

Company Registration Number: 3048135

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

**REPORT AND FINANCIAL STATEMENTS**

For the year ended 31 March 2013

# 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 period since 31 March 2012 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
Ms A Duru	Resident Board Member
Mr K Kanodia - Vice Chair	Resident Board Member
Ms D Price	Resident Board Member
Mr I Smith	Resident Board Member
Mr B Tracey	Resident Board Member
Councillor M Condon-Simmonds	Council Appointee
Councillor J Blakeman	Council Appointee
Mr P Molyneux	Council Appointee
Mr J Zitron	Council Appointee
Mr S Brissenden	Independent
Mr P Chapman	Independent
Mr A Preiskel	Independent

### SENIOR MANAGEMENT

Mr R Black	Chief Executive
Mr A Parkes FCA	Executive Director of Financial Services
Ms S Jevans MCIH	Executive Director of Operations
Ms Y Birch	Executive Director of People and Performance

### COMPANY SECRETARY

Mrs A Bosnjak-Szekeres Grad ICSA, PGDip, LLB

### REGISTERED OFFICE

Network Hub  
292a Kensal Road  
London  
W10 5BE

### AUDITOR

Baker Tilly UK Audit LLP  
The Pinnacle  
170 Midsummer Boulevard  
Milton Keynes  
Buckinghamshire  
MK9 1BP

### BANKERS

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

### SOLICITORS

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 2013

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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 2012/13 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 17th 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 the Royal Borough of Kensington and Chelsea's (RBKC) 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 surplus of £48k before FRS 17 pension adjustments and tax.

The repairs service has seen a challenging year and with our contractor Morrison's deciding to leave the contract, it gave the KCTMO an opportunity to review how it wants to deliver this service. In the short term, the Board appointed Willmott Dixon to provide the service from June 2012. The Board also agreed to investigate its options for the future. Following a review, in January 2013 the Board agreed to set up a separate repairs company to deliver the service. The Board also made a decision to make an investment of £700k in establishing the company to run the responsive repairs service currently carried out by Willmott Dixon. The new company, Kensington & Chelsea TMO Repairs Direct Limited (Repairs Direct), will take over the service on 2nd September 2013. The company is a wholly owned subsidiary of KCTMO.

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

## REPORT OF THE DIRECTORS

Year ended 31 March 2013

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As at 31st March 2013, the investment in the subsidiary stood at £285k. The majority of the expenditure to March is in respect of the IT systems. The expenditure is shown as an investment in subsidiary undertaking on the balance sheet. The first consolidated accounts will be for the year to 31st March 2014 and incorporate the first seven months of trading.

Our voids turnaround time continued to reduce down from 23.9 to 22.65 days, which places us in the top quartile for this indicator. Although the number of calls to the Contact Centre saw an increase from over 70,000 to over 80,000, the average waiting time reduced from 34 seconds last year to 24 seconds in 2012/13.

The Rent Income and Home Ownership teams have continued their success in the collection of rents, leasehold service charges and capital works charges. Despite the difficult economic climate, the rent and service charge arrears were reduced by a further £226k and the capital works debt by £483k during 2013, bringing the overall arrears down by over £5m over the last four years. This has been achieved by the robust application of the collection processes. Two new Income Welfare Officers have been appointed for 2013/14 to provide assistance to residents to deal with the effects of the welfare benefit changes.

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. The new Director of Asset and Regeneration, Peter Maddison, was appointed in January 2013, followed by the senior managers in his department. The installation of the Electronic Document Management System, aimed to improve efficiency across teams, has been completed. The project has now moved to the development of workflows based on the technology. The £4m digital TV programme was completed in the early part of the year.

The review of our parking service resulted in the standardisation of parking charges and the change of use to storage facilities for two underutilised car parks. This will produce over £7m additional income for the Housing Revenue Account (HRA) over the period of the leases. Additional sites are also under review.

The KCTMO's Growth Strategy is part of the Value for Money Strategy and the Business Plan. We agreed a growth strategy to increase income and protect our services. The first success of the strategy was winning the contract to manage the Stable Way Travellers site for RBKC in 2012. In January 2013, the Board approved the investment of £700k into the KCTMO's subsidiary, the Kensington & Chelsea TMO Repairs Direct, to take over the responsive repair work service from Willmott Dixon. Staff will transfer to Repairs Direct from the current contractor under the TUPE legislation. Repairs Direct will add £5m to the turnover in a full year and increase the workforce by 30%.

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. Overall the KCTMO delivered 98.1% of the capital spend budget. We are continuing to work in partnership with RBKC to establish a coherent standard for HRA properties and review future investment and funding requirements. The level of spend will rise over the next three years and procurement and planning is underway for major engineering works due to commence in 2014.

Working with RBKC, the TMO has been reviewing options for providing additional homes under the 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. The first two projects are now on site and will complete during the current year. This will provide the first new council housing in RBKC since the 1980's. Additionally, the KC 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 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 2013

Resident Engagement continues to develop capacity with over 2,000 residents involved in decision making or consultation. We continued to deliver the 'Get on Board' campaign and 9 local estate road shows took place during the year with over 750 residents attending. We started preparation for the Employment and Training Road shows which will be held in 2013/14. Partnerships with the RBKC Housing and Workless Coordinator and local employment advice agencies were established. The TMO also established a Youth Forum which has undertaken various projects and activities and was successful in securing grants of £1750 to support its work. A successful residents' conference was held with 182 residents in attendance, which was an increase of over 80% on the previous year. The TMO produced the Annual Report to tenants on behalf of RBKC in line with the regulatory framework.

Successful capacity building training was organised for residents who were interested in serving on the TMO Board with over 80 participants. An increased number of candidates stood for the elections for resident Board member. Out of the 16 candidates 14 have attended the capacity building training. The elected Board members were amongst the attendees. The voting has increased by over 50%, to the highest number of votes in the recent years.

For the first time at the Annual General Meeting (AGM) members were able to cast their votes electronically, as well as by post. This has resulted in over 100% increase in the total number of votes. This year we have seen a significant increase in the number of new TMO members where over 500 residents have joined the TMO.

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 2012/13 identifies continuing improvements in service and how the TMO is working to deliver RBKC's key objectives on housing and investment. This is further backed up by the Five Year Review carried out by RBKC under the Modular Management Agreement which looked at over 20 areas of the business and assessed the KCTMO as 'good, with excellent prospects'.

Last year the TMO received 11 Internal Audit reports with the outcome of six substantial assurances, four satisfactory assurances and one limited assurance.

The base Management Fee received from the Council in 2012/13 amounted to £10,173k as compared to £10,410k for 2011/12. This represents a 1% inflationary factor, less the previously agreed cost savings under the Value for Money reviews of £400k. 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 a loss on ordinary activities before tax of £(444k) compared to £(25k) loss in the previous year. This was arrived at after making an adjustment in to administrative costs and interest of £(492k) in respect of the pension fund accounts under FRS17. (2012 - £(29k)).

After removing all the adjustments required for pension fund accounting under FRS 17, this equates to a profit of £48k before tax (2012 - £3k). This profit position was achieved whilst absorbing inflation, providing the cost savings previously agreed with RBKC, 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 2013 and resulted in reduction in net pension liabilities from £11.9m at 31st March 2012 to £6.4m at 31st March 2013. This has been shown in the accounts as follows:

Profit and Loss Account	£k
Statement of Total Recognised Gains and Losses	(493)
Decrease in liability	6,008
	<u>5,515</u>

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

## REPORT OF THE DIRECTORS

Year ended 31 March 2013

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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 2014. 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 KCTMO 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.

In conclusion, the KCTMO has consolidated and improved its performance this year, with a strengthened financial position. It has built a strong partnership with RBKC which is reflected in the end of year regulatory report and the 5 year review which evidences a continued and improved position over the last four years. The Board has focused on key strategic areas with a unanimous decision to set up and invest in its own repairs company to develop this key area of service to our residents and to grow our business in line with our business plan. The Board was also fully engaged in reviewing our asset investment and working with RBKC to look at how to increase investment going forward. The KCTMO is now delivering a number of new council homes for RBKC, which reflect our desire to address the key priorities and objectives the Council has in meeting its current and future housing need. Finally, the work on increasing resident engagement and TMO membership reflect our growing strength as a resident focused organisation, with increase numbers wanting to be involved at the highest level, 32% of members voting in elections and over 500 new members.

### 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 C Green	Resigned	23/07/2013
Mr R Kerr-Bell	Resigned	23/07/2013
Mr R Turner	Resigned	23/07/2013
Mr A Ward	Resigned	16/05/2013
Ms A Duru	Appointed	25/07/2013
Mr K Kanodia	Appointed	25/07/2013
Ms D Price	Appointed	25/07/2013
Mr B Tracey	Appointed	25/07/2013

#### Council Appointees

Councillor E Dent Coad	Resigned	31/10/2012
Councillor J Blakeman	Appointed	31/10/2012

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

## REPORT OF THE DIRECTORS

Year ended 31 March 2013

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### Independent Appointees

Mr J Dee		Resigned	31/12/2012
Mr S Brissenden		Appointed	25/07/2013

### Senior Management

Ms L Pemberton	Executive Director of People & Organisational Development	Resigned	07/07/2012
Ms Y Birch	Executive Director of People & Performance	Appointed	08/10/2012

### CHARITABLE DONATIONS

The TMO made no charitable donations during the year (2012: £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.

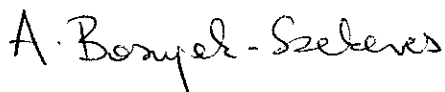
### STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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 25th July 2013.



Mrs A Bosnjak-Szekeres Grad ICSA, PGDip, LLB  
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 8 to 20. 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](http://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 2013 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.

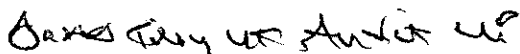
**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Report of the Directors 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: 20.8.17



# 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 2013

#### PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	2013 £	2012 £
TURNOVER	1	10,948,699	11,151,577
Administrative expenses		(12,316,012)	(12,390,783)
Other operating income		1,248,662	1,365,113
		<hr/>	<hr/>
OPERATING (LOSS) / PROFIT	2	(118,651)	125,907
Interest receivable		-	-
Other finance charges	4	(325,000)	(151,000)
		<hr/>	<hr/>
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		(443,651)	(25,093)
Taxation on loss on ordinary activities	5	(49,255)	(42,144)
		<hr/>	<hr/>
(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED (LOSS) FOR THE YEAR	11	<u>(492,906)</u>	<u>(67,237)</u>

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

#### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Notes</i>	2013 £	2012 £
(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	11	<u>(492,906)</u>	<u>(67,237)</u>
OTHER RECOGNISED GAINS AND LOSSES			
Actuarial gains / (losses) on the defined benefit pension scheme	15	6,008,000	(5,961,000)
		<hr/>	<hr/>
		6,008,000	(5,961,000)
		<hr/>	<hr/>
TOTAL RECOGNISED GAINS / (LOSSES) FOR THE FINANCIAL YEAR		<u>5,515,094</u>	<u>(6,028,237)</u>

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

## BALANCE SHEET

As at 31 March 2013

Company Registration Number: 3048135

	Notes	£	2013 £	£	2012 £
<b>FIXED ASSETS</b>					
Tangible assets	6		1,504,477		1,630,842
Investment in Subsidiary Undertaking	7		<u>284,625</u>		<u>-</u>
			1,789,102		1,630,842
<b>CURRENT ASSETS</b>					
Debtors	8	960,053		949,184	
Cash at bank and in hand		<u>941,129</u>		<u>1,018,661</u>	
		1,901,182		1,967,845	
<b>CREDITORS: amounts falling due within one year</b>	9	<u>(1,482,623)</u>		<u>(1,390,120)</u>	
<b>NET CURRENT ASSETS</b>			418,559		577,725
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>2,207,661</u>		<u>2,208,567</u>
<b>NET ASSETS BEFORE DEFINED BENEFIT PENSION SCHEME LIABILITY</b>			<u>2,207,661</u>		<u>2,208,567</u>
Defined benefit pension scheme liability	15		(6,412,298)		(11,928,298)
<b>TOTAL NET LIABILITIES, INCLUDING DEFINED BENEFIT PENSION SCHEME DEFICIT</b>			<u>(4,204,637)</u>		<u>(9,719,731)</u>
<b>CAPITAL AND RESERVES</b>					
Profit and loss account excluding pension scheme liability	11		2,207,661		2,208,567
Pension Reserve	11		<u>(6,412,298)</u>		<u>(11,928,298)</u>
Members' funds	11		<u>(4,204,637)</u>		<u>(9,719,731)</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 8 to 20 were approved and authorised for issue by the board on 25th July 2013 and signed on its behalf by:



Mrs F Edwards  
Chair



Miss M Benjamin  
Vice Chair

The Royal Borough of Kensington and Chelsea Tenant Management  
 Organisation Limited  
 CASH FLOW STATEMENT  
 For the year ended 31 March 2013

	<i>Notes</i>	2013 £	2012 £
Net cash inflow from operating activities		462,263	331,224
Returns on investments and servicing of finance - interest received		-	-
Taxation paid		(42,144)	(40,322)
Capital expenditure:			
Payments to acquire fixed assets		(213,026)	(558,191)
Investment in Subsidiary Undertaking		(284,625)	-
		<u>(77,532)</u>	<u>(267,289)</u>
Decrease in cash		<u>(77,532)</u>	<u>(267,289)</u>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS</b>			
Decrease in cash in the period		(77,532)	(267,289)
		<u>(77,532)</u>	<u>(267,289)</u>
Change in net funds	12	(77,532)	(267,289)
Net funds at 1 April 2012	12	1,018,661	1,285,950
		<u>1,018,661</u>	<u>1,285,950</u>
Net funds at 31 March 2013	12	<u>941,129</u>	<u>1,018,661</u>
<b>RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
		2013 £	2012 £
Operating (loss) / profit		(118,651)	125,907
Depreciation		339,391	330,442
(Increase) in debtors		(10,869)	(188,038)
Increase in creditors		85,392	184,913
Difference between pension charge to operating costs and pension contributions paid		167,000	(122,000)
		<u>462,263</u>	<u>331,224</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES		<u>462,263</u>	<u>331,224</u>

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

## ACCOUNTING POLICIES

For the year ended 31 March 2013

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### 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 £2,208K and is budgeted to breakeven for the coming year before adjustment for FRS17. The cash at bank is £941K and there are no borrowings. The RBKC have confirmed the continuation of the management agreement.

### CONSOLIDATION

The accounts have not been consolidated to show the financial position of the group, but instead, show the financial position of the parent entity only. This is because the directors consider that the results of the group are not materially different to that of the company.

### INVESTMENT

Investments are stated at cost as there is no active market for which a market valuation could be based.

### 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 2013

1 TURNOVER

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

2 OPERATING (LOSS) / PROFIT	2013	2012
	£	£

This is stated after charging / (crediting):

Depreciation	339,391	330,442
Payments in respect of operating leases - land and buildings	483,069	509,684
Auditor's remuneration	21,150	20,550
- for statutory audit		
- for other services	5,656	2,750
	<u>5,656</u>	<u>2,750</u>

In addition to the above Baker Tilly Corporate Finance LLP was paid £18,082 for the services in relation to the investment in the subsidiary undertaking.

3 STAFF COSTS	2013	2012
	£	£
Wages and salaries	5,569,316	5,674,030
Social security costs	493,254	492,719
Other pension costs	1,139,000	847,000
	<u>7,201,570</u>	<u>7,013,749</u>
Agency Staff Costs	<u>1,257,744</u>	<u>1,348,654</u>

Pension costs are analysed as follows:

Current service cost	1,052,000	847,000
Curtailments	87,000	-
	<u>1,139,000</u>	<u>847,000</u>

	2013	2012
Average number of FTE employees during the year:	No.	No.
Housing	69	67
Technical services	48	51
Support services	48	44
Total	<u>165</u>	<u>162</u>
Average number of FTE agency staff during the year:	<u>23</u>	<u>28</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

4	OTHER FINANCE CHARGES	2013 £	2012 £
	Interest on defined benefit pension scheme liabilities	(2,039,000)	(2,028,000)
	Expected return on defined benefit pension scheme assets	<u>1,714,000</u>	<u>1,877,000</u>
		<u>(325,000)</u>	<u>(151,000)</u>
5	TAXATION ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES	2013 £	2012 £
	<b>DIRECT TAX</b>		
	UK corporation tax on (loss) / profit for the year	<u>49,255</u>	<u>42,144</u>
		<u>49,255</u>	<u>42,144</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) on ordinary activities before tax	<u>(443,651)</u>	<u>(25,093)</u>
(Loss) multiplied by the standard rate of corporation tax in the UK of 20%	(88,730)	(5,019)
Effects of:		
Adjustment for non trading activities	<u>137,985</u>	<u>47,163</u>
Corporation Tax charge for year	<u>49,255</u>	<u>42,144</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 2013

6	TANGIBLE FIXED ASSETS COST	Office Furniture & Fit Out	Computer Equipment	Electronic Data Management System	Leasehold Improvements	Total
		£	£	£	£	
	At 1 April 2012	1,135,205	1,127,567	268,978	295,148	2,826,898
	Additions	-	101,527	91,595	19,904	213,026
	Disposals	(15,740)	(151,343)	-	-	(167,083)
	At 31 March 2013	<u>1,119,465</u>	<u>1,077,751</u>	<u>360,573</u>	<u>315,052</u>	<u>2,872,841</u>
	ACCUMULATED DEPRECIATION					Total
	At 1 April 2012	309,266	826,160	56,888	3,742	1,196,056
	Charge for the year	103,919	151,774	51,814	31,884	339,391
	Disposals	(15,740)	(151,343)	-	-	(167,083)
	At 31 March 2013	<u>397,445</u>	<u>826,591</u>	<u>108,702</u>	<u>35,626</u>	<u>1,368,364</u>
	NET BOOK VALUE					Total
	At 31 March 2013	<u>722,020</u>	<u>251,160</u>	<u>251,871</u>	<u>279,426</u>	<u>1,504,477</u>
	At 31 March 2012	<u>825,939</u>	<u>301,407</u>	<u>212,090</u>	<u>291,406</u>	<u>1,630,842</u>

7	INVESTMENT IN SUBSIDIARY UNDERTAKING	2013	2012
		£	£
	Share Capital	1	-
	Cost of Investment	31,690	-
	Loan to Subsidiary	<u>252,934</u>	<u>-</u>
		<u>284,625</u>	<u>-</u>

The cost of the investment in subsidiary undertaking represents £1 share capital plus associated costs. In addition, the TMO had loaned the subsidiary company £252,934 at 31 March 2013. The company will make further loan payments required for the setup of the subsidiary undertaking in the early part of 2013-14 up to a total of £700,000.

8	DEBTORS	2013	2012
		£	£
	Amounts falling due within one year		
	Trade debtors	84,035	208,195
	Other debtors	225,755	191,904
	Prepayments and accrued income	<u>650,263</u>	<u>549,085</u>
		<u>960,053</u>	<u>949,184</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

9	CREDITORS: amounts falling due within one year	2013	2012
		£	£
	Trade creditors	491,332	269,163
	Corporation tax	49,255	42,144
	Other taxes and social security	307,166	268,064
	Other creditors	14,400	13,000
	Accruals and deferred income	620,470	797,749
		<u>1,482,623</u>	<u>1,390,120</u>

## 10 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.

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

	Profit and loss account excluding pension liability	Pension reserve	Total members' funds
	£	£	£
At 1 April 2012	2,208,567	(11,928,298)	(9,719,731)
Retained loss for the year	(492,906)	-	(492,906)
Other recognised gains and losses - actuarial gain on pension scheme	-	6,008,000	6,008,000
	<u>1,715,661</u>	<u>(5,920,298)</u>	<u>(4,204,637)</u>
Transfer	492,000	(492,000)	-
At 31 March 2013	<u>2,207,661</u>	<u>(6,412,298)</u>	<u>(4,204,637)</u>

## 12 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2012	Cash Flows	Non-cash changes	At 31 March 2013
	£	£	£	£
Cash at bank and in hand	<u>1,018,661</u>	<u>(77,532)</u>	<u>-</u>	<u>941,129</u>



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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

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### 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 source of income is a management fee for the management of the RBKC housing stock. This amounted to £10,437,014 (2012: £10,646,135). The company also purchased services from RBKC in the year totalling £856,233 (2012: £847,661). At the end of the financial year, a net balance of £239,440 was due to the company, including £165,886 for the inter-entity balance and £73,544 owed to the company for other services to RBKC. (2012: £138,094 was due to the company, including £124,478 due for the inter-entity balance and £13,616 for other services to RBKC). At the end of the year there was also £51,871 accrued income due for services provided to RBKC and £180,491 accrued costs due for services purchased from RBKC during the year. (2012: £244,490 of accrued income due to the company from RBKC and £196,739 accrued costs owed 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 £398,948 (2012: £229,900).

During the year the company recharged the Council for consultancy and other services for the amount of £764,205 (2012: £837,247).

The eight Resident Board Members have been paid expense allowances totalling £12,472 (2012: £12,438).

KCTMO has an Agency Agreement with RBKC for providing a service of Digital TV for a period of 10 years and during the year earned £1,000 (2012: £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.

During the year, the company established a wholly owned subsidiary undertaking, Kensington & Chelsea TMO Repairs Direct Limited, a company registered in England and Wales, in order to provide the Repairs and Maintenance service for the housing stock under the management of KCTMO. The subsidiary company will not commence trading until September 2013.

The cost of the investment in subsidiary undertaking shown in note 7 represents £1 share capital plus associated costs. In addition, the company had loaned the subsidiary company £252,934 at 31 March 2013 in order for the subsidiary undertaking to establish appropriate systems to ensure a smooth transition from the current Repairs service provider Willmott Dixon. The company will make further loan payments required for the setup of the subsidiary undertaking in the early part of 2013-14 up to a total of £700,000. This loan represents a fixed asset investment and is unsecured, interest-free and will need to be repaid by the subsidiary undertaking to the company within five years of the date that trading commences.

At 31 March 2013, the subsidiary had not traded and had no net assets (other than its share capital of £1), as the initial investment in fixed assets such as software and systems was funded by the unsecured loan. The subsidiary undertaking has not been consolidated in these financial statements on grounds of immateriality.

### 14 LEASE COMMITMENTS

As at 31 March 2013 the company has an annual lease commitment in respect of land and buildings of £499,962 (2012: £524,346); the lease expires within 5 to 10 years (2012: 5 to 10 years).

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

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### 15 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 the market conditions at 31 March 2013. The discount rate is the annualised yield at the 21 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of FRS17 and with consideration of the duration of the Employer's liabilities. This approach has been updated from previous disclosures where the yield on the iBoxx AA rated over 15 year corporate bond index was used as a standard assumption for most Employers in the fund.

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, specifically the 21 year point on the BoE spot inflation curve. Previously, the 20 year point was used and so this has been updated to reflect that this Employer's liabilities have a longer duration than average.

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 3.4%. 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. 2.6%.

Salaries are then assumed to be increased in line with RPI in addition to a promotional scale.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

### 15 RETIREMENT BENEFITS (continued)

The actuary has produced a valuation as at 31 March 2013 for the purposes of FRS17.

The key assumptions are:

ASSUMPTIONS AS AT	31 March 2013	31 March 2012
	% p.a.	% p.a.
Pension Increase Rate	2.6%	2.5%
Salary Increase Rate	3.4%	4.7%
Expected Return on Assets	5.2%	5.2%
Discount Rate	4.5%	4.6%
RPI Inflation Rate	3.4%	3.3%
CPI Inflation Rate	2.6%	2.5%

ASSETS (EMPLOYER)	Long Term	Long Term
	% p.a.	% p.a.
Equities	5.0%	5.3%
Gilts	3.0%	3.3%
Other Bonds	4.1%	4.6%
Property	4.0%	4.3%
Cash	0.5%	3.0%
Alternative Assets	5.0%	5.3%

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 2012 for the year to 31 March 2013). 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 SIPA Heavy series allowing for medium cohort projection, with a minimum 1% improvement for future life expectancies.

The assumed life expectations from age 65 are:

	Males	Female
Retiring today	19.2 years	23.2 years
Retiring in 20 years	21.1 years	25.1 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	43,416	44,341	45,291
Projected service cost	780	810	840
Adjustment to mortality age rating assumption	+1 year	none	-1 year
Present value of defined benefit obligation	42,645	44,341	46,059
Projected service cost	768	810	852

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

### 15 RETIREMENT BENEFITS (continued)

#### FAIR VALUE OF EMPLOYER'S ASSET

	31 Mar 2013	31 Mar 2012
	£(000)	£(000)
Equities	25,413	20,890
Gilts	379	326
Properties	1,138	1,306
Cash	379	326
Alternative Assets	10,620	9,792
<b>Total</b>	<u>37,929</u>	<u>32,640</u>

#### BALANCE SHEET

	31 Mar 2013	31 Mar 2012
	£(000)	£(000)
Fair Value of Employer Assets	37,929	32,640
Present Value of Funded Plans	<u>(44,341)</u>	<u>(44,568)</u>
Net (Under) / Overfunding in Funded Plans	(6,412)	(11,928)
Present Value of unfunded liabilities	-	-
<b>Net (Liability)</b>	<u><u>(6,412)</u></u>	<u><u>(11,928)</u></u>

#### RECOGNITION IN THE PROFIT OR LOSS

	31 Mar 2013	31 Mar 2012
	£(000)	£(000)
Current Service Cost	1,052	847
Curtailments	87	-
Recognised in administrative expenses	<u>1,139</u>	<u>847</u>
Interest Cost	2,039	2,028
Expected Return on Employer Assets	<u>(1,714)</u>	<u>(1,877)</u>
Recognised in other finance charges	<u>325</u>	<u>151</u>
<b>Total</b>	<u><u>1,464</u></u>	<u><u>998</u></u>
Actual Return on Plan Assets	4,867	1,617

#### RECONCILIATION OF DEFINED BENEFIT OBLIGATION

	31 Mar 2013	31 Mar 2012
	£(000)	£(000)
Opening Defined Benefit Obligation	44,568	36,895
Current Service Cost	1,052	847
Interest Cost	2,039	2,028
Contribution by Members	286	300
Actuarial Losses / (Gains)	(2,856)	5,701
Losses on curtailments	87	-
Estimated Benefit Paid	<u>(835)</u>	<u>(1,203)</u>
<b>Closing Defined Benefit Obligation</b>	<u><u>44,341</u></u>	<u><u>44,568</u></u>

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2013

### 15 RETIREMENT BENEFITS (continued)

RECONCILIATION OF FAIR VALUE OF EMPLOYER ASSETS	31 Mar 2013	31 Mar 2012
	£(000)	£(000)
Opening Fair Value of Scheme assets	32,640	30,957
Expected return on scheme assets	1,714	1,877
Actuarial gain / (loss)	3,152	(260)
Contributions by employer including unfunded benefits	972	969
Contributions by Scheme participants	286	300
Estimated benefits paid including unfunded benefits	(835)	(1,203)
Closing Fair Value of Employer Assets	<u>37,929</u>	<u>32,640</u>

### AMOUNTS FOR THE CURRENT AND PREVIOUS ACCOUNTING PERIODS

	31 Mar 2013	31 Mar 2012
	£(000)	£(000)
Fair Value of Employer Assets	37,929	32,640
Present Value of Defined Benefit Obligation	<u>(44,341)</u>	<u>(44,568)</u>
<b>(Deficit)</b>	<b><u>(6,412)</u></b>	<b><u>(11,928)</u></b>
Experience Gains / (Losses) on Assets	3,152	(260)
Experience Gains / (Losses) on Liabilities	-	-

	31 Mar 2011	31 Mar 2010	31 Mar 2009
	£(000)	£(000)	£(000)
Fair Value of Employer Assets	30,957	25,809	18,823
Present Value of Defined Benefit Obligation	<u>(36,895)</u>	<u>(45,189)</u>	<u>(28,034)</u>
<b>(Deficit)</b>	<b><u>(5,938)</u></b>	<b><u>(19,380)</u></b>	<b><u>(9,211)</u></b>
Experience Gains / (Losses) on Assets	3,137	5,339	(6,513)
Experience Gains / (Losses) on Liabilities	2,815	265	(1,198)

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

	31 Mar 2013	31 Mar 2012
	£(000)	£(000)
Actuarial Gains / (Losses) recognised in STRGL	<u>6,008</u>	<u>(5,961)</u>
Cumulative Actuarial Gains and Losses	<u>276</u>	<u>(5,732)</u>

	31 Mar 2011	31 Mar 2010	31 Mar 2009
	£(000)	£(000)	£(000)
Actuarial Gains / (Losses) recognised in STRGL	<u>9,944</u>	<u>(10,113)</u>	<u>4,792</u>
Cumulative Actuarial Gains and Losses	<u>229</u>	<u>(9,715)</u>	<u>398</u>

The employer's contribution for the year to 31 March 2013 was 22.5% of pensionable salaries.

The employer's contributions for the year to 31 March 2014 will be approximately £946,000.