

The Royal Borough of Kensington and Chelsea
Tenant Management Organisation Limited

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2012

FRIDAY



A1HX5OWX

A32

21/09/2012

#45

COMPANIES HOUSE

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 2011 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

Mrs F Edwards - Chair	Resident Board Member
Mr T Annis	Resident Board Member
Miss M Benjamin - Vice Chair	Resident Board Member
Mrs C Green	Resident Board Member
Mr R Kerr-Bell	Resident Board Member
Mr I Smith - Vice Chair	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

Mrs A Bosnjak-Szekeres Grad ICSA, LLB

REGISTERED OFFICE	AUDITOR	BANKERS	SOLICITORS
Network Hub 292a Kensal Road London W10 5BE	Baker Tilly UK Audit LLP The Pinnacle 170 Midsummer Boulevard Milton Keynes Buckinghamshire MK9 1BP	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 2012

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 2011/12 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 16th 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.

Overall this has been a very positive year for the KCTMO in terms of its Key Performance Indicators (KPI) and in achieving a breakeven budget before FRS 17 pension adjustments and tax.

The Repairs service has seen a challenging year but overall the service has been managed well and, with our contractor Morrison's deciding to leave the contract, it gives the KCTMO an opportunity to review how it wants to deliver this service. The Board are now investigating options and will make a decision in September 2012. In the short term we have appointed Willmott Dixon to provide this service and they started in June 2012. Our voids turnaround time continues to reduce down from 26.7 days to 23.9 days, and overall we have seen long term voids reduced to 3, this ensures we are maximising the usage of our housing stock. Our Contact Centre (CSC) has seen calls increase to over 70,000 (from 64,000) but met all its targets for the first time in four years with call abandonment falling from 17% to 6% and call waiting falling from 73 to 34 seconds. This change programme was delivered alongside improvements in the monitoring systems.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

REPORT OF THE DIRECTORS

Year ended 31 March 2012

The success of the Rent Income and Home Ownership teams in collecting rent, leasehold service charges and capital works charges have made a significant impact on the Housing Revenue Account (HRA) debt. During 2012 the rent and service charge arrears were reduced by £158k and the capital works debt by £1,006k. Over the last three years the KCTMO has reduced the overall arrears by over £4m to £4.7m as at March 2012. This has been achieved against the background of rent increases and difficult economic conditions.

The KCTMO and RBKC have worked together through the Business Change Project which has focused on delivering the outcomes of the Stock Finance and Development Project. This focuses on two areas: Value for Money (VFM) and Asset Management.

During 2012 the organisation has delivered a number of key aspects of its VFM strategy with a £400K saving on the management fee agreed for 2012/13, reducing HRA recharges by £53K and saving £800K on cyclical decorations contracts. The TMO is also in the process of procuring four long term contracts. We also completed a number of service reviews including the Asset, Investment and Engineering Team, Neighbourhood Management and Caretaking Service with the aim to reduce costs and improve services to our residents. A number of other objectives have also been delivered including a review of all SLAs between the council and the TMO, and installation of an Electronic Document management system to improve efficiency across teams. In February 2012 development of the new office in the south of the borough was completed. Here the TMO invested £250k to improve resident access in the south of the borough to bring it in line with that of our office in Kensal Road where we had 10,000 visitors in 2011/12. This ensures we are giving residents the access to services to meet their needs. We also expanded our community alarm service which now supports over 2000 vulnerable residents in the borough, the majority paying for this service privately. The TMO also managed to secure 100% of its previous Supporting People funding of £220,000 from Housing Benefit which means our residents will continue to receive much needed support to enable them to live independently. We are also currently reviewing our parking service to increase income to the HRA.

As the Country moved to digital TV, KCTMO delivered the £4 Million investment programme to enable this switchover to take place in RBKC housing stock. By the time of the switchover in April 2012 97% of the infrastructure had been completed and 83% of the internal faceplates installed. The take-up of faceplates at 83% is above the average for London Boroughs.

The Company's Growth Strategy is part of the VFM Strategy and the Business Plan. KCTMO agreed a growth strategy to increase income and protect our services. The first success of this was winning the contract to manage the Stable Way Travellers site for RBKC. Going forward the KCTMO will be focusing on exploring Asset Management ownership, management contracts and exploring the repairs service and how this service can be best delivered.

This has been a year of developing our asset management strategy and ensuring we deliver our investment. In reviewing our Capital Investment service we completed a restructure of this area which will improve the performance of the team going forward. This year we delivered significant kitchen and bathrooms programmes, boiler and lift replacements, fire safety works and a number of structural and external repairs. Overall the TMO achieved an investment spend of 98.7% of budget compared to 83% last year which evidences the positive impact of the changes.

Working with RBKC, the TMO has been reviewing options for providing additional homes. This is known as the Hidden Homes programme. We have initiated work in the role of developer on three sites in this programme in order to deliver against the Council's ambitions to sustain affordable housing whilst also building capacity to expand into new areas of work. The council has allocated £900,000 to deliver housing on these three sites which will deliver 12 homes. Additionally the TMO will be delivering £6.2 million additional capital investment into Grenfell Tower on the Lancaster West Estate. This will extend the life of the block, greatly improve its fuel efficiency, the quality of life of residents and support the wider regeneration of the area alongside the development of a new Academy beside it. RBKC have allocated the funds for this investment from out of the proceeds of the disposal of vacant basement spaces at Elm Park Gardens.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

REPORT OF THE DIRECTORS

Year ended 31 March 2012

Resident Engagement continues to develop capacity with over 2,000 residents involved in decision making or consultation Building on the TMO in Touch campaign of 2011 which resulted in 2200 residents contributing their views and an overall satisfaction rate of 79%, we have been running the 'Get on Board Campaign' which focused on delivering 16 local estate road shows This attracted almost 600 residents 90% of whom were new to being involved with the company The TMO and RBKC worked closely together to produce the Annual Report to tenants in line with the new regulatory framework and completed the caretaking review as one of the areas in which residents wanted to see improvements

Last year the TMO received 14 Internal Audit reports with the outcome of one substantial assurance for Leasehold Income and Collection and Debt Recovery and 13 satisfactory assurances These covered areas assessed to be high risk such as Responsive Repairs and Voids

In terms of regulation and compliance RBKC formally reviews the performance of the TMO and a report from the Lead member for Housing is then reported to the TMO Board and the Housing Scrutiny Committee The report for 2011/12 identifies ongoing improvements in service and how the TMO is working to deliver RBKC key objectives on Housing and investment

The base Management Fee received from the Council in 2012 amounted to £10,410k as compared to £10,509k for 2011 This represents a zero inflationary increase and no drawdown from Lancaster West reserves (2011 - £117k) It includes the income from the Stable Way contract as from January 2012 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

In the year under review there was an operating profit of £126k compared to £4,273k in the previous year The 2011 accounts included an exceptional credit of £4,498k in respect of Past Service Credits on the replacement of the Retail Price Index with the Consumer Price Index for uprating of public service pensions After removing all the adjustments required for pension fund accounting under FRS 17, this equates to an operating surplus of £3k (2011 - £101k) This breakeven position was achieved whilst absorbing inflation, the costs incurred in the restructuring of the Asset, Investment and Engineering teams and undertaking major contract procurements

The FRS 17 valuation of the pension scheme was updated to 31st March 2012 and resulted in increased net pension liabilities from £5.9m at 31st March 2011 to £11.9m at 31st March 2012 This has been shown in the accounts as follows

	£k
Profit and Loss Account	(29)
Statement of Total Recognised Gains and Losses	(5,961)
Increase in liability	<u>(5,990)</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 Localism Act of 2011 brought into being a self-financing regime for the HRA, to commence as from 1st April 2012 Self-financing is designed to give local authorities the resources, incentives and flexibility they need to manage their own housing stock over the long term With self-financing the Council can keep its rental income and this provides for greater certainty as to the future revenues of the HRA This is in contrast to the old system of rent pooling and annual grant settlements Initial plans from RBKC indicate that this new system of finance will result in surpluses on the HRA revenue account The Council and the TMO are reviewing the resources this provides as against the requirement for investment in the housing stock and are considering the options and challenges that this change in financing brings

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

REPORT OF THE DIRECTORS

Year ended 31 March 2012

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

Mrs S Collet	Resigned	09/05/2012
Ms K Harris	Resigned	09/05/2012
Mr T Annis	Appointed	09/05/2012
Miss M Benjamin	Appointed	09/05/2012

CHARITABLE DONATIONS

The TMO made no charitable donations during the year (2011: £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 26th July 2012.

Mrs A Bosnjak-Szekeres Grad ICSA, LLB
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 2012 and of its loss 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

The Pinnacle

170 Midsummer Boulevard

Milton Keynes

Buckinghamshire

MK9 1BP

Date 2.8.12

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 2012

PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	2012 £	2011 £
TURNOVER	1	11,151,577	11,406,166
Administrative expenses before exceptional item	2	(12,390,783)	(12,696,275)
Exceptional item	2	-	4,498,000
Total administrative expenses after exceptional item		(12,390,783)	(8,198,275)
Other operating income		1,365,113	1,065,107
OPERATING PROFIT	2	125,907	4,272,998
Interest receivable		-	4,926
Other finance charges	4	(151,000)	(679,000)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(25,093)	3,598,924
Taxation on (loss) / profit on ordinary activities	5	(42,144)	(40,322)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			
AND RETAINED (LOSS) / PROFIT FOR THE YEAR	10	<u>(67,237)</u>	<u>3,558,602</u>

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Notes</i>	2012 £	2011 £
(LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	10	<u>(67,237)</u>	<u>3,558,602</u>
OTHER RECOGNISED GAINS AND LOSSES			
Actuarial (losses) / gains on the defined benefit pension scheme	14	(5,961,000)	9,944,000
		<u>(5,961,000)</u>	<u>9,944,000</u>
TOTAL RECOGNISED (LOSSES) / GAINS FOR THE FINANCIAL YEAR		<u><u>(6,028,237)</u></u>	<u><u>13,502,602</u></u>

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

BALANCE SHEET

As at 31 March 2012

Company Registration Number 3048135

	Notes	£	2012 £	£	2011 £
FIXED ASSETS					
Tangible assets	6		1,630,842		1 403,093
CURRENT ASSETS					
Debtors	7	949,184		761,146	
Cash at bank and in hand		<u>1,018,661</u>		<u>1,285,950</u>	
		1,967,845		2,047,097	
CREDITORS amounts falling due within one year	8	<u>(1,390,120)</u>		<u>(1,203,385)</u>	
NET CURRENT ASSETS			577,725		843,712
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>2,208,567</u>		<u>2,246,804</u>
NET ASSETS BEFORE DEFINED BENEFIT PENSION SCHEME LIABILITY			<u>2,208,567</u>		<u>2,246,804</u>
Defined benefit pension scheme liability	14		(11,928,298)		(5,938,298)
TOTAL NET LIABILITIES, INCLUDING DEFINED BENEFIT PENSION SCHEME DEFICIT			<u>(9,719,731)</u>		<u>(3,691,494)</u>
CAPITAL AND RESERVES					
Profit and loss account excluding pension scheme liability	10		2,208,567		2,246,804
Pension Reserve	10		<u>(11,928,298)</u>		<u>(5,938,298)</u>
Members' funds	10		<u>(9,719,731)</u>		<u>(3,691,494)</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 26th July 2012 and signed on its behalf by

Mrs F Edwards
Chair

Mr R Ken Bell
Chair of Finance, Audit and Risk Committee

F Edwards

The Royal Borough of Kensington and Chelsea Tenant Management
Organisation Limited
CASH FLOW STATEMENT
For the year ended 31 March 2012

	<i>Notes</i>	2012 £	2011 £
Net cash inflow from operating activities		331,224	619,895
Returns on investments and servicing of finance - interest received		-	4,926
Taxation paid		(40,322)	(43,956)
Capital expenditure - payments to acquire fixed assets		(558,191)	(648,364)
Decrease in cash		<u>(267,289)</u>	<u>(67,499)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Decrease in cash in the period		<u>(267,289)</u>	<u>(67,499)</u>
Change in net funds	11	(267,289)	(67,499)
Net funds at 1 April 2011	11	<u>1,285,950</u>	<u>1,353,449</u>
Net funds at 31 March 2012	11	<u><u>1,018,661</u></u>	<u><u>1,285,950</u></u>
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
		2012 £	2011 £
Operating profit		125,907	4,272,998
Depreciation		330,441	307,328
(Increase) / Decrease in debtors		(188,038)	263,921
Increase / (Decrease) in creditors		184,913	(47,352)
Difference between pension charge to operating costs and pension contributions paid		(122,000)	321,000
Past Service gain (exceptional item)		-	(4,498,000)
NET CASH INFLOW FROM OPERATING ACTIVITIES		<u><u>331,224</u></u>	<u><u>619,895</u></u>

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

ACCOUNTING POLICIES

For the year ended 31 March 2012

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 £2,209K and is budgeted to breakeven for the coming year before adjustment for FRS17. The cash at bank is £1,019K 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:

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

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 as the service has been provided.

AGENCY ARRANGEMENTS

Income and expenditure is included in the profit and loss account where the company is acting as principal and bears the risks and rewards associated with those arrangements, rather than acting as an agent. Only the fee earned by the company in connection with agency arrangements is included within other operating income 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 2012

1 TURNOVER

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

2	OPERATING PROFIT	2012 £	2011 £
---	------------------	-----------	-----------

This is stated after charging / (crediting)

Past Service Credits (Exceptional Item - see note 3)	-	(4,498,000)
Depreciation	330,441	307,328
Payments in respect of operating leases - land and buildings	509,684	606,671
Auditor's remuneration - for statutory audit	20,550	21,332
- for other services	2,750	3,500

3	STAFF COSTS	2012	2011
		£	£
	Wages and salaries	5,674,030	5,420,599
	Social security costs	492,719	456,473
	Other pension costs	847,000	(3,172,000)
		<u>7,013,749</u>	<u>2,705,072</u>

Agency Staff Costs	<u>1,348,654</u>	<u>1,467,095</u>
--------------------	------------------	------------------

Pension costs are analysed as follows

Current service cost	847,000	1,326,000
Past service (credit)	-	(4,498,000)
	<u>847,000</u>	<u>(3,172,000)</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.

	2012 No	2011 No
Average number of FTE employees during the year		
Housing	70	70
Technical services	51	49
Support services	44	42
Total	<u>165</u>	<u>161</u>
Average number of FTE agency staff during the year	<u>28</u>	<u>32</u>

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

4	OTHER FINANCE CHARGES	2012 £	2011 £
	Interest on defined benefit pension scheme liabilities	(2,028,000)	(2,328,000)
	Expected return on defined benefit pension scheme assets	<u>1,877,000</u>	<u>1,649,000</u>
		<u>(151,000)</u>	<u>(679,000)</u>
5	TAXATION ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES	2012 £	2011 £
	DIRECT TAX		
	UK corporation tax on (loss) / profit for the year	<u>42,144</u>	<u>40,322</u>
		<u>42,144</u>	<u>40,322</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

(Loss)/Profit on ordinary activities before tax	<u>(25,093)</u>	<u>3,598,924</u>
(Loss)/Profit multiplied by the standard rate of corporation tax in the UK of 20% or 21%	(5,019)	755,774
Effects of		
Adjustment for non trading activities	<u>47,163</u>	<u>(715,452)</u>
Corporation Tax charge for year	<u>42,144</u>	<u>40,322</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.

The company is currently taxable at a rate of 20%. 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 2012

6	TANGIBLE FIXED ASSETS COST	Office Furniture & Fit Out	Computer Equipment	Electronic Data Management System	Leasehold Improvements	Total
		£	£	£	£	£
	At 1 April 2011	1,119,947	983,589	165,171	-	2,268,707
	Additions	15,258	143,978	103,807	295,148	558,191
	At 31 March 2012	<u>1,135,205</u>	<u>1,127,567</u>	<u>268,978</u>	<u>295,148</u>	<u>2,826,898</u>

ACCUMULATED DEPRECIATION

					Total
	At 1 April 2011	184,640	671,372	9,603	865,615
	Charge for the year	124,626	154,788	47,285	330,441
	At 31 March 2012	<u>309,266</u>	<u>826,160</u>	<u>56,888</u>	<u>1,196,056</u>

NET BOOK VALUE

					Total
At 31 March 2012	<u>825,939</u>	<u>301,407</u>	<u>212,091</u>	<u>291,406</u>	<u>1,630,842</u>
At 31 March 2011	<u>935,307</u>	<u>312,217</u>	<u>155,569</u>	<u>-</u>	<u>1,403,093</u>

7	DEBTORS	2012 £	2011 £
	Amounts falling due within one year		
	Trade debtors	208,195	190,203
	Other debtors	191,904	61,018
	Prepayments and accrued income	<u>549,085</u>	<u>509,925</u>
		<u>949,184</u>	<u>761,146</u>

8	CREDITORS amounts falling due within one year	2012 £	2011 £
	Trade creditors	269,162	281,931
	Corporation tax	42,144	40,322
	Other taxes and social security	268,064	188,150
	Other creditors	13,000	10,950
	Accruals and deferred income	<u>797,749</u>	<u>682,032</u>
		<u>1,390,120</u>	<u>1,203,385</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 2012

10 PROFIT AND LOSS ACCOUNT / MOVEMENT IN MEMBERS' FUNDS

	Profit and loss account excluding pension liability £	Pension reserve £	Total members' funds £
At 1 April 2011	2,246,804	(5,938,298)	(3,691,494)
Retained loss for the year	(67,237)	-	(67,237)
Other recognised gains and losses - actuarial gain / (loss) on pension scheme	-	(5,961,000)	(5,961,000)
	<u>2,179,567</u>	<u>(11,899,298)</u>	<u>(9,719,731)</u>
Transfer	29,000	(29,000)	-
At 31 March 2012	<u>2,208,567</u>	<u>(11,928,298)</u>	<u>(9,719,731)</u>

11 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2011 £	Cash Flows £	Non-cash changes £	At 31 March 2012 £
Cash at bank and in hand	<u>1,285,950</u>	<u>(267,289)</u>	<u>-</u>	<u>1,018,661</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 £10,646,135 (2011: £10,902,873). The company also purchased services from RBKC in the year totalling £847,661 (2011: £807,731). At the end of the financial year, a net balance of £138,094 was due to the company, including £124,478 for the inter-entity balance and £13,616 owed to the company for other services to RBKC. (2011: £160,584 was due to company, including £4,507 due to RBKC for the inter-entity balance and £165,091 for other services to 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 £229,900 (2011: £233,013).

During the year the company recharged the Council for consultancy and other services for the amount of £837,247 (2011: £898,947).

The eight Resident Board Members have been paid expense allowances totalling £12,438 (2011: £12,409).

In 2011/12 KCTMO made an Agency Agreement with RBKC for providing a service of Digital TV for a period of 10 years and earned £1,000 as management fee.

KCTMO has agreed with RBKC the right to operate at Blantyre Street for a period of 10 years (March 2012 to February 2022) at nil rent.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

13 LEASE COMMITMENTS

As at 31 March 2012 the company has an annual lease commitment in respect of land and buildings of £524 346 (2011 £513 471) the lease expires within 5 to 10 years (2011 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 2012. 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 IAS19. 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 3.3%. 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. 2.5%.

Salary increases are then assumed to be 1.4% above RPI in addition to a promotional scale. This is a slightly lower long-term assumption than last year to reflect the continuing climate of low salary increases.

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

14 RETIREMENT BENEFITS (continued)

The actuary has produced a valuation as at 31 March 2012 for the purposes of FRS17

The key assumptions are

ASSUMPTIONS AS AT	31 March 2012	31 March 2011
	% p a	% p a
Pension Increase Rate	2.5%	2.7%
Salary Increase Rate	4.7%	5.0%
Expected Return on Assets	5.2%	6.1%
Discount Rate	4.6%	5.5%
RPI Inflation Rate	3.3%	3.5%
CPI Inflation Rate	2.5%	2.7%

ASSETS (EMPLOYER)	Long Term	Long Term
	% p a	% p a
Equities	5.3%	6.4%
Gilts	3.3%	4.4%
Other Bonds	4.6%	5.5%
Property	4.3%	5.4%
Cash	3.0%	3.0%
Alternative Assets	5.3%	6.4%

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 2011 for the year to 31 March 2012). 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	19.0 years	23.1 years
Retiring in 20 years	21.0 years	25.0 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	43,567	44,568	45,596
Projected service cost	1,018	1,057	1,097
Adjustment to mortality age rating assumption	+1 year	none	-1 year
Present value of defined benefit obligation	42,863	44,568	46,296
Projected service cost	1,005	1,057	1,109

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

14 RETIREMENT BENEFITS (continued)

FAIR VALUE OF EMPLOYER'S ASSET

	31 Mar 2012	31 Mar 2011
	£(000)	£(000)
Equities	20,890	25,694
Gilts	326	3,096
Properties	1,306	1,238
Cash	326	929
Alternative Assets	9,792	-
Total	32,640	30,957

BALANCE SHEET

	31 Mar 2012	31 Mar 2011
	£(000)	£(000)
Fair Value of Employer Assets	32,640	30,957
Present Value of Funded Plans	(44,568)	(36,804)
Net (Under) / Overfunding in Funded Plans	(11,928)	(5,847)
Present Value of unfunded liabilities	-	(91)
Net (Liability)	(11,928)	(5,938)

RECOGNITION IN THE PROFIT OR LOSS

	31 Mar 2012	31 Mar 2011
	£(000)	£(000)
Current Service Cost	847	1,326
Past Service (Gain)	-	(4,498)
Recognised in administrative expenses	847	(3,172)
Interest Cost	2,028	2,328
Expected Return on Employer Assets	(1,877)	(1,649)
Recognised in other finance charges	151	679
Total	998	(2,493)
Actual Return on Plan Assets	1,617	2,592

RECONCILIATION OF DEFINED BENEFIT OBLIGATION

	31 Mar 2012	31 Mar 2011
	£(000)	£(000)
Opening Defined Benefit Obligation	36,895	45,189
Current Service Cost	847	1,326
Interest Cost	2,028	2,328
Contribution by Member	300	287
Actuarial Losses / (Gains)	5,701	(6,807)
Past Service Cost / (Gain)	-	(4,498)
Estimated Unfunded Benefit Paid	-	(6)
Estimated Benefit Paid	(1,203)	(924)
Closing Defined Benefit Obligation	44,568	36,895

The Royal Borough of Kensington and Chelsea Tenant Management Organisation Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2012

14 RETIREMENT BENEFITS (continued)

RECONCILIATION OF FAIR VALUE OF EMPLOYER ASSETS	31 Mar 2012	31 Mar 2011
	£(000)	£(000)
Opening Fair Value of Scheme assets	30,957	25,809
Expected return on scheme assets	1,877	1,649
Actuarial (loss)/gain	(260)	3,137
Contributions by employer including unfunded benefits	969	1,005
Contributions by Scheme participants	300	287
Estimated benefits paid including unfunded benefits	(1,203)	(930)
Closing Fair Value of Employer Assets	<u>32,640</u>	<u>30,957</u>

AMOUNTS FOR THE CURRENT AND PREVIOUS ACCOUNTING PERIODS

	31 Mar 2012	31 Mar 2011
	£(000)	£(000)
Fair Value of Employer Assets	32,640	30,957
Present Value of Defined Benefit Obligation	<u>(44,568)</u>	<u>(36,895)</u>
Surplus / (Deficit)	<u>(11,928)</u>	<u>(5,938)</u>
Experienced Gains / (Losses) on Assets	(260)	3,137
Experienced Gains / (Losses) on Liabilities	-	2,815

	31 Mar 2010	31 Mar 2009	31 Mar 2008
	£(000)	£(000)	£(000)
Fair Value of Employer Assets	25,809	18,823	22,688
Present Value of Defined Benefit Obligation	<u>(45,189)</u>	<u>(28,034)</u>	<u>(26,970)</u>
Surplus / (Deficit)	<u>(19,380)</u>	<u>(9,211)</u>	<u>(4,282)</u>
Experienced Gains / (Losses) on Assets	5,339	(6,513)	(2,276)
Experienced Gains / (Losses) on Liabilities	265	(1,198)	(305)

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

	31 Mar 2012	31 Mar 2011
	£(000)	£(000)
Actuarial Gains / (Losses) recognised in STRGL	<u>(5,961)</u>	<u>9,944</u>
Cumulative Actuarial Gains and Losses	<u>(5,732)</u>	<u>229</u>

	31 Mar 2010	31 Mar 2009	31 Mar 2008
	£(000)	£(000)	£(000)
Actuarial Gains / (Losses) recognised in STRGL	<u>(10,113)</u>	<u>4,792</u>	<u>3,330</u>
Cumulative Actuarial Gains and Losses	<u>(9,715)</u>	<u>398</u>	<u>5,190</u>

The employer's contribution for the year to 31 March 2012 was 22.5% of pensionable salaries

The employer's contributions for the year to 31 March 2013 will be approximately £972,000