

The Gateshead Housing Company Limited

Directors' report and financial
statements

Registered number 04944719

31 March 2006

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Board and advisors

Council Directors

Kenneth Edward Childs (resigned 11 May 2006)
John Walter Hamilton
Joseph Aloysius Hattam
Peter Mole
Kathryn Ferdinand

Tenant Directors

John Bernard Biggs (resigned 12 September 2005)
Stanley Dawson
Malcolm McKie
James Willis
Derek William Harris

Independent Directors

Barbara Elaine Dennis (appointed chair 11 May 2006)
Valerie Ann Hodge
Jason Knight (appointed 14 October 2005)
Brian John Stoneman
Esther Ward (resigned 13 October 2005)
Sara Woolley (appointed 18 May 2005)

Secretary and Registered Office

Colin James Stockwell (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 2006

The Board present their annual report and the audited financial statements for the period ended 31 March 2006.

The company was incorporated on 27 October 2003 and commenced trading on 1 January 2004.

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 £17,000 (2005: £24,000).

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 2006 (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 2006 (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. The Internal Auditors make regular reports to the Board through the Quality and Audit Committee.
- 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 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 2006 *(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 8 June 2006 and signed on its behalf by:

B Dennis
Chair

C Stockwell
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.

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

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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 2006 which comprise the Income and Expenditure Account, the Balance Sheet, the Statement of 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 the Board and auditors

As described in the Statement of Boards' Responsibilities on page 6, the company's Board Members are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 if, in our opinion, the Board Report is not consistent with the financial statements, if 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 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 2006 and of its result for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

8 June 2006

Income and expenditure account
for the year ended 31 March 2006

	<i>Note</i>	Year ended 31 March 2006 £000	Fifteen months ended 31 March 2005 As restated (note 2) £000
Turnover	3	30,351	33,604
Operating costs	3	(30,319)	(33,555)
		<hr/>	<hr/>
Operating surplus		32	49
Interest receivable and other income		1	19
Other finance costs	4	(20)	(40)
		<hr/>	<hr/>
Surplus on ordinary activities before taxation	5	13	28
Taxation on surplus from ordinary activities	8	4	(4)
		<hr/>	<hr/>
Surplus on ordinary activities after taxation		17	24
		<hr/>	<hr/>
Surplus for the period	13	17	24
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing activities.

The notes on pages 12 to 23 form part of these financial statements.

The results for the 15 month period ended 31 March 2005 have been restated to reflect the adoption of FRS 17 'Retirement Benefits'. The impact of this change is detailed in note 2.

Statement of total recognised surpluses and deficits
for the year ended 31 March 2006

	Year ended 31 March 2006 £000	Fifteen months ended 31 March 2005 As restated (note 2) £000
Surplus for the financial year	17	24
Actuarial gain/(loss) recognised in the pension scheme	490	(1,810)
Deferred tax arising on (gains)/losses in the pension scheme	(93)	344
	<hr/>	<hr/>
Total recognised surplus/(deficit) relating to the period	414	(1,442)
	<hr/>	<hr/>
Prior period adjustment (note 2)	(2,916)	
	<hr/>	
Total deficit recognised since last annual report	(2,502)	
	<hr/> <hr/>	

Balance sheet
as at 31 March 2006

	<i>Note</i>	Year ended 31 March 2006 £000	Year ended 31 March 2006 £000	Fifteen months ended 31 March 2005 As restated (note 2) £000	Fifteen months ended 31 March 2005 As restated (note 2) £000
Current assets					
Debtors	9	239		1,454	
Cash at bank and in hand		11,926		9,245	
		<hr/>	12,165	<hr/>	10,699
Creditors: amounts falling due within one year	10		(11,886)		(10,478)
			<hr/>		<hr/>
Net current assets			279		221
Provisions for liabilities and charges					
	11		(238)		(197)
			<hr/>		<hr/>
Total assets less current liabilities			41		24
			<hr/> <hr/>		<hr/> <hr/>
Creditors: amounts falling due after more than one year					
Net pension liability	19		2,519		2,916
Capital and reserves					
Revenue reserves excluding pension liability		41		24	
Net pension liability		(2,519)		(2,916)	
		<hr/>		<hr/>	
Revenue reserve including pension liability			(2,478)		(2,892)
			<hr/>		<hr/>
Total long term liabilities, capital and reserves			41		24
			<hr/> <hr/>		<hr/> <hr/>

The balance sheet as at 31 March 2005 has been restated to reflect the adoption of FRS 17 'Retirement Benefits'. The details of this change are disclosed in note 2.

The notes on pages 12 to 23 form part of these financial statements.

These financial statements were approved by the Board on 8 June 2006 and were signed on its behalf by:

B Dennis
Chair

Cash flow statement
for the year ended 31 March 2006

	<i>Note</i>	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 As restated £000
Net cash inflow from operating activities	<i>18a</i>	2,700	9,266
Returns on investments and servicing of finance			
Interest received		1	19
Other finance costs		(20)	(40)
		<hr/>	<hr/>
Taxation		2,681	9,245
		<hr/>	<hr/>
Increase in cash	<i>18b</i>	2,681	9,245
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 12 to 23 form part of these financial statements.

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.

The financial statements for the period ended 31 March 2005 have been restated in order to provide comparative figures arising from the adoption of Financial Reporting Standard 17 'Retirement benefits' in preparing the financial statements for the year ended 31 March 2006.

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. 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.

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.

Taxation

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

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

Operating leases

Rentals under operating leases are charged to the profit and loss account in equal annual amounts over the lease term.

Cash at bank and in hand

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

Notes (continued)

2 Prior year adjustment

The adoption of FRS 17 has 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.

As a result of this change in accounting policy, the comparatives have been restated.

The effect of the FRS 17 adjustments on the 2005 balance sheet is as follows:

	As previously reported £000	FRS 17 adjustments £000	As restated £000
Net pension liability	-	2,916	2,916
Revenue reserve including pension liability	24	(2,916)	(2,892)
	<u> </u>	<u> </u>	<u> </u>

The effect of the FRS 17 adjustments on the 2005 profit and loss account is as follows:

	As previously reported £000	FRS 17 adjustments £000	As restated £000
Operating surplus	9	40	49
Other finance income	-	(40)	(40)
	<u> </u>	<u> </u>	<u> </u>

The effect of the FRS 17 adjustments on the 2005 statement of total recognised surpluses and deficits is as follows:

	As previously reported £000	FRS 17 adjustments £000	As restated £000
Surplus for the financial period	24	-	24
Actuarial loss recognised in the pension scheme	-	(1,810)	(1,810)
Tax arising on losses in the pension scheme	-	344	344
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

Notes (*continued*)

3 Analysis of turnover, operating costs and operating surplus

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 as restated £000
Turnover		
Management fee	28,565	32,567
External funding	241	245
Capital fees	1,481	786
Other	64	6
	<u>30,351</u>	<u>33,604</u>
Operating costs		
Management of housing stock	11,490	12,339
Repairs and maintenance of housing stock	17,348	20,430
Revenue expenditure supporting capital programme	1,481	786
	<u>30,319</u>	<u>33,555</u>
Operating surplus	<u>32</u>	<u>49</u>

4 Other finance costs

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Expected return on pension scheme assets	740	710
Interest on pension scheme liabilities	(760)	(750)
	<u>(20)</u>	<u>(40)</u>

5 Surplus on ordinary activities before taxation

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
<i>Surplus on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration :		
- in their capacity as auditors	14	14
Operating lease charges:		
- plant and machinery	-	-
- other	48	48
	<u>62</u>	<u>62</u>

Notes (*continued*)

6 Employee information

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

	Year ended 31 March 2006	15 month period ended 31 March 2005 Number
Housing management	185	186
Administrative and clerical	96	64
	<hr/> 281 <hr/>	<hr/> 250 <hr/>

Staff costs for the above persons were:

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Wages and salaries	5,825	6,315
Social security costs	405	451
Other pension costs	992	1,011
	<hr/> 7,222 <hr/>	<hr/> 7,777 <hr/>

7 Directors' emoluments

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 £631.

Notes (*continued*)

8 Taxation

Whilst the taxable status of companies such as The Gateshead Housing Company Limited has yet to be agreed, corporation tax has been provided at the current UK standard rates.

Analysis of charge in period

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
<i>UK corporation tax</i>		
Current tax on income for the period	(4)	4
	<u> </u>	<u> </u>

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

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
<i>Current tax reconciliation</i>		
Surplus on ordinary activities before tax	13	28
	<u> </u>	<u> </u>
Current tax at 19%	2	5
Effects of:		
Small companies reduction in tax rate	-	(1)
Adjustments in respect of prior periods	(4)	-
Non taxable income	(1)	-
Tax credit	(1)	-
	<u> </u>	<u> </u>
Total current tax charge (see above)	(4)	4
	<u> </u>	<u> </u>

No provision is required for deferred taxation.

9 Debtors

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Amounts receivable within one year:		
Gateshead Council	87	1,328
Prepayments	147	126
Trade debtors	5	-
	<u> </u>	<u> </u>
	239	1,454
	<u> </u>	<u> </u>

Notes (*continued*)

10 Creditors: amounts falling due within one year

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Gateshead Council	21	1,389
Trade creditors	952	74
Other taxation and social security	2,238	490
Accruals and deferred income	8,675	8,521
Corporation tax	-	4
	<u>11,886</u>	<u>10,478</u>

11 Provisions for liabilities and charges

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Amounts provided during the year	238	197
	<u>238</u>	<u>197</u>

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

12 Share capital

The company does not have any share capital as it is limited by guarantee of £1 per member. Membership at 31 March 2006 was 1 (2005: 1).

Notes (*continued*)

13 Revenue reserves

	Revenue reserves £000	
Balance at 1 April 2005 as previously stated	24	
Prior period adjustment (note 2)	(2,916)	
	<hr/>	
Balance at 1 April 2005 as restated	(2,892)	
Surplus from income and expenditure	17	
Net actuarial gain recognised in the pension scheme	397	
Balance at 31 March 2006	(2,478)	
	<hr/> <hr/>	
	2006	2005
	£000	£000
Revenue reserve excluding pension liability	41	24
Pension liability	(2,519)	(2,916)
	<hr/>	<hr/>
Revenue reserve including pension liability	(2,478)	(2,892)
	<hr/> <hr/>	<hr/> <hr/>

14 Operating lease rentals

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

	Year ended 31 March 2006	15 month period ended 31 March 2005
	Land and buildings £000	Land and buildings £000
Leases which expire:		
One to two years	68	68
	<hr/>	<hr/>

15 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 £28,565,000 (2005: £32,567,000) in the period. The amount outstanding at the period end was £87,000 (2005: £1,328,000).

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 period end, and due to be paid over to Gateshead Council was £21,000 (2005: £1,389,000).

Notes (*continued*)

16 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.

17 Contingent liability

In line with other ALMOs, Gateshead Housing Company Limited believes that its activities with Gateshead Metropolitan Borough Council do 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 understand 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 is currently undertaking a review of Gateshead Housing Company Limited's legal structure and its financial relationship with Gateshead Metropolitan Borough Council ("GMBC") in order to assess the company's corporation tax status. An approach will then be made to HMRC in order to secure their confirmation that the company's activities with GMBC amount to non-trading.

The directors have prepared the accounts on the assumption that non-trading status will be granted and the company will therefore only be liable to corporation tax on its activities with third parties.

18 Notes to the cash flow statement

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

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 As restated £000
Operating surplus	32	49
Decrease/(increase) in debtors	1,215	(1,454)
Increase in creditors and provisions	1,453	10,671
	<hr/>	<hr/>
Net cash inflow from operating activities	2,700	9,266
	<hr/> <hr/>	<hr/> <hr/>

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

	2006 £000	2005 £000
Increase in cash in the period	2,681	9,245
Net funds at start of period	9,245	-
	<hr/>	<hr/>
Net funds at end of period	11,926	9,245
	<hr/> <hr/>	<hr/> <hr/>

Notes (*continued*)

18 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	9,245	2,681	11,926

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 at 31 March 2004 and was updated for FRS 17 purposes to 31 March 2005 and 31 March 2006 by a qualified independent actuary. The major assumptions used in this valuation were:

	Year ended 31 March 2006 %	15 month period ended 31 March 2005 %
Rate of increase in salaries	4.5	4.4
Rate of increase in pensions in payment and deferred pensions	3.0	2.9
Discount rate applied to scheme liabilities	4.9	5.3
Inflation assumption	3.0	2.9
Discount rate for pension costs over following year	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.

Notes (continued)

19 Pensions (continued)

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:

	Value at 31 March 2006 £000	Value at 31 March 2005 £000
Equities	9,624	6,574
Bonds	1,670	1,511
Corporate bond	1,295	1,030
Property	1,231	794
Other	250	211
	<hr/>	<hr/>
	14,070	10,120
Present value of scheme liabilities	(17,180)	(13,720)
	<hr/>	<hr/>
Deficit in the scheme – Pension liability	(3,110)	(3,600)
Related deferred tax asset	591	684
	<hr/>	<hr/>
Net pension liability	(2,519)	(2,916)
	<hr/> <hr/>	<hr/> <hr/>
	Long term rate of return 2006 %	Long term rate of return 2005 %
Equities	7.3	7.7
Government bonds	4.3	4.7
Corporate bonds	4.9	5.3
Property	6.3	6.7
Other	4.6	4.8
	<hr/> <hr/>	<hr/> <hr/>
Movement in deficit during the year		
	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Deficit in scheme at beginning of year	(3,600)	(1,790)
Current service cost	(950)	(1,000)
Contributions paid	970	1,040
Other finance cost	(20)	(40)
Actuarial gain/(loss)	490	(1,810)
	<hr/>	<hr/>
Deficit in the scheme at the end of the year	(3,110)	(3,600)
	<hr/> <hr/>	<hr/> <hr/>

Notes (*continued*)

19 Pensions (*continued*)

Analysis of other pension costs charged in arriving at operating profit/loss.

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Current service cost	(950)	(840)
	<u> </u>	<u> </u>

Analysis of amounts included in other finance income/costs

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Expected return on pension scheme assets	740	710
Interest on pension scheme liabilities	(760)	(750)
	<u> </u>	<u> </u>
Net return	(20)	(40)
	<u> </u>	<u> </u>

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

	Year ended 31 March 2006 £000	15 month period ended 31 March 2005 £000
Actual return less expected return on pension scheme assets	1,940	320
Experience gains and losses arising on the scheme liabilities	-	610
Changes in assumptions underlying the present value of the scheme liabilities	(1,450)	(2,740)
	<u> </u>	<u> </u>
Actuarial loss recognised in the surplus and deficits	490	(1,810)
	<u> </u>	<u> </u>

Notes (*continued*)

19 Pensions (*continued*)

History of experience surplus and deficits

	Year ended 31 March 2006	15 month period ended 31 March 2005
Actual return less expected return on scheme assets (£000)	1,940	320
Percentage of period end scheme assets (%)	13.8	3.2
Experience gains on scheme liabilities (£000)	-	610
Percentage of period end scheme assets (%)	-	4.4
Changes in assumptions underlying the present value of Scheme liabilities (£000)	(1,450)	(2,740)
Percentage of present value of period end scheme liabilities (%)	(8.4)	(20.0)
	<hr/>	<hr/>
Actuarial gain/(loss) recognised in STRSD (£000)	490	(1,810)
Percentage of present value of period end scheme liabilities (%)	2.9	13.2
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