



## Report to the Board

16 July 2020

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**Title:** Draft Directors' Report and Financial Statements – 2019/20

**Report of:** Interim Managing Director

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### **Purpose of Report**

1. To approve the report and financial statements for the year ended 31 March 2020.

### **Background**

2. The report and financial statements for 2019/20 will be presented to the company's Annual General Meeting, which will be held immediately after the meeting of the Board on 24 September 2020.
3. The fourth quarter management report presenting the provisional outturn of expenditure against budget was considered by the Resources, Audit and Performance Committee at its meeting on 6 May 2020.
4. These accounts and the associated management report were considered by Resources, Audit and Performance Committee at its meeting on 8 July 2020. They were agreed subject to the following: -
  - a) minor corrections to the formatting in the director's reports
  - b) A section 172 statement is added to the director's reports. This is a new requirement for this financial year highlighted by KPMG, that due to timescales was unable to be included in time for Resources, Audit and Performance Committee. This section covers the company's relationship and engagement with all its stakeholders including tenants, leaseholders employees and Gateshead Council.

### **Statement of Accounts**

5. A report including the financial statements as agreed with the external auditors, KPMG, is attached at the Appendix to this report.
6. The financial result for the period 2019/20 was a deficit of £4,606,000 (2019: £8,048,000 deficit). This consists of pension adjustments of £3,390,000 for operating costs, £1,080,000 for pension finance cost and comprehensive income of £20,000 for remeasurement of the net defined benefit liability leaving an underlying deficit of £156,000 which has been deducted from TGHC Reserves.

7. The fourth quarter management accounts indicated an expected deficit of £159,000 (Excluding the £5,000 interest receivable) at the year end. This was reported to Resources Committee on 6 May 2020. There was a couple of minor adjustments with a further £2,000 expenditure, this resulted in an operating deficit of £161,000.
8. Below is a table that explains how the management accounts are reconciled to the statutory accounts. The deficit was made up as follows:

	<b>2019/20</b> <b>£</b>	<b>2018/19</b> <b>£</b>	
Operating surplus/(deficit)	(161,000)	107,000	<i>This is the deficit on the management accounts (before interest) – after additional agreed management fee.</i>
Pension Scheme Adjustment (Operating Costs)	(3,390,000)	(2,740,000)	<i>This is the net adjustment required to the accounts following the change in the measure of inflation.</i>
Pension Scheme Adjustment (Past Service Costs)	-	(8,420,000)	<i>This adjustment relates to the employees TUPE transferred from Gateshead Council in 2017</i>
<b>Pre Tax and Interest Surplus/(deficit)</b>	<b>(3,551,000)</b>	<b>(10,763,000)</b>	
Interest Receivable	5,000	5,000	<i>This is the interest received on the cash balance during the year</i>
Pension Scheme Finance Income/(Costs)	(1,080,000)	(1,040,000)	<i>This is an accounting adjustment in relation to the pension scheme</i>
<b>Financial Statements Surplus/(deficit)</b>	<b>(4,626,000)</b>	<b>(11,798,000)</b>	
Other comprehensive income	20,000	3,750,000	<i>This is an adjustment in relation to the net defined benefit liability in the pension scheme</i>
<b>Total comprehensive profit/(loss) for the year</b>	<b>(4,606,000)</b>	<b>(8,048,000)</b>	

9. The company achieved a pre-tax and interest deficit in the year of £3,551,000 prior to interest receivable of £5,000 and pension scheme finance costs of £1,080,000 (2019: interest receivable of £5,000; finance costs of £1,040,000).
10. The balance sheet has decreased due to the deficit excluding pension adjustments, resulting in closing revenue reserves excluding net pension provisions of £647,000 (2019: £803,000). 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 102 (a financial reporting standard) to adjust the accounts for the pension fund liability attributable to the company's employees. The net pension liability was £50.7m as at 31 March 2020 (£45.447m as at 31 March 2019) 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.

#### **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 (failure to manage the company's finances) is effectively controlled.

#### **Value for Money implications**

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

#### **Environmental Implications**

16. 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.

#### **Recommendation**

17. The Board is recommend to approve the Directors Report and Financial Statements for the year ended 31 March 2020.

**The Gateshead Housing Company Limited**

Annual report and financial statements

Registered number 04944719

Draft - 31 March 2020

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## Officers and professional advisers

### Council Directors

Paul Foy (resigned 16 October 2019)  
Michael Hood  
Brenda Clelland  
Leigh Kirton  
Jim Turnbull  
John Adams (appointed 21 November 2019)

### Tenant Directors

Sheila Bouitieh  
Robert Buckley (resigned 19 September 2019)  
Helen Hall  
Elizabeth Bird  
Alan Guest (appointed 19 September 2019)  
Ian McKenzie (appointed 18 July 2019)

### Independent Directors

Joanne Carr  
George Clark  
Mick Davison (resigned 19 September 2019)  
Eileen Gill  
Tracy Harrison  
Jim Coulter (Chair) (appointed 21 November 2019)

### Secretary and Registered Office

Neil Bouch

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

### 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 and for the Council through the Private Empty Homes Programme.

### Company Vision

*“To be the housing provider of first choice for everyone making their home in a thriving Gateshead”*

The vision will be achieved through the completion of four key steps, which represent the company’s new strategic objectives. They are:

- **Taking our services to the next level**
- **Creating outstanding homes and living spaces**
- **Sharpening our business focus**
- **Unlocking our potential through our people**

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, Thrive Agenda, Housing Strategy and the 30-year HRA Business Plan.

We have developed Service Plans for each directorate, outlining the service priorities over 3 years, as follows:

- Development and progress monitoring of Service Plans to achieve key priorities
- Implementation of Employee Performance and Development Reviews
- Develop our Corporate Parenting role, to build our ‘core offer’
- Consistent companywide approach to Customer Contact logging
- Development and launch of refreshed TGHC website
- Implementation of iTrent People Manager
- Introduction of Northgate version 6.18 (Major Release) + New server
- Online access to information by introducing ‘My Account’ for leaseholders
- In partnership, deliver community based Public Sector Reform Initiative
- Continue to support older people to live independently through Support Plans
- Further develop partnerships to support health and wellbeing of customers
- Develop a Homeless prototype linked to Public Sector Reform & Thrive agenda
- Provide Housing Support to young people through the SAILs model and measure outcomes, including our offer for Looked After Children and Care Leavers
- Work with partners to sustain tenancies and maximise rent income
- End-to-end review of void properties to reduce void numbers and rent loss
- Continue progress with Property and Assets Review
- Enhance Customer Service and learning from complaints
- Continue C-Change Transformation Programme across the Property and Asset service
- Implement Keystone Risk Management as permanent solution to management of Fire Risk actions arising from all stock types
- Introduce Northgate Property Life Cycle as a robust process for new properties and assets into core systems
- Deliver on the compliance work programme, including reporting, data management and service delivery

## Strategic report *(continued)*

### Business review and results

#### Result for the year

The financial performance for 2019/20 can be analysed as follows:

	<b>2019/20</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Operating surplus/(deficit) before pension adjustments	161	107
Pension scheme adjustments (see note 17 to the financial statements):		
- Current service cost and normal past service cost less contributions to the scheme	(3,390)	(2,740)
- Past service cost relating to employees transferring to the Company	-	(3,860)
- Past service cost relating to GMP and McCloud judgements	-	(4,270)
<b>Operating deficit as per the Statement of comprehensive income</b>	<b>(3,551)</b>	<b>(10,763)</b>
Interest receivable	5	5
Interest expense on pension scheme	(1,080)	(1,040)
<b>Deficit for the financial year as per the Statement of comprehensive income</b>	<b>(4,626)</b>	<b>(11,798)</b>
Remeasurement of the net defined benefit liability	20	3,750
<b>Total comprehensive loss for the year</b>	<b>(4,606)</b>	<b>(8,048)</b>

As a result of the deficit excluding pension movements, closing revenue reserves excluding net pension provisions have decreased to £647,000 (2019: £803,000). 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

During the past year, the business has delivered on many of its objectives within the previous business plan as follows:

- Fire Door programme to supply and fit over 2,000 fire doors has commenced with works delivered in-house by Property and Assets in conjunction with an external partner.
- Compliance features across all service areas, through a 'safety first' approach to ensure that our customers remain safe.
- Full suite of Safety Management Plans produced for all key areas of Compliance (Asbestos, Electrical, Fire Safety Water Hygiene, Gas and Carbon Monoxide, Pressure Systems and Lift Safety).
- Service Plan developed to capture key service priorities over the next three years to clearly demonstrate our achievement against service priorities.
- Corporate Health and Safety meetings and service Health and Safety meetings have been restructured to eliminate duplication and to facilitate the easy cascading and/or escalation of information between distinct meetings.
- Training requirements have been identified for all areas of compliance and training will be delivered via the new Service Level Agreement, in collaboration with the Council's Organisational Development team.
- Launched the refreshed Involvement Strategy for customers to encourage engagement, it is available on the company website.
- Reviewed and relaunched the Equality and Diversity in the Workplace; a mandatory training course for all employees, which is now delivered in-house.

## Strategic report *(continued)*

### Review of business *(continued)*

- In conjunction with ICT, developed Performance Management SharePoint site, to manage and oversee performance; this replaces the Council's APEX system which has been decommissioned.
- Upgraded all TGHC desktop PCs to Windows 10 to comply with the de-support notice of Windows 7 by Microsoft.
- Upgraded the main Housing Management System, Northgate, to the next major release (6.18) and migrated to new server. User testing and interface testing conducted. Awareness sessions were rolled out across the business.
- Supported and developed solutions for C-Change and Compliance programmes within the Property and Asset Directorate by providing advice on IT solutions, logic and process efficiencies. E.g. Kirona, iAuditor, Northgate Contractor Portal and DRS.
- Engagement with Northgate Partner Programme to drive forward Gateshead's agenda with a key software partner; we are able to inform future enhancements.
- Produced training and FAQ guidance in respect of leasehold tenure, for Neighbourhood Housing Offices, to foster greater customer satisfaction with information received by leaseholders. Customer satisfaction will be reviewed by Biennial Survey.
- Developed online access to information via 'My Account' for leaseholders. Testing has commenced with further development still required.
- Created procedures for Lease extension, Right to Acquire and Shared Ownership and developed FAQs for Rent to Buy to support customers and officers.
- Marketing brochure developed for both Rent to Buy and Shared ownership.
- Gas servicing information identified and uplifted into Northgate, to make it accessible for Leasehold team.
- In partnership with the council, developed a Homeless Prototype linked to public sector reform and Thrive Agenda. TGHC and Basis staff appointed. The Prototype team are now up and running, Basis accommodation has been confirmed and TGHC Posts further extended until 2021.
- Supported the Community Safety Partnership with their review of Anti-Social Behaviour, which is being led by community safety and an external advisor. Research has been undertaken on multi-tenure models; a discussion paper has been drafted and scope agreed for the review.
- Domestic abuse housing outreach role established and funding bid successful for further post for 12 months. Started to consider options for capturing case work and interventions, along with homeless preventions within Northgate. DAHA Accreditation work underway to scope out evaluation and evidence required.
- In collaboration with the council, we are delivering housing support to young people through the SAILs model. The service has been established with commissioned posts in place for next three years. Along with an extension of the Brief Intervention role. An Outcomes Framework has now been developed to measure outcomes achieved for young people including our offer for Looked after Children and Care Leavers.
- In partnership with the Council, a new build supported housing scheme has been developed in Winlaton. Clients have moved in and concierge support staff are now in place.
- The Syrian Resettlement Scheme has been extended for a further year and will be reviewed during 2020/21. Existing posts have been extended until 2022.
- In partnership with the council, a project is underway to convert larger council property for shared use for clients with a Learning Disability. The council is currently discussing options to enhance the building specification linked to additional health funding.
- Rent and Income continue to support the Thrive agenda and work with partners to sustain tenancies and maximise rent income; in the face of a marked increase in universal credit clients.
- Contributed to the council's strategic review of Advice, Information, Guidance and Advocacy.
- Adaptations have worked with partners in support of Falls Prevention, along with implementation of a new Disabled Facilities Grant Policy and Major Adaptation Policy for Council properties.
- Void Manager, Lettings, seconded to Property and Assets to work with operational team to reduce the high level of vacant properties.
- Carried out 840 tenancy visits, initially focusing on tenants who have registered for a transfer. Further role out of the programme will be carried out during 2020/21.

## Strategic report *(continued)*

### Review of business *(continued)*

- Supported and developed Thrive in Beacon Lough East, via the Public Sector Reform Initiative in partnership to deliver community based improvements; that includes residents of Beacon Lough East, Edberts House, Gateshead Council, Gateshead based charities and several public sector partners. Residents have been supported with issues including rent and income, mental health, anti-social behaviour and tenancy matters.
- Following the Customer Scrutiny Panel review of customer service, 17 recommendations have been implemented and a further eight will be implemented during 2020/21.
- Developed an annual programme of low/mid-rise block inspections to ensure blocks remain clean, safe, secure and free from disrepair. Using learning from the FRA programme there will be a focus around fire safety. The programme will be rolled out during 2020/21.
- Supported the Council to implement options for Felling Town Centre redevelopment. To date, 21 tenants from Crowhall Towers and two from Sir Godfrey Thompson Court have been supported into alternative accommodation. We will continue to provide support to the remaining 66 tenants until they are rehoused.
- Supported Council to further Review the Sheltered Scheme service in areas of low demand for elderly persons schemes.
- In consultation with customers and employees the Support Plan for older people to live independently has been further developed. Employee training and rollout of the new guidance will be complete during 2020/21.
- A joint working approach has been adopted to build on and strengthen the already existing relationship between the TGHC Employee Support Services Team and Gateshead Council's Human Resources and Workforce Development Team.
- This approach supports the wider review of housing related activity across the Council and Company. In addition, joint working will increase capacity, allow best practice to be shared, enable efficiencies to be delivered, assist with workforce planning and employee support and engagement in advance of the review being implemented.

### Key performance indicators

Overall performance indicators up to the year ended 31 March 2020 have seen good improvement in this challenging economic environment, with employees across the whole organisation continuing to focus on helping achieve performance targets and service standards.

Here are some details for the year's performance:

- The percentage of rent collected was 98.94% (99.26% 2019/20) against a target of 97.5%. Decrease in performance from last year although achieving target (this was despite the last two weeks of rent collection being during the Covid-19 pandemic).
- Rent arrears of current tenants as a percentage of the authority's rent roll was 4.12% (3.32% 2018/19) against a target of 4.50%. Decrease in performance from last year although achieving target.
- Former tenant arrears as a percentage of rent owed was 2.82% (compared to a target of 3.00%).
- Satisfaction with advice we give on rent or on debt was 94% (compared to a target of 90%)
- TGHC contact tenants in 10 working days to offer money & debt advice when notified of tenants in receipt of Universal Credit (UC) was 97% against a target of 95%.
- The percentage of appointments made as a percentage of appointable repair orders was 99.38% (97.78% 2018/19) against a target of 94%. Increase in performance from last year and achieving target.
- Percentage of emergency, urgent and routine repairs completed within timescale was 86.67% (compared to 86% in 2018/19)
- The percentage of tenants satisfied with the repairs service was 99.70% (99.75% 2018/19) against a target of 95%. Decrease in performance from last year and although target.
- The percentage of customers satisfied with the gas service was 99.90% (against a target of 95%). Increase in performance from last year (99.88%) and achieving target.
- Major works charges collected as a percentage of major works charges due was 92.44% (compared to a target of 89%)

## **Strategic report** *(continued)*

### **Key performance indicators** *(continued)*

- Leasehold Service charges collected as a % of charges due was 107.81% (105.34% 2018/19) against a target of 99.50%. Increase in performance from last year and achieving target.
- The percentage of those making a complaint satisfied with the investigation of the complaint was 78.1% (70% in 2018/19) against a target of 68%.
- Tenants satisfied with improvements made to their home was 97.2% (93.85% in 2018/19 compared to a target of 97%
- % of employees ceasing employment (voluntary & involuntary) was 7.91% (7.17% 2018/19) against a target of 8.5%. Decrease in performance from last year although achieving target.

### **Principal risks and uncertainties**

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

- Impact on rents of universal credit and welfare reform
- Failure to deliver business model due to future government policy
- Causing serious harm or neglect to a customer, supplier or third party
- Failure to adapt to the housing & support needs of our customers
- Failure to achieve a viable model for repairs, maintenance and capital delivery
- Failure to manage the company's finances and demonstrate value for money
- Failure to plan the workforce efficiently
- Failure to maintain an effective relationship with the Council
- Failure to effectively manage business continuity
- Failure to manage effective corporate governance
- Excessive levels of vacant properties

### **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.

### **Review of Options for the Future Management and Maintenance of the Council's Stock**

Following a Housing Options Review by Pennington Choices Ltd, Gateshead Council's Cabinet approved on 24 March 2020 the preferred option that the management and maintenance of the Council's housing stock is reintegrated within the Council. This will include a review of all services currently provided by TGHC and include relevant Council services to ensure the most efficient and effective delivery plan.

A detailed business plan will be developed to implement the preferred option, subject to consultation with employees, trade unions, tenants and relevant stakeholders.

## **Strategic report** *(continued)*

### **Via our Corporate plan and Governance, we have made a commitment to:**

- Continue to work in partnership with the Council and other key partners to deliver on our objectives in line with the Thrive agenda and embed the ethos of ‘Making Gateshead a place where everyone thrives’
- **Fully support the approach to the future Management and Maintenance of the Council’s Stock**
- Deliver Gateshead Council Housing Strategy through the provision of the right housing support, supply and standards i.e. quality, condition and management
- Always apply our Company Values as guiding principles in terms of our relationships with internal and external customers
- Focus on the results from the TLF Customer Survey to ‘listen and act on customer views’ and to ‘keep our promises’
- Be mindful of our key Strategic Risks, mitigation and risk management

### **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 rule 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.

Following a governance review was carried out during October 2019 the following new committees were agreed that support the need to have a clear focus and emphasis on compliance across all areas of the business.

- Resources, Audit and Performance Committee
- Customer Services Committee
- Customer Scrutiny Panel Sub-Committee
- Executive Overview Committee

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 auditors 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

### **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.

## **Strategic report** *(continued)*

### **Employee Involvement** *(continued)*

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 managers 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 twelve months; and
- agree what training and development they need to do their job well.

### **Section 172 Companies Act 2006**

This statement sets out how the Directors have approached and met their responsibilities under section 172, Companies Act (2006). Directors undertake regular engagement with stakeholders, including colleagues, tenants, leaseholders, Company Board, Gateshead Council as well as with the voluntary and community sector.

Our Customer Involvement Strategy has recently been updated to further encourage customer participation. Directors engage with Involved Customers, through the Customer Scrutiny Panel, Service Improvement Groups, Biennial Survey and via messages on the company website. Listening to the Customer is at the forefront of service delivery. Customer Insight helps to inform service improvements, reduce complaints and achieve buy-in from customers, by incorporating where practicable their recommendations, placing customers at the heart of our service delivery.

Directors engaged The Leadership Factor consultancy; to conduct a survey of all of our tenants and leaseholders in Gateshead, to more readily understand customer expectations and identify any prominent areas of dissatisfaction. Director's have interpreted these findings and focused resource on key areas of the business, which had identified greater levels of customer dissatisfaction. This has resulted in Director led services with specific service improvement plans and more recently the introduction of Service Plans, to ensure that key priorities are met.

Our Governance structure through Board, committee and audit fosters a culture of openness, scrutiny and challenge. Good working relationships have been developed, with regular Board workshops and the opportunity for Board members to get involved in company wide business. Board Members regularly attend conferences and training alongside officers.

Directors also attend C-Change committee, which is a transformation programme of change within the business, focusing on key elements such as business processes, policies and procedures, statutory compliance, supply chain, digital enhancements, procurement and commercial activity. Listening to colleagues and employees is vital for Directors to understand challenges people face within the organisation, as well as being made aware of successful initiatives implemented across the business.

The Managing Director is a member of Gateshead Council's Corporate Management Team and is able to ensure that views of the company are considered when shaping new policies and when exploring future service provision. Directors, alongside senior management team encourage networking and collaborative working with partners and external agencies, to directly influence positive outcomes for the people of Gateshead. Internal communications are key, the Managing Director provides regular updates to employees via the weekly company newsletter, to ensure that timely and consistent messages are provided to all employees.

These items are given as examples of the Directors' application of the principles of s172 Companies Act across the year, and is not an exhaustive list.

The report of the Board was approved on

2020 and signed on its behalf by:

**Jim Coulter**  
*Chair*

**Neil Bouch**  
*Company Secretary*

## Directors' report

The Board present their Directors' report and financial statements for the year ended 31 March 2020. The directors who held office during the year, and changes since the year end, were as follows:

### Council Directors

Paul Foy (resigned 16 October 2019)  
Michael Hood  
Brenda Clelland  
Leigh Kirton  
Jim Turnbull  
John Adams (appointed 21 November 2019)

### Tenant Directors

Sheila Boutieh  
Robert Buckley (resigned 19 September 2019)  
Helen Hall  
Elizabeth Bird  
Alan Guest (appointed 19 September 2019)  
Ian McKenzie (appointed 18 July 2019)

### Independent Directors

Joanne Carr  
George Clark  
Mick Davison (resigned 19 September 2019)  
Eileen Gill  
Tracy Harrison  
Jim Coulter (Chair) (appointed 21 November 2019)

### Political contributions

The company made no political donations or incurred any political expenditure during the year (2019: £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 2020 and signed on its behalf by:

**J Coulter**  
Director

## **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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss 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 judgements 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

### **Opinion**

We have audited the financial statements of The Gateshead Housing Company Limited (“the company”) for the year ended 31 March 2020 which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its deficit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

### **Material uncertainty related to going concern**

We draw attention to note 1 to the financial statements which indicates the uncertainties relating to whether the Company will continue to provide its core services to Gateshead Council. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

This report is made solely to the 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.

**Tara Stonehouse (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

Quayside House

110 Quayside

Newcastle upon Tyne

NE1 3DX

**Statement of comprehensive income**  
*for the year ended 31 March 2020*

	<i>Note</i>	<b>2020</b> <b>£000</b>	2019 £000
<b>Turnover</b>	2	<b>61,753</b>	59,773
Operating costs (including past service cost on defined benefit liability of £nil (2019: £8,420,000) – see note 17)	2	<b>(65,304)</b>	(70,536)
<b>Operating deficit</b>	2-5	<b>(3,551)</b>	(10,763)
Interest receivable and similar income	6	<b>5</b>	5
Interest payable and similar charges	7	<b>(1,080)</b>	(1,040)
<b>Deficit on ordinary activities before taxation</b>		<b>(4,626)</b>	(11,798)
Taxation on deficit from ordinary activities	8	-	-
<b>Deficit for the financial year</b>		<b>(4,626)</b>	(11,798)
<b>Other comprehensive income</b>			
Remeasurement of the net defined benefit liability	17	<b>20</b>	3,750
<b>Total comprehensive loss for the year</b>		<b>(4,606)</b>	(8,048)

**Balance sheet**  
*as at 31 March 2020*

	<i>Note</i>	<b>2020</b> <b>£000</b>	<b>2019</b> <b>£000</b>	<b>2019</b> <b>£000</b>	<b>£000</b>
<b>Fixed assets</b>					
Tangible assets	<i>9</i>		<b>539</b>		561
Intangible assets	<i>10</i>		<b>49</b>		277
			<hr/>		<hr/>
			<b>588</b>		838
<b>Current assets</b>					
Stocks	<i>11</i>	<b>1,227</b>		1,086	
Debtors	<i>12</i>	<b>2,267</b>		1,581	
Cash at bank and in hand		<b>8,976</b>		6,664	
		<hr/>		<hr/>	
<b>Creditors:</b> amounts falling due within one year	<i>13</i>	<b>12,470</b> <b>(12,292)</b>		9,331	(9,247)
		<hr/>		<hr/>	
<b>Net current assets</b>			<b>178</b>		84
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>766</b>		922
<b>Provisions for liabilities</b>					
Net pension liability	<i>17</i>	<b>(50,700)</b>		(46,250)	
Other provisions	<i>14</i>	<b>(119)</b>		(119)	
		<hr/>		<hr/>	
			<b>(50,819)</b>		(46,369)
			<hr/>		<hr/>
<b>Net liabilities</b>			<b>(50,053)</b>		(45,447)
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Revenue reserves excluding net pension costs		<b>647</b>		803	
Net pension liability		<b>(50,700)</b>		(46,250)	
		<hr/>		<hr/>	
<b>Revenue reserve including pension liability</b>			<b>(50,053)</b>		(45,447)
			<hr/>		<hr/>
<b>Total long term liabilities, capital and reserves</b>			<b>(50,053)</b>		(45,447)
			<hr/>		<hr/>

These financial statements were approved by the Board of directors on

2020 and were signed on its behalf by:

**J Coulter**  
*Director*

Company registered number: 04944719

**Statement of changes in equity**  
*for the year ended 31 March 2020*

	<b>Revenue reserve £000</b>
Balance at 1 April 2018	(37,399)
<b>Total comprehensive income for the period</b>	
Deficit	(11,798)
Other comprehensive income	3,750
	<hr/>
Total comprehensive loss for the period	(8,048)
	<hr/>
Balance at 31 March 2019	(45,447)
	<hr/> <hr/>
Balance at 1 April 2019	(45,447)
<b>Total comprehensive income for the period</b>	
Deficit	(4,626)
Other comprehensive income	20
	<hr/>
Total comprehensive loss for the period	(4,606)
	<hr/>
<b>Balance at 31 March 2020</b>	<b>(50,053)</b>
	<hr/> <hr/>

**Cash flow statement**  
*for the year ended 31 March 2020*

	<b>2020</b>	2019
	<b>£000</b>	£000
Deficit for the year	<b>(4,626)</b>	(11,798)
<i>Adjustments for:</i>		
Depreciation and amortisation	<b>250</b>	271
Interest receivable and similar income	<b>(5)</b>	(5)
Interest payable and similar charges	<b>1,080</b>	1,040
Pension past service charge	<b>-</b>	8,420
	<hr/>	<hr/>
	<b>(3,301)</b>	(2,072)
Increase in stocks	<b>(141)</b>	(61)
(Increase)/decrease in trade and other debtors	<b>(686)</b>	539
Increase in trade and other creditors	<b>3,045</b>	1,019
Increase in provisions and employee benefits	<b>3,390</b>	2,427
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	<b>2,307</b>	1,852
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Interest received	<b>5</b>	5
Acquisition of fixed assets	<b>-</b>	(79)
	<hr/>	<hr/>
<b>Net cash from investing activities</b>	<b>5</b>	(74)
	<hr/>	<hr/>
<b>Net cash from financing activities</b>	<b>-</b>	-
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>2,312</b>	1,778
Cash and cash equivalents at beginning of year	<b>6,664</b>	4,886
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>8,976</b>	6,664
	<hr/> <hr/>	<hr/> <hr/>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000. The accounting policies set out below have unless otherwise stated, been applied consistently to all periods presented in these financial statements. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 18.

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2 Going concern

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. The company’s financial position is impacted by the net defined benefit pension liability, as explained in note 17 Gateshead Council have provided a guarantee that it will make the necessary payments to the pension scheme in the event that the company defaults. The company has cash at bank and in hand of £8,976,000 at the end of the year, with no external debt. The company’s primary customer is Gateshead Council.

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons. The directors have prepared cash flow forecasts for a period of 17 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through in downside cases funding from its immediate parent entity, Gateshead Council, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Gateshead Council providing additional financial support during that period. Subject to the circumstances described below, Gateshead Council has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements.

Gateshead Council announced in July 2019 that it planned to undertake a review of the housing management arrangements. This review has been completed and a report taken to Gateshead Council cabinet in March 2020 stating the preferred option to re-integrate the management and maintenance of the housing stock into the Council. A formal decision has not yet been made so the board have therefore prepared the financial statements on a going concern basis.

However, these circumstances represent a material uncertainty that may cast significant doubt on the company’s ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.3 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### 1.4 Basic financial instruments

##### *Trade and other debtors / creditors*

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

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits and represent the company's share of bank balances managed on the company's behalf by Gateshead Council.

#### 1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost of effort.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the income and expenditure account on a straight-line basis over the estimated useful lives of each part of an item of the tangible assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- buildings 50 years
- fixtures and fittings 2-4 years
- IT equipment 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.6 Intangible assets

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

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- IT software 4 years

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

#### 1.7 Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to the income and expenditure account over the expected useful lives of the assets to which they relate or in the periods in which the related costs are incurred.

#### 1.8 Employee benefits

##### *Defined contribution plans and other long term employee benefits*

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

##### *Defined benefit plans*

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

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

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

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

#### 1.9 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.10 Turnover

Turnover includes 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.

Income earned through works carried out by the Company on capital projects for Gateshead Council is included in turnover. Turnover from capital projects is recognised on an accruals basis in line with agreed surveyors' valuations.

The Company also acts as an agent in the collection of rent on behalf of Gateshead Council and as such does not include such rent within its turnover.

#### 1.11 Expenses

##### *Operating leases*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the income and expenditure account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in income and expenditure over the term of the lease as an integral part of the total lease expense.

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income and expenditure account.

##### *Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains*

Interest income and interest payable are recognised in income and expenditure as they accrue, using the effective interest method. Dividend income is recognised in the income and expenditure account on the date the company's right to receive repayments is established. Foreign currency gains and losses are reported on a net basis.

#### 1.12 Taxation

Tax on the surplus or deficit for the year comprises current and deferred tax. Tax is recognised in the income and expenditure account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable surpluses.

#### 1.13 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

**Notes** *(continued)*

**2 Analysis of turnover, operating costs and operating deficit**

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Turnover</b>		
Management fee	<b>39,929</b>	35,955
External funding	<b>343</b>	275
Capital fees	<b>19,154</b>	21,106
Other	<b>2,327</b>	2,437
	<b>61,753</b>	59,773
	<hr/> <hr/>	<hr/> <hr/>
<b>Operating costs</b>		
Management of housing stock	<b>19,015</b>	17,819
Repairs and maintenance of housing stock	<b>26,356</b>	22,847
Revenue expenditure supporting capital programme	<b>19,933</b>	21,740
	<b>65,304</b>	62,406
	<hr/> <hr/>	<hr/> <hr/>
Additional past service cost on defined benefit liability – see note 17	-	8,130
	<b>65,304</b>	70,536
	<hr/> <hr/>	<hr/> <hr/>
<b>Operating deficit</b>	<b>(3,551)</b>	(10,763)
	<hr/> <hr/>	<hr/> <hr/>

**3 Notes to the income and expenditure account**

	<b>2020</b>	2019
	<b>£000</b>	£000
<i>Deficit on ordinary activities before taxation is stated after charging:</i>		
Amortisation	<b>228</b>	249
Depreciation on tangible fixed assets – owned	<b>22</b>	22
Hire of plant and equipment – operating leases	<b>10</b>	3
	<hr/> <hr/>	<hr/> <hr/>
<i>Auditor’s remuneration:</i>		
Audit of these financial statements	<b>30</b>	27
	<hr/> <hr/>	<hr/> <hr/>

**4 Remuneration of directors**

The aggregate amount of emoluments and expenses paid to Board Members was £20,926 (2019: £22,266).

**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:

	<b>Number of employees</b>	
	<b>2020</b>	2019
Housing management	<b>300</b>	302
Corporate services	<b>50</b>	47
Property and asset	<b>431</b>	429
	<hr/> <b>781</b> <hr/>	<hr/> 778 <hr/>

The aggregate payroll costs of these persons were as follows:

	<b>2020</b>	2019
	<b>£000</b>	£000
Wages and salaries	<b>21,610</b>	21,303
Social security costs	<b>2,016</b>	1,932
Other pension costs (note 17)	<b>6,930</b>	6,450
	<hr/> <b>30,556</b> <hr/>	<hr/> 29,685 <hr/>

Included in the above are costs of £458,000 relating to activities where the company acts in capacity of agent. These costs have therefore not been charged to expenditure in the statement of comprehensive income (correspondingly, no turnover has been credited to the statement of comprehensive income for these activities).

**6 Interest receivable and similar income**

	<b>2020</b>	2019
	<b>£000</b>	£000
Bank interest	<b>5</b>	5
	<hr/> <b>5</b> <hr/>	<hr/> 5 <hr/>

**7 Interest payable and similar charges**

	<b>2020</b>	2019
	<b>£000</b>	£000
Net interest expense on net defined benefit liabilities	<b>(1,080)</b>	(1,040)
	<hr/> <b>(1,080)</b> <hr/>	<hr/> (1,040) <hr/>

**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. No current tax or deferred tax has therefore been recognised in the Statement of Comprehensive Income.

**Notes** (continued)

**9 Tangible fixed assets**

	<b>Buildings £000</b>	<b>Fixtures and fittings £000</b>	<b>IT equipment £000</b>	<b>Total £000</b>
<i>Cost</i>				
At beginning of year	630	70	930	1,630
Additions	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	630	70	930	1,630
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>				
At beginning of year	98	70	901	1,069
Charge for year	13	-	9	22
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	111	70	910	1,091
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>				
<b>At 31 March 2020</b>	<b>519</b>	<b>-</b>	<b>20</b>	<b>539</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2019	532	-	29	561
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**10 Intangible assets**

	<b>IT software £000</b>	<b>Total £000</b>
<i>Cost</i>		
At beginning of year	1,345	1,345
Additions	-	-
	<hr/>	<hr/>
At end of year	1,345	1,345
	<hr/> <hr/>	<hr/> <hr/>
<i>Amortisation</i>		
At beginning of year	1,068	1,068
Charge for year	228	228
	<hr/>	<hr/>
At end of year	1,296	1,296
	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>		
<b>At 31 March 2020</b>	<b>49</b>	<b>49</b>
	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2019	277	277
	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**11 Stocks**

	<b>2020</b>	2019
	<b>£000</b>	£000
Raw materials and consumables	<b>797</b>	723
Work in progress	<b>430</b>	363
	<u>1,227</u>	<u>1,086</u>
	<u><u>1,227</u></u>	<u><u>1,086</u></u>

**12 Debtors**

	<b>2020</b>	2019
	<b>£000</b>	£000
Amounts owed by parent undertaking	<b>1,391</b>	476
Amounts owed by other related parties	<b>501</b>	738
Trade debtors	<b>31</b>	29
Prepayments and accrued income	<b>344</b>	338
	<u>2,267</u>	<u>1,581</u>
	<u><u>2,267</u></u>	<u><u>1,581</u></u>

All debtor balances are due within one year.

Deferred tax assets of £9,823,000 (2019: £8,787,000), arising on the pension scheme deficit have not been recognised as these are not expected to be recoverable against future taxable profits.

**13 Creditors: amounts falling due within one year**

	<b>2020</b>	2019
	<b>£000</b>	£000
Amounts owed to parent undertaking	<b>4,839</b>	1,915
Amounts owed to other related parties	<b>198</b>	295
Trade creditors	<b>1,307</b>	294
Taxation and social security	<b>3,229</b>	3,316
Accruals and deferred income	<b>2,719</b>	3,427
	<u>12,292</u>	<u>9,247</u>
	<u><u>12,292</u></u>	<u><u>9,247</u></u>

**Notes** *(continued)*

**14 Provisions for liabilities**

	<b>Insurance provision £000</b>
At beginning of year	119
Utilised during year	(29)
Provided during the year	29
	<hr/>
<b>At end of year</b>	<b>119</b>
	<hr/> <hr/>

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

**15 Share capital**

The Company does not have any share capital as it is limited by guarantee of £1 per member. Membership at 31 March 2020 was 1 (2019: 1).

**16 Commitments**

Non-cancellable operating lease rentals are payable as follows:

	<b>2020 Land and buildings £000</b>	<b>Other £000</b>	2019 Land and buildings £000	Other £000
Within one year	-	<b>25</b>	-	-
In the second to fifth years inclusive	-	<b>100</b>	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Notes** (continued)

**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 2019 and was updated for FRS 102 purposes to 31 March 2020 by Aon Hewitt Limited, a qualified independent actuary.

Gateshead Council has made a guarantee to the administering authority of the pension scheme. In the event of default by the Company, Gateshead Council will make payments to the authority to cover any losses or payments arising from benefits accruing in relation to the Company. No amounts have been recognised in these financial statements in relation to this guarantee as no reimbursements are receivable by the Company.

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.

	<b>2020</b>	2019
	<b>£000</b>	£000
Present value of funded defined benefit obligations	<b>(161,600)</b>	(157,420)
Fair value of plan assets	<b>110,900</b>	111,170
	<hr/>	<hr/>
Deficit	<b>(50,700)</b>	(46,250)
Related deferred tax asset (see note 12)	-	-
	<hr/>	<hr/>
Net liability	<b>(50,700)</b>	(46,250)
	<hr/> <hr/>	<hr/> <hr/>

*Movements in present value of defined benefit obligation*

	<b>2020</b>	2019
	<b>£000</b>	£000
At 1 April	<b>157,420</b>	133,780
Current service cost	<b>6,930</b>	6,160
Past service cost	-	290
Past service cost – increase in liabilities from transfer of employment	-	9,670
Past service cost – increase attributable to GMP and McCloud	-	4,270
Interest cost	<b>3,920</b>	3,710
Actuarial losses/(gains)	<b>(5,620)</b>	1,140
Contributions by members	<b>1,250</b>	1,210
Benefits paid	<b>(2,300)</b>	(2,810)
	<hr/>	<hr/>
At 31 March	<b>161,600</b>	157,420
	<hr/> <hr/>	<hr/> <hr/>

*Movements in fair value of plan assets*

	<b>2020</b>	2019
	<b>£000</b>	£000
At 1 April	<b>111,170</b>	95,690
Interest income	<b>2,840</b>	2,670
Remeasurement: return on plan assets less interest income	<b>(5,600)</b>	4,890
Contributions by employer	<b>3,540</b>	3,710
Contributions by members	<b>1,250</b>	1,210
Benefits paid	<b>(2,300)</b>	(2,810)
Past service cost - increase in assets from transfer of employment	-	5,810
	<hr/>	<hr/>
At 31 March	<b>110,900</b>	111,170
	<hr/> <hr/>	<hr/> <hr/>

**Notes** (continued)

**17 Pensions** (continued)

*Expense recognised in the income and expenditure account*

	<b>2020</b>	2019
	<b>£000</b>	£000
Current service cost	<b>6,930</b>	6,160
Past service cost (normal)	-	290
Past service cost – net increase in liabilities from transfer of employment <sup>1</sup>	-	3,860
Past service cost – increase attributable to GMP and McCloud <sup>2</sup>	-	4,270
Net interest on net defined benefit liability	<b>1,080</b>	1,040
	<hr/>	<hr/>
Total	<b>8,010</b>	15,620
	<hr/> <hr/>	<hr/> <hr/>

<sup>1</sup>Included in Past service cost is £nil (2019: £3,860,000) relating to the valuation of the past service entitlement (net of related assets) of employees joining the Company.

<sup>2</sup>In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP'). In December 2018 the Court of Appeal ruled that 'transitional arrangements' protection in respect of benefit changes to the Judicial and Fire Fighter Pension scheme amounted to unlawful discrimination ('McCloud case'). An updated actuarial valuation has been undertaken to include the anticipated impact of these two judgements on the defined benefit obligation relating to the Company's share of cost of the Tyne and Wear Pension Fund, resulting in an increase of £nil (2019: £4,270,000). This has been categorised as a past service cost and recognised in the income and expenditure account.

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

	<b>2020</b>	2019
	<b>£000</b>	£000
Operating costs	<b>6,930</b>	14,580
Interest payable and similar charges	<b>1,080</b>	1,040
	<hr/>	<hr/>
	<b>8,010</b>	15,620
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2020</b>	2019
	<b>Fair value</b>	Fair value
	<b>£000</b>	£000
Equities	<b>60,773</b>	71,911
Property	<b>9,981</b>	9,871
Government bonds	<b>4,547</b>	4,598
Corporate bonds	<b>16,968</b>	13,124
Cash	<b>2,551</b>	3,029
Other	<b>16,080</b>	8,637
	<hr/>	<hr/>
	<b>110,900</b>	111,170
	<hr/> <hr/>	<hr/> <hr/>
Interest income on assets	<b>2,840</b>	2,670
Actuarial gain on assets	<b>(5,600)</b>	4,890
	<hr/>	<hr/>
Actual return on plan assets	<b>(2,760)</b>	7,560
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 17 Pensions (continued)

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

	2020	2019
	%	%
Discount rate	2.3	2.5
Rate of increase in pensions in payment	1.9	2.1
Rate of increase to deferred pensions	1.9	2.1
Future salary increases	3.4	3.6
Inflation increase		
- CPI	1.9	2.1

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: 21.8 years (male), 25.0 years (female).
- Future retiree upon reaching 65: 23.5 years (male), 26.8 years (female).

The assumptions adopted by the directors have been informed by a qualified independent actuary.

The Company expects to contribute approximately £3,400,000 to its defined benefit plan in the next financial year.

### 18 Accounting estimates and judgements

#### *Key sources of estimation uncertainty*

In the preparation of the financial statements, it is necessary for management to make estimates and certain presumptions that can affect the valuation of assets and liabilities. The most significant estimates made in these financial statements relate to the net defined benefit pension scheme liability and are set out in note 17. The most significant judgements relate to the assessment of going concern (see note 1.2) and the identification of agency transactions carried out on behalf of Gateshead Council (see note 1.10).

### 19 Related parties

#### *Identity of related parties with which the company has transacted*

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

The Company has applied the exemption available under FRS 102 in respect of disclosures in relating to transactions with its parent undertaking and wholly owned subsidiaries.

All balances repayable on demand and no interest has been charged by either party.

### 20 Financial instruments

The carrying amounts of financial assets and liabilities include:

	2020	2019
	£000	£000
Assets measured at amortised cost	1,923	1,243
Liabilities measured at amortised cost	6,344	2,504