The background of the cover is a solid orange color with a subtle gradient. A faint, stylized illustration of a bird in flight is visible in the upper right quadrant. A trail of overlapping circles, some solid and some outlined, extends from the left side towards the center, partially behind the text.

Annual Report and Accounts 2016





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Chairman's Review 2016

I am pleased to introduce the Annual Report and Accounts for the Group. This has been a year of significant change as we face challenges posed by Government policy, market conditions and regulation. The Government has continued to pursue austerity measures as part of its drive to reduce the budget deficit. We have seen the continuation of impacts around Welfare Reform and the introduction of the first round of Universal Credit for our customers. The major change, however, was the implementation of the 1% rent reduction for four years effective from April 2016. Despite Government assurances that the previous CPI + 1% formula would be maintained for 10 years, this was rescinded by the July 2015 Budget. As a consequence, the Group has had to fundamentally review our operating model with a view to making the necessary savings and to present a viable business plan going forward. This review has unfortunately resulted in 330 staff having to leave the business as we re-structured our operations. In addition, a further 69 people have left the business to join Tolent in our joint venture with them. Many experienced and valued staff had to leave us during this time and I am grateful for all of their contributions in making Gentoo the great company that it is. I would particularly like to express my thanks to Peter Walls, who left us in January. He has had a huge influence on the Group and in the sector and I wish him well for the future.

The Group has also reviewed its business strategy and we have taken the decision to focus on our core landlord and development businesses. We are in the process of divesting from non-core activity that does not fit with our future strategy. Astley Facades was sold last year and Gentoo Construction was fully transferred to Tolent at the beginning of 2016. This year the decision was also made to not accept any new customers or expand Genie outside of the North East. Romag Limited and Romag PPM Limited were sold on 14 July 2016.

The results for this year reflect the extent of restructuring that we have had to undertake. Turnover has remained strong at £215.3m but the restructuring costs of £11.3m have resulted in a deficit of £8.8m after tax. Excluding the one-off restructuring costs shows the underlying surplus of the Group was £2.5m after tax. The continuing activities have an underlying surplus of £9.2m on the same basis. Performance within a number of non-core businesses has been disappointing hence the decision to divest. The inherent performance of Gentoo Sunderland, Gentoo Homes and West of Scotland Housing Association remains strong and we will look to build on this performance over the coming years as the combination of efficiencies and focus on core activity takes effect and we work towards our strategic aims.

I am pleased to report that despite a challenging operating environment, there have been a number of notable highlights. It was great to see the continued delivery of outstanding new homes in Sunderland and across the region. These include



“It is a credit to the Group and to its culture that we have the resilience to deal with the issues that we have faced”

our developments at Doxford Park, Ryhope, Humbles Wood in Prudhoe and the award winning Bowers development in Durham. We are building high quality housing for sale, the profits from which enable us to cross subsidise our wider development programme. This year also marked a major milestone for the Group with more than 5,500 of our homes now benefitting from Solar PV.

On 1 April 2016 we completed the conversion to a charitable community benefit society, which is reflective of the Group's strategic focus in terms of fulfilling our charitable objectives within a more efficient operating model. This brings a range of benefits including potential access to new funding streams and significant tax savings for the Group.

We have continued to review our governance arrangements in line with our conversion to a community benefit society with charitable status, strengthening our Boards and Committees with a particular emphasis on reviewing and managing our risk appetite and risk exposure. We will be further reviewing and completing our governance structure during the course of the forthcoming year. Our relationship with the Homes and Communities Agency (HCA) is positive. We are continuing to respond to concerns raised in our last regulatory judgement, with clear action plans in place to address the outstanding areas.

This year I was delighted to confirm the appointment of John Craggs as Chief Executive Officer (CEO). John has brought his

considerable experience to the Group and continues to lead us through this period of transition. This year West of Scotland Housing Association (WSHA) also welcomed Lynne Donnelly as Chief Executive and a new Corporate Management Team. We look forward to working with them and building on our strategic partnership.

Finally, in looking back on the year, I would like to express my thanks and gratitude to the staff and to the Board who have moved the Group through a major transition but who have maintained the levels of service and delivery to customers that we would expect. It is a credit to the Group and to its culture that we have the resilience to deal with the issues that we have faced and I look forward to chairing the Group into 2016 and beyond.

Ian Self
Chairman
Gentoo Group

8 August 2016



Chief Executive Officer's Review 2016

I am delighted to be able to give my first update as CEO. This year has seen major upheaval within the sector, much of which has been driven by a re-focus of Government policy in order to address ongoing issues of austerity, but also a shift in emphasis from affordable homes for rent to the delivery of new homes for sale. This has presented a number of significant challenges to the Group. The July 2015 Budget introduced the implementation of the rent reduction which was then framed within the Welfare Reform and Work Bill. Further legislation was then announced within the Housing and Planning Bill which confirmed a number of further changes for the operation of council housing in particular. These included the ending of lifetime tenancies for new tenancies, the implementation of high value sales of vacant council properties, voluntary right to buy extension to Housing Associations, promotion of starter homes and pay to stay. Whilst a number of these initiatives are voluntary in terms of take up for Housing Associations they signal a change in direction away from social rented housing towards owner occupation.

The Group has to respond and plan for these changes and find new and innovative ways to increase housing supply in line with the Government's ambition to deliver one million new homes by 2020. The Group already develops and manages homes across a range of tenures which can give us a position of advantage in addressing this new landscape. The Group will also be considering whether and how to engage with the Shared Ownership

and Affordable Homes Programme for 2016-2021 in order to support the direction of travel on delivering affordable home ownership.

The challenges presented by the combination of the rent reduction and income pressures from non-core activity led to a fundamental review of the Group's business strategy and business plan during the Summer and Autumn of 2015, every aspect of the Group was reviewed in full consultation and discussion with the Group board, the staff and Trade Unions. We were able to submit a viable revised business plan to the regulator in October but this has meant a significant re-shaping of the Group in order to achieve it.

In developing the new business strategy, we have been able to create a clear focus on five strategic aims covering outstanding service to customers, managing and growing our assets, supporting our people to deliver the vision and to live the values, working in partnership with others and being well governed and financially strong. As the new values and aims are embedded we will look to build a solid base from which to position the Group for growth. This will mean that we will have to think and act differently, be leaner and more efficient with a continuing focus on innovation, value for money and constructive challenge across all areas of the business.

We continue to strive to deliver outstanding services to customers and have achieved the Customer Service Excellence accreditation as well as maintaining our position as a Stonewall Star Performer in recognition of our work in creating inclusive workplaces. We have also retained our top



“ I am really proud of the positive impact our people have made in our communities, through collaboration, building strong partnerships and working with our customers. ”

performing status in the Corporate Responsibility Index. Once again, we were rated as one of the UK's most responsible businesses demonstrating our ongoing commitment to making a positive impact on society. We have also been continuing our work through the Domestic Abuse Housing Alliance and have made huge progress in influencing and improving the housing sectors response to domestic abuse. I am really proud of the positive impact our people have made in our communities, through collaboration, building strong partnerships and working with our customers.

In taking the Group forward we can draw on a new executive and senior leadership team who will drive both culture and performance. This has been a difficult year for many of our staff and I am extremely grateful for the resilience and attitude that they have shown in implementing and responding to the necessary changes. I am sure that we will emerge leaner and stronger, focusing on the Group's strengths and developing our core areas of activity.

John Craggs
Chief Executive Officer
Gentoo Group

8 August 2016





About us

Gentoo is a housing association that owns and manages more than 32,000 homes.

We believe that by putting people first we can build great homes and create strong communities.

We are focused on delivering an outstanding service to our customers and as a responsible business we pride ourselves on inspiring people to make a difference.

We collaborate with key partners and other housing associations to influence things that affect our colleagues, customers and society.

We are one of the largest employers in Sunderland and landlords in the North East.

People



Our staff, customers, partners and the wider community have all played a part in helping us to build stronger and more vibrant communities. Our work is focused around delivering an outstanding service to our customers so that our people and communities thrive. As one of the biggest landlords and employers in Sunderland our success is measured by the positive impact we have on people and society.

Once again, our responsible business activity has been recognised by Business in the Community's 2016 Corporate Responsibility Index. We have been rated as one of the UK's most responsible businesses. Gentoo scored 100%, retaining our 5 star rating, making us the only Housing Association and North-East Business to achieve this score. Being a responsible business starts with your staff and we could not be more proud of the difference they have made.

As an Investor in People, we recognise that our people are our greatest asset. We were very proud to be awarded the Investors in People Gold Standard Accreditation earlier this year, joining the top 7% of accredited organisations across the UK who believe in realising the potential of their people. This demonstrates our ongoing commitment to our staff and ensures we provide our customers with the highest standard of service.

Gentoo has a strong track record of developing and inspiring talent, and supporting people through their chosen career path. This year we will be providing new career and learning opportunities through our apprenticeship scheme. This is an important part of our workforce planning, ensuring we have the right people with the right skills to deliver services in the future.

We know that everyone is different and at Gentoo we value that and celebrate it. This year we won the Diverse Company Award in the Housing Category, in the Excellence in Diversity Awards. This highlights the outstanding contribution we have made in harnessing diversity within our workforce and our commitment to valuing and celebrating diversity in all areas; not only as an employer, but in the way we engage to build stronger and inclusive communities.

As a Stonewall Star Performer, we are one of nine employers in the UK that have repeatedly demonstrated their commitment to creating inclusive workplaces. One of our commitments as a Star Performer was to share our expertise with other organisations and over the past year we have been mentoring the North East Ambulance Service. Through regular contact, we have been working together to help them transform their workplace culture. Gentoo is



delighted that with our help, they have risen over 150 places to number 46 in this year's Workplace Equality Index. We are proud ambassadors of this agenda and we will continue to champion this with our partners.

As a Star Performer we have also been exploring how we can make sure that gender identity and sexual orientation are recognised and valued within the care and support journey for older LGBT people. Another area of focus is around domestic abuse in LGBT relationships. We have made great progress on this over the past year.

We have always been very committed to supporting people who are experiencing domestic abuse and to further complement this work, we are now part of a partnership where perpetrators of domestic violence can receive support to change their behaviour. The BIG project is a partnership between Gentoo and North East Charities Barnardo's, Impact Family Services and Wearside Women In Need. The project targets men who want to change their behaviour - helping to make women victims and their children feel safer.

We have also been continuing our work with other housing providers through the Domestic Abuse Housing Alliance. Over the past year the response from the housing sector has been

overwhelming – making huge progress in influencing and improving the housing sector's response to domestic abuse.

Following a rigorous application process Gentoo has also successfully secured over £470,000 from the Big Lottery Fund for our Safety, Support and Crisis Team. This successful grant marks a major achievement for the Group and will benefit some of the most vulnerable people in Sunderland. The team work directly with our most vulnerable customers (victims and perpetrators of domestic abuse, anti-social behaviour and those living with mental health issues and with a drug or alcohol dependency). This funding will mean that Gentoo can support a further 655 people over the next three years.

In addition, our Money Matters Team continues to support some of our most financially vulnerable customers, offering help with benefits, budgeting and debt. They have also been allocating food parcels and funds for those who have reached crisis point. We were also pleased to work in partnership with Experian to bring our customers an exciting new scheme that will help those with little or no credit history build up a credit score. This will help them to get fairer access to services such as bank accounts, credit cards, loans, gas and electric.



In these times of increasing austerity, it is even more important to support people who are at risk of homelessness, socially isolated or financially vulnerable. To support our work we encourage staff, corporate partners and the local community to donate items that could benefit others. This year a record amount of food bank donations, school uniforms, Easter eggs and Christmas gifts were donated to local charities - making a huge difference to thousands of individuals across Sunderland. Generous staff at West of Scotland Housing Association also gave it their all to raise £4,000 for Dyslexia Scotland and Crohn's & Colitis UK.

People have not just been donating items, they have been giving up their time too. Whether it is dropping off items to local food banks, befriending those who are socially isolated or running a community group – they have all made such a huge difference in our communities.

Our customers are vital in helping us to shape our services. In September 2015, more than 120 of them attended our customer conference which saw the launch of our brand new community involvement framework. Customers had the opportunity to find out about all of the ways they can get involved. The feedback we received was really positive and we had over 150 expressions of interest to get involved in

helping us to improve our services and work with the local community.

Testament to the achievements of our volunteers, we are really proud of Mary Jordan a community volunteer who was recognised for her passion and commitment. Back in October, she won 'Volunteer of the Year' at the Sunderland Echo's annual Best of Wearside Awards. Mary runs a lunch club, where socially isolated and financially vulnerable people can go to meet people and eat a hot meal.

We have also teamed up with the Greggs Foundation to set up a breakfast club at Academy 360. This helps the school to provide a healthy breakfast to 50 children each day, helping to improve concentration levels and health, as well as ensuring they get the best start to their day.

WSHA is also the first Housing Association in Scotland to sign up to Dolly Parton's Imagination Library – an innovative book gifting scheme that gives children living in their households up to 60 free books. Registered children get a free book every month in the post until their 5th birthday.

Gentoo believes in young, inspiring people and building confidence. The 'Genfactor', our talent competition for young people, helps us to do just that. Since it launched in 2009 it



People

has gone from strength to strength. It started as an initiative to engage young people, and finalists are now performing to an audience of more than 1,000 people. Our finalists have gone on to do great things and it has been amazing to see their confidence grow and hear about their achievements.

Our work with older people continues through our Wellbeing Service, enabling people over 65 in Sunderland to live fuller, happier lives, ensuring those who need it have access to support, advice and practical help. The aim of the service is to help them remain independent within their own home and community for as long as possible. It also works to create opportunities for older people who are socially isolated.

Over in Scotland, residents of the WSHA have unveiled an impressive mural – Glasgow, the Dear Green Place. The five women live at the WSHA's Denmilne Sheltered complex and the artwork was a culmination of six months hard work. The mural, featuring landmarks from Glasgow, was part of the over 60s programme aimed at reducing social isolation and improving health and wellbeing. We are extremely proud of the positive impact that has been made to people's lives.

“Our work is focused around delivering an outstanding service to our customers so that our people and communities thrive.”



As a responsible business our impact on the planet is considered in everything we do. We work closely with our stakeholders, suppliers, staff and customers to communicate the importance of protecting the planet's resources and the role each of us play in doing so.

Planet Smart is Gentoo's internal sustainability programme that aims to reduce the environmental impacts of our activities while generating financial savings. This year key highlights included reducing the energy used in our offices by just over 7%, generating £29,000 in savings. An activity that contributed was the installation of LED lighting in our offices that was aligned to staff working patterns. We have also reduced the amount of waste generated in offices by 34%. This was achieved by staff changing their behaviour and making small changes. These individual changes were small but collectively by printing less, recycling and using less paper we have made a big difference. Over in West of Scotland they have reduced their grey fleet mileage by 64% through the introduction of mobile and home working. This has saved them £67,000. Since we

launched the Planet Smart initiative in 2012, and as of the end of 2015, we reduced our carbon footprint by 18.73%.

We have engaged with more than 1,220 school children in Sunderland over the past year, helping them to understand their impact on the environment. The programme covers topics such as climate change, renewables, recycling and Incredible Edible. This year, pupils from St Paul's C.E. Primary School also helped us to design a new Planet Smart magazine, an activity book that is now used in schools across the city.

Incredible Edible is an initiative which we helped to introduce to the city. It encourages local communities and businesses to work together to create edible landscapes where food can be grown and enjoyed by all for free. This year we were delighted to launch a second 'green route' from Doxford Park through to Ryhope, complementing our first route in Pallion where local residents can collect herbs, fruits and vegetables. This will support people to work together and build a sustainable future.



The route was made possible by Sunderland City Council through their Strategic Initiative Budget. It is supported by local traders, schools, Gentoo staff and the many volunteers we have recruited as part of our Volunteering Programme.

Our Boilers on Prescription scheme has now been running for 18 months. Together with Sunderland Clinical Commissioning Group (CCG) we have been investigating the effectiveness of energy efficient home improvements on a person's long-term health. Patients suffering from respiratory diseases that are exacerbated by the cold, such as Chronic Obstructive Pulmonary Disease, were referred onto the scheme by the CCG and received improvements to their home such as new energy efficient boilers, double glazing and insulation. Those involved in the study reported a 60% reduction in the number of GP appointments needed, as well as a 25% reduction in admissions to A&E departments. These findings support the amount of growing evidence that energy efficiency measures have a positive impact on the health of the most vulnerable NHS patients.

Alongside this scheme we have also been involved in a 'Warm Homes for Health' study in partnership with Bangor University and Nottingham City Homes. 274 of

our households were involved in the study over a 6 month period. The report that has been published by Bangor University highlights the link between home improvement measures such as double glazing, energy efficient boilers and insulation as an effective means of reducing fuel poverty, and improving health status, personal well-being and the ability to heat homes.

This year also marked a major milestone for the Group in the attempt to alleviate fuel poverty amongst Gentoo customers. A total of 1,556 PV installations were completed in 2015/16, taking the total number of installations to more than 5,500, saving the average household approximately £96 per year on their fuel bills. Gentoo's efforts have since directly contributed to Sunderland's fourth place ranking by the Department of Energy and Climate Change – making Sunderland one of the top ten places in the country for the number of homes fitted with Solar PV technology.

Throughout the last 12 months, we have continued to support the replacement of dangerous kerosene lamps in Africa through our corporate charity Nuru Fund. A key highlight from the Nuru Fund last year was the



successful completion of a 160km four day cycle across the Maasai Land in Kenya. Accompanied by members of Sunderland's Business Improvement District, the team cycled in temperatures reaching 30+ degrees centigrade, raising over £5,000. The money raised will fund over 200 new Solar lamps, providing safe and environmentally friendly light to over 1,200 people.

Following the success of the cycle challenge, it was announced in April 2016 that North-East charity COCO (Comrades of Children Overseas) would take over the charitable activities of the Nuru Fund. COCO had been a successful partner of Nuru Fund for over three years, in which they delivered over 430 Solar lamps together. The agreement will see the work carried out by the Nuru Fund accelerated through COCO's existing channels and all funds raised by the Nuru Fund will continue to support families in Africa.

Most recently, Gentoo have been awarded a Platinum rating from Business in the Community's environmental index. The Index measured Gentoo's environmental management and performance and compared it to the efforts of other organisations across various sectors – this accolade means that we were in the highest scoring band in the index.

These achievements have not only helped to reduce energy bills and improve the health and wellbeing of our customers - they have all contributed to our wider commitment of reducing our impact on the planet.

“A total of 1,556 PV installations were completed in 2015/16, taking the total number of installations to more than 5,500, saving the average household approximately £96 per year on their fuel bills.”





Property is at the centre of all that Gentoo do. We continue to shape the built environment of Sunderland and the surrounding areas by creating and maintaining quality, environmentally efficient, safe and secure homes.

We own and manage more than 32,000 homes and this year over £29m was spent on maintaining and improving our core assets. Some of that investment included 1,564 heating replacements and the fitting of 8,511 double glazed windows in 1,529 properties – estimated to save our customers approximately £469k on their energy bills. This helps us to reduce our impact on the planet as well as supporting customers to maximise their income. In addition, there were fire safety improvements made to 23 tower blocks and 13 sheltered schemes, and 460 roof replacements.

Our vision is to deliver great homes, whether that is for sale or rent. In 2015/16 a Group subsidiary, Gentoo Homes, launched no fewer than eleven new developments across the region and sold 162 new homes. The developments spanned from Prudhoe in the North of the region down to Guisborough in the South, grossing a record turnover of £36.3m.

These results follow a successful year of sales, including the launch of two major regeneration schemes that will bring 183 affordable homes to Sunderland.

Castle Rise at Downhill, when completed, will offer a mixture of 88 houses and bungalows. The £11.2m development will feature 51 affordable rent properties in a popular location. The £14.3m Hillcrag development at High Ford will provide a selection of 132 properties, all for affordable rent. Built over the next two years, they will feature Solar panels as standard.

In addition, we are continuing to develop homes in Sunderland at our popular sites Thurcroft in Doxford Park and Meadow View in Houghton-le-Spring. There are also planned developments for Glebe in Washington and Broomhill in Hetton, while working on plans for a large site at Chester Road. We are also looking towards another successful year delivering more homes for more customers in Gosforth, Wylam, Benton, Carlton, Hartlepool, Guisborough and Fenham.

As a Group, we pride ourselves on our knowledge of all different aspects of the property world from designing, managing, improving, repairing and building. Quality, robustness and environmental standards are important to us and we endeavour to maintain these throughout every project. This year we were proud to win three prestigious awards that demonstrated the quality of our homes. This included two NHBC Pride in the Job awards and one Considerate



Constructors Silver Award. We have also maintained our 4 Star NHBC builders rating which matches the highest performing house builders in the region.

WSHA continues to go from strength to strength. Managing over 3,400 homes across Glasgow, Lanarkshire and Ayrshire, they announced in September 2015 a £2.4m development in Camlachie. The development, which will consist of 18 'amenity cottage' flats, has been designed with older people in mind and ground floor apartments designated for wheelchair users. The project is funded by Glasgow City Council and is expected to be completed this Summer. This year WSHA also announced the transfer of Broomhouse Housing Association into WSHA, which will see WSHA provide a housing service to 98 new customers.

Romag, the Group's provider of PV and specialist glass has had a number of success stories over the past year. In July 2015, Romag announced a second high profile two year contract with Hitachi Rail Europe for work on the Intercity Express Programme trains on the British East Coast Line. Alongside this they also secured a long-term supply contract with Bombardier for 130 train windscreens for Crossrail.

“As a Group, we pride ourselves on our knowledge of all different aspects of the property world from designing, managing, improving, repairing and building.”



Working in conjunction with Gentoo Homes, Romag successfully completed the first installation of innovative terracotta Intecto Solar roof tiles. Intecto integrated Solar tiles were designed to blend seamlessly with terracotta concrete and clay tiles and can be manufactured in grey, black or brown. The Intecto PV panels were later accredited with Solar UK's BIPV 'Innovation of the Year' award.

Most recently, Romag fitted over 60sq.m of toughened laminated glass at the ZSL London Zoo to provide transparent safety walling for the viewing sections of the 2.500sq.m lion enclosure.

As part of the review of the non-core activity, Romag Limited and Romag PPM Limited were disposed by Gentoo Group Limited on 14 July 2016.

During the year we have continued to review our non-core activity. Last April, Gentoo Construction and Tolent formed a Joint Venture, Gentoo Tolent Ltd. Tolent took control of the business early in 2016. They now operate in the construction marketplace as their own entity and not part of Gentoo.

The commercial performance of Gentoo Homes remains strong and fully aligned with our core business and the Government's drive on house building. We will look to build on this performance as we focus on core activity and work towards our strategic objectives. All other non-core activity will continue to be reviewed.







Strategic Report for the year ended 31 March 2016

Principal Activities

Details of the principal activities can be found on page 42.

Business Model

Details of the key work streams undertaken to deliver our services can be found on page 9 to 21.

Business review and results

Performance for the year can be found on page 27.

Key Performance Indicators (KPIs)

Details of the KPIs used and measured can be found on pages 27 and 28.

Future Development

Details of the Group's aims and objectives can be found within the Operating and Financial Review on page 25 to 27.

Principal risks and uncertainties

Details of the principal risks and uncertainties can be found on pages 33 and 34.

Effects of material estimates and judgements

Details of the material estimates and judgements accounting policy can be found on page 67 and 68.

By order of the Board:

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

Ian Self
Chairman

8 August 2016

Operating and Financial Review 31 March 2016



Activities

Gentoo Group is a people, planet and property business with a number of subsidiary companies, offering a variety of products and services:

- **Gentoo Group Limited**
parent company, a provider of Group functions and centralised head office services to the rest of the Group. Also a Registered Provider of social housing in Sunderland.
- **Gentoo Sunderland Limited**
a Registered Provider of social housing in Sunderland.
- **West of Scotland Housing Association**
a Registered Provider of social housing in Scotland.
- **Gentoo Homes Limited**
a residential property development company.
- **Gentoo Developments Limited**
a residential property development company.
- **Gentoo Art of Living**
registered under the Co-operative and Community Benefit Societies Act 2014 to provide and manage housing, social housing and provide assistance to disadvantaged client groups.
- **Willowacre Trust**
a registered charity in Scotland, to assist families and individuals within Glasgow and the surrounding areas to overcome difficulties and sustain their homes.
- **Gentoo Genie Limited**
a provider of Home Purchase Plans.
- **Genie Homeplan Limited**
a trust Company that holds the legal title for assets subject to Home Purchase Plans administered and provided by Gentoo Genie Limited.
- **Gentoo Care Limited**
a provider of care services.
- **Romag Limited**
a provider of PV and specialist glass sold on 14 July 2016.
- **Romag PPM Limited**
a provider of leased assets to Romag Limited sold on 14 July 2016.
- **Nuru Fund Limited**
registered under the Co-operative and Community Benefit Societies Act 2014 to aid disadvantaged client groups and the advancement of environmental improvement in developing countries.



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

Objectives and strategy

The Group's vision is:

Great Homes – Strong Communities – Inspired People

The Group's values are:

Do the right thing

Make a difference

Work together

Keep learning

Give all you've got

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

The Group's strategic aims are:

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

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

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

The safety and strength of the Group's asset base enables Gentoo to be financially viable, operate responsibly and deliver the objectives of the Group Business Strategy. The

Operating and Financial Review 31 March 2016 (continued)



overall aim of our Asset Strategy is to deliver property solutions whilst protecting our assets. This will include active asset management and ensuring our stock is well maintained, as well as growing the asset base through a significant development programme to meet local housing needs. This will enable the delivery of an outstanding, modern housing management service that enables individuals and neighbourhoods to thrive.

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

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

Aim 4: Work with others to build effective partnerships

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

Aim 5: Be well governed and financially strong

There is a fundamental imperative for the Group to operate from a position of financial strength and effective governance. Gentoo and the sector as a whole are entering a period of unprecedented economic uncertainty and legislative challenge. Maintaining financial viability takes on even greater



importance as a result of budget changes which will have a significant impact on the Group's income. The impact of the Budget has been reflected in the revised 30 year business plan which demonstrates financial viability over the period. This is articulated further in the Group Finance Strategy which was approved in March 2016 and covers resources, financial governance, financial strength, financial risk management, financial information and intra Group relations. The Group's governance has also been reviewed to ensure that the requisite skills and experience are in place and that the Group's approach to areas such as risk management, Value for Money and strategic planning are robust and compliant. The Group will seek to achieve and maintain the highest standards of governance and viability against the HCA's economic standards.

Performance for the year

Financial performance headlines

The Group's statement of comprehensive income, statement of financial position, statement of changes in equity and cash flow statement are shown on pages 58 to 65 of these accounts.

Turnover across the Group of £215.3m has been achieved (2015: £247.0m), however this has resulted in a deficit of £8.8m (2015: £1.8m). This deficit however was lower than forecast. The deficit also incorporates a one off restructuring cost of £11.3m, therefore underlying performance was a surplus of £2.5m after tax.

The continuing operations (where discontinuing in the year relates to Gentoo Construction) of the Group achieved turnover of £202.2m (2015: £199.9m) and a deficit of £1.7m (2015: surplus of £4.8m). Without the exceptional restructure costs, the continuing operations would have recorded a surplus of £9.2m which constitutes the underlying surplus of the Group's continuing activities.

Stock loss through 'Right to Buy' and 'Right to Acquire' has reduced with 84 properties (2015: 106) sold during the year.

Operating and Financial Review 31 March 2016 (continued)

The table below summarises the overall results:

	2015/16	2014/15	2013/14	2012/13	2011/12
Financial performance	£m	£m	£m	£m	£m
Turnover	215.3	247.0	209.5	175.2	175.1
Cost of sales	(63.6)	(96.4)	(64.3)	(47.7)	(56.6)
Operating costs	(133.7)	(121.5)	(117.1)	(100.8)	(119.0)
Other operating income	0.4	-	-	-	-
Surplus / (loss) on sale of assets	0.6	0.5	0.4	(0.4)	0.5
Operating Surplus	19.0	29.6	28.5	26.3	-
Negative goodwill	-	-	12.8	-	-
Deficit on disposal of investments	-	(1.7)	-	-	-
Net interest charges	(25.4)	(25.3)	(23.4)	(23.1)	(21.8)
Taxation	(2.4)	(4.4)	-	(1.5)	1.3
(Deficit) / surplus for the year	(8.8)	(1.8)	17.9	1.7	(20.5)

	2015/16	2014/15	2013/14	2012/13	2011/12
Financial position	£m	£m	£m	£m	£m
Net Book Value of housing properties for letting	1,235.6*	1,240.5*	1,198.5*	964.0	944.6
Revaluation and capital contribution reserves	469.8	481.2	466.2	505.6	488.9
Net debt	(641.2)	(643.3)	(638.0)	(588.3)	(575.1)

*Net Book Value at deemed cost as a result of the adoption of FRS 102, prior years are based upon EUV-SH

	2015/16	2014/15	2013/14	2012/13	2011/12
Housing management performance indicators	%	%	%	%	%
Current tenant rent arrears as a % of rent due (incl. voids)	3.4	3.3	2.9	2.8	1.9
Void loss	1.0	1.0	0.9	0.9	0.9

	2015/16	2014/15	2013/14	2012/13	2011/12
Non Financial performance	No.	No.	No.	No.	No.
Stock numbers	32,666	32,671	32,526	29,232	29,412

Source: Financial statements / internal systems

Value for Money (VfM)

This year has been a year of significant change for Gentoo, however our commitment to VfM remains unchanged. It continues to be a priority and our approach is considered in everything we do, from business planning and strategy right through to operational delivery and impacts. With an ever-changing political landscape, VfM is an integral part of our decision making process and is continuously reviewed to ensure our strategic and comprehensive approach is fit for the present and future.

Within Gentoo our focus on VfM is connected to our vision and values. This year we have reviewed our vision and values as we refocus on our core activity. We remain a values driven organisation and our customers and communities remain at the heart of everything we do. At Gentoo the application of VfM is fundamental to our operations and underpins the achievement of our vision.

Our approach to VfM is to consider economy, efficiency and effectiveness (the 3 E's) in everything we do. As part of our approach, we take into account the views and expectations of stakeholders such as customers, regulators and partners. We focus not just on the cost and quality of our service, but also on the social and environmental impacts of our choices and what we do.

The Homes and Communities Agency (HCA) sets out their VfM expectations in the Regulatory Framework for Social Housing in England, and our annual VfM self-assessment report demonstrates how we are complying with the standard. This detailed report can be viewed on our website at  www.gentoo.com/about-us/performance/value-for-money/

At Gentoo we have a continued commitment to VfM and good progress continued to be made in 2015/16 to further embed VfM within the Group using the VfM Policy which has been reviewed and updated during the year and now includes reference to the updated vision and values. The key priorities in the policy are set out in summary as follows:-

- A robust approach to strategic decisions
- Ensure the financial sustainability of the Group
- Optimise the use of our assets to achieve our vision, values and strategic aims
- Ensure robust management of all performance and costs
- Ensure the Group's approach to VfM is transparent to all stakeholders

- Maximise our capacity to achieve the Group's priorities by working in partnership and procuring goods and services in the most sustainable, economic way possible
- Maximise the value and capacity of our people
- Deliver social and environmental value that achieve the Group's vision and values
- Create a framework to measure our approach to VfM

Our new Business Strategy and supporting Asset, Finance, People and Customer Strategies include action plans that ensure that the priorities within the VfM Policy are achieved. In addition our new vision, values and strategic aims will ensure we continue to deliver value for our customers, build strong partnerships and resilient and safe communities. Collaborating with partners allows us to build capacity, streamline services as well as providing added value for our customers.

The plans include:-

- Ensure that all significant business decisions can demonstrate core parameter compliance.
- Build revenue surpluses and cash-backed reserves.
- Comprehensively stress test the business plan twice yearly and report to the Board.
- Undertake an independent external stock condition survey of 30% of our stock by September 2016, to ensure our investment decisions are driven on the most up to date stock condition data. 100% of our stock will have undergone a stock condition survey by 31 March 2017.
- We will continue to review our delivery and revise our procurement arrangements to seek best value for money in supplies and services.
- We will review our performance management processes to ensure our people continually improve how efficiently and effectively they deliver their services.

Operating and Financial Review 31 March 2016 (continued)



Some examples of our Group achievements in 2015/16 have been:

- Gentoo Homes successfully secured £21.8m of Builders Finance Fund (BFF) via the Homes and Communities Agency's Investments division (HCAI). This was secured at extremely attractive rates and followed an extensive due diligence exercise by the HCAI. The funding will run until Autumn 2018 and provides additional capacity to the Group's overall funding headroom.
- Gentoo Developments Limited was established during the year with the main objective being to provide a tax efficient delivery vehicle for Gentoo Sunderland's remaining Renewal Sites.

During the year we also embarked on a transition plan which identified savings of £18.25m to be taken out of the business over the next 2 years. The detail around this plan is outlined further in our full VfM Self-Assessment, excluding this project our top 5 VfM achievements in 2015/16 are as follows:

- £474k of funding secured through Big Lottery Reaching Communities Fund

- Over 2,000 customers assisted in claiming over £500k in benefits or grants
- £5.8m of social value generated from a £2.5m investment
- Over 1,500 Solar panel installations on our properties increasing customer savings and reducing CO₂e
- Further reductions on fuel costs and CO₂ emissions of over £130k during the year.

How we compare

We aim to measure or compare our Value for Money on a verifiable like-for like basis with other organisations using a range of absolute costs and benchmarking activities. The main source of benchmarking for Gentoo is through Housemark which is an integrated data gathering and analysis provider to the social housing sector.

The table below summarises a number of our key Value for Money measures:-

VfM Analysis	Gentoo Group 2015/16	Gentoo Group 2014/15	Benchmarking position 2014/15
Responsive repairs cost per property	£811.35	£810.70*	2nd quartile
Major works cost per property	£856.59	£838.35*	4th quartile
% repairs completed at first visit	86.76%	89.65%	2nd quartile
Current tenant rent arrears as a % of rent debit (excluding voids)	3.41%	3.34%	2nd quartile
Rent Collected as a % of rent due	99.99%	99.41%	2nd quartile
Relet times – social housing properties	40.84 days	35.84 days	3rd quartile
Housing Management direct cost per property	£512.19	£488.92*	2nd quartile
Operating cost per home	£3,260	£2,954	n/a

Source: Financial statements / internal systems

*Note: this is different to the figure published in our 2014/15 statement which was based on a benchmarked figure. Whilst we continue to benchmark against our peers, moving forward the values the Group publishes on financial performance will utilise financial accounts, in line with Global Accounts data published by the HCA, for greater transparency.



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

Optimising return on assets

The VfM standard expects all providers to understand the return on its assets employed, and have a strategy for optimising the future returns. Our current portfolio, excluding land, is as follows:-

Housing property portfolio	Market Value (where applicable)	Carrying value	Turnover	Gross Yield Market Value	Gross Yield Book Value
Social Housing Lettings	-	£1,211m	£136.6m	n/a	11.28%
Market Rent	£6.47m	£5.62m	£0.4m	5.42%	6.24%
Rent to Buy	£6.30m	£5.78m	£0.3m	4.35%	4.74%
Shared Ownership	£9.37m	£8.73m	£0.1m	n/a	n/a
Mortgage Rescue	£1.88m	£1.82m	£0.2m	6.40%	6.62%
Commercial Property	£5.93m	£4.88m	£0.6m	9.60%	11.65%

Source: Financial statements / internal systems

Operating and Financial Review 31 March 2016 (continued)



In 2015/16 the focus of our Asset Plan was on the long-term sustainability of housing stock. As such, the Asset Programme focused on activities such as roofing, heating and structural works, together with the full refurbishment of a multi-storey tower block. During this time specifications for works have been reviewed to look to exclude works of a non-essential or cosmetic nature. An example of this initiative led to us omitting any work to outbuildings on roofing projects. A saving of £35,000 was realised on one contract alone.

To give confidence that our asset data and investment decisions are robust we have also engaged independent consultant, Savills, to work with us on our Asset Strategy and data collection from May 2016. As well as giving us independent stock condition survey information for our stock, this work will also provide sufficient data for us to benchmark the rates we pay for a range of investment works against our peers and the wider sector. We will also refine our investment rules so that investment in our stock is prioritised and planned efficiently and effectively. This will also ensure that the issue of compliance associated with the stock is being managed at the highest level and we have created a team that are responsible for reporting on matters of compliance to the Risk and Audit Committee on a quarterly basis.

Conclusion

Achieving VfM to support the Group's vision and strategic aims and continuing to comply with the requirements of the HCA Governance and Viability Standards are of critical importance to the Group. We believe our current performance and future plans will help to achieve these aims.

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

We consider our VfM policy and approach to be robust and that will ensure success. Our VfM Statement and future communications with stakeholders will provide the necessary assurance as to our continued progress.



Key Risks

The Group has identified the following key risks:

Government Policy - Economic

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

Government Policy - Rental income planning and performance

Changes to Government policy on welfare reform and the introduction of Universal Credit are continuing to impact the Group. Universal Credit was implemented during the year in Sunderland for new single claimants under the age of 25 and will be rolled out to the wider population in the coming years. There is a financial risk to our customers who will receive less benefit if they have a spare bedroom under the spare room subsidy as well as being expected to budget on a monthly

basis, receiving Universal Credit directly without having the choice of paying the rental element first to their landlord. The income collection risk to Gentoo is being mitigated by focused activity on income management and working with customers to ensure that their income is maximised and that collection rates are maintained.

Health and Safety and Compliance

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

Pension fund liabilities

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

Operating and Financial Review 31 March 2016 (continued)

updates and assessment of the bond facility to match requirements.

Housing Market/Residential Property Prices

Any volatility or downturn in the North East regional housing market could impact on sale margins and ongoing ability to sell properties for Gentoo Homes. It could also have an impact upon carrying value of existing assets leading to future impairment. Each new housing development is appraised on an individual site basis and further mitigation is achieved through phased development and build to order wherever possible. Sales activity is supported by access to a range of the Government's initiatives including Help to Buy and by accessing funding at more preferential rates through the Builders Finance Fund.

Welfare Reform

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

Brexit

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

Financial Risk Management

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

Credit risk

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

Liquidity risk

We have sufficient committed loan facilities to deliver our approved plan. These facilities are held with a range of high calibre lenders. The duration of the loans is 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 comprises funding via a bond and fixed rate loans embedded within our loan agreements. These 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.

Investing in the future

Housing Stock

We have invested over £619m modernising our housing stock over the past 15 years. In addition to this, we continue to look for opportunities to add to our development portfolio over the coming years. This investment will help ensure the long term sustainability of housing stock which is great news for our customers.

Staff

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

The Group currently employs staff across a range of professions and roles and whilst we have seen an 18% reduction in the workforce due to required cost savings we continue to operate with a low voluntary turnover rate and some employees have now worked with the Group for over 30 years. It is fair to say that working at Gentoo is not just a job; it is a career where individuals are supported through professional qualifications, training and development and on the job coaching and mentoring.



The Group has a clear policy on equality and diversity in employment, which outlines how the organisation will treat existing and prospective employees fairly, ensuring that our services are accessible and sensitive to the needs of existing and potential staff. An example is the Group's commitment to being a recognised 'positive about disability' employer.

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

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

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

Operational buildings

All offices are Equality Act 2010 compliant to provide access to our front-line services. We continue to review the delivery of our services through our regional offices to ensure that

services are being delivered efficiently and effectively to customers across Sunderland.

Financial Review

The Association's statements of comprehensive income, statements of financial position, statements of changes in equity and cash flow statement are shown on pages 58 to 65 of these accounts.

Accounting policies

The principal accounting policies of the Group are set out on pages 66 to 76 of the financial statements.

Capital structure and treasury policy

The Group has loan facilities in place. The Group has a syndicated loan facility, arranged by Royal Bank of Canada, and administered by Nationwide Building Society of £209m (2015: £215m). In addition, the Group has a £212.8m loan funded from a 40 year bond issued by a special purpose vehicle with Prudential Trustee Company Limited acting as Security Trustee (the bond). The bond is held by a number of large investors and listed on the main market of the London Stock Exchange.

Operating and Financial Review 31 March 2016 (continued)



The Group also has a £99.1m (2015: £104.6m) loan facility provided by the European Investment Bank and a £100m loan facility provided by the Royal Bank of Scotland of which £25m (2015: £48m) is undrawn as at 31 March 2016.

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

West of Scotland Housing Association (WSHA) has its own active treasury policy which is approved by its management committee. It manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held. At 31 March 2016 WSHA had £57.6m (2015: £59.1m) in loan facilities and held deposits of £6.3m (2015: £5.5m).

The Group has a Treasury Policy which adopts a prudent approach to our level of drawn fixed rate debt as a percentage of our total drawn debt. At the year end, the Association had 63% (2015: 67%) of its borrowings at fixed rates and WSHA had 44.8% (2015: 51%) of its borrowings at fixed rates. We have also entered into a number of 'embedded' forward 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 £656.7m (2015: £642.9m), £579m (2015: £573m) of which falls for repayment after more than five years. Our financial plans, which are submitted to both the HCA and our funders, indicate that we will continue to comply with both the Bond and loan covenant tests.

Cash flows

Our cash flows for the year are shown on pages 64 and 65 of this Annual Report and Accounts. The key points to highlight are:

- £52.2m (2015: £52.8m) cash generated from operating activities
- Net £24.1m (2015: £35.0m) capital investment in both existing and new housing stock
- Net £13.4m (2015: 0.3m) of loans received in the year

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.



Pension costs

The Group operates three pension schemes as follows:

- Local Government Pension Scheme 'LGPS' which is a career average salary scheme. We have made contributions to the scheme during the year in accordance with the levels set by the scheme actuary. Our contribution rate has been at 20.5% for the full year.
- West of Scotland Housing Association participates in the Scottish Housing Associations' Pension Scheme which is funded and is contracted-out of the State pension scheme. The contribution rate for the year was 12.3% of pensionable salaries for both employer and employees.
- The Group has a defined contribution scheme for employees who are ineligible to join the LGPS. Our contribution rate has been at 6% for the whole year.

Details of the actuarial assumptions, and the current scheme deficit, are shown in note 25 of the Financial Statements.

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 financial 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.

Members, Senior Staff, Professional Advisors and Bankers



Board of Management

The structure of the Board of Gentoo Group is made up of twelve members, comprising three local authority Councillors, one tenant, six independents and two executive members. The members of the Board who served during the year are as follows:

Independent Board members

Barrington Billings
Hunada Nouss
Ian Self (Chair)
John Walker
Mary Coyle
Richard Beevers

Tenant Board member

John Dannell

Local Authority Board members

Barry Curran
(appointed 22 June 2016)

Jill Fletcher
(resigned 28 May 2015)

Paul Stewart
(appointed 22 June 2016)

Philip Tye
(appointed 18 June 2015)

Executive Board members

Jason Ridley
(resigned 6 November 2015)

John Craggs
(appointed 6 November 2015)

Julie Kelly
(resigned 19 June 2015)

Peter Walls
(resigned 6 November 2015)

Stephen Lanaghan
(appointed 6 November 2015)

Senior Staff

Chief Executive Officer

John Craggs

Assistant Chief Executive Officer

Stephen Lanaghan



Executive Director of Assets and Investment

Ian Porter

Executive Director of Corporate Services

Louise Bassett

Managing Director Gentoo Genie

Steven Hicks

Executive Director (Operations)

Michelle Meldrum

Registered office

Emperor House
2 Emperor Way
Doxford International Business Park
Sunderland
Tyne and Wear
SR3 3XR



Committee Membership

Risk and Audit Committee

Mary Coyle (Chair)
Barry Curran (appointed 22 June 2016)
James Falade (appointed 17 March 2016)
Hunada Nouss
Susan Johnson (appointed 22 October 2015)
Jill Fletcher (resigned 28 May 2015)
Les Hodgson (resigned 6 November 2015)
Frederick McQueen (resigned 6 November 2015)
James Kevin Scott (appointed 22 October 2015, passed away 6 February 2016)

Appointments and Remunerations Committee

John Dannell (Chair) (appointed 26 November 2015)
Barrington Billings
Mary Coyle
John Walker
Ian Self (resigned 26 November 2015)
Phillip Tye (appointed 22 June 2016)

The Committees are all served by relevant officers of the Group.

Members, Senior Staff, Professional Advisors and Bankers (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

The funders for Gentoo Group are:

Nationwide Building Society

Treasury Department
King's Park Road
Moulton Park
Northampton
NN3 6NW

European Investment Bank (EIB)

98-100 Boulevard Konrad Adenauer
L-2950 Luxembourg-Kirchberg
Grand Duchy of Luxembourg

Lloyds Bank plc

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



Newcastle Building Society

Portland House
New Bridge Street
Newcastle upon Tyne
NE1 8AL

Royal Bank of Scotland PLC

135 Bishopsgate
London
EC2M 3UR

The Housing Finance Corporation Limited (THFC)

4th Floor
107 Cannon Street
London
EC4N 5AF

Bank of Ireland

65 St Vincent Street
Glasgow
G2 5TH

Barclays Bank

83 Argyll Street
Glasgow
G2 8BJ



Funding Advisors

TradeRisks Limited

21 Great Winchester Street
London
EC2N 2JA

Report of the Board of Management



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

Legal status

On 1 April 2016, the company Gentoo Group converted from a Companies Act Limited private company to a Community Benefit Society and the Group is a Public Benefit Entity.

Board Members

The Board members who held office during the year are stated on page 38. Where the term director is used within these financial statements this includes the Board of Members of the Group.

Principal Activities

Gentoo Group's principal activities are the provision of affordable, rented accommodation to the social housing market and the wider regeneration of its communities. During the year the Group also undertook home property development, building contract and property maintenance services, PV and glass services and care services to both the public and private sector.

Gentoo Group Limited

Gentoo Group Limited is the Parent of Gentoo Sunderland Limited, a Community Benefit Society, which serves the geographical area within Sunderland. It also controls Gentoo Homes Limited, Gentoo Developments Limited, Gentoo Ventures Limited, Gentoo Genie Limited, Genie Homeplan Limited, Gentoo Genie Admin Limited, Gentoo Care Limited, Romag Limited (sold 14 July 2016), Romag PPM Limited (sold 14 July 2016), Gentoo Art of Living, Nuru Fund Limited, Sunderland Prospect 2 Limited and the strategic partnership with WSHA and its subsidiary Willowacre Trust. Gentoo Group also had small shareholding in Efficient Warm Energy Limited (dissolved 23 June 2015). Together the Group is known as 'Gentoo Group'.

Gentoo Group Limited provides Group-wide services including treasury and financial management, information technology, technical, legal and human resources services.

Results for the year

The consolidated retained deficit for the year, as shown on page 58, was £8.8m (2015: £1.8m deficit). This deficit reflects a restructuring provision of £11.3m.

Movements in the market value of investments, held as a security for the THFC funding via a bond, resulted in a net realised deficit of £904k (2015: £4.6m surplus).

Changes in fixed assets and investments

Changes in fixed assets and investments are detailed in notes 13 to 17 to the accounts.

Officers' Insurance

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

Political contributions

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

Efficiency

The Board is committed to delivering an effective and efficient service to customers and other stakeholders and employs a range of techniques to increase efficiency including:

- Re-evaluation of procurement strategies
- Partnering with contractors for new build, refurbishment and maintenance contracts
- Reducing staff turnover, sickness and absenteeism

Derivatives and financial instruments (note 26)

Gentoo Group is a Housing Association and not-for-profit organisation. As such, its Directors are keen to mitigate potential risks associated with financing, the principal one being interest rate risk. The Group therefore seeks to fix a significant proportion of its debt in order to introduce certainty into its financial position and reduce the potential impact of adverse movements in interest rates. Current facilities are predominantly long term, which represents the initial acquisition cost of the housing properties together with requirements of ongoing spending on those properties.

Reserves held as security for the fixed rate bond are invested to result in as small a carrying cost as possible, whilst maintaining a low risk profile. This has been achieved by investment in similar bonds to the bond, where a relatively illiquid investment is allowable by the rating agencies.

Any short term deposits are placed with either building societies with approved credit ratings, AAA rated Sterling denominated money market funds, or a UK clearing bank as a matter of policy, to ensure as far as possible that the capital is not at risk.



Corporate Governance

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

Statement of Compliance

The HCA's governance standard requires all registered providers to adopt and comply with an appropriate code of governance and certify compliance with its chosen Code together with certification of compliance with the HCA Governance and Financial Viability Standard.

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

Report of the Board of Management (continued)



NHF Code of Governance 2015 and HCA Governance and Financial Viability Standard

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

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

During 2015/16 the Group Board was comprised of seven independent Board Members, having one tenant Board Member, one council Board Member and three executive Board Members. From the 1 April 2016 under the revised Rules, the Board is comprised of one tenant Board Member, three Council Board Members, up to seven Independent Board Members and up to two Executive Board Members (maximum of twelve Board

Members in total). The Board and the Executive are shown on page 38 and details of remuneration are provided on pages 84 to 86 in the Financial Statements. Biographical information of the Board can be found on the Group's external website.

A new Group Chairman, Ian Self (formerly the Vice Chairman) was appointed at the Annual General Meeting held in November 2015 and will serve as Group Chairman until the 2017 AGM in order to provide leadership of the Board during the next phase of transition. Ian's term of office is compliant with the NHF Code of Governance maximum requirement of nine years as at the 31 March 2016, however during the 2016/17 financial year, his term will exceed this requirement.

Board Members are drawn from a wide background bringing together commercial, professional and local experience. The Board meets a minimum of six times a year on both a formal and informal basis. Opportunities are available for the Chair to meet privately with the Vice Chair and other non-executives to discuss any matters on an informal basis and meet at least annually on a formal basis.

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

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

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

The Group Board is comprised of the following Directors and their attendance for year ended 31 March 2016 is shown in the table below:

NAME	GROUP BOARD MEETINGS	APPOINTMENTS & REMUNERATIONS COMMITTEE MEETINGS
	15 Meetings	6 meetings
Richard Beevers	11 out of 15	n/a
Barrington Billings	13 out of 15	6 out of 6
Mary Coyle	13 out of 15	5 out of 6
John Craggs ¹	8 out of 8	n/a
John Dannell	15 out of 15	3 out of 3 ⁸
Jill Fletcher ²	0 out of 2	n/a
Julie Kelly ³	2 out of 3	n/a
Steve Lanaghan ⁴	6 out of 8	n/a
Hunada Nouss	12 out of 15	n/a
Jason Ridley ⁵	7 out of 7	n/a
Ian Self	15 out of 15	3 out of 3 ⁹
Philip Tye	10 out of 13 ⁶	0 out of 0 ¹⁰
John Walker	13 out of 15	5 out of 6
Peter Walls ⁷	4 out of 7	n/a

¹ John Craggs was appointed as an Executive Director on 6 November 2015 therefore maximum attendance was 8.

² Jill Fletcher resigned as Council representative on 28 May 2015 therefore maximum attendance was 2.

³ Julie Kelly resigned as an Executive Director on 19 June 2015 therefore maximum attendance was 3.

⁴ Steve Lanaghan was appointed as an Executive Director on 6 November 2015 therefore maximum attendance was 8.

⁵ Jason Ridley resigned as an Executive Director on 6 November 2015 therefore maximum attendance was 7.

⁶ Philip Tye was appointed as the Council representative on 18 June 2015 therefore maximum attendance at Group Board was 13.

⁷ Peter Walls resigned as an Executive Director on 6 November 2015 therefore maximum attendance was 7.

⁸ John Dannell was appointed as Chairman to the Appointments & Remuneration Committee on 26 November 2015 therefore a maximum attendance was 3.

⁹ Ian Self resigned from the Appointments & Remuneration Committee on 26 November 2015 therefore maximum attendance was 3.

¹⁰ Philip Tye was appointed to Appointments & Remuneration Committee on 22 June 2016 therefore meeting attendance was 0 during the financial year.

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

Report of the Board of Management (continued)



Overall Board effectiveness is monitored via the appraisal process. This comprises of an annual 360° peer and self-review exercise and periodic observation of Board meetings by an External Advisor with consideration to the Board's Skills Matrix. Processes are in place to review the performance of the Chair. A meeting with the Non-Executive Directors, led by the Vice Chair, to discuss the performance of the Chairman was held in July 2015 and reported to the Board in September 2015. The annual 360° peer and self-review exercise for 2015/16 was completed in June 2016.

The Board is supported by the Risk and Audit Committee, and Appointments and Remuneration Committee.

Risk and Audit Committee

The Risk and Audit Committee acts on behalf of Group Board to ensure appropriate controls are in place to safeguard assets and manage the attendant risks. The Committee is also responsible for monitoring and reviewing a number of areas including the consistency of accounting policy, the integrity of financial statements, the adequacy of internal controls as regards financial operations and compliance, the proper management of

risks and the selection of the external auditors. The Committee must meet at least four times a year; however, it has met seven times during the year.

Key Risks

The Group has an effective risk management process in place to facilitate the identification, monitoring and reporting of key risks and the implementation of mitigating action. A risk appetite framework has also been developed which is reported to Risk and Audit Committee on a regular basis and was reviewed by the Board in March 2016 and the Committee in May 2016. The risk management framework includes the integration of risk into the business planning process, review of the external environment in which the Group operates including the risk profile published by the HCA and other industry bodies. Risk owners take responsibility for the identification and management of risk is supported by the Group risk function. The risk management process is also supported by the Business Assurance Team who provide assurance over the key control framework within the Group and have a risk based approach to its audit planning process.

The Risk and Audit Committee oversees the risk and internal control framework on behalf of the Board and makes



recommendations to the Group Board where necessary. The Committee receives regular information regarding the Group's key corporate risks, key controls to mitigate these risks, movement in the risk assessment score, and further mitigating action required. The External Auditors also provide their view of the Group's risk profile. In the 2015/16 external audit plan the following key risks were highlighted:

Impairment

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

Capitalisation Policy

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

Development risk

There is risk surrounding property sales, in relation to achieving the sales rates and values. The Group look to mitigate this position by endeavouring to acquire land across the region in areas that are in demand, and where the housing market is strong. Construction phasing is also used to control the build out of new housing schemes reflecting the market demand and managing how many stock units are held with a view to carefully controlling work in progress.

Funding / Going concern

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

Report of the Board of Management (continued)



Pensions

The pension scheme FRS 102 deficit has improved in recent years due to an improvement in the performance of the underlying assets. Although there has been improvement year on year, the value of the deficit remains highly sensitive to both the underlying assumptions used by the actuary, and the asset performance. Current market and economic uncertainty is expected to increase sensitivity further. To mitigate, the Group independently reviews the pension disclosures and liabilities calculated by actuaries of LGPS and provides security with an annual pension bond.

Other areas of focus included:

Non-core businesses

The Group has a risk as a result of financing requirements for non-core businesses. Management continue to rationalise the Group structure with the divestment of Gentoo Construction Limited in January 2016 and of Romag Limited and Romag PPM Limited in July 2016.

Litigations

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

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

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

KPMG LLP provide some non-audit services, however assurances were provided by KPMG LLP in their proposal document prior to their appointment that the provision of these services does not represent a conflict of interests or a threat to their independence as external auditors. KPMG LLP have systems and processes in place to assess potential conflicts of interest as they arise and will notify management and the Risk and Audit Committee immediately should there be a risk of potential conflict of interest. The Policy on the provision of non-audit services by the External Auditor was reviewed by the Committee in March 2016 and compliance is monitored by the Committee.



The Risk and Audit Committee also consider the performance of the External Auditor on at least an annual basis as per their Terms of Reference and Schedule of Business.

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

The members of the Committee are:

NAME	RISK AND AUDIT COMMITTEE MEETINGS
	7 meetings
Mary Coyle	7 out of 7
Jill Fletcher	0 out of 1 ¹
Hunada Nouss	7 out of 7
Frederick McQueen	5 out of 5 ²
Les Hodgson	5 out of 5 ³
Susan Johnson	2 out of 3 ⁴
Kevin James Scott	1 out of 1 ⁵
James Falade	0 out of 0 ⁶



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

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

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

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

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

⁶ James Falade was appointed on 17 March 2016 his attendance was 0 as no meetings occurred between his appointment and the end of the financial year.

Report of the Board of Management (continued)



Work Undertaken by Risk and Audit Committee:

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

- Reviewed the Risk and Audit Committee Terms of Reference
- Received the Risk and Audit Committee Pilot Appraisal Report 2015
- Received the Enterprise Risk Management Framework & Policy Update
- Approved the Strategic Operational Audit & Resource Plan 2015/16 – 2019/20
- Approved the ICT Internal Audit Plan
- Approved the Risk and Audit Committee Schedule of Business
- Received the Gentoo Group Limited Draft Audit Highlights Memo for the year ended 31 March 2015 – KPMG LLP
- Received the Draft Audited Accounts for the year ended 31 March 2015
- Reviewed and made recommendations to Group Board on the approval of the Value for Money Statement
- Received the mid-Year Review of 2015/16 Operational Audit Plan
- Received Regulatory Updates
- Received the interim External Audit Management Letter
- Reviewed the non-Audit Fees Paid To The Statutory Auditor
- Received the Gentoo Group Limited Draft Audit Strategy and Planning Memorandum for the year ended 31 March 2016 – KPMG LLP
- Received the Financial Reporting Standard (FRS) 102 Update
- Approved the Governance Arrangements of a Special Purpose Vehicle
- Approved the Risk Management – Annual Plan 2016-17
- Approved the Group Policy Coordination: Grading and Approval Process



- Agreed the Committee Meetings 2016/17
- Reviewed and made recommendations to Group Board on the annual report of the Risk Appetite Framework
- Received the Business Assurance Progress Report
- Received Key Risk Review, including compliance with laws and regulations
- Reviewed the Risk and Compliance Map
- Received a report on the Health and Safety Statistics
- Received a report on the Insurance Claim Statistics
- Received the Fraud Issues 2015/16 report
- Received the Report on Internal Controls Assurance
- Received an update on the Corporate Manslaughter and Sentencing Guidelines
- Reviewed the Anti-fraud, Bribery and Corruption Policy
- Received a Transition Plan Update
- Received the Sector Risk Profile report
- Received reports on the follow up Review of Audit Recommendations
- Discussed the future of ISO Certifications

- Reviewed the framework to maintain the assets and liabilities register, including updates in relation to the assets and liabilities register action plan

Effectiveness of Internal Control

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

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

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

Report of the Board of Management (continued)



Appointments and Remuneration Committee

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

During the year the Committee has:

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



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

Group Executive Team

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

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Association's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

Auditor

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

By order of the Board:

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

Ian Self
Chairman

8 August 2016

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements



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

Company law requires the directors to prepare the Group and Association financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Association and of the surplus or deficit of the Group for that period. In preparing these Group and Association financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Association will continue in business.

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

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



Independent auditor's report to the members of Gentoo Group Limited



We have audited the financial statements of Gentoo Group Limited for the year ended 31 March 2016 set out on pages 58 to 122. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the Association's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 54, the directors are responsible

for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Association's affairs as at 31 March 2016 and of the Group's and the parent Association's deficit for the year then ended;
- have been properly prepared in accordance with the UK Generally Accepted Accounting Practice; and



- have been prepared in accordance with requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Association; or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Association's financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

8 August 2016

Consolidated statement of comprehensive income

for the year ended 31 March 2016

		2016	2016	2016	2015	2015	2015
	Note	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Turnover	3a	202,152	13,179	215,331	199,898	47,062	246,960
Cost of sales	3a	(45,834)	(17,787)	(63,621)	(47,486)	(48,875)	(96,361)
Gross profit / (loss)		156,318	(4,608)	151,710	152,412	(1,813)	150,599
Operating costs	3a	(131,167)	(2,501)	(133,668)	(116,826)	(4,692)	(121,518)
Other operating income	3a	352	-	352	7	-	7
Surplus on disposal of fixed assets	7	573	-	573	553	-	553
Operating surplus / (deficit)		26,076	(7,109)	18,967	36,146	(6,505)	29,641
Analysed as:							
Operating surplus / (deficit) before exceptional items		37,035	(6,808)	30,227	36,146	(6,505)	29,641
Exceptional termination costs	6	(10,959)	(301)	(11,260)	-	-	-
Operating surplus / (deficit) after exceptional items		26,076	(7,109)	18,967	36,146	(6,505)	29,641
Deficit on disposal of a discontinued operation	8a	-	-	-	(1,666)	-	(1,666)
Interest receivable and similar income	9	1,418	15	1,433	1,444	20	1,464
Interest payable and similar charges	10	(26,796)	-	(26,796)	(26,763)	(93)	(26,856)
Surplus / (deficit) on ordinary activities before taxation		698	(7,094)	(6,396)	9,161	(6,578)	2,583
Tax on surplus / (deficit) on ordinary activities	12	(2,444)	-	(2,444)	(4,391)	-	(4,391)
(Deficit) / surplus for the financial year		(1,746)	(7,094)	(8,840)	4,770	(6,578)	(1,808)
Other comprehensive income							
Actuarial gain / (loss) on pension scheme		12,030	-	12,030	(12,970)	-	(12,970)
Revaluation of fixed asset investment		(904)	-	(904)	4,560	-	4,560
Total comprehensive income / (expense) for the year		9,380	(7,094)	2,286	(3,640)	(6,578)	(10,218)

Company statement of comprehensive income

for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Turnover	3a	39,562	52,600
Cost of sales	3a	(9,590)	(19,958)
Gross profit		29,972	32,642
Operating costs	3a	(33,799)	(28,144)
Surplus on disposal of fixed assets	7	118	40
Operating (deficit) / surplus		(3,709)	4,538
Analysed as			
Operating surplus before exceptional items		1,899	4,538
Exceptional termination costs	6	(5,608)	-
Operating (deficit) / surplus after exceptional items		(3,709)	4,538
Deficit on disposal of investments	8b	(6,635)	(6,779)
Amounts written off investments	17	(14,630)	-
Interest receivable and similar income	9	24,651	24,738
Interest payable and similar charges	10	(25,181)	(25,008)
Deficit on ordinary activities before taxation		(25,504)	(2,511)
Tax on deficit on ordinary activities	12	1,170	(266)
Deficit for the financial year		(24,334)	(2,777)
Other comprehensive income			
Actuarial gain / (loss) on pension scheme	25a	12,030	(12,970)
Revaluation of fixed asset		(904)	4,560
Total comprehensive expense for the year		(13,208)	(11,187)

Consolidated statement of financial position

at 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets - Goodwill	13	214	305
Intangible assets - Licences	13	20	21
		<u>234</u>	<u>326</u>
Tangible assets – housing properties	14	1,235,566	1,240,529
Tangible assets – other	15	26,950	29,374
		<u>1,262,750</u>	<u>1,270,229</u>
Investment property	16	12,168	7,228
Investments	17	32,614	33,518
HomeBuy loans		1,230	1,555
		<u>1,308,762</u>	<u>1,312,530</u>
Current assets			
Stock	18	45,319	49,415
Debtors	19	17,872	28,611
Cash at bank and in hand		22,986	10,527
		<u>86,177</u>	<u>88,553</u>
Creditors: amounts falling due within one year	20	(47,879)	(62,103)
Net current assets		<u>38,298</u>	<u>26,450</u>
Debtors: amounts falling due after more than one year	21	7,819	8,597
Total assets less current liabilities		<u>1,354,879</u>	<u>1,347,577</u>
Creditors: amounts falling due after more than one year	22	794,623	775,208
Deferred tax provision	24	-	1,334
Pension liability	25a,b	14,110	27,175
Capital and reserves			
Revaluation reserve		168,789	172,979
Revenue reserve (excluding pension reserve)		108,604	106,991
Pension reserve		(32,280)	(44,310)
Revenue reserve (including pension reserve)		<u>76,324</u>	<u>62,681</u>
Other reserve		301,033	308,200
		<u>1,354,879</u>	<u>1,347,577</u>

These financial statements from pages 58 to 122 were approved by the Board of Directors on 8 August 2016 and signed on its behalf by:



Ian Self
Chairman

Registered number: RS007302

Company statement of financial position

at 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets - Goodwill	13	180	269
Intangible assets - Licences	13	18	20
		198	289
Tangible assets – housing properties	14	10,562	10,927
Tangible assets – other	15	18,619	19,144
		29,379	30,360
Investment property	16	11,863	7,374
Investments	17	32,614	33,518
HomeBuy loans		86	120
Investments in subsidiaries	17	350	350
		74,292	71,722
Current assets			
Stocks	18	1,713	17,390
Debtors	19	474,089	480,767
Cash at bank and in hand		14,038	3,683
		489,840	501,840
Creditors: amounts falling due within one year	20	(22,803)	(18,774)
Net current assets		467,037	483,066
Total assets less current liabilities		541,329	554,788
Creditors: amounts falling due after more than one year	22	587,835	574,197
Deferred tax provision	24	-	1,169
Pension liability	25a	9,100	21,820
Capital and reserves			
Revaluation reserve		6,832	7,651
Revenue reserve (excluding pension reserve)		(30,158)	(5,739)
Pension reserve		(32,280)	(44,310)
Revenue reserve (including pension reserve)		(62,438)	(50,049)
		541,329	554,788

These financial statements from pages 58 to 122 were approved by the Board of Directors on 8 August 2016 and signed on its behalf by:



Ian Self
Chairman

Registered number: RS007302

Consolidated statement of changes in equity

	Revaluation reserve	Revenue reserve	Pension reserve	Other reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2014	171,592	98,458	(31,340)	315,368	554,078
Total comprehensive income for the year					
Deficit	-	(1,808)	-	-	(1,808)
Other comprehensive income					
Transfer in respect of depreciation on revalued properties	(1,888)	1,888	-	-	-
Transfer in respect of realised losses on disposal of revalued properties	(1,285)	1,285	-	-	-
Realisation of capital contribution	-	7,168	-	(7,168)	-
Actuarial losses on pension	-	-	(12,970)	-	(12,970)
Revaluation of fixed asset investments	4,560	-	-	-	4,560
Balance at 31 March 2015	172,979	106,991	(44,310)	308,200	543,860
Balance at 1 April 2015	172,979	106,991	(44,310)	308,200	543,860
Total comprehensive income for the period					
Deficit	-	(8,840)	-	-	(8,840)
Other comprehensive income					
Transfer in respect of depreciation on revalued properties	(2,375)	2,375	-	-	-
Transfer in respect of realised losses on disposal of revalued properties	(911)	911	-	-	-
Realisation of capital contribution	-	7,167	-	(7,167)	-
Actuarial gain on pension	-	-	12,030	-	12,030
Revaluation of fixed asset investment	(904)	-	-	-	(904)
Balance at 31 March 2016	168,789	108,604	(32,280)	301,033	546,146

Company statement of changes in equity

	Revaluation reserve	Revenue reserve	Pension reserve	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 April 2014	2,993	(2,864)	(31,340)	(31,211)
Total comprehensive income for the period				
Deficit	-	(2,777)	-	(2,777)
Other comprehensive income				
Transfer in respect of depreciation on revalued properties	98	(98)	-	-
Actuarial deficit on pension scheme	-	-	(12,970)	(12,970)
Revaluation of fixed asset investments	4,560	-	-	4,560
Balance at 31 March 2015	7,651	(5,739)	(44,310)	(42,398)
Balance at 1 April 2015	7,651	(5,739)	(44,310)	(42,398)
Total comprehensive income for the period				
Deficit	-	(24,334)	-	(24,334)
Other comprehensive income				
Transfer in respect of depreciation on revalued properties	85	(85)	-	-
Actuarial surplus on pension scheme	-	-	12,030	12,030
Revaluation of fixed asset investments	(904)	-	-	(904)
Balance at 31 March 2016	6,832	(30,158)	(32,280)	(55,606)

Consolidated cash flow statement

for the year ended 31 March 2016

	2016	2015
	£'000	£'000
Cash flows from operating activities		
Deficit for the year	(8,840)	(1,808)
<i>Adjustments for non cash items:</i>		
Depreciation, amortisation and impairment	33,278	30,516
Interest receivable and similar income	(1,433)	(1,464)
Interest payable and similar charges	26,164	26,428
Gain on sale of tangible fixed assets	(573)	(553)
Loss on sale of discontinued operation	-	1,666
Deferred government grant	(3,612)	(3,504)
Government grants utilised in the year	(1,909)	-
Taxation	2,444	4,391
Defined benefit pension credit	(1,564)	(2,745)
	52,795	54,735
Decrease / (increase) in trade and other debtors	6,007	(4,802)
Decrease in stock	4,418	2,862
Increase in trade and other creditors	1,510	3,542
Increase in provisions and employee benefits	530	403
	12,465	2,005
Tax paid	(4,200)	(2,200)
Net cash from operating activities	52,220	52,732

Consolidated cash flow statement (continued)

for the year ended 31 March 2016

	2016	2015
	£'000	£'000
Cash flows from investing activities		
Proceeds from sale of other tangible fixed assets	695	851
Proceeds from sale of fixed asset housing properties	4,384	4,773
Acquisition of fixed asset housing properties	(208)	(21,793)
Acquisition of other tangible fixed assets	(4,769)	(1,815)
Capital expenditure on existing properties	(21,214)	(20,427)
Development of social housing properties	(7,239)	(12,991)
Disposal of subsidiary	(1,127)	(1,037)
Transfer of engagement	329	-
Interest received	1,436	1,466
Grant repaid	(104)	(79)
Proceeds from receipt of government grants	4,383	16,452
Net cash from investing activities	(23,434)	(34,600)
Cash flows from financing activities		
Proceeds from loans	32,482	18,285
Repayment of borrowings	(19,094)	(17,975)
Interest paid	(27,302)	(23,631)
Repayment of finance lease liabilities	(246)	(236)
Net cash from financing activities	(14,160)	(23,557)
Net increase / (decrease) in cash and cash equivalents	14,626	(5,425)
Cash and cash equivalents at 1 April	7,841	13,266
Cash and cash equivalents at 31 March	22,467	7,841

Notes to the financial statements

for the year ended 31 March 2016

1. Accounting policies

Gentoo Group Limited (the “Association”) was a company limited by guarantee and incorporated and domiciled in the UK until 1st April 2016 when it converted to a Community Benefit Society and gained charitable status.

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

In the transition to FRS 102 from old UK GAAP, the Association has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Association is provided in note 33.

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

- Fair value or revaluation as deemed cost – The previous GAAP revaluation at transition date has been used as deemed cost for Housing Properties for Letting; and
- Business combinations that took place prior to 1 April 2015 have not been restated.

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

Judgements made by Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the year are discussed in note 1.5.

1.1. Change in accounting policy

As part of the FRS 102 adjustments, in these financial statements the Association has changed its accounting policies for the accounting treatment for the Genie Home Purchase Plan (HPP).

The previous accounting treatment for the Genie HPP recognised the beneficial interest that Genie had in the home as an investment property in the Statement of Financial Position. The beneficial interest was valued at the Net Present Value (NPV) of the net future cash to be remitted by the customer. The beneficial interest was revalued as part of the statutory accounts. Any movement in value was captured within the revaluation reserve on the statement of financial position, and the monthly fee paid by the customer was reported in the statement of comprehensive income.

The Genie HPP is a ‘complex financial instrument’ under FRS 102 due to the potential link to upward House Price Inflation (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 the statement of comprehensive income. The fair value is equal to the share retained by the Association in the property which is subject to a HPP, valued at original sales price.

1.2. Measurement convention

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

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.3. 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 Operating and Financial Review on pages 24 to 37.

The Group meets its day to day working capital requirements through the current account, which is cash positive at the year end, and its revolver facility. The Group meets its development programme requirements through a combination of grant and debt funding. Note 22 to the accounts 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. In relation to the July 2015 Budget the Group will remain a going concern for at least the next 12 months from the date of these financial statements.

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.

1.4. Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made are set out below in note 1.5.

1.5. Significant management judgements

The following are the significant management judgements made in applying the accounting policies of the Group that have the most significant effect on the financial statements.

The individual accounts of the Association have adopted the following disclosure exemptions:

- the requirement to present a statement of cash flows and related notes
- financial instrument disclosures, including:
 - (a) categories of financial instruments
 - (b) items of income, expenses, gains or losses relating to financial instruments, and Impairment
 - (c) exposure to and management of financial risks.

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

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

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.5. Significant management judgements (continued)

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

Capitalisation of property development costs

Distinguishing the point at which a project is more likely than not to continue, allowing capitalisation of associated development costs requires judgement. After capitalisation, management monitors the asset and considers whether subsequent changes may indicate that impairment is required.

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 25a).

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. Fair value measurements were applied to fixed rate and hedged debt which carry a significant mark-to-market exposure year on year. The negative mark-to-market exposure (i.e. payable on close out) position reflects the current and implied forward looking low interest rate environment. All hedges conducted by the Group qualify for hedge accounting meaning that they are shown in Derivative Financial Instruments within the Statement of Financial Position with a corresponding entry in the Cash Flow Hedge Reserve.

1.6. Foreign currency

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.7. 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.

1.8. Basic financial instruments

Trade and other debtors / creditors

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

Bad and doubtful debts

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

Interest-bearing borrowings classified as basic financial instruments

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

Investments in subsidiaries

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. 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.

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.9. Other financial instruments

The Genie HPP arrangements are not considered to be basic financial instruments.

The HPP arrangements are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss.

The fair value is equal to the share retained 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.

There are no other financial instruments which are not considered to be basic financial instruments.

1.10. Tangible fixed assets

Housing properties held for letting

Housing properties are principally properties available for rent and are stated at deemed cost less accumulated depreciation and accumulated impairment losses. Additions include the cost of acquiring land and buildings, development costs and expenditure incurred in respect of enhancements to existing properties. Depreciation is charged to the 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

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

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

Shared ownership

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

Garages held for letting

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

Cyclical repairs and maintenance

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.10. Tangible fixed assets (continued)

Works to existing properties

Major repairs expenditure on housing properties is charged to the statement of comprehensive income as incurred.

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

Disposal of housing properties

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

Housing properties in the course of construction

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

Other

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

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

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

1.11. Intangible assets

Intangible fixed assets are stated at cost less accumulated amortisation and less accumulated impairment losses.

1.12. 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 income over the life of the structure of housing properties in accordance with the accrual method applicable to registered providers of social housing accounting for housing properties at cost.

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.12. Government grants (continued)

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

1.13. Discontinued operations

Discontinued operations are components of the Association 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 abandonment.

1.14. 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.

If a reliable measure is not available without undue cost or effort for an item of investment property, this item is thereafter accounted for as tangible fixed assets in accordance with FRS 102 until a reliable measure of fair value becomes available.

1.15. Stock

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

1.16. Impairment excluding stocks, investment properties and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through 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.

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.16. Impairment excluding stocks, investment properties and deferred tax assets (continued)

Non-financial assets

The carrying amounts of the Association's non-financial assets, other than investment property, stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire entity into which it has been integrated.

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.

1.17. Employee benefits

Defined contribution plans and other long term employee benefits

The Group participates in a defined contribution scheme for Group employees who are not eligible to join the fund.

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 statement of comprehensive income in the periods during which services are rendered by employees.

Defined benefit plans

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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Association's net obligation in respect of defined benefit plans and other long term employee benefits 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.

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.17. Employee benefits (continued)

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.

1.18. Turnover

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

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

1.19. 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 statement of comprehensive income 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.

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.19. Expenses (continued)

Interest receivable and Interest payable

Interest payable and similar charges include interest payable and finance leases recognised in the statement of comprehensive income using the effective interest method.

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

Interest income and interest payable are recognised in the statement of comprehensive income as they accrue, using the effective interest method.

1.20. Taxation

Tax on the profit or loss 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 it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.21. Disposal proceeds fund

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

1.22. Service charge sinking funds

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

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

1.23. Value added tax (VAT)

The Association is included in a Group VAT registration which includes all Group Companies except for Gentoo Homes Limited, Gentoo Genie Limited, Romag Limited (sold 14 July 2016) and Romag PPM Limited (sold 14 July 2016) which have separate VAT registrations.

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. Basis of consolidation

Company law requires the Directors to prepare the Group and Association financial statements for each financial year. For those companies in Gentoo Group which are limited by guarantee, Gentoo Group Limited is considered to be the ultimate controlling party. This is because intra-group agreements exist between the companies, which recognise that the Board ultimately controls the overall strategy, policies and procedures of all Group companies. All companies in the Group are included in the consolidated financial statements.

2. Disposal of businesses in the current period

Gentoo Construction Limited has been disposed of in the year and has been classified as a discontinued operation. The prior year also reflects the disposal of the Astley group of companies.

Notes to the financial statements (continued)

for the year ended 31 March 2016

3a. Turnover, operating cost and operating surplus

Group	Note	Turnover	Cost of sales	Operating costs	Other operating Income	2016 Operating surplus / (deficit)
		£'000	£'000	£'000	£'000	£'000
Social housing lettings	3b	142,460	-	(111,120)	-	31,340
Other social housing activities:						
First tranche low cost home ownership sales		218	(217)	-	-	1
Properties developed for outright sale		36,035	(29,822)	(3,908)	-	2,305
Other income and expenditure:						
Grant income		1,834	-	-	-	1,834
Other		34,784	(33,582)	(18,640)	352	(17,086)
Non-social housing activities		<u>36,618</u>	<u>(33,582)</u>	<u>(18,640)</u>	<u>352</u>	<u>(15,252)</u>
Total		<u>215,331</u>	<u>(63,621)</u>	<u>(133,668)</u>	<u>352</u>	<u>18,394</u>

Group	Note	Turnover	Cost of sales	Operating costs	Other operating Income	2015 Operating surplus / (deficit)
		£'000	£'000	£'000	£'000	£'000
Income and expenditure from social housing lettings	3b	138,422	-	(104,982)	-	33,440
Other income and expenditure:						
Property sales		35,863	(28,993)	(3,411)	-	3,459
Grant income		1,777	-	-	-	1,777
Other		70,898	(67,368)	(13,125)	7	(9,588)
Non-social housing activities		<u>108,538</u>	<u>(96,361)</u>	<u>(16,536)</u>	<u>7</u>	<u>(4,352)</u>
Total		<u>246,960</u>	<u>(96,361)</u>	<u>(121,518)</u>	<u>7</u>	<u>29,088</u>

Notes to the financial statements (continued)

for the year ended 31 March 2016

3a. Turnover, operating cost and operating surplus (continued)

Company					2016
	Note	Turnover	Cost of sales	Operating costs	Operating surplus / (deficit)
		£'000	£'000	£'000	£'000
Income and expenditure from social housing lettings	3b	477	-	(385)	92
Properties developed for outright sale		11,169	(9,590)	-	1,579
Other income and expenditure:					
Grant income		845	-	-	845
Other		27,071	-	(33,414)	(6,343)
Non-social housing activities		27,916	-	(33,414)	(5,498)
Total		39,562	(9,590)	(33,799)	(3,827)

Company					2015
	Note	Turnover	Cost of sales	Operating costs	Operating surplus / (deficit)
		£'000	£'000	£'000	£'000
Income and expenditure from social housing lettings	3b	312	-	(297)	15
Other income and expenditure:					
Property sales		22,525	(19,958)	-	2,567
Grant income		864	-	-	864
Other		28,899	-	(27,847)	1,052
Non-social housing activities		52,288	(19,958)	(27,847)	4,483
Total		52,600	(19,958)	(28,144)	4,498

Notes to the financial statements (continued)

for the year ended 31 March 2016

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

Group				2016	2015
	General needs housing	Supported housing and housing for older people	Shared ownership	Total	Total
	£'000	£'000	£'000	£'000	£'000
Income					
Rent receivable net of identifiable service charges	133,650	2,412	228	136,290	132,247
Service charge income	2,130	426	2	2,558	2,670
Amortised Government grants	3,588	-	24	3,612	3,505
Turnover from social housing lettings	139,368	2,838	254	142,460	138,422
Operating expenditure					
Management	(15,778)	(473)	(39)	(16,290)	(15,121)
Central services costs	(22,363)	-	-	(22,363)	(23,950)
Service charge costs	(1,281)	(422)	(2)	(1,705)	(1,718)
Routine maintenance	(26,184)	(305)	-	(26,489)	(26,346)
Asset management	(1,036)	-	-	(1,036)	(880)
Planned maintenance	(7,706)	(116)	-	(7,822)	(8,595)
Bad debts	(823)	(5)	-	(828)	(751)
Depreciation of housing properties	(28,695)	(863)	(51)	(29,609)	(27,621)
Other costs (restructure)	(4,978)	-	-	(4,978)	-
Operating expenditure on social housing lettings	(108,844)	(2,184)	(92)	(111,120)	(104,982)
Operating surplus on social housing lettings	30,524	654	162	31,340	33,440
Void losses*	(1,542)	(12)	-	(1,554)	(1,281)

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

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

Company			2016	2015
	Housing accommodation	Shared Ownership	Total	Total
	£'000	£'000	£'000	£'000
Income				
Rent receivable net of identifiable service charges	412	-	412	247
Service charge income	61	-	61	63
Amortised Government grants	4	-	4	2
Total income from social housing lettings	477	-	477	312
Expenditure				
Management	(52)	-	(52)	(16)
Service charge costs	(1)	-	(1)	(1)
Bad Debts	(1)	-	(1)	-
Depreciation of housing properties	(331)	-	(331)	(280)
Total expenditure on social housing lettings	(385)	-	(385)	(297)
Operating surplus on social housing lettings	92	-	92	15
Rent losses from voids	(8)	-	(8)	(8)

Notes to the financial statements (continued)

for the year ended 31 March 2016

4. Housing Stock

Group	Owned and managed	Managed but not owned	Owned but managed by others	2016 Total
As at 31 March 2016:	No.	No.	No.	No.
Number of units of social housing accommodation:				
General needs rented	31,053	434	16	31,503
Affordable rented	726	-	-	726
Shared ownership	209	-	-	209
Houses for Older People	187	-	-	187
Houses for Older People – Affordable Rented	42	-	-	42
Supported housing	188	12	177	377
Leasehold schemes – freehold retained	-	733	-	733
	<u>32,405</u>	<u>1,179</u>	<u>193</u>	<u>33,777</u>
Number of units of non-social housing accommodation:				
Market rent	68	-	-	68
Market rent held for sale	-	-	-	-
Leasehold schemes	-	-	-	-
Leasehold schemes – freehold retained	-	246	-	246
Non-social total	<u>68</u>	<u>246</u>	<u>-</u>	<u>314</u>
Total number of units	<u><u>32,473</u></u>	<u><u>1,425</u></u>	<u><u>193</u></u>	<u><u>34,091</u></u>

Notes to the financial statements (continued)

for the year ended 31 March 2016

4. Housing Stock (continued)

Group	Owned and managed	Managed but not owned	Owned but managed by others	2015 Total
As at 31 March 2015:	No.	No.	No.	No.
Number of units of social housing accommodation:				
General needs rented	31,118	431	16	31,565
Affordable Rented	632	6	-	638
Shared ownership	214	-	-	214
Houses for Older People	187	-	-	187
Houses for Older People – Affordable rented	42	-	-	42
Supported housing	220	12	183	415
Leasehold schemes – freehold retained	-	730	-	730
	32,413	1,179	199	33,791
Number of units of non-social housing accommodation:				
Market rent	18	-	-	18
Market rent held for sale	41	-	-	41
Leasehold schemes	-	213	-	213
Leasehold schemes – freehold retained	-	237	-	237
Non-social total	59	450	-	509
Total number of units	32,472	1,629	199	34,300

Notes to the financial statements (continued)

for the year ended 31 March 2016

4. Housing Stock (continued)

Company	Owned and managed	Managed but not owned	Owned but managed by others	2016 Total
As at 31 March 2016:	No.	No.	No.	No.
Number of units of social housing accommodation:				
General needs rented	8	-	186	194
Shared ownership	46	-	-	46
Supported housing	-	12	-	12
	<u>54</u>	<u>12</u>	<u>186</u>	<u>252</u>
Number of units of non-social housing accommodation:				
Market rent	67	-	-	67
Market rent – Held for sale	-	-	-	-
Leasehold schemes	-	15	-	15
Leasehold schemes – freehold retained	-	231	-	231
Non-social total	<u>67</u>	<u>246</u>	<u>-</u>	<u>313</u>
Total number of units	<u><u>121</u></u>	<u><u>258</u></u>	<u><u>186</u></u>	<u><u>565</u></u>

Company	Owned and managed	Managed but not owned	Owned but managed by others	2015 Total
As at 31 March 2015:	No.	No.	No.	No.
Number of units of social housing accommodation:				
General needs rented	8	-	186	194
Shared ownership	46	-	-	46
Supported housing	-	12	-	12
	<u>54</u>	<u>12</u>	<u>186</u>	<u>252</u>
Number of units of non-social housing accommodation:				
Market rent	18	-	-	18
Market rent – Held for sale	40	-	-	40
Leasehold schemes	-	213	-	213
Leasehold schemes – freehold retained	-	237	-	237
Non-social total	<u>58</u>	<u>450</u>	<u>-</u>	<u>508</u>
Total number of units	<u><u>112</u></u>	<u><u>462</u></u>	<u><u>186</u></u>	<u><u>760</u></u>

Notes to the financial statements (continued)

for the year ended 31 March 2016

5. Directors' and senior staff emoluments

	2016	2015
	£'000	£'000
Non-Executive Directors	118	120
Executive Directors and senior staff	1,091	1,641
Association contributions to defined benefit schemes	92	232
Compensation for loss of office	1,134	55
	2,435	2,048

Retirement benefits are accruing to six (2015: nine) senior staff under a defined benefit scheme. The aggregate emoluments (excluding compensation for loss of office) of the former Chief Executive (highest paid director) were £197,723 (2015: £241,356) and company pension contributions of £nil (2015: £nil). The current Chief Executive Officer is a member of the Group pension scheme, in line with other employees. Company pension contributions amounted to £24,275 (2015: £37,165).

		2016 Emoluments
Board member	Board role	£'000
Barrington Billings	Non-Executive Director	10
Hunada Nouss	Non-Executive Director	9
Ian Self	Chairman	32
Jill Fletcher	Non-Executive Director	2
John Dannell	Non-Executive Director	12
John Walker	Non-Executive Director	19
Mary Coyle	Non-Executive Director	16
Philip Tye	Non-Executive Director	8
Richard Beevers	Non-Executive Director	10
Total		118

Notes to the financial statements (continued)

for the year ended 31 March 2016

5. Directors' and senior staff emoluments (continued)

The emoluments paid to the directors and senior staff, excluding pension contributions and including loss of office, were in the following ranges:

	2016	2015
	No.	No.
£70,001 - £80,000	-	2
£80,001 - £90,000	1	1
£90,001 - £100,000	-	-
£100,001 - £110,000	-	1
£110,001 - £120,000	-	1
£120,001 - £130,000	1	1
£140,001 - £150,000	1	-
£150,001 - £160,000	-	3
£160,001 - £170,000	-	1
£170,001 - £180,000	-	-
£180,001 - £190,000	-	1
£190,001 - £200,000	3	-
£200,001 - £210,000	1	-
£240,001 - £250,000	-	1
£290,001 - £300,000	1	-
£320,001 - £330,000	1	-
£370,001 - £380,000	1	-

Notes to the financial statements (continued)

for the year ended 31 March 2016

6. Employees

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

	Group 2016	Company 2016	Group 2015	Company 2015
	No.	No.	No.	No.
Executive Directors and Senior Staff	14	6	11	8
Managing Housing Services	407	106	387	117
Repairs and Maintenance	532	-	546	1
Centre Enabling Services	336	278	339	298
Development and selling homes	79	-	38	-
Other Operations	317	-	426	-
Apprentices	14	12	39	39
	1,699	402	1,786	463

The aggregate payroll costs of these persons were as follows:

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Wages and salaries	49,662	13,394	51,329	13,618
Social security costs	3,959	1,145	4,049	1,128
Pension contributions:				
Defined benefit scheme	7,598	2,347	7,914	2,320
Defined contribution scheme	111	-	127	-
SHAPS	647	-	654	-
	8,356	2,347	8,695	2,320
Redundancy costs	11,260	5,608	-	-
	73,237	22,494	64,073	17,066

Notes to the financial statements (continued)

for the year ended 31 March 2016

6. Employees (continued)

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

	Group 2016	Company 2016	Group 2015	Company 2015
	No.	No.	No.	No.
£60,001 - £70,000	20	10	12	3
£70,001 - £80,000	22	13	12	9
£80,001 - £90,000	21	6	11	7
£90,001 - £100,000	8	5	2	1
£100,001 - £110,000	3	2	4	1
£110,001 - £120,000	3	3	1	1
£120,001 - £130,000	2	2	3	1
£130,001 - £140,000	4	2	-	-
£140,001 - £150,000	2	-	-	-
£150,001 - £160,000	1	1	3	2
£160,001 - £170,000	-	-	2	1
£170,001 - £180,000	1	1	-	-
£180,001 - £190,000	-	-	1	1
£190,001 - £200,000	3	3	-	-
£200,001 - £210,000	2	1	-	-
£240,001 - £250,000	-	-	1	1
£290,001 - £300,000	1	1	-	-
£320,001 - £330,000	1	1	-	-
£370,001 - £380,000	1	1	-	-

7. Surplus on disposal of fixed assets

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Proceeds from sales	5,079	676	8,485	1,476
Cost of sales	(273)	(551)	(1,619)	(1,025)
Net book value of assets sold	(3,768)	(7)	(4,771)	(276)
Net book value of assets demolished	(61)	-	(185)	-
	977	118	1,910	175
Transfer to disposal proceeds fund	(300)	-	(1,023)	-
Transfer to recycled capital grant fund	-	-	(255)	(135)
Grant repaid	(104)	-	(79)	-
	573	118	553	40

Notes to the financial statements (continued)

for the year ended 31 March 2016

8a. Deficit on disposal of a discontinued operation

Group	2016	2015
	£'000	£'000
Proceeds from sales	-	-
Net book value of assets sold	-	(1,666)
	<u>-</u>	<u>(1,666)</u>

8b. Deficit on disposal of investments

Company	2016	2015
	£'000	£'000
Proceeds from sales	-	-
Investment value	-	(1,182)
Waiver of intercompany loan	(6,635)	(5,597)
	<u>(6,635)</u>	<u>(6,779)</u>

9. Interest receivable and similar income

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Bank interest receivable	46	21	17	17
Interest receivable on treasury deposits	12	12	68	-
Interest receivable on fixed rate investments	1,375	1,375	1,379	1,379
Interest receivable from Group companies	-	23,243	-	23,342
	<u>1,433</u>	<u>24,651</u>	<u>1,464</u>	<u>24,738</u>

Notes to the financial statements (continued)

for the year ended 31 March 2016

10. Interest payable and similar charges

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Interest on loans repayable within five years	632	632	263	263
Interest on loans repayable in more than five years by instalments	12,147	10,632	12,809	11,176
Interest on fixed rate bond net of hedge amortisation	13,176	13,176	13,149	13,149
Bank fees and similar charges	348	350	430	373
	26,303	24,790	26,651	24,961
Interest payable capitalised on stock	(139)	(139)	(223)	(223)
	26,164	24,651	26,428	24,738
Interest on pension liability	632	530	428	270
	26,796	25,181	26,856	25,008
Capitalisation rate used to determine the finance costs capitalised during the year	2.29%	2.29%	2.25%	2.25%

11. Expenses and auditors' remuneration

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
<i>Included in (deficit) / surplus are the following:</i>				
Depreciation:				
Housing properties	29,609	331	27,621	280
Other tangible fixed assets	2,428	1,146	2,738	1,498
Amortisation of intangible assets	92	91	93	91
Impairment loss on fixed assets (vehicles and equipment)	1,149	-	64	64
Auditors' remuneration				
Statutory audit services	112	25	141	47
Non-statutory audit services	34	34	38	35
Non-audit services				
Tax	17	17	74	74
Other	114	114	47	47
Restructuring costs	11,260	5,608	-	-

The Group undertakes a detailed impairment exercise annually and the carrying value of the properties and other fixed assets have been revised accordingly.

Notes to the financial statements (continued)

for the year ended 31 March 2016

12. Taxation

Total tax charge / (credit) recognised in the statement of comprehensive income

	2016		2015	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
<i>Current tax</i>				
Current tax on income for the period	4,162	-	4,101	-
Adjustments in respect of prior periods	(385)	-	-	-
Total current tax	3,777	-	4,101	-
<i>Deferred tax</i>				
Origination and reversal of timing differences	(1,075)	(920)	291	267
Change in tax rate	(56)	(48)	-	-
Adjustments arising in respect of prior periods	(202)	(202)	(1)	(1)
Total deferred tax	(1,333)	(1,170)	290	266
Total tax charge / (credit)	2,444	(1,170)	4,391	266

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

12. Taxation (continued)

Reconciliation of effective tax rate

	2016		2015	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
(Deficit) / surplus for the year	(6,396)	(25,504)	2,583	(2,511)
Tax at standard rate of 20% (2015: 21%)	(1,279)	(5,101)	542	(527)
Add:				
Chargeable losses / (gains)	148	-	(4,234)	-
Expenses not deductible	5,286	4,060	2,739	1,460
Fixed asset differences	3,957	222	346	345
Fixed asset depreciation on ineligible items	-	-	3,844	-
Unutilised losses	1,449	-	27	-
Short term timing differences	3	-	(522)	(525)
Reduction in tax rate on deferred tax balances	(1,630)	(8)	245	(13)
Prior period adjustments	(587)	(202)	(2)	(1)
Less:				
Non-taxable income	(5,063)	-	(1,820)	-
Land remediation deduction	-	-	(19)	-
Charitable tax exemptions	(1,866)	-	(1,831)	-
Deferred tax not recognised	2,026	(157)	5,076	-
Group relief surrendered / (claimed)	-	16	-	(473)
Total tax charge / (credit)	<u>2,444</u>	<u>(1,170)</u>	<u>4,391</u>	<u>266</u>

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

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

13. Intangible assets

Group	Goodwill	Licences	Total
	£'000	£'000	£'000
Cost			
At 1 April 2015 and 31 March 2016	3,382	24	3,406
Amortisation			
At 1 April 2015	3,077	3	3,080
Charged in the year	91	1	92
At 31 March 2016	3,168	4	3,172
Net book value			
At 31 March 2015	305	21	326
At 31 March 2016	214	20	234

Company	Goodwill	Licences	Total
	£'000	£'000	£'000
Cost			
At 1 April 2015 and 31 March 2016	448	24	472
Amortisation			
At 1 April 2015	179	4	183
Charged in the year	89	2	91
At 31 March 2016	268	6	274
Net book value			
At 31 March 2015	269	20	289
At 31 March 2016	180	18	198

The amortisation, impairment charge and impairment reversals are recognised in the following line items in the statement of comprehensive income:

	2016	2015
	£'000	£'000
Operating costs	92	93

Notes to the financial statements (continued)

for the year ended 31 March 2016

14. Tangible assets – housing properties

Group	Housing properties held for letting	Shared ownership	Housing properties under construction	Garages held for letting	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2015	1,381,210	9,903	7,829	1,413	1,400,355
Additions	3,611	-	3,593	-	7,204
Enhancements	21,214	-	-	-	21,214
Schemes completed	1,671	217	(1,888)	-	-
Disposals	(4,004)	(381)	-	-	(4,385)
Demolitions	(46)	-	-	(17)	(63)
Category transfer	11	-	-	(11)	-
Transferred to other fixed assets / investment properties / properties for sale	(611)	-	-	-	(611)
Transferred from DPF	-	-	(1,355)	-	(1,355)
Transfer of engagement	2,901	-	-	-	2,901
At 31 March 2016	1,405,957	9,739	8,179	1,385	1,425,260
Depreciation					
At 1 April 2015	158,466	1,032	-	328	159,826
Charged in the year	29,537	51	-	21	29,609
Disposals	(612)	(75)	-	-	(687)
Transferred to other fixed assets / investment properties / properties for sale	(3)	-	-	-	(3)
Transfer of engagement	952	-	-	-	952
Demolitions	(2)	-	-	(1)	(3)
At 31 March 2016	188,338	1,008	-	348	189,694
Net book value					
At 31 March 2015	1,222,744	8,871	7,829	1,085	1,240,529
At 31 March 2016	1,217,619	8,731	8,179	1,037	1,235,566

Expenditure to works on existing properties:

	2016	2015
	£'000	£'000
Amounts capitalised – improvements	21,214	20,427
Amounts charged to statement of comprehensive income	7,822	8,002
	29,036	28,429

Notes to the financial statements (continued)

for the year ended 31 March 2016

14. Tangible assets – housing properties (continued)

Company	Housing properties held for letting	Shared Ownership	Total
	£'000	£'000	£'000
Cost			
At 1 April 2015	9,752	2,688	12,440
Transfer to other fixed assets	(67)	-	(67)
Transferred from Group subsidiaries	15	-	15
At 31 March 2016	9,700	2,688	12,388
Depreciation			
At 1 April 2015	1,416	97	1,513
Charged in the year	332	-	332
Transferred to other fixed assets	(19)	-	(19)
At 31 March 2016	1,729	97	1,826
Net book value			
At 31 March 2015	8,336	2,591	10,927
At 31 March 2016	7,971	2,591	10,562

The Group and Association has identified the reduction in future rental streams following the introduction of The Welfare Reform and Work Act 2016 as an indicator of potential impairment and has subsequently carried out an assessment of whether any impairment provision is required in accordance with the Statement of Recommended Practice 'Accounting by registered social housing providers Update 2014 ('SORP 2014').

This assessment determined that the value in use of assets held for their service potential (VIU-SP) exceeds the carrying value of each of the Cash Generating Units (CGU's) and therefore no impairment provision is required.

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

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

15. Tangible assets – other

Group	Land and buildings	Furniture, fixtures and fittings	Vehicles and Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2015	27,096	2,568	19,879	49,543
Additions	-	73	1,021	1,094
Disposals	(82)	-	(97)	(179)
Transfer between HP, PFS and IP	133	-	-	133
Category transfer	56	26	(82)	-
Reclassification	(111)	170	(215)	(156)
At 31 March 2016	27,092	2,837	20,506	50,435
Depreciation				
At 1 April 2015	4,980	2,327	12,862	20,169
Charged in the year	587	76	1,765	2,428
Disposals	(31)	-	(79)	(110)
Transfer between HP and IP	5	-	-	5
Impairment	-	-	1,149	1,149
Reclassification	(115)	(34)	(7)	(156)
At 31 March 2016	5,426	2,369	15,690	23,485
Net book value				
At 31 March 2015	22,116	241	7,017	29,374
At 31 March 2016	21,666	468	4,816	26,950

Assets held under finance leases, capitalised and included in tangible fixed assets:	2016	2015
	£'000	£'000
Cost	1,373	1,373
Accumulated depreciation	(1,137)	(450)
Net book value	236	923

The net book value of land and buildings comprises:	2016	2015
	£'000	£'000
Freehold	18,977	19,331
Short leasehold	-	-
Long leasehold	2,689	2,785
	21,666	22,116

Notes to the financial statements (continued)

for the year ended 31 March 2016

15. Tangible assets – other (continued)

Company	Land and buildings	Furniture, fixtures and fittings	Vehicles and equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2015	22,052	2,258	9,899	34,209
Additions	-	71	509	580
Disposals	-	-	(33)	(33)
Transfer from housing properties	67	-	-	67
At 31 March 2016	22,119	2,329	10,375	34,823
Depreciation				
At 1 April 2015	4,592	1,851	8,622	15,065
Charged in the year	444	57	645	1,146
Disposals	-	-	(26)	(26)
Transfer from housing properties	19	-	-	19
At 31 March 2016	5,055	1,908	9,241	16,204
Net book value				
At 31 March 2015	17,460	407	1,277	19,144
At 31 March 2016	17,064	421	1,134	18,619
The net book value of land and buildings comprises:			2016	2015
			£'000	£'000
Freehold			15,405	15,758
Long leasehold			1,659	1,702
			17,064	17,460

Notes to the financial statements (continued)

for the year ended 31 March 2016

16. Investment property

	Group freehold	Company freehold
	£'000	£'000
Balance at 1 April 2015	7,228	7,374
Additions	712	342
Transfer from stock	4,228	4,147
At 31 March 2016	12,168	11,863

No depreciation is charged on the investment properties in accordance with the accounting policy. This treatment represents a departure from the requirements of the Companies Act 2006 concerning depreciation of fixed assets; however these properties are held for investment not consumption therefore the Directors consider that the systematic annual depreciation would be inappropriate. The accounting policy is adopted to give a true and fair view within the financial statements.

The Directors have reviewed the market value of the investment properties as at 31 March 2016. Based on current and future rental cash inflows, the condition of the properties and the current housing market, the Directors consider the carrying value of investment properties to be an appropriate market value.

17. Fixed Asset Investments: Group and Company

	Historical Cost	Market Value
	£'000	£'000
At 1 April 2015	25,218	33,518
Revaluation as at 31 March 2016	-	(904)
At 31 March 2016	25,218	32,614

At 31 March 2016, the investment assets are reserves held as security for the bond (see note 26).

Company	Investment in subsidiaries
Cost and net book value	£'000
At 1 April 2015	350
Additions	14,630
Impairment	(14,630)
Disposals	-
At 31 March 2016	350

During the year the Association waived intercompany debts with two subsidiaries which has resulted in an impairment loss of £14.6m. These subsidiaries were sold on 14 July 2016.

Notes to the financial statements (continued)

for the year ended 31 March 2016

17. Fixed Asset Investments: Group and Company (continued)

The principal companies in which the Group's interest at the year end is more than 20% are as follows:

Subsidiary undertakings	Country of incorporation	Registered number	Principal activity	Class and percentage of shares held
Registered provider (RP)				
Gentoo Sunderland Limited	England	04039199	RP	CBS
West of Scotland Housing Association	Scotland	1828R(S) SC018486	RP	CBS
Non-registered providers				
Efficient Warm Energy Limited (dissolved 23 June 2015)	England	08351439	Dormant	Ordinary – 37%
Gentoo Art of Living	England	IP31960R	CBS	CBS
Gentoo Care Limited	England	07728134	Care Services	Ordinary – 100%
Gentoo Developments Limited ¹	England	06192887	Residential property development	Ordinary – 100%
Gentoo Genie Limited	England	07083129	Home Purchase Plans Provider	Ordinary – 100%
Gentoo Genie Admin Limited	England	08201449	Dormant	Ordinary – 100%
Gentoo Homes Limited	England	04739226	Residential property development	Ordinary – 100%
Genie Homeplan Limited	England	07103094	Trust company	Ordinary – 100%
Gentoo Ventures Limited	England	04565964	Dormant	Ordinary – 100%
Nuru Fund Limited	England	IP32102R	Charity	CBS
Romag Limited ²	England	07139567	Manufacturing	Ordinary – 100%
Romag PPM Limited ²	England	07141263	Leasing co to Romag Limited	Ordinary – 100%
Sunderland Prospect 2 Limited	England	05929692	Dormant	Ordinary – 100%
Willowacre Trust ³	Scotland	SC073356 SC015567	Charity	Limited by guarantee

¹ Gentoo Developments Limited immediate holding held by Gentoo Sunderland Limited

² Romag Limited and Romag PPM Limited were sold 14 July 2016

³ Willowacre Trust immediate holding held by West of Scotland Housing Association

Notes to the financial statements (continued)

for the year ended 31 March 2016

18. Stock

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Properties for Sale				
Properties under construction	37,645	-	36,365	9,742
Completed properties	5,480	1,000	10,376	6,982
Work in progress	137	-	137	-
	<u>43,262</u>	<u>1,000</u>	<u>46,878</u>	<u>16,724</u>
Raw materials and consumables	1,868	713	2,073	666
Finished goods and goods for resale	189	-	464	-
	<u>2,057</u>	<u>713</u>	<u>2,537</u>	<u>666</u>
	<u>45,319</u>	<u>1,713</u>	<u>49,415</u>	<u>17,390</u>

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

Kirk Hill, Carlton
 Lansdowne Terrace, Gosforth
 Cypress Avenue, Fenham
 Front Street, Hart
 Holeyn Hall Road, Wylam
 Middlesbrough Road, Guisborough
 Front Street, Benton
 Thurcroft, Doxford Park (Phase 5)
 Meadow View Phase 2 (Homelands)

19. Debtors

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Arrears of rent	7,816	82	7,469	105
Less: provision for bad and doubtful debts – rent	(3,726)	-	(3,176)	-
Trade debtors	3,236	811	9,527	807
Less: provision for bad debts	(105)	(92)	(113)	(15)
Amounts owed by subsidiary undertakings	-	468,652	-	477,041
Amounts receivable on contracts	-	-	5,003	-
Other debtors	3,555	2,642	2,927	1,473
Prepayments and accrued income	7,096	1,994	6,974	1,356
	<u>17,872</u>	<u>474,089</u>	<u>28,611</u>	<u>480,767</u>

Notes to the financial statements (continued)

for the year ended 31 March 2016

20. Creditors: amounts falling due within one year

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Bank overdraft	519	-	2,686	-
Commercial loans	13,222	11,563	11,378	9,815
Other loans – Get Britain Building	-	-	8,182	-
Other loans – Builders Finance Fund	1,796	-	-	-
Obligations under finance leases	204	-	261	-
Trade creditors	5,398	2,335	6,860	1,681
Rent received in advance	2,020	16	2,046	20
Other tax and social security	2,488	859	3,056	1,014
Other creditors	4,947	2,769	15,454	3,729
Accruals and deferred income	15,618	5,247	8,778	2,100
Pension liability	463	-	465	-
SHG and other grants in advance	14	14	151	151
Disposal proceeds fund	1,089	-	2,132	-
Recycled capital grant fund	101	-	654	264
	47,879	22,803	62,103	18,774

Reconciliation of Recycled Capital Grant Fund	Group HCA	Company HCA
	£'000	£'000
Opening balance at 1 April 2015	654	264
Recycling of grant: New build	(553)	(264)
Closing balance at 31 March 2016	101	-
Amounts three years old or older where repayment may be required	-	-

Notes to the financial statements (continued)

for the year ended 31 March 2016

20. Creditors: amounts falling due within one year (continued)

Reconciliation of Disposal Proceeds Fund		Group	Company
		HCA	HCA
		£'000	£'000
Opening balance at 1 April 2015		2,132	-
Inputs to DPF:	Net receipts	300	-
	Interest accrued	12	-
Use / allocation of funds:	New build	(1,355)	-
Closing balance at 31 March 2016		1,089	-
Amounts three years old or older where repayment may be required		-	-

21. Debtors: amounts falling due after more than one year (continued)

	Group	Company	Group	Company
	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
Genie Home Purchase Plans	9,455	-	10,286	-
Deferred revenue	(1,636)	-	(1,689)	-
	7,819	-	8,597	-

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.

Notes to the financial statements (continued)

for the year ended 31 March 2016

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

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Commercial loans	643,507	587,619	631,580	574,050
Other Loans – Builders Finance Fund	5,165	-	-	-
Obligations under finance leases	-	-	189	-
Deferred capital grant	145,678	216	143,439	147
Other creditors	273	-	-	-
	<u>794,623</u>	<u>587,835</u>	<u>775,208</u>	<u>574,197</u>

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. The financing is currently all secured by way of a fixed charge on the housing properties of the Group.

During 2015/16 £21.8m of the Builders Finance Fund was secured by the Group to deliver nine schemes totalling 400 units by October 2018. The imputed interest rate on the loan reflects market interest rates available to the Group. The loans have non fixed repayment dates and variable repayment amounts.

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

The commercial loans and bond can be analysed as follows:

	Group 2016	Company 2016	Group 2015	Company 2015
	£'000	£'000	£'000	£'000
Due between one and two years:				
Repayable by instalments	14,125	12,456	11,880	10,201
Due between two and five years:				
Repayable by instalments	46,855	41,156	43,200	37,961
Due after more than five years:				
Repayable by instalments	579,024	530,504	572,634	522,022
Hedge proceeds	3,480	3,480	3,840	3,840
Issue Costs	23	23	26	26
	<u>643,507</u>	<u>587,619</u>	<u>631,580</u>	<u>574,050</u>

Notes to the financial statements (continued)

for the year ended 31 March 2016

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

The maturity of obligations under finance leases is as follows:

	2016	2015
	£'000	£'000
Within one year	208	275
In the second to fifth years	-	192
	208	467
Less: future finance charges	(4)	(17)
	204	450

23. Social Housing Grant

Group	Housing properties for letting	Housing properties under construction	Shared ownership properties for lettings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2015	177,419	162	468	178,049
Received during the year	1,790	3,687	-	5,477
Transferred from RCGF	-	553	-	553
Recycled on disposal	(128)	-	(51)	(179)
At 31 March 2016	179,081	4,402	417	183,900
Amortisation				
At 1 April 2015	34,610	-	-	34,610
Released in the year	3,588	-	24	3,612
At 31 March 2016	38,198	-	24	38,222
	140,883	4,402	393	145,678

Notes to the financial statements (continued)

for the year ended 31 March 2016

23. Social Housing Grant (continued)

Company	Housing properties for letting	Housing properties under construction	Shared ownership properties for lettings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2015	149	-	-	149
Received during the year	73	-	-	73
At 31 March 2016	222	-	-	222
Amortisation				
At 1 April 2015	2	-	-	2
Released in the year	4	-	-	4
At 31 March 2016	6	-	-	6
	216	-	-	216

24. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets 2016	2015	Liabilities 2016	2015	Net 2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Accelerated capital allowances	-	-	-	1,358	-	1,358
Unused tax losses	-	(24)	-	-	-	(24)
Tax (assets) / liabilities	-	(24)	-	1,358	-	1,334
Net of tax liabilities / (assets)	-	-	-	-	-	-
Net tax (assets) / liabilities	-	(24)	-	1,358	-	1,334

Deferred tax assets and liabilities are attributable to the following:

Company	Assets 2016	2015	Liabilities 2016	2015	Net 2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Accelerated capital allowances	-	-	-	1,169	-	1,169
Unused tax losses	-	-	-	-	-	-
Tax (assets) / liabilities	-	-	-	1,169	-	1,169
Net of tax liabilities / (assets)	-	-	-	-	-	-
Net tax (assets) / liabilities	-	-	-	1,169	-	1,169

Notes to the financial statements (continued)

for the year ended 31 March 2016

25a. Employee benefits

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	2016
	£'000
Defined benefit obligation	194,640
Plan assets	(185,540)
Net pension liability	9,100

Movements in present value of defined benefit obligation	2016
	£'000
At 1 April 2015	
Opening defined benefit obligation	196,370
Current service cost	9,420
Interest expense on defined benefit obligation	6,420
Contributions by participants	2,640
Actuarial gains on scheme liabilities	(14,940)
Net benefits paid out	(6,310)
Past service cost	1,040
At 31 March 2016	194,640

Notes to the financial statements (continued)

for the year ended 31 March 2016

25a. Employee benefits (continued)

Movements in fair value of plan assets	2016
	£'000
At 1 April 2015	174,550
Interest income	5,890
Remeasurement: return on plan assets less interest income	(2,910)
Contributions by employer	11,680
Contributions by members	2,640
Benefits paid	(6,310)
At 31 March 2016	185,540

Expense recognised in profit and loss	2016	2015
	£'000	£'000
Current service cost	(9,420)	(7,900)
Past service cost	(1,040)	(100)
Net interest on net defined benefit liability	(530)	(270)
Total expense recognised in profit or loss	(10,990)	(8,270)

The fair value of the plan assets and the return on those assets were as follows:	2016	2015
	Fair value	Fair value
	%	%
Equities	66.1	66.4
Property	10.4	9.5
Government bonds	3.7	3.7
Corporate bonds	11.6	11.7
Cash	2.6	2.4
Other	5.6	6.3
	100.0	100.0
	£'000	£'000
Actual return on plan assets	2,980	18,510

Principal actuarial assumptions were as follows:	2016	2015
	% p.a.	% p.a.
Discount rate	3.5	3.3
Future salary increases	3.3	3.4
RPI inflation	2.9	3.0
CPI inflation	1.8	1.9
Pension increases	1.8	1.9
Pension accounts revaluation rate	1.8	1.9

Notes to the financial statements (continued)

for the year ended 31 March 2016

25a. Employee benefits (continued)

Last full actuarial valuation was performed on 31 March 2013.

In valuing the liabilities of the pension fund at 31 March 2013, 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: 23.2 years (male), 24.8 years (female).

Future retiree upon reaching 65: 25.3 years (male), 27.1 years (female).

West of Scotland Housing Association participates in the Scottish Housing Associations' Pension Scheme ('the Scheme'). The Scheme is funded and is contracted-out of the State Pension scheme.

It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation for the scheme was carried out at 30 September 2012. This actuarial valuation showed assets of £394m, liabilities of £698m and a deficit of £304m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid to the scheme from 1 April 2014 to 30 September 2027 at £26,304,000 per annum, payable monthly and increasing by 3% annually on 1 April.

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

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

25b. Employee benefits – West of Scotland Housing Association

Present values of provision	2016	2015
	£'000s	£'000s
	<u>5,473</u>	<u>5,821</u>
Reconciliation of opening and closing provisions	2016	2015
	£'000	£'000
Provision at 1 April	5,821	5,663
Unwinding of the discount factor (interest expense)	124	187
Deficit contribution paid	(450)	(437)
Remeasurements - impact of any change in assumptions	(22)	408
Provision at 31 March	<u>5,473</u>	<u>5,821</u>
Income and expenditure impact	2016	2015
	£'000	£'000
Interest expense	124	186
Remeasurements – impact of any change in assumptions	(22)	408
Costs recognised in income and expenditure account	<u>463</u>	<u>465</u>
	<u>565</u>	<u>1,059</u>
 Rate of discount	 <u>2.29</u>	 <u>2.22</u>

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

25b. Employee benefits – West of Scotland Housing Association (continued)

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

Deficit contributions schedule	2016	2015
	£'000	£'000
Year 1	463	450
Year 2	477	463
Year 3	492	477
Year 4	506	492
Year 5	522	506
Year 6	537	522
Year 7	553	537
Year 8	570	553
Year 9	587	570
Year 10	605	587
Year 11	623	605
Year 12	321	623
Year 13	-	321

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

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

26. Derivatives and financial instruments

Financial instruments are defined in FRS25, Financial Instruments: Disclosure and presentation, as a 'contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity'. Financial instruments should be identified as financial assets, financial liabilities or equity instruments and accounted for on the appropriate line of the statement of financial position.

Please see the Operating and Financial Review for more detail on the types of risk associated with financial instruments.

Notes to the financial statements (continued)

for the year ended 31 March 2016

26. Derivatives and financial instruments (continued)

Company			
Financial Liability	Maturity profile	Capital	Interest rate
		£'000	
Fixed rate			
Funds from bond	Repayment beginning 31 March 2011 and ending 31 March 2042	212,802	Coupon rate 6.38% *see below
Term loan	Repayment beginning 31 March 2014 and ending 30 September 2033	135,000	Fixed at 5.442%
Term loan	Repayment beginning 1 December 2021 and ending 30 November 2040	30,000	Fixed at 4.7375%
Financial Liability	Maturity profile	Capital	Interest rate
		£'000	
Floating rate			
Revolving credit facility	Matures September 2033	46,520	Based on LIBOR
Term loan	Repayment beginning 31 March 2014 and ending 30 September 2033	27,820	Based on LIBOR
Term loan	Repayment beginning 30 September 2006 and ending 30 March 2021	25,000	Based on EIB 'pool rate'
Term loan	Repayment beginning 31 March 2015 and ending 30 March 2031	74,100	Based on EIB 'pool rate'
Term loan	Repayment beginning 1 December 2021 and ending 30 November 2040	45,000	Based on LIBOR
Overdraft	Renewable annually	5,500	

*The original funding structure included a hedge which reduces the effective rate of the bond to 6.1%.

Notes to the financial statements (continued)

for the year ended 31 March 2016

26. Derivatives and financial instruments (continued)

West of Scotland Housing Association			
Financial liability	Maturity profile	Capital	Interest Rate
		£'000	
Fixed rate			
Term Loan	Repayment beginning 31 March 2013 and ending 24 January 2043	8,300	4.87% fixed
Term Loan	Repayment beginning 30 April 2020 and ending 31 March 2043	9,999	4.23% fixed
Term Loan	Repayment beginning 28 May 2013 and ending 20 September 2041	5,935	4.20% fixed
Term Loan	Repayment beginning 26 June 2013 and ending 20 September 2041	655	1.74% fixed
Term Loan	Repayment beginning 27 December 2006 and ending 26 February 2018	903	7.16% fixed

Notes to the financial statements (continued)

for the year ended 31 March 2016

26. Derivatives and financial instruments (continued)

West of Scotland Housing Association (continued)			
Financial liability	Maturity profile	Capital	Interest Rate
		£'000	
<i>Floating rate</i>			
Term Loan	Repayment beginning 31 March 2016 and ending 24 January 2043	3,963	Based on LIBOR
Term Loan	Repayment beginning 31 March 2013 and ending 24 January 2043	6,800	Based on LIBOR
Term Loan	Repayment beginning 31 July 2009 and ending 31 October 2025	2,052	Based on LIBOR
Term Loan	Repayment beginning 30 April 2015 and ending 31 March 2043	7,742	Based on LIBOR
Term Loan	Repayment beginning 28 February 2012 and ending 24 January 2043	698	Based on LIBOR
Term Loan	Repayment beginning 28 February 2013 and ending 24 January 2043	3,982	Based on LIBOR
Term Loan	Repayment beginning 28 February 2012 and ending 24 January 2043	5,308	Based on LIBOR
Term Loan	Repayment beginning 26 June 2013 and ending 20 September 2041	252	Based on LIBOR
Term Loan	Repayment beginning 28 May 2013 and ending 20 September 2041	960	Based on LIBOR

Notes to the financial statements (continued)

for the year ended 31 March 2016

26. Derivatives and financial instruments (continued)

The Group also had a £25m Term loan, repayable by 8 December 2023.

The Directors of the Group are of the opinion that the fair values of the Group's financial liabilities are not materially different to their carrying value.

Financial Asset	Maturity profile	Capital	Interest rate
		£'000	
Fixed rate			
Bonds	Managed on behalf of the Group, with a final maturity coinciding with the maturity of the THFC bond	32,614	Coupon rates range between 4.556% and 5.9%

The historic cost of the THFC bonds is given in note 17.

27. Capital commitments

Group	2016	2015
	£'000	£'000
Expenditure contracted for but not provided for in the financial statements	16,411	2,123
Expenditure authorised by Board but not contracted	21,467	61,590
	<u>37,878</u>	<u>63,713</u>
Company	2016	2015
	£'000	£'000
Expenditure contracted for but not provided for in the financial statements	-	-
Expenditure authorised by Board but not contracted	1,596	2,983
	<u>1,596</u>	<u>2,983</u>

The commitments will be funded through existing facilities.

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

28. Other financial commitments

Non-cancellable operating lease rentals are payable as follows:

Group	2016 Land and buildings	2016 Other	2015 Land and buildings	2015 Other
	£'000	£'000	£'000	£'000
Less than one year	136	1,716	137	1,670
Between one and five years	453	626	107	1,757
More than five years	-	7	248	-
	<u>589</u>	<u>2,349</u>	<u>492</u>	<u>3,427</u>

During the year £2,002k was recognised as an expense in the statement of comprehensive income in respect of operating leases (2015: £1,809k).

Company	2016 Land and buildings	2016 Other	2015 Land and buildings	2015 Other
	£'000	£'000	£'000	£'000
Less than one year	8	138	8	147
Between one and five years	7	91	15	113
More than five years	-	-	-	-
	<u>15</u>	<u>229</u>	<u>23</u>	<u>260</u>

During the year £208k was recognised as an expense in the statement of comprehensive income in respect of operating leases (2015: £174k).

29. Strategic Partnership

On 1 April 2013 we formed a strategic partnership with West of Scotland Housing Association who became a subsidiary of Gentoo Group. The accounting followed acquisition accounting, and gave rise to negative goodwill of £12.8m, which was recognised in full in the statement of comprehensive income in the year ended 31 March 2014.

Notes to the financial statements (continued)

for the year ended 31 March 2016

30. Related party transactions

The Board of Management includes one member, as shown on page 38, who is a tenant of a subsidiary Company. The terms of the tenancy arrangements are consistent with those offered to other tenants of those companies and at the end of the year no amount was due to the Company in respect of this member.

The Board of Management as at 31 March 2016 also includes three members, as shown on page 38, who are elected members of the City of Sunderland Council (Council). The Company and Group undertake transactions with the Council at arm's length in the normal course of business.

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

Notes to the financial statements (continued)

for the year ended 31 March 2016

31. 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 2016 £'000	Purchases from 2016 £'000	Sales to 2015 £'000	Purchases from 2015 £'000
Gentoo Homes Limited				
Group Management Charges	761	-	861	-
Gentoo Sunderland renewal plan	-	6,485	-	16,314
Gentoo Homes – growth	-	10,384	-	19,611
	<u>761</u>	<u>16,869</u>	<u>861</u>	<u>35,925</u>
Gentoo Construction Limited¹				
Group Management Charges	595	-	777	-
Sunderland planned maintenance expenditure	-	1,529	-	3,802
Parent – New build	-	121	-	49
Sunderland – New build	-	-	-	7,540
	<u>595</u>	<u>1,650</u>	<u>777</u>	<u>11,391</u>
Romag Limited²				
Group management charges	68	-	69	-
PV on dwellings	-	2,903	-	2,954
	<u>68</u>	<u>2,903</u>	<u>69</u>	<u>2,954</u>
Astley Group Management charges	-	-	136	-
Genie – property sale	197	-	-	-
Art of Living – interest payment	-	708	-	521
Art of Living – Donation to Group company	-	6,500	-	7,200
	<u>1,621</u>	<u>28,630</u>	<u>1,843</u>	<u>57,991</u>

¹ Gentoo Construction sold 4 January 2016

² Romag Limited sold 14 July 2016

32. Subsequent Event

On 14 July 2016, Romag Limited and Romag PPM Limited were disposed of by Gentoo Group Limited. The anticipated loss on disposal to be reported in year ending 31 March 2017 is estimated at £3.8m.

Notes to the financial statements (continued)

for the year ended 31 March 2016

33. Explanation of transition to FRS 102 from old UK GAAP

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

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

In preparing its FRS 102 statement of financial position, the Association has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP).

An explanation of how the transition from UK GAAP to FRS 102 has affected the Association's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Notes to the financial statements (continued)

for the year ended 31 March 2016

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

Consolidated reconciliation of equity		1 April 2014 comparative			31 March 2015 comparative		
		Note	Effect of transition to		Effect of transition to		FRS 102
			UK GAAP	FRS 102	FRS 102	UK GAAP	FRS 102
			£'000	£'000	£'000	£'000	£'000
Fixed Assets							
Intangible assets			419	-	419	326	-
Tangible fixed assets – housing properties	a		1,087,477	131,800	1,219,277	1,098,349	142,180
Tangible fixed assets - other			30,316	-	30,316	29,374	-
Investment properties	b		14,943	(9,210)	5,733	17,420	(10,192)
Investments	c		28,958	1,742	30,700	33,518	1,555
			1,162,113	124,332	1,286,445	1,178,987	133,543
Current assets							
Properties for sale	d		47,471	578	48,049	46,536	210
Work in progress			3,316	-	3,316	132	-
Cash at bank and in hand			13,544	-	13,544	10,527	-
Stocks			2,268	-	2,268	2,537	-
Debtors	e		25,888	(26)	25,862	28,643	(32)
			92,487	552	93,039	88,375	178
Creditors: amounts falling due within one year	f, g		(52,837)	(452)	(53,289)	(61,638)	(465)
Net current assets			39,650	100	39,750	26,737	(287)
Long term debtors							
	b, c		1,742	5,736	7,478	1,555	7,042
Total assets less current liabilities			1,203,505	130,168	1,333,673	1,207,279	140,298
Creditors: amounts falling due after more than one year							
	g		632,092	129,862	761,954	631,769	143,439
Deferred tax provision			1,042	-	1,042	1,334	-
Pension liability			11,350	5,501	16,851	21,820	5,355
Capital and reserves							
Revaluation reserve	h		218,611	(47,019)	171,592	223,017	(50,038)
Revenue reserve (including pension reserve)	i		25,042	41,824	66,866	21,139	41,542
Capital contribution reserve			315,368	-	315,368	308,200	-
Shareholders' funds			1,203,505	130,168	1,333,673	1,207,279	140,298

Notes to the financial statements (continued)

for the year ended 31 March 2016

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

Company reconciliation of equity		1 April 2014 comparative			31 March 2015 comparative		
		Note	Effect of transition to		Effect of transition to		FRS 102
			UK GAAP	FRS 102	FRS 102	UK GAAP	FRS 102
			£'000	£'000	£'000	£'000	£'000
Fixed Assets							
Intangible assets			380	-	380	289	-
Tangible fixed assets – housing properties	a		11,031	1,104	12,135	10,295	632
Tangible fixed assets - other			19,853	-	19,853	19,144	-
Investment properties			5,853	-	5,853	7,374	-
Investments	c		28,958	131	29,089	33,518	120
Investments in subsidiaries			1,532	-	1,532	350	-
			67,607	1,235	68,842	70,970	752
Long term debtors	c		131	(131)	-	120	(120)
Current assets							
Properties for sale			22,303	-	22,303	16,724	-
Cash at bank and in hand			1,030	-	1,030	3,683	-
Stocks			679	-	679	666	-
Debtors			474,499	-	474,499	480,767	-
			498,511	-	498,511	501,840	-
Creditors: amounts falling due within one year			(21,466)	-	(21,466)	(18,774)	-
Net current assets			477,045	-	477,045	483,066	-
Total assets less current liabilities			544,783	1,104	545,887	554,156	632
Creditors: amounts falling due after more than one year							
Deferred tax provision			904	-	904	1,169	-
Pension liability	f		-	11,350	11,350	-	21,820
Capital and reserves							
Revaluation reserve	h		6,502	(3,509)	2,993	11,770	(4,119)
Revenue reserve (including pension reserve)	i		(27,467)	(6,737)	(34,204)	(32,833)	(17,216)
Shareholders' funds			544,783	1,104	545,887	554,156	632

Notes to the financial statements (continued)

for the year ended 31 March 2016

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

Notes to the reconciliation of equity

- a) The Group opted to apply transitional arrangements under FRS 102 35.10(C) for first time adopters to elect to measure an item of fixed assets at its fair value, based on revaluation at 31 March 2014, at the date of transition and use that fair value as its deemed cost at that date. This adjustment is coupled with the implementation of the accruals method in relation to grants, where the capital grant is initially recognised as a creditor due in more than one year under deferred grant income and amortised over the life of the fixed asset structure in line with new UK GAAP.
- b) Restatement of the Genie HPP as a complex financial instrument. Genie HPP's are recognised at fair value with changes recognised in the profit or loss. This change in treatment therefore removes the HPP agreement out of investment properties and the revaluation reserve, and the agreement is now recognised in debtors: amounts falling due after more than one year.
- c) On transition, amounts recoverable under HomeBuy Direct and Homebuyer affordable home ownership schemes are transferred from long term debtors to investments.
- d) Restatement of vacant Genie properties, no longer subject to a HPP, are recognised as stock. The stock is valued at fair value plus any additional cost associated with that property becoming void that can be capitalised e.g. the purchase of a customer's shares. This arrangement was previously accounted for under the former UK GAAP investment property accounting policy.
- e) Accrued income is no longer applicable for the Genie HPP as the arrangement is accounted for as a long term debtor.
- f) On transition an additional pension liability has been recognised as required under UK GAAP, to reflect agreed schedules of additional contributions towards reducing deficits on SHAPS with an equivalent amount debited to revenue reserves. Where such contractual agreements are in place, the Group must recognise a liability for the contributions payable.
- g) Restatement of creditors following implementation of accruals method for grants, as in a) above.
- h) Restatement of revaluation reserve following implementation of accruals method for grants and adoption of deemed cost as a method of accounting for housing properties.
- i) Restatement of revenue reserve following implementation of accruals method for grants and adoption of deemed cost as a method of accounting for housing properties. Also, the Genie HPP amendment to revenue reserve due to recognition of customer receipt being partially of a capital nature.

Notes to the financial statements (continued)

for the year ended 31 March 2016

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

Consolidated reconciliation of surplus / (deficit) for 31 March 2015

	Note	Adopted UK GAAP	Effect of transition to FRS 102	FRS 102
		£'000	£'000	£'000
Turnover	a, b	243,785	3,175	246,960
Cost of sales	c	(96,284)	(77)	(96,361)
Gross profit		147,501	3,098	150,599
Operating costs	c, d	(117,778)	(3,740)	(121,518)
Other operating income	e	-	7	7
Operating surplus		29,723	(635)	29,088
Surplus on disposal of fixed assets	e	544	9	553
Deficit on disposal of a discontinued operation		(1,666)	-	(1,666)
Interest receivable and similar income		1,464	-	1,464
Interest payable and similar charges		(26,428)	-	(26,428)
Other finance income	c	3,060	(3,488)	(428)
Surplus on ordinary activities before taxation		6,697	(4,114)	2,583
Tax on surplus / (deficit) on ordinary activities		(4,391)	-	(4,391)
Surplus / (deficit) for the financial year and total comprehensive surplus/(deficit) for the financial year		2,306	(4,114)	(1,808)

Notes to the financial statements (continued)

for the year ended 31 March 2016


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

Company reconciliation of deficit for 31 March 2015

	Note	Adopted UK GAAP	Effect of transition to FRS 102	FRS 102
		£'000	£'000	£'000
Turnover	a	52,598	2	52,600
Cost of sales		(19,958)	-	(19,958)
Gross profit		32,640	2	32,642
Operating costs	c, d	(30,903)	2,759	(28,144)
Operating surplus		1,737	2,761	4,498
Surplus on disposal of fixed assets		40	-	40
Deficit on disposal of a discontinued operation		(6,779)	-	(6,779)
Interest receivable and similar income		24,738	-	24,738
Interest payable and similar charges		(24,738)	-	(24,738)
Other finance expenses	c	-	(270)	(270)
Deficit on ordinary activities before taxation		(5,002)	2,491	(2,511)
Tax on surplus / (deficit) on ordinary activities		(266)	-	(266)
Surplus / (deficit) for the financial year and total comprehensive surplus / (deficit) for the financial year		(5,268)	2,491	(2,777)

Notes to the reconciliation of surplus / (deficit)

- Under FRS 102, the accrual method of accounting for fixed assets and SHG requires the amortisation of SHG to be included as turnover.
- In relation the Genie HPP, turnover has been reduced as a result of the change in accounting policy. This is a result of the capital element now being charged to the long term debtor balance on the statement of financial position therefore reducing the amount owed to the Company by the Genie customer. Previously, the full customer payment was recognised as turnover.
- The adoption of FRS 102 in relation to retirement benefits has resulted in a net credit to total comprehensive income with an equivalent reduction in pensions obligations.
- Additional depreciation is reflected in respect of housing assets which had previously been depreciated net of SHG grant.
- As the Genie HPP agreements have now been reclassified on the statement of financial position, there is now no profit or loss on disposal of a fixed asset to recognise in the financial statements.

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Gentoo Group Limited is a charitable community benefit society, registration number 7302.