

	Group 2017 £'000	Group 2016 £'000
Cash at bank and in hand	**16,486**	22,986
Bank overdraft	**(4,872)**	(519)
Cash and cash equivalents per cash flow statement	**11,614**	22,467

21. Creditors: amounts falling due within one year

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Bank overdraft	**4,872**	**4,314**	519	-
Commercial loans	**14,140**	**12,456**	13,222	11,563
Other loans – BFF	**11,969**	**-**	1,796	-
Obligations under finance leases	**-**	**-**	204	-
Trade creditors	**2,546**	**1,740**	5,398	2,335
Rent received in advance	**2,270**	**1,933**	2,020	16
Taxation and social security	**861**	**796**	2,488	859
Other creditors	**3,971**	**3,721**	4,947	2,769
Amounts owed to group undertakings	**-**	**7**	-	-
Accruals and deferred income	**12,803**	**6,128**	15,618	5,247
Pension liability	**504**	**-**	463	-
SHG and other grants in advance	**14**	**14**	14	14
Disposal proceeds fund	**1,627**	**1,627**	1,089	-
Recycled capital grant fund	**49**	**49**	101	-
	55,626	**32,785**	47,879	22,803

Leaseholders' funds
As at 31 March 2017 the Group and Association held funds on behalf of leaseholders in respect of schemes under management of £1.6m (2016: £1.5m). This is included in other creditors within Creditors: amounts falling due within one year.

22. Reconciliation of Recycled Capital Grant Fund

	Group HCA £'000	Association HCA £'000
Opening balance at 1 April 2016	**101**	**-**
Transfer of engagements (note 34)	-	49
Recycling of grant: New build	(52)	-
Closing balance at 31 March 2017	**49**	**49**
Amounts three years old or older where repayment may be required	**-**	-

Notes to the financial statements (continued)

for the year ended 31 March 2017

23. Reconciliation of Disposal Proceeds Fund

		Group HCA £'000	Association HCA £'000
Opening balance at 1 April 2016		**1,089**	**-**
Transfer of engagements (note 34)		-	1,627
Inputs to DPF:	Net receipts	924	-
	Interest accrued	5	-
Use / allocation of funds:	New build	(391)	-
Closing balance at 31 March 2017		**1,627**	**1,627**
Amounts three years old or older where repayment may be required		-	-

24. Debtors: amounts falling due after more than one year

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Other	**200**	**200**	-	-
Amounts owed by group undertakings	**-**	**35,382**	-	-
Genie Home Purchase Plans (HPP)	**8,055**	**-**	9,455	-
Deferred revenue	**(1,407)**	**-**	(1,636)	-
	6,848	**35,582**	7,819	-

The HPP arrangements are valued at fair value. Deferred revenue relates to the difference between the cost of the property to the Group and the value it has been purchased by the customer. Deferred revenue will be released to the statement of comprehensive income upon the Group no longer having a share in the property.

Whilst some of the above balance may crystallise in under one year, it is not possible to reliably quantify, therefore, these amounts have been included in debtors due after more than one year.

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

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Commercial loans	**628,862**	**574,666**	643,507	587,619
Other Loans – BFF	**-**	**-**	5,165	-
Amounts owed to group undertakings	**-**	**55,943**	-	-
Deferred capital grant	**145,326**	**10,236**	145,678	216
Pension liability	**2,055**	**-**	5,010	-
Other creditors	**234**	**-**	273	-
	776,477	**640,845**	799,633	587,835

Gentoo Group is the principal borrower and as such the principal financing transactions are shown in these financial statements. Interest is charged to the subsidiary companies based on the amounts that are on-lent during the year. The commercial loans are secured by way of a fixed charge on the housing properties of the Group. Further analysis of the commercial loans is set out in note 26.

In March 2016 £21.8m of the Builders Finance Fund was secured by the Group to deliver nine schemes totalling 400 units. As at March 2017 £20.7m (2016: £7.0m) of the facility has been drawn down, and £12.0m (2016: £1.8m) was repayable within one year and £nil (2016: £5.2m) was repayable in greater than one year. The imputed interest rate on the loan reflects market interest rates available to the Group. The loan has no fixed repayment date and variable repayment amounts. Based on forecast cash flows we anticipate that the loan will be repaid within the year, however the ultimate repayment date per the loan agreement is March 2019.

WoSHA has its own active treasury policy which is approved by its own management committee and manages its own borrowing arrangements.

The commercial loans can be analysed as follows:

	Group 2017 £'000	Association 2017 £'000	Group 2016 £'000	Association 2016 £'000
Due between one and two years: Repayable by instalments	**14,739**	**13,020**	14,125	12,456
Due between two and five years: Repayable by instalments	**54,276**	**48,024**	46,855	41,156
Due after more than five years: Repayable by instalments	**556,687**	**510,462**	579,024	530,504
Transaction fees	**3,160**	**3,160**	3,503	3,503
	628,862	**574,666**	643,507	587,619

Notes to the financial statements (continued)

for the year ended 31 March 2017

25. Creditors: amounts falling due after more than one year (continued)

Finance lease liabilities are payable as follows:

	Minimum lease payments 2017 £'000	Minimum lease payments 2016 £'000
Less than one year	**-**	208
	-	208
Less: future finance charges	**-**	(4)
	-	204

26. Debt analysis

Maturity of debt

Group	Less than 1 year £'000	Due in 1-2 years £'000	Due in 2-5 years £'000	Due in over 5 years £'000	Total £'000
Revolver	1,480	1,605	5,675	36,240	**45,000**
Term	12,660	13,134	48,601	523,607	**598,002**
At 31 March 2017	**14,140**	**14,739**	**54,276**	**559,847**	**643,002**
At 31 March 2016	13,222	14,125	46,855	582,527	656,729

Maturity of Facilities

Group	Less than 1 year £'000	Due in 1-2 years £'000	Due in 2-5 years £'000	Due in over 5 years £'000	Total £'000
Revolver	1,480	1,605	5,675	36,395	45,155
Term	12,660	13,134	49,101	548,107	623,002
At 31 March 2017	**14,140**	**14,739**	**54,776**	**584,502**	**668,157**
At 31 March 2016	13,222	14,125	46,855	607,527	681,729

Interest Rate Analysis

Group	Total £'000	Floating rate £'000	Fixed rate £'000	Fixed interest rate %	Time fixed rate debt in years £'000
Revolver	45,000	45,000	-	-	-
Term	598,002	172,084	425,918	5.8	24
At 31 March 2017	**643,002**	**217,084**	**425,918**	**5.8**	**24**
At 31 March 2016	656,729	249,968	406,761	5.9	25

for the year ended 31 March 2017

27. Social Housing Grant

Group	Housing properties held for letting £'000	Housing properties under construction £'000	Shared ownership properties £'000	Total £'000
Cost				
Balance at 1 April 2016	179,081	4,402	417	**183,900**
Received during the year	95	3,178	-	**3,273**
Transferred from RCGF	-	52	-	**52**
Schemes completed	1,628	(1,628)	-	**-**
Category transfer	9	-	(9)	**-**
Reclassification	3,281	-	852	**4,133**
Released on disposal	(70)	-	-	**(70)**
Balance at 31 March 2017	**184,024**	**6,004**	**1,260**	**191,288**
Amortisation				
Balance at 1 April 2016	38,198	-	24	**38,222**
Released in the year	3,609	-	22	**3,631**
Released on disposal	(24)	-	-	**(24)**
Reclassification	3,281	-	852	**4,133**
Balance at 31 March 2017	**45,064**	**-**	**898**	**45,962**
At 31 March 2016	140,883	4,402	393	**145,678**
At 31 March 2017	**138,960**	**6,004**	**362**	**145,326**

for the year ended 31 March 2017

27. Social Housing Grant (continued)

Association	Note	Housing properties held for letting £'000	Housing properties under construction £'000	Shared ownership properties £'000	Total £'000
Cost					
Balance at 1 April 2016		222	-	-	**222**
Transfer of engagements	34	7,871	2,244	60	**10,175**
Balance at 31 March 2017		**8,093**	**2,244**	**60**	**10,397**
Amortisation					
Balance at 1 April 2016		6	-	-	**6**
Released in the year		4	-	-	**4**
Transfer of engagements	34	151	-	-	**151**
Balance at 31 March 2017		**161**	**-**	**-**	**161**
At 31 March 2016		216	-	-	216
At 31 March 2017		**7,932**	**2,244**	**60**	**10,236**

28. Capital commitments

Group	**2017 £'000**	2016 £'000
Expenditure contracted for but not provided for in the financial statements	**17,222**	16,411
Expenditure authorised by Board but not contracted	**34,889**	21,467
	52,111	37,878

The commitments will be funded through Grant (£9.4m), undrawn loans secured and in place (£25.0m) and existing facilities (£17.7m).

Association *	**2017 £'000**	2016 £'000
Expenditure contracted for but not provided for in the financial statements	**10,309**	-
Expenditure authorised by Board but not contracted	**29,327**	1,596
	39,636	1,596

The commitments will be funded through Grant (£1.0m), undrawn loans secured and in place (£25.0m) and existing facilities (£13.6m).

**As a result of the transfer of engagements (note 34), commitments which were previously reported by Gentoo Sunderland Limited are now included in the balances above.*

29. Contingent Liabilities

The Group receives grant from the HCA and the Scottish Housing Regulator which is used to fund the acquisition and development of housing properties and their components. In line with FRS 102, Section 24, £46.8m of such grant has been credited to reserves. The Group has a future obligation to recycle or repay such grant once these properties are discharged of. As at 31 March 2017 the timing of any future disposal is uncertain.

In March 2016, the Group entered into an agreement with the HCA to build on a site at Prudhoe. Under the agreement, the Group are required to pay £11.4m for the site at a date to be determined based on future performance of the site.

30. Other financial commitments

Non-cancellable operating lease rentals are payable as follows:

Group	2017 Land and buildings £'000	2017 Other £'000	2016 Land and buildings £'000	2016 Other £'000
Less than one year	114	1,298	136	1,716
Between one and five years	321	249	453	626
More than five years	-	4	-	7
	435	1,551	589	2,349

During the year £1,836k was recognised as an expense in the statement of comprehensive income in respect of operating leases (2016: £2,002k).

Association*	2017 Land and buildings £'000	2017 Other £'000	2016 Land and buildings £'000	2016 Other £'000
Less than one year	114	1,212	8	138
Between one and five years	321	184	7	91
More than five years	-	4	-	-
	435	1,400	15	229

During the year £1,731k was recognised as an expense in the statement of comprehensive income in respect of operating leases (2016: £208k).

**As a result of the transfer of engagements (note 34), commitments which were previously reported by Gentoo Sunderland Limited are now included in the balances above.*

31. Related parties

Identity of related parties with which the Association has transacted

The Board includes one member, as shown on page 4, who is a tenant of the Association. The terms of the tenancy arrangements are consistent with those offered to other tenants of the Association and at the end of the year no amount was due to the Association in respect of this member.

The Board as at 31 March 2017 also includes three members, as shown on page 4, who are elected members of the City of Sunderland Council ('Local Authority' (LA)). The Association and Group undertake transactions with the LA on an arm's length basis in the normal course of business.

	2017 £'000	2016 £'000
Balances with the LA as at 31 March 2017 were:		
Accruals and deferred income	1	(112)
Other creditors	(1)	(12)
Prepayments and accrued income	(15)	(90)
Transactions with the LA during the year ended 31 March 2017 were:		
Sales to the LA	2,080	3,406
Purchases from the LA	822	824

	Receivables outstanding 2017 £'000	Creditors outstanding 2017 £'000	Receivables outstanding 2016 £'000	Creditors outstanding 2016 £'000
City of Sunderland Council	577	36	90	124

32. Analysis of Intra group transactions

Intra group trading is undertaken at arms length and is predominantly tender / market driven. During the year intra group transactions with non-regulated group subsidiaries were:

	Sales to 2017 £'000	Purchases from 2017 £'000	Sales to 2016 £'000	Purchases from 2016 £'000
Gentoo Homes Limited				
Group management charges	**828**	**-**	761	-
Gentoo Sunderland renewal plan	**-**	**8,673**	-	6,485
Gentoo Sunderland – growth	**-**	**-**	-	10,384
Group interest charges	**614**	**-**	138	-
	1,442	**8,673**	899	16,869
Gentoo Developments Limited				
Group interest charges	**403**	**-**	-	-
Gentoo Construction Limited [1]				
Group management charges	**-**	**-**	595	-
Sunderland planned maintenance expenditure	**-**	**-**	-	1,529
Parent – new build	**-**	**-**	-	121
	-	**-**	595	1,650
Romag Limited [2]				
Group management charges	**-**	**-**	68	-
PV on dwellings	**-**	**-**	-	2,903
	-	**-**	68	2,903
Genie – property sale	**380**	**-**	197	-
Art of Living – interest payment	**-**	**570**	-	708
Art of Living – Donation to Group company	**-**	**-**	-	6,500
	2,225	**9,243**	1,759	28,630

[1] Gentoo Construction sold 4 January 2016

[2] Romag Limited sold 14 July 2016

Notes to the financial statements (continued)

for the year ended 31 March 2017

33. Accounting estimates and judgements

Estimation uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to circumstances which may require more frequent replacement of key components.

Defined benefit obligation (DBO)
Other judgement areas particularly in respect of financial and actuarial assumptions are based on best estimates derived from the Group's policies and practices which have been applied consistently across all pension schemes operated by the Group where appropriate, and confirmed with actuaries where these are beyond management expertise, e.g. mortality tables have been chosen based on published research by the Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analysed in note 4).

Fair value measurement
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices.

34. Transfer of engagements - Association

On 31 March 2017 all assets and liabilities of Gentoo Sunderland Limited transferred to Gentoo Group Limited by means of a transfer of engagements.

	Note	2017 £'000
Fixed assets		
Tangible fixed assets – housing properties	13	1,023,364
Tangible fixed assets – other	14	1,614
		1,024,978
Investments		
Investment properties	15	80
HomeBuy loans receivable	17	793
		1,025,851
Current assets		
Stock	18	13,371
Debtors	19	6,074
		19,445
Creditors: amounts falling due within one year	20	(8,394)
Net current assets		11,051
Creditors: amounts falling due after more than one year	22	(490,383)
Net assets		546,519
Capital and reserves		
Revaluation reserve		140,959
Revenue reserve		111,695
Other reserve		293,865
		546,519

Included within Creditors: amounts falling due after more than one year is an intercompany balance of £480.4m due to Gentoo Group Limited which was cancelled as a result of the transfer of engagements.

Notes to the financial statements (continued)

for the year ended 31 March 2017

35. Housing stock

	Group 2017 No.	Group 2016 No.
Social housing: owned and managed		
General needs social rent	30,683	31,053
Intermediate rent *	75	-
Affordable rent	923	726
Shared ownership	199	209
Houses for older people	191	187
Houses for older people – affordable rent	42	42
Supported housing	273	188
Total social housing: owned and managed	32,386	32,405
Social housing: managed not owned		
General housing social rent	434	434
Supported housing	12	12
Leasehold schemes – freehold retained	738	733
Total social housing: managed not owned	1,184	1,179
Social housing: owed not managed		
General housing social rent	63	16
Supported housing	72	177
Total social housing: owned not managed	135	193
Total social housing stock	33,705	33,777
Non-social housing: owned and managed		
Market Rent	71	68
Non-social housing: managed not owned		
Leasehold schemes – freehold retained	245	246
Total non-social housing	316	314
Total housing stock	34,021	34,091

*Intermediate rent in 2016 were included within general needs for the year ended 31 March 2017

35. Housing stock (continued)

	Association (pre ToE) 2017 No.	*Transfer of Engagements 2017 No.	**Association 2017 No.**	Association 2016 No.
Social housing: owned and managed				
General needs social rent	-	27,538	**27,538**	-
Intermediate rent	8	67	**75**	8
Affordable rent	-	923	**923**	-
Shared ownership	44	108	**152**	46
Houses for older people	-	191	**191**	-
Houses for older people – affordable rent	-	42	**42**	-
Supported housing	-	52	**52**	-
Total social housing: owned and managed	52	28,921	**28,973**	54
Social housing: managed not owned				
General housing social rent	-	8	**8**	-
Supported housing	-	-	**-**	12
Leasehold schemes – freehold retained	1	737	**738**	-
Total social housing: managed not owned	1	745	**746**	12
Social housing: owned not managed				
General housing social rent	161	(145)	**16**	186
Intermediate rent	23	(23)	**-**	-
Affordable rent	1	(1)	**-**	-
Supported housing	-	72	**72**	-
Total social housing: owned not managed	185	(97)	**88**	186
Total social housing stock	238	29,569	**29,807**	252
Non-social housing: owned and managed				
Rented owned	70	1	**71**	67
Non-social housing: managed not owned				
Leasehold schemes – freehold retained	230	15	**245**	231
Leasehold scheme managed for others	15	(15)	**-**	15
Total non-social housing: managed not owned	245	-	**245**	246
Total non-social housing stock	315	1	**316**	313
Total housing stock	553	29,570	**30,123**	565

*Categories with negative values were previously managed by Gentoo Sunderland

Notes

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