



**The Office for Tenants and
Social Landlords (OTSL)
Annual Report and Accounts
2010-11**

TSA

THE SOCIAL
HOUSING
REGULATOR

**The Office for Tenants and Social Landlords
(OTSL) – the social housing regulator**
Annual Report and Accounts 2010-11

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Introduction

At the heart of regulation is our ongoing engagement to support good governance and viability in the sector.

Regulation has continued to help providers meet the challenges of a business environment that has remained attractive to lenders despite ongoing uncertainties in wider markets.

The assurance that regulation provides maintains confidence in the sector and our key objective through change and adaptation of the regulatory framework is to ensure a safe, well-managed environment for private and public funding, where homes are protected and remain of good quality for current and future tenants.

Ensuring that private providers are viable and well-governed means that taxpayers' funds are safeguarded, and that lenders' confidence to continue providing funding at competitive rates is sustained. This funding is vital to support the development of new social housing.

In relation to the organisation, the Board's role is to fulfil the requirements laid down by Parliament and to ensure effective corporate governance, including the balance between the Board's decision-taking role and the independence of the Accounting Officer and Executive. In relation to the operations of the Office for Tenants and Social Landlords (OTSL), the Board's objectives are to agree strategic priorities and how these are to be carried out; agree the basis for measuring performance and monitor the outcomes; monitor risk within the agreed mitigating actions; deal effectively with unexpected developments; and identify emerging issues such as the future introduction of fees.

The outcome of the review of social housing has meant that we have inherited a major task of closing the organisation and ensuring that the regulation, associated functions and staff are transitioned to a reformed Homes and Communities Agency (HCA) by April 2012. The future responsibility for regulation will lie with an independent committee within HCA and it is the Board's duty to ensure the function is fit for purpose going forward and staff have job security.

Finally, the Board continues to work to ensure that we add value to OTSL, operate as a good team and maintain key relationships internally, and externally.

I am very grateful to my colleagues, non-executive and Executive, who have helped us to carry out our role so effectively in the past year.

Anthony Mayer

Chairman

Accounting Officer's review

The year covered by this report has seen a fundamental change in the economic situation within the country. Against this background, the coalition government has introduced measures that have and will impact significantly on how the public and government sector conducts its business in the next four years covered by the current spending review. Resources have been severely reduced with those available for regulating the social housing sector reduced by some 40% to 2014/15. One of the planks to support the Government drive for greater efficiency was to reduce the number of arms length bodies (ALBs). As part of this, a review of social housing took place during the summer of 2010 and it concluded that the regulation function we undertake is vital to maintain good governance, viability and value for money within the sector. However, it concluded that TSA as an organisation was no longer required to do that role and the regulation function and staff should be transferred to a reformed Homes and Communities Agency. These changes are included within the Localism Bill which is expected to receive Royal Assent in November this year.

Following the review of social housing, we have put plans in place working closely with Department for Communities and Local Government (DCLG) and HCA to ensure there is a smooth transition of the regulation function to HCA. The Board and Executive are fully committed to this and are working hard to ensure that it happens. Our various stakeholders also see the value of preserving an independent regulator. Along side this we have also produced a closure plan so that progress towards a structured closure of the organisation can be monitored and ultimately achieved.

The beginning of the year saw the introduction of the new regulatory framework which we had consulted upon during 2009: a new framework that puts people at the heart of regulation by enabling and encouraging landlords and tenants to decide what housing services best meet local needs and priorities. The new framework is not a directive and does not seek to impose regulation by rulebook. We aim to be an empowering regulator giving responsibility to landlords to demonstrate how they are meeting our standards, emphasising improvement and peer-support rather than costly intervention, and placing tenants at the centre of discussions about how scarce local resources should be used. Our new framework emphasised both the economic and consumer dimensions of regulation. We were determined to maintain good governance and financial viability throughout the sector thereby retaining the confidence of lenders, while at the same time ensuring high standards of service and value for money for tenants.

In future, economic regulation of private providers will continue to be a high priority for the regulator and there will continue to be standards for governance and financial viability. We are also developing a new approach with a greater focus on value for money to support the economic regulation role set out in the Localism Bill.

The new arrangements also aim to make sure that tenants get a fair deal from their landlords. The regulator will be responsible for setting tenant-facing regulatory standards that all providers, including local authorities, must meet. The Localism Bill proposes a new threshold for intervention by the regulator on these standards, related to failures that are causing serious detriment to tenants.

We have helped landlords to face the risks and challenges presented by the financial and housing markets. We have continued to provide the assurance of regulation through some very troubled times. We know that these pressures are beyond landlords' control and our regulation provides effective engagement and additional support where problems arise. We make regular assessments of landlord liquidity and credit lines to analyse landlords' longer-term capacity to deliver on their commitments. Our regulation continues to ensure that tenants' homes are protected and public money is not lost as a consequence of market exposure.

In anticipation of the reduced resources that would be made available to us as a result of the spending review, we have undertaken a restructuring of our support and regulation functions. This restructuring was completed in April 2011 and has seen our staff numbers reduce from 222 at the beginning of the year to 165 when the proposals are fully implemented. As well as reducing headcount, we have continued our value for money work across non staff costs which began in 2009 and were accelerated by Zero based budgeting in summer 2010.

Our progress towards more flexible working means that we can reduce expensive overheads - in fact we are now able to sublet large parts of our London and Manchester office space, saving £450,000 in a full year. We have reduced significantly our travel costs through more targeting of cheaper tickets and the use of video conferencing and 'live meet' technologies. We have joined the DCLG ICT contract saving over £700,000 in a full year. In pursuit of our drive to transparency, we now publish all expenses relating to Board Members and senior staff as well as all our expenditure over £500. The Board continues to hold open sessions at each meeting.

During the year, we have endeavoured to empower communities and enable local people to decide how services are shaped and delivered. In this report, we acknowledge the value of our regulation to safeguard public money, encourage private investment, control welfare costs for government and assure tenants of fair and effective services that meet local needs. Our essential priority is that landlords and tenants should work together to deliver the best for homes and neighbourhoods. It is through our work in delivering this product that the effectiveness of our regulation can be judged.

Claer Lloyd-Jones

6 July 2011

Directors' Report

Our work

This report covers the first full year of the standards framework introduced in April 2010 and the preparations we are making to ensure it remains fit for purpose.

Our key objective is to ensure a safe, well-managed environment for private and public funding, where homes are protected and remain of good quality for current and future tenants.

The sector we regulate has remained resilient in an environment of ongoing challenges.

Our regulation has continued to support the attractiveness of private registered providers (PRPs) to lenders despite ongoing uncertainties in wider markets. We published the 2010 Global Accounts for private registered providers. These show improved operating performance and we know that our focus on the financial position of those providers continues to give assurance to investors.

The taxpayer has a keen interest in social housing rents. Regulating the level of rent charged by PRPs helps ensure that the Housing Benefit budget remains focused on those in most need. With majority of PRP social housing rents paid from Housing Benefit, it is right that government should set the strategic direction for rent policy, within which our regulation is designed to ensure fairness for tenants, fairness for the taxpayer and good value service delivery.

Regulatory Judgements of private registered providers

Regulation is undertaken on a risk basis. For all private registered providers with more than 1,000 homes, we undertake an annual review of their financial forecasts, business plans and strategy and we meet with the Board and/or the senior management team.

This work is reported in our Regulatory Judgements (RJs) and Viability Reviews (VRs). The table on page eight provides a summary of the 124 RJs published since 1 April 2010. The VR reports are not published for reasons of commercial confidentiality, although a summary of relevant issues is included in the viability section of the RJ.

RJs are the output from our judgement on compliance with our Governance and Viability standard. New RJs are published for the largest providers or where our regulatory work indicates a change in judgement grade is required, or where significant structural change has occurred, or for those where we have not reviewed our published assessment for some time.

Of the 255 VRs issued (and which are current), 168 are judgement one, 86 judgement two and one at judgement three. There have been limited movements between grades from previous assessments (a change for only 14 providers), although changes in both

the extent and nature of financial exposures will not necessarily lead to a change in the grading banding.

Category	Judgement	Number
Viability	J1 - Meets expectations	92
	J2 - Meets expectations but with exposures	30
	J3 - Concerns	2
	J4 - Serious concerns	0
Total		124
Governance	J1 - Exceeds expectations	4
	J2 - Satisfactory	114
	J3 - Some concerns	5
	J4 - Serious concerns	1
Total		124

For those providers assessed at judgement two and below we monitor the specific exposure(s) we have identified to ensure successful outcomes are achieved through effective management of related risks. We may do this through quarterly survey information, or through receipt of regular or ad hoc information sourced from providers' own performance monitoring processes.

Private registered provider financial performance

The sector continues to operate in a difficult economic environment. Whilst the number of homes in management increased by more than 100,000, the rate of increase in both asset values and borrowing has slowed, and we expect that this pattern will have continued in 2010/11.

The 2010 Global Accounts (which report on accounts filed by private registered providers in 2010/11 for financial year 2009/10) show an annual turnover of £12.3 billion. Landlords spent £7 billion on managing and maintaining 2.5 million homes and £2.2 billion on the interest costs of funding the building of new homes and the refurbishment of existing stock. For not-for-profit organisations, all surpluses are reinvested in activities that further improve service delivery and support new supply

The Global Accounts also show an improvement in operating performance with an increase in operating margins. Despite inflationary pressures, providers' management and major repair costs per unit fell. This performance was further supported by continued low interest rates during 2009/10, which we expect to have continued to feed through into reducing the sector's effective interest rate in 2010/11.

During 2009/10:

- Rental income from social housing lettings rose to £10 billion following high inflation-linked rental increases
- The operating margin of the sector increased from 14% to 18%. This improvement was particularly concentrated in the stock transfer sub-sector, where the operating margin rose to 17% reflecting the sub-sector's increasing age profile. Improvement in the traditional sub-sector's operating margin was of

- a more modest nature
- The stock transfer sub-sector reported an overall surplus after tax for the first time, helped by falling interest rates, relatively limited new transfers and restructure of groups moving units into the traditional sector
- Surpluses after tax were £609 million, despite surpluses from property sales remaining depressed, at around half the level seen at the peak in 2007/08
- The traditional sub-sector housing associations have once again invested significant amounts of their surpluses in their housing properties. As a result, despite generating a post-tax surplus of £553 million, net current assets reduced by £455 million

An additional challenge will be responding to movements in the property market. While providers have found alternative ways of servicing debt, these will need to be sustained. Providers will need to be alive to the risks involved in using sales to support development programmes.

Further challenges will arise from increasing costs, rising inflation and the general economic climate. However, these global accounts suggest that the sector has avoided many of the potential obstacles of recent years, and is well placed to manage future risks effectively and to continue to develop new social housing.

Use of regulatory powers - consents

In 2010/11, we issued a total of 149 constitutional consents comprising 83 changes to constitutions, 30 transfers of engagements, 23 individual consents (for eight amalgamations), nine conversions from companies to Industrial and Provident Act Societies, three charitable conversions and one dissolution.

Our powers also provide for control over disposals of property. The property disposals of PRPs are subject to our consents framework. We aim to make this as straightforward as possible by providing a general consent, enabling a wide range of property transactions to go forward without our intervention.

Some transactions require us to review what landlords want to do. We have obligations to protect tenants and to make sure that property is not disposed of improperly. Many homes in the sector have received public funding and also form part of the asset base on which private lenders invest. This makes it important for us to review certain types of transactions.

In the year we issued 2,345 specific consents. Of these 413 enabled private finance to be secured against social housing, bringing in investment to support landlords investment in new homes and local communities. We issued 426 consents under s133 of the Housing Act 1988. We also commented on 86 specific consents issued by The Department for Communities and Local Government relating to stock owned by Registered Providers that are Local Authorities.

Use of regulatory powers – intervention and enforcement

There were nine providers under supervision or intensive regulation during 2010/11 of which three had over 10,000 homes and three had between 1,000 and 10,000 homes. We used statutory powers to make Board appointments in four of those cases, and a further two cases were subject to voluntary undertakings made by the providers under Section 125 of the Housing and Regeneration Act 2008.

Our focus on risk-based regulation means that we take an informed view about the potential impact of emerging problems, and tailor our intervention accordingly. This has led to a considerable body of work undertaken in a lower-level category of “enhanced scrutiny” with a total of 55 cases at various stages of review over the year. Overall, our early identification and management of sector-wide risks has assisted providers to take action to avoid damaging outcomes. An example of this approach was the response to the security and cash crises caused by exposure to third parties on interest rate hedging instruments.

A significant proportion of our work related to allegations, including whistleblowing, and complaints made to us during the year. We conducted 52 Initial Problem Assessments (IPAs) on potential new cases during the year, of which 24 were, at least in part, generated by allegations or complaints. A number of these cases required a considerable amount of resource. Where it is reasonable, these cases are resolved through agreeing improvement measures proposed and implemented by providers themselves. We have, so far, not used our statutory enforcement powers on new cases. However, it is clear that in working up resolution strategies for new cases the existence of these powers acts as an incentive for self-improvement. A number of providers have acknowledged that we will use our powers in the event that they fail to deliver agreed resolution strategies themselves.

The four cases where we used statutory powers (Board appointments) were all brought forward from the previous year, therefore reflecting earlier agreed strategies. There were two further cases where a self-improvement plan was not deemed an acceptable route and we were prepared to use statutory powers.

However, in these cases the providers gave voluntary undertakings under s125 of the 2008 Act, which proposed formal strategies for resolving regulatory concerns. We agreed that the proposals and timetables within the voluntary undertakings were acceptable, and complied with our published guidance. Although it is too early to draw firm conclusions, the voluntary undertaking approach does give us sufficient additional assurance that a provider will deliver its self-improvement plans as part of a resolution strategy.

While concerns about governance and viability accounted for a significant majority of overall casework (50 cases), there was a growing body of work on strategies for resolving concerns about consumer-facing standards (20 cases, including six cases which overlapped with governance). In future, these numbers are likely to reduce under future regulatory arrangements set out in the Localism Bill.

A significant change which came into effect on 1 April 2010 was that the new regulatory framework encompassed the 189 local authority (LA) providers for the first time. While the governance and viability standard does not apply to LAs and we do not publish RJs or carry out VRs of LA providers, we have had cause to engage with a number of authorities because of concerns about compliance with other standards.

During the course of the year this applied eight LA providers, with our focus being to ensure that the providers agreed and began to implement improvement plans. There were a further seven LA providers where we were seeking assurances about compliance issues, and another nine where issues were identified through Tenant Involvement and Empowerment assessments earlier in the year. In general, we found LA providers to be supportive of the co-regulatory approach and we have developed constructive relationships with those LAs where we have had cause for closer involvement.

During 2010/11, we consulted on guidance on the use of four enforcement powers introduced in the 2008 Act which we had not previously consulted on. These are particularly relevant to LA providers and relate to:

- Management transfer
- Management tender
- Appointment of an advisor to a local authority provider
- Censure of a local authority employee or agent during or following an inquiry

We have now published our guidance notes on the use of those powers. We have also consulted on revisions to the use of our inspection power, and these will in future also be commissioned on the basis of a risk assessment and will be specifically directed at assessing compliance with standards where our risk assessment indicates grounds that there may be weakness or failure in specific areas of service delivery.

Use of powers – registration

We aim to work supportively with applicants for registration while ensuring that they are viable, properly managed and on track to meet our standards. We attract applications from a wide range of organisations including development companies, stock transfer landlords, supported housing providers, Arms Length Management Organisations (ALMOs), lettings companies and Community Land Trusts.

For the period 1 April 2010 to 31 March 2011, we logged a total of 1,203 complaints about registered providers. The biggest single category of complaint was in relation to repairs and maintenance, which accounted for 35% of the complaints received. The majority of complaints, around 89%, were referred to the provider or ombudsman for resolution. In about three per cent of cases, we decided that the complaint raised an issue of regulatory concern.

Since the new framework was introduced on 1 April 2010, we have registered 25 providers (including four stock transfer landlords, six ALMOs becoming landlords in their own right and three subsidiaries of ALMOs). Two providers have been registered as profit-making organisations, each with one unit of social housing at the time of

registration. At the end of the year, the total number of registered providers was 1,821, including 189 local authorities.

The new framework enables registered providers to be the subsidiaries of unregistered parents, provided that there are effective mechanisms in place to ensure that the registered provider's regulatory compliance cannot be prejudiced by the activities or influence of the unregistered parent. Three of the providers registered since 1 April 2010 have unregistered parents.

Complaints about registered providers – April to March

Complaint category	Number of complaints
Allocations	68
Anti-social behaviour	121
Complaint handling	91
Estate services	76
Governance/management	17
Home ownership	29
Not given	6
Occupancy rights	72
Other	100
Rents/service charges	113
Repairs and maintenance	425
Staff	63
TI&E	22
Total	1,203

Outcome of complaints about registered providers – April to March

Housing Ombudsman Service (HOS) the complainant has completed the HA's complaints process and has been signposted to the Housing Ombudsman	62
LGO - the complainant has completed the LA's complaints process and has been signposted to the Local Government Ombudsman	5
RP/Omb – advised to follow RP's complaints process and then relevant Ombudsman	1,004
Tenants Services/Risk & Assurance (TS/RA) – RP/Omb – referred to TS or R&A and they have advised there are no regulatory concerns and tenant must go through RP complaints process and then Ombudsman	8
RP/legal (no recourse to HOS) – resident is a homeowner or private tenant complaining about an RP but do not have recourse to the Ombudsman's (non tenants/homeowners within RP's area). Advised to contact RP or seek own legal advice	77
TS/R&A – Follow up with RP – referred to TS or R&A and they are following up with the RP	37
Other	10

Complaints about us

People complain to us when we fail to deliver the service they can properly expect. We want our complaints procedure to be as open and effective as possible so that matters of concern to tenants and other stakeholders can be identified and dealt with quickly.

In March 2010, we revised our complaints procedure:

- Stage one complaints are investigated by our customer services team in conjunction with the relevant officer
- Stage two complaints are investigated by the Information and Complaints Policy Manager/Assistant and are signed off by the Executive Director of Corporate Services
- Stage three complaints are investigated by the independent complaints reviewer

Complaints about us – April to March

Complaints stage	Total of complaints	No of complainants
Stage one	9	8
Stage two	42	12
Stage three	6	3

Freedom of Information

We think it is better to make our information easily accessible so that people do not have to ask to find out what they need to know. We publish information in accordance with the Information Commissioner's publication scheme requirements. But sometimes when more is needed, tenants and other stakeholders make use of the Freedom of Information legislation.

Freedom of Information requests and outcomes – April to March

Total of requests	Number of requesters	Full disclosure	Partial disclosure	With held	Information not held by OTSL	Request not reasonable
165	64	120	16	6	20	3

The Information Commissioner's Office is currently considering two appeals.

Management Commentary

Cost effective regulation and response to the 2010 Spending Review

Our objective is to ensure that regulation of providers is good value to the taxpayer. During the year, we have built on the work we started in 2009/10 to improve our efficiency. We have become more open about our operations and spending, so that taxpayers and other stakeholders can easily see what we spend and what we provide. We are determined that our costs should stand up to scrutiny. We publish details on a monthly basis of all expenses claimed by our senior managers and all expenditure incurred over £500.

Our value for money initiatives and our freeze on recruitment reduced our resource requirement for the year by £2.4 million to £30 million. These savings are a significant first step to enable us to meet challenging reductions in our running costs. These value for money reviews not only reduced our cost base, but also demonstrated that there are alternative ways of achieving our objectives without reducing the quality of the work that we do or the employment we offer to our staff.

Our Administration Plan for the period sets out how we will make further efficiencies while continuing to deliver the statutory objectives of regulation. For the period 2011/12 to 2014/15, our running costs are projected to reduce by 35% to £15.9 million.

With our regulation role changing to focus much more on economic regulation, we have put in place a staff structure that will deliver the objectives set out in DCLG's Review of Social Housing Regulation published in October 2010 and the proposals set out in the Localism Bill.

Our responsibility to the environment

We continue to take our environmental responsibilities very seriously. Targets that support the reduction in energy, waste and travel are in place and monitored on a monthly basis. The past 12 months has seen us reduce travel by 20% which has been achieved by the increase use of the new technologies available.

Our people

At the end of March 2011 we employed 196 staff. Of these, 58% were women and 16% were from a black or minority ethnic (BME) background. 51% of managers were female and eight per cent were from a BME background. Six per cent of staff indicated they have a disability under the terms of the Disability Discrimination Act. These statistics are monitored and reviewed regularly.

Headcount has been controlled throughout the year and we are now in a recruitment freeze. Additionally, we undertook a significant restructuring process in 2010/11 in response to the Comprehensive Spending Review requirements and the outcome of the review of social housing regulation as we reduced the size of the organisation and

prepared to meet the requirements of the Localism Bill. During 2010/11, 41 staff accepted redundancy of which 19 departed before 31 March with the remainder leaving during 2011/12.

We continued to implement our property asset management plan to reduce our use of office space and associated costs. Our Cambridge office closed and we sublet space in our London office facilitated by moving to 'hot desking' for office based staff. We successfully implemented homeworking in previous years and now have 34 staff as contractual homeworkers.

Sickness absence information is reported regularly to the Executive team and to our Board. During 2010-11, sickness absence averaged 3.7 days per person. This compares to a public sector average of 9.6 days (figures from the CIPD Absence Survey published in October 2010).

We are committed to openness about any loss of personal data as part of the Government commitment to transparency in information risk management, published by the Cabinet Office on 17 December 2007. No reportable incidents occurred during 2010-11.

We understand the costs to business of late payments and support compliance with the public sector payment policy. We aim to pay all undisputed invoices within 30 days of receipt and at least 90% of all invoices are within this target. We did not achieve this in 2010-11 as only 87% of invoices were paid within this timescale. As a regulator of small businesses, we know the importance of cash flow and so we support making payments to small businesses within ten working days where applicable. There were no late payment penalties incurred. It is OTSL's policy to:

- settle the terms of payments with suppliers when agreeing the terms of each transaction and pay bills in accordance with contract
- ensure that those suppliers are made aware of the terms of payment
- abide by the payment terms of individual suppliers
- deal reasonably with complaints and disputes and advise suppliers without delay when invoices, or parts of invoices, are contested

General financial matters – financial position, pensions, payments, audit, loans, financial instruments and events after the reporting date

The Statement of Comprehensive Net Expenditure on page 40 shows that we spent, on like-for-like activities £26.455 million (net expenditure after net interest) in 2010/11 (2010: £37.533million). However, as a result of the change from RPI to CPI for the purposes of uprating index linked features of past employment benefits, a negative amount representing past service costs, in accordance with IAS 19, appears in the accounts.

The impact of this treatment is to reduce the net expenditure for the year by a further £13.9 million to £12.755 million.

The variations that make up this reduction are disclosed in the notes to the financial statements on pages 46 to 71 of this report.

The Statement of Financial Position at 31 March 2011 shows net liabilities of £34.92 million (2010: £47.05 million). The decrease in the net liabilities of £12.13 million is mainly due to the decrease in both the unfunded and funded pension deficit at 31 March 2011 of £9.90 million to £39.85 million (2010: £49.75 million) and an increase in the General Reserve of £2.2 million.

OTSL has adopted a 'going concern' position as explained in note 23 to the financial statements.

OTSL is an admitted body to the City of Westminster Pension Fund. The liabilities of the fund represent the share of the Housing Corporation's liabilities that were attributable to the staff transferring to OTSL from the Housing Corporation and those staff joining OTSL since its inception. This actuarial loss has been charged to Statement of Comprehensive Net Expenditure and is disclosed in the Statement of Changes in Taxpayer's Equity on page 43.

The pension deficit reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the OTSL's other sources of income, may only be met by future grants or Grant-in-Aid from the OTSL's sponsoring department, DCLG. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need. The funds to meet the forecast increase in employer's pension contributions in future years have been included within the OTSL's budget for 2011/12 and in the forecasts for the period to 2014/15. The employers' contribution rate for the year was 10.5%. A full disclosure of the pension scheme performance is contained in note 8 to the financial statements.

At the end of the financial year, OTSL held significant cash balances of £5.965 million (note 15 to the financial statements). All government departments should not draw down funds in advance of need. However, these high balances were a consequence of timing issues (we draw down our cash requirements every two weeks) as we required the cash to meet the pension deficit payment of £2.95 million as well as other year end liabilities in the first week of April.

DCLG pays Grant-in-Aid based on the estimates the OTSL makes for its immediate requirements. Grant-in-Aid is transferred from DCLG on a fortnightly basis to fund the OTSL's administration and capital costs.

OTSL manages a small portfolio of loans which are funded from cash drawn down from DCLG. All loans are secured on property and all annuity repayments were made when they became due. Details of our loans are disclosed in note 13 to the financial statements.

We have made no disclosures regarding financial instruments other than at note 18 to the financial statements. Events after the reporting date that have occurred are disclosed in note 24 to the financial statements.

OTSL invested £62,000 in property, plant and equipment and intangible assets. Of this, £23,000 was spent on developing software for our regulation systems, £18,000 on licences and £21,000 on hardware purchases. The value of intangible assets within the Statement of Financial Position is £1.225 million at 31 March. The value of non-current assets held by OTSL is disclosed in notes 10 and 11 to the financial statements.

As part of the wider shared services agenda across government, we are joining the DCLG/Steria ICT contract. We have now established a master contracts register for joint contract management with HCA. Our procurement procedures have been updated in line with government spending controls.

We have outsourced the contract for internal audit services to bring a wider knowledge base and new skills to our internal controls and improved processes to provide the Accounting Officer with a greater level of assurance when signing off the Statement of Internal Control.

OTSL's accounts and financial transactions are audited by the National Audit Office. This is a statutory appointment under the Housing and Regeneration Act 2008. During the year, the NAO undertook no non-audit work for OTSL.

Declaration to the Auditor

As of the date of approval of this Annual Report and Accounts,

- so far as the Accounting Officer is aware, there is no relevant audit information (being information required by the auditors in the preparation of their report) of which the OTSL's auditors are unaware, and
- the Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the OTSL's auditors are aware of such information

Remuneration Report

On behalf of the Board, I am pleased to present this report on the remuneration of the Executive, Directors and Board Members.

The Remuneration Committee met once in year 2010/11 and was chaired by Anthony Mayer. The Committee comprises all Board Members except Claer Lloyd-Jones.

The Remuneration Committee advises the Accounting Officer on the remuneration, contractual and OTSL pension scheme arrangements for the Executive team. The Committee provides an independent perspective of the market pressures governing pay, specific recruitment and retention sensitivities. It considers and reviews, when necessary, the OTSL's policy on senior staff remuneration, conditions of service, benefits and compensation commitments on early termination of contracts. It makes recommendations to DCLG on the performance criteria in respect of the Accounting Officer's bonuses.

In accordance with chapter six of the Companies Act 2006, the following sections of the report have been audited: individual remuneration of the Executive team, the emoluments of the Board Members and the disclosures, and notes relating to pensions.

Service contracts

The Accounting Officer and Directors and other senior managers have open-ended service contracts that do not contain any predetermined compensation on termination of office. There is a contractual redundancy policy which was agreed with senior staff representatives by the OTSL's predecessor body, which applies to all OTSL staff.

Individual remuneration for the year ended 31 March

The key managers of the OTSL comprise the Accounting Officer, who is also a Board Member, Directors and Deputy Director. All senior managers have consented to the following disclosures relating to their emoluments and accrued pension entitlement.

Information included within the comparative figures includes details of senior managers who were employed by OTSL who either left during 2009/10 or part way through 2010/11. The costs included within this table appear at note 4 to the financial statements.

	Salary		Bonus		Taxable Benefits		Employer's pension fund contributions		Total	
	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £	2011 £	2010 £
Chief Executive and Accounting Officer										
Peter Marsh	146,917	165,000	11,550	11,000	-	3,416	12,690	17,490	171,157	196,906
up to 30 November 2010 (a)										
Managing Director and Accounting Officer										
Claer Lloyd-Jones	42,333	-	12,500	-	-	-	4,487	-	59,320	-
from 1 December 2010 (b) (d)										
Director Members of the Executive Team										
Claer Lloyd-Jones	84,666	127,000	-	7,408	-	-	8,974	13,462	93,640	147,870
Executive Director, Corporate Services, to 30 November 2010										
Clare Miller	32,828	125,000	-	9,479	-	-	3,128	13,250	35,956	147,729
Executive Director, Risk and Assurance to 1 June 2010										
Richard Moriarty	80,729	125,000	-	8,531	-	-	9,938	13,250	90,667	146,781
<i>Executive Director Market Development To 17 December 2010</i>										
Jonathan Walters	50,000	-	-	-	-	-	5,480	-	55,480	-
Director of Analytical Services and Quality Assurance from 30 September to 31 December 2010 Deputy Director, Regulatory Operations from 1 January 2011 (f)										
Phil Morgan	41,832	100,000	-	5,000	-	-	1,282	10,660	43,114	115,660
<i>Executive Director Tenant Services From 1 January 2009 to 14 May 2010 (e)</i>										
Andrew Dench	21,568	-	-	-	-	-	2,429	-	23,997	-
Deputy Director, Regulatory Framework and Strategy from 1 January 2011 (f)										

- a) The post of Chief Executive carried an entitlement to a performance related bonus ranging from up to ten per cent in year one, to up to 15% in year three of his contract. The bonus of £11,550 was recommended by the Chairman and was agreed with DCLG approval at seven per cent of basic pay. This was for the period July 2009 to July 2010 and paid in September 2010. The bonus payable in 2009/10 was for the period July 2008 to July 2009 and was recommended by the Chairman and was agreed with DCLG approval at 6.6% of basic pay. For 2010-11, the Chief Executive voluntarily gave up the right to a performance related bonus. The salary quoted in the table on page 19 includes a payment in lieu of notice of £41,250. Taxable benefits are payments made in lieu of a car. The Chief Executive voluntarily gave up his car allowance in February 2010.
- b) No other Executive performance payments were made in 2010/11 and only the Accounting Officer now maintains an entitlement to a performance related payment. A payment for 2010/11 of £12,500 (9.8%) has been recommended by the Remuneration Committee to DCLG for payment. The final payment for 2011/12 will be made before the abolition of OTSL in March 2012. The bonuses paid in 2009/10 to Richard Moriarty, Clare Miller and Claer Lloyd-Jones were seven per cent and to Phil Morgan five per cent. They covered the period from the date of their appointment to September 2009.
- c) The Chief Executive, Managing Director and Accounting Officer and Directors received no salary uplift during the year. Following the deletion of the post of CEO the Board, with approval of the DCLG, created the post of Managing Director and Accounting Officer to which Claer Lloyd-Jones was appointed on 1 December 2010 with no increase in salary. The post of Executive Director Corporate Services has remained unfilled since that time.
- d) Following the Secretary of State's announcement that OTSL would cease to exist, the post of Chief Executive was from that date subject to redundancy and the Board, with the express approval of the Secretary of State and Peter Marsh, agreed to bring forward that redundancy by mutual agreement. Peter Marsh had a continuous service record since 1994 and agreed to accept a redundancy payment of £142,000 being a lower payment than he was contractually entitled to, which enabled him to leave on 30 November and pursue other interests. This payment was in addition to his remuneration for the year.
- e) Phil Morgan had his contract of employment terminated by mutual consent in April 2011 as the post of Executive Director Tenant Services ceased to exist. On termination of his contract, Phil Morgan received a payment of £14,288. This payment was in addition to his remuneration for the year up until his leaving date. The salary quoted in the table on page 17 includes a payment in lieu of notice of £25,000.
- f) A Director of Regulation was appointed on a secondment from DCLG on 1 March 2011 to provide senior support leading up to the closure of OTSL and transition of its regulation function to the reformed HCA. The appointment is to 31 March 2012. DCLG are reimbursed for the costs of this arrangement which for 2010/11 was £15,000. The post holder is a member of the Executive. The Executive also includes the appointment of the Deputy Director, Regulatory Operations and Deputy Director, Regulatory Framework and Strategy from 1 January 2011.

Key managers' pension entitlements

The Managing Director and Accounting Officer and Directors are ordinary members of the staff pension scheme, which has HMRC approval and is a statutory scheme (See note 8 to the financial statements). Employer contributions are at the rate recommended by actuaries and applicable for all members. OTSL does not have a scheme that provides additional pension. Individual Directors may make additional voluntary contributions and these contributions and benefits are excluded from the table on page 21. Benefits accrue at the rate of 1/60th of pensionable salary for each year of service.

The cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The accrued annual pension and CETV shown on page 21 relate to the benefits that the Directors have accrued as a consequence of their total membership of the pension scheme and not just the service in a senior capacity to which disclosure applies. The total accrued annual pension and CETV figures include the value of any pension benefit from another scheme, which the Director has transferred to the corporation's pension scheme.

CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation and contributions paid by the Director (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

	Real increase in pension	Real increase in related lump sum	Accrued annual pension at 31 March 2011	Total accrued related lump sum 31 March 2011	Cash equivalent transfer value at 31 March 2010	Cash equivalent transfer value at 31 March 2011	Real increase in CETV after adjustment for inflation, market condition & employee contributions
	£	£	£	£	£	£	£
Peter Marsh	3,320	3,512	35,516	90,049	489,007	443,070	-45,937
Claer Lloyd-Jones	25,243	73,257	2,296	0	32,680	538,064	505,384
Richard Moriarty	1,462	0	2,546	0	21,374	24,218	5,439
Clare Miller	-393	-2,264	28,512	73,035	489,026	428,841	-60,185
Phil Morgan	136	0	2,078	0	27,407	26,181	-1,225
Jonathan Walters	4,500	4,815	9,703	22,983	119,795	129,163	9,368
Andrew Dench	1,313	590	11,300	27,609	165,188	154,993	-10,194

A rate of inflation of 3.1% (CPI) (2010: 4.3% RPI) has been applied in calculating the annual increase of accrued pension and CETV. The OTSL's pension liabilities are disclosed in detail at note 8 to the financial statements. The deficit on the funded scheme amounted to £35.3 million at 31 March 2011. The significant increase in relation to the CETV for Claer Lloyd-Jones represents the transfer into the scheme of pension rights from a previous scheme.

Board Members' appointments and remuneration

Board Members are appointed by the Secretary of State in accordance with sections 82 and 83 of the Housing and Regeneration Act 2008. The length of appointment can be for no more than five years, with OTSL appointments being up to four years with the possibility of an extension. The holder of the office of Managing Director and Accounting Officer is also a Board Member. With the exception of the Managing Director and Accounting Officer, Board Members' emoluments are determined by the Secretary of State. All Board Members emoluments were paid by the OTSL and appear in staff costs included at note 4 to the accounts. Board Members were appointed prior to 1 December

2008 as part of the process of transferring functions from the Housing Corporation to OTSL and to enable a smooth transition.

The DCLG's Permanent Secretary determines the Managing Director and Accounting Officer's remuneration after discussion with Treasury and the OTSL. Details of Board Members' remuneration, other details relating to their appointment are set out below and any related party transactions are disclosed in note 22 to the financial statements.

Board Members' emoluments

The fees of the Board Members of the OTSL during the year were as follows. There were no other benefits, special pension arrangements or other remuneration. The conditions for the appointment of Board Members are contained in schedule 6 to the Housing Associations Act 1985. Appointments are generally for periods of four years except for those Board Members transferring from the Housing Corporation and English Partnerships when the appointments were for three years. The holder of the posts of Chief Executive and Managing Director and Accounting Officer were also Board Members. The remunerations of Peter Marsh and Claer Lloyd-Jones are disclosed on page 19.

	Date of first Appointment	Appointment lapses	2011 £	2010 £
Anthony Mayer, Chairman (c)	1 May 2008	31 March 2012	85,000	85,000
Julian Ashby, Deputy Chairman	1 October 2008	30 September 2012	32,500	23,617
Jim Coulter	1 October 2008	30 September 2012	13,000	13,000
Sheila Drew Smith (c)	1 October 2008	31 March 2012	13,000	13,000
Julie Fawcett (c)	1 October 2008	31 March 2012	13,000	13,000
Donald Hoodless (c)	1 October 2008	31 March 2012	19,500	15,708
Pauleen Lane	1 October 2008	30 September 2011	13,000	13,000
Dennis Rees	1 October 2008	30 September 2012	13,000	13,000
Ranjit Sondhi	6 May 2009	30 April 2013	13,000	11,917
Peter Letley (b)	6 May 2009	Resigned July 2010	6,500	11,917
Total remuneration			221,500	213,159
Social security costs			21,329	20,331

(a) All Board Members salaries are paid by OTSL

(b) Peter Letley resigned in year and was not replaced

(c) These Board Members have accepted the offer to have their contracts extended to 31 March 2012 to co terminate with the closure of OTSL

Any significant interests held by Board Members can be viewed via the register of interests, which is open to the public on our website: www.tenantservicesauthority.org

Board Members' time commitment

The Chairman has a contracted time commitment of two days a week. The agreed time commitment of other Board Members is two days a month except for Julian Ashby whose time commitment is five days a month to reflect his role as Deputy Chairman, and Donald Hoodless whose time commitment is three days per month to include his ARC Chairmanship duties. The post of Managing Director and Accounting Officer is full-time.

Chairman's pension entitlements

Under the exercise of powers contained in schedule 6 to the Housing Associations Act 1985, the Secretary of State can, with HMT approval, extend membership of a pension scheme to the Chairman only. However, Mr Mayer, the OTSL Chairman, has not applied to join the scheme. The pension scheme is similar to the Local Government Pension Scheme; however, there are no employer contributions. All past chairs of the Housing Corporation apart from Sir Peter Dixon have their pensions paid by DCLG. Sir Peter Dixon's pension emoluments paid in the year were £13,050 which are included in other staff costs in note 4 to the financial statements.

Capitalised value of accrued pension benefits

The scheme is unfunded, with benefits being paid as they fall due and guaranteed by the employer (DCLG) and, therefore, there is no surplus or deficit. Members do, however, make a contribution at the rate of six per cent of gross salary. Pensions are currently in pay for four ex-chairs.

The main assumptions used for the purposes of IAS 19 are as follows:

	2011	2010	2009
Rate of inflation	2.65%	2.75%	2.75%
Rate of increase in salaries	4.90%	4.29%	4.29%
Rate of increase for pensions in payment and deferred pensions	2.65%	2.75%	2.75%
Discount rate for scheme liabilities	5.60%	4.60%	6.04%

Rate of inflation is based on the consumer's prices index for 2010/11 with both previous years being based on the retail prices index.

Arrangements for compensation for redundancy or premature loss of office

Board Members' appointments are made by the Secretary of State under schedule 6 to the Housing Association's Act 1985 and are subject to those provisions. The Secretary of State may either terminate the appointment without notice in the specific circumstances outlined in the statute or upon giving three months' notice in writing. There are no compensation arrangements for Board Members for premature loss of office.

The Managing Director's contract specifies the circumstances under which termination can occur without payment of compensation. Redundancy or premature loss of office for

non-specified reasons requires compensation to be determined between the OTSL's Chairman and DCLG's Permanent Secretary.

Corporate Governance Report

Statement of compliance with the combined code on corporate governance

OTSL has complied throughout the year with the provisions set out in section 1 of the Combined Code published in July 2003 except that:

- Board appointments are made by the Secretary of State, and the OTSL does not have a Nomination Committee
- all Board Members, except the Managing Director, are non-executive, and the Board has not appointed a senior independent Director and
- Board Members, other than the Managing Director, do not receive performance-related payments

Following an assessment in mid 2009 of OTSL Board Members' skills and the challenges facing them, the OTSL Board adopted an action plan to develop the governance framework and established a governance working group. In June 2010, a progress review was commissioned in which Board Members were asked to assess the Board's overall performance in relation to the six core principles in the Good Governance Standard for Public Services.

OTSL and its Board

OTSL is an executive Non-Departmental Public Body accountable to the Secretary of State for DCLG. The Housing and Regeneration Act 2008 sets the statutory framework for what OTSL is and what it does. These powers include explicit powers to set standards for social housing provision, particularly around tenant involvement and empowerment; quality of accommodation, repairs and maintenance' allocations rents and tenure; neighbourhood management local areas co-operation and anti social behaviour; value for money and governance and financial viability.

Details of the legislative and accounting framework and the responsibilities and accountabilities of OTSL are described in the framework document issued by DCLG. This document is available both on the DCLG and OTSL websites.

OTSL is accountable through DCLG to Ministers and to Parliament. The National Audit Office, the OTSL's statutory auditors, has full rights of inspection and the OTSL's Accounting Officer can be called upon to appear before the Public Accounts Committee. OTSL may be called to give evidence before any of Parliament's Select Committees.

Board vacancies are advertised nationally and members are appointed by the Secretary of State under section 82 of the Housing and Regeneration Act 2008 and in accordance with the code of practice issued by the commissioner for public appointments.

OTSL's Board Members for 2010-11 were:

- Julian Ashby (Deputy Chairman)
- Jim Coulter

- Sheila Drew Smith
- Julie Fawcett
- Donald Hoodless
- Pauleen Lane
- Claer Lloyd-Jones (from November 2010)
- Peter Marsh (until November 2010)
- Anthony Mayer (Chairman)
- Dennis Rees
- Peter Letley (until 8 September 2010)
- Ranjit Sondhi

The Board comprises a Chairman, a Deputy Chairman, up to eight non-executive members and the Managing Director who, with the Secretary of State's approval, is appointed by the Board. The Managing Director, who is also the Accounting Officer is responsible for the day-to-day running of the OTSL. The OTSL has a Governance Manual which includes the Code of Conduct (which is consistent with guidance on Codes of Practice for Board Members of Public Bodies published and revised from time to time by the Cabinet Office) and guidance on the acceptance of gifts and hospitality, as well as information about the Board; its Committees and policies of specific relevance to the Board. It includes the scheme of delegation which is reviewed regularly by the Board.

Ordinary meetings of the full Board are held at least eight times a year. There were ten Board meetings held in the year. In its spirit of openness and transparency, all OTSL Board meetings are open to the public, except for the deliberation of restricted items. Items for discussion include matters requiring a decision of the Board where the power to make the decision is reserved to the Board (under the OTSL Scheme of Delegation); reports on issues of major importance affecting the OTSL; minutes from all Board Committees, and a report from the Audit and Risk Committee (ARC). Most agendas include a report which discusses improvements and developments in the governance of the organisation. In addition, the Board holds policy meetings to discuss strategic items. The Board has corporate responsibility for ensuring that the OTSL fulfils the aims and objectives set by the Secretary of State and for promoting the efficient and effective use of staff and other resources by the OTSL. To meet this responsibility, the Board establishes the overall strategic direction of the OTSL within the policy and resources framework determined by the Secretary of State. It ensures that the Secretary of State is kept informed of any changes which are likely to impact on the strategic direction of the OTSL or the attainability of its targets, and determines the steps needed to deal with such changes.

The Board's responsibilities include:

- ensuring that the OTSL complies with all relevant statutory or administrative requirements for the use of public funds
- establishing the overall strategic direction of the organisation within the policy and resources framework agreed with the Secretary of State
- ensuring that high standards of corporate governance are observed at all times
- overseeing the delivery of planned results by monitoring performance against agreed strategic objectives and targets set out in the corporate plan

- ensuring that, in reaching decisions, the Board has taken into account guidance issued by DCLG and the framework document
- discharging the OTSL's statutory functions and
- ensuring that it operates within the limits of its statutory and delegated authority agreed with DCLG and in accordance with the framework document

The Board has appointed two committees consisting of Board Members and advised by the Executive, Directors and senior officers. The minutes of each Committee are reported formally in writing to the Board after each meeting. All Committees take decisions in their own right subject to the delegated powers within the scheme of delegation. A summary of the Committees and Board Members involved is provided below.

Audit and Risk Committee – four meetings per year (Chair, Donald Hoodless)

Board Members: Julian Ashby, Jim Coulter, Sheila Drew Smith and Pauleen Lane. Claer Lloyd-Jones attends as Accounting Officer.

The Audit and Risk Committee (ARC) is responsible for ensuring proper arrangements exist for internal audit, risk management, internal control, monitoring performance against corporate objectives and organisational development and that assurances are reported relating to the OTSL's corporate governance requirements. It carries out a review of the OTSL's annual accounts and the matters raised by the external auditors in their management letter.

Other issues that the ARC considers and advises the Board on include:

- the strategic processes and policies for risk control, corporate governance and the content of the Statement on Internal Control
- assurances relating to the adequacy and effectiveness of risk control and governance processes
- the promotion, co-ordination and monitoring of risk management activities, including the regular review and input to the corporate risk profile and
- the internal audit annual plan, the internal audit reports and the implementation of recommendations

OTSLs Head of Internal Audit and the Audit Director of the National Audit Office (the OTSL's external auditors) have free and confidential access to the Chair of the ARC and attend ARC meetings. All internal audit reports are addressed to the ARC.

Remuneration Committee – one meeting during the year (Chair, Anthony Mayer)

The Committee comprises all Board Members except Claer Lloyd-Jones.

The Remuneration Committee determines the Managing Director's remuneration and contractual, and OTSL pension scheme arrangements for the Directors and other senior staff. The Committee provides an independent perspective of the market pressures governing pay, specific recruitment and retention sensitivities. It considers and reviews,

when necessary, the OTSL's policy on senior staff remuneration, conditions of service, benefits and compensation commitments on early termination of contracts.

Various consultation and review groups

OTSL acknowledges the importance of maintaining effective dialogue and working together with a wide range of organisations in the public, private and voluntary sectors as new policies are developed and implemented. As a result, Board Members lead or take part in other groups, which provide a means of consulting or reviewing aspects of policy.

Board Members' disclosures

Details of any related party transactions in respect of other Board Members with RPs or other entities with which the OTSL does business are disclosed in note 22 to the financial statements and in the register of interest, which is on our website:

www.tenantservicesauthority.org

This report was approved by the Board on 6 July 2011.

Anthony Mayer
Chairman

Claer Lloyd-Jones
Accounting Officer

Statement of the Board and Accounting Officer's responsibilities

Under the Housing and Regeneration Act 2008, the Board is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State with the approval of the Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the OTSL's state of affairs at the year end and of its net expenditure and cash flows for that financial year.

In preparing the accounts the Board and the Accounting Officer are required to comply with the requirement of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgments and estimates on a reasonable basis
- state whether applicable, accounting standards as set out in the Government financial reporting manual have been followed and disclose, and explain any material departures in the accounts and
- prepare the accounts on the going concern basis unless this is no longer appropriate

The Board and Accounting Officer confirm that the accounts comply with the above requirements.

The Board Member appointed as Managing Director is also designated the Accounting Officer and the Consolidation Officer for the OTSL. The relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum and Managing Public Money.

Statement on Internal Control

Background

I took over the responsibilities of Accounting Officer on 26 November 2010. From 1 April until that date, the position of Chief Executive and Accounting Officer was held by Peter Marsh. Following the Secretary of State's announcement that as a result of the review of social housing OTSL would close at 31 March 2012 with the subsequent transfer of the Social Housing Regulators functions to a reformed HCA, the post of Chief Executive would, from that date, be subject to redundancy. The Board, with the approval of the Secretary of State and Peter Marsh, agreed to bring forward that redundancy by mutual agreement.

Scope of responsibility

As the current Accounting Officer of OTSL, I have responsibility for maintaining a sound system of internal control that supports the achievements of agreed policies, aims and objectives, as set by the Secretary of State. In addition, safeguarding the public funds and organisational assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. Although not appointed to the post of Accounting Officer until 26 November 2010, I am able to give personal assurance that the system of internal control was effective for the whole year, following assurances given to me by the previous post holder and take full responsibility for these being in place.

Through the Board and my role as Accounting Officer, OTSL works closely with its sponsor department, Communities and Local Government (DCLG). This relationship ensures all parties are kept abreast of issues, statutory requirements, government policy and overall corporate governance.

Arrangements for securing accountability

The Board

A Board has been appointed by the Secretary of State in accordance with the Code of Practice for Public Appointments Procedures issued by the Commissioner for Public Appointments. Board Members initial appointments vary between three and four years, and the level of their emoluments is set by DCLG.

The Board responsibilities include:

- setting the overall strategic direction of the social housing regulator to ensure that its business is achieved, while having regard to the need to ensure the highest standards of regularity, propriety and value for money in the use of public funds
- directing OTSL in the production of the corporate strategy which will make economic and effective use of public funds

- representing the social housing regulator in public, promoting its interests and communicating its aims to external stakeholders
- setting internal policy on risk and internal control as well as having responsibility for determining our strategic direction and providing oversight of risk management, and
- ensuring OTSL's activities conform to legislative requirements and fulfilling the collective responsibility of the Board for the conduct of OTSL's business and ensuring that OTSL achieves maximum value for money from its administrative expenditure

Board Members are subject to a Code of Practice which is consistent with the Guidance on Code of Practice for Members of Public Bodies published by the Cabinet Office.

The Board meets at least eight times a year and I have regular meetings with the Chairman to discuss all relevant risks and control issues.

The Audit & Risk Committee

A duly constituted Audit & Risk Committee has operated through the year and its Terms of Reference reflect best practice. It consists of five Board members and all have recent and relevant financial experience.

The Audit & Risk Committee aims to ensure that the OTSL has a comprehensive and reliable assurance for the framework of risk management, control and governance. In providing its broad-based assurance to me, the Audit & Risk Committee wishes to assure itself that information risk is well managed across the OTSL.

The Audit & Risk Committee has met regularly and has considered reports from internal audit on the system of internal control, risk management and governance and from the NAO. The Audit & Risk Committee has also taken evidence from senior managers as and when they have deemed appropriate.

Directors' responsibility

We reinforced the Director, Assistant Director and 'Heads Of' level Statement on Internal Control (SIC) assurance requirement supported by completion of an Internal Controls Questionnaire. This requires Directors, Assistant Directors and 'Heads Of' to maintain an awareness and understanding of OTSL's policies and procedures and to promote compliance within their respective directorates.

Directors, Assistant Directors and 'Heads Of' are required to highlight potential exceptions to the assurance, which have arisen either through lack of awareness of the procedures or because issues were unforeseen. They are also required to highlight areas where they believe controls have not been operating effectively during the course of the year.

By completing a Statement on Internal Control, Directors, Assistant Directors and 'Heads Of' are declaring that they are satisfied that those working in their area of responsibility

have complied, to the best of their knowledge and in all material respects, with the OTSL's standard arrangements, policies, systems and processes throughout the financial year. If they are aware of any material exceptions, they are asked to note them.

For the period ending 31 March 2011, these statements contained a small number of items highlighted by Directors, Assistant Directors, and 'Heads Of'. These items are subject to improvement actions and do not materially impact on this report.

Internal Audit

A professional and independent internal audit service, led by an outsourced provider PwC, was maintained throughout the year. The Audit & Risk Committee agreed the internal audit strategy and plans for 2010-11. I met regularly with the internal auditors and received from them reports on internal audit findings and progress on the implementation of audit recommendations, which included their professional opinion on the level of assurance applicable to the OTSL.

My review includes consideration of the internal audit opinion in conjunction with the Audit & Risk Committee and in the light of audit findings during the year. Internal audit was carried out in accordance with the internal audit strategy programme set out in the audit plan. The programme took into account the changing environment which the OTSL has been placed and the internal auditors' assessment of the coverage required to meet the Government Internal Audit Standards as revised from 1 April 2009.

Based on the audit work carried out, the internal auditors concluded there is an adequate and effective system of internal control, risk management and governance, which provides reasonable assurance over the achievement of objectives. In their view, there are no specific failures that need to be disclosed in the OTSL's Statement on Internal Control.

Through their reports, the internal auditors have alerted me to where improvements are necessary, and I take a personal interest in the implementation of such plans. A spirit of cooperation exists between my staff and internal audit and they work together to maintain a culture of continuous improvement. All recommendations made by the internal auditors have been accepted by management, and the implementation of previous recommendations is reviewed quarterly through the Audit Clinics chaired by the Head of Internal Audit.

The purpose of the system of internal control

The system of internal control is based on the operation of ongoing processes. These are designed to identify and prioritise the risks to the achievement of the OTSL's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, whilst managing them efficiently, effectively and economically. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. This system of internal control, which accords with Treasury guidance, was established

in previous years and has continued in place for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts.

Capacity to handle risk

The risk profile of OTSL has changed significantly over the year and continues to do so as the new risks associated with closure of OTSL and transition of the Social Housing Regulator to HCA now have to be mitigated. In conjunction with these new risks, we have to continue to mitigate those risks associated with business as usual, which have also changed as a result of the Government's spending restraints and welfare reforms. As Accounting Officer, I have ultimate responsibility for the risk management process and discharge my responsibilities in relation to risk management by:

- providing leadership and direction over the risk management process
- setting and communicating the risk management strategy
- regularly reviewing the risk register and profile, and
- conducting an annual review of the effectiveness of the system of internal control

The responsibility for this process is included within the terms of reference of the Audit and Risk Committee. The Board has reviewed OTSL's Risk Management Strategy and reviews the risk register quarterly. The risk register is reviewed at each meeting of the Audit & Risk Committee and is reviewed and updated by the Executive monthly.

Following the review of social housing, the risks facing us to March 2012 have been divided between managing the 'business as usual risks' and new risks associated with the transition of the regulation function to a separate Regulation Committee within the Homes and Communities Agency (HCA). It is important we ensure we have sufficient resources to carry out regulation under the 2008 Act and to assess the financial implications faced by registered providers up until the Localism Bill is enacted, which is currently forecast to be autumn 2011. We are working closely with DCLG and HCA to consider which risks are likely to increase (or reduce) as a result of the merger and closure process, and develop appropriate cost-effective plans to mitigate them. A clear ownership of the risks associated with the transition and business as usual has been put in place.

The development of the Strategic Risk Register and the means by which it is monitored and updated is a continual process. During 2010/11, work has been carried out to make the Strategic Risk Register more focussed and this will continue to be an evolving process in the future. The identification of new risks and the evaluation of changes to existing risks is the responsibility of each member of the Board. All Board papers must include a specific assessment of risk. Each strategic or business critical risk is assigned to an individual Director who is required to implement and manage the appropriate counter measures. The new risks, which appear in the register include:

- records management and the transfer of said records to HCA
- increased need to ensure both fraud and security issues that are evident in an organisation that is in transition are mitigated

- appropriate skills are retained in the organisation to ensure regulation is delivered in accordance to the standards
- all assets and liabilities are recorded and transferred to HCA
- the pension deficit does not crystallise
- significant delay to Localism Bill
- the introduction of fees
- managing the conflicting expectations of lenders, providers or tenants and
- that the impact of the restructuring process necessary to deliver both efficiencies in line with the spending review targets, and for a reformed HCA does not divert resources from ensuring that business as usual suffers

Taking the above into account, the OTSL's Risk Management Strategy is to achieve the balance between the need for a robust internal control environment and governance framework. The need to support our culture, people and partners in achieving our objectives and has been developed to reflect the changes in the sector.

During the year, courses were held to ensure all staff are aware of what risk management is and what actions they can take so they can manage risk effectively. In addition, the following was also instigated to support and oversee the internal change programme and transition process:

- an Organisational Change Programme Board
- appointed work stream leaders to lead on specific areas of work
- appointed a Senior Responsible Officer and Project Director to oversee the transition process
- I and fellow Executive colleagues are members of the Transition Programme Board chaired by DCLG including membership by HCA
- OTSL is represented on a number of transition work streams to support the transfer of the regulation function to HCA
- developing a project plan with the key milestones and contacts
- producing a closure plan to identify the issues that need to be addressed to ensure the successful closure of OTSL and the successful transition of the Social Housing Regulator to HCA and
- monthly reviewing the risk register by the Executive to ensure that actions required to mitigate the risks associated with closure and transition are properly maintained

The risk and control framework

Risk is defined as the uncertainty of outcome, whether positive opportunity or negative threat, of action and events. Risk has to be assessed and managed in respect of the combination of likelihood of something happening, and the impact that arises if it does happen as set out in our Risk Management Strategy. The Red, Amber or Green rating (RAG Status) is used to denote the likelihood and impact that a particular risk has in relation to OTSL's activities.

Internal control within OTSL continues to be based on a framework of regular management information, financial regulation, and administrative procedures including

segregation of duties, management supervision and a system of delegation and accountability.

We manage external interdependencies through our regulatory engagements and contractual arrangements. We also manage external risks through formal frameworks and operational relationships with DCLG, the Homes and Communities Agency, the Audit Commission and councils.

We updated our Disaster Recovery and Business Continuity plan, and planned recovery time from a major incident will be significantly improved compared to the previous solution. Our fraud response plan was also updated early in June 2010 to reflect changes in risks associated with fraud. There have been no frauds or investigations during 2010/11.

Our Information Security Policy aims to ensure the confidentiality and integrity of information held by the OTSL, balancing this with our legal obligation of openness and the business need for readily available information.

Recent and emerging legislation has made it more important than ever before to develop clear statements of policy, spelling out what is and what is not acceptable practice in the use and processing of electronic information. OFST works within Cabinet Office guidelines to ensure compliance with data handling requirements and associated industry standards. The Cabinet Office guideline specifies three Risk Levels (RL). OTSL's information is classed at RL3, the lowest risk level available. Apart from information security, OTSL has policies covering retention, encryption, device allocation and email.

We have had no data loss incidents during the year.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Executive managers within OTSL who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

In line with the spending restraints issued by DCLG, we have had to introduce additional approval requirements, including Ministerial approval. Where appropriate, I have implemented additional steps in OTSL's internal approvals process before letting new contracts or incurring expenditure by firstly seeking appropriate DCLG approval, and secondly, prior to signing the commitment, checking that the approvals are all in place.

With the reductions in grant funding being received by providers and the introduction of the affordable rent policy, we are also aware that there are wider risks to the economy. This must be managed to ensure providers continue to manage their businesses despite the significant changes to a number of funding streams that impact on both local authorities and registered providers.

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Board and the Audit and Risk Committee. Mechanisms are in place to identify and address weaknesses, and ensure continuous improvement of the system.

Significant internal control issues

No serious internal control issues have arisen since April 2010 to the date at which the accounts are signed. I, Claer Lloyd-Jones, have based my sign off of this statement on the assurance given to me by Peter Marsh, whose contract ceased on 26 November on the basis that no serious internal control issues have come to light since that date.

Claer Lloyd-Jones
Accounting Officer
July 2011

The Office for Tenants and Social Landlords

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Office for Tenants and Social Landlords (also known as the Tenant Services Authority) for the year ended 31 March 2011 under the Housing and Regeneration Act 2008. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and Auditor

As explained more fully in the Statement of the Board and the Accounting Officer's responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Housing and Regeneration Act 2008. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Office for Tenants and Social Landlords' circumstances and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made by the Office for Tenants and Social Landlords, and
- the overall presentation of the financial statements

In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied

to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

In my opinion, all material in respects to the expenditure and income has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Office for Tenants and Social Landlords' affairs as at 31 March 2011 and of its total comprehensive expenditure for the year then ended, and
- the financial statements have been properly prepared in accordance with the Housing and Regeneration Act 2008 and Secretary of State directions issued thereunder

Emphasis of matter paragraph reflecting going concern uncertainty

Without qualifying my opinion, I draw attention to the disclosures made in note 23 to the financial statements concerning the application of the going concern principle in light of the announcement for the functions of the Office for Tenants and Social Landlords to transfer to the Homes and Communities Agency. This is subject to legislation and there is therefore uncertainty over the Office for Tenants and Social Landlords' ability to continue to operate in its current legal form.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued by the Secretary of State under the Housing and Regeneration Act 2008, and
- the information given in the Management Commentary and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept, or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns, or
- I have not received all of the information and explanations I require for my audit,

- or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date 8 July 2011

Financial statements 2010-11

Statement of Comprehensive Net Expenditure

For the year ended 31 March	Note	2011 £'000	2010 £'000 Restated
Expenditure			
Revenue grants, research and best practice	3	3,877	5,554
Staff costs	4	15,441	16,997
Transition costs	7	-	2,534
Depreciation and amortisation	10/11	1,409	1,515
Other expenditure	5	6,146	10,048
		26,873	36,648
Income			
Income from activities	6	(420)	(698)
Other income	6	(882)	(1,077)
Net expenditure		25,571	34,873
Interest payable	8	1,020	2,750
Interest (receivable)	6	(136)	(90)
Net expenditure after interest		26,455	37,533
Taxation	9	-	-
Pension (past service credit)	4/8	(13,900)	-
Net expenditure after tax		12,555	37,533
Other comprehensive expenditure			
Net actuarial / loss on pension plan	8	4,810	6,870
Net expenditure after tax		12,555	37,533
Total comprehensive expenditure for the year ended 31 March		17,365	44,403

The restatement is due to the removal of cost of capital charge, see note 1. All activities are from continuing operations. The notes on pages 46 to 71 form part of these financial statements.

Statement of Financial Position

For the year ended 31 March	Note	2011 £'000	2010 £'000 Restated	2009 £'000 Restated
Non-current assets				
Property, plant and equipment	10	790	1,710	2,578
Intangible assets	11	1,225	1,721	2,134
Loans	13	235	435	568
Total non-current assets		2,250	3,866	5,280
Current assets				
Loans	13	70	126	102
Trade and other receivables	14	1,264	2,771	531
Cash and cash equivalents	15	5,965	2,409	3,951
Total current assets		7,299	5,306	4,584
Total assets		9,549	9,172	9,864
Current liabilities				
Trade and other payables	16	(4,617)	(6,472)	(5,252)
Total current liabilities		(4,617)	(6,472)	(5,252)
Total assets less current liabilities		4,932	2,700	4,612
Non-current liabilities				
Provisions			-	
Pension liabilities	8	(39,848)	(49,751)	(41,810)
Total non-current liabilities		(39,848)	(49,751)	(41,810)
Assets less liabilities		(34,916)	(47,051)	(37,198)
Taxpayers' Equity				
General reserve		3,080	843	2,742
Pension reserve		(39,848)	(49,751)	(41,810)
Specific reserve		1,852	1,857	1,870
		(34,916)	(47,051)	(37,198)

The notes on pages 46 to 71 form part of these financial statements. The restatement is due to the removal of cost of capital charge, see note 1.

The financial statements were approved by the Board on **6 July** and signed on its behalf by:

Claer Lloyd-Jones
Anthony Mayer

Accounting Officer
Chairman

Date: 6 July 2011
Date: 6 July 2011

Statement of Cash Flows

For the year ended 31 March	Note	2011 £'000	2010 £'000 Restated	2009 £'000 Restated
Cash flows from operating activities				
Net expenditure after tax		(12,555)	(37,533)	(38,677)
Adjustments for non-cash items				
Net depreciation (incl. loss on disposal)	5/10/11	1,421	1,526	1,217
Pension charge	8	1,830	3,170	1,497
Pension (past service credit)	8	(13,900)		
Pension interest cost	8	1,020	2,750	1,323
Interest (receivable)	6	(136)	(90)	(119)
(Increase)/decrease in trade and other receivables	14	1,507	(2,240)	206
Increase/(decrease) in trade and other payables		(1,784)	1,743	(269)
Pension paid	8	(3,663)	(4,849)	(2,738)
Interest paid		-	-	(56)
Corporation tax paid		-	-	(3)
Net cash flow from operating activities		(26,260)	(35,523)	(37,619)
Cash flow from investing activities				
Purchase of property, plant and equipment		(36)	(451)	(1,592)
Purchase of intangible assets		(49)	(248)	(723)
Proceeds of disposal of property, plant and equipment		7		23
Loans repayments received from completed schemes	13	272	125	170
Interest received		122	5	114
Net cash outflow from investing activities		316	(569)	(2,008)
Cash flows from financing activities				
Grants from parent department		29,500	34,550	42,521
Advances from NLF	17	-	-	(2,100)
Repayments to NLF	17	-	-	1,400
Net financing		29,500	34,550	41,821
Net increase/(decrease) in cash and cash equivalents in the period		3,556	(1,542)	2,194
Analysis of cash and cash equivalent				
Cash and cash equivalents at 1 April		2,409	3,951	1,757
Cash and cash equivalents at 31 March	15	5,965	2,409	3,951
Increase/(decrease)		3,556	(1,542)	2,194

The notes on pages 46 to 71 form part of these financial statements. The restatement is due to the removal of cost of capital charge, see note 1.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2011	General reserve	Pension reserve	Specific reserve	Total reserves
	£'000	£'000	£'000	£'000
Balance at 31 March 2010	(2,365)	49,751	(1,857)	45,529
Prior Year Adjustment	1,522	-	-	1,522
Balance at 31 March 2010 Restated	(843)	49,751	(1,857)	47,051
Changes in Taxpayers' Equity for 2010-11				
Total comprehensive expenditure	17,365	-	-	17,365
Transfer to reflect pension fund transactions	9,903	(9,903)	-	-
Transfer of interest net of costs	(5)		5	-
Total recognised income and expenditure for the year ended 31 March 2011	26,420	39,848	(1,852)	64,416
Grant from DGLG	(29,500)			(29,500)
Balance at 31 March 2011	(3,080)	39,848	(1,852)	34,916

For the year ended 31 March 2010	General reserve	Pension reserve	Specific reserve	Total reserves
	£'000	£'000	£'000	£'000
Balance at 31 March 2009	(1,706)	41,810	(1,870)	38,234
Prior Year Adjustment	(1,036)			(1,036)
Balance at 31 March 2009 Restated	(2,742)	41,810	(1,870)	37,198
Changes in Taxpayers' Equity for 2009-10				
Total comprehensive expenditure	44,403	-	-	44,403
Transfer to reflect pension fund transactions	(7,941)	7,941	-	-
Transfer of interest net of costs	(13)	-	13	-
Total recognised income expenditure for the year ended 31 March 2010	33,707	49,751	(1,857)	81,601
Grant from DGLG	(34,550)	-	-	(34,550)
Balance at 31 March 2010	(843)	49,751	(1,857)	47,051

For the year ended 31 March 2009	General reserve £'000	Pension reserve £'000	Specific reserve £'000	Total reserves £'000
Balance at 31 March 2008	1,104	18,509	(1,807)	17,806
Changes in Taxpayers' Equity for 2008-09				
Total comprehensive expenditure	61,933	-	-	61,933
Transfer to reflect pension fund transactions	(23,301)	23,301	-	-
Transfer of interest net of costs	43	-	(43)	-
Transfer of interest net of costs	-	-	(20)	(20)
Total recognised income and expenditure for the year ended 31 March 2009				
	39,779	41,810	(1,870)	79,719
Grant from DGLG	(42,521)	-	-	(42,521)
Balance at 31 March 2009	(2,742)	41,810	(1,870)	37,198

The notes on pages 46 to 71 form part of these financial statements.

Statement of Changes in Taxpayers' Equity

General reserves

All Grant-in-Aid received is used to finance activities and expenditure which support the statutory objectives of the OTSL. This is, therefore, treated as financing income and is credited to the general reserve, as it is regarded as a contribution from a controlling party (DCLG), which gives rise to a financial interest in the residual interest in the OTSL. This means that the only income credited to the Comprehensive Statement of Net Expenditure is income generated from business activities of OTSL. Total comprehensive expenditure for the year was debited to the general reserve to be offset by the Grant-in-Aid received, which was credited there. Other than from DCLG, OTSL did not received grants from another source.

Pension reserve

This represents the deficit on the pension fund.

Specific reserve

Under paragraph 15 of schedule 1 to the Housing Act 1996, any property that remains in ownership of a RSL, after meeting the claims of creditors and any other liability following its dissolution or winding up, is transferable to the OTSL. Use of such funds held under this paragraph is restricted to either managing the controlled dissolution and transfer of engagements of an individual RSL in financial difficulty or ensuring its continued existence, provided that adequate financial controls have been put in place.

1 Accounting policies

Basis of accounting

The financial statements have been prepared in a form directed by the Secretary of State, with the consent of HM Treasury, in accordance with the Housing and Regeneration Act 2008. The financial statements are prepared in accordance with: International Financial Reporting Standards, the Companies Act requirements, the disclosure and accounting requirements contained in HM Treasury's Fees and Charges Guide, the accounting and disclosure requirements given in Managing Public Money and the Financial Reporting Manual (FReM), insofar as these are appropriate to the Office for Tenants and Social Landlords (OTSL) and are in force for the financial year for which the statements are prepared. The accounting policies contained in the FReM comply with IFRS as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy that has been judged the most appropriate to the particular circumstances of the OTSL, for the purpose of giving a true and fair view, has been selected. The OTSL's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

OTSL has considered, in accordance with IAS8, whether there have been any changes to accounting policies (either voluntary or arising from IFRS and/or the FReM) which have an impact on the current or prior period, or may have an effect on future periods. OTSL has also reviewed any new or amended standards issued by the IASB but not yet effective, to determine if it needs to make any disclosures in respect of those new IFRS's that are or will be applicable (references to 'new IFRS's' includes the new interpretations and any new amendments to IFRS's and Interpretations).

The following change in accounting policy by the FReM has been applied for the first time in the current period:

In previous years, OTSL was required to charge a notional cost of capital against the Statement of Comprehensive Net Expenditure to ensure that it bears an appropriate charge for the use of capital in the business in the year. As a result of HM Treasury 'clear line of sight' project which aims to closely align budgets, estimates and accounts, the cost of capital charge is no longer chargeable to the Statement of Comprehensive Net Expenditure. Therefore from 2010-11, OTSL is no longer required to reflect a notional cost of capital within its accounts.

Cost of capital - Change in accounting policy -

Prior to the change in accounting policy, it was OTSL's practice to credit cost of capital to the Statement of Comprehensive Net Expenditure and the compensating entry made in general reserve, which had a nil impact on total Taxpayer's Equity. As a result, the change in account policy has had no impact on Taxpayers' Equity for years ended 31 March 2009 and 31 March 2010.

It has been determined that the new IFRS 9 is relevant to OTSL. It is effective from 1 January 2013 and has not been adopted early.

IFRS 9, 'Financial Instruments' effective date January 2013. It states that financial assets should be classified on the basis of the entity's business model for their management, and their contractual cash flow characteristics. They should be measured initially at fair value, and subsequently at either fair value or amortized cost.

It has been determined that the IAS 24 (revised) is relevant to OTSL. It is effective from 1 January 2011 and has been adopted early.

IAS 24 (revised) - 'Related party transaction' effective date 1 January 2011. The standard requires that transactions and balances between the reporting entity and its related parties be disclosed in the financial statements. However, exemption has been given to government entities from disclosing details of transactions. Government entities are required to disclose: the name of the parent department and a note on the main entities within government with which the entity has had dealings.

Government grants receivable

The OFTL's activities in 2010-11 were funded by Grant-in-Aid, provided by DCLG. All Grant-in-Aid and other income received are used to finance activities and expenditure which support the statutory objectives of the OTSL. Grant-in-Aid is treated as financing and is credited to the general reserve, because it is regarded as contributions from a controlling party which gives rise to a financial interest in the residual interest of the OTSL.

Income

Income relates to costs recovery and recharges to the Homes and Communities Agency and Lease Advisory Service stated net of VAT.

Grants payable

Revenue grant payments are based on the achievement of milestones and are accounted for on resource (accruals) basis.

Grant recoveries

Recoveries of grant are accounted for when the amount due for repayment has been agreed and invoiced, as determined under the circumstances outlined under the OTSL's financial framework. Registered Social Landlords are able to retain any grant recoverable from sales within their own accounts for recycling, with the funds only becoming due to the OTSL if there are no plans to reuse these funds after three years. The OTSL collects monies due from Registered Providers Disposal Proceeds Funds, which are then passed to the HCA.

Administration expenditure and interest receivable and payable

Administration expenditure and interest are also stated in the accounts on a resource (accruals) basis.

Financial instruments

Financial assets and liabilities are recognised on the OTSL's Statement of Financial Position when the OTSL becomes a party to the contractual provisions of the instrument (contract).

OTSL has various financial assets such as loans, short-term trade debtors, cash and short-term deposits which arise directly from its operations.

Financial assets

Loans: these are loans that were made to both individuals and organisations for property purchase or refurbishment where the life of the asset is greater than one year. The loans are classified as financial assets. Financial assets under this category are initially recognised at fair value and subsequently are measured at amortised cost using the effective interest rate method.

Trade and other debtors: trade and other debtors are short-term and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the OTSL will not be able to recover balances in full, with the charge being recognised in administrative expenses in the Statement of Comprehensive Net Expenditure. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents: cash and cash equivalents for cash flow purposes includes cash-in hand and cash-at-bank. Bank deposits with a maturity date of less than three months are classified as cash.

Financial liabilities

Trade and other creditors: trade and other creditors are short-term and are stated at cost.

Segmental analysis

Expenditure is analysed by operational activities and follows the same format used internally by management for decision making purposes. Segmental analysis for the Statement of Financial Position is not practical as grants received; assets and liabilities are held centrally.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. Cost includes the purchase price plus other directly attributable costs incurred to make the assets capable of operating at a location intended by management in accordance with, IAS 16. Subsequent to the initial recognition, property, plant and equipment are valued at depreciated historic cost. Costs in excess of £1,500 are capitalised.

Depreciated historic cost is used as an approximation for fair value of assets, which have short useful economic lives or are low in values. For the purpose of valuation, a short useful economic life will be five years or less and low in value will be £10,000 or less.

Intangible assets

Software and licences are stated at cost less accumulated depreciation and impairment loss. Cost includes the purchase price plus other directly attributable costs incurred to make the assets capable of operating at a location intended by management. Subsequent to the initial recognition, intangible assets are valued at depreciated historic cost, in accordance with IAS 38. Costs in excess of £1,500 are capitalised.

Depreciated historic cost is used as an approximation for fair value of assets that have short useful economic lives or are low in values. For the purpose of valuation, a short useful economic life will be five years or less and low in value will be £10,000 or less.

Depreciation

The costs of the non-current assets are depreciated on a straight-line basis at rates sufficient to write down the cost of individual assets to the residual value over their estimated useful lives.

The relevant depreciation or amortisation rates are applicable to the following each category of asset on a straight line basis:

Computer equipment	Four years
Computer software	Four years
Office equipment	Four years
Motorcars	Four years
Furniture, fixtures and fittings	Five years
Other intangible assets	Five years

Impairment of assets

At the Statement of Financial Position date, the carrying amount of the tangible, intangible and current assets are reviewed to determine whether there is an indication that the assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where an asset is not held for the purpose of generating cash

flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset. The recoverable amount is the higher of fair value less costs to sell, and value in use. If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Operating leases

All leases are considered to be operating leases and are charged in equal installments to administration expenditure over the term of the lease.

Value Added Tax

OTSL is registered for VAT but is subjected to partial exemption rules and is allowed to reclaim a small percentage of its input tax. Administration expenditure stated is inclusive of VAT.

Pensions

OTSL is an admitted body to the City of Westminster Pension Fund, which operates under the Local Government Pension Scheme Regulations. It is a defined benefit scheme based on final pensionable salary. OTSL accounts for its defined benefit plan in accordance with the requirements of IAS 19 Employment Benefits: where the costs of providing employee benefits are recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable. The rules of the defined benefit plan specify the post-employment benefits to be paid on retirement. The defined benefit plan is funded, and the assets of the plan are held externally.

The defined benefit obligation is recognised in the Statement of Financial Position and is the difference between the fair value of the plan assets and the present value of the plan liabilities. Formal actuarial valuations will be triennial; to ensure the present value of defined benefit obligations in the plan's financial statements do not differ materially to the amount reported at the Statement of Financial Position date. The actuarial gain/loss, which is the difference between the expected and the actual return on the plan assets, is recognised in the pension reserve, which is part of the Statement of Changes in Taxpayers' Equity. The following transactions, which relate to the plan, are recognised in the Statement of Comprehensive Net Expenditure statement: current service cost, past service costs, interest cost and expected returns.

2 Analysis of expenditure

		Risk and Assurance	Policy, Improvements & Market Intelligence	Corporate Services	2011 Total	2010 Total
	Notes	£'000	£'000	£'000	£'000	£'000
Revenue grants	3	-	3,877	-	3,877	5,554
Staff costs	4	6,257	2,800	6,384	15,441	16,997
Other expenditure		3,414	1,438	2,703	7,555	11,563
Gross expenditure		9,671	8,115	9,087	26,873	34,114
Transition costs					-	2,534
Pension past service credit	8				(13,900)	-
Expenditure before income and interest payable					12,973	36,648

3 Revenue grants, research and best practice

OTSL's powers to pay revenue grants to registered providers are conferred by section 95(2) of the Housing and Regeneration Act 2008 from 1 December 2008. Prior to that date, the powers were governed under section 95 of the Housing Act 1996.

Innovation and good practice grants are paid to RPs and any other persons to facilitate the proper performance of RPs. Co-operative housing associations are paid under section 87 of the Housing Associations Act 1985 as substituted by section 183 to the Local Government and Housing Act 1989, and amended by the Housing Acts 1996 and 2004. The negative expenditure reported is a result of a grant being repaid in year, partially offset by residual expenditure resulting from grant approvals made in the previous year. OTSL no longer issues grants under these powers.

Tenant Empowerment Grants to tenant groups and advisors enabling council tenants, and from 1 October 2008 RP tenants, to receive independent advice on how they could become involved in the management of their homes and estates are paid under section 27A to the Housing Act 1996 as extended by Statutory Instrument 2006 No. 583. These grants were previously administered by DCLG. The reduction in grants paid out reflects the difficulties of managing a demand lead programme in a time of uncertainty as a result of proposed changes to the way the programme will be managed in 2011/12. Tenant groups were anxious not to commit resources during this time.

The purpose of the Tenant Excellence Fund is to identify and share best practice in the social housing sector, with the aim of improving landlords' aspirations and performance for the benefit of tenants. The fund enabled the OTSL to identify excellent practice and innovation in the sector, actively share these better ways of operating with all landlords, raise performance standards and encourage future innovation. The note below shows a substantial reduction in the current year as the programme was cut back due to the restrictions on public expenditure announced by the Government in early 2010.

DCLG makes a significant contribution to the OTSL's research into lettings and sales of social housing. The amount recovered from DCLG during the year was £420,000 and is included in note 8, other income (2010: £698,000).

	2011 £'000	2010 £'000
Innovation and Good Practice	(82)	797
Tenant Empowerment grants	1,652	2,109
Tenant Excellence fund	77	499
Research and Housing projects	2,230	2,149
	3,877	5,554

4 Staff costs

	2011 £'000	2010 £'000
Staff costs comprise:		
Permanent staff		
Wages and salaries	9,743	11,160
Social security costs	891	959
Other pension costs	1,830	3,170
Redundancy costs	2,210	-
Other staff costs	110	77
Sub-total	14,784	15,366
Temporary staff	101	931
Staff on inward secondment	355	287
Provision for staff benefits	(41)	180
Non-executive Board Members		
Salaries	221	213
Social security costs	21	20
Sub-total	657	1,631
Total staff costs	15,441	16,997
Pension (past service credit)*	(13,900)	-

These costs represent staff costs relating to ongoing activities. No staff costs were capitalised in year (2010: Nil).

* Past service cost has resulted in a surplus as a result of the Government's change in price index from RPI to CPI on increases in public sector pensions.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

	Risk and Assurance	Policy and Market Intelligence	Corporate Services	2011 Total	2010 Total
Permanent staff	102	41	60	203	241
Temporary staff	1	2	4	7	19
Staff on inward secondment	2	3	-	5	5
	105	46	64	215	265

During the year, management conducted a restructuring of the OTSL organisational structure in response to new priorities and the requirement to reduce costs, which saw the reduction in the number of staff.

Redundancy and other departure costs

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed (voluntary redundancies)	2011 Total number of exit package by cost band	2010 Total number of exit package by cost band
<£10,000	-	(-)	2	(5)
£10,000 - £25,000	-	(-)	7	(7)
£25,000 - £50,000	-	(-)	9	(8)
£50,000 - £100,000	-	(-)	14	(13)
£100,000 - £150,000	1	(-)	8	(2)
£150,000 - £200,000	-	(-)	1	(5)
Total number of exit packages by type	1	(-)	41	(40)
Total resource cost £'000	116	(-)	2,267	2,534

(2009-10 comparative in brackets)

5 Other expenditure

	2011	2010
	£'000	£'000
Property rental and operating leases	1,031	1,031
Professional fees	2,679	4,898
Running costs (include other accommodation)	1,703	1,939
Travel and subsistence	478	788
Recruitment, training and publicity	243	1,381
Sub-total	6,134	10,037
Loss on disposal of asset	12	11
	12	11
	6,146	10,048

The above analysis of administration expenditure includes the following charges:

	2011	2010
	£'000	£'000
Rental in respect of leased offices	911	884
Other office rental	120	147
Rental of office equipment	406	371
Auditors' remuneration	49	54

6 Income

	2011	2010
	£'000	£'000
Income		
Research (contribution from CLG towards CORE)	(420)	(698)
Interest receivable	(136)	(90)
Other	(882)	(1,077)
	(1,438)	(1,865)

7 Transition costs

The payments made in 2009-10 that relate to transition activities were a contribution to the pension deficit inherited from the Housing Corporation and payments arising from further restructuring across OTSL. The pension deficit payment will be made each year for the next 15 years in accordance with the admission agreement between the City of Westminster and the OTSL. The payment now appears as business as usual expenditure.

	2011	2010
Transition costs	£'000	£'000
Staff costs		
Restructuring costs	-	2,534
Total transition costs	-	2,534

8 Superannuation

OTSL is an admitted body to the City of Westminster Pension Fund, which operates under the Local Government Pension Scheme Regulations. It is a defined benefit scheme based on final pensionable salary.

OTSL also inherited the pension liabilities of those staff previously employed by the Housing Corporation who transferred to OTSL on 1 December 2008. It also took a proportion of those liabilities that related to previous employees of the Housing Corporation who were either pensioners in pay or deferred pensioners. These liabilities were split between HCA and the OTSL in the proportion of the existing employees who transferred to the new agencies at 1 December 2008.

The change from RPI to CPI for the purposes of up-rating index linked features of post employment benefits has been recognised as a negative past service cost in accordance with IAS 19. The accounting treatment has been adopted by all central government reporting entities where RPI has been used for inflation indexing for many years.

The value of the deficit of the funded scheme that transferred to OTSL on 1 December was £19.6 million. At 31 March 2011, the fund liabilities exceed the fund assets by £35.18 million (2010: £44.55 million). This £9.37 million decrease in the deficit since 31 March 2010 is almost entirely due to the change in inflation assumptions used for the rate of increase to pensions in payment as a result of moving from the retail price index (RPI) to the consumer price index (CPI). The rate of increase to pensions used is the CPI rate of 2.8% whereas the RPI stood at 3.7%, so by using the CPI we see a reduction of 0.9% when compared to the RPI which was used in previous years. The closing fair value of assets has not changed significantly being £62.78 million at 31 March 2011 compared to £64.28 million at 31 March 2010. The increased expected return on assets together with the contributions received from both employers and employees was slightly less than the actuarial loss on assets and the net benefits paid out by the fund giving the small reduction of £1.5 million.

The discount rate determined from AA corporate bond yields declined marginally from 5.5% to 5.4%. At the same time the market's view of long-term inflation (measured by looking at the difference between fixed interest gilts and index linked gilts of appropriate duration) decreased from 3.9% to 2.8%. This large reduction is a result of the change in valuing liabilities from RPI to CPI.

In the UK budget statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and this would apply to public service pensions through the statutory link to the indexation of the Second State Pension.

The most recent triennial valuation of the fund that has an impact on these financial statements was held at 31 March 2010 and has been updated by independent actuaries to the City of Westminster Pension Fund to take account of the IAS 19 disclosure requirements for the year to 31 March 2011. The assumptions used are more up to date than those used for the year ended 31 March 2010 as these were based on the triennial valuation at 31 March 2007 and rolled forward, although adjusted by the actuary. Liabilities are valued on an actuarial basis using the projected unit method that assesses the future liabilities discounted to their present value. The employer's contribution rate for the year ended 31 March 2011 was based on the recommendation contained in the valuation report of the fund as at 31 March 2007. The most recent triennial valuation at 31 March 2010 will impact on contribution rates from 1 April 2011. The recommended rate has been held constant at 10.5%.

OTSL also pays pensions direct to ex-employees who were awarded additional benefits under the Housing Corporation's early retirement scheme. This is the unfunded scheme. These pension costs are funded from Grant-in-Aid as they are paid. The value of the deficit transferred to OTSL on 1 December 2008 was £4.18 million, which had risen to £4.53 million at 31 March 2011.

The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the fund for IAS 19 purposes were:

Principal financial assumptions (funded benefits)	2011	2010
RPI Rate of inflation*	3.7%	3.9%
CPI Rate of inflation**	2.8%	N/A
Rate of general increase in salaries***	5.2%	5.4%
Rate of increase to pensions in payment and deferred pensions**	2.8%	3.9%
Discount rate	5.4%	5.5%
Principal financial assumptions (unfunded benefits)	2011	2010
RPI Rate of inflation*	3.6%	3.8%
CPI Rate of inflation**	2.7%	N/A
Rate of increase for pensions in payment***	2.7%	3.8%
Discount rate	5.5%	5.5%

* The RPI Price Inflation figure does not include an allowance for an inflation risk premium.

** In excess of Guaranteed Minimum Pension increase in payment where appropriate. The Government has announced that it intends to increase public sector pensions in line with CPI effective from April 2011.

*** The same age related promotional salary scales were allowed as set out in the 2010 Valuation Report (for accounting period 2010/11) and as set out in the 2007 Valuation Report (for accounting period (2009/10)).

The principal demographic assumptions

The mortality assumptions were derived from using the base 'Standard SAPS Normal Health All Amounts', making allowance for improvements in line with the CMI 2009, with long-term rate of improvement of 1.25% p.a. for both male and females. A scaling factor was used of 100% for both males and females.

The tables translate into an average life expectancy in years of a pensioner retiring at age 65

Retiring at the Statement of Financial Position date	2011	2010
Male	22.2	22.3
Female	24.4	24.3
Retiring after 20 years of the Statement of Financial Position date		
Male	24.1	24.7
Female	26.4	26.5

Expected return on assets

The approximate split of assets for the fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return for the purpose of IAS 19.

	Expected return on assets %	2011 Split of assets	Expected return on assets %	2010 Split of assets
Equities	8.4	78.3	8.0	72.2
Property	7.9	-	8.5	-
Government bonds	4.4	-	4.5	4.8
Corporate bonds	5.1	16.6	5.5	22.3
Cash	1.5	5.1	0.7	0.2
Other**	8.4	-	8.0	0.5
Total	7.5	100	7.3	100

The overall expected rate of return on fund assets is a weighted average of the individual expected rates of return on each asset class, and is shown in the bottom row of the above table.

** Other holdings include hedge funds, currency holdings, asset allocation futures and other. It has been assumed that these will get a return in line with equities.

The pension charged for the period is shown below

Superannuation	Unfunded £'000	Funded £'000	2011 Total £'000	2010 Total £'000
Present value of obligation	(4,534)	(98,098)	(102,632)	(114,030)
Fair value of plan assets		62,784	62,784	64,279
Liability recognised in Statement of Financial Position	(4,534)	(35,314)	(39,848)	(49,751)
Assets				
Fair value of assets at 1 April	-	64,279	64,279	41,880
Expected return on plan assets		4,670	4,670	2,760
Contribution received	336	3,327	3,663	4,849
Contribution from employees	-	708	708	740
Benefits paid	(336)	(2,120)	(2,456)	(1,950)
Actuarial gain/(loss) on plan assets	-	(8,080)	(8,080)	16,000
Fair value of plan assets at 31 March	-	62,784	62,784	64,279
Liabilities				
Present value of obligation at 1 April	(5,200)	(108,830)	(114,030)	(83,690)
Interest cost	(260)	(5,430)	(5,690)	(5,510)
Current service cost		(1,830)	(1,830)	(1,310)
Past service costs	450	13,450	13,900	(1,860)
Contribution from employees		(708)	(708)	(740)
Benefit paid	336	2,120	2,456	1,950
Actuarial (gain)/loss	140	3,130	3,270	(22,870)
Present value of obligation at 31 March	(4,534)	(98,098)	(102,632)	(114,030)

Charge for the year	2011 £'000	2010 £'000
Staff cost		
Current service costs	(1,830)	(1,310)
Past service credit	13,900	(1,860)
Finance (cost)/return		
Interest cost	(5,690)	(5,510)
Expected return on plan assets	4,670	2,760
Expense recognised for the year	11,050	(5,920)

Movements in the net liability recognised in the Statement of Financial Position	2011 £'000	2010 £'000
Opening net liability	(49,751)	(41,810)
Expense as above	11,050	(5,920)
Actuarial (loss)/gain on assets	(8,080)	-
Actuarial (loss)/gain on liabilities	3,270	(22,870)
Net actuarial (loss)/gain recognised in year	(4,810)	(6,870)
Total contribution to the fund	4,371	5,589
Contribution from employees	(708)	(740)
Closing net liability	(39,848)	(49,751)

9 Taxation

OTSL maintains a deposit account, and the use of this fund is governed by paragraph 15 of schedule 1 of the Housing Act 1996, this is the Specific Reserve with the Statement of Changes in Taxpayer's Equity. Corporation tax is liable on the net interest of the fund. As a result of historically low interest rates, the expenses chargeable to the fund were greater than the interest earned and as such the fund made an operating loss at the year-end, therefore, no tax is payable at 31 March 2011 (2010: Nil).

10 Property, plant and equipment

	Information technology	Motor vehicles	Office equipment	Furniture and fittings	2011 Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2010	2,839	17	322	1,131	4,309
Reclassification	(270)	-	-	-	(270)
Additions	21	-	-	-	21
Disposals	(86)	(17)	-	-	(103)
At 31 March 2011	2,504	-	322	1,131	3,957
Depreciation					
At 1 April 2010	(1,449)	(12)	(309)	(829)	(2,599)
Depreciation	(533)	(2)	(11)	(109)	(655)
Disposals	73	14	-	-	87
At 31 March 2011	(1,909)	-	(320)	(938)	(3,167)
Net book value at 31 March 2010	1,390	5	13	302	1,710
Net book value at 31 March 2011	595	-	2	193	790

	Information technology	Motor vehicles	Office equipment	Furniture and fittings	2010 Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2009	2,854	34	361	1,131	4,380
Reclassification	39		(39)		
Additions	13				13
Disposals	(67)	(17)			(84)
At 31 March 2010	2,839	17	322	1,131	4,309

Depreciation					
At 1 April 2009	(903)	(24)	(284)	(591)	(1,802)
Reclassification	16			(16)	
Depreciation	(614)	(4)	(25)	(222)	(865)
Disposals	52	16			68
At 31 March 2010	(1,449)	(12)	(309)	(829)	(2,599)
Net book value at 31 March 2009	1,951	10	77	540	2,578
Net book value at 31 March 2010	1,390	5	13	302	1,710

	Information technology	Motor vehicles	Office equipment	Furniture and fittings	2009 Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2008	2,607	117	368	1,651	4,743
Reclassification					
Additions	877		40	251	1,168
Disposals	(630)	(83)	(47)	(771)	(1,531)
At 31 March 2009	2,854	34	361	1,131	4,380

Depreciation					
At 1 April 2008	(1,056)	(67)	(292)	(1,198)	(2,613)
Reclassification					
Depreciation	(445)	(26)	(39)	(163)	(673)
Disposals	598	69	47	770	1,484
At 31 March 2009	(903)	(24)	(284)	(591)	(1,802)
Net book value at 31 March 2008	1,551	50	76	453	2,130
Net book value at 31 March 2009	1,951	10	77	540	2,578

11 Intangible fixed assets

	Software £'000	Licences £'000	2011 Total £'000
Cost			
At 1 April 2010	1,287	2,104	3,391
Reclassification*	-	220	220
Additions	23	18	41
Disposals			
At 31 March 2011	1,310	2,342	3,652
Amortisation			
At 1 April 2010	(945)	(725)	(1,670)
Reclassification			
Amortisation	(171)	(586)	(757)
Disposals			
At 31 March 2011	(1,116)	(1,311)	(2,427)
Net book value at 31 March 2010	342	1,379	1,721
Net book value at 31 March 2011	194	1,031	1,225

* Included in reclassification is a reversing accrual for £50,000 for a project which commenced in the previous year but was discontinued following management review.

	Software £'000	Licences £'000	2010 Total £'000
Cost			
At 1 April 2009	1,142	2,012	3,154
Reclassification			
Additions	145	92	237
Disposals			
At 31 March 2010	1,287	2,104	3,391
Amortisation			
At 1 April 2009	(732)	(288)	(1,020)
Reclassification			
Amortisation	(213)	(437)	(650)
Disposals			
At 31 March 2010	(945)	(725)	(1,670)
Net book value at 31 March 2009	410	1,724	2,134
Net book value at 31 March 2010	342	1,379	1,721

	Software £'000	Licences £'000	2009 Total £'000
Cost			
At 1 April 208	1,250	437	1,687
Reclassification			
Additions	80	1,575	1,655
Disposals	(188)	-	(188)
At 31 March 2009	1,142	2,012	3,154
Amortisation			
At 1 April 2009	(657)	(32)	(689)
Reclassification			
Amortisation	(263)	(256)	(519)
Disposals	188	-	188
At 31 March 2009	(732)	(288)	(1,020)
Net book value at 31 March 2008	593	405	998
Net book value at 31 March 2009	410	1,724	2,134

12 Share in The Housing Finance Corporation Ltd

The Housing Finance Corporation Ltd (THFC) was incorporated in 1987 under the Industrial and Provident Societies Act 1965. This was as a result of a joint initiative by the Housing Corporation and the National Housing Federation to raise funds from private sector sources for investment in the development of social housing by RPs, unregistered self-build societies and charities having a housing function. This share was transferred to OTSL at 1 December 2008. THFC only seeks to cover its operating costs with income and the OTSL does not have a controlling influence.

The rules of THFC prescribe that all share holdings are non-beneficial. The accounts of THFC are available at: www.thfcorp.com

Share in The Housing Finance Corporation Ltd	2011	2010	2009
£1 ordinary share, fully paid	£1	£1	£1

13 Loans

Loans to registered and unregistered societies are advanced under section 79 of the Housing Associations Act 1985. The average interest rate applied during the year was 3.61% (2010: 3.29%, 2009: 7.98%).

Loans	2011 Completed schemes £'000	2010 Completed schemes £'000	2009 Completed schemes £'000
At 1 April	561	670	782
Interest	16	16	58
	577	686	840
Repayments	(272)	(125)	(170)
At 31 March	305	561	670
Repayments due within one year	70	126	102
Repayments after more than one year	235	435	568

A premature repayment of £260,000 was received in June 2011 leaving one loan of £42,000 outstanding.

14 Trade receivables and other current assets

	2011 £'000	2010 £'000	2009 £'000
Amounts falling due within one year			
Trade receivables	54	2,270	127
Prepayments	395	404	344
Other receivables	815	97	60
	1,264	2,771	531

Included in other receivables are staff loans totalling £70,000 (2010: £82,000) – per note 22.

Amounts owed by public sector entities are as follows:

	2011 £'000	2010 £'000	2009 £'000
Central government	Nil	257	4
NDPBs	843	915	115
Bodies external to government	421	1,599	412
	1,264	2,771	531

15 Cash and cash equivalents

OTSL's banking services are provided by the Government Banking Service.

	2011 £'000	2010 £'000	2009 £,000
Cash at bank and in hand	4,074	523	2,060
Short-term bank deposit	1,891	1,886	1,891
Balance at 31 March	5,965	2,409	3,951

The Government Banking Service (GBS) is responsible for managing OTSL's bank accounts. The processing of OTSL's banking transactions is provided by Citibank and the Royal Bank of Scotland Group. Citibank is mainly responsible for processing the OTSL's electronic receipts and direct debits and the Royal Bank of Scotland is mainly responsible for processing the OTSL's electronic payments and other manual banking transactions.

16 Trade payables and other current liabilities

	2011 £'000	2010 £'000	2009 £'000
Amounts falling due within one year			
VAT	25	38	7
Other taxation and social security	283	321	361
Trade payables	1,697	4,363	4,873
Other payables	2,612	1,750	11
	4,617	6,472	5,252

Amounts due from public sector entities are as follows:

	2011 £'000	2010 £'000	2009 £'000
Central government	613	-	Nil
NDPBs	163	1,013	Nil
Bodies external to government	3,841	5,459	5,252
	4,617	6,472	5,252

17 Advances from the National Loans Fund

OTSL's borrowing powers (as applicable to the Housing Corporation) until 30 November 2008 were conferred by section 92 of the Housing Associations Act 1985, section 93, as amended by Statutory Instrument 1990 No. 779, limited the OTSL's borrowing from all sources to £2.3 million. The loan from the National Loans Fund (NLF) was repaid on 28 November 2008 and no subsequent borrowing has been made by OTSL. However, the OTSL has powers to borrow under section 102 of the Housing and Regeneration Act 2008. The weighted average rates of interest for the comparative years were: 2009: 5.25%, 2008: 5.66%.

Advances from the National Loans Fund	2011	2010	2009
	£'000	£'000	£'000
At 1 April	-	-	700
Advances made during the year	-	-	1,400
	-	-	2,100
Repayments on maturity	-	-	(2,100)
At 31 March	-	-	-

18 Financial instruments and risk management

Overview

Like all organisations, OTSL is exposed to financial risks in its business. The main financial risks it faces relate to funding, liquidity and, to a lesser extent, interest rates. It mitigates these risks by adhering to the policies and procedures summarised below. These have been in operation throughout the period under review and to the date of approval of our annual accounts.

Funding

OTSL's total comprehensive expenditure is funded by Grant-in-Aid voted annually by Parliament (referred to in notes: 3, 4, 5, 6 and 7). OTSL operates both within this constraint and within budgets set annually by DCLG. OTSL's controls over the commitment and payment of revenue grants to Registered Providers and of administration expenditure are designed to ensure that funding is available to meet obligations as they fall due, and that annually voted provisions are not exceeded. Revenue grants are paid to RPs to fund tenant empowerment and the delivery of best practice that meet government targets. Financial information in relation to funding is contained in the Statement of Changes in Taxpayers Equity.

Loans

The OTSL loans, which can only be advanced where permitted by statute, are disclosed in note 13 to the financial statements. All loans are secured and subject to variable

interest rates, which are set by reference to current market rates, the Standard National Rate or the NLF rate applicable to OTSL's borrowing. No new loans were issued during the year to 31 March 2011. The OTSL reviews its loans annually and provides for any doubtful debts by a charge to the Statement of Comprehensive Net Expenditure. At 31 March 2011, no provision was required. The fair value of the loans is not considered to be materially different from the book value. Interest is not charged in the Statement of Comprehensive Net Expenditure on loans subject to a judgement debt. The interest rate profile for the OTSL loans is as follows:

Loan classification	Average interest bearing balance £'000	Interest £'000	Average interest rate £'000
Completed schemes	458	16	3.61%

Cash

The Government Banking Service (GBS) is responsible for the management of OTSL's bank accounts. Apart from the investment of the non-exchequer funds, referred to below and in note 17, the investment of surplus cash on OTSL's current account is now handled by GBS for the direct benefit of the Treasury. OTSL adheres to the principle of not drawing cash from DCLG in advance of need but there is no limit to the cash that can be held with the GBS. OTSL holds an amount of non-exchequer funds, explained in note 9, which is held in an interest bearing deposit account with the GBS.

Average daily value invested £'000	Interest £'000	Interest rate
1,890	5	0.26%

Liabilities

The borrowing powers for the OTSL are contained within section 102 of the Housing and Regeneration Act 2008. Long-term borrowing can only be undertaken with the permission of the Secretary of State. OTSL had no borrowings during the year ended 31 March 2011.

Other disclosures

OTSL was not exposed to any risks arising from the use of derivatives or from holding foreign currency assets, liabilities or contracts. Any purchases of goods and services from overseas suppliers are converted from foreign currencies at the market rate at the time of payment.

Losses and special payments

OTSL did not incur any losses or special payments that require separate disclosure (2010: Nil).

19 Commitments under operating leases

Total minimum lease payments under operating leases are given in the table below for each of the following periods.

	Offices £'000	Equipment £'000	2011 Total £'000	Offices £'000	Equipment £'000	2010 Total £'000
Obligations under operating lease comprise:						
within one year	911	44	955	862	77	939
between one and five years	2,305	-	2,305	3,051	-	3,051
	3,216	44	3,260	3,913	77	3,990

20 Capital commitments

There were no capital commitments as at 31 March 2011 (2010: Nil).

21 Contingent liabilities

There were no contingent liabilities at 31 March 2011 (2010: Nil).

22 Related party transactions

OTSL is a Non-Departmental Public Body sponsored by the Department for Communities and Local Government (DCLG). DCLG is regarded as a related party. OTSL's operating activities are funded by Grant-In-Aid from DCLG. Other than grants from DCLG OTSL has not received funding from any other source. During the year, OTSL had a number of transactions with DCLG. The transactions were mainly recharges for shared costs.

In addition, OTSL has had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with: Homes

and Communities, LEASE and Audit Commission. These transactions mainly consisted of procurement of services and recharges for shared expenditure.

During the year, no Minister, Board Member, key manager or other related parties has undertaken any material transactions with OTSL.

Transactions, arrangements and contracts involving Board Members, senior officers and staff

Under the rules of The Housing Finance Corporation Limited (THFC), OTSL is empowered to appoint a Director to its Board. Throughout the current year, OTSL's Head of Private Finance was the OTSL's appointee. No fee was paid to the appointee; however, OTSL received £16,816 (2010: £16,000) in fees from THFC. Other than the above, no Board Member or members of staff entered into transactions, arrangements, relationships or contracts with the OTSL, except for the payment of fees and salaries. Board Members receive reimbursement of the cost of expenses properly incurred in the performance of the OTSL's duties.

Related party transactions

The following transactions, which took place during the year with Registered Providers and other bodies in which Board Members had an interest, are disclosed on page 69. All transactions were undertaken at arm's length and in the normal course of conducting the OTSL's business and there were no pecuniary interest between the parties.

Related party transaction	RSL or other related body	Appointment	Transaction between the OTSL and the related party	Value of transaction with related party	Amounts due to/from related party at the year end
				£'000	£'000
Board Members					
Julian Ashby	The Financial Information Company/ Social Housing	Self Employed Management Consultant	Social Housing Subscriptions	1	Nil
Dennis Rees	TAROE	Treasurer	Grants paid	110	7
	TPAS	Executive Director	Accreditation Impact Review, Grants Paid and Expense claims for attendance to Sounding Board and E & D Advisory Board meetings	118	25
	Audit Commission	Tenant inspection advisor to Audit Commission	Housing Association Inspections and Meeting room bookings	430	11
Shelia Drew Smith	Audit Commission	Board Member (term ended December 2010)	Housing Association Inspections and Meeting room bookings	430	11
Jim Coulter	Audit Commission	Board Member (term ended March 2011)	Housing Association Inspections and Meeting room bookings	430	11
Anthony Mayer	London Pensions Fund Authority	Chair	Pensions Briefings and Recovery of Salary Costs	(8)	(1)

Employee interests

There are a number of employees who are related to persons employed by Registered Providers or other bodies with which the OTSL has financial dealings. These relationships, although between two organisations that have a financial interest, do not in themselves involve any personal financial gain by the individuals concerned. No employees had any direct interests with Registered Providers, other organisations or suppliers in receipt of grants or other payments.

Appointments under paragraphs 6 to 8 of schedule 1 to the Housing Act 1996

There were four appointments of OTSL employees to one registered provider's governing body during the year (2010: 17). At 31 March 2011, these four appointments were still in place (2010: four). The appointments were made to facilitate the orderly running of the provider pending dissolution after its assets and liabilities had been transferred. The employees did not receive any additional remuneration for their services, nor was any housing grant paid to the provider during the year.

Transactions with employees

The OTSL has two loan schemes available for staff. An assisted car purchase loan scheme is available to employees in posts requiring the use of a car to perform their duties efficiently. The loans carry a fixed interest charge based on the prevailing government rate for five-year loans and an administration charge. The loans are repayable by monthly instalments over a period not exceeding five years commencing with the date of the loan. The OTSL also offers interest-free loans repayable within one year to enable staff to purchase an annual season ticket to travel to work.

	2011 £'000	2010 £'000	2009 £'000
At 31 March, principal outstanding included in other receivables at note 14	70	81	60

23 Going concern

The financial statements have been prepared on a going concern basis.

In October 2010, the Government announced its intention to abolish the Office for Tenants and Social Landlords (OTSL) with the publication of the Localism Bill (Royal Assent of the Localism Bill is currently forecast for November 2011). The abolition is dependent on the passage of this piece of legislation and therefore, whether the OTSL will be abolished, and any resulting timetable for abolition, has yet to be decided. After the abolition, it is proposed that OTSL's regulation function and associated support services will continue within a reformed Homes and Communities Agency (HCA).

As abolition arrangements have yet to be confirmed, there is a material uncertainty that casts significant doubt upon OTSL's ability to continue to operate in its current form and with its current functions.

Having considered the circumstances described on page 70 and whilst there is a material uncertainty over the future of the organisation, management have concluded that in the absence of the passing of the legislation necessary to abolish OTSL and transfer its functions, it is appropriate to continue to adopt the going concern basis in preparing the Annual Report and Accounts until such time as the legislation is passed.

24 Events after the reporting date

The change from RPI to CPI for the purposes of up-rating index linked features of post employment benefits has been adopted by all central government reporting entities where RPI has been used for inflation indexing for many years.

The question as to whether, as regards to the main public sector service schemes, there is a legitimate expectation that RPI will be used for inflation indexing is currently before the courts in judicial review proceedings. The Government's case is that no legitimate expectation exists, and that in any event, even if there was a legitimate expectation this was overridden by the clear public interest in making very substantial savings at a time when the Government had adjudged that deficit reduction was a fundamental objective for the country. If the Government's case is proven, there would be no change in the accounting treatment adopted in these accounts.

The Financial Statements of OTSL are laid before the Houses of Parliament by the Secretary of State for DCLG. International Accounting Standard 10 requires the OTSL to disclose the date on which the accounts were authorised for issue. The authorised date for issue is 8 July 2011.

Office for Tenants and Social Landlords (OTSL)

Accounts Direction given by the Secretary of State in accordance with Section 103(3) of the Housing and Regeneration Act 2008

1. The annual accounts of The Office for Tenants and Social Landlords (hereafter in this accounts direction referred to as “the Office”) shall give a true and fair view of the income and expenditure and cash flows for the year and the state of affairs at the year end. Subject to this requirement, the annual accounts for 2008-09 and for subsequent years shall be prepared in accordance with:

- (a) the accounting and disclosure requirements given in Managing Public Money and in the Government Financial Reporting Manual issued by the Treasury (“the FReM”), as amended or augmented from time to time
- (b) any other relevant guidance that the Treasury may issue from time to time
- (c) any other specific disclosure requirements of the Secretary of State

insofar as these requirements are appropriate to the Office and are in force for the year for which the accounts are prepared, and except where agreed otherwise with the Secretary of State and the Treasury, in which case the exception shall be described in the notes to the accounts.

2. Schedule 1 to this direction gives additional disclosure requirements of the Secretary of State.

Signed by authority of the Secretary of State

Matthew Bailes

An officer in the Department for Communities and Local Government

Date 31 March 2009

Schedule 1

Additional disclosure requirements

The following information shall be disclosed in the annual accounts, as a minimum, and in addition to the information required to be disclosed by paragraph 1 of this direction.

The notes to the annual accounts shall disclose:

- (a) an analysis of grants from:
 - (i) government departments
 - (ii) European Community funds
 - (iii) other sources identified as to each source

- (b) an analysis of the total amount of grant from the Department for Communities and Local Government, showing how the grant was used
- (c) an analysis of grants included as expenditure in the income and expenditure account and a statement of the total value of grant commitments not yet included in the income and expenditure account
- (d) details of employees, other than Board Members, showing:
 - (i) the average number of persons employed during the year, including part-time employees, agency or temporary staff and those on secondment or loan to the Office, but excluding those on secondment or loan to other organisations, analysed between appropriate categories (one of which is those whose costs of employment have been capitalised)
 - (ii) the total amount of loans to employees
 - (iii) employee costs during the year, showing separately:
 - (1) wages and salaries
 - (2) early retirement costs
 - (3) social security costs
 - (4) contributions to pension schemes
 - (5) payments for unfunded pensions
 - (6) other pension costs
 - (7) amounts recoverable for employees on secondment or loan to other organisations

(The above analysis shall be given separately for the following categories:

- I employed directly by the Office
- II on secondment or loan to the Office
- III agency or temporary staff
- IV employee costs that have been capitalised)

- (e) in the note on debtors, prepayments and payments on account shall each be identified separately

(f) a statement of debts written off and movements in provisions for bad and doubtful debts

(g) a statement of losses and special payments during the year, being transactions of a type which Parliament cannot be supposed to have contemplated. Disclosure shall be made of the total of losses and special payments if this exceeds £250,000, with separate disclosure and particulars of any individual amounts in excess of £250,000. Disclosure shall also be made of any loss or special payment of £250,000 and below if it is considered material in the context of the Office's operations

* (h) particulars of material transactions during the year and outstanding balances at the year end (other than those arising from a contract of service or of employment with the Office), between the Office and a party that, at any time during the year, was a related party. For this purpose, notwithstanding anything in the accounting standard, the following assumptions shall be made:

- (i) transactions and balances of £5,000 and below are not material
- (ii) parties related to Board Members and key managers are as notified to the Office by each individual Board Member or key manager
- (iii) the following are related parties:

- (1) subsidiary and associate companies of the Office
- (2) pensions funds for the benefit of employees of the Office or any subsidiary companies (although there is no requirement to disclose details of contributions to such funds)
- (3) Board Members and key managers of the Office
- (4) members of the close family of Board Members and key managers
- (5) companies in which a Board Member or a key manager is a Director
- (6) partnerships and joint ventures in which a Board Member or a key manager is a partner or venturer
- (7) trusts, friendly societies and industrial and provident societies in which a Board Member or a key manager is a trustee or committee member
- (8) companies, and subsidiaries of companies, in which a Board Member or a key manager has a controlling interest
- (9) settlements in which a Board Member or a key manager is a settlor or beneficiary
- (10) companies, and subsidiaries of companies, in which a member of the close family of a Board Member or of a key manager has a controlling interest
- (11) partnerships and joint ventures in which a member of the close family of a Board Member or of a key manager is a partner or venturer
- (12) settlements in which a member of the close family of a Board Member or of a key manager is a settlor or beneficiary
- (13) the Department for Communities and Local Government, as the sponsor department for the Office

For the purposes of this sub-paragraph:

- (i) A key manager means a member of the Office's Management Board
- (ii) The close family of an individual is the individual's spouse, the individual's relatives and their spouses, and relatives of the individual's spouse. For the purposes of this definition, "spouse" includes personal partners, and "relatives" means brothers, sisters, ancestors, lineal descendants and adopted children
- (iii) A controlling shareholder of a company is an individual (or an individual acting jointly with other persons by agreement) who is entitled to exercise (or control the exercise of) 30% or more of the rights to vote at general meetings of the company, or who is able to control the appointment of Directors who are then able to exercise a majority of votes at Board meetings of the company

Note to paragraph 1(h) of schedule 1: under the Data Protection Act 1998 individuals need to give their consent for some of the information in these sub-paragraphs to be disclosed. If consent is withheld, this should be stated next to the name of the individual.

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