



Report to the Board

14 July 2014

Title: Directors' Report and Financial Statements – 2013/14

Report of: Head of Corporate Services

Purpose of Report

1. To consider the report and financial statements for the year ended 31 March 2014.

Background

2. The report and financial statements for 2013/14 will be presented to the company's Annual General Meeting, which will be held before the meeting of the Board on 18 September 2014.
3. The fourth quarter management report presenting the provisional outturn of expenditure against budget was considered by the resources committee at its meeting on 6 May 2014.
4. These accounts and the associated management report were considered by Audit Committee on 30 June 2014 who recommended approval by the Board.

Statement of Accounts

5. A report including the financial statements as agreed with the auditors, KPMG is attached at the Appendix to this report.
6. The financial result for the period was a deficit of £621,000 (2013: £87,000 deficit). The fourth quarter management accounts indicated that the financial result was an expected deficit of £95,000. Below is a table that explains how the management accounts are reconciled to the statutory accounts.

7. The deficit was made up as follows:

	2013/14 £	2012/13 £	
Operating surplus/(deficit)	(95,000)	448,000	<i>This is the deficit on the management accounts (before interest).</i>
Pension Scheme Adjustment	(580,000)	(390,000)	<i>This is the net adjustment required to the accounts following the change in the measure of inflation.</i>
Pre Tax and Interest Surplus/(deficit)	(675,000)	(58,000)	
Interest Receivable	4,000	1,000	<i>This is the interest received on the cash balance during the year</i>
Pension Scheme Finance (Income / Costs)	50,000	(30,000)	<i>This is an accounting adjustment in relation to the pension scheme</i>
Financial Statements Surplus/(deficit)	(621,000)	(87,000)	

8. The company achieved a pre-tax and interest deficit in the year of £675,000 prior to interest receivable of £4,000 and pension scheme finance income of £50,000 (2013: interest receivable of £1,000; finance costs of £30,000).

9. The balance sheet has been reduced due to the deficit, resulting in closing revenue reserves excluding net pension provisions of £830,000 (2013: £921,000). The directors and management continue to implement efficiency savings ahead of targets and as a result believe the company is in a strong financial position to deliver its strategic and operational goals.

10. In line with last year's accounts, it has been necessary under FRS 17 (a financial reporting standard) to adjust the accounts for the pension fund liability attributable to the company's employees. The net pension liability was £7.75m as at 31 March 2014 (£14.59m as at 31 March 2013) as calculated by the Pension Fund's actuary.

11. KPMG produced a management report following the audit they have carried out. The management report is included as a separate report.

Link to values

12. This report is in line with the following values of the company :-

- Being honest, accountable and transparent
- Being motivated trained, and committed across the company.

Impact on tenants

13. Appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants.

Risk Management Implications

14. The external audit carried out by KPMG is one element of the controls in place to ensure that the strategic risk within the business plan (Insufficient available financial resources) is effectively controlled.

Financial Implications

15. The financial implications are contained within the report and Appendix.

Equality and Diversity Implications

16. There are no equality or diversity implications arising from this report.

Health Implications

17. There are no direct health implications arising from this report.

Value for Money implications

18. The implementation of efficiency savings ahead of targets will continue to drive value for money throughout the organisation.

Environmental Implications

19. Environmental consideration is given during the day to day management of financial resources through the drive to ensure that purchasing methods are sustainable and through the reduction of energy costs through energy efficient measures being introduced in working practices.

Consultation carried out

20. None directly for this report.

Recommendation

21. The Board is recommended to approve the Directors Report and Financial Statements for the year ended 31 March 2014 to the Board.

The Gateshead Housing Company Limited

Directors' report and financial
statements

Registered number 04944719

Draft - 31 March 2014

o/s
note 1 – going concern to update

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Board and advisors

Council Directors

Pauline Dillon
Kathryn Ferdinand
Paul Foy
John Walter Hamilton
Peter Mole

Tenant Directors

Sheila Bouitieh (appointed 11 July 2013)
Robert Buckley
Helen Hall (appointed 11 July 2013)
Dr Joachim Moussounda Mouanda
Gordon Spring

Independent Directors

Joanne Carr
George Clark
Mick Davison (appointed 14 May 2013)
Barbara Elaine Dennis (Chair)
Eileen Gill (appointed 14 May 2013)

Secretary and Registered Office

Jon Mallen-Beadle (Company secretary)
Civic Centre
Regent Centre
Gateshead, NE8 1HH

Auditor

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

Internal Auditor

Gateshead Council
Civic Centre
Regent Centre
Gateshead, NE8 1HH

Bankers

Co-operative Bank plc
53-57 Blandford Square
Newcastle upon Tyne, NE99 1AN

Strategic report

The Board presents their Strategic report for the year ended 31 March 2014.

Principal activities

The principal activity of the Company is the day to day management, maintenance and improvement of the housing stock of Gateshead Council and Keelman Homes. The Company also manages the building of new properties to be owned and managed by the Company where funding is available and manages new build programmes for both Gateshead Council and Keelman Homes. The Company also provide housing management services for a number of properties which are owned by registered providers.

Business model

The objectives agreed by the company focus on four broad areas:

- Continue to deliver customer focused housing services shaped around customer priorities that support Gateshead Council's Vision 2030
- Efficiently manage the Council's housing assets to achieve sustainable homes & neighbourhoods.
- Ensure resources both human and financial are correctly targeted to effectively support our business.
- Support and fully embed co-regulation.

The company's objectives set out a wider role for the company, supporting community and neighbourhood regeneration, shaping the future housing provision across the borough and assisting in the delivery of the Council's Plan 2012-2017 and Housing Strategy 2013-2018.

Following consultation with our tenants, leaseholders and key stakeholders we have established six priorities as follows:

- Sustainability of tenancies and estates
- Sustainability of asset
- Customer focussed repairs service
- Managing properties on behalf of others
- Exploring external funding opportunities
- Co-regulation and scrutiny

Business review and results

Result for the year

The financial result for the period was a deficit of £621,000 (2013: £87,000 deficit)

The Company achieved a pre-tax and interest deficit in the year of £675,000 prior to interest receivable of £4,000 and pension scheme finance income of £50,000 (2013: interest receivable of £1,000 finance costs of £30,000).

The balance sheet has been reduced due to the underlying deficit and the actuarial losses in the pension scheme, resulting in closing revenue reserves excluding net pension provisions of £830,000 (2012: £921,000). The directors and management continue to implement efficiency savings ahead of targets and as a result believe the Company is in a strong financial position to deliver its strategic and operational goals.

Strategic report *(continued)*

Review of business

2013/14 was a year of consolidation for the Company. During the past year the following has happened:

Welfare reform

The focus this year has been on understanding the impact of under-occupation during 2013/14, and on mitigating the impact by helping tenants to downsize or apply for discretionary housing benefit payments.

Rent arrears have remained within expected parameters, but void levels have increased from 234 to 459 since April 2013 (as more tenants have given up their tenancy and some properties have become very difficult to let).

Keelman Homes

We have been working in partnership with Gateshead Council over the past year to see how we can increase the supply of new homes in Gateshead by expanding the role of our charitable subsidiary Keelman Homes.

Following a positive endorsement by Gateshead Council's Cabinet we have changed the ownership of Keelman Homes, which will now be owned by the Board of trustees of Keelman Homes rather than the housing company.

The objectives and work undertaken by Keelman Homes will remain the same, namely:

Build new homes

Purchase former right to buy properties

Manage stock in Gateshead on behalf of other registered providers.

However the change in ownership will enable Keelman Homes to bid for external funding that it hasn't been able access in the past. This will mean that Keelman Homes will be able to deliver a significantly increased new build programme going forward.

We are also looking at other opportunities for Keelman Homes that will attract external investment that can be used to support and enhance the existing infrastructure of the housing company.

Relocation of head office

During the year we agreed to relocate our head office from Keelman House back into the Council's Civic Centre. This has enabled us to strength our relationship with the Council and look to see how we can deliver more joined up services going forward.

Key performance indicators

Overall performance indicators up to the year ended 31 March 2014 have been very good with employees across the whole organisation continuing to focus on helping achieve performance targets and service standards.

Collection of rent, repairs performance and satisfaction with investment work to homes performed especially strongly – however performance right across the company was strong.

At the end of March, 23 performance indicators were on target (compared to 22 in 2013/14) with a further four not on target, but improved compared to last year (up from 2 in 2013/14).

Nine indicators were not on target – this was also less than last year (10).

Strategic report *(continued)*

Key performance indicators *(continued)*

Here are some of the highlights of the year's performance:

- The percentage of tenants satisfied with the repair service was 97.80% (compared to 94.95% in 2013/14)
- The percentage of repairs completed at first visit was 93.46%
- The percentage of tenants satisfied with the improvements made to their home was 98.12%
- The percentage of rent collected was 99.74% (up from 2012/13 figure of 98.28%)
- Rent arrears of current tenants as a % of the authority's rent roll was 2.29% (with a target of 3%)
- Former tenant arrears as a % of all rent owed was 1.77% (down from last year's total of 2.03%)
- The percentage of those making a complaint satisfied with the handling of the complaint was 73.37% (up from last year's figure of 60.67%)
- The percentage of ASB cases that were resolved without the need for legal action was 96%
- Leasehold Service charges collected as a % of charges due was 99.36% (up from last year's figures of 99.23%)
- The percentage of waste sent for recycling from The Gateshead Housing Company was 58% (up from last year's performance of 49.60%).

The housing company also met and went beyond its 2% annual efficiency target, making 4.31% savings during the year.

Principal risks and uncertainties

The Board have agreed and look to mitigate as appropriate the following key strategic risks:

- Failure to focus on the customer
- Failure to manage the Company's finances & demonstrate value for money
- Failure to manage organisational capacity
- Failure to deliver on new projects
- Failure to deliver effective asset management
- Failure to effectively manage business continuity
- Failure to manage effective corporate governance
- Failure to maintain a positive reputation
- Adverse impact of welfare reform legislation
- Adverse impact of right to buy

Future developments

The company has a key role to play in helping the Council to realise its visions and strategies by providing good quality affordable homes in thriving inclusive and sustainable communities whilst looking to support the Council as much as possible during the current challenging economic times.

The following priorities have been agreed over a two year period to March 2015:

Sustainability of tenancies and estates

- Support tenants affected by under-occupation penalty and other aspects of welfare reform
- Prepare for implementation of Universal Credit
- Continue to work with Gateshead Council in supporting vulnerable tenants, contributing to the Community Safety Partnership, Safer Gateshead priorities.
- Develop and deliver Neighbourhood Pride schemes
- Review the gardening scheme provided to vulnerable customers

Strategic report *(continued)*

Sustainability of asset

- Completion of asset strategy
- Continue to maintain stock to the decent homes standard
- Explore emerging technologies and develop funding opportunities to improve the sustainability and energy efficiency of the stock
- Develop options to tackle condensation
- Develop options to tackle issues associated with non-traditional properties
- Ensure the use of warranties is maximised and that asset system is updated as new elements are installed during responsive, void or other work.

Customer focussed repairs service

- Review arrangements for access to the repairs service to reduce queue times
- Further develop customer liaison, support and aftercare for repairs.
- Ensure improvements to repair service
- Review approach to elements of cyclical maintenance to ensure value for money
- Work with Gateshead Council to plan for future of repairs service

Managing properties on behalf of others

- Keelman Homes – New Build. Develop a 3-5 year programme looking to provide 20-25 new homes a year.
- Bringing Private Sector Homes back into use – Manage properties identified by Gateshead Council
- Managing RSL properties – Management of further 105 properties on behalf of Fabrick by March 2015.
- Managing Supported Housing - Develop role and relationship with supported housing agencies and associated housing management arrangements

Exploring external funding opportunities

- Consider opportunities to attract funding to the housing company or to Keelman Homes
- Develop bid for round 2 of the HCA's Empty Homes Initiative
- Consider options for funding of additional advice/support workers
- Continue to explore external funding opportunities to improve energy efficiency eg ECO, Warm Up North Partnership.

Co-regulation and scrutiny

- Continue to support TALISMAN
- Continue to support Complaints panel
- Continue to support Service Improvement Groups
- Amend information to customers and procedures in line with change to Housing Ombudsman
- Produce Annual Report

Alongside this, there a few new areas of activity planned for this year 2014/15, including:

- Reviewing the management agreement in partnership with Gateshead Council in advance of March 2015
- Developing the existing arrangements with Gateshead Council regarding the Housing Revenue Account (HRA) monitoring framework, including work to monitor the impact of Welfare Reform and Right to Buys on the business plan
- Carry out an assessment for Customer Service Excellence
- Carry out an Investors in People Accreditation Assessment, which will incorporate a Health and Wellbeing assessment
- Carry out an updated stock condition survey
- Review and implement approaches to the marketing of lower demand properties.

Strategic report *(continued)*

The Board and Executive Officers

Under guidance for the setting up of Arms Length Management Organisations, issued by the Office of the Deputy Prime Minister (“ODPM”), the Company’s Board of non-executive directors has equal representation of Tenant, Council and Independent members. Council Directors are appointed and removed directly by the Council, whilst Tenant Directors are appointed through interview from amongst tenants and leaseholders living in Gateshead. Independent Directors are selected by the Board. Tenant and Independent Directors are subject to rotational retirement rules contained in the Company’s Articles of Association.

The operational day to day running of the Company is delegated to paid Strategic Employees by the Board, through the Company’s Scheme of Delegation and in the first instance, to the Company’s Managing Director. None of the Corporate Management Team are board members.

Corporate Governance

The Company signs up to the principles of the Combined Code in so far as they are applicable to an organisation of its size and structure. As well as having robust codes of conduct for board members, the Company has a clear risk strategy in place which underlies its key decisions.

In addition to the main Board, the Company has a number of formal board committees as follows:

- Customers and Communities;
- Assets, Investment and Development;
- Resources;
- Audit; and
- Executive Overview.

The committees have been aligned to the objectives within the Company’s business plan. Each committee has clear terms of reference detailing their functions, together with decisions that should be referred to the Board for approval and those that have been delegated. All the Company’s corporate governance arrangements are set out in a Governance Handbook issued to all Board members. The Company continues to review its governance arrangements annually to ensure that the needs of the organisation are being met effectively.

Statement of the Board on internal controls

The Board acknowledge their ultimate responsibility for ensuring that the Company has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the Company or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposal.

Strategic report *(continued)*

Statement of the Board on internal controls *(continued)*

It is the Board's responsibility to establish and maintain systems of internal control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. Key elements include ensuring that:

- formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets;
- experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the Board and managers to monitor the key business risks and financial objectives and progress towards financial plans set for the year and the medium term; regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures by the Board following scrutiny by the relevant Board committees;
- the Board reviews reports for management, from internal auditors, from the external auditor and from its own Audit Committee to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Company; and formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

Fair employment policies for disabled persons

The Company, as part of its Equal Opportunities Policy:

- welcomes job applications from people with disabilities;
- does not discriminate unlawfully when it decides who to employ;
- advertises widely to ensure it receives as many applications as possible, especially from disadvantaged groups;
- reviews and monitors its recruitment and selection procedures to ensure it does not discriminate against people with disabilities;
- encourages all employees to reach their full potential;
- wherever possible, provides a workplace that is accessible to people with disabilities;
- where possible, retains in suitable employment those employees who become disabled; and
- when required, ensures additional provision in the form of access, or transport costs, is available for people with disabilities to enable them to fully participate in interviews and training.

Strategic report *(continued)*

Employee involvement

The Company:

- shares ideas and information with its employees;
- maintains a genuine exchange of views between managers and employees or their representatives;
- negotiates with employees or their representatives on any proposed changes to terms and conditions of employment;
- has an Employee forum, with representation from representatives of the workforce, to ensure that employees are informed about the company's economic situation and are informed and consulted about decisions likely to lead to substantial changes in work organisation; and
- the Employee Forum also:
 - deals with consultation issues such as terms and conditions, employment policies and other employment issues specific to employees; and
 - develops the Company's employment policies.

An appraisal process is used for all employees, linked to individual employees' needs and performance against agreed objectives and targets, comprising two meetings each year for individuals and their line manager to appraise and review performance, to help employees to:

- get feedback on how they are doing and recognition for their achievements;
- understand what is expected of them;
- understand how what they do fits in with what the company is trying to achieve;
- talk about the issues facing them over the next 12 months; and
- agree what training and development they need to do their job well.

The report of the Board was approved on

2014 and signed on its behalf by:

B Dennis
Chair

J Mallen-Beadle
Company Secretary

Directors' report

The Board present their Directors' report and financial statements for the year ended 31 March 2014.

The directors who held office during the year, and changes since the year end, were as follows:

Council Directors

Pauline Dillon
Kathryn Ferdinand
Paul Foy
John Walter Hamilton
Peter Mole

Tenant Directors

Sheila Bouitieh (appointed 11 July 2013)
Robert Buckley
Helen Hall (appointed 11 July 2013)
Dr Joachim Moussounda Mouanda
Gordon Spring

Independent Directors

Joanne Carr
George Clark
Mick Davison (appointed 14 May 2013)
Barbara Elaine Dennis (Chair)
Eileen Gill (appointed 14 May 2013)

Political contributions

The company made no political donations or incurred any political expenditure during the year (2013: £nil).

Disclosure of information to auditor

The Board Members who held office at the date of approval of this Board report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Board Member has taken all the steps that he or she ought to have taken as a Board Member to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

The report of the Board was approved on

2014 and signed on its behalf by:

B Dennis
Chair

J Mallen-Beadle
Company Secretary

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Company and of the surplus or deficit of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company 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 Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**KPMG LLP**

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of The Gateshead Housing Company Limited

We have audited the financial statements of The Gateshead Housing Company Limited for the year ended 31 March 2014 set out on pages 13 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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 (APB'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 company's affairs as at 31 March 2014 and of its deficit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of The Gateshead Housing Company Limited *(continued)*

Matters on which we are required to report by exception

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

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

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

2014

Income and Expenditure Account
for the year ended 31 March 2014

	<i>Note</i>	2014	2013
		£000	£000
Turnover	2	34,427	33,667
Operating costs	2	(35,102)	(33,725)
		<hr/>	<hr/>
Operating deficit	2-5	(675)	(58)
Interest receivable and similar income	6	4	1
Other finance income/(costs)	7	50	(30)
		<hr/>	<hr/>
Deficit on ordinary activities before taxation		(621)	(87)
Taxation on deficit from ordinary activities	8	-	-
		<hr/>	<hr/>
Deficit for the financial year	15	(621)	(87)
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing activities.

Statement of Total Recognised Surpluses and Deficits
for the year ended 31 March 2014

	<i>Note</i>	2014	2013
		£000	£000
Deficit for the financial year	15	(621)	(87)
Actuarial gain/(loss) recognised in the pension scheme	17	7,370	(320)
		<hr/>	<hr/>
Total recognised surplus/(deficit) relating to the period		6,749	(407)
		<hr/> <hr/>	<hr/> <hr/>

Balance Sheet
as at 31 March 2014

		2014		2013	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		622		861
Current assets					
Debtors	11	2,733		1,409	
Cash at bank and in hand		5,748		4,589	
		<u>8,481</u>		<u>5,998</u>	
Creditors: amounts falling due within one year	12	<u>(7,962)</u>		<u>(5,568)</u>	
Net current assets			519		430
Provisions for liabilities	13		(311)		(370)
Total assets less current liabilities			<u>830</u>		<u>921</u>
Creditors: amounts falling due after more than one year					
Net pension liability	17		7,750		14,590
Capital and reserves					
Revenue reserves excluding net pension costs		830		921	
Net pension liability		(7,750)		(14,590)	
Revenue reserve including pension liability	15		(6,920)		(13,669)
Total long term liabilities, capital and reserves			<u>830</u>		<u>921</u>

These financial statements were approved by the Board of directors on its behalf by:

2014 and were signed on

B Dennis
Chair

Company registered number: 04944719

Cash Flow Statement*for the year ended 31 March 2014*

	<i>Note</i>	2014 £000	2013 £000
Net cash inflow/(outflow) from operating activities	<i>18a</i>	1,302	(1,884)
Returns on investments and servicing of finance			
Interest received		4	1
		<hr/>	<hr/>
Capital expenditure		1,306	(1,883)
Purchase of tangible fixed assets		(147)	(29)
		<hr/>	<hr/>
Increase/(decrease) in cash	<i>18b</i>	1,159	(1,912)
		<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under historical cost accounting rules.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

The company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the strategic report on pages 2 to 8.

The company has cash at bank and in hand of £5,748,000 at the end of the year, with no external debt. The company's primary customer is Gateshead Council with whom there is a management agreement in place for the company to provide services until 31 March 2015. As a consequence the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

As the company is a wholly owned subsidiary of Gateshead Council, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Gateshead Council, within which this company is included, can be obtained from the address given in note 20.

After making enquiries, the directors have a reasonable expectation that the company 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.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their useful economic lives as follows:

Buildings	-	50 years
Leasehold improvements	-	life of lease
Fixtures and fittings	-	2-4 years
IT	-	4 years

Freehold land is not depreciated.

Operating leases

Operating lease rentals are charged to the income and expenditure account on a straight line basis over the period of the lease.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the income and expenditure account over the estimated useful economic lives of the assets to which they relate.

Notes *(continued)***1 Accounting policies** *(continued)****Retirement benefits***

The Company participates in the Tyne and Wear Pension Fund. The scheme is a final salary Local Government Pension Scheme and retirement benefits to employees of the Company are funded by contributions from all participating employers and employees in the scheme. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents primarily management fees received from Gateshead Council for the management and maintenance of Gateshead Council's housing stock and is stated net of value added tax.

Income is recognised on an accruals basis.

The Company acts as agent on behalf of Gateshead Council in respect of capital work and as such only includes the commission receivable within turnover.

Cash at bank and in hand

Cash at bank represents the Company's share of bank balances managed on its behalf by Gateshead Council.

Notes (continued)

2 Analysis of turnover, operating costs and operating deficit

	2014 £000	2013 £000
Turnover		
Management fee	31,890	31,182
External funding	2	2
Capital fees	1,000	1,000
Other	1,535	1,483
	<u>34,427</u>	<u>33,667</u>
Operating costs		
Management of housing stock	14,914	14,330
Repairs and maintenance of housing stock	19,188	18,395
Revenue expenditure supporting capital programme	1,000	1,000
	<u>35,102</u>	<u>33,725</u>
Operating deficit	<u>(675)</u>	<u>(58)</u>

3 Notes to the income and expenditure account

	2014 £000	2013 £000
<i>Deficit on ordinary activities before taxation is stated after charging:</i>		
Depreciation on tangible fixed assets – owned	75	172
Hire of plant and equipment – operating leases	19	25
Hire of other assets – operating leases	306	305
	<u>399</u>	<u>502</u>
<i>Auditor's remuneration:</i>		
Audit of these financial statements	17	17
	<u>17</u>	<u>17</u>

4 Remuneration of directors

The aggregate amount of emoluments and expenses paid to Board Members was £22,091 (2013: £19,236).

Notes (continued)**5 Staff numbers and costs**

The average number of persons employed by the Company during the year, excluding directors, expressed as equivalent full time employees was:

	Number of employees	
	2014	2013
Housing management	194	204
Administrative and clerical	110	114
	<hr/> 304 <hr/>	<hr/> 318 <hr/>

The aggregate payroll costs of these persons were as follows:

	2014	2013
	£000	£000
Wages and salaries	7,489	7,730
Social security costs	514	542
Other pension costs (note 17)	1,663	1,377
	<hr/> 9,666 <hr/>	<hr/> 9,649 <hr/>

6 Interest receivable and similar income

	2014	2013
	£000	£000
Bank interest	4	1
	<hr/> 4 <hr/>	<hr/> 1 <hr/>

7 Other finance income/(costs)

	2014	2013
	£000	£000
Expected return on pension scheme assets	2,270	2,050
Interest on pension scheme liabilities	(2,220)	(2,080)
	<hr/> 50 <hr/>	<hr/> (30) <hr/>

Notes (continued)**8 Taxation**

In January 2007 HMRC agreed that the Company is able to take advantage of the beneficial tax treatment described in HMRC's guidance due to there being insufficient commerciality between the ALMO and its parent Council.

Analysis of charge in period

	2014	2013
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
	<hr/>	<hr/>
Total current tax	-	-
Deferred tax	-	-
	<hr/>	<hr/>
Tax on deficit on ordinary activities	-	-
	<hr/> <hr/>	<hr/> <hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2013: higher) than the small company's rate of corporation tax in the UK of 20% (2013: 20%). The differences are explained below:

	2014	2013
	£000	£000
<i>Current tax reconciliation</i>		
Deficit on ordinary activities before tax	(621)	(87)
	<hr/>	<hr/>
Current tax at 20% (2013: 20%)	(124)	(17)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	124	34
Non taxable income	-	(17)
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

9 Tangible fixed assets

	Land and buildings £000	Leasehold improvements £000	Fixtures and fittings £000	IT equipment £000	Total £000
<i>Cost</i>					
At beginning of year	516	583	70	1,139	2,308
Additions	112	-	-	35	147
Disposals	-	(583)	-	-	(583)
At end of year	628	-	70	1,174	1,872
<i>Depreciation</i>					
At beginning of year	20	233	70	1,124	1,447
Charge for year	13	39	-	23	75
Disposals	-	(272)	-	-	(272)
At end of year	33	-	70	1,147	1,250
<i>Net book value</i>					
At 31 March 2014	595	-	-	27	622
At 31 March 2013	496	350	-	15	861

10 Fixed asset investments

	Interest in group undertaking
	2014 £000
<i>Cost and net book value</i>	
At beginning and end of year	-

The company is the sole member of Keelman Homes Limited, a charitable company which is limited by guarantee, which is incorporated in England. The company's liability in respect of Keelman Homes Limited is restricted to £10. The principal activity of Keelman Homes Limited is the construction and management of social housing in Kibblesworth.

Notes (continued)

11 Debtors

	2014	2013
	£000	£000
Amounts owed by parent undertaking	1,423	748
Amounts owed by other group undertakings	10	191
Trade debtors	830	61
Prepayments and accrued income	470	409
	<hr/>	<hr/>
	2,733	1,409
	<hr/> <hr/>	<hr/> <hr/>

All debtor balances are due within one year.

Deferred tax assets of £1,550,000 (2013: £2,918,000), arising on the pension scheme deficit have not been recognised due to uncertainty surrounding their future recoverability against taxable profits.

12 Creditors: amounts falling due within one year

	2014	2013
	£000	£000
Amounts owed to parent undertaking	3,202	1,980
Amounts owed to other group undertakings	53	183
Trade creditors	233	-
Taxation and social security	1,157	902
Accruals and deferred income	3,317	2,503
	<hr/>	<hr/>
	7,962	5,568
	<hr/> <hr/>	<hr/> <hr/>

13 Provisions for liabilities

	Insurance provision £000
At beginning of year	370
Utilised during year	(264)
Provided during the year	205
	<hr/>
At end of year	311
	<hr/> <hr/>

Provisions relate to amounts held to cover insurance claims, which fall below the current excess limit on the company's insurance policy.

Notes (continued)**14 Share capital**

The Company does not have any share capital as it is limited by guarantee of £1 per member. Membership at 31 March 2014 was 1 (2013: 1).

15 Revenue reserves

	Revenue reserves £000
Balance at 1 April 2013	(13,669)
Deficit from income and expenditure	(621)
Actuarial gain recognised in the pension scheme	7,370
	<hr/>
Balance at 31 March 2014	(6,920)
	<hr/> <hr/>

16 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2014		2013	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	98	1	-	14
In the second to fifth years inclusive	-	-	305	1
Over five years	-	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

17 Pensions

The Company participates in the Tyne and Wear Pension Fund, a Local Government Pension Scheme ('LGPS'), which is a funded defined benefit scheme based on members' final pensionable pay. The latest full actuarial valuation was carried out by Aon Hewitt Limited at 31 March 2013 and was updated for FRS 17 purposes to 31 March 2014 by Aon Hewitt Limited, a qualified independent actuary.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2014 £000	2013 £000
Present value of funded defined benefit obligations	(43,060)	(47,720)
Fair value of plan assets	35,310	33,130
	<hr/>	<hr/>
Deficit	(7,750)	(14,590)
Related deferred tax asset	-	-
	<hr/>	<hr/>
Net liability	(7,750)	(14,590)
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

17 Pensions (continued)

Movements in present value of defined benefit obligation

	2014 £000	2013 £000
At 1 April	47,720	42,850
Current service cost	1,570	1,360
Past service cost	70	10
Interest cost	2,220	2,080
Actuarial (gains)/losses	(8,190)	1,780
Contributions by members	420	410
Benefits paid	(750)	(770)
	<hr/>	<hr/>
At 31 March	43,060	47,720
	<hr/> <hr/>	<hr/> <hr/>

Movements in fair value of plan assets

	2014 £000	2013 £000
At 1 April	33,130	29,000
Expected return on plan assets	2,270	2,050
Actuarial (losses)/gains	(820)	1,460
Contributions by employer	1,060	980
Contributions by members	420	410
Benefits paid	(750)	(770)
	<hr/>	<hr/>
At 31 March	35,310	33,130
	<hr/> <hr/>	<hr/> <hr/>

Expense recognised in the income and expenditure account

	2014 £000	2013 £000
Current service cost	1,570	1,360
Past service cost	70	10
Interest on defined benefit pension plan obligation	2,220	2,080
Expected return on defined benefit pension plan assets	(2,270)	(2,050)
	<hr/>	<hr/>
Total	1,590	1,400
	<hr/> <hr/>	<hr/> <hr/>

The expense is recognised in the following line items in the income and expenditure account:

	2014 £000	2013 £000
Operating costs	1,640	1,370
Other finance (income)/costs	(50)	30
	<hr/>	<hr/>
	1,590	1,400
	<hr/> <hr/>	<hr/> <hr/>

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a gain of £7,370,000 (2013: loss of £320,000).

Notes (continued)

17 Pension schemes (continued)

Cumulative actuarial losses reported in the statement of total recognised gains and losses for accounting periods ending from 31 March 2006 are £7,612,000 (2013: £14,982,000).

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

	2014 Fair value £000	2013 Fair value £000
Equities	23,587	22,529
Government bonds	3,001	2,319
Corporate bonds	1,236	3,644
Property	4,061	2,982
Cash	1,024	530
Other	2,401	1,126
	<hr/>	<hr/>
	35,310	33,130
	<hr/> <hr/>	<hr/> <hr/>
Expected return on assets	2,270	2,050
Actuarial (loss)/gain on assets	(820)	1,460
	<hr/>	<hr/>
Actual return on plan assets	1,450	3,510
	<hr/> <hr/>	<hr/> <hr/>

Gateshead Housing Company employs a building block approach in determining the rate of return on fund assets. Historical markets are standard and assets with higher volatility assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each class of asset is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2014.

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

	2014 %	2013 %
Discount rate	4.4	4.6
Rate of increase in pensions in payment	2.4	2.8
Rate of increase to deferred pensions	2.4	2.8
Future salary increases	3.9	4.7
Inflation increase		
- RPI	3.4	3.7
- CPI	2.4	2.8
	<hr/> <hr/>	<hr/> <hr/>

The assumptions relating to longevity underlying the pension liabilities at the balance sheet 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: 23.0 years (male), 24.6 years (female).
- Future retiree upon reaching 65: 25.0 years (male), 26.9 years (female).

Notes (continued)**17 Pension schemes** (continued)

History of plans

The history of the plans for the current and prior periods is as follows:

Balance sheet

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of scheme liabilities	(43,060)	(47,720)	(42,850)	(36,970)	(35,740)
Fair value of scheme assets	35,310	33,130	29,000	28,700	24,510
Deficit	(7,750)	(14,590)	(13,850)	(8,270)	(11,230)

Experience adjustments

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Experience adjustments on scheme assets	(820)	1,460	(1,690)	980	5,360
Experience adjustments on scheme liabilities	2,660	30	(110)	(2,490)	60
	1,840	1,490	(1,800)	(1,510)	5,420

The Company expects to contribute approximately £960,000 to its defined benefit plans in the next financial year.

18 Notes to the cash flow statement

a) Reconciliation of operating deficit to net cash inflow/(outflow) from operating activities

	2014 £000	2013 £000
Operating deficit	(675)	(58)
Depreciation	75	172
Increase in debtors	(1,324)	(230)
Increase/(decrease) in creditors	2,394	(2,310)
(Decrease)/increase in provisions	(59)	152
Loss on disposal of fixed assets	311	-
Charge in relation to FRS 17 pension adjustment	580	390
Net cash inflow/(outflow) from operating activities	1,302	(1,884)

b) Reconciliation of net cash inflow/(outflow) to movement in net funds

	£000	£000
Increase/(decrease) in cash in the year	1,159	(1,912)
Net funds at start of year	4,589	6,501
Net funds at end of year	5,748	4,589

Notes *(continued)*

18 Notes to the cash flow statement *(continued)*

c) Analysis of changes in net funds

	At start of year £000	Cash flows £000	At end of year £000
Cash at bank and in hand	4,589	1,159	5,748

19 Post balance sheet event

On 29 May 2014 ownership of Keelman Homes transferred from The Gateshead Housing Company to the Trustees of Keelman Homes.

20 Ultimate parent undertaking

The Company is a subsidiary undertaking of Gateshead Council which is considered to be the ultimate parent undertaking. The consolidated accounts of the group are available to the public and may be obtained from Gateshead Council, Civic Centre, Regent Street, Gateshead, NE8 1HH.