

The Royal Borough of Kensington and Chelsea
Tenant Management Organisation Limited

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

ADMINISTRATIVE INFORMATION

The current directors, senior managers and company secretary are listed below and changes to those who served during the period since 31 March 2010 are set out in the Report of the Directors.

BOARD OF DIRECTORS

All board directors of the company are statutory directors who hold non-executive roles.

Mr R Kerr-Bell – Chair	Resident Board Member
Mrs S Collet	Resident Board Member
Mrs F Edwards - Vice Chair	Resident Board Member
Mrs C Green	Resident Board Member
Ms K Harris - Vice Chair	Resident Board Member
Mr I Smith	Resident Board Member
Mr R Turner	Resident Board Member
Mr A Ward	Resident Board Member
Councillor M Condon-Simmonds	Council Appointee
Councillor E Dent Coad	Council Appointee
Mr P Molyneux	Council Appointee
Mr J Zitron	Council Appointee
Mr P Chapman	Independent
Mr J Dee	Independent
Mr A Preiskel	Independent

SENIOR MANAGEMENT

Mr R Black	Chief Executive
Mr A Parkes FCA	Director of Financial Services
Ms S Jevans MCIH	Director of Customer Services
Ms L Pemberton	Director of People and Organisational Development

COMPANY SECRETARY

Angela Bosnjak-Szekeres

REGISTERED OFFICE	AUDITOR	BANKERS	SOLICITORS
Network Hub 292a Kensal Road London W10 5BE	Baker Tilly UK Audit LLP 1st Floor, 46 Clarendon Road Watford WD17 1JJ	Lloyds Bank P.O. Box 17328 11-15 Monument Street London EC3V 9JA	Winckworth Sherwood Minerva House 5 Montague Close London SE1 9BB

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

REPORT OF THE DIRECTORS

Year ended 31 March 2011

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PRINCIPAL ACTIVITIES

The company's principal activity during 2010/11 was the management and maintenance of the housing stock of the Royal Borough of Kensington and Chelsea (RBKC) and the provision of specialist technical consultancy and community alarm services.

This is the company's 15th year of trading having taken over the management of the homes of tenants and leaseholders from the RBKC on 1 April 1996.

REVIEW OF THE BUSINESS

The Kensington and Chelsea Tenant Management Organisation (KCTMO) is a 'not for profit' company owned by its members, who are residents of RBKC's housing stock.

2010/11 saw the completion of recruitment to the Executive and Senior Management team with the commencement of Sacha Jevans, Director of Customer Services, Yvonne Birch, Head of Strategy and Engagement, Angela Bosnjak-Szekeres, Company Secretary, Andy Marshall Assistant Director, Partnering, and Ajoke Bada Assistant Director, Customer Services Centre. These appointments have been key in delivering the Business Plan and improving the overall performance of the Company.

Throughout the year the focus of the organisation has been on delivering the Business Plan for 2010/11 and we have made good progress on completion of the key objectives. Two key areas have been to ensure the viability of the company by addressing the budget deficits of the last two years and to work with RBKC to ensure the Housing Revenue Account (HRA) did not go into deficit in 2012/13. Both of these objectives had been achieved by the end of the business year.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

REPORT OF THE DIRECTORS

Year ended 31 March 2011

The budget deficit of KCTMO has been overcome by negotiating an inflation increase (1.5%) in our Management Fee and continuing to reduce costs through the office move and restructuring of departments. This has resulted at year end in a surplus for the Company of £100k before tax and pension adjustments. Our work with RBKC on the Housing Stock Finance and Development Project is now complete and has helped improve the financial position of the HRA, pushing the deficit out from 2012/13 to 2020/21. This has positioned both RBKC and KCTMO well for the HRA offer and self financing, which should be in place by April 2012.

KCTMO year end Performance and Key Performance Report (Key Performance Indicators (KPI's)) shows considerable and ongoing improvement with some very good results in a number of areas. There has been a significant improvement on re-let time from 33 days to 26.7 which has increased net rental income for the HRA by approximately £250k. Rent collection and arrears recovery performance have also improved on the previous year. This has led to a reduction in rent debt of £410k, Home Ownership service charge debt of £140k and major works debt of £1,540k. Overall this has contributed to improving the HRA revenue as RBKC has been able to reduce its bad debt reserve by over £600k. In terms of the Repairs service, managing and improving Morrison's performance has been challenging but we have seen a positive direction of travel and savings in this contract of around £300,000. In terms of Health and Safety, Gas Servicing has improved on the previous year with properties without a valid CP12 certificates down from 36 to 5 and further reduced to 1 in April 2011. We have also seen very good partnership working between RBKC, the Fire Brigade and KCTMO to ensure we are addressing risks identified through our fire safety assessments.

In improving customer access, the Customer Service Centre have reported a significant improvement in the last few months with calls lost dropping from about 20% to 5.1%, and 3.9% in February and March respectively. This improvement has been maintained in the first quarter of 2011/12. Average waiting time has also reduced to 19 and 21 seconds respectively in the same period, and is continuing to improve in April (at 19 seconds) from a high average of 74 seconds during the earlier part of 2011/12. Our expectation is that this reducing trend will continue. Our new office in the north of the borough had over 7,000 people visitors during 2011/12 and we are investing in a similar facility in the south of the Borough, which will be open later this business year.

The Resident Engagement Team restructure was completed in December 2010, and all posts filled. Following the agreement of a new resident Engagement Strategy by Board in May 2010, a Resident Engagement Panel was set up to oversee the delivery. We produced the Report to Residents in September 2010 and the Local Offer report was produced in March 2011. We also held a Residents' Conference in February 2011 and are using Tenant Participation tracker to monitor involvement of our residents and impact. KCTMO have rejoined Tenant Participation Advisory Service (TPAS) and capacity building training has been completed. The Company is rolling out its 'Get on Board' strategy which will include 16 road shows over the next 12 months to raise our profile and to promote the ways in which residents can get involved, and to encourage resident's involvement. We also aim to use these road shows to increase the membership of the Company.

This builds on our 'TMO in Touch' exercise, which was a major resident engagement activity that took place during the year. Through this we knocked on almost 10,000 doors and now have 2200 completed questionnaires, a 20% sample size, with over 800 being submitted by post and the rest completed face to face. Over 120 staff took part in this activity, which also helped some of our back office staff to understand some of the issues faced by our residents. We are now analysing this data to present to the Board in July 2011. The initial outcomes of the exercise put overall satisfaction levels with our service at 77 %. This process has also helped increase our Equality & Diversity data.

We had 17 Internal Audits conducted resulting in two substantial, eleven satisfactory, three limited assurance ratings and one audit in draft at the end of the year. All issues within the limited assurance audits are being addressed in 2011/12 with the expectation that we will see a clear improvement in the follow-up audits.

In terms of regulation and compliance RBKC is both our Landlord and Regulator and we have in place a framework for formalising the monitoring and reporting of the KCTMO's performance. This is covered in the Annual Review which looks back over the previous year and sets expectations for the forthcoming year. This report is agreed with the Cabinet Member for Housing and the Chairman of the KCTMO's Board.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

REPORT OF THE DIRECTORS

Year ended 31 March 2011

The report for 2010/11 confirms that it has been a positive year for the Company both in terms of performance but also in relation to partnership working with RBKC to address some of the longer term strategic and financial issues that we face as well as the conclusion of the Housing Stock Finance and Development Project, compliance with the Modular Management Agreement (MMA), completing the Local Offer and the Annual Report to Tenants, and good and improving results in our key indicators and audits. RBKC believes this evidence will ensure that shared priorities will be delivered. RBKC also believe the KCTMO is well placed to address the new agendas which are emerging on behalf of the Council and its Residents.

In the year under review there was an operating profit of £4,273k compared £191k in the previous year. The jump in operating profit is largely the result of the FRS 17 valuation of the pension scheme and the changes made by the Government in moving from RPI to CPI in calculating the future pension scheme liabilities. This has reduced the net pension liabilities from £19.4m at 31st March 2010 to £5.9m at 31st March 2011. This has been shown in the accounts as follows:

	£k
Profit and Loss Account	3,498
Statement of Total Recognised Gains and Losses	9,944
Reduction in liability	<u>13,442</u>

The valuation as at 31st March 2010 also resulted in the reduction of the employer's contribution by 1% to 22.5% for the years 2012 to 2015. Further reductions may be expected for the future with Government entering into discussions over the split between employer and employee contributions and the potential move away from Final Salaries to the Career Average Earnings for future years.

The base Management Fee received from the Council amounted to £10,509k as compared to £10,336k for 2009/10. This represents an inflation increase of 1.5%. The major financial risk for the organisation is centred around its reliance for over 90% of its income on the management fee from RBKC and the continuation of the management agreement. Any substantial reduction in this fee would necessitate significant cost reductions.

BOARD MEMBERS

The current Board Members, who are the legal Directors of the Company, are listed on page 1 of the accounts.

The Board can consist of up to 15 Board Members, consisting of eight elected Resident Board Members, four Council appointees and three people independent of residents or the Council who are appointed by the Board. All Resident Board Members are elected by Members across the Borough. Under TMO's constitution, Resident Board Members and Independent Board Members can serve a maximum of three years before re-election or re-appointment with a maximum overall length of service of nine years. There were 15 Board Members on the Board at the end of the year.

The following Board Members have been appointed or left office since the start of the year:

Resident Board Members

Mr R Kerr-Bell	Re-elected	04/03/2011
Mr I Smith	Re-elected	04/03/2011

Council Appointees

Ms R Nicholson	Resigned	31/03/2011
Mr P Molyneux	Appointed	31/03/2011

Independent Appointees

Mr A Preiskel	Appointed	01/01/2011
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The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

REPORT OF THE DIRECTORS

Year ended 31 March 2011

Senior Management

Mr K Holloway MA FIH	Interim Director of Customer Services and Performance	Resigned	30/04/2010
Mr R Thompson	Interim Director of Asset Investment and Engineering	Resigned	13/05/2010
Ms S Jevans MCIH	Director of Customer Services	Appointed	16/04/2010
Ms Catherine Hardy-Smith	Company Secretary	Appointed	26/07/2010
Ms Catherine Hardy-Smith	Company Secretary	Resigned	25/02/2011
Ms Angela Bosnjak-Szekeres	Company Secretary & Governance Manager	Appointed	01/03/2011

CHARITABLE DONATIONS

The TMO made no charitable donations during the year (2010: £nil).

AUDITOR

Baker Tilly UK Audit LLP has indicated its willingness to be reappointed at the Annual General Meeting.

EVENTS SINCE THE BALANCE SHEET DATE

There have been no events, which have occurred since the balance sheet date that could have a material effect on the accounts of the company.

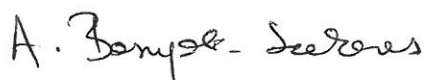
STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors in office on the date of approval of this report have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

CONSTITUTION

The company is limited by guarantee and is governed by its memorandum and articles of association. The guarantors are listed in the company's Register of Members. The liability in respect of the guarantee as set out in the memorandum of association is limited to £1 per member of the company.

This report was approved by the board on 28th July 2011.



Angela Bosnjak-Szekeres
Company Secretary

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BOROUGH OF KENSINGTON
AND CHELSEA TENANT MANAGEMENT ORGANISATION LIMITED**

We have audited the financial statements on pages 7 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Glyn Francies (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor

Chartered Accountants

First Floor, 46 Clarendon Road

Watford, Herts, WD17 1JJ

Date: 3.8.11

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

PROFIT AND LOSS ACCOUNT

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2011

PROFIT AND LOSS ACCOUNT

	Notes	2011 £	2010 £
TURNOVER	1	11,406,166	11,770,035
Administrative expenses before exceptional item	2	(12,696,275)	(12,410,743)
Exceptional item	2	4,498,000	-
Total administrative expenses after exceptional item		(8,198,275)	(12,410,743)
Other operating income		1,065,107	832,113
OPERATING PROFIT	2	4,272,998	191,405
Interest receivable		4,926	19,892
Other finance charges	4	(679,000)	(690,000)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		3,598,924	(478,704)
Taxation on profit on ordinary activities	5	(40,322)	436,939
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED PROFIT FOR THE YEAR	10	<u>3,558,602</u>	<u>(41,765)</u>

The operating profit for the year arises from the Company's continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2011 £	2010 £
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	10	<u>3,558,602</u>	<u>(41,765)</u>
OTHER RECOGNISED GAINS AND LOSSES			
Actuarial gains / (losses) on the defined benefit pension scheme	14	9,944,000	(10,113,000)
		<u>9,944,000</u>	<u>(10,113,000)</u>
TOTAL RECOGNISED GAINS / (LOSSES) FOR THE FINANCIAL YEAR		<u>13,502,602</u>	<u>(10,154,765)</u>

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

BALANCE SHEET

As at 31 March 2011

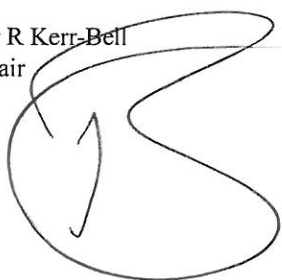
Company Registration Number: 3048135

	Notes	£	2011 £	£	2010 £
FIXED ASSETS					
Tangible assets	6		1,403,093		1,062,057
CURRENT ASSETS					
Debtors	7	761,146		1,025,067	
Cash at bank and in hand		<u>1,285,950</u>		<u>1,353,449</u>	
		2,047,097		2,378,516	
CREDITORS: amounts falling due within one year	8	<u>(1,203,385)</u>		<u>(1,254,371)</u>	
NET CURRENT ASSETS			843,712		1,124,145
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>2,246,804</u>		<u>2,186,202</u>
NET ASSETS BEFORE DEFINED BENEFIT PENSION SCHEME LIABILITY			<u>2,246,804</u>		<u>2,186,202</u>
Defined benefit pension scheme liability	14		(5,938,298)		(19,380,298)
TOTAL NET LIABILITIES, INCLUDING DEFINED BENEFIT PENSION SCHEME DEFICIT			<u>(3,691,494)</u>		<u>(17,194,096)</u>
CAPITAL AND RESERVES					
Profit and loss account excluding pension scheme liability	10		2,246,804		2,186,202
Pension Reserve	10		<u>(5,938,298)</u>		<u>(19,380,298)</u>
Members' funds	10		<u>(3,691,494)</u>		<u>(17,194,096)</u>


As disclosed in note 9, members derive no financial interest from their shareholding and accordingly all reserves are classed as non-equity.

The financial statements on pages 7 to 18 were approved and authorised for issue by the board on 28th July 2011 and signed on its behalf by:

Mr R Kerr-Bell
Chair



Mrs S Collet
Chair of Finance and Audit Committee



The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

CASH FLOW STATEMENT

For the year ended 31 March 2011

	Notes	2011 £	2010 £
Net cash inflow / (outflow) from operating activities		619,895	(641,067)
Returns on investments and servicing of finance - interest received		4,926	19,892
Taxation (paid) / refund		(43,956)	447,493
Capital expenditure - payments to acquire fixed assets		(648,364)	(787,638)
Decrease in cash		<u>(67,499)</u>	<u>(961,320)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Decrease in cash in the period		<u>(67,499)</u>	<u>(961,320)</u>
Change in net funds	11	(67,499)	(961,320)
Net funds at 1 April 2010	11	1,353,449	2,314,769
Net funds at 31 March 2011	11	<u>1,285,950</u>	<u>1,353,449</u>
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES			
		2011 £	2010 £
Operating profit		4,272,998	191,405
Depreciation		307,328	370,416
Decrease / (increase) in debtors		263,921	(334,238)
(Decrease) in creditors		(47,352)	(235,532)
Difference between pension charge to operating costs and pension contributions paid		321,000	(633,119)
Past Service gain (exceptional item)		(4,498,000)	-
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES		<u>619,895</u>	<u>(641,068)</u>

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

ACCOUNTING POLICIES

For the year ended 31 March 2011

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The accounting policies adopted are consistent with those of prior years.

GOING CONCERN

The accounts have been prepared on the going concern basis. The organisation has profit and loss account reserves of £2,246K and is budgeted to breakeven for the coming year before adjustment for FRS17. The cash at bank is in excess of £1.2M and there are no loans. The RBKC have confirmed the continuation of the management agreement.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less associated depreciation. Depreciation is provided on all such assets on a straight-line basis for each class of asset evenly over its expected useful economic life as follows:

Offices fit out	Lower of lease term or 10 years
Office furniture	20%
Computer and office equipment	33%
Electronic data management system	20%

LEASED ASSETS

The annual rentals in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

RETIREMENT BENEFITS

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The interest cost and expected return on assets are included within other finance costs. Actuarial gains and losses arising from new valuations and from updating valuations to the balance sheet date are recognised in the Statement of Total Recognised Gains and Losses.

Defined benefit schemes are funded, with the assets held separately from the company in separate trustee administered funds. Full actuarial valuations, by a professionally qualified actuary, are obtained at least every three years, and updated to reflect current conditions at each balance sheet date. The pension scheme assets are measured at fair value. The pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency. A pension scheme asset is recognised on the balance sheet only to the extent that the surplus may be recovered by reduced future contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent that the company has a legal or constructive obligation to settle the liability.

TURNOVER AND OTHER OPERATING INCOME

Turnover and other operating income is credited to the profit and loss account when the service has been provided.

DEFERRED TAXATION

Deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are only recognised if it is considered that there is a reasonable expectation that they will be recoverable in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

1 TURNOVER

Turnover represents the value, net of Value Added Tax of goods and services provided to third parties.

2 OPERATING PROFIT

2011

2010

£

£

This is stated after charging / (crediting):

Past Service Credits (Exceptional Item - see note 3)	(4,498,000)	-
Depreciation	307,328	370,416
Payments in respect of operating leases - land and buildings	606,671	560,201
Auditors' remuneration	21,332	19,750
- for statutory audit (10-11)		
- for other services	3,500	6,000
	<u>3,500</u>	<u>6,000</u>

3 STAFF COSTS

2011

2010

£

£

Wages and salaries	5,420,599	5,168,739
Social security costs	456,473	420,755
Other pension costs	(3,172,000)	475,000
	<u>2,705,072</u>	<u>6,064,494</u>
Agency Staff Costs	<u>1,467,095</u>	<u>2,227,170</u>

Pension costs are analysed as follows:

Current service cost	1,326,000	475,000
Past service cost/(credit)	(4,498,000)	-
	<u>(3,172,000)</u>	<u>475,000</u>

The past service credit results from the replacement of Retail Price Index (RPI) with Consumer Price Index (CPI) for the uprating of public service pensions following the UK budget statement on 22nd June 2010. As this change is considered to be a change in rules rather than a change in assumptions the gain has been recognised in the profit and loss account.

	2011	2010
Average number of FTE employees during the year:	No.	No.
Housing	70	68
Technical services	49	46
Support services	42	47
Total	<u>161</u>	<u>161</u>
Average number of FTE agency staff during the year:	<u>32</u>	<u>45</u>

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

4	OTHER FINANCE CHARGE	2011 £	2010 £
	Interest on defined benefit pension scheme liabilities	(2,328,000)	(1,927,000)
	Expected return on defined benefit pension scheme assets	<u>1,649,000</u>	<u>1,237,000</u>
		<u>(679,000)</u>	<u>(690,000)</u>
5	TAXATION ON PROFIT ON ORDINARY ACTIVITIES	2011 £	2010 £
	DIRECT TAX		
	UK corporation tax on profit for the year	40,322	43,956
	Adjustment in respect of prior years	<u>-</u>	<u>(480,895)</u>
		<u>40,322</u>	<u>(436,939)</u>

FACTORS AFFECTING TAX CHARGE FOR THE YEAR:

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

Profit/(loss) on ordinary activities before tax	<u>3,598,924</u>	<u>(478,704)</u>
Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 21%	755,774	(100,528)
Effects of:		
Adjustment for non trading activities	(715,452)	144,484
Adjustment in respect of prior years	<u>-</u>	<u>(480,895)</u>
Corporation Tax charge / (credit) for year	<u>40,322</u>	<u>(436,939)</u>

FACTORS AFFECTING FUTURE TAX CHARGES

Other Arms Length Management Organisations which have their respective Local Authorities as their sole member are not taxed on transactions with the company's member. Whilst the Royal Borough of Kensington and Chelsea is not a member of the company, transactions with it are considered to be non-trading and not taxable. Prior years' tax returns were re-submitted in respect of the five years ended 31 March 2008 to reflect the non-trading transactions with the Local Authority and a refund of overpaid tax for these earlier years was received from HMRC. Transactions with non-members and other third parties continue to be subject to corporation tax as these activities are considered to be taxable activities.

There is no deferred tax asset provided in respect of the deferred tax asset arising on the pension scheme deficit as it is not regarded as recoverable as it is unlikely that there will be suitable taxable profits arising from transactions with non-members and third parties from which the future reversal of the timing difference can be deducted.

The company is currently taxable at a rate of 21%. The tax rate applicable to companies in the United Kingdom is, to an extent, dependent on their taxable profits and any increase in the taxable profits will result in an increase in the applicable tax rate.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

6	TANGIBLE FIXED ASSETS	Office Furniture & Fit Out	Computer Equipment	Electronic Data Management System	Total
	COST				
	At 1st April 2010	1,448,604	1,645,758	-	3,094,362
	Additions	287,102	196,090	165,171	648,363
	Disposals	(615,759)	(858,259)	-	(1,474,018)
	At 31st March 2011	<u>1,119,947</u>	<u>983,589</u>	<u>165,171</u>	<u>2,268,707</u>
	ACCUMULATED DEPRECIATION				Total
	At 1st April 2010	688,114	1,344,191	-	2,032,305
	Charge for the year	112,285	185,440	9,603	307,328
	Disposals	(615,759)	(858,259)	-	(1,474,018)
	At 31st March 2011	<u>184,640</u>	<u>671,372</u>	<u>9,603</u>	<u>865,615</u>
	NET BOOK VALUE				Total
	At 31 March 2011	<u>935,307</u>	<u>312,217</u>	<u>155,569</u>	<u>1,403,093</u>
	At 31 March 2010	<u>760,490</u>	<u>301,567</u>	<u>-</u>	<u>1,062,057</u>
7	DEBTORS			2011	2010
				£	£
	Amounts falling due within one year				
	Trade debtors			190,203	313,941
	Other debtors			61,018	157,109
	Prepayments and accrued income			<u>509,925</u>	<u>554,017</u>
				<u>761,146</u>	<u>1,025,067</u>
8	CREDITORS: amounts falling due within one year			2011	2010
				£	£
	Trade creditors			281,931	296,304
	Corporation tax			40,322	43,956
	Other taxes and social security			188,150	23,943
	Other creditors			10,950	8,250
	Accruals and deferred income			<u>682,032</u>	<u>881,917</u>
				<u>1,203,385</u>	<u>1,254,371</u>
9	MEMBERS				

The company is limited by guarantee and the liability of members to contribute to any deficiency of assets is £1 per member. The members have no rights to the income or assets of the company.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

10 PROFIT AND LOSS ACCOUNT / MOVEMENT IN MEMBERS' FUNDS

	Profit and loss account excluding pension liability £	Pension reserve £	Total members' funds £
At 1 April 2010	2,186,202	(19,380,298)	(17,194,096)
Retained profit for the year	3,558,602	-	3,558,602
Other recognised gains and losses - actuarial gain / (loss) on pension scheme	-	9,944,000	9,944,000
	<u>5,744,804</u>	<u>(9,436,298)</u>	<u>(3,691,494)</u>
Transfer	(3,498,000)	3,498,000	-
At 31 March 2011	<u>2,246,804</u>	<u>(5,938,298)</u>	<u>(3,691,494)</u>

11 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2010 £	Cash Flows £	Non-cash changes £	As 31 March 2011 £
Cash at bank and in hand	<u>1,353,449</u>	<u>(67,499)</u>	<u>-</u>	<u>1,285,950</u>

12 RELATED PARTIES

The Royal Borough of Kensington and Chelsea (RBKC) is a related party by virtue of the management agreement between the company and the Council and the Council's right to appoint directors to the board of the company. The company's main source of income is a management fee for the management of the RBKC housing stock. This amounted to £10,902,873 (2010: £11,453,864). The amount of £157,597 included in 2010 management fee was deferred to meet the costs in relation to the office move and EDMS to be carried out in 2010-11. The company also purchased services from RBKC in the year totalling £807,731 (2010: £972,165). At the end of the financial year, a net balance of £160,584 was due to the company, including £4507 due to RBKC for the inter-company balance and £165,091 owed to the company for other services to RBKC. (2010: £309,307 was due to company, including £36,544 for the inter-company balance, £274,445 for other services to RBKC and £1,682 for services from RBKC).

In addition to the above, during the year the company had provided services to the Council in respect of the Community Alarm Services for the amount of £233,013 (2010: £191,556).

During the year the company recharged the Council for consultancy and other services for the amount of £898,947 (2010: £768,458).

The eight Resident Board Members have been paid expense allowances totalling £12,409 (2010: £11,809).

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

13 LEASE COMMITMENTS

As at 31 March 2011 the company has an annual lease commitment in respect of land and buildings of £513,471 (2010: £600,477); the lease expires within 5 to 10 years (2010: 5 to 10 years).

14 RETIREMENT BENEFITS

The company is an admitted member of the Local Government Superannuation scheme, a funded defined benefit scheme. Employees are eligible to join the Local Government Superannuation scheme subject to certain qualifying criteria.

The contribution rates are those recommended by the Fund's actuary based on the tri-annual actuarial valuations as at 31 March 2010 (Barnett Waddingham) and were set on the basis of:

- a) The relationship between the assessed value of assets and the accrued value of liabilities of pensionable service to 31 March 2010;
- b) The level of contribution needed to meet the cost of the year by year accrued benefits in the future; and
- c) The change in terms of contracting out of SERPS.

The date of the last valuation was 31 March 2010. The market value of the scheme's assets at 31 March 2010 was £463 million. The actuarial valuation, done using the projected unit method was based on economic and statistical assumptions, the main ones being:

- i. The rate of accumulation of income and capital on new investments over the long term and the increase from time to time of income from existing investments;
- ii. Future rises in pensionable pay due to inflation etc, and pension increases;
- iii. Withdrawals from membership due to mortality, ill health and ordinary retirement; and
- iv. Progression of pensionable pay due to promotion.

As a result of the 31 March 2010 valuation, the level of employer's contribution funding was set at 22.5% of pensionable salaries for the years ending 31 March 2012, 31 March 2013 and 31 March 2014. Future contribution rates will be dependent on the results of actuarial valuations.

The pension contributions are calculated by the TMO on the basis of each monthly payroll and paid into the fund monthly.

These assumptions are set with reference to market conditions at 31 March 2011. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of FRS17. The RPI increase assumption is set on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England. This measure has historically overestimated future increases in the RPI and so a deduction of 0.25% has been made to get the RPI assumption of 3.5%. As future pension increases are expected to be based on CPI rather than RPI, a further assumption has been made about CPI which is that it will be 0.8% below RPI i.e. 2.7%.

Salary increases are then assumed to be 1.5% above RPI in addition to a promotional scale but an assumption has also been made that there is a pay freeze for all members earning over £21,000 per annum until 31 March 2012.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

14 RETIREMENT BENEFITS (continued)

The actuary has produced a valuation as at 31 March 2011 for the purposes of FRS17.
The key assumptions are:

ASSUMPTIONS AS AT	31 March 2011	31 March 2010
	% p.a.	% p.a.
Pension Increase Rate	2.7%	3.9%
Salary Increase Rate	5.0%	5.4%
Expected Return on Assets	6.1%	5.9%
Discount Rate	5.5%	5.5%
RPI Inflation Rate	3.5%	3.9%
CPI Inflation Rate	2.7%	
ASSETS	Long Term	Long Term
(EMPLOYER)	% p.a.	% p.a.
Equities	6.4%	6.5%
Gilts	4.4%	4.5%
Other Bonds	5.5%	5.5%
Property	5.4%	5.5%
Cash	3.0%	3.0%

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2010 for the year to 31 March 2011). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

MORTALITY

The post retirement mortality tables adopted were the PA92 series projected to calendar year 2017 for current pensioners and 2033 for non-pensioners.

The assumed life expectations from age 65 are:

	Males	Female
Retiring today	18.9 years	23.0 years
Retiring in 20 years	20.9 years	24.9 years

We have continued to assume that 50% of retiring members will opt to increase their lump sums to the maximum allowed and active members will retire one year later than they are first able to do so without reduction.

SENSITIVITY ANALYSIS

The following table sets out the impact of a small change in the discount rates on the defined benefit obligation and projected service cost along with a +/- 1 year age rating adjustment to the mortality assumption.

Sensitivity Analysis	£000's	£000's	£000's
Adjustment to discount rate	0.10%	0.00%	-0.10%
Present value of defined benefit obligation	36,097	36,895	37,714
Projected service cost	1,035	1,077	1,120
Adjustment to mortality age rating assumption	+1 year	none	-1 year
Present value of defined benefit obligation	35,582	36,895	38,213
Projected service cost	1,029	1,077	1,125

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

14 RETIREMENT BENEFITS (continued)

FAIR VALUE OF EMPLOYER'S ASSET

	31 Mar 2011	31 Mar 2010
	£(000)	£(000)
Equities	25,694	19,357
Gilts	3,096	2,581
Properties	1,238	774
Cash	929	3,097
Total	30,957	25,809

BALANCE SHEET

	31 Mar 2011	31 Mar 2010
	£(000)	£(000)
Fair Value of Employer Assets	30,957	25,809
Present Value of Funded Plans	(36,804)	(44,002)
Net (Under) / Overfunding in Funded Plans	(5,847)	(18,193)
Present Value of unfunded liabilities	(91)	(1,187)
Net Asset / (Liability)	(5,938)	(19,380)

RECOGNITION IN THE PROFIT OR LOSS

	31 Mar 2011	31 Mar 2010
	£(000)	£(000)
Current Service Cost	1,326	475
Past Service Cost / (Gain)	(4,498)	-
Losses / (Gains) on Curtailments and Settlements	-	-
Recognised in administrative expenses	(3,172)	475
Interest Cost	2,328	1,927
Expected Return on Employer Assets	(1,649)	(1,237)
Recognised in other finance charges	679	690
Total	(2,493)	1,165
Actual Return on Plan Assets	2,592	6,577

RECONCILIATION OF DEFINED BENEFIT OBLIGATION

	31 Mar 2011	31 Mar 2010
	£(000)	£(000)
Opening Defined Benefit Obligation	45,189	28,034
Current Service Cost	1,326	475
Interest Cost	2,328	1,927
Contribution by Member	287	294
Actuarial Losses / (Gains)	(6,807)	15,452
Past Service Cost / (Gain)	(4,498)	-
Losses / (Gains) on Curtailments and Settlements	-	-
Estimated Unfunded Benefit Paid	(6)	(75)
Estimated Benefit Paid	(924)	(918)
Closing Defined Benefit Obligation	36,895	45,189

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

14 RETIREMENT BENEFITS (continued)

RECONCILIATION OF FAIR VALUE OF EMPLOYER ASSETS	31 Mar 2011	31 Mar 2010
	£(000)	£(000)
Opening Fair Value of Scheme assets	25,809	18,823
Expected return on scheme assets	1,649	1,237
Actuarial gain	3,137	5,339
Contributions by employer including unfunded benefits	1,005	1,109
Contributions by Scheme participants	287	294
Estimated benefits paid including unfunded benefits	(930)	(993)
Closing Fair Value of Employer Assets	<u>30,957</u>	<u>25,809</u>

AMOUNTS FOR THE CURRENT AND PREVIOUS ACCOUNTING PERIODS

	31 Mar 2011	31 Mar 2010
	£(000)	£(000)
Fair Value of Employer Assets	30,957	25,809
Present Value of Defined Benefit Obligation	<u>(36,895)</u>	<u>(45,189)</u>
Surplus / (Deficit)	<u>(5,938)</u>	<u>(19,380)</u>
Experienced Gains / (Losses) on Assets	3,137	5,339
Experienced Gains / (Losses) on Liabilities	2,815	265

	31 Mar 2009	31 Mar 2008	31 Mar 2007
	£(000)	£(000)	£(000)
Fair Value of Employer Assets	18,823	22,688	22,555
Present Value of Defined Benefit Obligation	<u>(28,034)</u>	<u>(26,970)</u>	<u>(30,305)</u>
Surplus / (Deficit)	<u>(9,211)</u>	<u>(4,282)</u>	<u>(7,750)</u>
Experienced Gains / (Losses) on Assets	(6,513)	(2,276)	(173)
Experienced Gains / (Losses) on Liabilities	(1,198)	(305)	-

AMOUNT RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

	31 Mar 2011	31 Mar 2010
	£(000)	£(000)
Actuarial Gains / (Losses) recognised in STRGL	<u>9,944</u>	<u>(10,113)</u>
Cumulative Actuarial Gains and Losses	<u>229</u>	<u>(9,715)</u>

	31 Mar 2009	31 Mar 2008	31 Mar 2007
	£(000)	£(000)	£(000)
Actuarial Gains / (Losses) recognised in STRGL	<u>4,792</u>	<u>3,330</u>	<u>2,021</u>
Cumulative Actuarial Gains and Losses	<u>398</u>	<u>5,190</u>	<u>1,890</u>

The employers contribution for the year to 31 March 2011 was 23.5% of pensionable salaries.

The Employer's contributions for the year to 31 March 2012 will be approximately £1,238,000.