



Report to the Audit Committee

1 July 2015

Title: Draft Directors' Report and Financial Statements – 2014/15

Report of: Managing Director

Purpose of Report

1. To consider the report and financial statements for the year ended 31 March 2015 and recommend approval to the Board.

Background

2. The report and financial statements for 2014/15 will be presented to the company's Annual General Meeting, which will be held before the meeting of the Board on 17 September 2015.
3. The fourth quarter management report presenting the provisional outturn of expenditure against budget was considered by the Resources Committee at its meeting on 5 May 2015.
4. These accounts and the associated management report will be reported to the Board for approval on 9 July 2015.

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 surplus of £546,000 (2014: £621,000 deficit). The fourth quarter management accounts indicated that the financial result was an expected surplus of £413,000, however it was subsequently agreed that the Repairs and Maintenance budget surplus of £158,000 would be returned to the Council. This was then offset by an additional £21,000 of repairs costs that required accruing and an increase in the FRS 17 adjustment from Aon Hewitt in relation to Pension Scheme Finance Costs (£500,000).
7. Below is a table that explains how the management accounts are reconciled to the statutory accounts.

8. The surplus was made up as follows:

	2014/15 £	2013/14 £	
Operating surplus/(deficit)	234,000	(95,000)	<i>This is the surplus on the management accounts (before interest) - note this changed from an expected £413,000 surplus to a £234,000 surplus.</i>
Pension Scheme Adjustment	(190,000)	(580,000)	<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)	44,000	(675,000)	
Interest Receivable	2,000	4,000	<i>This is the interest received on the cash balance during the year</i>
Pension Scheme Finance (Income / Costs)	500,000	50,000	<i>This is an accounting adjustment in relation to the pension scheme</i>
Financial Statements Surplus/(deficit)	546,000	(621,000)	

9. The company achieved a pre-tax and interest surplus in the year of £44,000 prior to interest receivable of £2,000 and pension scheme finance income of £500,000 (2014: interest receivable of £4,000; finance costs of £50,000).

10. The balance sheet has been increased due to the surplus, resulting in closing revenue reserves excluding net pension provisions of £1,066,000 (2014: £830,000). 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.

11. 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 £11.71m as at 31 March 2015 (£7.75m as at 31 March 2014) as calculated by the Pension Fund's actuary.

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

Link to values

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

- Fair
- Customer Focused
- Open and Honest
- Accountable

Impact on tenants

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

Risk Management Implications

15. 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

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

Equality and Diversity Implications

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

Health Implications

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

Value for Money implications

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

Environmental Implications

20. 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

21. None directly for this report.

Recommendation

22. The committee is requested to recommend approval of the Directors Report and Financial Statements for the year ended 31 March 2015 to the Board.

The Gateshead Housing Company Limited

Directors' report and financial
statements

Registered number 04944719

Draft - 31 March 2015

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Board and advisors

Council Directors

Pauline Dillon
Kathryn Ferdinand
Paul Foy (Chair – appointed 18 September 2014)
John Walter Hamilton
Peter Mole

Tenant Directors

Sheila Bouitieh
Robert Buckley
Helen Hall
Dr Joachim Moussounda Mouanda
Gordon Spring (retired 18 September 2014)
Elizabeth Bird (appointed 18 September 2014)

Independent Directors

Joanne Carr
George Clark
Mick Davison
Barbara Elaine Dennis (Chair - retired 18 September 2014)
Eileen Gill
Tracy Harrison (appointed 5 January 2015)

Secretary and Registered Office

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

Auditor

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

Internal Auditor

Gateshead Council
Civic Centre
Regent Centre
Gateshead, NE8 1HH

Bankers

Barclays Bank plc
Percy Street
Newcastle upon Tyne
NE1 4QL

Strategic report

The Board presents their Strategic report for the year ended 31 March 2015.

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 provides housing management services for a number of properties which are owned by registered providers and by the Council through the Private Empty Homes Programme.

Business model

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

-  Investing in our employees and developing new and innovative ways of working to deliver the Five Year Strategic Plan
-  Protecting Housing Revenue Account income and investment made in the stock
-  Supporting tenants and sustaining tenancies and neighbourhoods
-  Partnership working with the Council and others to support the delivery of quality homes and customer focused services

The company's objectives set out a wider role for the company, supporting the sustainability of communities and neighbourhoods, shaping future housing provision across the borough and working with the Council in the delivery of the Council Plan 2012-2017, Housing Strategy 2013-2018 and the 30-year HRA Business Plan.

Business review and results

Result for the year

The financial result for the period was a surplus of £546,000 (2014: £621,000 deficit).

The Company achieved a pre-tax and interest surplus in the year of £44,000 (2014: £675,000 deficit) prior to interest receivable of £2,000 (2014: £4,000) and pension scheme finance income of £500,000 (2014: £50,000).

The Company's total assets less current liabilities have increased due to the underlying surplus, resulting in closing revenue reserves excluding net pension provisions of £1,066,000 (2014: £830,000). 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.

Review of business

On 16 December 2014, Gateshead Council's Cabinet made a recommendation to Council to extend the Company's management agreement for five years until March 2020. This was the end result of an extensive process of consultation with tenants, leaseholders and key stakeholders and the opportunity to have an in depth look and scrutiny of the benefits for the Council and tenants of continuing to support the housing company as the vehicle to deliver services to the tenants and leaseholders of Gateshead.

A five-year TGHC Strategic Business Plan has now been developed with an updated vision, mission statement and values to reflect the future direction of the housing company and to mitigate the major challenges facing the social housing sector in the North East.

Strategic report *(continued)*

During the past year, the business has focused on:

Welfare reform

The focus in year has been on understanding the ongoing impact of under-occupation during 2014/15, 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 showed additional volatility from 440 in April 14, peaking at 577 in July before stabilising at 431 at the year end. Also, some pockets of low-demand housing are beginning to emerge with some properties becoming very difficult to let.

In addition, the Company has also been preparing for the implementation of Universal Credit where changes will be made to six existing benefits to bring them under one universal benefit. Work has been ongoing both in terms of business impact and tenant consultation to ensure a smooth rollout from June 2015.

Stock condition surveys

We have been working with an external partner to review the condition of a sample of our housing stock and to implement a rolling programme of surveys to fully refresh all stock condition information. The initial survey and findings consider emerging investment pressures that have the potential to undermine the sustainability of the stock in order to build up an overall picture of the viability of the stock in the longer term.

Customer Service Excellence

A full assessment of the Customer Service Excellence standard was carried out in November 2014. This assessed the company's approach to customer service, covering a range of areas from customer insight to performance against service standards. Overall, the company was found to be complying in all areas. In particular, it was noted by the assessor, that we had maintained a strong approach to customer service despite going through some significant changes. The company was identified as achieving 'compliance plus' in five areas covering knowledge of our customers, our approach to tailoring services for specific needs and interacting with wider communities. A light touch assessment will be carried out in 2015 and 2016, with full reaccreditation due in three years.

Investors in People (IiP) Accreditation

An Investors in People (IiP) Accreditation Assessment, incorporating a Health and Wellbeing assessment, was carried out in 2014/15. A mini diagnostic took place in September 2013, with the full assessment in June 2014. The two areas of activity were assessed separately and the company achieved the criteria and award in both. This means we continue to be an employer of choice through IiP and will continue to follow the IiP framework and principles. In December 2015, we will have an interim meeting with the assessor, prior to a further reassessment in June 2017.

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 Keelman Homes, following its change of ownership in March 2014.

Following a positive endorsement by Gateshead Council's Cabinet, the ownership of Keelman Homes changed to being owned by the Board of Trustees of Keelman Homes rather than the housing company. This change enabled Keelman Homes to bid for external HCA funding that it has been unable to access in the past and has meant that it has been able to deliver a significantly increased new build programme in 2014/15 and future years.

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.

Strategic report *(continued)*

Key performance indicators

Overall performance indicators up to the year ended 31 March 2015 have been very good with employees across the whole organisation continuing to focus on helping achieve performance targets and service standards.

Repairs performance, the collection of rent and satisfaction with investment work to homes performed especially strongly – however performance across the whole company was strong.

At the end of March 2015, 29 performance indicators were on target (compared to 23 in 2013/14) with a further 3 not on target, but improved compared to last year (down slightly from 4 in 2013/14).

13 indicators were not on target (increase from 8 in 2013/14).

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

- The percentage of emergency, urgent and routine repairs completed within their timescale 98.32% (compared to 97.61% in 2013/14);
- The percentage of appointments made as a percentage of appointable repair orders was 99.68% (compared to 94.08% in 2013/14);
- The percentage of tenants satisfied with the improvements made to their home was 99.42% (compared to 98.12% in 2013/14);
- The percentage of rent collected was 99.10% (against a target of 98.75%);
- Rent arrears of current tenants as a percentage of the authority's rent roll was 2.41% (against a target of 3%);
- Former tenant arrears as a percentage of all rent owed was 1.64% (down from last year's total of 1.77%);
- The percentage of those satisfied with the customer service received from TGHC was 96.10% (up from last year's figure of 90.65%);
- The percentage of tenants satisfied with the outcome of ASB complaints was 92% (up from last year's figure of 91%);
- Leasehold service charges collected as a percentage of charges due was 99.41% (up from last year's figures of 99.36%); and
- The percentage of tenants satisfied that the rent and service charges paid are good value for the services received was 85.60% (up from last year's performance of 83.60%).

The housing company also went beyond its 2% annual efficiency target, making 4.97% savings during the year (up from last year's performance of 4.31%).

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; and
- Adverse impact of right to buy.

Strategic report *(continued)*

Future developments

The company has a key role to play in helping the Council to realise its visions and strategies by providing quality homes and delivering customer-focused services in Gateshead, whilst looking to support the Council as much as possible during the current challenging economic times.

The following priorities have been agreed over a five year period to March 2020:

Investing in our employees and developing new and innovative ways of working to deliver the strategic plan

- Continually review the way we work and deliver services
- Continue to make sure we are organised in a fit-for-purpose way and our resources are linked to priorities
- Align our resources to tackle and meet our internal and external challenges
- Develop learning and skills programmes for employees to meet our objectives
- Maximise the benefits of ICT
- Develop a new set of service standards and performance indicators to reflect customer priorities, the challenges we face and accurately reflect business risk
- Ensure a flexible approach to the strategic plan to react to changes in government policy

Protecting Housing Revenue Account income and investment made in the stock

- Review the condition of the stock, maintain the stock and explore funding opportunities
- Undertake specific work around multi-storey and non-traditional stock/garages
- Review the approach to lettings and marketing to support the changing market
- Review the rent and service charge policy
- Increase opportunities for new housing
- Strategy to review CCTV and other network systems
- Review the future of the housing repairs service and ensure strong customer focus in this area continues
- Review the Value For Money (VFM) Strategy

Supporting tenants and sustaining tenancies and neighbourhoods

- Support tenants to manage the impact of Universal Credit
- Support the local economy and opportunities for employment, training and skills development
- Review our approach to supporting new tenants
- Review our approach to estate management
- Review our approach to customer service including digital inclusion and self-service
- Develop early help and intervention to sustain tenancies

Partnership working with Gateshead Council and others to support the delivery of quality homes and customer-focused services

- Support Gateshead Council around HRA business planning, assumptions and monitoring
- Support Gateshead Council's regeneration agenda
- Look at areas of better integration with Gateshead Council
- Build new homes and manage properties on behalf of others with Keelman Homes
- Work in partnership to sustain and support tenancies and our objectives

Strategic report *(continued)*

Partnership working with Gateshead Council and others to support the delivery of quality homes and customer-focused services *(continued)*

Alongside this, there some new areas of activity planned for the year 15/16, including:

- Implementing and embedding the new TGHC Five Year Strategic Plan
- Reviewing the Sheltered Housing service to identify efficiencies in resource allocation and operational provision
- Reviewing the management agreement with Keelman Homes
- Developing the existing arrangements with Gateshead Council regarding the Housing Revenue Account (HRA) monitoring framework, including work to monitor the impact of Welfare Reform, Universal Credit and Right to Buys on the business plan
- Exploring new ways of delivering integrated models of customer service that support and protect local services
- Carrying out a review of employee competencies and developing a new behavior framework to link in to the refreshed vision and values
- Completing the stock condition surveys and developing a rolling 3-4 year programme
- Reviewing and implementing approaches to the marketing of lower demand properties
- Reviewing the future of cash counter facilities and the potential for new service models that may emerge, following the success at Wrekenton Hub.

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 aims for 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.

Strategic report *(continued)*

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.

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 from 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

2015 and signed on its behalf by:

P Foy
Chair

J Mallen-Beadle
Company Secretary

Directors' report

The Board present their Directors' report and financial statements for the year ended 31 March 2015.

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 (Chair – appointed 18 September 2014)
John Walter Hamilton
Peter Mole

Tenant Directors

Sheila Boutiech
Robert Buckley
Helen Hall
Dr Joachim Moussounda Mouanda
Gordon Spring (retired 18 September 2014)
Elizabeth Bird (appointed 18 September 2014)

Independent Directors

Joanne Carr
George Clark
Mick Davison
Barbara Elaine Dennis (Chair - retired 18 September 2014)
Eileen Gill
Tracy Harrison (appointed 5 January 2015)

Political contributions

The company made no political donations or incurred any political expenditure during the year (2014: £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

2015 and signed on its behalf by:

P Foy
Chair

J Mallen-Beadle
Company Secretary

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

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

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

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 2015 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 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 2015 and of its surplus 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 strategic report and 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.

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

2015

Income and Expenditure Account
for the year ended 31 March 2015

	<i>Note</i>	2015	2014
		£000	£000
Turnover	2	33,413	34,427
Operating costs	2	(33,369)	(35,102)
		<hr/>	<hr/>
Operating surplus/(deficit)	2-5	44	(675)
Interest receivable and similar income	6	2	4
Other finance income	7	500	50
		<hr/>	<hr/>
Surplus/(deficit) on ordinary activities before taxation		546	(621)
Taxation on surplus/(deficit) from ordinary activities	8	-	-
		<hr/>	<hr/>
Surplus/(deficit) for the financial year	14	546	(621)
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing activities.

Statement of Total Recognised Surpluses and Deficits
for the year ended 31 March 2015

	<i>Note</i>	2015	2014
		£000	£000
Surplus/(deficit) for the financial year	14	546	(621)
Actuarial (loss)/gain recognised in the pension scheme	16	(4,270)	7,370
		<hr/>	<hr/>
Total recognised (deficit)/surplus relating to the period		(3,724)	6,749
		<hr/> <hr/>	<hr/> <hr/>

Balance Sheet
as at 31 March 2015

		2015		2014	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		653		622
Current assets					
Debtors	10	1,031		2,733	
Cash at bank and in hand		6,718		5,748	
		<u>7,749</u>		<u>8,481</u>	
Creditors: amounts falling due within one year	11	(7,176)		(7,962)	
Net current assets			573		519
Provisions for liabilities	12		(160)		(311)
			<u>1,066</u>		<u>830</u>
Total assets less current liabilities					
Creditors: amounts falling due after more than one year					
Net pension liability	16		11,710		7,750
Capital and reserves					
Revenue reserves excluding net pension costs		1,066		830	
Net pension liability		(11,710)		(7,750)	
		<u>14</u>		<u>(6,920)</u>	
Revenue reserve including pension liability	14		(10,644)		(6,920)
			<u>1,066</u>		<u>830</u>
Total long term liabilities, capital and reserves					

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

2015 and were

P Foy
Chair

Company registered number: 04944719

Cash Flow Statement

for the year ended 31 March 2015

	<i>Note</i>	2015 £000	2014 £000
Net cash inflow from operating activities	<i>17a</i>	1,037	1,302
Returns on investments and servicing of finance			
Interest received		<u>2</u>	<u>4</u>
		1,039	1,306
Capital expenditure			
Purchase of tangible fixed assets		<u>(69)</u>	<u>(147)</u>
Increase in cash	<i>17b</i>	970	1,159

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 £6,718,000 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 2020. 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 18.

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

	2015	2014
	£000	£000
Turnover		
Management fee	31,059	31,890
External funding	1	2
Capital fees	1,000	1,000
Other	1,353	1,535
	33,413	34,427
Operating costs		
Management of housing stock	14,520	14,914
Repairs and maintenance of housing stock	17,849	19,188
Revenue expenditure supporting capital programme	1,000	1,000
	33,369	35,102
Operating surplus/(deficit)	44	(675)

3 Notes to the income and expenditure account

	2015	2014
	£000	£000
<i>Surplus/(deficit) on ordinary activities before taxation is stated after charging:</i>		
Depreciation on tangible fixed assets – owned	38	75
Hire of plant and equipment – operating leases	4	19
Hire of other assets – operating leases	98	306
<i>Auditor's remuneration:</i>		
Audit of these financial statements	18	17

4 Remuneration of directors

The aggregate amount of emoluments and expenses paid to Board Members was £20,434 (2014: £22,091).

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	
	2015	2014
Housing management	196	194
Administrative and clerical	106	110
	<hr/> 302 <hr/>	<hr/> 304 <hr/>

The aggregate payroll costs of these persons were as follows:

	2015	2014
	£000	£000
Wages and salaries	7,369	7,489
Social security costs	497	514
Other pension costs (note 16)	1,210	1,663
	<hr/> 9,076 <hr/>	<hr/> 9,666 <hr/>

6 Interest receivable and similar income

	2015	2014
	£000	£000
Bank interest	2	4
	<hr/> 2 <hr/>	<hr/> 4 <hr/>

7 Other finance income

	2015	2014
	£000	£000
Expected return on pension scheme assets	2,390	2,270
Interest on pension scheme liabilities	(1,890)	(2,220)
	<hr/> 500 <hr/>	<hr/> 50 <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

	2015 £000	2014 £000
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
	<hr/>	<hr/>
Total current tax	-	-
Deferred tax	-	-
	<hr/>	<hr/>
Tax on surplus/(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 lower (*2014: higher*) than the small company's rate of corporation tax in the UK of 20% (*2014: 20%*). The differences are explained below:

	2015 £000	2014 £000
<i>Current tax reconciliation</i>		
Surplus/(deficit) on ordinary activities before tax	546	(621)
	<hr/>	<hr/>
Current tax at 20% (<i>2014: 20%</i>)	109	(124)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	-	124
Non taxable income	(109)	-
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

9 Tangible fixed assets

	Buildings £000	Fixtures and fittings £000	IT equipment £000	Total £000
<i>Cost</i>				
At beginning of year	628	70	1,174	1,872
Additions	2	-	67	69
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	630	70	1,241	1,941
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>				
At beginning of year	33	70	1,147	1,250
Charge for year	13	-	25	38
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	46	70	1,172	1,288
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>				
At 31 March 2015	584	-	69	653
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2014	595	-	27	622
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Debtors

	2015 £000	2014 £000
Amounts owed by parent undertaking	264	1,423
Amounts owed by other related parties	186	10
Trade debtors	345	830
Prepayments and accrued income	236	470
	<hr/>	<hr/>
	1,031	2,733
	<hr/> <hr/>	<hr/> <hr/>

All debtor balances are due within one year.

Deferred tax assets of £2,342,000 (2014: £1,550,000), arising on the pension scheme deficit have not been recognised.

Notes (continued)

11 Creditors: amounts falling due within one year

	2015	2014
	£000	£000
Amounts owed to parent undertaking	2,783	3,202
Amounts owed to other related parties	148	53
Trade creditors	897	233
Taxation and social security	1,555	1,157
Accruals and deferred income	1,793	3,317
	<hr/>	<hr/>
	7,176	7,962
	<hr/> <hr/>	<hr/> <hr/>

12 Provisions for liabilities

	Insurance provision
	£000
At beginning of year	311
Utilised during year	(204)
Provided during the year	53
	<hr/>
At end of year	160
	<hr/> <hr/>

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

13 Share capital

The Company does not have any share capital as it is limited by guarantee of £1 per member. Membership at 31 March 2015 was 1 (2014: 1).

14 Revenue reserves

	Revenue reserves
	£000
Balance at 1 April 2014	(6,920)
Surplus from income and expenditure	546
Actuarial loss recognised in the pension scheme	(4,270)
	<hr/>
Balance at 31 March 2015	(10,644)
	<hr/> <hr/>

Notes (*continued*)

15 Commitments

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

	2015		2014	
	Land and		Land and	
	buildings	Other	buildings	Other
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	-	3	98	1
In the second to fifth years inclusive	-	3	-	-
Over five years	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16 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 2015 by Aon Hewitt Limited, a qualified independent actuary.

The information disclosed below is in respect of the whole of the plan 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.

	2015	2014
	£000	£000
Present value of funded defined benefit obligations	(51,880)	(43,060)
Fair value of plan assets	40,170	35,310
	<u> </u>	<u> </u>
Deficit	(11,710)	(7,750)
Related deferred tax asset	-	-
	<u> </u>	<u> </u>
Net liability	(11,710)	(7,750)
	<u> </u>	<u> </u>

Movements in present value of defined benefit obligation

	2015	2014
	£000	£000
At 1 April	43,060	47,720
Current service cost	1,210	1,570
Past service cost	-	70
Interest cost	1,890	2,220
Actuarial losses/(gains)	6,210	(8,190)
Contributions by members	430	420
Benefits paid	(920)	(750)
	<u> </u>	<u> </u>
At 31 March	51,880	43,060
	<u> </u>	<u> </u>

Notes (*continued*)

16 Pensions (*continued*)

Movements in fair value of plan assets

	2015	2014
	£000	£000
At 1 April	35,310	33,130
Expected return on plan assets	2,390	2,270
Actuarial gains/(losses)	1,940	(820)
Contributions by employer	1,020	1,060
Contributions by members	430	420
Benefits paid	(920)	(750)
	<hr/>	<hr/>
At 31 March	40,170	35,310
	<hr/> <hr/>	<hr/> <hr/>

Expense recognised in the income and expenditure account

	2015	2014
	£000	£000
Current service cost	1,210	1,570
Past service cost	-	70
Interest on defined benefit pension plan obligation	1,890	2,220
Expected return on defined benefit pension plan assets	(2,390)	(2,270)
	<hr/>	<hr/>
Total	710	1,590
	<hr/> <hr/>	<hr/> <hr/>

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

	2015	2014
	£000	£000
Operating costs	1,210	1,640
Other finance income	(500)	(50)
	<hr/>	<hr/>
	710	1,590
	<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 loss of £4,270,000 (*2014: loss of £7,370,000*).

Notes (continued)

16 Pensions (continued)

Cumulative actuarial losses reported in the statement of total recognised gains and losses for accounting periods ending since 31 March 2006 are £11,882,000 (2014: £7,612,000).

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

	2015	2014
	Fair value	Fair value
	£000	£000
Equities	26,673	23,587
Property	3,816	3,001
Government bonds	1,486	1,236
Corporate Bonds	4,700	4,061
Cash	964	1,024
Other	2,531	2,401
	40,170	35,310
Expected return on assets	2,390	2,270
Actuarial gain/(loss) on assets	1,940	(820)
Actual return on plan assets	4,330	1,450

The 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 2015.

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

	2015	2014
	%	%
Discount rate	3.3	4.4
Rate of increase in pensions in payment	1.9	2.4
Rate of increase to deferred pensions	1.9	2.4
Future salary increases	3.4	3.9
Inflation increase		
- RPI	3.0	3.4
- CPI	1.9	2.4

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: 23.1 years (male), 24.7 years (female).
- Future retiree upon reaching 65: 25.1 years (male), 27.0 years (female).

Notes (continued)

16 Pension schemes (continued)

History of plans

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

Balance sheet

	2015	2014	2013	2012	2011
	£000	£000	£000	£000	£000
Present value of scheme liabilities	(51,880)	(43,060)	(47,720)	(42,850)	(36,970)
Fair value of scheme assets	40,170	35,310	33,130	29,000	28,700
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Deficit	(11,710)	(7,750)	(14,590)	(13,850)	(8,270)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Experience adjustments

	2015	2014	2013	2012	2011
	£000	£000	£000	£000	£000
Experience adjustments on scheme assets	1,940	(820)	1,460	(1,690)	980
Experience adjustments on scheme liabilities	230	2,660	30	(110)	(2,490)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2,170	1,840	1,490	(1,800)	(1,510)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Company expects to contribute approximately £1,060,000 to its defined benefit plan in the next financial year.

17 Notes to the cash flow statement

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

	2015	2014
	£000	£000
Operating surplus/(deficit)	44	(675)
Depreciation	38	75
Decrease/(increase) in debtors	1,702	(1,324)
(Decrease)/increase in creditors	(786)	2,394
Decrease in provisions	(151)	(59)
Loss on disposal of fixed assets	-	311
Charge in relation to FRS 17 pension adjustment	190	580
	<hr/>	<hr/>
Net cash inflow from operating activities	1,037	1,302
	<hr/> <hr/>	<hr/> <hr/>

b) Reconciliation of net cash inflow to movement in net funds

	2015	2014
	£000	£000
Increase in cash in the year	970	1,159
Net funds at start of year	5,748	4,589
	<hr/>	<hr/>
Net funds at end of year	6,718	5,748
	<hr/> <hr/>	<hr/> <hr/>

Notes (*continued*)

17 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	5,748	970	6,718

18 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.