

The Gateshead Housing Company Limited

Directors' report and financial
statements

Registered number 04944719

31 March 2007

Contents

Board and advisors	1
Report of the Board for the year ended 31 March 2007	2
Statement of Board's responsibilities in respect of the Board Report and the financial statements	6
Independent auditors' report to the members of The Gateshead Housing Company Limited	7
Income and Expenditure Account	9
Statement of Total Recognised Surpluses and Deficits	9
Balance Sheet	10
Cash Flow Statement	11
Notes	12

Board and advisors

Council Directors

Ken Childs (resigned 19 May 2006)
Angela Armstrong (appointed 19 May 2006)
John Walter Hamilton
Joseph Aloysius Hattam
Peter Mole
Kathryn Ferdinand

Tenant Directors

Jules Siassia (appointed 22 January 2007)
Stanley Dawson
Malcolm McKie
James Willis
Derek William Harris (resigned 12 June 2006)
Arlene McKeever (appointed 22 November 2006, resigned 18 May 2007)

Independent Directors

Barbara Elaine Dennis (appointed chair 11 May 2006)
Valerie Ann Hodge
Jason Knight
Brian John Stoneman (resigned 18 May 2007)
Sara Woolley

Secretary and Registered Office

Jon Mallen-Beadle (Company secretary)
Suites 1,2 and 5
Baltic Business Centre
Saltmeadows Road
Gateshead
NE8 3DA

Auditors

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

Internal Auditors

Gateshead Council
Civic Centre
Regent Centre
Gateshead
Tyne & Wear
NE8 1HH

Bankers

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

Report of the Board for the year ended 31 March 2007

The Board present their Board report and financial statements for the year ended 31 March 2007.

Principal activities

The principal activity of the company is the day to day management and maintenance of the majority of the housing stock of Gateshead Council.

Review of Business

The year has been a highly successful one for The Gateshead Housing Company, and most importantly for the people of Gateshead. We have made significant progress in our development as an organisation and in the delivery of high quality customer focused services.

The highlight was last November when the company received a 'two star' status from the Audit Commission. Because of that rating we will have available up to £1m a week of extra funding to make major improvements to thousands of local homes by 2010.

The Audit Commission recognised the company as a 'good company, with promising prospects of improvement'. The inspectors also saw the company as having the drive to make even more improvements over the coming years.

The financial result for the period was a surplus of £362,000 (2006: £17,000).

Policy and practice and payment of creditors

As a controlled company of a local authority, the company adheres to BVPI8 which requires the payment of undisputed creditor invoices within 30 days of receipt of the invoice. Where disputes arise we attempt to resolve them promptly and amicably to ensure delays in payment are kept to a minimum.

Future Developments

The company's Business Plan, 'Shaping the Future' sets out for the years 2006 to 2009 the development aims of the company.

Consultation has enabled the company to establish a clear set of objectives during the life of the Business Plan. These set out a wider role for the company in the future and in particular to:

- become an excellent organisation;
- improve the sustainability of neighbourhoods and communities;
- reshape provision of affordable housing to meet future local needs;
- demonstrate value for money and efficiency in all we do;
- secure the long term viability of the company.

The company is mindful of the limitations of funding available to it and will continue to work in partnership with its owner, Gateshead Council, to effectively manage resources within these limitations in accordance with the terms of the Management Agreement between the company and the Council, dated 1 January 2004.

Report of the Board for the year ended 31 March 2007 (*continued*)

The Board and Executive Officers

Under guidance for the setting up of Arms Length Management Organisations, issued by the Office of the Deputy Prime Minister ("ODPM"), the company's Board of non-executive directors has equal representation of Tenant, Council and Independent members. Council Directors are appointed and removed directly by the Council, whilst tenant Directors are appointed through election by 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 Chief Executive. 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.

Two Area Boards have been established, each comprising three Councillors, three tenants and three independent representatives. They have area-based responsibilities together with delegated powers in relation to environmental and security matters.

In addition, the company has a number of formal Board Committees. These are:

- Communications and Tenant Involvement
- Management of Performance and Resources
- Personnel
- Quality and Audit
- Standards.

The committees have 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.

Following the experience of two years operation and looking forward to the future and the objective of attaining excellence, the company will be reviewing its governance arrangements in the near future to ensure that the needs of the organisation are being met effectively.

Statement of 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.

Report of the Board for the year ended 31 March 2007 (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 Quality and 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.
- 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
- 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 Panel, 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
- has an Employee Forum, with representation from representatives of the workforce to
 - deal with consultation issues such as terms and conditions, employment policies and other employment issues specific to employees
 - develop the company's employment policies.

Report of the Board for the year ended 31 March 2007 *(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 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
- agree what training and development they need to do their job well.

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

The report of the Board was approved on 12 July 2007 and signed on its behalf by:

B Dennis
Chair

J Mallen-Beadle
Company Secretary

Statement of Board's responsibilities in respect of the Board Report and the financial statements

The Board Members are responsible for preparing the Board Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Board 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).

The financial statements are required by law to 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 Board 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 Board are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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 Board 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 auditors' 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 2007 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Surpluses and Deficits and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 Board and auditors

The Board Members' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Boards' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Board Members' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Board Members' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its surplus for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Board Report is consistent with the financial statements.

KPMG LLP
Chartered Accountants
Registered Auditor

12 July 2007

Income and Expenditure Account
for the year ended 31 March 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover	3	32,357	30,351
Operating costs	3	(32,075)	(30,319)
		<hr/>	<hr/>
Operating surplus	3-6	282	32
Interest receivable and similar income	7	10	1
Other finance income	8	70	-
Other finance costs	9	-	(20)
		<hr/>	<hr/>
Surplus on ordinary activities before taxation		362	13
Taxation on surplus from ordinary activities	10	-	4
		<hr/>	<hr/>
Surplus on ordinary activities after taxation		362	17
		<hr/>	<hr/>
Surplus for the financial year	16	362	17
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing activities.

Statement of Total Recognised Surpluses and Deficits
for the year ended 31 March 2007

	2007 £000	2006 £000
Surplus for the financial year	362	17
Actuarial gain recognised in the pension scheme	260	490
Deferred tax arising on gains in the pension scheme	(586)	(93)
	<hr/>	<hr/>
Total recognised surplus relating to the period	36	414
	<hr/>	<hr/>
Prior period adjustment (note 2)	-	(2,916)
	<hr/>	<hr/>
Total gain/(deficit) recognised since last annual report	36	(2,502)
	<hr/> <hr/>	<hr/> <hr/>

Balance Sheet
as at 31 March 2007

	<i>Note</i>	2007	2006
		£000	£000
Fixed assets			
Tangible assets	<i>11</i>	126	-
Current assets			
Debtors	<i>12</i>	1,157	239
Cash at bank and in hand		9,937	11,926
		<u>11,094</u>	<u>12,165</u>
Creditors: amounts falling due within one year	<i>13</i>	(10,454)	(11,886)
			<u>279</u>
Net current assets		640	
Provisions for liabilities	<i>14</i>	(293)	(238)
		<u>473</u>	<u>41</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year			
Net pension liability	<i>19</i>	2,915	2,519
Capital and reserves			
Revenue reserves excluding net pension costs		473	41
Net pension liability		(2,915)	(2,519)
		<u>473</u>	<u>41</u>
Revenue reserve including pension liability	<i>16</i>	(2,442)	(2,478)
Total long term liabilities, capital and reserves	<i>16</i>	473	41

These financial statements were approved by the Board on 12 July 2007 and were signed on its behalf by:

B Dennis
Chair

Cash Flow Statement

for the year ended 31 March 2007

	<i>Note</i>	2007 £000	2006 £000
Net cash (outflow)/inflow from operating activities	<i>20a</i>	(1,891)	2,700
Returns on investments and servicing of finance			
Interest received		10	1
Other finance costs		-	(20)
Other finance income		70	-
		<hr/>	<hr/>
		(1,811)	2,681
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(178)	-
Taxation		-	-
		<hr/>	<hr/>
(Decrease)/increase in cash	<i>20b</i>	(1,989)	2,681
		<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of preparation

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

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:

Fixtures and fittings	-	2-4 years
IT	-	4 years

Operating leases

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

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. These payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable to the various participating organisations. The amount charged to the profit and loss account in respect of the scheme is based on actuarial estimates and is calculated to spread the cost of pensions over employees' working lives with the company.

Pension scheme assets are measured using market values. 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 surplus 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.

Notes (continued)

1 Accounting policies (continued)

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.

2 Prior year adjustment

In the prior year financial statements the results for the year ended 31 March 2005 were restated to reflect the adoption of FRS 17 'Retirement Benefits'.

The adoption of FRS 17 required a change to the accounting treatment of the defined benefit pension scheme such that the company now includes the assets and liabilities of the scheme in the balance sheet. Current service costs, curtailment and settlement gains and losses, and net financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

3 Analysis of turnover, operating costs and operating surplus

	2007 £000	2006 £000
Turnover		
Management fee	29,202	28,565
External funding	173	241
Capital fees	2,889	1,481
Other	93	64
	<hr/>	<hr/>
	32,357	30,351
	<hr/> <hr/>	<hr/> <hr/>
Operating costs		
Management of housing stock	11,532	11,490
Repairs and maintenance of housing stock	17,654	17,348
Revenue expenditure supporting capital programme	2,889	1,481
	<hr/>	<hr/>
	32,075	30,319
	<hr/> <hr/>	<hr/> <hr/>
Operating surplus	282	32

Notes (*continued*)

4 Notes to the income and expenditure account

	2007	2006
	£000	£000
<i>Surplus on ordinary activities before taxation is stated after charging:</i>		
Depreciation on tangible fixed assets	52	-
Hire of other assets – operating leases	133	116
	<u> </u>	<u> </u>
<i>Auditors' remuneration:</i>		
Audit of these financial statements	14	14
	<u> </u>	<u> </u>

5 Remuneration of directors

The directors do not receive payment or any benefits in kind for their roles, although they are able to reclaim their expenses incurred in attending meetings. The aggregate amount of expenses paid to Board members in the period was £993.

6 Staff numbers and costs

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

	2007	2006
Housing management	204	185
Administrative and clerical	129	96
	<u> </u>	<u> </u>
	333	281
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	2007	2006
	£000	£000
Wages and salaries	7,053	5,825
Social security costs	505	405
Other pension costs	1,320	950
	<u> </u>	<u> </u>
	8,878	7,180
	<u> </u>	<u> </u>

7 Interest receivable and similar income

	2007	2006
	£000	£000
Bank interest	10	1
	<u> </u>	<u> </u>

Notes (*continued*)

8 Other finance income

	2007	2006
	£000	£000
Expected return on pension scheme assets	950	-
Interest on pension scheme liabilities	(880)	-
	<u>70</u>	<u>-</u>
	<u><u>70</u></u>	<u><u>-</u></u>

9 Other finance costs

	2007	2006
	£000	£000
Expected return on pension scheme assets	-	740
Interest on pension scheme liabilities	-	(760)
	<u>-</u>	<u>(20)</u>
	<u><u>-</u></u>	<u><u>(20)</u></u>

10 Taxation

In January 2007 HMRC agreed that the company is able to take advantage of the beneficial tax treatment described in HMRC's guidance.

Analysis of charge in period

	2007	2006
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	-	(4)
	<u>-</u>	<u>(4)</u>
	<u><u>-</u></u>	<u><u>(4)</u></u>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower than the standard rate of corporation tax in the UK 19% (2006: 19%). The differences are explained below:

	2007	2006
	£000	£000
<i>Current tax reconciliation</i>		
Surplus on ordinary activities before tax	362	13
	<u>362</u>	<u>13</u>
Current tax at 19% (2006: 19%)	69	2
	<u>69</u>	<u>2</u>
<i>Effects of:</i>		
Adjustments to tax charge in respect of prior periods	-	(4)
Non taxable income	(69)	(1)
Tax credit	-	(1)
	<u>-</u>	<u>(4)</u>
Total current tax charge (see above)	<u><u>-</u></u>	<u><u>(4)</u></u>

No provision is required for deferred taxation.

Notes (*continued*)

11 Tangible fixed assets

	Fixtures and fittings £000	IT £000	Total £000
<i>Cost</i>			
At beginning of year	-	-	-
Additions	70	108	178
	<hr/>	<hr/>	<hr/>
At end of year	70	108	178
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>			
At beginning of year	-	-	-
Charge for year	25	27	52
	<hr/>	<hr/>	<hr/>
At end of year	25	27	52
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>			
At 31 March 2007	45	81	126
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2006	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

12 Debtors

	2007 £000	2006 £000
Amounts owed by parent undertaking	349	87
Trade debtors	689	5
Prepayments	119	147
	<hr/>	<hr/>
	1,157	239
	<hr/> <hr/>	<hr/> <hr/>

All debtor balances are due within one year.

Notes (*continued*)

13 Creditors: amounts falling due within one year

	2007	2006
	£000	£000
Amounts owed to parent undertaking	2,994	4,397
Trade creditors	624	952
Other taxation and social security	2,319	2,238
Accruals and deferred income	4,517	4,299
	<u>10,454</u>	<u>11,886</u>

14 Provisions for liabilities

	2007	2006
	£000	£000
Amounts provided during the year	293	238
	<u>293</u>	<u>238</u>

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 2007 was 1 (*2006: 1*).

Notes (*continued*)

16 Revenue reserves

	Revenue reserves £000	
Balance at 1 April 2006		(2,478)
Surplus from income and expenditure		362
Actuarial gain recognised in the pension scheme		260
Deferred tax movement in respect of pension scheme deficit		(586)
		<hr/>
Balance at 31 March 2007		(2,442)
		<hr/> <hr/>
	2007	2006
	£000	£000
Revenue reserve excluding net pension costs	473	41
Pension liability	(2,915)	(2,519)
	<hr/>	<hr/>
Revenue reserve including pension liability	(2,442)	(2,478)
	<hr/> <hr/>	<hr/> <hr/>

In the current year Gateshead Council has agreed to the Company retaining the surplus of the management and repairs fee. This is subject to certain criteria being satisfied such as regular monitoring meetings, the surplus being included in budgets and information being provided to the Council in a timely manner.

17 Contingent liability

In the previous year, in line with other ALMOs, Gateshead Housing Company Limited believed that its activities with Gateshead Metropolitan Borough Council did not amount to a trade for corporation tax purposes. This is on the basis of draft guidance issued to date by HM Revenue & Customs' ("HMRC") which states that the relationship between an ALMO and its parent council, as they understood it, lacks the necessary level of commerciality for the activities to be considered a trade for corporation tax purposes. Any surplus arising, and similarly any losses, are therefore outside the scope of corporation tax. The draft guidance issued by HMRC does not provide any definitive list of the matters which will determine non trading status. This guidance has yet to be finalised.

KPMG has undertaken a review of Gateshead Housing Company Limited's legal framework and its arrangement with Gateshead Metropolitan Borough Council ("GMBC") in order to provide certainty over the company's corporation tax status.

KPMG's review concluded that Gateshead Housing Company Limited is able to take advantage of the beneficial tax treatment described in HMRC's guidance. This was submitted to HMRC in December 2006 for their consideration.

HMRC agreed that Gateshead Housing Company Limited could take advantage of the beneficial tax treatment in January 2007.

This revised treatment has resulted in a significant decrease in the deferred tax asset relating to the pension. At 31 March 2007 a deferred tax asset of £5,000 has been recognised, compared to £591,000 in the comparative year.

Since the year end management decided to vacate their existing premises when the lease expires during the year ending 31 March 2008. There is the possibility of dilapidation expenditure being necessary. However, management cannot accurately quantify this amount, nor the probability of a cash outflow. As a result, no liability in relation to this has been included in these financial statements.

Notes (continued)

18 Commitments

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

	2007	2006
	Land and buildings £000	Land and buildings £000
Operating leases which expire:		
Within one year	133	-
One to two years	-	116
	<u> </u>	<u> </u>

19 Pensions

The Company participates in the Tyne and Wear Pension Fund, a Local Government Pension Scheme ('LGPS'), which is a funded defined benefit scheme. The latest full actuarial valuation was carried out by Hewitt Bacon and Woodrow Limited at 31 March 2004 and was updated for FRS 17 purposes to 31 March 2006 and 31 March 2007 by a qualified independent actuary. A return for consultation from the actuaries is expected on the 31st October 2007 with regard the full actuarial valuation being carried out during 2007. The major assumptions used in the current valuation were:

	2007	2006	2005
	%	%	£
Rate of increase in salaries	4.7	4.5	4.4
Rate of increase in pensions in payment and deferred pensions	3.2	3.0	2.9
Discount rate applied to scheme liabilities	5.3	4.9	5.3
Inflation assumption	3.2	3.0	2.9
Discount rate for pension costs over following year	5.3	4.9	5.3

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain were:

	2007	2006	2005
	£000	£000	£000
Equities	10,908	9,624	6,574
Bonds	2,209	1,670	1,511
Corporate bond	1,233	1,295	1,030
Property	1,635	1,231	794
Other	275	250	211
	<u> </u>	<u> </u>	<u> </u>
Present value of scheme liabilities	16,260 (19,180)	14,070 (17,180)	10,120 (13,720)
	<u> </u>	<u> </u>	<u> </u>
Deficit in the scheme – Pension liability	(2,920)	(3,110)	(3,600)
Related deferred tax asset	5	591	684
	<u> </u>	<u> </u>	<u> </u>
Net pension liability	(2,915)	(2,519)	(2,916)
	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

19 Pensions (continued)

The expected rates of return on the assets in the scheme were:

	Long term rate of return 2007 %	Long term rate of return 2006 %	Long term rate of return 2005 %
Equities	7.7	7.3	7.7
Government bonds	4.7	4.3	4.7
Corporate bonds	5.3	4.9	5.3
Property	6.7	6.3	6.7
Other	5.6	4.6	4.8

Movement in deficit during the year

	2007 £000	2006 £000
Deficit in scheme at beginning of year	(3,110)	(3,600)
Current service cost	(1,260)	(950)
Past service cost	(60)	-
Contributions paid	1,180	970
Other finance income/(cost)	70	(20)
Actuarial gain	260	490
	<hr/>	<hr/>
Deficit in the scheme at the end of the year	(2,920)	(3,110)
	<hr/> <hr/>	<hr/> <hr/>

Analysis of other pension costs charged in arriving at operating surplus.

	2007 £000	2006 £000
Current service cost	(1,260)	(950)
Past service cost	(60)	-
	<hr/>	<hr/>
	(1,320)	-
	<hr/> <hr/>	<hr/> <hr/>

Analysis of amounts included in other finance income/costs

	2007 £000	2006 £000
Expected return on pension scheme assets	950	740
Interest on pension scheme liabilities	(880)	(760)
	<hr/>	<hr/>
Net return	70	(20)
	<hr/> <hr/>	<hr/> <hr/>

Notes (*continued*)

19 Pensions (*continued*)

Analysis of amount recognised in statement of total recognised surpluses and deficits.

	2007	2006
	£000	£000
Actual return less expected return on pension scheme assets	(90)	1,940
Changes in assumptions underlying the present value of the scheme liabilities	350	(1,450)
	<hr/>	<hr/>
Actuarial loss recognised in the statement of total recognised surpluses and deficits	260	490
	<hr/> <hr/>	<hr/> <hr/>

History of experience surplus and deficits

	2007	2006	2005
Actual return less expected return on scheme assets (£000)	(90)	1,940	320
Percentage of period end scheme assets (%)	(0.6)	13.8	3.2
Experience gains on scheme liabilities (£000)	-	-	610
Percentage of period end scheme assets (%)	-	-	44
Changes in assumptions underlying the present value of Scheme liabilities (£000)	350	(1,450)	(2,740)
Percentage of present value of period end scheme liabilities (%)	1.8	(8.4)	(20.0)
	<hr/>	<hr/>	<hr/>
Actuarial gain/(loss) recognised in STRSD (£000)	260	490	(1,810)
Percentage of present value of period end scheme liabilities (%)	1.4	2.9	13.2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20 Notes to the cash flow statement

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

	2007	2006
	£000	£000
Operating surplus	282	32
Depreciation	52	-
(Increase)/decrease in debtors	(918)	1,215
(Decrease)/increase in creditors and provisions	(1,362)	1,412
Increase in provisions	55	41
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(1,891)	2,700
	<hr/> <hr/>	<hr/> <hr/>

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

	2007	2006
	£000	£000
(Decrease)/increase in cash in the year	(1,989)	2,681
Net funds at start of year	11,926	9,245
	<hr/>	<hr/>
Net funds at end of year	9,937	11,926
	<hr/> <hr/>	<hr/> <hr/>

Notes (*continued*)

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

c) Analysis of changes in net debt

	At start of year £000	Cash flows £000	At end of year £000
Cash at bank and in hand	11,926	(1,989)	9,937

21 Related party transactions

The Company's main source of income is management fees and charges from Gateshead Council, its ultimate parent undertaking. Income from Gateshead Council amounted to £29,202,000 (2006: £28,565,000) in the period. The amount outstanding at the year end was £349,000 (2006: £87,000).

The company purchases goods and services from Gateshead Council as part of its operating activities. No profit is made on these transactions. The balance outstanding at the year end, and due to be paid over to Gateshead Council was £2,994,000 (2006: £21,000).

22 Post balance sheet events

The Council Cabinet are considering whether to sign a contract for a new building at an annual charge of £305k. No service charges are anticipated.

23 Ultimate parent undertaking

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 Gateshead Council, Civic Centre, Regent Street, Gateshead, NE8 1HH.