

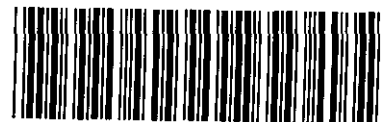
**Hammersmith and Fulham Housing Management
Services Limited**

**Directors' report and financial
statements**

Registered number 04948654

31 March 2006

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Company details

Company registration number:

04948654

Registered office:

Riverview House
Beavor Lane
Hammersmith
London W6 9AR

Bankers:

National Westminster Bank
Floors 7 & 8,
280 Bishopsgate
London EC2M 4RB

Solicitors:

Trowers & Hamlins
Sceptre Court
40 Tower Hill
London EC3N 4DX

Auditors:

KPMG LLP
Arlington Business Park
Theale, Reading
RG7 4SD

Directors' report

The Directors present their annual report and the audited financial statements for the 12 month period to 31 March 2006.

Introduction – A message from the Chair

This year has been an extremely successful one for the company despite an extremely difficult financial environment.

We have continued to pursue vigorously our key objectives: achieving decent homes for all the Council's homes and providing high quality services to tenants and leaseholders, whilst managing the business effectively.

The activities of the year built on the successful foundations of the Company that were the focus in the formative year of 2004/05. Highlights during the year have included:

- Tendering the major 'decent homes' contracts;
- Awarding the repairs contract for the south of the borough, as well as the borough wide voids contracts
- Introduction of Locata
- Introduction of new computerised rents and repairs modules
- Development and implementation of an Equalities Impact Assessment programme
- Introduction of new racial harassment procedures
- Piloting a new way of providing estates management services, by creating specialist rent arrears and estates management teams
- Significant progress in tackling anti social behaviour, working in partnership with the police and local schools
- Introduction of tenancy verification programme

HFHMS will actively work to deliver the decent homes programme through partnership working. It will also proactively assist the Council to achieve the long term financial viability of the Housing Revenue Account in the face of reducing subsidy whilst maintaining high quality services and achieving the Council's objectives. The year ahead proves to be equally challenging and rewarding.

Principal Activities

The Company's principal activity during the year was the management and maintenance of the housing stock of the London Borough of Hammersmith and Fulham (LBHF) and the management of the investment programme for the modernisation of the housing stock in accordance with the Management Agreement with the Council.

These are the second set of accounts produced for Hammersmith and Fulham Housing Management Services Limited (HFHMS), the first full year of trading.

Legal status of Company

The Company is limited by guarantee and does not have any share capital.

Directors' report *(continued)*

Status of Company & composition of the Board

The Company is limited by guarantee and does not have any share capital. LBHF, the sole Member of the organisation, undertakes, in the event of the Company being wound up, to contribute such amount as may be required for the payment of the debts and liabilities of the Company providing this amount does not exceed one pound. After the satisfaction of all the debts and liabilities the remaining assets will be transferred to LBHF's Housing Revenue Account (HRA, as defined in the Local Government & Housing Act 1989).

A Board of nineteen non-executive directors runs the Company and is made up of representatives of the local community:

- ◆ 5 Council nominees;
- ◆ 9 Residents including 1 Sheltered Housing Tenant and 2 leaseholders; and
- ◆ 5 Independent members.

The composition of the Board reflects the range and mix of skills and experience required for the effective management of the Company. The Board is supported by a senior management team which is responsible for the day to day running of the Company. The Independent Board members bring additional skills and expertise to the Board and were appointed following external advertisement and interview. Resident members were initially appointed and a 3-year cycle of elections has now commenced.

Review of the twelve months

Financial Review

Under the management agreement with the Council, HFHMS receives a monthly management fee to carry out the business of managing and maintaining the housing stock on behalf of the LBHF. This is included in the Company's profit and loss account as income under the heading 'Turnover'.

The Management Fee for the financial year 2005-06 was £20.526m and has been included in the accounts as turnover.

The Management Agreement provides for HFHMS to let contracts directly in pursuance of the services required under the agreement or to fulfil the works included in the capital programme. In line with this HFHMS have let contracts with several contractors to carry out decent homes work on council properties. These works improve the assets owned by the Council and the Council reimburses HFHMS for the costs incurred under these contracts. In the financial year 2005-06 this amounted to £11.931m and is included in turnover. HFHMS is in the process of letting partnering contracts to secure the majority of the decent homes programme.

The separation of the Council and HFHMS financial systems was improved during the year and from 2006-07 HFHMS has been set up as a completely separate company on the system. This will improve internal controls. HFHMS paid the Council £18k for these systems developments.

In addition, charges were made on a commercial basis by the Council for Service Level Agreements and other services received. This requires the Council to invoice the company separately for these services and the company physically paid the Council for those services.

During the period of the accounts HFHMS made a surplus of £19k before interest received (£246k) and taxation charge (£50k). These collectively result in a net profit of £214k. In accordance with the Management Agreement discussions will be held with the Council regarding the application of the operating profit to the benefit of the Housing Revenue Account and the services provided to the tenants and leaseholders. HFHMS has fully implemented the requirements of FRS17 in the 2005-06 accounts and to adjust the previous year's figures accordingly.

Whilst the accounts show the provision for taxation in full, advice suggests that the company may satisfy the criteria for 'non trading' status. This argument is being progressed with the HM Revenue and Customs and any reduction in the taxation liability will be reflected in future years accounts. Accordingly a contingent liability note has been included in the accounts.

The financial pressures on the Council's HRA due to reduced subsidy levels continues to impact on HFHMS and will do so until 20011/12. The strategic exercise to identify the required actions to address these pressures informed the budget setting process for 2006-07. This process is ongoing and will continue to inform the budget setting in the medium and long term.

Directors' report *(continued)*

Operational review

The financial year 2005/06 followed the successful creation of the Company and the implementation of all the regulatory requirements. During the year there was intense activity surrounding the tendering of contracts for repairs and capital works. The repairs contract for the South of the Borough and the Borough-wide voids contract were let and implemented during the year. In addition the tendering process for the seven Decent Homes Partnering contracts has been undertaken and the preparation for the work programming has included a great deal of consultation and coordination. It was developed to an advanced stage during the year and works will start on site during 2006/07. In the meantime traditional contracts have been utilised to commence decent homes work on the stock.

During the coming year the gas servicing contract and the contract for repairs in the North of the Borough will be re-tendered and a review of the horticultural contracts will be undertaken.

The financial pressures facing the HRA in the period through to 2011/12 owing to reducing subsidy levels dominated the business planning agenda. Whilst the figures constantly changed it is evident that substantial sums have to be found over the next four years through increased efficiency, reduced costs or increased income. The Chief Executive led the Executive Team in a fundamental review of business activities in order to assist the Council to achieve the long term financial viability of the HRA. This has been a major challenge and will continue to be a pressure in the next three years and is reflected in the Delivery Plan section below.

A series of measures were agreed jointly with the Council to balance the budget for 2006/07. These included the merger of two satellite offices with their parent Area Offices and the creation of two repairs reporting centres to improve the efficiency of the repairs service. Other service efficiencies were agreed that need to be implemented during the year.

Governance

Throughout the year HFHMS has conducted its business with the following Committee structure:

- Finance Audit and Risk
- Human Resources and Equalities
- Decent Homes
- Housing Services
- Remuneration.

All Committees meet bi-monthly, unless otherwise required and report appropriately to the Board.

Sadly in June 2005 John Moorey, the Sheltered Housing Board Member, died and in July 2005 Paul Doe, an Independent Board Member, stood down due to pressure of his work.

In accordance with the Articles of Association Rosemary Farrar was the Independent Board whose term of office ended and she offered herself for re-election, which was accepted. Following an external recruitment exercise to replace Paul Doe, Jeff Zitron was appointed as a new Independent Board Member.

Elections were held for Resident Board Members during the year, resulting in the re-election of Val Barker and Janet Gaston. Two new Board Members were elected, Coralie Ujoodha and Dorothy Walker. Dorothy was the successful candidate in the first contested election for a Resident Board member and a remarkable 65% turnout was achieved.

During the year all existing Board Members undertook a 360-degree appraisal process, which proved very successful in identifying general and individual training and development needs. A comprehensive training and development programme was subsequently developed and agreed by Members.

Directors' report (*continued*)

Delivery and performance plan 2006/07

The Management Agreement included a detailed 'Delivery Plan' which guided the company through its first successful year of operation.

The revised Delivery Plan for 2006/07 follows a major review of the HRA which took place during 2005/2006. The review commenced with an in depth analysis of the HRA financial position between 2005/2006 and 2011/2012. The projected changes in Housing Subsidy over this period will significantly reduce the income available to the HRA. A joint council and HFHMS HRA Strategy Group led the review and developed detailed proposals to realign the HRA net expenditure with the reduced projected income. The review was also able to reflect the recommendations from the Audit Commission's Housing Inspection undertaken in November 2004 which identified a requirement to improve Value for Money across the services provided.

As a result of the HRA review, HFHMS developed a "Futures Project" which introduced major changes to the way that services are delivered to residents of the council stock. The Futures Project has a phased implementation plan; the first phase was completed during 2005/2006. The second phase will be implemented in 2006/2007. The changes to the delivery of the services have been designed to improve value for money, provide more efficient use of resources and to enhance service delivery. The Futures Project also aims to address weaknesses identified in the Housing Inspection report and to tackle areas of performance that are below the top quartile level.

The council and HFHMS jointly agreed to develop the 2006/2007 Delivery Plan at a later stage than usual to allow for the Futures Project plan to be developed.

Key issues for the company during 2006/07 that will need to be addressed include:-

- Excellent and Accessible Services: delivering improved resident satisfaction
- Sound Financial Management: delivering value for money
- Improving and maintaining Council stock and assets: achieving decent homes and delivering an Effective and Timely Repairs Service
- Helping to deliver a Sustainable Borough: a fair chance and delivering cleaner, greener and safer estates

Strategic Objectives

The Delivery plan includes the strategic objectives of the company. These are to:-

- Achieve and maintain decent homes and a good environment for all our residents;
- Deliver excellent housing management and repairs services to all our residents;
- Continuously increase efficiency and reduce management costs
- Promote equalities and social inclusion;
- Create strong, safe and sustainable communities;
- Provide effective support for our vulnerable residents;
- Meet the housing needs of our residents and the borough as a whole.
- Increase supply of affordable housing

Organisational objectives

The Organisational objectives of the company are to:-

- Involve residents fully in our work at every level
- Build an excellent organisation which is a beacon for others
- Deliver services that are value for money
- Work efficiently and effectively with the people and money resources we have
- Be an excellent and willing partner for the council

Directors' report *(continued)*

Proposed dividend

The company has been set up not to distribute profits, the directors therefore do not recommend the payment of a dividend, or distribution of any surplus.

Directors and Directors' Interests

The directors who held office during the year are detailed on page 10. LBHF is the sole Member of the company. A register of Directors' interests is maintained at Riverview House.

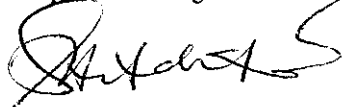
Political and Charitable Contributions

The company made no contributions to political or charitable organisations.

Auditors

In accordance with section 385 of the Companies Act 1985 a resolution for the re-appointment of KPMG LLP as auditor to the company was passed at the AGM that was held on the 28th March 2006.

Approved and signed on behalf of the Board



Steve Hilditch
Chair

22 September 2006

Hammersmith and Fulham Housing Management Services Limited
Riverview House
Beavor Lane
Hammermith
London W6 9AR

Statement of Internal Control

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

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

It is the Board of Directors' responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. The system of internal control includes the following key elements:

- ♦ Formal policies and procedures are in place, including the rules relating to financial systems and procedures, the letting of contracts and the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the company's assets;
- ♦ Experienced and suitably qualified staff to take responsibility for important business functions. Annual employee development review procedures have been established to maintain standards of performance;
- ♦ Internal audit undertake reviews on the effectiveness of internal controls;
- ♦ A risk management framework in which priority risks are reviewed by the Chief Executive and the Executive Team;
- ♦ Forecasts and budgets are prepared which allow the Board of Directors and management 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, through the Board of Directors and officers of the company;
- ♦ The Board of Directors receives the external auditors report. Among other things this provides reasonable assurance that control procedures are in place and being followed. The internal audit programme is in place to review, appraise and report upon the adequacy of internal control; and
- ♦ A full range of insurance including Fidelity Guarantee has been put in place to safeguard assets.

The Board of Directors vested matters relating to audit in the terms of reference of the Finance Audit and Risk Committee.

During the year the Finance Audit and Risk Committee (FARC) agreed the three year strategic internal audit plan. The Committee has an agreed procedure to ensure that audit reports are given full and proper consideration throughout the organisation:

- Management responses to audit recommendations are agreed by the Executive Team
- The full internal audit reports are presented to the FARC with a covering report by the Finance Director
- The reports are to be presented to Members by the Internal Audit Manager
- Periodic progress reports are to be presented by the Internal Audit Manager to the FARC.

Audits were conducted in accordance with the Plan and the Committee received all audit reports and considered the annual report on internal audit activity. This was necessary in order to enable the accounts to be duly agreed by the Board of Directors. In the course of the audits undertaken there were no weaknesses found in the internal controls which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the auditor's report on the financial statements. The Board of Directors is satisfied that this remains the case up to the approval by the Board of these accounts.

The Board of Directors is also of the opinion that the company has suitable internal controls for maintaining adequate accounting records, safeguarding the assets of the company and for taking reasonable steps to prevent and detect fraud and other irregularities. The Board of Directors is also required to indicate where the financial statements are prepared other than on the basis that the company is a going concern. The Board of Directors are satisfied that the accounts for the period ending the 31st March 2006 for HFHMS are on the basis of a going concern.

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that year.

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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the parent company and to enable them to ensure that the 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 group and to prevent and detect fraud and other irregularities.

Board Members – 2005/6

Asit Acharya	Independent	Appointed	22.4.04
Colin Ahern	Councillor	Appointed Replaced	22.4.04 5.6.06
Chris Allen	Councillor	Appointed Replaced	18.5.04 5.6.06
Harry Audley	Leaseholder (North) (Vice Chair)	Appointed Reappointed for a further 3 years	22.4.04 5.4.05
Val Barker	Tenant (Fulham North)	Appointed Reappointed for a further 3 years	22.4.04 28.3.06
Brendan Bird	Councillor	Appointed Replaced	22.4.04 5.6.06
Karen Canavan	Tenant (Shepherds Bush)	Appointed Resigned	22.4.04 5.4.05
Hilda Cobos	Tenant (Hammersmith North)	Appointed Reappointed for a further 3 years	22.4.04 5.4.05
Paul Doe	Independent	Appointed Resigned	22.4.04 2.8.05
Karen Fall	Tenant (Sands End)	Appointed	22.4.04
Rosemary Farrar	Independent	Appointed Reappointed for a further 3 years	18.3.04 28.3.06
Wesley Harcourt	Councillor	Appointed Replaced	22.4.04 5.6.06
Janet Gaston	Tenant (Fulham Central)	Appointed Reappointed for a further 3 years	22.4.04 28.3.06
Steve Hilditch	Independent (Chair)	Appointed Reappointed for a further 3 years	18.3.04 5.4.05
John Moorey	Tenant (sheltered housing)	Appointed Deceased	22.4.04 10.6.05
Henry Talman	Tenant (Hammersmith Central)	Appointed	22.4.04
Marie Thomas	Leaseholder (South)	Appointed	22.4.04
Coralie Ujoodah	Tenant (Shepherds Bush)	Appointed	5.4.05
Mercy Umeh	Councillor	Appointed Replaced	22.4.04 5.6.06
Guy Vincent	Independent	Appointed	22.4.04
Dorothy Walker	Tenant (Sheltered)	Appointed	31.8.05
Jeff Zitron	Independent	Appointed	28.3.06
Harry Phibbs	Councillor	Appointed	6.6.06
Rachael Ford	Councillor	Appointed	6.6.06
Michael Medway	Council Appointee	Appointed	6.6.06
Caroline Botwood	Council Appointee	Appointed	19.6.06

KPMG LLP

Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Report of the independent auditors to the members of Hammersmith and Fulham Housing Management Services Limited

We have audited the Company financial statements (the "financial statements") of Hammersmith and Fulham Housing Management Services Limited for the year ended 31 March 2006 which comprise the primary statements such as the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses 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 directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 9.

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 directors' 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 transactions with the group is not disclosed.

We read the directors' 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2006 and of the profit of the Company for the year ended 31 March 2006 and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

22 September 2006

Profit and loss account
for the year ended 31 March 2006

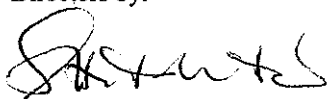
	Note	Year Ended 31 March 2006 £000	17 Month Period Ended 31 March 2005 (restated) £000
Turnover	2	32,827	18,660
Cost of sales		(30,801)	(16,748)
Gross profit		2,026	1,912
Administrative expenses		(2,694)	(2,258)
Other operating income		217	160
Operating loss		(451)	(186)
Interest Received		245	227
Other finance income	6	310	310
Profit on ordinary activities before taxation		104	351
Tax on profit on ordinary activities	7	(16)	(75)
Profit on ordinary activities after taxation		88	276
Brought forward profit		276	-
Profit carried forward	11	364	276

The results for the year are wholly attributable to continuing activities. There are no other gains and losses in the current year, other than those shown above.

Balance sheet
at 31 March 2006

	<i>Note</i>	at 31 March 2006 £000	at 31 March 2005 (restated) £000
Current assets			
Debtors	8	3,428	1,004
Cash at bank and in hand		5,002	5,762
		<hr/>	<hr/>
		8,430	6,766
Creditors: amounts falling due within one year	9	(7,905)	(6,441)
		<hr/>	<hr/>
Net assets excluding pension assets / (liabilities)		525	325
Pension assets / liabilities			
Pension liability	13	(1,660)	(2,490)
Deferred tax asset	17	498	747
		<hr/>	<hr/>
Net assets including pension assets / (liabilities)		(637)	(1,418)
		<hr/>	<hr/>
Capital & reserves			
Profit & Loss account	11	364	276
Pension reserve	11	(1,001)	(1,694)
		<hr/>	<hr/>
Shareholders' deficit		(637)	(1,418)
		<hr/>	<hr/>

These financial statements were approved on 22 September 2006 and were signed on behalf of the Board of Directors by:



Steve Hilditch
 Chair

Cash flow statement
for the year ended 31 March 2006

	Year Ended 31 March 2006	17 Month Period Ended 31 March 2005
	£000	£000
Reconciliation of operating profit to net cash flow from operating activities		
Operating loss	(451)	(186)
Increase in debtors	(2,424)	(1,004)
Increase in creditors	1,464	6,441
Pension current service cost	2,130	1,250
Pension contributions	(1,660)	(870)
Net cash inflow / (outflow) from operating activities	(941)	5,631
Cash flow statement		
Cash flow from operating activities	(941)	5,631
Returns on investments and servicing of finance	245	227
Taxation – corporation tax paid	(64)	(96)
Increase in cash	(760)	5,762
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period	14	(760)
Cash inflow from increase in debt	-	-
Movement in net funds	(760)	5,762
Opening funds	5,762	-
Closing funds	14	5,002

Statement of Total Recognised Gains & Losses

	Year Ended 31 March 2006 £000	17 Month Period Ended 31 March 2005 (restated) £000
Profit for the financial period	88	276
Actuarial gain / (loss) recognised in the pension scheme	990	(1,360)
Deferred tax arising on gain / loss in the pension scheme	(297)	408
Loss on commencement of pension fund	-	(1,060)
Deferred tax on loss on commencement of pension fund	-	318
Total gains and losses relating to the financial period	781	(1,418)
Prior year adjustment on full adoption of FRS17 (see note 13)	(1,743)	-
Total gains and losses since last annual report	(962)	(1,418)

Reconciliation of Movement in Shareholders Funds

	Year Ended 31 March 2006 £000	17 Month Period Ended 31 March 2005 (restated) £000
Profit for the financial period	88	276
Other recognised gains and losses relating to the period	693	(952)
Other recognised gains and losses on commencement of pension fund	-	(742)
Net addition to / (reduction from) shareholders' funds	781	(1,418)
Opening shareholders' funds	325	-
Prior year adjustment on full adoption of FRS17 (see note 13)	(1,743)	-
Closing shareholders' funds	(637)	(1,418)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. HFHMS has fully implemented the requirements of FRS17 in the 2005-06 accounts and to adjust the previous year's figures.

Basis of preparation

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

The accounts have been prepared on a going concern basis notwithstanding net liabilities of £637k for the following reasons:

Along with many organisations Hammersmith & Fulham Housing Management Services has implemented the accounting changes required as a result of Financial Reporting Standard 17, relating to the employers liability in respect of the final salary pension scheme. The Hammersmith & Fulham scheme, like a number of such schemes, has a deficit. Measures are in place to address this deficit, by increasing employers' contributions in the medium term. However the requirement of FRS 17 is to show the deficit on the pension scheme as a liability on the balance sheet. The introduction of FRS 17 also required the 2004/2005 accounts to be restated. As the Company aims to break even on its trading activities this has the effect of showing retained profits after the effects of FRS 17 of £364k (and a net balance on the pension reserve of £1,001k), compared to retained profits of £685k before the FRS 17 changes are made. As the charge to the Council is allowed to vary to reflect the changes in employer's payments to the pension fund, the deficit is not considered to be detrimental to the long-term future of the Company.

Fixed assets and depreciation

The Company owns no fixed assets. LBHF owns all buildings, plant, equipment, furniture & IT hardware. When the Company was first incorporated an agreement stating this was made between the Company and LBHF. The Company is required to pay rent on buildings occupied but is not required to pay lease or hire charge for the use of other fixed assets. LBHF is responsible for the calculation of depreciation on assets, and the replacement of assets when necessary.

Post-retirement benefits

The Company participates in the Local Government Pension Scheme (LGPS). The scheme is a defined benefit pension scheme based on final pensionable salary. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Stock

HFHMS holds no stock.

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. Except where otherwise required, full provision is made, without discounting, for all timing differences that have arisen but not reversed at the balance sheet date except as required by FRS19.

In line with other ALMOs, HFHMS believes that its activities with the LBHF 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.

The directors are currently undertaking a review of HFHMS's legal structure and its financial relationship with LBHF 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 the Council amount to non-trading. The directors have chosen to take a prudent approach to reporting corporation tax in the final accounts as corporation tax is stated on the basis that the corporation tax liability applies to all activities.

Turnover

Turnover represents the amounts derived from the provision of goods and services to third parties and is stated net of value added tax.

Comparative Period

The accounts show the comparative figures for 2004/05. Whilst these are correctly given as being for a 17 month period, in fact they represent a trading period of only 10 months. This tends to distort the comparisons as the two sets of accounts are of different durations and not what they appear to represent.

The figures for 2004/05 have been restated only to the extent as required to comply with the requirements of FRS17 (note 13).

Notes (continued)

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

2 Analysis of turnover

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	£000	£000
Housing services	20,526	16,522
Repairs and technical services	12,301	2,138
	<u>32,827</u>	<u>18,660</u>

3 Profit on ordinary activities before taxation

Year Ended 31 March 2006	17 month Period Ended 31 March 2005
£000	£000

Profit on ordinary activities before taxation is stated after charging

Auditors' remuneration:

Audit	25	23
Other services	-	10
	<u>25</u>	<u>33</u>

Notes (continued)

4 Remuneration of directors

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	£000	£000
Members of the Board of Directors		
Directors' emoluments	-	-
No director is a member of the defined benefit pension scheme	-	-
	<hr/>	<hr/>
Members of the Executive Team		
The Executive Team, including the Chief Executive, received emoluments as follows:		
Aggregate emoluments (wages & salaries) payable to the Executive Team (No benefits in kind were received).	972	688
Pension contributions	140	76
Consultancy fees for part of the year and an introduction fee were payable in respect of the Director of Finance	-	77
	<hr/>	<hr/>
	1,112	841
	<hr/>	<hr/>
Emoluments payable to the highest paid employee (Excluding pension contributions. No benefits were received)	96	73
	<hr/>	<hr/>

5 Staff numbers and costs

The average number of persons employed by the company (including board directors, who do not hold contracts of employment) during the year, analysed by category, was as follows:

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	Number	Number
Housing & property services	323	316
Support services	112	99
Board Directors	19	19
	<hr/>	<hr/>
	454	434
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	£000	£000
Wages and salaries	11,967	9,357
Social security costs	993	770
Other pension costs	1,662	982
	<hr/>	<hr/>
	14,622	11,109
	<hr/>	<hr/>

Notes (continued)

6 Other finance (costs)/income

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005 (restated)
	£000	£000
Pension fund		
Expected return on pension assets	1,950	1,520
Interest on pension scheme assets	(1,640)	(1,210)
	<hr/>	<hr/>
Other finance (costs) / income	310	310
	<hr/>	<hr/>

7 Taxation

Analysis of charge in period

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	50	96
Tax adjustment in respect of previous year	14	-
	<hr/>	<hr/>
Total current tax	64	96
Deferred tax	(48)	(21)
	<hr/>	<hr/>
Tax on profit on ordinary activities	16	75
	<hr/>	<hr/>

Notes (continued)

7 Taxation (continued)

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	104	351
add back FRS 17 Adjustments	160	70
	<hr/>	<hr/>
Profit year ended 31 March 2006 (for tax calculation)	264	421
	<hr/>	<hr/>
Current tax at 19%	50	-
Current tax at 30%	-	126
Adjustment due to marginal relief	-	(30)
Tax in respect of previous years	14	-
	<hr/>	<hr/>
Total current tax charge	64	96
	<hr/>	<hr/>

8 Debtors

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	£000	£000
Trade debtors	38	406
Amounts owed by group undertakings	1,059	587
Other debtors	2,015	11
VAT repayment	316	-
	<hr/>	<hr/>
	3,428	1,004
	<hr/>	<hr/>

Notes (continued)

9 Creditors: amounts falling due within one year

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	£000	£000
Bank overdraft	1,148	595
Trade creditors	1,947	830
Amounts owed to group undertakings	1,542	1,096
Accruals and deferred income	2,389	3,121
Taxation and social security	350	639
Corporation tax	50	51
Other creditors (retentions)	479	109
	<u>7,905</u>	<u>6,441</u>

10 Legal Status

The company is a private company limited by guarantee with no share capital.

11 Profit and Loss Reserves

	Profit and loss reserve £000	Pension reserve £000	Total capital and reserves) £000
At beginning of the year (restated)	276	(1,694)	(1,418)
Retained profit for the year	88	-	88
Actuarial gain recognised in the pension scheme	-	990	990
Deferred tax arising on gains in the pension scheme	-	(297)	(297)
At end of the year	<u>364</u>	<u>(1,001)</u>	<u>(637)</u>
		2006 £000	2005 £000
Profit and loss reserve excluding pension reserve		364	276
Pension reserve		(1,001)	(1,694)
Profit and loss reserve including pension reserve		<u>(637)</u>	<u>(1,418)</u>

Notes (continued)

12 Commitments

There were no capital commitments at the end of the financial period for which no provision had been made.

	Year Ended 31 March 2006	17 month Period Ended 31 March 2005
	£000	£000
Contracted	-	-

13 Pension scheme

The company participates in the London Borough of Hammersmith & Fulham Pension Fund. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £1,660k.

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

The pension scheme provides benefits based on final pensionable pay. The contributions are determined by a qualified actuary. The most recent valuation was at 31 March 2004 and has been updated by a qualified Actuary as at 31 March 2006.

LBHF and HFHMS will keep the level of employers' contributions under review to allow the fund to balance in the medium term. It has been agreed that an employer contribution rate of 19.7% of pensionable pay will apply in the financial year 2006-2007.

The Company has fully adopted FRS17 'retirement benefits' to account for pension costs and liabilities:

The financial assumptions underlying the valuation were:

Current rate of employers' contributions		16.0%
Market value of scheme assets		£428,270,000
Deficit related to past service		-
	Past service	Future service
Rate of general pay increase	4.5%	4.5%
Price inflation	3.0%	3.0%

Notes (continued)

13 Pension scheme (continued)

Financial Reporting Standard 17 – Retirement Benefits

Under the requirement of FRS17 the company is required to disclose further information on the assets and liabilities of the scheme on a market value basis at the end of the accounting year. The information is set out below:

Actuarial assumptions

	2006	2005
Rate of increase in salaries	4.5%	4.4%
Rate of increase to pensions in payment	3.0%	2.9%
Discount rate	4.9%	5.3%
Rate of inflation	3.0%	2.9%

Scheme assets and expected rate of return

	2006	2005
Equities	7.3%	7.7%
Property	6.3%	6.7%
Government bonds	4.3%	4.7%
Corporate bonds	4.9%	5.3%
Other	4.6%	4.8%

	2006 £000	2005 (restated) £000
Equities	25,460	19,080
Property	-	-
Government bonds	5,560	4,040
Corporate bonds	4,140	3,590
Other	340	390
Total market value of assets	35,500	27,100
Actuarial value of liability	(37,160)	(29,590)
Recoverable deficit in the scheme	(1,660)	(2,490)
Related deferred tax asset	498	747
Net pension liability	(1,162)	(1,743)

Movement in (deficit) / surplus during the year

	2006 £000	2005 (restated) £000
Scheme deficit at the beginning of the year	(2,490)	(1,060)
Movement in the year:		
Current service cost	(2,130)	(1,250)
Contributions	1,660	870
Other financing income	310	310
Actuarial gain / loss	990	(1,360)
Deficit in scheme at end of year	(1,660)	(2,490)
Deferred tax asset thereon	498	747
Net pension liability	(1,162)	(1,743)

Notes (continued)

13 Pension scheme (continued)

Analysis of other pension costs charged in arriving at operating loss	2006 £000	2005 (restated) £000
Current service cost and total operating charge	(2,130)	(1,250)

Analysis of amounts included in other finance income / costs	2006 £000	2005(restated) £000
Expected return on pension scheme assets	1,950	1,520
Interest on pension scheme liabilities	(1,640)	(1,210)
Net return	310	310

Analysis of amount recognised in statement of recognised gains and losses	2006 £000	2005 (restated) £000
Actual return less expected return on pension scheme assets	4,060	530
Experience gains and losses arising on scheme liabilities	-	30
Changes in assumptions underlying the present value of scheme liabilities	(3,070)	(1,920)
Actuarial loss recognised in statement of total recognised gains and losses	990	(1,360)

History of experience gains and losses	2006 £000	2005 (restated) £000
Difference between the expected and actual return on scheme assets		
Amount	4,060	530
Percentage of scheme assets	11.4%	2.0%
Experienced gains and losses on scheme liabilities		
Amount	-	30
Percentage of present value of scheme liabilities	0.0%	0.1%
Change in assumptions		
Amount	(3,070)	(1,920)
Percentage of present value of scheme liabilities	(8.3)%	(6.5)%
Total amount recognised in statement of total recognised gains and losses		
Amount	990	(1,360)
Percentage of present value of scheme liabilities	2.7%	4.6%

Notes *(continued)*

14 Analysis of net funds

	At beginning of year £000	Cash flow £000	At end of year £000
Cash in hand and at bank	5,762	(760)	5,002
Total	<u>5,762</u>	<u>(760)</u>	<u>5,002</u>

Notes (continued)

15 Related party disclosures

Details as to the status of the company and composition of the board of directors are given in the Directors Report. The ultimate controlling party is LBHF.

Tenant members of the board are resident in properties maintained by the company and owned by the council. These residents have a standard tenancy agreement and are required to fulfil the same obligations and receive the same benefits as other tenants.

The accounts of the LBHF are publicly available on the council's website www.lbhf.gov.uk. The council has delegated responsibility for overseeing the management and maintenance of its residential stock to Hammersmith and Fulham Housing Management Services Limited in accordance with the five year management agreement signed 27 May 2004 and effective from 1 June 2004. The council pays the company a monthly management fee in accordance with that management agreement and any variations subsequently approved. In the current period the management fee amounted to £20,526,200.

The company owns no fixed assets. London Borough of Hammersmith & Fulham owns all buildings, plant, equipment, furniture & IT hardware. London Borough of Hammersmith & Fulham is responsible for the calculation of depreciation on assets, and the replacement of assets when necessary.

HFHMS currently uses the LBHF financial ledger including its payroll system for all staff.

HFHMS pays contractors for works on contracts to meet the Decent Homes Standard. These payments are reimbursed by the LBHF.

LBHF charged HFHMS £1,174,300 for the provision of support services which included recharges to:

Finance	£234,700
Human Resources	£303,500
Property Services	£96,800
Security	£112,800
Mail Services	£11,500
Best Value	£27,800
Environmental Services	£155,800
IT	£81,400
Out of Hours Service	£150,000

In the event of the company being wound up, LBHF undertakes to contribute such amounts as may be required for the payment of the debts and liabilities of the organisation providing this amount does not exceed one pound. After the satisfaction of all debts and liabilities the remaining assets will be transferred to the HRA of LBHF.

16 Ultimate controlling body

The company is a subsidiary undertaking of LBHF.

17 – Deferred Tax Asset

The elements of deferred taxation are as follows:

	2006 £000	2005 £000
Deferred tax reconciliation		
Other timing differences – deferred tax on pensions deficit	498	747
Deferred tax asset	<u>498</u>	<u>747</u>
Asset at start of year	747	318
Deferred tax charge in profit & loss account for year	48	21
Deferred tax charge in statement of total recognised gains & losses	(297)	408
	<u>498</u>	<u>747</u>