Annual Report and Accounts 2017/18

gentoo

Contents

Executive and advisers

The structure of the Board of Gentoo Group was made up of 12 members, comprising three local authority Councillors, seven independents, one tenant, and one executive (which is currently vacant). As from 15 May 2018, due to the introduction of the Regulation of Social Housing (Influence of Local Authorities) (England) Regulations 2017, there can only be a maximum of two local authority councillors on the Board. All other representation remains unchanged.

The members of the Board are as follows:

Independent Board Members

Brian Spears
Colin Blakey
David Murtagh
Frank Nicholson
Keith Loraine, OBE
Mary Coyle, MBE, DL
Ian Self (resigned 27 September 2017)
Chris Watson (appointed 27 September 2017)

Local Authority Board Members

Barry Curran	(resigned 16 May 2018)
Paul Stewart	(resigned 14 May 2018)
Philip Tye	
Colin English	(appointed 16 May 2018)

Executive Board Member

John Craggs (resigned 26 September 2017)

Tenant Board Member

Leslie Herbert

Committee Membership

Risk and Audit Committee

Barry Curran	(resigned 16 May 2018)
David Murtagh	
Frank Nicholson	
Mary Coyle, MBE, DL	
Susan Johnson	

Appointments and Remuneration Committee

Brian Spears
Chris Watson
Keith Loraine, OBE
Leslie Herbert
Phillip Tye

Operations Committee

Leslie Herbert	(appointed 1 April 2017)
Kathleen Dagg	(appointed 1 April 2017)
John Dannell	(appointed 1 April 2017)
Margaret Robson	(appointed 1 April 2017)
Karen McDonald	(appointed 1 April 2017)
Emma Teare	(appointed 1 April 2017)
John Urwin	(appointed 1 April 2017)
Thomas Wright	(appointed 1 April 2017, resigned 16 May 2018)
John Cummings	(appointed 1 April 2017, resigned 16 May 2018)
Henry Trueman	(appointed 16 May 2018)
Paul Middleton	(appointed 16 May 2018, resigned 20 June 2018)
Alex Samuels	(appointed 20 June 2018)

Key Management Personnel

Interim Chief Executive Officer

David Jepson (appointed 18 October 2017)

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

Barclays Bank
83 Arygle Street
Glasgow
G2 8BJ

Funding Advisor
J.C. Rathbone Associates Ltd
12 St James's Square
London
SW1Y 4LB

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

Chairman's introduction

I am pleased to introduce Gentoo's Annual Report and Accounts for the first time as Group Chairman.

I joined the Group as a board member in February 2017 and took up the Chair during a period of significant transformational changes within the housing sector. We have continued to respond well to the impacts of the Government's 1% rent reduction policy and we have delivered £4m in efficiency savings, in addition to the £9m achieved in 2016/17. In addition to this, there are targets in place to reduce costs by a further £2.5m by 2020 and positive progress has been made on this with savings of £1.1m delivered already in 2017/18, with a further £0.8m to be delivered in 2018/19.

We also had to address a serious governance issue identified during 2017/18 which we self-reported to the Regulator of Social Housing (RSH). This subsequently resulted in a downgrade to a non-compliant G3 position. This historical issue was reflective of flaws in past governance practices and the newly restructured Gentoo Group Board has worked hard to rectify these matters.

Our Interim Chief Executive Officer, David Jepson, has been in place since October 2017. He has been successfully leading the organisation through a very challenging period, working closely with the RSH, who have been supportive throughout. David has helped steer our Recovery Committee, which has reviewed our governance, culture and strategic direction. This committee has developed an action plan to ensure that we return to a compliant governance rating. The Group remains financially strong and I have no doubt that we have the right people in the organisation to deliver positive and lasting change.

David will remain in position until a new Chief Executive Officer joins Gentoo later this year. We are in the advanced stages of recruiting and I am confident we will attract an excellent leader who will guide the Group to future success.

This year we have continued to consolidate our activities following a strategic decision to focus on the delivery of excellent core housing services, ensuring the long-term financial sustainability of the Group. This has included the termination of our constitutional partnership with West of Scotland Housing Association, contractual obligations with Romag and the de-registration of Nuru Fund Limited, thus simplifying our corporate structure.

Our focus remains on our core landlord and development functions, based in Sunderland and the North East. Turnover remains secure at £172.8m for continuing operations, generating a surplus of £20.4m, illustrating our belief in and our commitment to the City of Sunderland.

Our landlord performance remains strong, with 96% of customers satisfied with the service they receive from us. We have exceeded our rent collection target this year and moving forward, our priority will be to continue to support customers through the roll-out of Universal Credit. This year we supported more than 1,300 financially vulnerable customers to help manage their finances more effectively.

We are delighted that our development arm, Gentoo Homes and Developments has made £3.7m in profit through the sale of 170 new homes. This profit is reinvested into the Group, helping us to support our customers and build stronger communities.

Although it has been a challenging year we have had many other notable highlights and achievements. We were highly commended for our approach to Income Management in the UK Housing Awards and placed third in Stonewall's Workplace Equality Index. We also submitted plans for phase one of a new 500 home flagship housing development in Sunderland, Chester Gate. The first phase of the project, worth £17.7m, will feature 118 new homes to buy. This is exciting news and will help bring much needed new high quality housing to Sunderland.

We have continued our work to challenge the sector's response to domestic abuse, embarking on a research project with SafeLives to look at the vital role housing providers can play when responding to domestic abuse. This is a significant piece of research that has been well received by the sector, helping to demonstrate how housing associations can play a key role in helping to tackle this issue.

This year our volunteers also gave more than 1,900 hours of time to help improve local communities and almost £120,000 was allocated in funding to help local people, businesses and groups to improve their community or reduce their impact on the environment.

As a Group we are committed to developing talent and supporting people to be the best they can be. This year we launched our talent management programme, helping us to identify and retain talent and plan for the future. We continue to invest in our staff and 32% of our workforce are either studying or have completed a formal qualification. This will ensure we have the right people, with the right skills, to take us forward into the future.

I would like to take this opportunity to thank everyone at Gentoo for their hard work, passion and commitment throughout a very challenging year. We will now put those matters behind us, as we improve our governance and help reposition Gentoo Group as a truly excellent landlord and developer, respected by customers, staff and stakeholders alike.

Keith Loraine, OBE
Chairman
Gentoo Group
25 July 2018

Our vision and strategy

Principal activities

Gentoo Group is a registered provider of social housing, and our principal activities are the provision of social and affordable homes to those on low incomes who have a housing need, and the wider regeneration of our communities. During the year the Group also undertook new build housing development for both sale and rent, property repair and maintenance services, as well as care services.

`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). It is a not-for-profit Private Registered Provider (PRP) regulated by the Regulator of Social Housing (RSH). The Society also has exempt charitable status (meaning that the Society is not regulated by the Charity Commission), and is treated as charitable by HM Revenue and Customs, reference number EW41411 and is also a Public Benefit Entity.

Gentoo Group Limited

The parent body 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.

Registered Societies under Co-operative and Community Benefit Societies Act 2014	Private, non-charitable subsidiaries
Gentoo Art of Living provides a range of support services and housing options to help vulnerable people live well in Gentoo communities	**Gentoo Homes Limited** a residential property development company
	Gentoo Developments Limited a residential property development company
	Gentoo Genie Limited a provider of a FCA authorised Home Purchase Plan (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 13 March 2018, the registration of Nuru Fund Limited was cancelled by the FCA, following the transfer of activities to the Comrades of Children Overseas (COCO) during 2017.

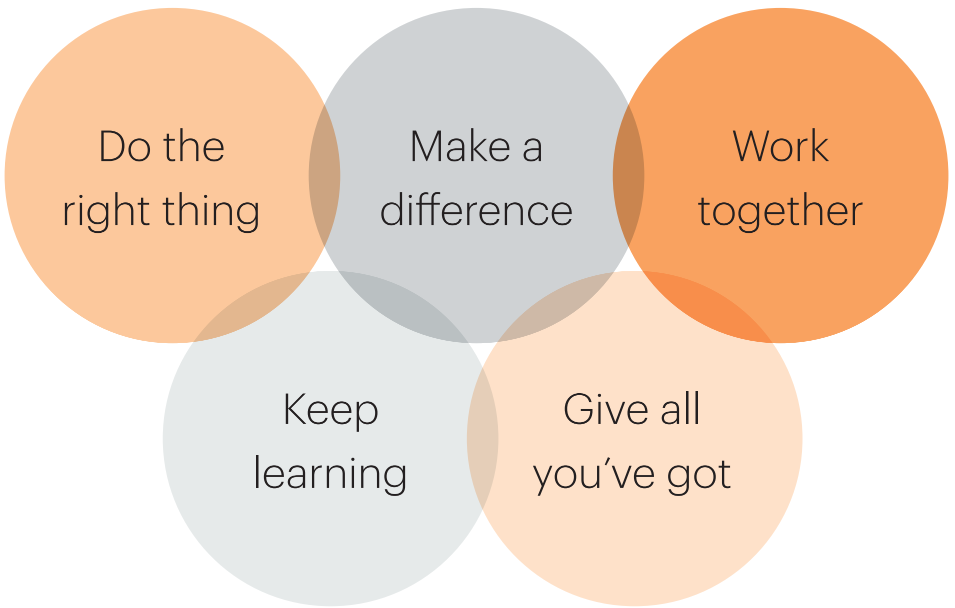
The Group also has a number of dormant companies as detailed in note 16. Five dormant companies have been dissolved throughout the year.

The consolidated Group Business Plan includes the business plans relating to the social landlord function and developments for sale. Where relevant, each subsidiary sets out their own operational targets which are approved by Group Board.

Our vision and strategy (continued)

Vision

Values



Our vision and values, along with the Group's Business Strategy, 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's Business Strategy has five strategic aims:

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

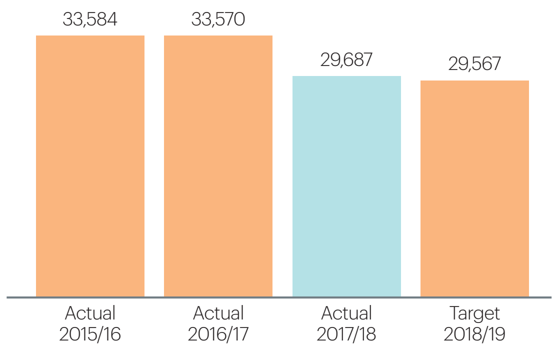
Work with others to build effective partnerships

Be well governed and financially strong

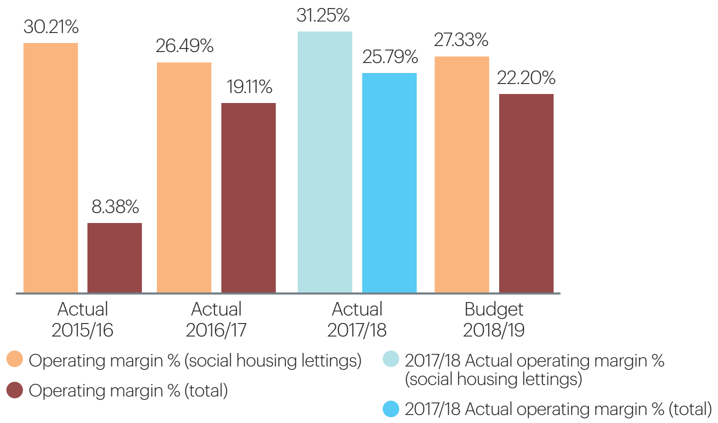
Progress against the Group's strategic aims is discussed quarterly by Group Board. Progress made during the year and key priorities moving forward are discussed in more detail on pages 23 - 49.

Financial and operational highlights

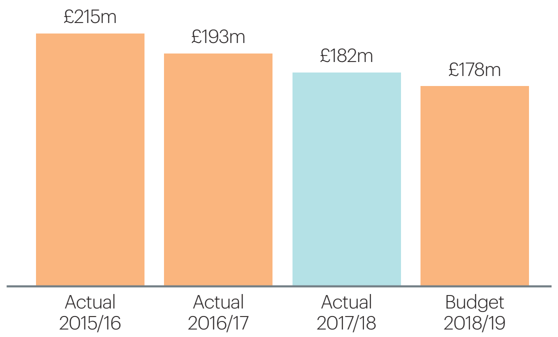
Number of units managed



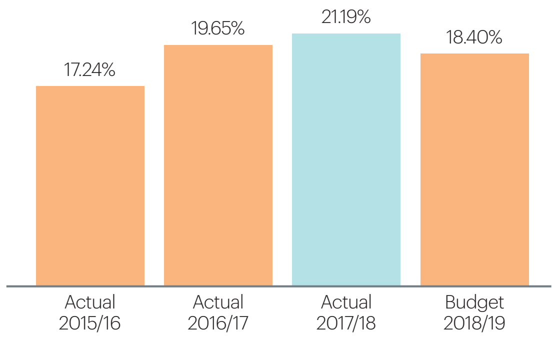
Operating margin (%)



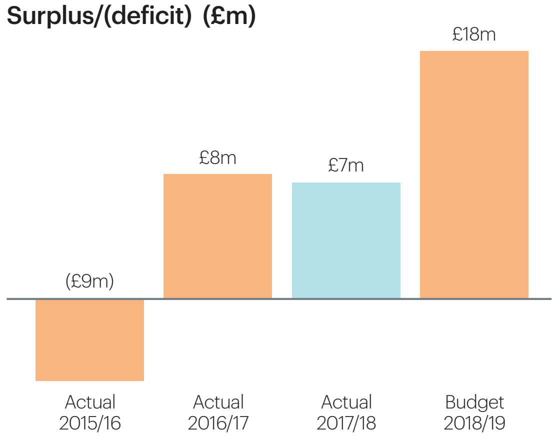
Turnover (£m)



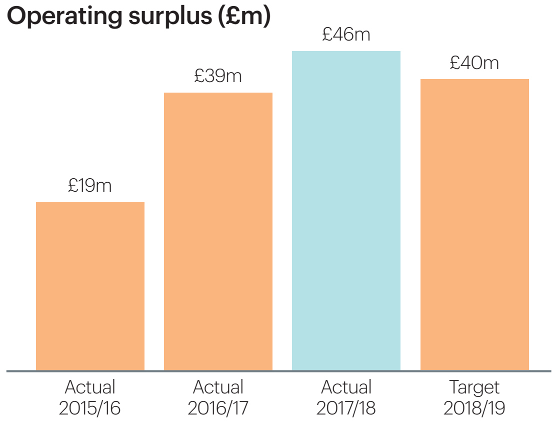
Property sales gross margin (%)



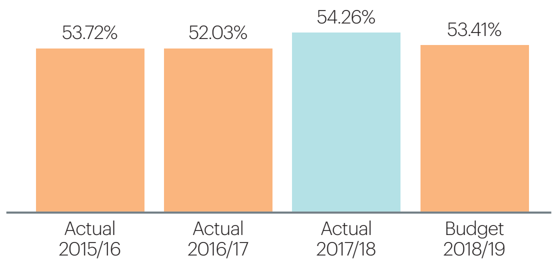
Surplus/(deficit) (£m)



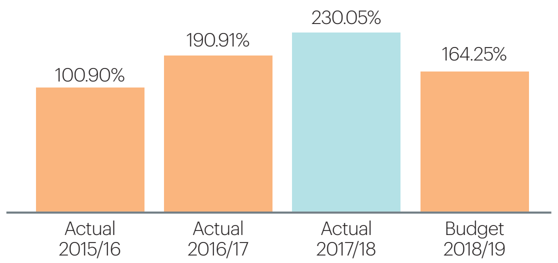
Operating surplus (£m)



Gearing (%)



EBITDA MRI interest cover* (%)



*Earnings before interest, tax, depreciation and amortisation with major repairs included.

Note: West of Scotland Housing Association was part of the Group until October 2017, therefore certain metrics are impacted by the termination of the constitutional partnership.

Financial review and results

Consolidated Statement of Comprehensive Income

	2017/18 £m	2016/17 £m	2015/16 £m
Turnover	182.3	193.3	215.3
Cost of sales and operating expenditure	(137.0)	(153.0)	(197.3)
Other operating income	0.2	0.2	0.4
Surplus / (deficit) on disposal of tangible assets	0.9	(1.6)	0.6
Operating surplus	**46.4**	**38.9**	**19.0**
Deficit on disposal of investments	(14.0)	(4.5)	-
Net interest charges	(24.2)	(25.2)	(25.4)
Change in value of investment property	(0.5)	(0.7)	-
Taxation	(0.2)	(0.2)	(2.4)
Surplus / (deficit) for the year	**7.5**	**8.3**	**(8.8)**

Consolidated Statement of Financial Position

	2017/18 £m	2016/17 £m	2015/16 £m
NBV of Tangible assets – housing properties	1,009.9	1,227.1	1,235.6
Other tangible fixed assets and investments	64.2	69.2	73.1
Net current assets	63.3	37.3	38.3
Debtors due after one year	6.4	6.8	7.8
Total assets less current liabilities	**1,143.8**	**1,340.4**	**1,354.8**
Creditors due after one year	(573.1)	(777.8)	(799.6)
Pension liability	(17.8)	(18.6)	(9.1)
Net assets	**552.9**	**544.0**	**546.1**
Revaluation reserve	161.6	165.7	168.8
Revenue reserve	104.5	84.4	76.3
Other reserves	286.8	293.9	301.0
Total	**552.9**	**544.0**	**546.1**

Housing Stock Units (managed)

	2017/18 No.	2016/17 No.	2015/16 No.
Social housing	29,687	33,570	33,584
Non-social housing	316	316	314

Source: Financial statements / internal systems

Financial review and results (continued)

Financial performance

Turnover has reduced by 5.7% to £182.3m (2017: £193.3m) due to the divestment of non-core activity. Turnover from continuing operations has remained consistent at £172.8m (2017: £172.4m). Of this, £131.7m is turnover from social housing lettings which has decreased by 7.1% from £141.7m. 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 £39.0m (2017: £35.4m).

Operating expenditure, excluding cost of sales, has reduced by 8.2% to £105.6m (2017: £115.0m), of which £22.1m (2017: £24.8m) relates to housing management costs, £24.9m (2017: £32.1m) to the provision of routine maintenance; and £28.2m (2017: £30.1m) is depreciation of housing properties. Further costs of £0.3m in relation to restructuring the business were incurred in the year (2017: £4.0m).

Operating surplus of £46.4m incorporates the restructuring cost of £0.3m, therefore the underlying performance was a surplus of £46.7m. This has increased by 8.9% on the 2017 value (£42.9m) predominantly as a result of the efficiency programme.
Social housing lettings margins have increased from 26.5% to 31.5%. Included within social housing costs are restructuring costs of £0.2m (2017: £1.8m).

Disposal of assets and investments
Stock loss through 'Right to Buy' and 'Right to Acquire' has increased with 162 properties (2017: 125) sold during the year.

The **surplus for the year** for continuing operations (where discontinuing in the year relates to West of Scotland Housing Association) is £20.4m (2017: £10.7m surplus). Without the exceptional restructure costs, the continuing operations would have recorded a surplus of £20.7m (2017: £14.7m) which constitutes the underlying surplus of the Group's continuing activities. The increase in underlying surplus is predominantly due to the efficiency programme.

Movements in the market value of investments, held as a security for one of our loans, resulted in a net realised deficit of £0.8m (2017: £0.7m surplus).

The Group's Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves and Statement of Cash Flows are shown on pages 68 - 75 of these accounts.

Effects of material estimates and judgements
Details of material estimates and judgements can be found in note 33.

Financial position at year end
The Group's statement of financial position comprises primarily of £1,009.9m social housing assets (2017: £1,227.1m) at cost, and £13.8m (2017: £15.0m) of investment properties, which consist of both commercially rented and market rented properties.

Financial review and results (continued)

Financial position at year end (continued)

Other tangible assets of £17.1m (2017: £19.8m) are valued at cost, and are dominated by the land and buildings from which we run our business.

Investments, held at market value, represent reserves held as security for one of our loans. The value at the year-end was £32.5m, a decrease of £0.8m on the prior year (2017: £33.3m).

Net current assets of £63.3m (2017: £37.3m), have increased by £26.0m principally due to the repayment of the Builders Finance Fund (BFF) loan, (£12.0m) and the recognition of land held for development at Prudhoe, (£12.1m).

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 Group and the Group's debt levels are 50% (2017: 49%) of total assets less current liabilities which is comfortably within our agreed banking covenants.

Currently the Group has the following facilities (excluding transaction fees):

- £196.5m (2017: £203.2m) syndicated loan facility, with Nationwide Building Society, acting as facility agent; of which £19.7m (2017: £0.2m) is undrawn as at 31 March 2018.
- £212.8m (2017: £212.8m) loan from T.H.F.C (Capital) PLC which has been on lent from Sunderland (SHG) Finance Plc.
- £87.8m (2017: £93.7m) loan facility provided by the European Investment Bank.
- £100.0m loan facility provided by the Royal Bank of Scotland of which £20.0m (2017: £25.0m) is undrawn as at 31 March 2018.
- £7.5m secured from Homes England and is undrawn as at 31 March 2018.

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

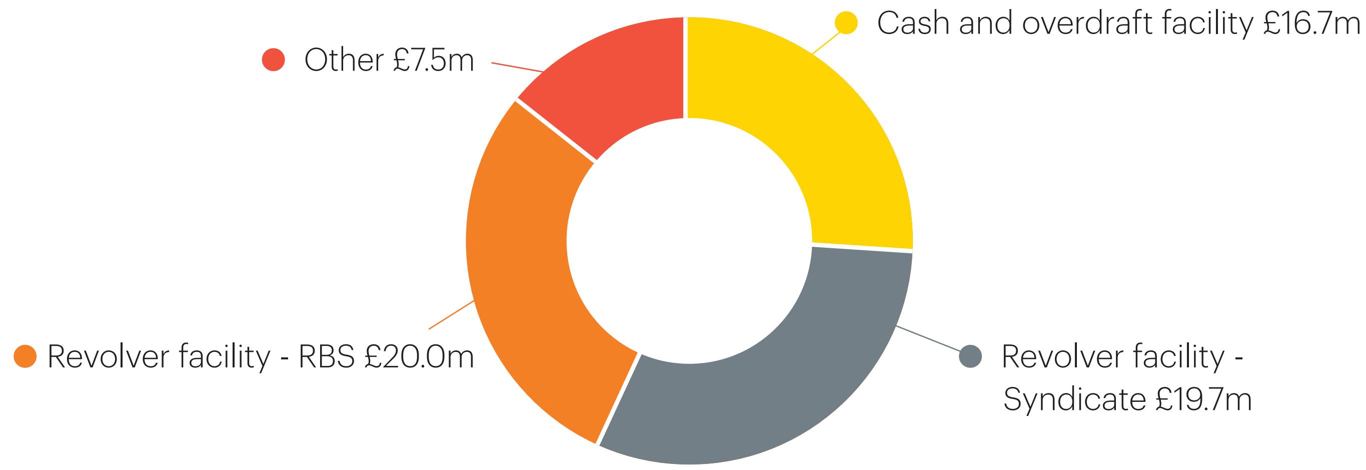
The Group has a Treasury Management Policy which adopts a prudent approach to our level of drawn fixed rate debt as a percentage of our total drawn debt. At the year end, the Group had 71% (2017: 68%) of its borrowings at fixed rates. We have entered into a number of basic 'embedded' fixing arrangements to protect us from the risk of adverse interest rate movements in future years.

At the year end, Group total commercial borrowings amounted to £559.8m (2017: £643.0m), £483.8m (2017: £559.8m) of which falls for repayment after more than five years. The policy ensures that the Group does

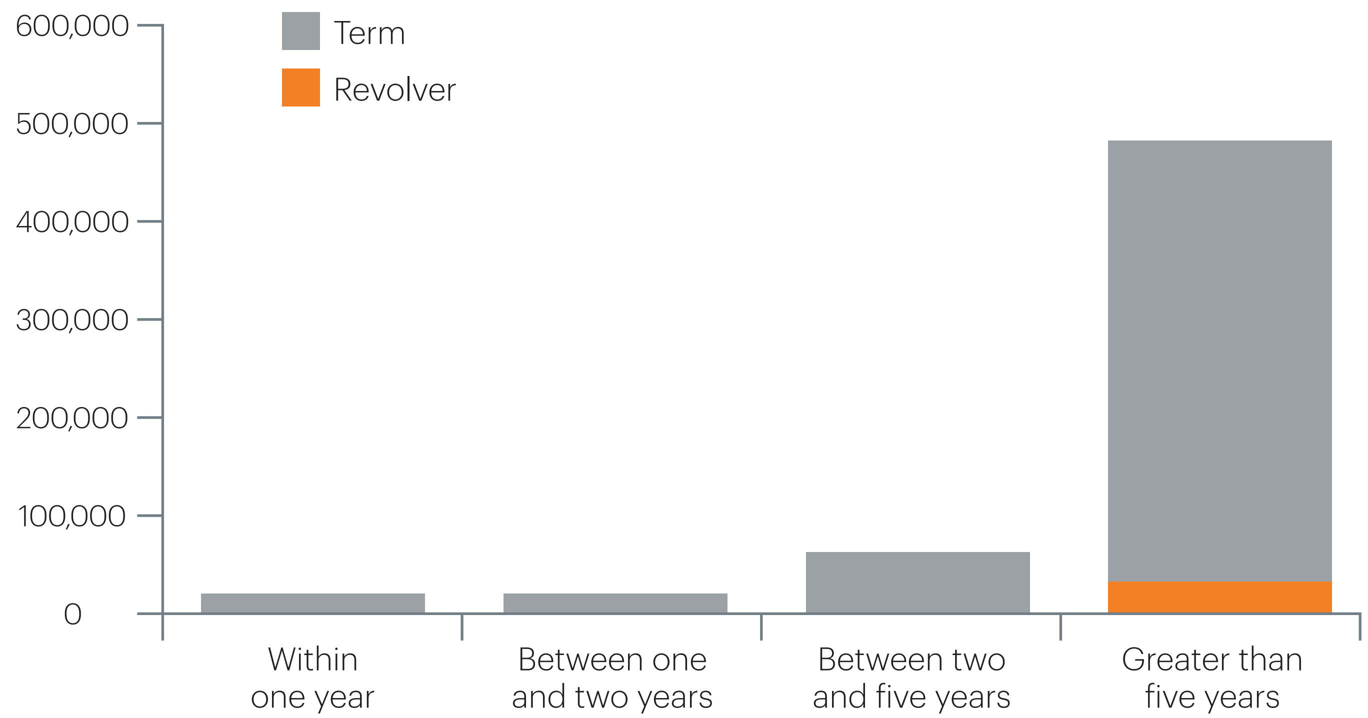
Capital structure and Treasury Management Policy (continued)

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 do not exceed 4.84% in any one year. Our financial plans, which are submitted to both the RSH and our funders, indicate that we will continue to comply with all our loan covenant tests. The Group has available cash balances of £16.7m comprising cash of £11.7m and an overdraft of £5m at March 2018 (2017: £16.5m), a minimum of £8.0m of which is held in money market funds to adhere to the Group's liquidity policy to cover the next 3 months forecast net cash requirement.

Available liquidity (£63.9m)



Debt repayment profile (£'000)



Financial review and results (continued)

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 RSH 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 74 and 75. The key points to highlight are:

£75.4m
(2017: £42.4m) cash generated from operating activities

Net
£9.7m
(2017: £18.3m) capital investment in both existing and new housing stock

Net
£40.1m
loans repaid in the year
(2017: £8.4m of loans repaid)

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.

Operating review and results

Gentoo continues to operate in the context of government policy that has impacted on the funding and operating environment of the housing sector. The four year, 1% year on year rent decrease implemented from April 2016 continues to have a major impact, although the announcement of a return to CPI+1% from 2020 will bring future rent and income stability for medium term budgeting.

Housing continues to be high on the political agenda. The Housing White Paper 'Fixing our broken housing market' was published in February 2017, with the aim of boosting housing supply. The paper highlights a range of key measures to address this challenge including:

- Ensuring there is more land for homes where people want to live
- Reducing the length of time between planning permission and start on site
- Diversification of the housing market

The Government is also recognising the role that housing associations can play in future housing supply across tenures. This has been backed up by a series of funding announcements including:

- A housing infrastructure fund of £2.3bn to help provide 100,000 new homes in high demand areas
- An additional £1.4bn to deliver 40,000 extra affordable homes
- Shared Ownership and Affordable Housing Programme allowing greater flexibility of tenure, including affordable and social rented tenancies
- £2bn for the development of social rented housing

The Group intends to continue with its own programme of new supply across tenures, including a 200 unit build for sale programme, a 125 unit affordable homes for rent programme and a pilot shared ownership programme for which funding for 15 units has been secured through Homes England.

Operating review and results (continued)

The Welfare Reform programme continues to be implemented with the full online Universal Credit service due to be rolled out in Sunderland from July 2018. This is being monitored as a high corporate risk with a significant programme of mitigation being implemented in our operational delivery plans.

During the year, the regulator reviewed the Value for Money (VfM) Standard which came into effect on the 1 April 2018. The new standard has a requirement for registered providers to publish seven VfM metrics within their accounts, devise and report on their own complementary VfM metrics, provide benchmarking information and clearly articulate their strategic priorities. Following the rent reduction regime, and the subsequent efficiency programme that was undertaken by the Group, these metrics have largely shown an improvement over the last 3 years. The VfM metrics have been aligned to each of our strategic aims, along with other key performance information and are shown on pages 32 and 46.

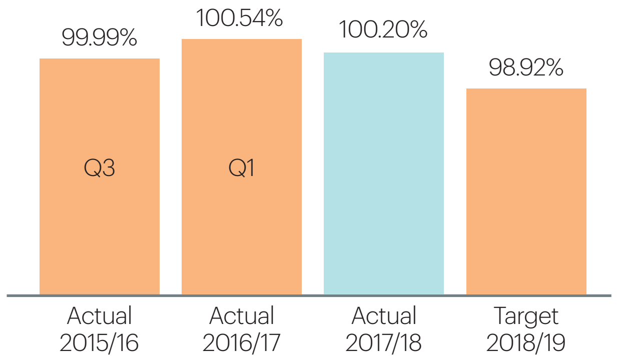
Reflecting on 2017/18 and the backdrop discussed above, Gentoo has made good progress with its strategic aims to:

- 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

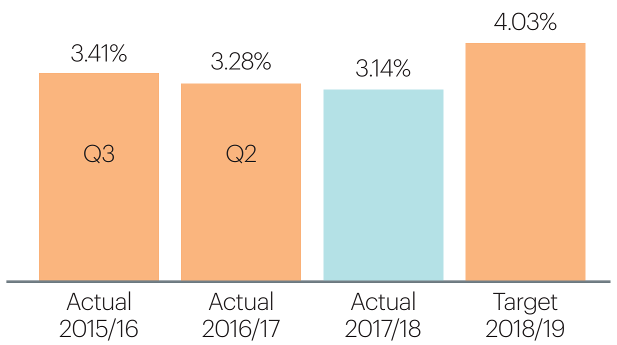
The alignment of our Business Strategy and supporting Asset, Finance, People, Partnerships and Customer Strategies to these aims ensures the Group achieves value for money. Updates against each of these aims along with key performance indicators, including the seven VfM metrics set by RSH and key priorities moving forward, are set out on the following page:

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

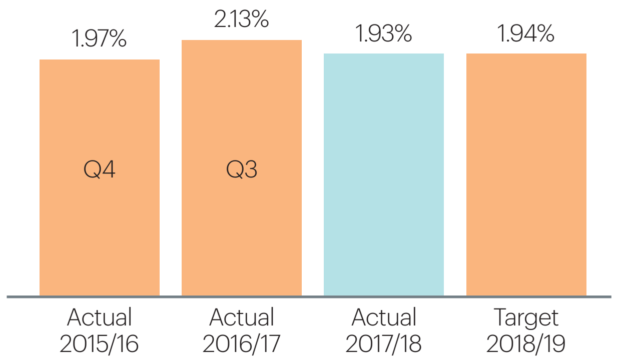
Rent collected as a % of rent due



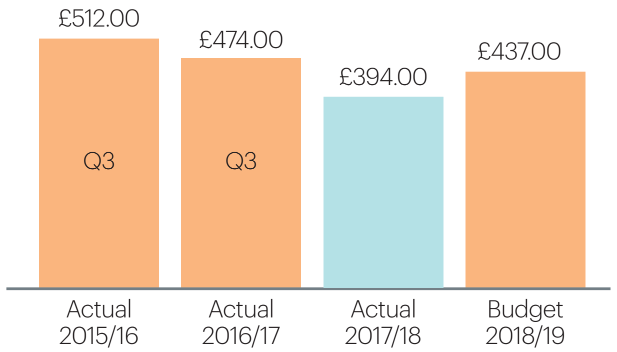
Current tenant arrears as a % of rent debit



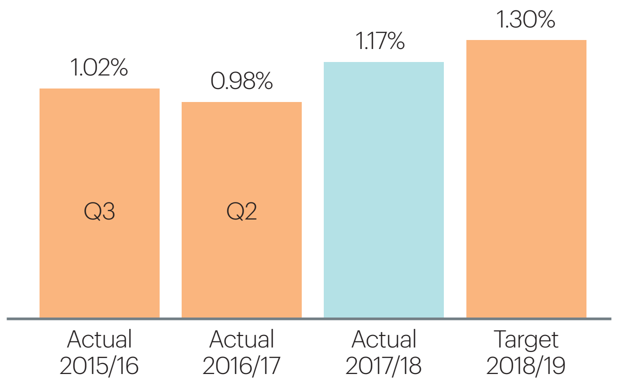
Former tenant arrears as a % of rent debit



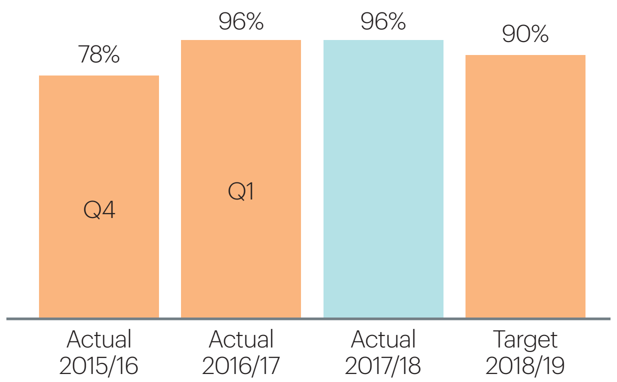
Housing management direct cost per property (£)



Rent void loss as a % of rent due



Resident satisfaction overall (%)



Key

Source: 2016/17 Housemark quartile position based on housing associations (both LSVT and traditional) based in Northern England with more than 15,000 units.

Q1 top quartile performance
Q2 upper quartile performance
Q3 lower quartile performance
Q4 bottom quartile performance

Note: West of Scotland Housing Association was part of the Group until October 2017, therefore certain metrics are impacted by the termination of the constitutional partnership.

Operating review and results (continued)

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

At Gentoo we are committed to delivering an outstanding level of customer service and we continuously monitor and measure our services to make sure the highest standards are maintained. This year we refreshed our 'Local Service Offers' which clearly explain the standard of service our customers can expect from us. We are really proud that data gathered through the STAR survey, a sector wide methodology, shows that 96% of our customers are satisfied with the service they receive from us. Our house building arm measures feedback through the House Building Federation's annual customer satisfaction Star Rating Scheme. Gentoo Homes has a 3 Star NHBC builders rating (70%-79.9%), which is based on the percentage of customers who would recommend them to family or friends.

During 2016/17, issues were identified in relation to the identification of Asbestos Insulation Board (AIB) within our vacant properties. This has continued to be an issue in 2017/18 as these are addressed when properties become available to let. AIB identification requires a 14 day notice period to the Health and Safety Executive (HSE) prior to any work commencing on removal, this has had a negative impact on the time it takes to let a property and therefore on void rent loss levels. In addition, the implementation of our new online allocations system (Homehunt) this year has had a small impact on relet times and subsequent void loss.

The operating environment continues to be a challenge for the business and the implementation of Welfare Reform is affecting our customers' ability to make rent payments. Despite this, 2017/18 performance on income collection and rent arrears has been strong, reflecting the focus in this area and the introduction of a specialist Money Matters Team. As the full roll out for Universal Credit is due in July 2018, targets have been set to consider the impact this will have on arrears and collection rates.

> "2017/18 performance on income collection and rent arrears has been strong, reflecting the focus in this area and the introduction of a specialist Money Matters Team"

Operating review and results (continued)

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

Highlights 2017/18

Allocations
As mentioned on page 26, September 2017 saw the introduction of HomeHunt. This moves the allocation of property to a simpler banding system and follows a significant period of consultation and design. Demand remains strong for the Group's core social housing and there are now more than 10,000 customers registered on HomeHunt with more than 6,500 customers actively applying for homes.

Customer insight
This year we were delighted to be shortlisted in the national UK Customer Satisfaction Awards in the 'Best Use of Customer Insight' category. These awards are the only customer service awards run by the professional body, the Institute of Customer Service. We were shortlisted for the way in which we have utilised our data to help us understand our customers and tailor our services.

Welfare Reform and the impacts of Universal Credit in particular, present a high level risk to the Group. Using this data has enabled us to minimise this impact on customers and on rent payments. It has also helped us signpost customers to appropriate support services. Our Money Matters Team has been working hard to ensure high levels of income collection and to ensure the rent arrears attributable to Universal Credit are kept to a minimum. The Group has maintained a positive relationship with Sunderland City Council and the Department of Work and Pensions to ensure that Welfare Reform impacts on customers and the Group are minimal. We are delighted that performance is strong and arrears remain low when compared with others in the sector.

The team also support our financially vulnerable customers to manage their money and we are pleased to report that we have exceeded our rent collection target this year. In recognition of this work, we were Highly Commended for our outstanding approach to Income Management in the UK Housing Awards.

Our Money Matters Team continue to support some of our most financially vulnerable customers, offering help with claiming benefits, budgeting and consolidating debt.

1,327
Number of customers referred to our team for money advice

£913,948
Financial gains for customers

Customer insight (continued)
Since the team were introduced in 2014, they have awarded more than £30,000 of funding to those at crisis point and have supported more than 6,500 customers to claim more than £2m worth of unclaimed benefits.

Involving customers
We work with our customers to help us to improve our services. To complement this, we have a number of volunteers who contribute their time to make a difference in local communities. This year they gave more than 1,900 volunteering hours.

At the start of 2017, we held a customer recognition event to celebrate the achievements of our involved customers. It was attended by more than 45 customers alongside our Chairman, Keith Loraine, OBE. The event was held not only to say thank you but to give customers the opportunity to network and share their views.

Gentoo offers a range of tenancy support services to customers in addition to the Money Matters Team. These services provide independent living support to vulnerable people across the area.

Operating review and results (continued)

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

Highlights 2017/18 (continued)

Inspiring people and improving local communities
We have a number of opportunities for voluntary organisations/groups and individuals to apply for funding to improve their community or reduce their impact on the environment. This is all part of building strong and resilient communities.

We also encourage staff, corporate partners and the local community to donate items to support those less fortunate. At Christmas volunteers delivered more than 250 gifts and at Easter they delivered more than 500 chocolate eggs to customers and charities.

Aspire Grants awarded

£38,902

98 grants

Empower Community Funding

£71,521

10 grants

Gentoo Homes Community Fund

£11,000

28 grants

Our Estate Services Team have seen an increased workload during 2017/18 with an increase of 70% in the number of gardens attended to, an increase of 10% in fly tipping jobs and an increase of 100% in arboriculture jobs completed. This has been achieved with no additional resources, through changes to working practices.

Digital inclusion
Following the collection of digital inclusion information through our customer surveys, we have successfully signed up approximately 700 customers to our new online self-service portal. Customers can now view their rent and repairs history and update personal details. Following the outsourcing of our maintenance stores provision, work will commence on the self-appointing repairs module within our housing management system.

Customer journey
During the year we carried out a fundamental review of the customer journey within our development arm Gentoo Homes. An action plan has been produced and great progress is being made as we work towards achieving a 4 star NHBC builders rating.

Future plans

- Continue to work with our development arm to attain a NHBC builders rating of four stars. This will ensure that the quality and value of our products match high levels of customer satisfaction.
- In 2017/18 we introduced RentSense, a product which uses predictive analytics to monitor rent accounts. The product was purchased with the view to saving staff time to be redeployed for the full rollout of Universal Credit in July 2018. A saving of five full time Neighbourhood Coordinator posts have been realised, equating to £160,000, and those posts will be moved to the Money Matters Team in 2018/19 helping to provide specialist support to those making new Universal Credit claims.
- A further piece of work to analyse the cost value of our support services is underway to ensure that they are effective and efficient.
- Continue to identify opportunities for customers to self-serve online, improving both the accessibility and efficiency of the services.

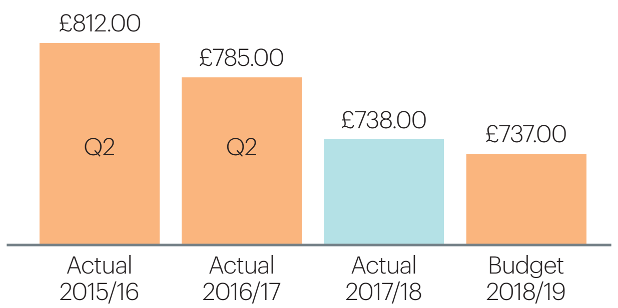
UKHA INSIDE HOUSING 2018 HIGHLY COMMENDED

The Institute of Customer Service UK Customer Satisfaction Awards 2018 FINALIST

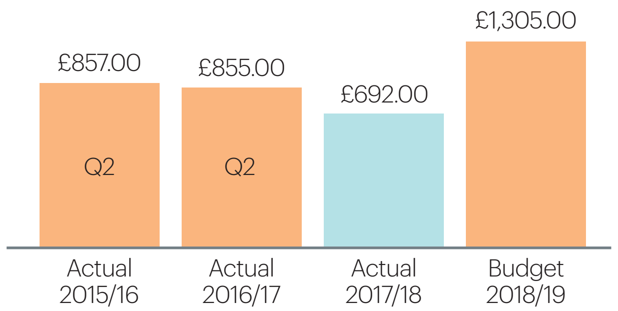
Operating review and results (continued)

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

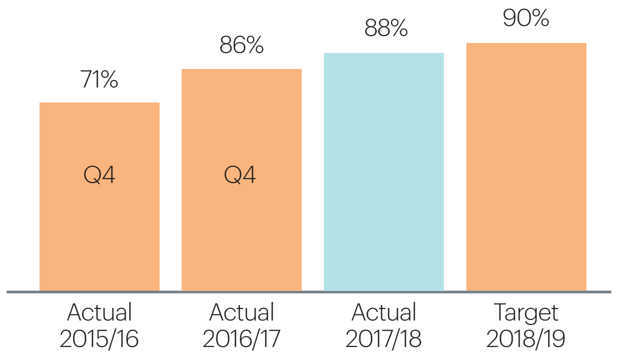
Responsive repairs direct cost to property (£)



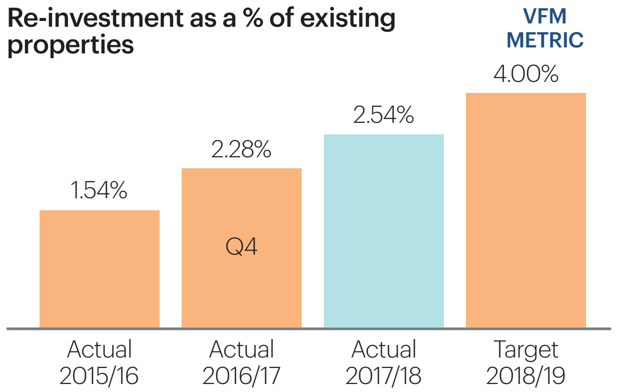
Major works direct cost per property (£)



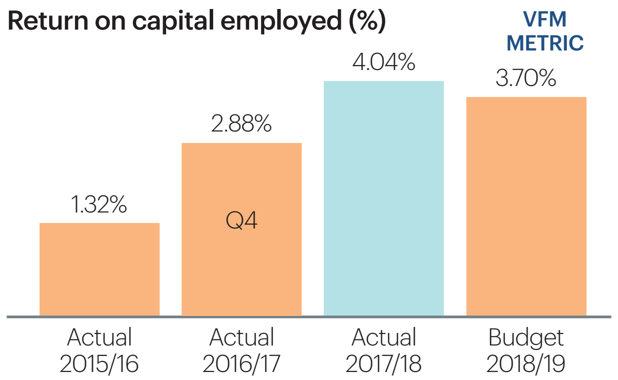
Resident satisfaction with our repairs service (%)



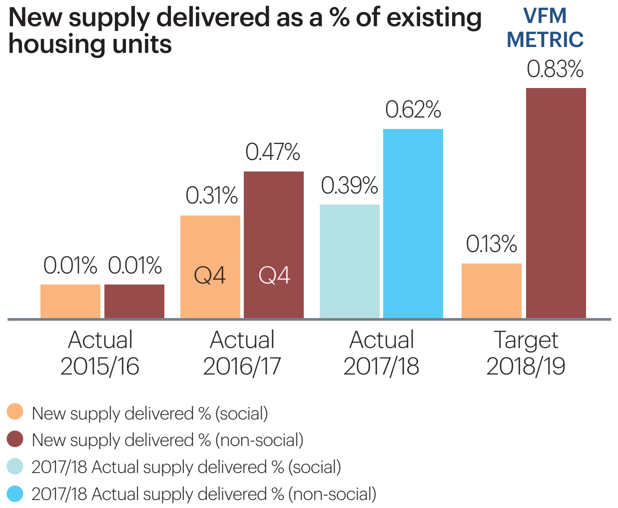
Re-investment as a % of existing properties



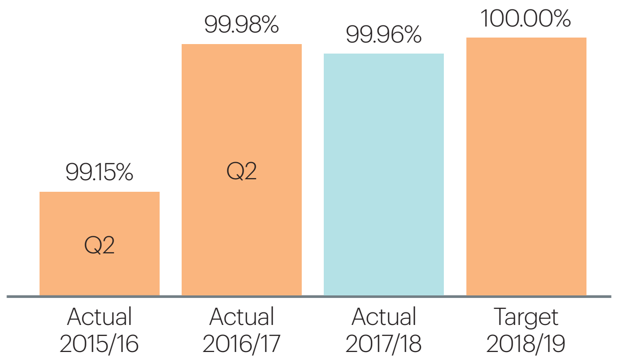
Return on capital employed (%)



New supply delivered as a % of existing housing units



% of homes with a gas safety certificate



Key

Source: 2016/17 Housemark quartile position based on housing associations (both LSVT and traditional) based in Northern England with more than 15,000 units.

Q1 top quartile performance
Q2 upper quartile performance
Q3 lower quartile performance
Q4 bottom quartile performance

Note: West of Scotland Housing Association was part of the Group until October 2017, therefore certain metrics are impacted by the termination of the constitutional partnership.

- VfM benchmarking data is not available for the year 2015/16.
- The actual 2015/16 data included in the VFM metric tables represents 2015/16 published data.

The Group continues to help meet the housing needs of local people by building a range of new homes across the North East, through our house building subsidiaries, Gentoo Homes and Gentoo Developments. Both subsidiaries operate on a commercial basis, building homes for sale and for rent. The profit generated through this development is reinvested back into the Group's core services in Sunderland, creating a direct benefit for Gentoo customers and enabling affordable homes to be built across Sunderland.

87% of our housing stock has had a stock condition survey since April 2016 and the data compiled has been used to formulate a detailed 5 year investment plan. Our Asset Strategy and Asset Management Delivery Plan (AMDP) were approved by Board in April 2017 and we have taken immediate steps to address all areas of non-compliance with the Decent Homes Standard identified within our stock condition surveys. Following consultation and discussion with the Board, we have also brought forward window replacement programmes and the improved data has contributed to the achievement of £1m of procurement savings through the consolidation of key tenders for roofing and gable contracts. We were also delighted to meet the ISO55001 Asset Management National Standard in 2017. The increased spend planned for 2018/19 relates to the outcome of these activities.

This year, we were deeply saddened and shocked by the tragic news from Grenfell Tower. The Group has quickly responded to the failings identified following the Grenfell Tower tragedy, to ensure our customers feel safe in their homes. Following the Grenfell Tower tragedy we quickly responded by removing all Aluminium Cladding Materials on five multi storey blocks. It is anticipated that future recommendations following the tragedy will impact on the Group directly with any required works being incorporated within the AMDP.

Operating review and results (continued)

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

Highlights 2017/18

Repairs and maintenance review
During the year a number of service reviews were carried out or commenced to ensure our delivery model remains fit for purpose. A full systems review of our repairs and maintenance service commenced in April 2016 and Phase two was ongoing throughout this year. The majority of changes were fully implemented by April 2018, with the maintenance stores project and the service digitalisation changes scheduled for completion in the latter quarters of 2018/19. It is anticipated that these projects will realise a saving of £1.1m over the next five years with further ongoing efficiencies being expected.

Shortlisted in Gas and Electrical Safety Awards
Organised by the Association of Gas Safety Mangers (AGSM), these awards reward the achievements of compliance professionals for gas and electrical safety within the social housing sector. We were delighted to be shortlisted for 'Gas Safety Initiative of the Year' and 'Social Housing Compliance Initiative'.

Managing our assets
During the year we implemented the Asset Performance Evaluation (APE) Tool. This has enabled us to assess all of our property and investment requirements to deliver the most cost effective and targeted investment solutions across our assets.

Managing our assets (continued)
Turnover and performance on our commercial asset portfolio, which comprises retail and office units, has reduced due to the loss of two major tenants and fair value adjustments to the holding value, with a gross yield of 6.89% compared to last year's figure of 7.2%. The Group has a strategy for disposal of the majority of our commercial portfolio, and we have agreed terms for disposal of a number of properties and are actively marketing others. This is part of our Business Strategy which set out our desire to return to core business, and sale proceeds from these properties will be used to reinvest into core products and services provided by the Group.

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 70 properties at the year-end which generated rental income of £390k and a gross yield of 5.9%. We also hold 165 properties under various shared ownership and equity schemes, and there has been a marked increase in enquiries from customers wishing to purchase higher percentages of ownership or dispose of their properties, with 12 applications received in the year.

The Group's Genie Home Purchase Plan (HPP) continues to trade in run down. Genie has generated a profit of £351k in the year and comprises a portfolio of 59 properties.

Sales and development performance
This area of our business is delivered by Gentoo Homes and Gentoo Developments. This year the Group successfully built 284 new homes, 170 of these were made available for outright sale and 114 for affordable rent in Sunderland, generating a profit of £3.7m to be reinvested in new homes for rent and service delivery.

The turnover from outright market property sales increased from £35.4m to £39.0m, with the total number of homes sold at 170 compared to 164 in 2017. Gross margins were 21.2%, compared to 19.6% in 2017. Our forward development programme is focused on the provision of high quality homes for sale and rent 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.

Demand for new homes in the region remains strong and good mortgage availability continues as well as ongoing Government support by way of the Help to Buy Scheme and cuts to stamp duty for first time buyers. 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 with 31% of the sales target for 2018/19, already being secured. Additionally, we have seven established sites and there are four new sites scheduled for launch during 2018/19. We have a forward land pipeline which delivers 644 plots over the next three years.

Operating review and results (continued)

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

Highlights 2017/18 (continued)

Furthermore, 114 affordable rental units were delivered and a further 41 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.

The Group has further committed to an affordable homes programme to replace stock lost through right to buy and drawing on the cross subsidy available through Gentoo Homes and Gentoo Developments' surplus. The initial plan provides to build/acquire 125 new homes to be retained for rent within the Group, in addition to the 41 already planned to complete in 2018/19.

Building new homes

A new flagship development in the Tyne Valley, Cottier Grange, was successfully launched this year and will deliver 404 new homes. The site is set within beautiful Northumberland woodland on brownfield land. It will feature a range of bespoke house types, including a number of affordable homes, available to buy at a discount to market value and to rent.

Exciting plans were also launched for the highly anticipated Chester Gate housing scheme in Sunderland. Planning permission has been submitted to build the first phase of the project, worth £17.7m, which features 118 new homes available to buy. The scheme will eventually deliver 500 new homes to buy or rent.

Award winning developments

The hugely popular mixed tenure Castle Rise development in the Downhill area of Sunderland was completed, with the sales element of the scheme proving to be extremely popular, whilst also providing new affordable rented homes for the area. To add to the success of Castle Rise, the team responsible for delivering the development was awarded a prestigious Pride in the Job Award from the National Housing Building Council (NHBC).

Our Hillcrag regeneration scheme in the High Ford area of Sunderland was also completed, providing 132 new homes for affordable rent. Similarly to Castle Rise, Hillcrag also received third party recognition for its excellence, winning 'Social Housing Development Site of the Year' at the North East Local Authority Building Control (LABC) Awards, then going on to be crowned national winners of the category at the LABC Bricks Awards in London later in the year.

Launch of Homes Community Fund

Gentoo Homes' commitment to the community continued with the official launch of a new Community Fund, which has been set up to help fund projects with a social purpose. In its first year, the community fund has helped more than 28 beneficiaries, with more than £11,000 given out in grants to a range of schools and community groups.

"A new flagship development in the Tyne Valley, Cottier Grange, was successfully launched this year and will deliver 404 new homes"

Future plans

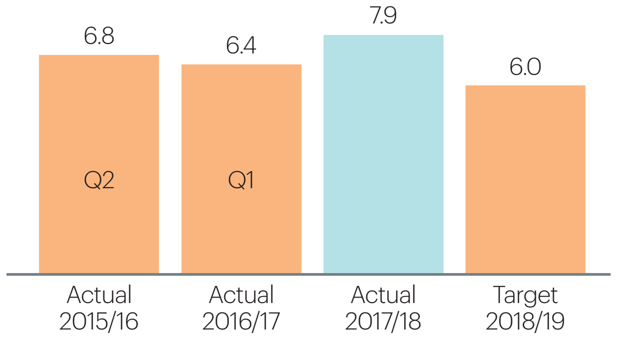
- The Group is working to introduce a trading account within our repairs and maintenance service. This has included a full review of the National Housing Federation Schedule of Rates and its application to the service. This will enable more accurate financial reporting, monitoring and planning of this service.
- Address all areas of non-compliance identified through the stock condition survey process by July 2018.
- The Board has approved a programme to develop 125 affordable rented homes to add to the Group's property portfolio. These will be delivered through a variety of routes including new build, acquisition of properties through Section 106 planning agreements, buying back ex-Right to Buy properties and bringing empty properties back into use. These will be funded through a variety of means including cross subsidy from sale, grant and rental income to generate a cost effective affordable homes pipeline.
- The Group continues to review its operational property portfolio with a view to managing our property as efficiently as possible. This includes consolidating activity into two main depots and reviewing area offices according to usage and footfall. On-going savings identified to date are almost £100,000 per annum, with an anticipated capital receipt as a result of potential sales.

THE BRICKS
LABC WARRANTY AWARDS
WINNER 2017

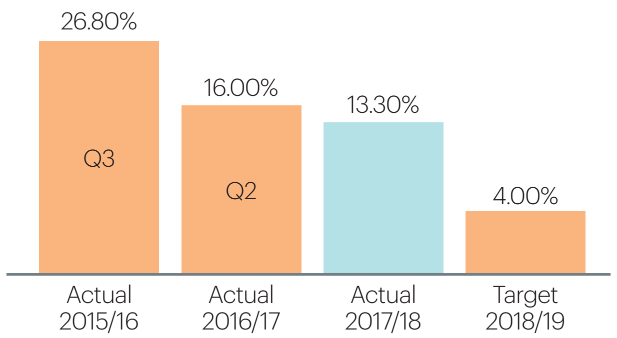
Operating review and results (continued)

Supporting our people to deliver our vision and live our values

Average working days lost



Staff turnover (%)



Key

Source: 2016/17 Housemark quartile position based on housing associations (both LSVT and traditional) based in Northern England with more than 15,000 units.

Q1 top quartile performance

Q2 upper quartile performance

Q3 lower quartile performance

Q4 bottom quartile performance

Note: West of Scotland Housing Association was part of the Group until October 2017, therefore certain metrics are impacted by the termination of the constitutional partnership.

4.9%

Voluntary staff turnover

7.9

Average working days lost

Mandatory training compliance rate

100%

A culture survey revealed

75%

of staff would positively recommend Gentoo as an employer

As an Investor in People, we recognise that our staff are our greatest asset. Since the launch of our People Strategy in April 2016, our focus has been around organisational design, learning and development, performance and reward, resourcing and talent planning, employee relations and organisational development.

Voluntary staff turnover in 2017/18 continues to be low at 4.9%, with an overall staff turnover of 13.3%, remaining lower than the sector average.

Average working days lost through sickness has increased from 6.4 days to 7.9 days per employee in 2017/18. This figure is lower than the Housemark housing sector median of 9 days. Long term sickness in 2017/18 contributes to 67% of the overall sickness absence. This has increased from 61% in 2016/17. Long term health issues are associated with both mental and physical health conditions typical within the sector.

We have encouraged openness about mental health in 2017/18 and continue to invest in mental health support for employees. Our aim is to encourage employees to feel comfortable talking about issues of mental health in the workplace and removing the stigma. As part of this initiative, we have trained 45 staff members as Mental Health First Aiders and also trained 58 Domestic Abuse Champions. We have a dedicated occupational health service and employee assistance programme and engage in national health and wellbeing campaigns to promote awareness round specific health issues.

“We have trained 45 staff members as Mental Health First Aiders and also trained 58 Domestic Abuse Champions.”

Following our governance downgrade, we have been working closely with the RSH on a recovery action plan. As part of this, a culture survey was conducted in November 2017 by external consultants Altair. This review looked at our workplace culture to identify our strengths and weaknesses. It focused on areas such as management styles, employee engagement, communication, how decisions are made and internal controls.

Findings showed that staff were passionate about Gentoo and the majority of people were proud to work for the Group. This year, our focus is to work with staff to further improve our workplace culture, ensuring we continue to put our people at the heart of everything we do. More than 1,200 staff have played a part in helping us to create a customer focused culture and we are so proud of the difference they have made.

Operating review and results (continued)

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

Highlights 2017/18

Talent management
We have a strong track record of developing talent and supporting people to be the best they can be. This year we have introduced talent management into our performance management framework, ensuring that we are able to identify future talent and develop a succession pipeline of future leaders.

Health and safety
The Group is committed to health and safety and ensures the Group Board and Risk and Audit Committee receive timely and accurate information to demonstrate the Group's health and safety performance. The Group Board is responsible for approving the Group's Health and Safety Policy and this has been revised in 2017/18. The input of residents into health and safety monitoring is also built in to the Operations and Management Committee agendas, which review matters in relation to community safety, safeguarding, positive engagement and victim support.

This year we have invested heavily in engaging staff in health and safety, with more than 7,000 hours of training delivered across the business. This included workshops for our senior managers and board members on Health and Safety Leadership Excellence. Delivering a high proportion of the training internally has saved over £37k against externally procured courses. Our mandatory training compliance rate was 100%.

Learning and development
Following the launch of our formal multi-skilling training programme last year, 92 members of our Repairs and Maintenance Team have successfully completed their Level 2 NVQ in Multi Trade Repair and Refurbishment with City of Sunderland College. This is part of the wider repairs and maintenance review and aims to increase the number of repairs that can be completed on the first visit.

374 (32%)
Employees studying towards/completed accredited formal training in the year

10
New apprentices

4,230
Number of training days

60
Work experience placements

Equality and diversity
This year we achieved third place on Stonewall's Workplace Equality Index, an annual audit of workplace culture for lesbian, gay, bi and trans (LGBT) staff. We were the only housing association to make it into the top ten inclusive employers for 2018. We were also named as one of Stonewall's Top Trans Inclusive Employers, by going above and beyond to ensure trans and non-binary colleagues feel included in the workplace.

We were also presented with an award from the Sunderland Black and Minority Ethnic Network (SBMEN) for our continued commitment to the Black and Minority Ethnic (BME) community in Sunderland, specifically for our active contribution in promoting new employment opportunities.

This year also saw the Group publish its first Gender Pay Gap (GPG) data in line with The Equality Act 2010 (Gender Pay Gap information) Regulations which came into force in 2017. The Group reported a mean of 11.1% and a median GPG of 14.6%. The main reasons for the Group's pay gap is a larger male (60%) workforce than female (40%) workforce. This point is emphasised by the significantly higher proportion of males than females currently employed in the upper (71.9%) and upper mid quartiles (75.6%). It is worth noting that within the lower mid and upper quartiles the Group has a GPG figure in favour of female employees.

We have implemented a number of initiatives to mitigate our GPG which includes; talent management, salary benchmarking, a review of our recruitment methods, in particular for trade and senior positions as well as gender monitoring of key people data such as internal promotion rates.

Future plans

- We intend to review our reward and recognition programmes, taking account of some of the feedback we have received from staff through our culture survey and consultation events. We recognise that reward and recognition is about more than terms and conditions and we will seek to introduce further ways to reward and recognise our staff building on the positive feedback already received.
- We will continue to develop the workplace culture within the organisation, in response to the findings from our workplace culture review.
- We will further embed the introduction of talent management into the Group's performance management framework, ensuring focused development opportunities to support staff in achieving their potential.

Operating review and results (continued)

Working with others to build effective partnerships

We continue to work with external organisations on a number of local, regional and national partnerships, to help us to build stronger and vibrant communities.

The Group is a member of the Sunderland Partnership, a body which brings the key business, education and public sector bodies together across the city. The Group participates specifically in a number of the sub partnership groups. This includes the Safer Sunderland Partnership which includes the police, fire and rescue service and Sunderland City Council with the aim of making people feel safe and secure in Sunderland. The Group also sits on the Economic Leadership Board along with key business and public sector partners focusing on wealth creation, increased employment, skills and qualifications. We have also participated in devolution discussions and consultations across the North East Combined Authority area.

This year we worked in partnership with the Sunderland Connect Network, Barclays and local schools to lend a hand to local families during the school holidays. Working together, 1,341 items of school uniform and almost 1,000 items of food were donated to families in need.   We've also supported Northumbria Police and Victims First's initiative by donating hundreds of handmade 'Trauma Teddies'. The scheme sees knitted teddy bears stored in police vehicles and handed out to young children when officers respond to incidents.

In 2017, we held our ninth Genfactor competition. The event was funded and supported by a number of local businesses including Sunderland City Council, the Bridges and Sunderland's Business Improvement District. By taking part in the competition, young people learn new skills, meet new people and gain confidence.

This year more than 100 customers and members of the wider community gathered at the Guru Gobind Singh Gurudwara Temple to celebrate International Women's Day. We marked the day with an event which encouraged attendees to participate in both English and Sikh traditions. The event was also supported by key local partners including Healthy Steps and Live Life Well who were on hand to offer health and wellbeing advice including help to stop smoking and NHS health checks.

"1,341 items of school uniform and almost 1,000 items of food were donated to families in need this year"

Highlights 2017/18

Gentoo Homes wins place on new £8 billion framework
Gentoo Homes has successfully secured a place on Homes England's new £8bn Delivery Partner Panel (DPP3). Joining the North East, Yorkshire and Humber panel, will allow Gentoo Homes to bid for suitable public land opportunities. This success reinforces our commitment to delivering much-needed high quality, sustainable homes to the North East.

Gentoo Homes' strong relationship with Homes England has also continued, with the completion of the purchase of land on the outskirts of Lanchester, as well as securing new funding of £7.5m through the Home Builders Fund (HBF). The new deal with Homes England follows on from the loan arrangement previously negotiated under the Builders Finance Fund (BFF) for £21.8m, this was successfully repaid to Homes England ahead of schedule saving the Group £80k in interest charges. This forms part of the Group's broader funding strategy which seeks to maximise external development finance at preferential rates.

The Group has also worked successfully in partnership with Sunderland City Council to enable the transport and infrastructure works to proceed at Chester Gate, which will enable development on the 500 home site to commence in 2019.

Operating review and results (continued)

Working with others to build effective partnerships (continued)

Highlights 2017/18 (continued)

SafeLives research

This year we embarked on a research project in partnership with SafeLives, to look at the vital role housing providers can play when responding to domestic abuse. As well as improving the safety of victims and children, this vital piece of research found that an improved housing response to domestic abuse will have positive financial implications. As an organisation we are committed to influencing and challenging the housing sector's response to domestic abuse and this research has been a great way to help us do this.

Domestic Abuse Housing Alliance

The Domestic Abuse Housing Alliance (DAHA) is a partnership between Gentoo, Peabody and domestic abuse charity Standing Together. This partnership has gone from strength to strength with over 15 housing providers now achieving or undergoing DAHA's Accreditation, which is the UK benchmark for how housing providers should respond to domestic abuse in the UK.

Sunderland College

We have continued to build on our strategic partnership with Sunderland College. Last year, working with the college, we welcomed 10 new apprentices into the organisation, creating new opportunities for people who live in the region. The introduction of the apprenticeship levy in April 2017 has created opportunities for a further 18 members of staff to start formal qualifications funded through the levy. Four staff are also undertaking a Management Development Qualification, equipping them with the skills they need to effectively lead, manage and develop our people.

Wise Steps

Wise Steps helps people in Tyne and Wear to transform their lives, with £215k of funding received from the Big Lottery Fund and the European Social Fund. The project provides one-to-one specialist support to help people take positive steps towards work. Gentoo is part of a partnership of local organisations led by the Wise Group and we are currently coaching more than 100 unemployed people to help them improve their life chances.

Homes for the North

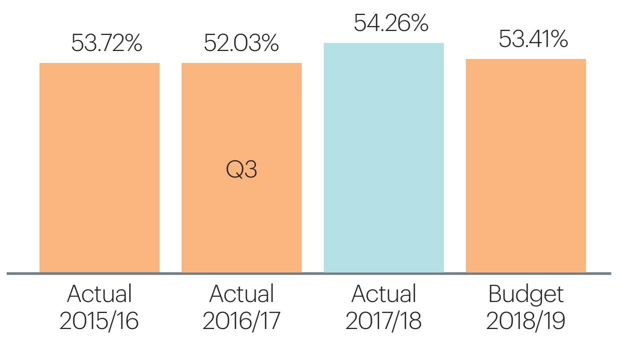
The Group has actively participated in the Homes for the North (H4N) initiative which has brought together 18 of the largest housing associations in the North. Collaborative work has been completed on assessing housing need, lobbying Government and key stakeholders on future housing supply and sharing innovation and good practice.

Operating review and results (continued)

Being well governed and financially strong

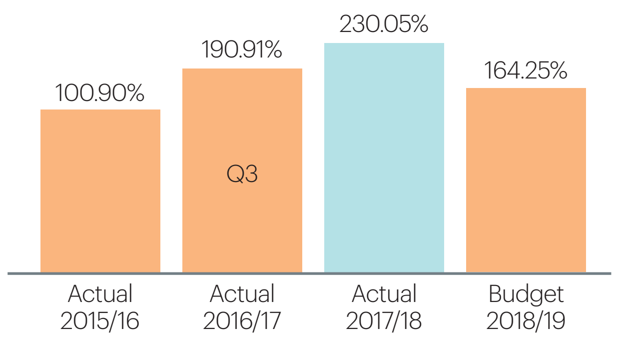
Gearing (%)

VFM METRIC



EBITDA MRI interest cover* (%)

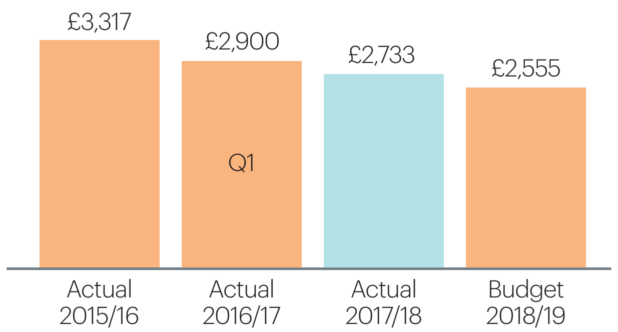
VFM METRIC



*Earnings before interest, tax, depreciation and amortisation with major repairs included.

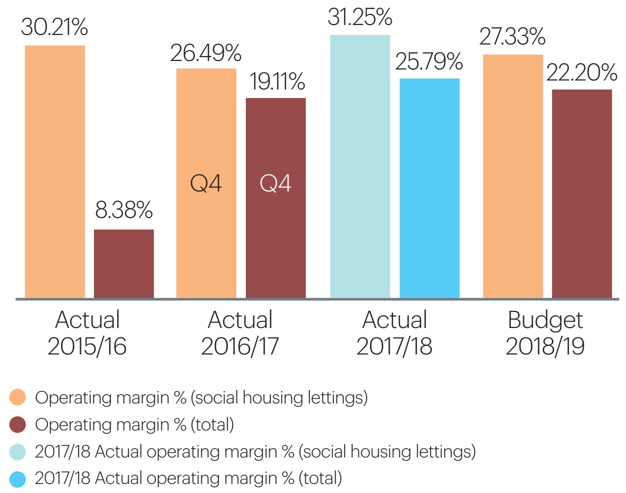
Headline social housing cost per unit (£)

VFM METRIC

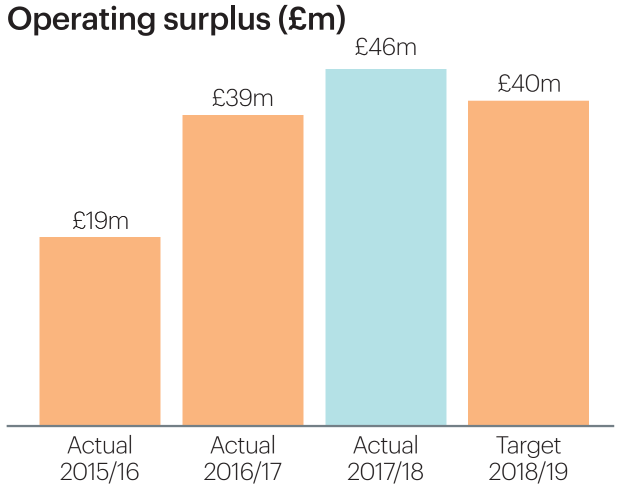


Operating margin (%)

VFM METRIC



Operating surplus (£m)



Key

Source: 2016/17 Housemark quartile position based on housing associations (both LSVT and traditional) based in Northern England with more than 15,000 units.

Q1 top quartile performance

Q2 upper quartile performance

Q3 lower quartile performance

Q4 bottom quartile performance

Note: West of Scotland Housing Association was part of the Group until October 2017, therefore certain metrics are impacted by the termination of the constitutional partnership.

- VfM benchmarking data is not available for the year 2015/16.
- Operating surplus is not a sector benchmark, therefore, quartile data is not provided.
- The actual 2015/16 data included in the VFM metric tables represents 2015/16 published data.

The Group remains financially strong and our financial viability grading remains unchanged. Our annual financial performance has improved year on year, over the last three years, as a result of both our divestment and efficiency programmes. Our business plan this year demonstrates that the fundamental business activity of the Group is viable.

Unfortunately the Group has had to address a serious governance issue during the year, resulting in a downgrade to a non-compliant G3 position by the RSH. We are working hard to ensure a return to an improved governance grading as soon as possible, through an in-depth review of our governance and culture. We are confident that we will come out of this stronger.

Operating review and results (continued)

Being well governed and financially strong (continued)

Highlights 2017/18

Efficiency savings of £4 million have been delivered
A further £4m worth of on-going efficiencies have been delivered this year in addition to the £9m achieved in 2016/17. This has significantly reduced the ongoing controllable costs of the Group and further plans are in place to achieve a further £2.5m of annual savings by 2020.

West of Scotland Housing Association
Our constitutional partnership with the West of Scotland Housing Association has come to an end. This was concluded in October 2017 with an amicable separation of activity. This is all part of our plan to focus on core activity in the North East of England.

Procurement of years 2-5 of the Investment Plan
In November 2017, Group Board approved the procurement approach of large scale, long term contracts with principle contractors. Early indications of tenders received to date, show a 10% saving on budget, with the first contract for roofs and gables generating savings in the region of £1m.

Feed in Tariff (FiT)
The Group successfully completed the sale of the second tranche of FiT to Empower Community Solar (ECS). This generated a receipt of £6m to the Group, fully recovering the cost of the capital outlay, whilst ensuring that our customers have access to cheaper energy. In addition, the Group continues to generate £113k per annum from the administration of FiT income on behalf of ECS and in managing the Group's own FiT income.

Pensions
As an initial step in the review of our pension provisions, the Group successfully negotiated with Tyne and Wear Pension Fund to negate a proposed increase of £2.74m in pension contributions by the Group over the next three years.

Future plans

- The Group continues to work closely with the RSH to rectify the issues identified in the regulatory downgrading. The Group is working to deliver a voluntary undertaking, agreed with the regulator that will address all the areas of regulatory concern with a view to returning to a compliant position as soon as possible.
- Treasury Advisors JC Rathbone Associates Ltd were appointed during 2017/18 and the outcome of their treasury review was presented to the Board in late 2017. The project will move into its implementation phase during the course of this year with a view to maximising the Group's borrowing capacity to deliver its core products and services.
- The Group operates two pension schemes, as follows:
    - o 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 26.3% for the full year.
    - o 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. During 2018/19, the Group aims to appoint pensions advisors to undertake a fundamental review of the Group's pension provisions. The aim of this will be to ensure that these continue to be fit for purpose and don't present a major risk to financial viability, whilst demonstrating value for money for both our employees and the Group.
- The Group is reviewing its approach to development in terms of volume, tenure mix and funding. This will include how the Group can balance its sales portfolio and the cross subsidy that generates with the affordable rented programme. The review will further take into account the Group's risk appetite and the funding sources that can be approached, ensuring that there is a balanced and viable development programme.
- Business improvement reviews will continue into 2018/19. A series of reviews covering voids, allocations, legal, procurement, social value and customer have identified further efficiencies estimated at £327k across these service areas. In addition, a review of Corporate Services will be undertaken to ensure it represents value for money to the Group.

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 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 must meet at least four times a year; however, it has met seven 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 RSH.

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 'Three 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)

The Board, Risk and Audit Committee and senior management have agreed, and continually review and monitor, a set of strategic/key risks which may prevent us from meeting our objectives. The Board has also agreed its attitude to and appetite for risk which is reviewed on an annual basis. Risks are identified, evaluated, monitored and reported in line with our Risk Management Framework. Risk reporting include scoring, controls, future mitigation requirements, performance against risk appetite metrics and cumulative risk.

In the year, the Group has continued to focus on the following key risks which are mapped to our 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: This uncertainty affects financial and housing market confidence and long term stability within the sector.	Horizon scanning to identify any potential changes in policy and the operating environment and stress testing to understand the impact of change and mitigations required.
Cyber-crime: A successful attack could have a significant impact resulting in loss of corporate data, intellectual property or customer details.	Staff awareness and education programmes. Network and data security controls framework.
Health and safety: Failure to focus and comply with all relevant legislation could result in accident, injury or death to staff or third parties and lead to regulatory intervention.	Health and Safety Policy, procedures, training and audits. Regular reporting of statistics to Group Board and Risk and Audit Committee.

Risk	Mitigation
Reputation and brand damage: The Group recognises that any incident that reduces trust amongst stakeholder groups has the potential to create reputational or brand damage.	Reputation metrics, social network and media coverage monitoring. Crisis Communications Protocol.
Fail to provide the RSH with assurance on progress against the regulatory judgement and voluntary undertaking: Insufficient progress made against the Regulatory Judgement and Voluntary Undertaking could lead to further regulatory intervention, as well as impacting on the Group's future strategy and reputation.	A Board led Voluntary Undertaking and action plan is monitored by the Recovery Committee. Review of Governance and Culture and Action Plan.
Housing market sales exposure: Profit margins, sales demand, property supply and finance arrangements could all be impacted upon by any housing market volatility or downturn.	Horizon scanning to identify potential changes in policy and the operating environment. Stress testing to understand the impact of change and mitigations required. Each new housing development is appraised and developments are phased wherever possible.
Welfare Reform: The roll out of Universal Credit will create increased uncertainty around cash collection, debt and void levels.	Close monitoring of income collection and support arrangements for customers. Stress testing to understand the impact of the roll out and mitigations required.

Corporate governance

Group Board
Under the Society's rules, the Group Board is comprised of one Resident Board Member, two Council Board Members, up to seven Independent Board Members and up to two Executive Board Members (maximum of 12 Board Members in total). Group Board and members of the Executive are shown on page 4 and 5 and details of their remuneration are provided on pages 94 and 95 in the Financial Statements. Board Members are drawn from a wide range of backgrounds bringing together commercial, professional and local experience, and the Board meets a minimum of six times a year.

Gentoo has been rated as G3/V2 by the RSH. This was in response to the self-reporting of a governance weakness identified by the Board. The Board has led the response to this issue, implementing a number of improvements to the Group's internal control framework and agreeing a statutory Voluntary Undertaking with the RSH. A temporary committee (Recovery Committee) has been established to oversee these improvements and ensure adherence to the terms of the Voluntary Undertaking. The Committee is comprised of the Group Chair, two Non-Executive Members of Group Board, the Interim Chief Executive, Executive Directors of Corporate Services and Finance, the Company Secretary and General Counsel and the Assistant Director of Business, Strategic Planning and Research.

The Board adopted the National Housing Federation's Code of Conduct with effect from 1 April 2018.

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. The 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 essential functions of and significant matters reserved for the Board are formally recorded and reflect the requirements of the National Housing Federation's Code of Governance. These include, but are not limited to, the development of the Group's strategy, vision and values, changes to the Group's corporate structure, changes to the Group's management and control structure and any changes to the Society's status. Group Board delegates other matters to its subsidiary boards, committees and executive which are recorded in the respective Terms of Reference and the Group's Scheme of Delegation.

An external adviser was commissioned to undertake a review of both effectiveness of governance arrangements and board effectiveness during 2017/18. An action plan has been agreed which supports the Voluntary Undertaking and is monitored by the Group Board and the Recovery Committee.

A system of Non-Executive Board Member appraisal is in place, led by the Group Chair and facilitated by an external adviser. 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, Operations Committee and the Group Executive Team.

The Appointments and Remuneration Committee is chaired by a member of

Group Board, who is not the Group Chair, with four other Group Board members. The Committee is required to meet at least once a year, however it met five times during this financial year. Minutes of each meeting and a verbal update from the Chair of the Committee is provided at each Group Board meeting.

The Committee oversees board and committee appointments, re-appointments, remuneration, board succession planning, board appraisals, executive appointments, terms of employment and remuneration, making recommendations to Group Board where appropriate.

During the year, the Committee has, amongst other things, reviewed succession planning arrangements and the skills requirements of the Group's boards and committees, overseen the appointment of the new Group Chair and Interim Chief Executive Officer and the re-appointment of Board Members. The Committee has also approved the revised procedures in relation to the approval of board and executive remuneration, including non-contractual payments and changes to terms and conditions of employees.

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 Board Members. These differences will be considered in determining the optimum composition of Group Board and where 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. The Group Board recognises that diversity in respect to skills, knowledge and experience is represented on the Board, however other diverse characteristics should be better represented.

The Risk and Audit Committee is chaired by a member of Group Board, who is not the chair or vice chair of the Board. The Committee is required to meet at least four times a year. However, it met seven times during the year.

The Committee oversees financial reporting and provides independent scrutiny, challenge and assurance over the risk and internal control framework on behalf of Group Board.

Corporate governance (continued)

Group Board (continued)

KPMG was appointed as the Group's external auditors at the Annual General Meeting 2017. Risk and Audit Committee provided oversight of the process and recommended their appointment to Group Board. The performance and independence of the external auditor is monitored by Risk and Audit Committee.

The Committee has been integral in overseeing the findings and recommendations arising from the internal investigations carried out into the governance weaknesses, relating to executive severance payments. During the year, the Committee met with both the head of the internal audit function and external auditors, without the executive present.

Business Assurance Services (internal audit function) operate within the Institute of Internal Auditors Standards Framework. Compliance with the Standards was externally verified in July 2018.

In addition to its role in relation to the internal investigation, the Committee has reviewed and monitored the Group's key risks, cumulative risk, mitigation plans and risk appetite, approved the strategic and operational audit plan, monitored the outcome of individual audits and the implementation of audit recommendations. They have reviewed the Group's arrangements and monitoring reports in relation to the detection and prevention of fraud, bribery, anti-money laundering and whistleblowing. Financial statements and the Group's Annual Report and Accounts have been reviewed by the Committee.

The Operations Committee is chaired by a Member of Group Board. The Committee is required to meet at least six times a year and have met six times during this financial year. The Committee is made up of six Residents, one Council and two Independent Members and is chaired by the Resident Group Board Member.

The Committee reviews and monitors policy, performance and operational service delivery of the Group's housing management activities, customer service and property services, in addition to other operational matters.

During the year, the Committee has, amongst other things, reviewed and advised Group Board on local service offers, allocations policy, rent and service level charges, various landlord compliance policies, operational target setting and monitoring the performance of the investment plan, Welfare Reform impact, repairs and maintenance service, housing management service, customer satisfaction and key operational risks.

Corporate governance (continued)

Group Board

Keith Loraine, OBE
Chair
Keith was appointed to Group Board in February 2017 and became Group Chair in September 2017.

Keith has 40 years' experience in the housing sector, the last 24 as Chief Executive Officer 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 RSH as regulator.

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 RSH 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.

David Murtagh
David Murtagh joined 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 is currently a Finance Director within a major multinational company but in addition, he has nine years' experience on the Board of Teesside-based Thirteen Group. 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.

Group Board (continued)

Frank Nicholson

Frank Nicholson is an experienced non-executive Director and former Managing Director of Vaux Breweries Ltd in Sunderland. Frank has a broad range of skills, and, since 1999, has been employed in a wide variety of businesses and charities including Northern Rock Foundation, Matfen Hall Hotel, the Port of Sunderland, 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 joined Group Board in 2016. He brings considerable experience of housing and regeneration with a career spanning 40 years 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 Local 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 the Youth Almighty Project (YAP).

Chris Watson

Chris Watson was co-opted to Group Board in February 2017 and became a full Board Member in September 2017, following the AGM. He is a civil engineer and Head of Strategic Asset Planning and Economic Regulation 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.

Corporate governance (continued)

Group Board and Committee membership details and meeting attendance

Name	Number of meetings attended out of (total number possible for an individual)			
	Group Board	Risk and Audit Committee	Appointments and Remuneration Committee	Operations Committee
	11 meetings	7 meetings	5 meetings	6 meetings
Barry Curran	10 (11)	7 (7)		
Brian Spears	9 (11)		5 (5)	
Chris Watson (co-optee until 27 September 2017)	10 (11)		5 (5)	
Colin Blakey	10 (11)			
David Murtagh	9 (11)	7 (7)		
Frank Nicholson	7 (11)	7 (7)		
Keith Loraine, OBE (Chair)	11 (11)		5 (5)	
Leslie Herbert	10 (11)		5 (5)	5 (6)
Mary Coyle, MBE, DL	8 (11)	7 (7)		
Paul Stewart	9 (11)			
Philip Tye	9 (11)		2 (5)	
Susan Johnson		7 (7)		
Emma Teare				6 (6)
John Cummings				1 (6)
John Dannell				4 (6)
John Urwin				5 (6)
Karen McDonald				5 (6)
Kathleen Dagg				5 (6)
Margaret Robson				5 (6)
Thomas Wright				2 (6)

The following Board Members resigned during the year:

John Craggs	3 (5)			
Ian Self	4 (5)			

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

The Board is responsible for preparing the Board's 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 has elected to prepare the financial statements in accordance with UK Accounting Standards, including 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.
- Assess the Group and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless it either intends to liquidate the Group or the association or to cease operations, or has no realistic alternative but to do so.

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. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Following an independent external investigation into executive severance payments and in response to the subsequent regulatory downgrade, the Recovery Committee instigated a series of internal investigations. The result of these investigations has indicated that the key area of weakness related to a limited number of occurrences of management override of the control structure. Sample testing has indicated the issue is not endemic to the organisation.

Nevertheless, a number of recommendations for improvement have been made and implemented to further strengthen the control structure and prevent re-occurrence.

Review of the Group's external auditors
Following an Official Journal of the European Union (OJEU) tender process during 2017, KPMG LLP were re-appointed as the Group's External Auditor for the March 2018 year end for a period of three years with the option to extend for two further one year periods.

KPMG LLP have provided some non-audit services during the year. 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. KPMG LLP also confirm their independence to the Risk and Audit Committee at least annually. The Policy on the provision of non-audit services by the external auditor was reviewed by the Committee in January 2018 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 (2017: £nil) political donations and incurred £nil (2017: £nil) political expenditure during the year.

Statement of compliance
The RSH'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 RSH's Governance and Financial Viability Standard. The Group has adopted the National Housing Federation's Code of Governance 2015.

Compliance with the RSH's Governance and Viability Standard
The Board confirms that Gentoo Group Limited has not complied with the requirements of the Governance and Viability Standard applicable for the year from 1 April 2017. In October 2017, the Regulator of Social Housing downgraded Gentoo's governance rating from G2 to G3 due to weak governance and internal control when agreeing executive contracts and severance payments to outgoing executives. The Board immediately took steps to address the weaknesses and has entered into a Voluntary Undertaking with the Regulator. We have made significant progress to complete this undertaking and are monitoring the controls and risk assurance to ensure that the changes made have been embedded. We are confident that we will be in a position in 2018/19 to return to G2 (compliant) governance rating and will continue our work to return to G1.

Compliance with the National Housing Federation's Code of Governance
The Board complies with the principles set out in the National Housing Federation's Code of Governance published in 2015, with some areas requiring strengthening. The Board is working with management to ensure that areas requiring strengthening are delivered.

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:

Keith Loraine, OBE
Board Member
25 July 2018

David Murtagh
Board Member
25 July 2018

Simon Walker
Secretary
25 July 2018

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

Independent auditor's report to Gentoo Group Limited

Opinion

We have audited the financial statements of Gentoo Group Limited ("the association") for the year ended 31 March 2018 which comprise the consolidated and association statements of comprehensive income, the consolidated and association statements of financial position, the consolidated and association statements of changes in reserves and the consolidated statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the group and the association as at 31 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The association's Board is responsible for the other information, which comprises the Strategic Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required 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.

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 63, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Nick Plumb

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

30 July 2018

Consolidated statement of comprehensive income

for the year ended 31 March 2018

	Note	2018 Continuing operations £'000	2018 Discontinued operations £'000	2018 Total £'000	2017 Continuing operations £'000	2017 Discontinued operations £'000	2017 Total £'000
Turnover	3a	**172,759**	**9,571**	**182,330**	172,406	20,916	193,322
Cost of sales	3a	**(31,446)**	**-**	**(31,446)**	(35,591)	(2,447)	(38,038)
Gross profit		**141,313**	**9,571**	**150,884**	136,815	18,469	155,284
Operating expenditure	3a	**(97,909)**	**(7,655)**	**(105,564)**	(100,359)	(14,658)	(115,017)
Other operating income	3a	**240**	**-**	**240**	199	14	213
Surplus / (deficit) on disposal of tangible fixed assets	6	**1,007**	**(122)**	**885**	(1,530)	(73)	(1,603)
Operating surplus		**44,651**	**1,794**	**46,445**	35,125	3,752	38,877
Analysed as:							
Operating surplus before exceptional termination costs		**44,915**	**1,794**	**46,709**	39,141	3,752	42,893
Exceptional termination costs	4	**(264)**	**-**	**(264)**	(4,016)	-	(4,016)
Operating surplus after exceptional termination costs		**44,651**	**1,794**	**46,445**	35,125	3,752	38,877
Deficit on disposal of discontinued operations	7a	**-**	**(14,043)**	**(14,043)**	-	(4,517)	(4,517)
Interest receivable and similar income	8	**1,387**	**2**	**1,389**	1,434	16	1,450
Interest payable and similar charges	9	**(24,878)**	**(671)**	**(25,549)**	(25,060)	(1,582)	(26,642)
Change in value of investment property	15	**(562)**	**-**	**(562)**	(650)	-	(650)
Surplus / (deficit) before taxation		**20,598**	**(12,918)**	**7,680**	10,849	(2,331)	8,518
Tax on surplus / (deficit)	11	**(212)**	**-**	**(212)**	(169)	-	(169)
Surplus / (deficit) for the financial year		**20,386**	**(12,918)**	**7,468**	10,680	(2,331)	8,349
Other comprehensive income							
Actuarial gain / (loss) in respect of pension scheme	4	**2,240**	**-**	**2,240**	(11,220)	-	(11,220)
Revaluation of fixed asset investments	16	**(832)**	**-**	**(832)**	718	-	718
Total comprehensive income for the year		**21,794**	**(12,918)**	**8,876**	178	(2,331)	(2,153)

These financial statements were approved by the board on 25 July 2018 and were signed on its behalf by:

Keith Loraine, OBE
Board Member

David Murtagh
Board Member

Simon Walker
Secretary

Registered number: 7302

Association statement of comprehensive income

for the year ended 31 March 2018

	Note	**2018 £'000**	2017 £'000
Turnover	3a	133,353	25,068
Cost of sales	3a	(22)	(1,000)
Gross profit		133,331	24,068
Operating expenditure	3a	(94,207)	(22,707)
(Deficit) / surplus on disposal of tangible fixed assets	6	(28)	14
Operating surplus		39,096	1,375
Analysed as:			
Operating surplus before exceptional termination costs		39,315	2,905
Exceptional termination costs	4	(219)	(1,530)
Operating surplus after exceptional termination costs		39,096	1,375
Deficit on disposal of investments	7b	-	(1,588)
Interest receivable and similar income	8	2,707	24,577
Interest payable and similar charges	9	(25,167)	(24,727)
Gift aid receivable		3,682	795
Change in value of investment property	15	(562)	(650)
Surplus / (deficit) before taxation		19,756	(218)
Taxation on surplus	11	(212)	-
Surplus / (deficit) for the financial year		19,544	(218)
Other comprehensive income			
Actuarial gain / (loss) in respect of pension scheme	4	2,240	(11,220)
Revaluation of fixed asset investments	16	(832)	718
Total comprehensive income for the year		20,952	(10,720)

These financial statements were approved by the board on 25 July 2018 and were signed on its behalf by:

Keith Loraine, OBE
Board Member

David Murtagh
Board Member

Simon Walker
Secretary

Registered number: 7302

Consolidated statement of financial position

at 31 March 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	12	-	90
Tangible fixed assets – housing properties	13	**1,009,938**	1,227,131
Tangible fixed assets – other	14	**17,135**	19,770
		1,027,073	1,246,991
Investments			
Investment properties	15	**13,755**	15,043
Other investments	16	**32,500**	33,332
HomeBuy loans receivable	17	**731**	879
		46,986	49,254
		1,074,059	1,296,245
Current assets			
Stock	18	**67,893**	50,357
Debtors	19	**13,839**	24,780
Cash and cash equivalents	20	**11,790**	16,486
		93,522	91,623
Creditors: amounts falling due within one year	21	**(30,182)**	(54,336)
Net current assets		**63,340**	37,287
Debtors: amounts falling due after more than one year	24	**6,383**	6,848
Total assets less current liabilities		**1,143,782**	1,340,380
Creditors: amounts falling due after more than one year	25	**(573,093)**	(777,767)
Pension liability	4	**(17,820)**	(18,620)
Net assets		**552,869**	543,993
Capital and reserves			
Revaluation reserve		**161,636**	165,690
Revenue reserve		**104,534**	84,437
Other reserve		**286,699**	293,866
		552,869	543,993

These financial statements were approved by the board on 25 July 2018 and were signed on its behalf by:

Keith Loraine, OBE
Board Member

David Murtagh
Board Member

Simon Walker
Secretary

Registered number: 7302

Association statement of financial position

at 31 March 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	12	-	90
Tangible fixed assets – housing properties	13	**1,015,283**	1,033,532
Tangible fixed assets – other	14	**17,179**	17,046
		1,032,462	1,050,668
Investments			
Investment properties	15	**13,755**	14,818
Other investments	16	**32,500**	33,332
HomeBuy loans receivable	17	**731**	879
Investments in subsidiaries	16	**350**	350
		47,336	49,379
		1,079,798	1,100,047
Current assets			
Stock	18	**23,319**	13,933
Debtors	19	**19,946**	14,827
Cash at bank and in hand		**8,964**	8,054
		52,229	36,814
Creditors: amounts falling due within one year	21	**(25,240)**	(31,495)
Net current assets		**26,989**	5,319
Debtors: amounts falling due after more than one year	24	**41,228**	35,582
Total assets less current liabilities		**1,148,015**	1,140,948
Creditors: amounts falling due after more than one year	25	**(629,050)**	(642,135)
Pension liability	4	**(17,820)**	(18,620)
Net assets		**501,145**	480,193
Capital and reserves			
Revaluation reserve		**144,555**	148,609
Revenue reserve		**69,892**	37,719
Other reserve		**286,698**	293,865
		501,145	480,193

These financial statements were approved by the board on 25 July 2018 and were signed on its behalf by:

Keith Loraine, OBE
Board Member

David Murtagh
Board Member

Simon Walker
Secretary

Registered number: 7302

Consolidated statement of changes in reserves

	Revaluation reserve £'000	Revenue reserve £'000	Other reserve £'000	Total reserves £'000
Balance at 1 April 2016	168,789	76,324	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	84,437	293,866	543,993
Balance at 1 April 2017	165,690	84,437	293,866	543,993
Total comprehensive income for the year				
Surplus	-	7,468	-	7,468
Other comprehensive income				
Transfer in respect of depreciation on revalued properties	(1,694)	1,694	-	-
Transfer in respect of realised losses on disposal of revalued properties	(1,528)	1,528	-	-
Realisation of other reserve	-	7,167	(7,167)	-
Actuarial gain in respect of pension scheme	-	2,240	-	2,240
Revaluation of fixed asset investments	(832)	-	-	(832)
Balance at 31 March 2018	**161,636**	**104,534**	**286,699**	**552,869**

Association statement of changes in reserves

	Note	Revaluation reserve £'000	Revenue reserve £'000	Other reserve £'000	Total reserves £'000
Balance at 1 April 2016		6,832	(62,438)	-	(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	37,719	293,865	480,193
Balance at 1 April 2017		148,609	37,719	293,865	480,193
Total comprehensive income for the year					
Surplus		-	19,544	-	19,544
Other comprehensive income					
Transfer in respect of depreciation on revalued properties		(1,694)	1,694	-	-
Transfer in respect of realised losses on disposal of revalued properties		(1,528)	1,528	-	-
Realisation of other reserve		-	7,167	(7,167)	-
Actuarial gain in respect of pension scheme		-	2,240	-	2,240
Revaluation of fixed asset investments		(832)	-	-	(832)
Balance at 31 March 2018		**144,555**	**69,892**	**286,698**	**501,145**

Consolidated statement of cash flows

for the year ended 31 March 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Surplus for the year	**7,468**	8,349
Adjustments for non cash items:		
Depreciation, amortisation and impairment	**29,370**	31,968
Change in value of investment property	**562**	650
Interest receivable and similar income	**(1,389)**	(1,450)
Interest payable and similar charges	**25,549**	26,642
(Gain) / loss on disposal of tangible fixed assets	**(885)**	1,603
Loss on sale of discontinued operations	**14,043**	4,517
Deferred Government grant	**(1,858)**	(3,631)
Government grants utilised in the year	**(409)**	(445)
Taxation	**212**	169
	65,195	60,023
Decrease / (increase) in trade and other debtors	**12,071**	(3,141)
Increase in stock	**(4,838)**	(7,490)
(Decrease) / increase in trade and other creditors	**(5,253)**	(11,761)
Increase (decrease) in provisions and employee benefits	**1,090**	(1,850)
	3,070	(24,242)
Tax paid	**(300)**	(2,210)
Tax received	**-**	488
Net cash flows from operating activities	**75,433**	42,408
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets - housing properties	**7,228**	5,452
Proceeds from sale of tangible fixed assets – other	**6,744**	77
Acquisition of tangible fixed assets - housing properties	**(44)**	(131)
Acquisition of tangible fixed assets – other	**(1,564)**	(802)
Capital expenditure on existing properties	**(16,498)**	(18,907)
Development of social housing properties	**(9,368)**	(8,936)
Disposal of subsidiary	**-**	250
Interest received	**1,449**	1,426
Capital grants repaid	**-**	(50)
Proceeds from receipt of Government grants	**2,384**	3,273
Net cash from investing activities	**(9,669)**	(18,348)

	2018 £'000	2017 £'000
Cash flows from financing activities		
Proceeds from loans	**7,388**	13,677
Interest paid	**(25,514)**	(26,403)
Repayment of borrowings	**(47,515)**	(22,124)
Payment of finance lease liabilities	**-**	(63)
Net cash from financing activities	**(65,641)**	(34,913)
Net increase / (decrease) in cash and cash equivalents	**123**	(10,853)
Cash and cash equivalents at 1 April	**11,614**	22,467
Cash and cash equivalents at 31 March (note 20)	**11,737**	11,614

for the year ended 31 March 2018

1. Accounting policies

Legal status
Gentoo Group Limited (the "Association") is a Community Benefit Society registered under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a private registered provider of social housing. 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"), the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, 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.

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:

- Home Purchase Plans (note 24)
- Investment properties (note 15)
- Other investments (note 16)

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 65.

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 highlights 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.

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. Accounting policies (continued)

1.3. Basis of consolidation

The Consolidated Statement of Comprehensive Income and Statement of Financial Position consolidate the results and financial position of the Association and its subsidiary undertaking. Details of the subsidiary undertakings are included in Note 16 to the financial statements. Intra-group turnover, surpluses and balances are eliminated fully 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 judgments and estimates. The judgments and estimates which have the most significant impact on amounts recognised in the financial statements are set out in note 33.

1.5. 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.

1.6. 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. Where a public benefit entity concessionary loan has been granted, the Group has opted to apply the accounting treatment set out in paragraphs PBE34.90 to PBE34.97 of FRS 102.

1. Accounting policies (continued)

1.6. Basic financial instruments (continued)

Investments in subsidiaries
Investments in subsidiaries are carried at cost less impairment.

Other investments
Other fixed asset investments are stated at fair value. Movements in fair value are recorded in the revaluation reserve.

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.

1.7. 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. The fair value is stated net of deferred revenue as this is not considered realised until the related loan is repaid.

1.8. 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.

1. Accounting policies (continued)

1.8. Tangible fixed assets (continued)

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.

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.

1.9. 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.

1. Accounting policies (continued)

1.9. Intangible assets (continued)

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 assets 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.

1.10. 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. Accounting policies (continued)

1.11. 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'.

1.12. 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.

1.13. 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.

1.14. 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.

1.15. 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.

1.16. 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. Accounting policies (continued)

1.17. 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.

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.

1.18. Employee benefits

Defined benefit plans
The Group participates in the Tyne and Wear Local Government Pension Fund (the 'Fund') which is a defined benefit scheme.

1. Accounting policies (continued)

1.18. Employee benefits (continued)

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.

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

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.

1.19. 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.

Notes to the financial statements (continued)

for the year ended 31 March 2018

1. Accounting policies (continued)

1.20. 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.

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.

1.21. 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. Accounting policies (continued)

1.22. 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.

1.23. 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 and Gentoo Developments Limited both 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.

1.24. 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

The constitutional partnership with West of Scotland Housing Association and Willowacre Trust concluded during the year and this has been classified as a discontinued operation. The prior year also reflects the disposal of Romag Limited and Romag PPM 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	Surplus on disposal £'000	2018 Operating surplus / (deficit) £'000
Social housing lettings (note 3b)	131,695	-	(90,534)	-	-	41,161
Other social housing activities:						
Charge for support services	254	-	(974)	-	-	(720)
Other	573	-	(1,071)	-	-	(498)
Activities other than social housing activities:						
Properties developed for outright sale	38,961	(30,704)	(2,679)	-	-	5,578
Grant income	118	-	-	-	-	118
Other	10,729	(742)	(10,306)	240	-	(79)
Non-social housing activities	49,808	(31,446)	(12,985)	240	-	5,617
Surplus on disposal of tangible assets	-	-	-	-	885	885
Total	182,330	(31,446)	(105,564)	240	885	46,445

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

The prior year has been updated to reflect some reclassifications.

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

Association	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Deficit on disposal £'000	2018 Operating surplus / (deficit) £'000
Social housing lettings (note 3b)	122,662	-	(85,419)	-	37,243
Other social housing activities:					
Other	1	-	(30)	-	(29)
Activities other than social housing activities:					
Other	10,690	(22)	(8,758)	-	1,910
Non-social housing activities	10,690	(22)	(8,758)	-	1,910
Deficit on disposal of tangible assets	-	-	-	(28)	(28)
Total	133,353	(22)	(94,207)	(28)	39,096

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

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	2018 Total £'000	2017 Total £'000
Income					
Rent receivable net of identifiable service charges	126,168	1,119	175	127,462	135,372
Service charge income	2,098	277	-	2,375	2,664
Net rents receivable	128,266	1,396	175	129,837	138,036
Amortised Government grants	1,858	-	-	1,858	3,631
Other SH grant income	-	-	-	-	30
Turnover from social housing lettings	130,124	1,396	175	131,695	141,697
Operating expenditure					
Management	(22,054)	(57)	-	(22,111)	(24,763)
Service charge costs	(2,560)	(340)	-	(2,900)	(2,357)
Routine maintenance	(24,917)	-	-	(24,917)	(32,088)
Planned Maintenance	(8,267)	-	-	(8,267)	(9,798)
Major repairs expenditure	(3,536)	-	-	(3,536)	(6,432)
Bad debts	(432)	-	-	(432)	(304)
Depreciation of housing properties	(28,128)	-	(24)	(28,152)	(30,120)
Impairment of housing properties	-	-	-	-	(176)
Other costs (restructure)	(219)	-	-	(219)	(1,821)
Pension credit*	-	-	-	-	3,691
Operating expenditure on social housing lettings	(90,113)	(397)	(24)	(90,534)	(104,168)
Operating surplus on social housing lettings	40,011	999	151	41,161	37,529
Rent losses from voids**	(1,552)	-	(17)	(1,569)	(1,352)

*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 relating to when West of Scotland was part of the Group.

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

The prior year has been updated to reflect some reclassifications.

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

Association	General needs housing £'000	Supported Housing and housing for older people £'000	Shared ownership £'000	2018 Total £'000	2017 Total £'000
Income					
Rent receivable net of identifiable service charges	119,314	1,119	132	120,565	315
Service charge income	1,842	168	-	2,010	-
Net rents receivable	121,156	1,287	132	122,575	315
Amortised Government grants	87	-	-	87	4
Turnover from social housing lettings	121,243	1,287	132	122,662	319
Operating expenditure					
Management	(21,587)	(57)	-	(21,644)	(49)
Service charge costs	(2,364)	(247)	-	(2,611)	-
Routine maintenance	(23,869)	-	-	(23,869)	-
Planned Maintenance	(8,267)	-	-	(8,267)	-
Major repairs expenditure	(3,011)	-	-	(3,011)	-
Bad debts	(362)	-	-	(362)	-
Depreciation of housing properties	(25,436)	-	-	(25,436)	(320)
Other costs (restructure)	(219)	-	-	(219)	-
Operating expenditure on social housing lettings	(85,115)	(304)	-	(85,419)	(369)
Operating surplus on social housing lettings	36,128	983	132	37,243	(50)
Rent losses from voids*	(1,479)	-	(17)	(1,496)	(3)

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

The prior year has been updated to reflect some reclassifications.

Notes to the financial statements (continued)

for the year ended 31 March 2018

4. Employees

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

	Group 2018 No.	Association 2018 No.	Group 2017 No.	Association 2017 No.
Executive directors and key management personnel	**5**	**5**	6	6
Managing housing services	**436**	**353**	450	10
Repairs and maintenance	**466**	**457**	491	-
Central enabling services	**188**	**173**	186	171
Development and selling homes	**72**	**-**	79	-
Other operations	**77**	**53**	117	2
Apprentices	**20**	**19**	14	14
	1,264	**1,060**	1,343	203

The aggregate payroll costs of these persons were as follows:

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Wages and salaries	**34,536**	**29,117**	38,298	7,371
Social security costs	**3,335**	**2,781**	3,625	782
Costs related to:				
Group wide defined benefit plan	**11,130**	**11,130**	7,870	1,227
Defined contribution plan	**40**	**27**	48	-
SHAPS	**115**	**-**	249	-
	49,156	**43,055**	50,090	9,380
Redundancy costs	**264**	**219**	4,016	1,530
	49,420	**43,274**	54,106	10,910

4. Employees (continued)

Pension Schemes – Group and 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.

Net pension liability	2018 £'000	2017 £'000
Defined benefit obligation	**(279,180)**	(267,840)
Plan assets	**261,360**	249,220
Net pension liability	**(17,820)**	(18,620)

Movements in present value of defined benefit obligation	2018 £'000	2017 £'000
At 1 April	**267,840**	194,640
Current service cost	**10,480**	7,260
Past service cost	**650**	610
Interest expense	**6,880**	6,730
Contributions by members	**2,050**	2,030
Actuarial losses / (gains) on scheme liabilities	**(370)**	63,450
Net benefits paid out	**(8,350)**	(6,880)
At 31 March	**279,180**	267,840

Movements in fair value of plan assets	2018 £'000	2017 £'000
At 1 April	**249,220**	185,540
Interest income	**6,530**	6,580
Remeasurement: return on plan assets less interest income	**1,870**	52,230
Contributions by employer	**10,040**	9,720
Contributions by members	**2,050**	2,030
Benefits paid	**(8,350)**	(6,880)
At 31 March	**261,360**	249,220

Expense recognised in the Statement of Comprehensive Income	2018 £'000	2017 £'000
Current service cost	**(10,480)**	(7,260)
Past service cost	**(650)**	(610)
Net interest on net defined benefit liability	**(350)**	(150)
Total expense recognised in the Statement of Comprehensive Income	**(11,480)**	(8,020)
Recognised in other comprehensive income	**2,240**	(11,220)

4. Employees (continued)

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

	2018 Fair value £'000	2018 Fair value %	2017 Fair value £'000	2017 Fair value %
Equities	**175,112**	**67.0**	166,728	66.9
Government bonds	**10,454**	**4.0**	9,720	3.9
Corporate bonds	**30,579**	**11.7**	28,660	11.5
Property	**22,216**	**8.5**	22,928	9.2
Cash	**9,670**	**3.7**	6,480	2.6
Other	**13,329**	**5.1**	14,704	5.9
	261,360	**100.0**	249,220	100.0

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

	2018 %	2017 %
Discount rate	**2.6**	2.6
Future salary increases	**3.5**	3.5
RPI inflation	**3.1**	3.1
CPI inflation	**2.0**	2.0
Pension increases	**2.0**	2.0
Pension accounts revaluation rate	**2.0**	2.0

	£'000	£'000
Actual return on plan assets	**8,400**	58,810

Last full actuarial valuation was performed on 31 March 2016.

In valuing the liabilities of the pension fund at 31 March 2018, 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: 22.9 years (male), 26.4 years (female).
- Future retiree upon reaching 65: 25.1 years (male), 28.7 years (female).

5. Directors' and key management personnel remuneration

	2018 £'000	2017 £'000
Non-Executive Directors remuneration	**153**	151
Executive Directors and key management personnel remuneration	**603**	907
Association contributions to group wide defined benefit plan	**105**	65
Compensation for loss of office *	**51**	338
Amounts paid to third parties in respect of directors' services	**89**	-
	1,001	1,461

*The 2018 £51k is payment in lieu of notice.

Retirement benefits are accruing to three (2017: five) of the above senior staff under a defined benefit scheme. The aggregate remuneration (excluding compensation for loss of office) of the highest paid director was £140,000 (2017: £234,805).

The Group made £nil (2017: £nil) pension contributions for both the outgoing Chief Executive, and the incoming interim Chief Executive.

Board Member	Board role	2018 Remuneration £'000	2017 Remuneration £'000
Barrington Billings	Non-Executive Director	**-**	8
Barry Curran	Non-Executive Director	**10**	8
Brian Spears	Non-Executive Director	**12**	7
Christopher Watson	Non-Executive Director	**10**	2
Colin Blakey	Non-Executive Director	**15**	12
David Murtagh	Non-Executive Director	**15**	2
Frank Nicholson	Non-Executive Director	**10**	2
Hunada Nouss	Non-Executive Director	**-**	8
Ian Self	Chairman (Resigned 27/9/17)	**18**	35
John Dannell	Non-Executive Director	**-**	15
John Walker	Non-Executive Director	**-**	5
Keith Loraine	Non-Executive Director (Appointed Chairman 28/9/17)	**17**	2
Leslie Herbert	Non-Executive Director	**12**	2
Mary Coyle	Non-Executive Director	**14**	17
Paul Stewart	Non-Executive Director	**10**	8
Philip Tye	Non-Executive Director	**10**	10
Richard Beevers	Non-Executive Director	**-**	8
Total		**153**	151

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:

		2018 No.			2017 No.
£70,001 - £80,000		**-**	£70,001 - £80,000	Steve Hicks	1
£80,001 - £90,000	**David Jepson***	**1**	£80,001 - £90,000		-
£120,001 - £130,000		**-**	£120,001 - £130,000	Louise Bassett	1
£140,001 - £150,000	**Louise Bassett Graham Gowland John Craggs**	**3**	£140,001 - £150,000	Michelle Meldrum	1
£150,001 - £160,000	**Michelle Meldrum**	**1**	£150,001 - £160,000		-
£170,001 - £180,000	**Nigel Tooby**	**1**	£170,001 - £180,000		-
			£210,001 - £220,000	Ian Porter	1
			£230,001 - £240,000	John Craggs	1
			£400,001 - £410,000	Stephen Lanaghan	1

*Interim Chief Executive Officer remunerated via a third party

6. Surplus / (deficit) on disposal of tangible fixed assets

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Proceeds from sales	**13,972**	**13,946**	5,529	256
Cost of sales	**(85)**	**(85)**	-	-
Net book value of assets sold	**(12,802)**	**(13,689)**	(5,082)	(228)
Net book value of assets demolished	**(70)**	**(70)**	(1,176)	-
	1,015	**102**	(729)	28
Transfer to disposal proceeds fund	**(18)**	**(18)**	(924)	(14)
Transfer to recycled capital grant fund	**(112)**	**(112)**	-	-
Grant repaid	**-**	**-**	50	-
	885	**(28)**	(1,603)	14

7a. Deficit on disposal of a discontinued operation

Group	2018 £'000	2017 £'000
Proceeds from sale	**-**	250
Net book value of assets sold	**(14,043)**	(4,767)
	(14,043)	(4,517)

7b. Deficit on disposal of investments

Association	2018 £'000	2017 £'000
Proceeds from sale	**-**	250
Investment value	**-**	(1,838)
	-	(1,588)

8. Interest receivable and similar income

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Bank interest receivable	**5**	**5**	36	36
Interest receivable on treasury deposits	**20**	**18**	42	26
Interest receivable on fixed rate investments	**1,364**	**1,364**	1,372	1,372
Interest receivable from Group undertakings	**-**	**1,320**	-	23,143
	1,389	**2,707**	1,450	24,577

9. Interest payable and similar charges

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Interest on loans repayable within five years	**1,128**	**346**	830	497
Interest on loans repayable in more than five years by instalments	**23,877**	**23,877**	25,257	23,876
Interest payable to group undertakings	**-**	**400**	-	-
Bank fees and similar charges	**194**	**194**	211	204
	25,199	**24,817**	26,298	24,577
Interest on pension liability	**350**	**350**	344	150
Total interest payable and similar charges	**25,549**	**25,167**	26,642	24,727

10. Expenses and auditors' remuneration

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Included in surplus / (deficit) are the following:				
Depreciation:				
Housing properties	28,152	25,436	30,120	320
Other tangible fixed assets	1,128	1,064	1,562	919
Amortisation of intangible assets	-	-	110	108
Impairment loss on fixed assets				
Housing properties	-	-	176	-
Change in value of investment property	562	562	650	-
Restructuring costs	264	219	4,016	1,530
Auditor's remuneration:				
Audit of these financial statements	40	40	43	4
Amounts receivable by the Association's auditor and its associates in the respect of:				
Audit of financial statements of subsidiaries of the Association	24	-	89	-
Audit-related assurance services	36	34	38	38
Taxation compliance services	-	-	11	11
Other tax advisory services	23	23	41	41
All other services	29	27	111	111

11. Taxation

Total tax charge recognised in the statement of comprehensive income, other comprehensive income and equity.

	2018 Group £'000	2018 Association £'000	2017 Group £'000	2017 Association £'000
Current tax				
Current tax on income for the period	222	222	285	-
Adjustments in respect to prior periods	(10)	(10)	(116)	-
Total current tax	212	212	169	-

Reconciliation of effective tax rate

	2018 Group £'000	2018 Association £'000	2017 Group £'000	2017 Association £'000
Surplus / (deficit) for the year	7,680	19,756	8,518	(218)
Tax at standard rate of 19% (2017: 20%)	1,459	3,754	1,704	(44)
Prior period adjustments	(10)	(10)	(116)	-
Utilisation of tax losses	-	-	(24)	-
Non-taxable income	-	-	(12)	-
Charitable tax exemptions	(1,157)	(3,512)	(1,331)	44
Deferred tax not recognised	(80)	(20)	(52)	-
Total tax charge included in profit or loss	212	212	169	-

In total, the Group has an unrecognised deferred tax asset of £930k (Company £829k).

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015 and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

12. Intangible assets

	Goodwill £'000	Licences £'000	Group Total £'000	Goodwill £'000	Licences £'000	Association Total £'000
Cost						
Balance at 31 March 2017	448	24	472	448	24	472
Balance at 31 March 2018	**448**	**24**	**472**	**448**	**24**	**472**
Amortisation						
Balance at 31 March 2017	358	24	382	358	24	382
Amortisation for the year	90	-	90	90	-	90
Balance at 31 March 2018	**448**	**24**	**472**	**448**	**24**	**472**
Net book value						
At 31 March 2017	90	-	90	90	-	90
At 31 March 2018	**-**	**-**	**-**	**-**	**-**	**-**

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

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Operating expenditure	**90**	**90**	110	108

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 31 March 2017	1,427,423	9,451	7,462	1,379	**1,445,715**
Additions	1,080	-	9,216	-	**10,296**
Enhancements	15,355	-	-	-	**15,355**
Schemes completed	11,912	-	(11,912)	-	**-**
Disposals	(15,891)	(181)	-	-	**(16,072)**
Category transfer	63	(63)	-	-	**-**
Transferred from DPF	-	-	(361)	-	**(361)**
Discontinued operation	(261,904)	(2,817)	(4,155)	-	**(268,876)**
Balance at 31 March 2018	**1,178,038**	**6,390**	**250**	**1,379**	**1,186,057**
Depreciation					
Balance at 31 March 2017	217,168	1,049	-	367	**218,584**
Depreciation charge for the year	28,107	24	-	21	**28,152**
Disposal	(3,390)	(8)	-	-	**(3,398)**
Discontinued operation	(66,308)	(911)	-	-	**(67,219)**
Balance at 31 March 2018	**175,577**	**154**	**-**	**388**	**176,119**
Net book value					
At 31 March 2017	1,210,255	8,402	7,462	1,012	1,227,131
At 31 March 2018	**1,002,461**	**6,236**	**250**	**991**	**1,009,938**

Security
£915.2m (27,367 units) of completed properties net book value is held as security against debt (notes 21 and 25).

Impairment loss
There was no impairment charge during the year ended 31 March 2018.

Expenditure to works on existing properties:

	2018 £'000	2017 £'000
Amounts capitalised – improvements	**15,355**	18,907
Amounts charged to statement of comprehensive income (note 3b)	**3,536**	6,432
	18,891	25,339

13. Tangible fixed assets – housing properties (continued)

Association	Housing properties held for letting £'000	Shared ownership £'000	Housing properties under construction £'000	Garages held for letting £'000	Total £'000
Cost					
Balance at 31 March 2017	1,171,876	6,634	7,414	1,229	**1,187,153**
Additions	-	-	5,857	-	**5,857**
Enhancements	15,355	-	-	-	**15,355**
Schemes Completed	11,727	-	(11,727)	-	**-**
Disposals	(16,277)	(309)	-	-	**(16,586)**
Category transfer	(126)	126	-	-	**-**
Transferred from DPF	-	-	(361)	-	**(361)**
Balance at 31 March 2018	**1,182,555**	**6,451**	**1,183**	**1,229**	**1,191,418**
Depreciation					
Balance at 31 March 2017	153,239	166	-	216	**153,621**
Depreciation charge for the year	25,415	-	-	21	**25,436**
Disposals	(2,912)	(10)	-	-	**(2,922)**
Balance at 31 March 2018	**175,742**	**156**	**-**	**237**	**176,135**
Net book value					
At 31 March 2017	1,018,637	6,468	7,414	1,013	1,033,532
At 31 March 2018	**1,006,813**	**6,295**	**1,183**	**992**	**1,015,283**

14. Tangible fixed assets – other

Group	Land and buildings £'000	Furniture, fixtures and fittings £'000	Vehicles and equipment £'000	Total £'000
Cost				
Balance at 31 March 2017	22,277	1,019	9,436	32,732
Additions	-	154	1,411	1,565
Disposals	-	(23)	(525)	(548)
Discontinued operation	(2,841)	(5)	(360)	(3,206)
Reclassification	(6)	13	(7)	-
Balance at 31 March 2018	**19,430**	**1,158**	**9,955**	**30,543**
Depreciation				
Balance at 31 March 2017	5,251	698	7,013	12,962
Depreciation charge for the year	420	42	666	1,128
Disposals	-	(13)	(218)	(231)
Discontinued operation	(144)	(3)	(304)	(451)
Balance at 31 March 2018	**5,527**	**724**	**7,157**	**13,408**
Net book value				
At 31 March 2017	17,026	321	2,423	19,770
At 31 March 2018	**13,903**	**434**	**2,798**	**17,135**

The net book value of land and buildings comprises:

	2018 £'000	2017 £'000
Freehold	**11,445**	14,500
Long leasehold	**2,458**	2,526
	13,903	17,026

14. Tangible fixed assets – other

Association	Land and buildings £'000	Furniture, fixtures and fittings £'000	Vehicles and equipment £'000	Total £'000
Cost				
Balance at 31 March 2017	19,581	1,029	8,730	**29,340**
Additions	-	154	1,092	**1,246**
Disposals	-	-	(174)	**(174)**
Category transfer	-	(23)	-	**(23)**
Balance at 31 March 2018	19,581	1,160	9,648	**30,389**
Depreciation				
Balance at 31 March 2017	5,190	697	6,407	**12,294**
Depreciation charged for the year	394	41	629	**1,064**
Disposals	-	(13)	(135)	**(148)**
Balance at 31 March 2018	5,584	725	6,901	**13,210**
Net book value				
At 31 March 2017	14,391	332	2,323	**17,046**
At 31 March 2018	**13,997**	**435**	**2,747**	**17,179**

The net book value of land and buildings comprises:

	2018 £'000	2017 £'000
Freehold	**11,539**	11,865
Long leasehold	**2,458**	2,526
	13,997	14,391

15. Investment properties

	Group freehold £'000	Association freehold £'000
At 31 March 2017	15,043	14,818
Disposals	(75)	(75)
Cost transfers	(403)	(403)
Fair value adjustment	(562)	(562)
Category transfer	(23)	(23)
Discontinued operation	(225)	-
At 31 March 2018	**13,755**	**13,755**

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 2018 and as a result of this, a fair value decrease of £562k was required. The directors value the portfolio every year. The valuations, which are supported by market evidence, are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is accounted for as described in the turnover accounting policy. The Directors consider the remaining carrying value of investment properties to be an appropriate fair value.

16. Other investments

Group and Association – Debt Service Reserve	Historical Cost £'000	Market Value £'000
At 31 March 2017	25,218	33,332
Revaluation as at 31 March 2018	-	(832)
At 31 March 2018	**25,218**	**32,500**

At 31 March 2018, the investment assets (debt service reserve) are additional security for the £212.8m loan from T.H.F.C (see notes 21 and 25).

Association	**Investment in subsidiaries 2018 £'000**	Investment in subsidiaries 2017 £'000
Cost and net book value		
At 31 March	**350**	350

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 £'000	Country of incorporation	Registered number	Class and percentage of shares held 2018
Non-registered providers					
Gentoo Art of Living	56,940	(720)	England	IP31960R	CBS
Gentoo Care Limited	-	-	England	07728134	Ordinary – 100%
Gentoo Developments Limited	39	2,570	England	06192887	Ordinary – 100%
Gentoo Genie Limited	(305)	351	England	07083129	Ordinary – 100%
Gentoo Genie Admin Limited*	100	-	England	08201449	Ordinary – 100%
Gentoo Homes Limited	977	412	England	04739226	Ordinary – 100%
Genie Homeplan Limited*	-	-	England	07103094	Ordinary – 100%
Gentoo Ventures Limited*	-	-	England	04565964	Ordinary – 100%

*Dormant subsidiaries

The subsidiaries' registered office is Emperor House, 2 Emperor Way, Doxford International Business Park, Sunderland, SR3 3XR.

17. HomeBuy loans receivable – Group and Association

	Total £'000
Loan advanced to borrowers at 31 March 2017	879
Repaid during the year	(148)
Loan advanced to borrowers at 31 March 2018	**731**

18. Stock

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Properties for sale				
Properties under construction	**36,709**	**-**	32,051	-
Completed properties	**7,813**	**320**	3,709	320
Properties held for resale	**276**	**-**	944	-
Land held for development	**22,523**	**22,427**	13,051	13,051
	67,321	**22,747**	49,755	13,371
Raw materials and consumables	**572**	**572**	602	562
	67,893	**23,319**	50,357	13,933

There are a number of developments that are funded by Homes England's Home Building Fund (HBF). This funding is secured by way of a first charge against the land to be developed, and is applicable to the following sites:

Orwell Grange, Carlton	Lanchester Rise, Lanchester
Orchard Quarter, Glebe	Bramblewood, Hetton-le-Hole

19. Debtors

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Arrears of rent	**7,609**	**7,609**	7,901	7,239
Less: provision for bad and doubtful debts – rent	**(3,240)**	**(3,240)**	(3,746)	(3,503)
Net rental debtors	**4,369**	**4,369**	4,155	3,736
Trade debtors	**1,553**	**1,463**	2,777	2,739
Less: provision for bad debts	**(135)**	**(127)**	(56)	(56)
Amounts owed by group undertakings	**-**	**6,815**	-	2,044
Other debtors	**3,174**	**3,037**	3,143	2,501
Prepayments and accrued income	**4,878**	**4,389**	14,761	3,863
	13,839	**19,946**	24,780	14,827

20. Cash and cash equivalents

	Group 2018 £'000	Group 2017 £'000
Cash at bank and in hand	11,790	16,486
Bank overdraft	(53)	(4,872)
Cash and cash equivalents per cash flow statement	**11,737**	11,614

21. Creditors: amounts falling due within one year

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Bank overdraft	53	-	4,872	4,314
Commercial loans (note 26)	11,415	11,415	14,140	12,456
Other loans – BFF	-	-	11,969	-
Trade creditors	2,740	1,932	2,546	1,740
Rent received in advance	2,087	2,087	2,270	1,933
Taxation and social security	784	781	861	796
Other creditors	3,751	4,152	3,971	3,721
Amounts owed to group undertakings	-	7	-	7
Accruals and deferred income	9,015	4,529	12,803	6,128
Pension liability	-	-	504	-
SHG and other grants in advance	-	-	14	14
Disposal proceeds fund (note 23)	337	337	386	386
	30,182	25,240	54,336	31,495

Leaseholders' funds

As at 31 March 2018 the Group and Association held funds on behalf of leaseholders in respect of schemes under management of £1.6m (2017: £1.6m). This is included in other creditors within Creditors: amounts falling due within one year.

22. Reconciliation of Recycled Capital Grant Fund

	Group £'000	Association £'000
Opening balance at 31 March 2017	49	49
Grants Recycled	112	112
Recycling of grant: New build	(48)	(48)
Closing balance at 31 March 2018	113	113

There are no amounts (2017: £nil) three years old or older where repayment may be required.

23. Reconciliation of Disposal Proceeds Fund

		Group £'000	Association £'000
Opening balance at 31 March 2017		1,627	1,627
Inputs to DPF:	Net receipts	18	18
	Interest accrued	8	8
Use / allocation of funds:	New build	(361)	(361)
Closing balance at 31 March 2018		1,292	1,292

There are no amounts (2017: £nil) three years old or older where repayment may be required.

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

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Other	700	700	200	200
Amounts owed by group undertakings	-	40,289	-	35,382
Genie Home Purchase Plans (HPP)	6,987	356	8,055	-
Deferred revenue	(1,304)	(117)	(1,407)	-
	6,383	41,228	6,848	35,582

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 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Commercial loans	**548,414**	**548,414**	628,862	574,666
Amounts owed to group undertakings	**-**	**55,957**	-	55,943
Deferred capital grant	**11,501**	**11,501**	145,326	10,236
Pension liability - SHAPS	**-**	**-**	2,055	-
Other creditors	**12,110**	**12,110**	234	-
Disposal proceeds fund (note 23)	**955**	**955**	1,241	1,241
Recycled capital grant fund (note 22)	**113**	**113**	49	49
	573,093	**629,050**	777,767	642,135

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 the Company secured £13.1m of Builders Finance Funding to deliver 167 units across seven schemes by April 2018. This facility was fully repaid during the year (2017: £12.0m of the facility had been drawn down and £4.6m had been repaid). In March 2018 £7.5m funding was secured, but not drawn down, from Homes England via the Home Building Fund. The imputed interest on the loan reflects the market interest rates available to the Group. The loans have no fixed repayment dates 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 September 2020.

The commercial loans can be analysed as follows:

	Group 2018 £'000	Association 2018 £'000	Group 2017 £'000	Association 2017 £'000
Due between one and two years:				
Repayable by instalments	**11,889**	**11,889**	14,739	13,020
Due between two and five years:				
Repayable by instalments	**52,749**	**52,749**	54,276	48,024
Due after more than five years:				
Repayable by instalments	**480,933**	**480,933**	556,687	510,462
Transaction fees	**2,843**	**2,843**	3,160	3,160
	548,414	**548,414**	628,862	574,666

26. Debt analysis

Maturity of debt

Group and Association	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	-	-	-	24,000	24,000
Term	11,415	11,889	52,749	459,776	535,829
At 31 March 2018	**11,415**	**11,889**	**52,749**	**483,776**	**559,829**
At 31 March 2017	14,140	14,739	54,276	559,847	643,002

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	1,605	1,740	26,160	34,170	63,675
Term	12,570	17,307	53,626	459,775	543,278
At 31 March 2018	**14,175**	**19,047**	**79,786**	**493,945**	**606,953**
At 31 March 2017	14,140	14,739	54,776	584,502	668,157

Maturity of Facilities

Association	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	1,605	1,740	26,160	34,170	63,675
Term	11,415	11,889	52,749	459,776	535,829
At 31 March 2018	**13,020**	**13,629**	**78,909**	**493,946**	**599,504**
At 31 March 2017	12,456	13,020	48,024	513,622	587,122

Interest Rate Analysis

Group and Association	Total £'000	Floating rate £'000	Fixed rate £'000	Fixed interest rate %	Time fixed rate debt in years
Revolver	24,000	24,000	-	-	-
Term	535,829	135,684	400,145	5.7	23
At 31 March 2018	**559,829**	**159,684**	**400,145**	**5.7**	**23**
At 31 March 2017	643,002	217,084	425,918	5.8	24

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 31 March 2017	184,024	6,004	1,260	**191,288**
Received during the year	-	2,677	-	**2,677**
Transferred from RCGF	-	48	-	**48**
Schemes completed	2,882	(2,882)	-	**-**
Discontinued operation	(175,932)	(5,134)	(1,199)	**(182,265)**
Balance at 31 March 2018	**10,974**	**713**	**61**	**11,748**
Amortisation				
Balance at 31 March 2017	45,064	-	898	**45,962**
Released in the year	1,847	-	11	1,858
Discontinued operation	(46,664)	-	(909)	(47,573)
Balance at 31 March 2018	**247**	**-**	**-**	**247**
At 31 March 2017	138,960	6,004	362	145,326
At 31 March 2018	**10,727**	**713**	**61**	**11,501**

Association	Housing properties held for letting £'000	Housing properties under construction £'000	Shared ownership properties £'000	Total £'000
Cost				
Balance at 31 March 2017	8,093	2,244	60	10,397
Received in the year	-	1,304	-	1,304
Transferred from RCGF	-	48	-	48
Schemes Completed	2,882	(2,882)	-	-
Balance at 31 March 2018	**10,975**	**714**	**60**	**11,749**
Amortisation				
Balance at 31 March 2017	161	-	-	161
Released in the year	87	-	-	87
Balance at 31 March 2018	**248**	**-**	**-**	**248**
At 31 March 2017	7,932	2,244	60	10,236
At 31 March 2018	**10,727**	**714**	**60**	**11,501**

28. Capital commitments

Group	2018 £'000	2017 £'000
Expenditure contracted for but not provided for in the financial statements	**11,933**	17,222
Expenditure authorised by Board but not contracted	**114,822**	34,889
	126,755	52,111

The commitments will be funded through Grant (£2.3m), property sales (£29.2m) and existing facilities (£95.3m).

Association	2018 £'000	2017 £'000
Expenditure contracted for but not provided for in the financial statements	**11,933**	10,309
Expenditure authorised by Board but not contracted	**114,822**	29,327
	126,755	39,636

The commitments will be funded through Grant (£2.3m), property sales (£29.2m) and existing facilities (£95.3m).

29. Contingent Liabilities

The Group receives grant from Homes England (formerly the Homes and Communities Agency) which is used to fund the acquisition and development of housing properties and their components. In line with FRS 102, Section 24, £48.8m (2017: £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 2018 the timing of any future disposal is uncertain.

30. Other financial commitments

Non-cancellable operating lease rentals are payable as follows:

Group	2018 Land and buildings £'000	2018 Other £'000	2017 Land and buildings £'000	2017 Other £'000
Less than one year	**113**	**1,174**	114	1,298
Between one and five years	**206**	**510**	321	249
More than five years	**-**	**-**	-	4
	319	**1,684**	435	1,551

During the year £1,703k was recognised as an expense in the statement of comprehensive income in respect of operating leases (2017: £1,836k).

30. Other financial commitments (continued)

Association	2018 Land and buildings £'000	2018 Other £'000	2017 Land and buildings £'000	2017 Other £'000
Less than one year	**113**	**1,114**	114	1,212
Between one and five years	**206**	**461**	321	184
More than five years	**-**	**-**	-	4
	319	**1,575**	435	1,400

During the year £1,657k was recognised as an expense in the statement of comprehensive income in respect of operating leases (2017: £1,731k).

31. Related parties

Identity of related parties with which the Association has transacted

The Board as at 31 March 2018 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.

	2018 £'000	2017 £'000
Balances with the LA as at 31 March 2018 were:		
Accruals and deferred income	**718**	1
Other creditors	**-**	1
Prepayments and accrued income	**-**	15
Transactions with the LA during the year ended 31 March 2018 were:		
Sales to the LA	**1,303**	2,080
Purchases from the LA	**1,669**	822

	Receivables outstanding 2018 £'000	Creditors outstanding 2018 £'000	Receivables outstanding 2017 £'000	Creditors outstanding 2017 £'000
City of Sunderland Council	**53**	**42**	577	36

31. Related parties (continued)

The Board also includes one member, as shown on page 4, who is a tenant of the Association. In addition, a Board member's close family member is a tenant of the Association and the Executive Director (Operations) has two close family members who are joint tenants 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 these tenancies.

The Executive Director (Finance), as shown on page 5, is a private tenant of the Association. The terms of the tenancy arrangements are consistent with those offered to other private tenants of the Association and at the end of the year no amount was due to the Association in respect of this Executive Director.

The Executive Director (Operations), as shown on page 5, has a close family member whose company transacted with the Association during the year. The Association made purchases of £3k (2017: £1k) from this company. These transactions were undertaken on an arm's length basis in the normal course of business and at the end of the year no amount was due to the Association in respect of these transactions.

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 2018 £'000	Purchases from 2018 £'000	Sales to 2017 £'000	Purchases from 2017 £'000
Gentoo Homes Limited				
Group management charges	**828**	**-**	828	-
Gentoo renewal plan	**-**	**6,357**	-	8,673
Group interest charges	**1,081**	**-**	614	-
	1,909	**6,357**	1,442	8,673
Gentoo Developments Limited				
Homes interest charges	**-**	**13**	-	-
Group interest charges	**253**	**-**	403	-
Genie – property sale	**-**	**-**	380	-
Art of Living – interest payment	**-**	**400**	-	570
	2,162	**6,770**	2,225	9,243

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.

Valuation of work in progress and land held for development

Stock is carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and overheads. Valuations of site/phase work in progress are carried out at regular intervals and estimates of the cost to complete a site/phase and estimates of anticipated revenues are required to enable a development profit to be determined. Management are required to employ considerable judgement in estimating the profitability of a site/phase and in assessing any impairment provisions which may be required. For both financial years, a full review of stock has been performed with no impairment being considered necessary. Estimated selling prices have been reviewed on a site by site/phase by phase basis and have been amended based on local management and the Board's assessment of current market conditions. For the years ended 31 March 2017 and 31 March 2018 no exceptional charge has resulted from the review.

Gross profit recognition

Gross profit for completed house sales is recognised based on the latest whole site/phase gross margin which is an output of the site/phase valuation. These valuations, which are updated at frequent intervals throughout the life of the site/phase, use actual and forecast selling prices, land costs and construction costs and are sensitive to future movements in both the estimated cost to complete and expected selling prices. Forecast selling prices are inherently uncertain due to changes in market conditions.

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.

35. Housing stock

	Group 2018 No.	Group 2017 No.
Social housing: owned and managed		
General needs social rent	27,285	30,683
Intermediate rent	71	75
Affordable rent	1,153	923
Shared ownership	145	199
Houses for older people	191	191
Houses for older people – affordable rent	42	42
Supported housing	45	273
Total social housing: owned and managed	28,932	32,386
Social housing: managed not owned		
General housing social rent	5	434
Supported housing	12	12
Leasehold schemes – freehold retained	738	738
Total social housing: managed not owned	755	1,184
Social housing: owned not managed		
General housing social rent	16	63
Supported housing	52	72
Total social housing: owned not managed	68	135
Total social housing stock	29,755	33,705
Non-social housing: owned and managed		
Market Rent	70	71
Non-social housing: managed not owned		
Leasehold schemes – freehold retained	246	245
Total non-social housing	316	316
Total housing stock	30,071	34,021

35. Housing stock (continued)

	Association 2018 No.	Association 2017 No.
Social housing: owned and managed		
General needs social rent	27,285	27,538
Intermediate rent	71	75
Affordable rent	1,153	923
Shared ownership	145	152
Houses for older people	191	191
Houses for older people – affordable rent	42	42
Supported housing	45	52
Total social housing: owned and managed	28,932	28,973
Social housing: managed not owned		
General housing social rent	5	8
Leasehold schemes – freehold retained	738	738
Total social housing: managed not owned	743	746
Social housing: owned not managed		
General housing social rent	16	16
Supported housing	52	72
Total social housing: owned not managed	68	88
Total social housing stock	29,743	29,807
Non-social housing: owned and managed		
Rented owned	70	71
Non-social housing: managed not owned		
Leasehold schemes – freehold retained	246	245
Leasehold scheme managed for others	-	-
Total non-social housing: managed not owned	246	245
Total non-social housing stock	316	316
Total housing stock	30,059	30,123

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