

The Royal Borough of Kensington and Chelsea  
Tenant Management Organisation Limited

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2008

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COMPANIES HOUSE

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## ADMINISTRATIVE INFORMATION

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The current directors, senior managers and company secretary are listed below and changes to those who served during the year 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 and received no emoluments.

Ms J Rawlings – Chair	Chelsea Area Board Member
Mr S Flood	North Kensington Area Board Member
Ms K Harris	Brompton Area Board Member
Mr R Kerr-Bell	Kensal Area Board Member
Ms S Murphy OBE	Notting Hill Area Board Member
Mr M Beverley	Boroughwide Board Member
Mr B Cann	Boroughwide Board Member
Mrs S Collet	Boroughwide Board Member
Councillor E Campbell	RBKC Appointee
Councillor M Condon-Simmonds	RBKC Appointee
Councillor E Dent Coad	RBKC Appointee
Councillor D Lindsay	RBKC Appointee
Councillor Q Marshall	RBKC Appointee
Mr P Chapman	Independent
Mr I Doolittle	Independent
Mr A Kubica	Independent
Mr P Okali	Independent
Ms S Parsons	Independent

### SENIOR MANAGEMENT

Mrs H Evans BA (Hons)	Chief Executive
Mrs S Belgrave BA (Hons) MBA	Director of Housing and Business Development
Mr L Good BSc. FRICS	Director of Technical Services
Mr I Warner FCA	Interim Director of Financial Services

### COMPANY SECRETARY

Mr G Pashley BA MIPD ACIS

### REGISTERED OFFICE

Charles House 4<sup>th</sup> Floor  
375 Kensington High Street  
London  
W14 8QH

### AUDITOR

BAKER TILLY UK  
AUDIT LLP  
1st Floor  
46 Clarendon Road  
Watford  
WD17 1JJ

### BANKERS

Lloyds Bank  
P.O.BOX 17328  
11-15 Monument Street  
London  
EC3V 9JA

### SOLICITORS

Lawrence Graham  
LLP  
190 Strand  
London  
WC2R 1JN

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## REPORT OF THE DIRECTORS

Year ended 31 March 2008

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The directors present their report and financial statements for the year ended 31 March 2008.

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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; and
- 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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 Directors are responsible for preparation of the Directors' report and other information contained in the Annual Report. They are also responsible for the maintenance and integrity of the Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited (TMO) website; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibilities for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### PRINCIPAL ACTIVITIES

The company's principal activity during 2007/08 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 12th 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 TMO is a not-for-profit company owned by its members who are residents of RBKC's housing stock.

The Directors report that significant progress has been made in several key areas during the 2007/08 financial year. The TMO was honoured by the Audit Commission in July 2007 when the Secretary of State for Communities and Local Government, Ruth Kelly, presented us with their Excellence Award. The Award was made to the eight organisations nationwide which achieved top marks in the Audit Commission's inspections in 2006. Since they began, only 42 out of the 1,000 housing organisations inspected have achieved 'three stars with excellent prospects for improvement.' Since then the TMO has launched a series of service and structural reviews which will deliver steady and continuous improvement in key service areas as well as achieving significant efficiency savings.

The stock investment programme, managed by the TMO on behalf of RBKC, invested £20.2 million in maintaining and improving RBKC's housing stock. The TMO remains on track to deliver all works within the Decent Homes programmes by the end of the 2008/09 financial year. The Decent Homes grant of £43 million awarded by the Government will also be fully expended by then.

A Stock Options Review commenced during 2007/08 and is a formal study by RBKC, in partnership with the

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## REPORT OF THE DIRECTORS

Year ended 31 March 2008

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TMO, to find the best method of continuing to maintain the housing stock at a decent standard in the long term. The TMO held an Extraordinary General Meeting (EGM) in March 2008. For all the resolutions, the Board received overwhelming support with more than 90% of those voting wanting it to continue to act in the best interests of the TMO. What has become clear however is that the constitution itself is out dated and does not meet all the requirements of the new Companies Act. This is not surprising given that it has been in place for many years and was written when the TMO was operating in a different environment. The Board has agreed to undertake a comprehensive review over the next six months. The project is called "renewing excellence" and its aim is to put a constitution in place that fully meets the needs of members, residents, RBKC and the TMO.

In the year under review a profit before taxation of £615,211 was made which compares with a loss before taxation of £224,106 in the previous year. The main reasons for the improvement in profitability are lower staff costs and the benefits of shared services. The effect of the FRS17 adjustment in the current year was to increase profit slightly. This increase in profit arises in spite of a below inflation increase in the Management Fee received from the Council which amounted to £11.8 million for the year under review compared to a fee of £11.6 million in 2006/07. The above factors were effectively managed by a continuing series of value for money reviews that have increased efficiency and reduced future costs within the TMO. These have included a reduction in staff and the number of agency staff and contractors used by the TMO as well as a reduction in some central administration costs such as printing and telephony, where significant efforts have been made to reduce costs.

Additional income has been achieved by increasing the number of clients subscribing to the Community Alarm Service and increasing income from the Commercial Portfolio. The directors aim to increase income from selling services to other ALMOs and housing organisations in the coming year and will continue to consider the opportunities for efficiency savings arising through shared service arrangements with other providers.

## DIRECTORS

The current directors are listed on page 1 of the accounts.

Some directors are elected by TMO members in their Area or Boroughwide, others are appointed by the Council and independents are appointed by the Board. Their terms of office are limited according to the Constitution. The following individuals were appointed or left office during the year and subsequently:

Councillor M Condon-Simmonds	Appointed 24 May 2007	RBKC Appointee
Ms K Harris	Appointed 25 June 2007	Brompton Area Board Member
Mr R Kerr-Bell	Appointed 25 June 2007	Kensal Area Board Member
Mr N Dunne	Appointed 25 June 2007	Portobello Area Board Member
Mr P Chapman	Appointed 6 September 2007	Independent
Mr A Kubica	Appointed 6 September 2007	Independent
Councillor Q Marshall	Appointed 21 May 2008	RBKC Appointee
Councillor E Dent Coad	Appointed 27 June 2008	RBKC Appointee
Councillor M Daley	Resigned 12 May 2007	RBKC Appointee
Mrs J Lamb	Resigned 25 June 2007	Brompton Board Member
Mr A Flemming	Resigned 25 June 2007	Portobello Area Board Member
Mrs A Braithwaite	Resigned 25 June 2007	Kensal Area Board Member
Mr N Dunne	Removed from office 19 March 2008	Portobello Area Board Member
Mr A Erickson	Removed from office 19 March 2008	Boroughwide Board Member
Councillor J Cox	Resigned 21 May 2008	RBKC Appointee
Councillor M Lasharie	Resigned 27 June 2008	RBKC Appointee
Mr T Rice	Deceased 28 August 2008	Chelsea West Area Board Member

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## REPORT OF THE DIRECTORS

Year ended 31 March 2008

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### SENIOR MANAGEMENT

During the year, Mr G Perry BA (Hons) FCIH, Chief Executive, Mr I Twyford BSc. MCIH, and Mr R Lee FCA CPA resigned from the senior management team.

Mrs S Belgrave BA (Hons) MBA was appointed to the senior management team in April 2007. Mrs H Evans BA (Hons) as Chief Executive in October 2007. Mrs J Woods BSc ACA was appointed to the senior management team for the period March to May 2008 and Mr I Warner FCA from May 2008.

### CHARITABLE DONATIONS

The TMO made no charitable donations during the year (2007: £nil).

### AUDITOR

Baker Tilly UK Audit LLP was re-appointed, further to a re-tender process and 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.

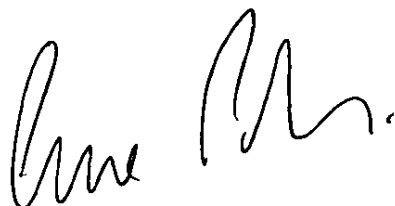
### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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 11 September 2008.



George Pashley BA MIPD ACIS  
Company Secretary

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

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We have audited the financial statements on pages 6 to 17.

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 Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the financial statements. In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors 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 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.

**OPINION**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 March 2008 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

*Baker Tilly UK Audit LLP*

BAKER TILLY UK AUDIT LLP

Registered Auditor  
Chartered Accountants  
1st Floor  
46 Clarendon Road  
Watford  
WD17 1JJ

*22 September 2008*

# 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 2008

#### PROFIT AND LOSS ACCOUNT

	Notes	2008 £	2007 £
TURNOVER	1	12,195,671	12,049,055
Administrative expenses		(12,789,002)	(13,059,817)
Other operating income		1,132,989	812,793
OPERATING PROFIT/(LOSS)	2	539,658	(197,969)
Interest receivable	4	107,553	79,863
Interest payable	5	(32,000)	(106,000)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		615,211	(224,106)
Taxation on profit/(loss) on ordinary activities	6	(179,025)	55,739
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED PROFIT FOR THE YEAR	11	<u>436,186</u>	<u>(168,367)</u>

#### CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the above two financial years.

#### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2008 £	2007 £
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		<u>436,186</u>	<u>(168,367)</u>
OTHER RECOGNISED GAINS AND LOSSES			
Actuarial gains on the defined benefit pension scheme	16	3,330,000	2,021,000
Deferred tax on actuarial gains on the defined benefit pension scheme		(999,000)	(606,300)
	11	<u>2,331,000</u>	<u>1,414,700</u>
TOTAL RECOGNISED GAINS AND LOSSES FOR THE FINANCIAL YEAR		<u>2,767,186</u>	<u>1,246,333</u>

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited


BALANCE SHEET  
As at 31 March 2008

		2008	2007
	Notes	£	£
<b>FIXED ASSETS</b>			
Tangible assets	7	826,416	927,220
<b>CURRENT ASSETS</b>			
Debtors	8	707,867	751,943
Cash at bank and in hand		<u>3,137,958</u>	<u>1,143,163</u>
		3,845,825	1,895,106
<b>CREDITORS: amounts falling due within one year</b>	9	<u>(2,942,952)</u>	<u>(1,346,718)</u>
<b>NET CURRENT ASSETS</b>		902,873	548,388
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,729,289	1,475,608
<b>PROVISIONS: Deferred tax</b>	14	<u>-</u>	<u>(61,886)</u>
<b>NET ASSETS BEFORE DEFINED BENEFIT PENSION SCHEME LIABILITY</b>		1,729,289	1,413,722
Defined benefit pension scheme liability	16	<u>(2,905,748)</u>	<u>(5,357,367)</u>
<b>TOTAL NET LIABILITIES, INCLUDING DEFINED BENEFIT PENSION SCHEME DEFICIT</b>		<u>(1,176,459)</u>	<u>(3,943,645)</u>
<b>CAPITAL AND RESERVES</b>			
Profit and loss account		1,729,289	1,413,722
Pension reserve		<u>(2,905,748)</u>	<u>(5,357,367)</u>
Members' funds	11	<u>(1,176,459)</u>	<u>(3,943,645)</u>

As disclosed in note 10, members derive no financial interest from their shareholding and accordingly all reserves are classed as non-equity.

The financial statements on pages 6 to 17 were approved and authorised for issue by the board on 11 September 2008 and signed on its behalf by:

  
Miss J Rawlings  
Chair

  
Mr M Beverley  
Chair of Audit and Performance Review Committee



The Royal Borough of Kensington and Chelsea Tenant Management  
Organisation Limited  
CASH FLOW STATEMENT  
For the year ended 31 March 2008

	Notes	2008 £	2007 £
Net cash inflow/(outflow) from operating activities (see below)		2,086,680	(723,343)
Returns on investments and servicing of finance - interest received		107,553	79,863
Taxation refunded/(paid)		27,809	(73,872)
Capital expenditure - payments to acquire tangible fixed assets		(227,247)	(551,578)
Increase/(decrease) in cash		<u>1,994,795</u>	<u>(1,268,930)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

Increase/(decrease) in cash in the period		1,994,795	(1,268,930)
Change in net funds	12	1,994,795	(1,268,930)
Net funds at 1 April 2007		1,143,163	2,412,093
Net funds at 31 March 2008		<u>3,137,958</u>	<u>1,143,163</u>

RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM  
OPERATING ACTIVITIES

	2008 £	2007 £
Operating profit/(loss)	539,658	(197,969)
Depreciation	328,051	241,412
Decrease in debtors	171,790	937,067
Increase/(decrease) in creditors	1,218,924	(1,822,122)
Difference between pension charge to operating costs and pension contributions paid	(171,743)	118,269
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	<u>2,086,680</u>	<u>(723,343)</u>

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## ACCOUNTING POLICIES

For the year ended 31 March 2008

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### ACCOUNTING CONVENTION

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

The accounting policies adopted are consistent with those of prior years.

### 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:

Office furniture	20%
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Computer and office equipment	33%
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Where the recoverable amount (the higher of net realisable value and value in use) of a fixed asset is below the carrying value the asset value is written down and the impairment is charged to the profit and loss account.

### LEASED ASSETS

The annual rentals in respect of operating leases are charged to profit and loss 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. Certain elements of turnover and other operating income in 2007 have been reclassified so that they are shown on a consistent basis.

### 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 2008

### 1 TURNOVER

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

### 2 OPERATING PROFIT/(LOSS)

2008

2007

£

£

This is stated after charging:

Depreciation	328,051	241,412
Payments in respect of operating leases - land and buildings	436,181	243,308
Auditors' remuneration	27,025	25,400
Exceptional item - voluntary severance	<u>941,785</u>	<u>-</u>

### 3 STAFF COSTS

2008

2007

£

£

Wages and salaries	5,569,166	5,644,065
Social security costs	464,993	497,720
Other pension costs	<u>1,030,000</u>	<u>1,111,000</u>

	<u>7,064,159</u>	<u>7,252,785</u>
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Average number of employees during the year:

	2008	2007
	No.	No.
Housing	82	92
Technical services	43	62
Support services	<u>61</u>	<u>46</u>

Total	<u>186</u>	<u>200</u>
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### ANALYSIS OF PENSION COSTS

2008

2007

£

£

Total operating charge in respect of defined benefit scheme	<u>1,030,000</u>	<u>1,111,000</u>
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Total pension cost	<u>1,030,000</u>	<u>1,111,000</u>
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# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

4	INTEREST RECEIVABLE	2008 £	2007 £
	On bank deposits	<u>107,553</u>	<u>79,863</u>
5	INTEREST PAYABLE	2008 £	2007 £
	Interest on defined benefit pension scheme liabilities	(1,653,000)	(1,493,000)
	Expected return on defined benefit pension scheme assets	<u>1,621,000</u>	<u>1,387,000</u>
		<u>(32,000)</u>	<u>(106,000)</u>
6	TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES	2008 £	2007 £
	DIRECT TAX		
	UK corporation tax on profit/(loss) for the year	<u>377,310</u>	<u>(27,809)</u>
	DEFERRED TAX		
	Origination and reversal of timing differences	(198,285)	(27,930)
	Total deferred tax credit (see note 14)	<u>(198,285)</u>	<u>(27,930)</u>
		<u>179,025</u>	<u>(55,739)</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>615,211</u>	<u>(224,106)</u>
	Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 30% (2007: 30%)	184,563	(67,232)
	Effects of:		
	Capital allowances less than/(in excess) of depreciation	17,089	(32,691)
	Expenses not deductible for tax purposes (primarily impact of FRS17 adjustment)	(19,124)	67,200
	Short term timing differences due to pension contributions accrual	200,374	-
	Small companies rate adjustment	<u>(5,592)</u>	<u>4,914</u>
	Corporation tax charge/(credit) for the year	<u>377,310</u>	<u>(27,809)</u>
	TAXATION ON OTHER RECOGNISED GAINS AND LOSSES	2008 £	2007 £
	DEFERRED TAX (see note 14)		
	Origination and reversal of timing differences	<u>999,000</u>	<u>606,300</u>

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

### 6 TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (continued)

#### FACTORS AFFECTING FUTURE TAX CHARGES

Future tax charges may be affected by the following:

1. Other Arms Length Management Organisations which have their respective Local Authorities as their sole member are not taxed on transactions with the Local Authority. The company is seeking professional advice with a view to establishing confirmation of the tax status of the company in that it should be taxed in line with other Arms Length Management Organisations.
2. The company is currently taxable at a rate of 30%. The tax rate applicable to companies in the United Kingdom is, to an extent, dependent on their taxable profits and any decrease in the taxable profits may result in a decrease in the effective tax rate.

7	TANGIBLE FIXED ASSETS		Furniture and equipment £
	COST		
	At 1 April 2007		2,998,226
	Additions		227,247
	At 31 March 2008		<u>3,225,473</u>
	DEPRECIATION		
	At 1 April 2007		2,071,006
	Charge for the year		328,051
	At 31 March 2008		<u>2,399,057</u>
	NET BOOK VALUE		
	At 31 March 2008		<u>826,416</u>
	At 31 March 2007		<u>927,220</u>

8	DEBTORS	2008	2007
		£	£
	Amounts falling due within one year		
	Trade debtors	310,034	275,862
	Less: provision for bad debts	<u>(72,390)</u>	<u>(59,459)</u>
		237,644	216,403
	Other debtors	342,396	239,758
	Prepayments and accrued income	<u>127,827</u>	<u>295,782</u>
		<u>707,867</u>	<u>751,943</u>

Other debtors include a deferred tax asset of £155,523 (2007: £nil). This relates principally to pension costs accrued in 2008 but paid post year end. It is expected that this asset will crystallise and the timing difference will reverse in the forthcoming year.

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2008

9	CREDITORS: amounts falling due within one year	2008 £	2007 £
	Trade creditors	263,008	290,583
	Corporation tax	377,310	-
	Other taxes and social security	629,136	150,076
	Other creditors	110,632	33,436
	Accruals and deferred income	<u>1,562,866</u>	<u>872,623</u>
		<u>2,942,952</u>	<u>1,346,718</u>

Accruals and deferred income includes voluntary severance payments of £941,785 (2007: £nil)

## 10 SHARES

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.

## 11 PROFIT AND LOSS ACCOUNT / MOVEMENT IN MEMBERS' FUNDS

	Profit and loss account excluding pension liability £	Pension reserve £	Total members' funds £
At 1 April 2007	1,413,722	(5,357,367)	(3,943,645)
Retained profit for the year	436,186	-	436,186
Other recognised gains and losses	<u>-</u>	<u>2,331,000</u>	<u>2,331,000</u>
	1,849,908	(3,026,367)	(1,176,459)
Transfer	<u>(120,619)</u>	<u>120,619</u>	<u>-</u>
At 31 March 2008	<u>1,729,289</u>	<u>(2,905,748)</u>	<u>(1,176,459)</u>

## 12 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2007 £	Cash Flows £	Non-cash changes £	As At 31 March 2008 £
Cash at bank and in hand	<u>1,143,163</u>	<u>1,994,795</u>	<u>-</u>	<u>3,137,958</u>

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2008

## 13 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 sources of income are a management fee for the management of the RBKC housing stock and other charges to the Council for the community alarm services and consultancy services. These amounted to £11,755,992 (2007: £11,633,000). The company also purchased services from RBKC in the year totalling £723,938 (2007: £1,486,616). At the end of the financial year, a net balance of £12,250 was due to the company (2007: £38,278 was due to RBKC).

14	DEFERRED TAX	2008 £	2007 £
	Deferred tax liabilities/(assets) are comprised as follows:		
	Capital allowances in excess of depreciation and timing differences	(155,523)	61,886
	Deferred tax asset on defined benefit pension scheme	<u>(1,277,776)</u>	<u>(2,295,900)</u>
		<u>(1,433,299)</u>	<u>(2,234,014)</u>

## MOVEMENT IN DEFERRED TAX

	Deferred tax asset on defined benefit pension scheme £	Other deferred tax £	Total £
Deferred tax (asset) at 1 April 2007	(2,295,900)	61,886	(2,234,014)
Charged/(credited) to the profit and loss account	19,124	(217,409)	(198,285)
Charged to the statement of total recognised gains and losses	<u>999,000</u>	<u>-</u>	<u>999,000</u>
Deferred tax (asset) at 31 March 2008	<u>(1,277,776)</u>	<u>(155,523)</u>	<u>(1,433,299)</u>

Deferred tax is provided at a rate of 30% (2007: 30%).

## 15 LEASE COMMITMENTS

As at 31 March 2008 the company has an annual lease commitment in respect of land and buildings of £415,472 (2007: £563,784); the lease expires within 2 to 5 years (2007: same). The company received annual licence fees of £30,400 (2007: £30,400) in relation to the lease commitments.

## 16 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 (Hymans Robertson) and were set on the basis of:

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

### 16 RETIREMENT BENEFITS (continued)

- a) The relationship between the assessed value of assets and the accrued value of liabilities of pensionable service to 31 March 2007;
- 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 2007. The market value of the scheme's assets at 31 March 2007 was £409.6 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.

The level of employer's contribution funding was set at 20.5% of pensionable salaries for the year ended 31 March 2007, 25.2% for the year ended 31 March 2008 and 23.5% for the year ending 31 March 2009. 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.

The financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2008 were those from the beginning of the year (i.e. 31 March 2007) and have not been changed during the year. These assumptions are shown in the table below, together with the assumptions as at previous year ends and the financial assumptions used in assessing the pension deficit included in the balance sheet under FRS17 as at March 2008.

ASSUMPTIONS AS AT	31 March 2008 % p.a.	31 March 2007 % p.a.	31 March 2006 % p.a.
Price increases	3.6	3.2	3.1
Salary increases	5.1	4.7	4.6
Pension increases	3.6	3.2	3.1
Discount rate	6.9	5.4	4.9

	Long Term Return at 31 March 2008 % p.a.	Assets at 31 March 2008 £000	Long Term Return at 31 March 2007 % p.a.	Assets at 31 March 2007 £000	Long Term Return at 31 March 2006 % p.a.	Assets at 31 March 2006 £000
ASSETS (EMPLOYER)						
Equities	7.7	15,809	7.8	16,345	7.4	14,777
Bonds	5.7	4,827	4.9	4,593	4.6	4,570
Property	5.7	950	5.8	1,058	5.5	-
Cash	4.8	1,200	4.9	656	4.9	1,145
Total		<u>22,786</u>		<u>22,652</u>		<u>20,492</u>



# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2008

## 16 RETIREMENT BENEFITS (continued)

	2008 £000	2007 £000
<b>NET PENSION LIABILITY AS AT THE YEAR END</b>		
Estimated employer assets	22,786	22,652
Present value of scheme liabilities	(26,826)	(30,154)
Present value of unfunded liabilities	<u>(144)</u>	<u>(151)</u>
Net pension liability	<u>(4,184)</u>	<u>(7,653)</u>
<b>MOVEMENT IN DEFICIT DURING THE YEAR</b>		
	2008 £000	2007 £000
Deficit at beginning of the year	(7,653)	(9,450)
Current service cost	(1,030)	(1,111)
Employer contributions	1,193	985
Contributions in respect of unfunded benefits	8	8
Net return on assets	(32)	(106)
Actuarial gains	<u>3,330</u>	<u>2,021</u>
Deficit at end of the year	(4,184)	(7,653)
Deferred tax	<u>1,278</u>	<u>2,296</u>
Net defined benefit pension scheme liability	<u>(2,906)</u>	<u>(5,357)</u>
<b>ANALYSIS OF AMOUNT RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)</b>		
	2008 £000	2007 £000
Actual return less expected return on pension scheme assets	(2,406)	(174)
Experience gains and losses arising on the scheme liabilities	(174)	-
Changes in financial assumptions underlying the present value of the scheme liabilities	<u>5,910</u>	<u>2,195</u>
Actuarial gains in pension scheme	<u>3,330</u>	<u>2,021</u>

# The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

### 16 RETIREMENT BENEFITS (continued)

#### HISTORY OF EXPERIENCE GAINS AND LOSSES

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Difference between the expected and actual return on assets	(2,406)	(174)	3,116	784	1,887
Value of assets	22,786	22,652	20,492	15,584	14,102
Percentage of assets	(10.6%)	(0.8%)	15.2%	5.0%	13.4%
Experience (losses)/gains on liabilities	(174)	-	9	79	(29)
Total present value of liabilities	26,970	30,305	29,942	23,659	22,097
Percentage of the total present value of liabilities	(0.6%)	-	0.0%	0.3%	(0.1%)
Actuarial gains/(losses) recognised in STRGL	3,330	2,021	(962)	376	455
Total present value of liabilities	26,970	30,305	29,942	23,659	22,097
Percentage of the total present value of liabilities	12.3%	6.7%	(3.2%)	1.6%	2.1%