

DERBY HOMES LIMITED

(A Company limited by guarantee)

Company No. 4380984

Report and Financial Statements

Year ended 31 March 2016

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Year ended 31 March 2016

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Report and Financial Statements Year Ended 31 March 2016

Board Members, Executive Officers, Advisors and Bankers

Directors

D J Rees	(appointed 28.02.02; resigned 26.11.15)
I M MacDonald	(appointed 28.02.02)
R M Webb	(appointed 27.07.04; resigned 09.06.05; re-appointed 25.05.06)
M E Redfern	(appointed 26.07.05; resigned 20.05.15)
M Ainsley (Chair)	(appointed 27.09.11)
F L Walker	(appointed 29.11.12; resigned 28.07.15)
S E Russell	(appointed 11.06.14; resigned 20.05.15)
R G H MacDonald	(appointed 27.11.14)
J M Shepherd	(appointed 27.11.14)
F Hussain	(appointed 20.05.15)
A Raju	(appointed 20.05.15; resigned 18.05.16)
C Reid	(appointed 17.11.15)
I Veitch	(appointed 26.11.15)
J P Bayliss	(appointed 18.05.16)

Executive officers

M J Murphy
D Enticott
S Bennett

Secretary

D Enticott

Registered Office

The Council House
Corporation Street
Derby
DE1 2FT

Principal Solicitors

Anthony Collins Solicitors LLP
134 Edmund Street
Birmingham
B3 2ES

Auditor

BDO LLP
2 Snowhill
Birmingham
B4 6GA

Bankers

Lloyds Bank
43 Irongate
Derby
DE1 3FT

Date of Incorporation

The company was incorporated in England on 25 February 2002 with trading commencing on 10 April 2002, and is a company limited by guarantee.

Legislative provisions under which Derby Homes is established

The Company is limited by guarantee and registered under the Companies Act 2006. It is a non-profit registered provider of social housing under the provisions of the Housing & Regeneration Act 2008.

Chair's Statement for the year ended 31 March 2016

2015/16 was another very successful year for Derby Homes.

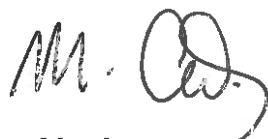
We have increased overall tenant satisfaction to 90%, kept void losses down to the lowest for 10 years at 0.8%, delivered new housing through our in-house led model for the Council on difficult sites at lower cost than would be expected if using traditional contracting methods – all with sprinklers fitted as standard, as well as making a significant surplus which will help us in the future to continue to support tenants and the Council.

I am especially pleased that we have been awarded the ROSPA President's award for occupational health and safety after achieving their Gold award for 10 consecutive years. It is also good to see us receiving three regional Tenant Participation Awards this year as well as numerous other nominations and commendations for many activities which range from our apprenticeship scheme to our corporate responsibility.

Amongst our core roles we are committed to giving a voice to tenants in setting policies that affect them, providing them with value for money for the rent paid, and helping the Council to deliver more Council owned homes. As Derby Homes, we can offer the Council lower risk investment for the future to sustain as much Council owned housing as possible.

Our financial results this year are exceptional, thanks to pension fund improvements this year of over £9m alone. Pension fund deficits are notoriously volatile, so we don't read too much into one year as long as we have a sustainable plan to eliminate the deficit over time. We remain grateful to the Council in underwriting the pension fund deficit which enables us to continue to deliver excellent services to tenants.

I remain confident that Derby Homes can deliver still more value for both tenants and the Council and enable more investment in social housing as a result of our unique position as an independent but Council owned company. Many other Councils across the country are now setting up housing companies to help them to grow and to deliver more for their Council. We hope to continue to work with Derby City Council to do the same.



Mike Ainsley
Chair of Derby Homes

Date : 24/07/16

Report of the Board of Management

Year ended 31 March 2016

The Board present their annual report and the audited financial statements for the year ended 31 March 2016. A list of the directors who have served during the year is included on page 2.

Principal Activities

The core business of Derby Homes is the management of, and investment in, Derby City Council's social housing stock, comprising of 13,295 properties, as delegated by the Council in a management agreement for Council housing under section 27 of the Housing Act 1985.

Derby Homes also directly provides services to 552 leaseholders of the Council and has agreements with external landlords to manage and maintain properties. These landlords include Guinness Northern Counties Housing Association, War Memorial Village (Derby) and other landlords. Derby Homes also provides other services to the Council, including housing options, homelessness and Derby Advice.

Derby Homes is a Registered Provider (RP) and Investment Partner (IP) with the Homes and Community Agency (HCA) and has 79 properties for rent which it owns in its own right. Additionally, Derby Homes has acquired 5 flats in a Victorian building which it partly owns and manages in partnership with Revive Healthy Living. Derby Homes has an option to purchase these 5 flats outright in 2037, but is currently considering an earlier settlement with Revive and the Council.

Review of Business

2015/16 was another extremely successful year for Derby Homes in both financial and performance terms.

Financial performance 2015/16

In financial terms, the balance sheet of the company has strengthened significantly as a combination of cost control and pension fund assumptions in our favour; this has resulted in an operational headline surplus of £10.4m (2015 - £2.1m). The vast majority of this surplus is as a result of better actuarial assumptions relating to our pension fund deficit which has fallen from over £23m to around £15m. Revenue spending has also been restrained resulting in an operational surplus which will help to offset reductions in our income for the future.

As a result the overall net worth of Derby Homes has improved from - £14m last year to -£3.6m this year. Such a scale of improvement is not expected to be maintained every year as the pension fund deficit is highly volatile and could easily reverse in future. The underlying operational surplus, however, is more stable and demonstrates that the company can continue to operate effectively within its income.

It should be stressed that the Council continues to support Derby Homes through underwriting our pension fund deficit and it is this support that enables us to continue as a 'going concern' or viable trading company.

Report of the Board of Management for the year ended 31 March 2016 cont.

Effects of material estimates and judgements upon performance

The key swing financially this year has been the change of the assumed discount rate within the pension fund deficit which increased from 3.3% to 3.6%. Such an increase reduces the deficit by around £8m alone, as it represents a higher level of discounting rates for future liabilities into today's prices. The actuarial report stresses that the position remains highly volatile and represents the position as at 31.3.16 only. Nonetheless, a variation of 0.5% in this key assumption will affect our nominal net worth reported in the accounts by around £9m.

Qualifying third party indemnity provisions

The company has no qualifying third party indemnity provisions in place for the directors of Derby Homes Limited.

Value for Money (VfM) self-assessment

The overall VfM strategy adopted by both the Council and the Board has worked and continues to work in delivering a VfM service for tenants and outcomes in terms of replacement homes, decent homes and a good repair service for a reasonable rent. Rents themselves remain good VfM and provide a significant direct social benefit, plus considerable additional 'social value' generated by the overall operation of Council housing in Derby.

Derby City Council and Derby Homes will continue to fulfil our mission to 'deliver a high quality housing service for Derby' with the support of our partners and our tenants.

The Board is satisfied that the Company meets the overall VFM self-assessment requirements. The full VfM self-assessment is set out on pages 11-17.

Compliance with HCA Governance and Financial Viability Standard

Derby Homes considered its compliance with the HCA's Governance and Viability standard at its meeting in May 2016, and passed the following resolution: In its view, Derby Homes Board complies with the HCA Governance & Viability standard. A copy of this is available at www.derbyhomes.org

The Board also stated that it complies with the NHF Code of Governance 2015, with one declared non-compliance related to Board membership which is governed by our constitution rather than the Code.

Report of the Board of Management for the year ended 31 March 2016 cont.

Going Concern

At its meeting on 28 July 2016, the Board of Derby Homes Limited approved the statement that, in their opinion, Derby Homes Limited has adequate resources to continue in operational existence for the foreseeable future. The Company has a 10 year contract (6 years still to run) in place with Derby City Council to pay management fees in return for delivery of housing management and maintenance services, as prescribed in the Services Agreement.

While the Council is currently undertaking a review of housing management arrangements, fundamental change remains possible. At present, continuation of Derby Homes is anticipated unless the Council determines a better option is available to it. The current timetable for the review aims for a formal decision by Derby City Council's Cabinet in autumn 2016.

In addition, the Council recognises that, following the formal accounting standards applicable, the Company does not currently have sufficient reserves to offset the resultant pension fund deficit. The Council as shareholder, however, has consistently undertaken to provide continuing support to enable the financial statements of Derby Homes to be prepared on a going concern basis. This support is expressed through a letter of representation received from the Council's section 151 officer each year.

Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Assessment of the effectiveness of internal control

The Board acknowledges responsibility for ensuring that an effective system of internal control is maintained and operated throughout the Company.

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Ongoing development and maintenance of the system is undertaken by managers within the Company. In particular, the system includes:

- corporate governance arrangements operated through the Board and Committees
- standing orders and financial regulations
- an ongoing process for identifying, evaluating and managing significant risks faced by the Company
- comprehensive budgeting systems
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- setting targets to measure financial and other performance information and reporting.

Report of the Board of Management for the year ended 31 March 2016 cont.

The Company procures internal audit services from the Central Midlands Audit Partnership. Internal audit's work is based on their independent risk assessment and complies with the CIPFA code of practice for internal audit. The Head of Audit and Risk Management reports the results of internal audit work to the Finance Director and Company Secretary and the Audit Committee. The Head of Audit and Risk Management also provides an independent opinion on the adequacy and effectiveness of the system of internal financial control.

Our review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Company;
- the work of the internal auditors as described above; and
- the external auditors in their reports.

The Audit Committee has received the Managing Director of Derby Homes' annual report on internal control assurance on behalf of the Senior Management Team and has conducted its review of the effectiveness of the system of internal financial control. This review has included consideration of any changes needed to maintain the effectiveness of the risk management and control process.

Employment of Disabled Employees

- **Recruitment**

Derby Homes operates a scheme where candidates with disabilities can request an automatic interview if they meet the essential criteria for the post. In addition, candidates with disabilities are invited to tell us what adjustments they may need to ensure that they can fully participate in the selection process.

- **Training**

Derby Homes offers a wide range of job related training to all employees. In addition we work with employees with disabilities to identify what adjustment and support they require to enable them to undertake their job role. These adjustments and training needs are reviewed at least annually with the employee.

- **Employees becoming disabled during employment**

There is a comprehensive support process in place for any employee who may enter a period of ill health or develop a condition which may be covered by the Equalities Act 2010. We ensure that employees have access to proper medical advice from our Occupational Health nurse and that as the employer we have a proper understanding of what support is necessary to help an employee sustain their employment.

Report of the Board of Management for the year ended 31 March 2016 cont.

Employee Involvement

- **Communication with employees**

Derby Homes Limited firmly believes there is a strong link between the provision of quality services to customers and a harmonious working environment, and this is best achieved where effective communications are established with management and employees. To support this, consultation with employees or the recognised trade unions has continued at all levels, with the aim of ensuring views are taken into account when decisions are made that are likely to affect their interests. Employees are made aware of the financial and economic performance of their business units and the Company as a whole. Communication with all employees continues through electronic internal newsletters, team meetings and employee briefings.

- **Consultation with employees**

We have a formal system of collective bargaining and recognise three trade unions for consultation and negotiation. Our formal JCC meeting is held three times a year and standard agenda items including Board Report Minutes, Health and Safety, Financial and Budget Position. Minutes of these meetings are made available to all employees.

In addition Derby Homes has also established a new Employee Forum group called the Voice. This group consists of employees, rather than managers, and their brief is to provide feedback to the Executive Team on key staff issues. They also have the opportunity to propose new initiatives and events that will encourage employee involvement in key issues.

The Company is committed to the creation of a happy and productive work environment that values and encourages all employee contributions. We undertake regular employee surveys and have an established employee working group who work together to consider the outcomes of the surveys and are encouraged to make recommendations to senior managers.

Encouraging employee involvement in the overall performance of Derby Homes

Due to the nature of the of the company set up (owned within the public sector with Derby City Council as the only shareholder) there is not the option to offer employee incentives like share options. However, staff terms and conditions are reasonable, with good support in place for personal development and good support available to employees to prevent / return from illness.

The company produces an annual Delivery Plan, identifying team targets which link ultimately through to both the Company's overall objectives and individuals own work targets. Employees are engaged in both the Delivery Plan drafting, monitoring and subsequent review.

Report of the Board of Management for the year ended 31 March 2016 cont.

Employee awareness on the financial and economic factors affecting the performance of Derby Homes

Over the year there are two or three full company briefings where all staff attend. Included in one of these sessions is an update on the current financial position of Derby Homes, its main objectives, its relationship with Derby City Council and wider sector issues like Welfare Reform which naturally dictate future service delivery plans and budgets. Subsequent to this there is a briefing paper to Managers to include in their individual team meetings.

Board members' responsibilities

The board members are responsible for preparing the strategic report and report of the board and the financial statements in accordance with applicable law and regulations.

Company law and social housing legislation require the board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period.

In preparing these financial statements, the board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2014 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The board members are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Board of Management for the year ended 31 March 2016 cont.

The board members are responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2014.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the board members. The board members' responsibility also extends to the on-going integrity of the financial statements contained therein.

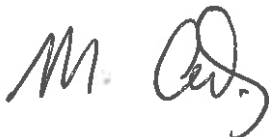
Auditors

So far as each of the directors is aware at the time this report is approved:

- There is no relevant audit information of which the Company's auditor is unaware, and
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information (s234 ZA(2)).

BDO LLP has expressed their willingness to continue as external auditors, and was recently reappointed on new terms by the Board. A resolution for the re-appointment of BDO LLP as auditors of the Association is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Chair

Date 28 July 2016

Strategic Report for the year ended 31 March 2016

Value for money self-assessment

Derby Homes has always taken Value for Money (VfM) seriously and the requirement of the HCA to formally assess our VfM position is consistent with the approach that we have always adopted – of driving efficiency gains for a social purpose to improve, not diminish, services to tenants.

History of efficiency gains and strategic approach

Derby Homes aims to provide excellent services by embedding a culture of VfM throughout the organisation to make sure we meet the needs of all of our customers. This is shown in financial and operational performance and also by:

- VfM considerations embedded into all stages of service planning
- The budget process is linked to Delivery Plan development and Risk registers
- VfM is core to regular performance management monitoring
- Benchmarking with other Arm's Length Management Organisations (ALMO's) and Housing Associations on cost and performance through Housemark
- Operational Board (tenant majority) involvement in setting priorities and monitoring performance
- Tenant Reviews of our services
- Track record of delivery of savings.

Every year further efficiency gains are made and this is evidenced through the budget process. Some examples of the efficiency gains that have been made this year – on top of those reported in previous years are:

- Contribution towards overheads generated from delivery of new homes for the Council and Derby Homes' stock
- Reduced spending on repairs of Derby Homes' own stock
- Lower spending on void repairs.

Further savings are planned for 2016/17, including:

- Reduced spending on management/ supervision
- Reduced spending of 'reward' funding for performance each year
- Investment in new lifts reducing on-going maintenance
- Investment in asbestos manager delivering asbestos training.

Overall the income we are likely to receive from the Council is being reduced significantly – by 2017/18 it is expected to reduce by more than £1.5m. The budget has been set to reflect this and will require a new drive for further efficiencies. The Board is confident that it starts this process from a relatively strong position from which it should be able to deliver such savings.

Value for money self-assessment cont.

Investment of savings

The scope for reinvestment of savings for the 2016/17 year has been severely limited by the reduction in management fee noted above.

Nonetheless, at its September meeting, the Board did agree to invest around £0.5m of savings generated in previous years to meeting key staffing investment requirements, including increasing further the income team to ensure that preparations for Universal Credit and other welfare reforms are as well advanced as possible, and that the rental income for the Council is maintained as far as possible.

It also agreed to fund staffing at the new Parklands View Extra Care scheme. While much of this cost should be recovered from service charges on tenants, there will be a net cost to Derby Homes which has been funded as a necessary support for the scheme.

New Homes

The Board approved a strategy in January 2013 of investing as much as possible into subsidising the creation of new homes, supporting the Council's target of delivering 700 homes across Derby Homes and the Council. This strategy remains and can be continued despite the considerable change in social housing funding over the last year, mainly as a result of the efficiency gains already delivered and planned.

Derby Homes has 84 homes directly on our balance sheet, and continues to plan to increase this to 300 depending on funding and site availability. Current and future plans include:

- Refurbishment of Nightingale Road retail unit and adjacent property into 6 flats with the support of HCA empty homes grant and the Council. This is now on site and will be delivered during 2016/17.
- Delivery of the HCA approved plan for a further 18 homes to be delivered by 2018 through the Affordable Homes Programme (AHP).
- Purchase of affordable homes as a result of the joint venture vehicle for Osmaston (former Rolls-Royce factory site) between the Council and Keepmoat – expected to be around 30 to 40 more homes.
- Further sites as agreed with the Council over the next few years.

Derby Homes still plans to deliver additionality to the Council's new homes plans and has continued to set aside sufficient funding to support a total of around 300 homes as part of the Council's 700 target.

In terms of VfM, the plans involve recognition that these assets will not be financially viable on their own and require subsidy. Many have the support of the Council (through land) and the HCA (through grant) which reduces the investment required by Derby Homes and therefore stretches overall plans. This support is critical to Derby Homes' long term mission and objectives and for the delivery plans for the Council, but work counter to any formal measure of VfM. There is therefore a need to factor in the social value of a home that is subsidised.

Value for money self-assessment cont.

Overall, new homes investment is good for the public purse in the very long term (debt should be repaid within about 50 years) and helps to sustain lower rents and therefore lower spending on benefit. The value of such homes should increase over time and generate long term gains in overall value. The short term subsidy can be covered from the funds that we have set aside for this purpose. Derby Homes could of course do more with more direct support through grants or if government rules allowed Councils to recycle more directly and locally their Right to Buy receipts in companies owned by Councils – something that is currently not permitted.

Social Value

A simple measure of the VfM of new homes delivered through the Council or RPs including Derby Homes is to compare the rent paid by tenants with the average rent for the city. This results in a saving to either the tenant or benefits of between £26 (at the comparable LHA rent for that sized property) and £59 (at the full private sector median rent for the relevant sized property) a week, or the equivalent of between £18m and £41m a year. Around 55% of this gain results in lower rental elements within the housing benefit system, with the other 45% for tenants.

New Homes

The financial benefit of new homes can be assessed in a similar way – even without the added benefits of new home construction and the on-going health and other benefits for tenants.

A new ALMO home costing around £120k for a two bedroom home will appreciate in value over 60 years to an open market value of around £0.45m. The annual rent should fund the running costs of the property in the longer term, but in the early years, because of interest payments on the loan, a subsidy on the home is required from the Company or elsewhere. There is an on-going benefit to the tenant or to the taxpayer of between £26 and £59 a week from the lower rent depending on comparing to LHA or average private rents. This amounts to a gain of £81k and £184k in NPV rent over 60 years. Even if the assumption is made that only 55% of rent (as now) is met by housing benefit, then the gain remains at an NPV of between £45k & £101k over 60 years. For a government and Council/ALMO investment of around £45k/45% now, the long term cost is recovered, with a greater return in the longer term from the appreciating asset. This is purely on the rental element without the other benefits of construction and maintenance and management activity, plus the health and energy efficiency gains of new homes and other social value benefits over the long term. Derby Homes is currently delivering new homes below the indicative costs above, reducing the overall cost to us in creating new homes.

This long term benefit underpins the Board's commitment to new homes. The Right to Buy and impending high value sales undermine this positive case for direct Council investment, and the Board has therefore agreed to assist with overall development targets for the Council as much as it reasonably can, where the rules that apply to ALMOs or RPs differ from those that apply to Councils.

Value for money self-assessment cont.

This flexibility in development remains available to the Council and will help to sustain the long term future of Council housing in Derby.

Social benefits

In addition to the financial benefit of social housing, there are considerable other positive social impacts of Derby Homes' activities including:

Planned improvement – Our Estates Pride programme delivered a further £1.1m of improvements across the city. Key works completed included:

- Improvements to parking – 50 new hard standing drives to properties, 6 new communal parking areas and resurfacing of a further 3.
- Fencing, pathway improvements and new paved areas on a number of schemes.
- Communal drying area improvements at Bath Street flats.
- Refurbishment of the play area at Shakespeare Street in conjunction with Derby City Council.

A positive impact on the local labour market through decent working conditions and opportunities for apprentices in particular, but for all our employees. We have continued to manage to avoid compulsory redundancies and have a positive relationship with our Trade Unions. We have also implemented the Living Wage for all our employees, and looking to require this of suppliers in future contracts. Our new build team has also engaged a number of local builders who give us good value and retain the work within Derby wherever possible.

Fire Safety impacts – we are committed to installing sprinklers in all our new homes where this is technically feasible, and have hard wired smoke detectors in all homes. We are working in partnership with Derbyshire Fire and Rescue Service to support their national and local campaigns to get sprinklers fitted as standard in all new homes. All employees were briefed by an external expert as to the progress of research that we are part funding into the ineffectiveness of smoke detectors in waking children or those who have higher levels of alcohol in the blood. This really got the message across that parents need to wake their children in the event of a smoke alarm going off and may need to revisit evacuation plans. Further progress on the research is encouraging and further tests are being held to help to bring new alarms to market which targets the issue of waking children. We hope that our research grant will help to make something positive happen on this issue.

Support for tenants – welfare reform has had and will have a significant impact on many tenants, and our support continues to help many tenants to access discretionary housing payments and other support and advice. We continue to prevent many evictions and house many of the most vulnerable tenants in the City. We also continue to support the Council's 'Ordinary Lives' project to help tenants to sustain tenancies that might not otherwise be possible. This has extended into helping to deliver bespoke solutions for a few tenants with particularly high levels of need. This has again resulted in further pressure on our services to support those with higher needs. This has so far been funded through the partnership between the Council and Derby Homes.

Value for money self-assessment cont.

We have also developed a 'Housing Pathway' which is a multi-agency approach to finding housing solutions for individuals and families with complex needs. A similar pathway has been agreed for working with care leavers to make the transition to independent living as smooth as possible.

Energy Saving – The housing stock in Derby is in the top quartile in the country for energy efficiency ratings, despite our stock being relatively old when compared to other social housing. All homes (other than refusals) will within the next financial year have the benefit of wall and roof insulation, double glazing and energy efficient heating systems. We also have a small team that provides tailored advice to tenants to help them manage their fuel use as efficiently as possible.

Apprentice Scheme

Our apprentice scheme continues to deliver positive results for both the apprentices and our own performance. At the end of March we had 29 apprentices employed. While we cannot guarantee posts for all, we are managing the situation through vacancy control to identify options for those within their final year. 4 apprentices have found employment with us this year upon completing their apprenticeships. We are keen to ensure that having invested in the apprentices we should retain their skills and knowledge. Where this is not possible we will support them to gain employment with other employers.

Building new homes

Our partnership with the Council in producing 700 new homes is creating high quality, affordable homes for local people. Our approach of building as many homes as possible ourselves means that most of those jobs are local, either within our own workforce or with small, local building firms, helping to retain and recycle the money within the local economy. At the end of 2015/16, 282 completions and 32 properties on site have been made towards the target.

Youth Intervention Work

Derby Homes continues to support and commission Enthusiasm – a local youth work charity. This service provides essential youth work and one to one mentoring on estates. We also run a Junior Wardens scheme that involves younger children in taking responsibility for their communities and also provides them with basic life skills essential for their development. Our Youth Board has started over the last year and involves younger people in consultations. We will develop this further and to get more interaction between the Youth Board and the Operational Board over the course of the next year.

Partnership Working

We continue to work with a large number of partners including the Council, Fire, Police and Health services. Additionally the Derby Community Association of Partners (DACP) representing tenants across the City and also the Osmaston Community Association of Residents (OSCAR) with whom we have delivered the largest Community led HCA grant scheme in the country, transforming an area of Osmaston from a travellers' site to 95 new homes, of which 40 are rented at affordable rents and the remaining 55 have all been sold.

Value for money self-assessment cont.

We are also a full member of the Central Midlands Audit Partnership which delivers Internal Audit services to many public sector bodies in Southern Derbyshire and further afield.

This year, we have also entered into an arrangement with the Police and Crime Commissioner for Derbyshire to deliver a Hate Crime initiative for the City and County.

Benchmarking / Financial returns

Derby Homes has consistently used Housemark to consider its relative VfM and to report to the Board. It continues to use the analysis that this provides to suggest areas of concern and to target savings accordingly.

Each year the Board receives a report summarising the performance of Derby Homes within the Housemark group. We also report to the Board year end performance against our targets. These reports show that most areas continue to move in the right direction. The reports are available on the reports on www.derbyhomes.org

Other approaches to comparisons are undertaken within specific teams, with regional groups, Housemark benchmarking clubs and other methods that managers find useful to support their day to day delivery.

A combination of other benchmarking approaches by both CIPFA and Capita are shown below. These approaches tend to be mostly financial but further confirm similar messages to the other approaches.

The approach to overall financial ratios relates to the whole HRABP and its financial position, not just to Derby Homes. Extracts of key results from the CIPFA and Capita approaches are set out below.

CIPFA recommend that Boards select a few key indicators to monitor. ALMO Boards do not have full responsibility for the HRA and these figures are included to indicate that these are still actively monitored. The key ones are highlighted in the table in bold. The overall pattern remains similar to previous years but shows improvements in most areas. The Capita data available at the time of writing relates only to 8 authorities, but again supports an approach of lower rents and costs compared to most other Councils.

Rents and operating margins are in the lower quartile, and operating costs are low. Derby operates a low cost model which does not translate into poor quality – indeed our stock continues to improve in energy efficiency terms, with our SAP rating now standing at 73.3 compared to around 70.8 for our comparator Housemark group. This equates to a saving for tenants in their energy bills of around £730k a year, and Co2 emission reductions of about 5,300 tonnes better than our comparator group.

Value for money self-assessment cont.

Measure	Derby 2016/17 budget	Derby 2015/16 budget	Change	Capita Med'n	Capita position (out of 8)	CIPFA Green	CIPFA Red	CIPFA Result
Income								
Rent and service charges per home £	4,364	4,317	47	4,832	7			
Costs								
Management costs / turnover % (OH+OCC)	23.6%	23.1%	0.5	-	-	< 20%	>25%	Amber
Maintenance costs per home £	1,218	1,250	-32	-	-	<£1,200	>£1,500	Amber
Operating costs per home £	2,227	2,209	18	2,477	3			
Operating Surplus per home £	1,092	1,031	61	1,927	1			
Operating Surplus / turnover %	24%	22%	2%	24%	5	>20%	<10%	Green
Capital spend (exc New build) per home £	768	756	12	1,313	1			
Net income per home £	324	275	49	-27	3			
Debt and Ratios								
Return on Capital Employed	3.5%	3.2%	0.3%	1.8%	2			
Debt per home	17,245	16,885	360	18,418	4			
Interest rate on debt %	4.8%	4.6%	-	3.4%	6	<5.5%	>7%	Green
Debt:Debt+Reserves %	57%	54%	3%	41%	6			
Reserves / Turnover %	57%	55%	2%	-	-	>20%	<5%	Green
Debt / Asset Value (EUVSH) %	60%	61%	-1%	-	-	<60%	>80%	Amber
Use of the Debt Cap	96%	96%	-	87.4%	8			
Interest Cover	1.25	1.17	0.08	2.38	8	>1.2	<1.05	Amber

The figures overall reflect the strategic approach adopted by the Council and Derby Homes to the management of the HRA. Costs are about median while rent is lower than the median, with a lower but still adequate operating margin as a result. The debt is below average at ~£17,000 a home and is around 60% of the Existing Use Value for Social Housing (EUVSH), indicating that there is still significant capacity to support further borrowing in future if the investment conditions are right. The return on capital employed is 3.5% reflecting the very low asset values in the plan as a result of valuing on a EUVSH basis (about £30k a home). The very low spend on existing homes' capital reflects both the huge investment in decent homes between 2002 and 2006 and the consequent lower need for capital investment for the following decade or so, plus the continuing efficiency of procurement arrangements.

The strategic approach also includes investing in new homes and this leads to a higher than average use of the debt cap and also lower interest cover ratios than elsewhere, although they both remain acceptable.

Strategic Report for the year ended 31 March 2016 cont

Objectives and strategies to achieve objectives

Derby Homes' mission statement is:

"To deliver a high quality housing service for Derby"

Derby Homes is contributing to the Council's vision for the City:

The Derby Plan 2030

- a **safe** and pleasant environment for you to live and work
- a **strong** community where residents feel empowered and businesses are supported to grow
- an **ambitious** and forward looking city with good prospects for everyone
- a **resilient** Council, focusing on how we as a Council can deliver our services going forward

Derby Homes' strategic objectives are:

- Great Homes
- Great Neighbourhoods
- Great Customer Services
- Great Value

Our detailed approach to meeting these are set out in our Delivery Plan. The latest plan can be found at www.derbyhomes.org

Business model

One of our key objectives is to deliver additional homes available for affordable rents in Derby as part of the Council's drive to support housing development in Derby. To do that, we work with the Council to deliver new homes directly for the Council, but also on our own balance sheet. There is, therefore, a need to plan for the long term, especially when analysing individual proposals for investment in homes.

The strategy of delivering as many homes as possible towards the Council's targets has to be balanced against retaining a prudent overall financial position for the longer term. The expectation is that the balance sheet should grow over the medium term to around £26m of assets, funded by around £16m of borrowing from the Council. The current level of surplus (even after excluding the impact of the pension fund deficit) is unlikely to be sustained into the future, as a combination of reduced income from the management fee for Council housing and increased investment into new homes both impact negatively. Reserves excluding pension fund should continue to increase marginally over time, although there will be a gradual shift from cash backed reserves to reserves held in bricks and mortar. Cash flow is likely to be the key constraint on Derby Homes' activities in future, but the cash flow position remains positive for the moment, and able to withstand reasonable stress testing.

Strategic Report for the year ended 31 March 2016 cont.

The strategy has been amended slightly as a result of the impacts of the Chancellor's 2015 budget, which resulted in a prospective loss of around 13% of the Council's rental income and hence a need for the Council to reduce Derby Homes' management fee. Working together with the Council, the strategy has been to reduce costs across the board, on both capital and revenue. The approach retains sufficient funding to deliver the Council's and the Board's ambitions for new homes at previous levels although the targets may now need to be spread over a slightly longer time frame.

Development and performance during the financial year and financial position at the year end

The statement of comprehensive income for the period is set out on page 31. Following the processing of pension fund transactions the business returned a surplus after taxation for the period of £1.1m. This was after a charge of £1.7m which arose from accounting adjustments for pensions, as disclosed in Note 8 to the financial statements plus £0.2m relating to interest payable on loans from the Council.

	£'000	£'000
Underlying management account operating surplus		2,993
One off adjustment of historic depreciation and grant		10
FRS 102 adjustments:		
Add back of employer pension contributions paid in year	2,286	
Less current service costs	<u>(3,233)</u>	
		(947)
Operating surplus		2,056
Less net interest on pensions		(766)
Less other interest payable		<u>(190)</u>
Retained surplus for the year		<u>1,100</u>

Financial performance – even after pension factors are removed – continues to be very positive. Further savings have been delivered against the core management and maintenance fee income and this has been or will be reinvested into growing the housing stock of the Company as set out in the Board's plans.

The number of directly owned properties remains at 84 this year although there are a further 6 being developed now and plans for a further 18 starts over the next couple of years. Further schemes could be delivered with the support of the Council and Board. The Council has overall plans to deliver 700 new homes, split 300 owned by Derby Homes and 400 owned directly by the Council. Derby Homes' share remains available to support the overall strategy.

The pattern of recent years of increasing the fixed asset base of homes, in Derby Homes Limited, in both number and value terms should continue. At the start of HRA reform in 2012, the Company had under £0.7m fixed assets and £3.6m of reserves excluding pension fund deficit. The equivalent figures are now £6.96m and £11.52m and the fixed asset base should increase substantially further during the next few years as the stock grows and the reserves are invested into further homes to rent.

Strategic Report for the year ended 31 March 2016 cont.

The debt associated with this strategy remains affordable and is currently below 50% of the open market value of the homes owned by the Company.

Operational Performance

The Chair's Briefing meeting reviews the organisation's performance indicators monthly and the implementation of any necessary action plans.

The table below is a sample of key performance indicators comparing performance for 2015/16 with the previous two years.

Indicator	Description	2013/14 Achieved	2014/15 Achieved	2015/16 Achieved
DH Local 24 (BVPI 63)	Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings.	72.6	73.0	73.3
DH Local 43 (HMP210)	Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account (HRA) dwellings	100.2%	100.1%	100.0%
DH Local 8 (BVPI 66b)	No. of tenants with more than seven weeks of (gross) rent arrears as a % of the total number of tenants.	4.8%	5.2%	6.0%
DH Local 27	Tenant Satisfaction with Landlord (All)	95.7%*	85.7%	90.0%
DH Local 29 (BVPI 75a/b/c)	Tenant Satisfaction with views taken into account	96.0%*	67.6%	79.0%
National Indicator 158	Non-Decent Local Authority Dwellings (percentage)	0%	0%	0%
DH Local 21 (BVPI 212)	Average time taken to re-let local authority housing.	24.1 days	22.1 days	23.0 days

* collected on a different basis – effectively removing no opinions

Performance Highlights 2015/16

Performance remains very good, with almost all key indicators meeting or exceeding targets set by the Council.

While spending has been restrained, this has not been at the expense of performance. Derby Homes has met the vast majority of its targets and has seen overall tenant satisfaction improve further this year to 90% (2014/15 86%).

Strategic Report for the year ended 31 March 2016 cont.

Satisfaction with views taken into account has also increased significantly to 79% (2014/15 68%), and the Rent is seen as value for money by 87% (2014/15 82%).

We continue to meet 100% targets for electrical and gas safety testing and expect to continue to do so. Repairs consistently meet response times (over 99%) and high satisfaction levels (80% positive when surveyed on last repair, under 1% not satisfied text responses), while costs remain low (see value for money section).

Missed targets were evident on homelessness preventions where there has been some difficulty with managing higher levels of demand as a result of lower Council resources being available to deliver solutions.

In other areas, Derby Homes continues to win awards and to support community initiatives including a tenth year of helping to repair & improve the Skegness Derbyshire Children's Holiday centre, continuing to support Enthusiasm the youth charity, and many other initiatives.

In addition to the key indicators above, we are particularly proud of the following outcomes:

- the level of voids - at 0.8% rent loss
- customer satisfaction with customer service centre, appointments kept, and satisfaction with repairs - all above 99%
- no non decent homes
- no complaints upheld by the Housing Ombudsman.

Our sickness record for staff remains good at an average 6.6 days a year

Finally, current Derby City Council tenant arrears have increased only very marginally – by £50,000 or under 5% - despite the financial and welfare reform climate. This represents a much better performance than was expected, as a result of excellent performance from the relevant teams along with further delays to the implementation of Universal Credit (UC). Since January 2016, new claimants are now on UC, and this is expected to start to impact on future performance.

Overall, performance this year has been both excellent and above expectations.

Awards

ROSPA President's Award

Derby Homes has now received the ROSPA Gold for Health and Safety for ten consecutive years and this year was awarded the ROSPA President's Award for Occupational Safety.

Tenant Participation Advisory Service

Derby Homes has won three awards in the central regional final of the TPAS Awards. The TPAS awards showcase the compelling and inspirational stories of the success of tenants, landlords and contractors working together to drive up standards in social housing.

Strategic Report for the year ended 31 March 2016 cont.

We were recognised for excellence in the production of the Annual Report 2014/15 and for excellence in employment skills and training through the Apprenticeship Scheme. Kirsty Glover, Derby's Deputy Youth Mayor won the category for Young Tenant of the Year.

Housemark ASB accreditation

Our ASB service has undergone significant change and has now been awarded Housemark accreditation.

Building Communities in the East Midlands Awards

Derby Homes was shortlisted for five different categories – and received runner up awards for two – Apprentice of the Year and Corporate Responsibility.

Executive team

Maria Murphy was shortlisted for the Women in Housing Awards Landmark Achievement Award.

David Enticott was nominated by CIPFA as a 'top 50 trailblazer' in Public Finance, remains on the CIPFA Housing Panel and has subsequently been made a Fellow of CIPFA.

Shaun Bennett has been chair of Efficiency East Midlands (EEM) for 5 years and has seen it grow from small beginnings to the considerable size it is today.

Future prospects

The main factors that will have a potential impact on the future financial results include:

The Welfare Reform Act and resultant changes to the Housing Benefit system – in particular Universal Credit as currently planned, which may result in additional pressure on the Company's housing management services. Departments particularly affected are those handling arrears and direct debit processing, both of which have had additional resources added to them. The new rules relating to 'higher earner' tenants' rents will need to be implemented for April 2017 and this will be a considerable challenge to deliver on time.

The reduced welfare benefit cap will also impact negatively on our financial plans. The welfare cap has impacted only in a limited way until now on a few families, but will be a more significant issue in future as benefits have been largely frozen and the cap reduced from £26,000 to £20,000 a year, reducing hugely some tenants' ability to pay their rent. Derby Homes is partially protected from this impact in the first place as it is Council rent that may not be recovered, but there will inevitably be increased pressure on our costs of recovery as it becomes more difficult to pay the rent for tenants. The numbers of tenants affected are estimated to increase from around 20 households to around 200.

Strategic Report for the year ended 31 March 2016 cont.

The Right to Buy for Registered Providers is now a voluntary arrangement. As a result, it will be for the Board to determine whether it wishes to take part with respect to its own stock. At this stage, there remains no compulsion to offer the Right to Buy, but should the Board determine to do so, it would receive full compensation from the government for the discount given.

The forced sale of Council houses that are deemed 'higher' value is now to be undertaken through a levy on Council housing. While there is no direct impact on Derby Homes' stock, the Council may have to sell homes which would impact on Derby Homes through a reduced fee income, or have to fund the levy through other means which may involve further reductions in capital spending which may impact on Derby Homes.

Derby Homes is now reliant on the Council enabling a fairly steady flow of new home building through our new build team in order to continue to fund our overheads.

The Company's financial position remains robust and has significantly strengthened over the last year in both operating and overall terms. The current level of operating surplus excluding pension fund adjustments means that sufficient funding is available to sustain the existing operations of the Company and fund the development of up to 300 homes – despite the increased risks outlined above.

The Council has launched a further review of housing management to respond to its overall financial difficulties and will include in this review the future of Derby Homes. At this point it remains the expectation of the Board that this will enable the company to continue to provide services to the Council and perhaps to consider further services that might be of benefit to the Council.

Investment and improvement for the future

If the pension fund deficit is removed, the Company has reserves of £11.5m and it still intends to invest funds in supporting the creation of more affordable housing for Derby plus other objectives and issues that arise from time to time.

The Board has agreed that reserves can be invested in supporting new homes and this level of reserves should be sufficient to support the Company's stock increasing to around 300, depending on the level of additional resources – for instance grants – that can be obtained, as well as any restrictions on borrowing available.

Other longer term anticipated costs include a potential need to invest in information technology systems which might be a material amount. Current plans are to meet these as they arise, depending on the scale of funding actually required.

Strategic Report for the year ended 31 March 2016 cont.

The majority of the reserves are available to support new homes owned by Derby Homes. Such investments remain protected from the Right to Buy and forced sales / levy on 'higher' value homes. This means that investments are possible where they may not be financially viable for the Council alone. Even if the RTB does eventually apply in future to these homes, the government will need to compensate the Board in full for the loss of the asset. Such compensation would be significantly higher than the equivalent retention of RTB receipts for Council housing, meaning that Derby

Homes properties will often be a better investment than Council housing that is at risk of the Right to Buy. The exception will be where the Council needs to recycle RTB funding, which is currently not permitted to be used on homes delivered by any Council company.

Principal risks and uncertainties

Derby Homes has a successful track record of managing risk as an integral part of its governance and management systems. The Board (following prior consultation with the Audit Committee) approves a written risk management policy, strategy and framework which defines risk, sets out a statement of intent, identifies a risk framework and allocates responsibility and monitoring roles within the organisation.

Risk management means identifying the risks facing the Company and deciding how to minimise them through implementing risk management action plans. Risks can have both adverse and positive consequences for the organisation. The risk management process helps to assess what these are likely to be and allows the organisation to make an informed decision about how to deal with the identified risk. Risk can never be eliminated completely, so risk management is used to ensure risks are identified and their consequences understood. Based on this information, action can be taken to ensure appropriate resources are directed at controlling the risk or minimising the effect of potential loss.

Each risk is reviewed regularly and was reassessed with scores updated in March 2016, scrutinised by Audit Committee and approved by the Board. Within the Strategic Risk Register two high risk issues are identified (detailed below) with six amber risks. On the Operational risk Register there are no high risk issues and three amber risks.

Strategic Report for the year ended 31 March 2016 cont.

Strategic Red Risks are:

1. National and local political and regulatory changes impacting on our business

In the last year, a series of national welfare reforms have been launched, most of which have already or are likely in the future to impact negatively on the core business of letting homes to Council tenants. As tenants face reducing income (or increasing rents where their income is 'higher'), and the rental element of benefit will be paid directly to tenants rather than social landlords in most circumstances, the expectation is that arrears will increase as universal credit is rolled out. The benefit cap is likely to move from a large impact on a very few tenants to a large impact on a larger number. From 2018, the LHA cap will impact on single tenants under 35 and to some extent on pensioners. All of these are combined in impact with the loss of around 13% of future rental income as a result of rent reductions of 1% a year for four years. Altogether these impacts have resulted in a significant impact on the HRA and therefore on our income. The Council and Derby Homes have worked on a resulting plan to manage the transition and the plans remain in balance in the longer term.

2. Failure to maintain the partnership arrangements with DCC and develop new opportunities within it.

The Council is undertaking a review of housing management in order to see if the current arrangements are suited for its very constrained financial position in the future. While this presents an opportunity to develop new arrangements, it also is a significant risk should the Council decide that it no longer sees sufficient benefit in retaining an ALMO. From the perspective of Derby Homes, this would be a significant risk not only to the company, but also to the Council. Until the issue is resolved, this risk has to be indicated as a red strategic risk.

Financial and non-financial key performance indicators

Derby Homes has had a very successful year both financially and operationally. Not only have the vast majority of performance targets been met, this has been done cost effectively and the efficiencies generated in day to day operations will be reinvested in expanding the housing stock from 84 towards 300. Our own new homes are all fitted with sprinkler systems as standard.

The in house new build team has been busy this year delivering homes for the Council directly rather than for Derby Homes to reflect the need to utilise Right to Buy receipts and to deliver homes as part of the grant agreement with the HCA.

The Council's stock has been enhanced by 105 further homes; of which 100 are new build homes, including 82 Extra Care flats and 18 homes that were built by Derby Homes' new build team – the other five were purchased.

The additions to the stock were however, once again outweighed by the continuing loss through the Right to Buy – this year of 143 homes.

Tenant satisfaction increased to 90% positive approval rating.

Strategic Report for the year ended 31 March 2016 cont.

Rents remain low compared to market levels, meaning that demand remains high and there are still very low levels of voids – under 1% at any one time - in Council housing in Derby. There is a real need to change the balance of the overall stock in Derby away from 3 bedroom homes. Of particular need are 4 bed homes and smaller ones. There is also a need to try and deliver more accessible homes which tend to be more expensive to deliver and therefore more difficult to fund.

Service delivery of repairs and maintenance including gas and electrical servicing has been strong with all KPIs met and many exceeded whilst delivering further efficiency savings.

Governance

The Board of Derby Homes Limited consists of 9 voluntary members. There are 3 tenant, 3 Councillor and 3 independent members. The makeup of the Board and their term of office are determined by Derby Homes Limited's Memorandum and Articles of Association, which govern the Company.

The Board and Executive Officers are set out on page 2.

Board members are registered as the Company Directors with Companies House. They have been selected to collectively provide the skills and competencies to successfully steer the Company in accordance with its Mission and Aims. The Executive Officers do not have the legal status of Company Directors; they act within the authority delegated by the Board.

The Board is responsible for the strategic direction of the Company and policy framework. Implementation of the framework and day to day management of the business is delegated to the Managing Director of Derby Homes and other Executive Officers who attend Board meetings and meet regularly between Board meetings.

The Company Governance Arrangements include:

- the Memorandum and Articles of Association
- standing orders for conduct of Board and General meetings
- Operational Board constitution
- delegation of responsibilities
- financial regulations
- procurement rules
- appointment and recruitment of Board members
- code of conduct for Board members
- standing orders for Appointment of Staff
- protocol on Board member, Executive team and staff relations
- Partnership or management agreement between the Council and Derby Homes.

Strategic Report for the year ended 31 March 2016 cont.

The Board meets bi-monthly. Copies of the agenda for each meeting are published a week in advance and are available for public inspection at Derby Homes Head Office and at Local Housing Offices. The public is welcome to attend the meetings and, at the discretion of the Chair, may be invited to speak although only Board members have the right to speak and vote at Board meetings. Any confidential items will be clearly marked on the agenda according to Standing Orders.

Minutes of Board meetings are published on Derby Homes' website, www.derbyhomes.org with agendas and reports.

The Board delegates some decision making to the following Boards or Committees:

- Operational Board – made up of a majority of tenants
- Audit Committee
- Governance Committee

Membership of these groups consists of Board members and, in the case of the Operational Board, tenant and leaseholder representatives.

The Audit Committee operates independently of the Chair of the Board, reporting to the directors and the members at the Annual General Meeting and is open to questions from members of the public.

The primary function of the Audit Committee is to:

- monitor the integrity of financial statements of the Company
- review the Company's internal financial control system and risk management system
- monitor and review the effectiveness of the Company's internal audit function.

Modern Slavery Act 2015

In line with this act, Derby Homes Board has adopted a policy on Modern Slavery. It states that we will not – nor expect our contractors to – tolerate any arrangements that involve any business practices that might be seen as modern slavery. Where we know about such activity we will take whatever action is necessary to eliminate it from any process in which we are involved.

The full statement can be viewed at www.derbyhomes.org

Persons of Significant Control

From April 2016, Derby Homes has been obligated to disclose any persons of significant control (PSCs) who actually control the organisation or whose views are normally followed by the Board.

Derby City Council is clearly a PSC for Derby Homes.

Strategic Report for the year ended 31 March 2016 cont.

Summary

The Board is satisfied with the financial and operational performance of the Company during 2015/16.

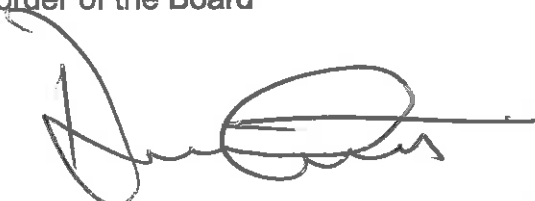
Approval

This Strategic Report was approved by order of the Board



M Ainsley
Chair

28 July 2016



D Enticott
Secretary

28 July 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBY HOMES LIMITED

We have audited the financial statements of Derby Homes Limited for the year ended 31 March 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and auditors

As explained more fully in the statement of board member responsibilities, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing in England 2015.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Board and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- a satisfactory system of control has not been maintained over transactions; or
- certain disclosures of board member and or directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

Kyla Bellingall (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom

Date: 4 August 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Comprehensive Income Year Ended 31 March 2016

	Notes	2016 £'000	Restated 2015 £'000
Turnover	2	37,297	34,316
Operating costs	2	(35,241)	(32,184)
Operating Surplus	4	2,056	2,132
Interest payable and similar charges	6	(190)	(173)
Pension finance costs	6	(766)	94
Surplus before taxation		1,100	2,053
Taxation on surplus	7	-	-
Surplus for the year		1,100	2,053
Other comprehensive income for the year			
Actuarial gain / (loss) on defined benefit obligations – pension scheme	8	9,343	(7,993)
Total comprehensive income / (loss) for the year		10,443	(5,940)

The notes on pages 36 - 59 form part of these financial statements.

The net surplus for the 2015/16 financial year includes a small loss generated as a registered provider of £20,000. This loss is retained by Derby Homes and the remaining surplus amount of £1.126m is entirely attributable to its sole member.

Balance Sheet
At 31 March 2016

	Notes	2016 £'000	Restated 2015 £'000
Fixed assets			
Housing Properties			
Cost less depreciation		5,924	5,870
Tangible Fixed Assets - Housing		<u>5,924</u>	<u>5,870</u>
Tangible fixed assets - Other		1,036	879
	9	<u>6,960</u>	<u>6,749</u>
Current assets			
Debtors	11	6,507	4,509
Work in Progress		80	102
Bank and cash		7,065	6,854
		<u>13,652</u>	<u>11,465</u>
Creditors: amounts falling due within one year	12	(3,848)	(4,101)
Net current assets		<u>9,804</u>	<u>7,364</u>
Creditors: amounts falling due after one year	13	(5,248)	(5,411)
Net assets before pension liability		<u>11,516</u>	<u>8,702</u>
Defined benefit pension liability	8	(15,114)	(22,744)
Net liabilities after pension liability		<u>(3,598)</u>	<u>(14,042)</u>
Reserves			
Defined benefit pension liability reserve		(15,114)	(22,744)
Designated reserves		9,816	7,002
Revenue reserves		1,700	1,700
Total funds		<u>(3,598)</u>	<u>(14,042)</u>

These financial statements were authorised and approved by the Board of Directors on 28 July 2016. Signed and dated on behalf of the Board of Directors:




M Ainsley Date 28/07/16 D Enticott Date 28/7/16
Chair Secretary

The notes on pages 37 - 60 form part of these financial statements.

Statement of changes in equity at 31 March 2016

	Pension reserve £'000	Designated reserve	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2015	(22,744)	7,002	1,700	(14,042)
Comprehensive Income for the year				
Profit for the year		1,100		1,100
Actuarial gains on defined benefit pension scheme	9,343		-	-
Other comprehensive income for the year	9,343		-	9,343
Total net current service costs of pension scheme	(947)	947		-
Total net interest cost on pension scheme	(766)	766		-
Total comprehensive income for the year	7,630	2,813	-	10,443
Rounding		1		1
Balance at 31 March 2016	(15,114)	9,816	1,700	(3,598)

Statement of changes in equity at 31 March 2015

	Pension reserve £'000	Designated reserve	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2014				
	(14,062)	4,660	1,300	(8,102)
Applied in year	-	(400)	400	-
	(14,062)	4,260	1,700	(8,102)
Comprehensive Income for the year				
Profit for the year	-	2,053	-	2,053
Actuarial loss on defined benefit pension scheme	(7,994)	-	-	(7,994)
Other comprehensive income for the year				
Total net current service costs of pension scheme	(782)	782	-	-
Total net interest gain on pension scheme	94	(94)	-	-
Rounding		1		1
Total comprehensive loss for the year	(8,682)	2,742	-	(5,940)
Balance at 31 March 2015	(22,744)	7,002	1,700	(14,042)

Statement of Cash Flows Year Ended 31 March 2016

	2016 £'000	As restated 2015 £'000
Cash flows from operating activities surplus for the financial year	2,056	2,132
Adjustments for:		
Depreciation of fixed assets - housing properties	103	79
Depreciation of fixed assets - other	273	321
Amortised grant (in year)	(28)	-
Net adjustment to historic grants and depreciation	(10)	-
Difference between net pension expense and cash contribution	947	782
(Increase) / Decrease in trade and other debtors	(1,998)	1,238
Decrease in stocks & work in progress	22	74
Increase / (decrease) in trade creditors	307	(621)
(Decrease) in accruals & provisions	(594)	(522)
Rounding	2	
Net cash generated from operating activities	1,080	3,483
Cash flows from investing activities		
Purchase of fixed assets – housing properties	(255)	(2,783)
Purchases of fixed assets - other	(431)	(174)
Receipt of grant	68	713
Net cash from investing activities	(618)	(2,244)
Cash flows from financing activities		
Interest paid	(190)	(173)
New loans – Derby City Council	-	2,009
Repayment of loans – Derby City Council	(61)	(43)
Net cash used in financing activities	(251)	1,793
Net increase cash and cash equivalents	211	3,032
Cash and cash equivalents at beginning of year	6,854	3,822
Cash and cash equivalents at end of year	7,065	6,854

Notes to the Financial Statements

Year Ended 31 March 2016

1. Principal accounting policies

The Company is incorporated under the Companies Act and is registered with the Homes & Communities Agency as a Registered Provider. The following Accounting Policies have been applied consistently in dealing with items which are considered to be material in relation to the financial statements.

Legal Status

The Company is limited by guarantee and registered under the Companies Act 2006. It is a non-profit registered provider of social housing under the provisions of the Housing & Regeneration Act 2008.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Housing and Regeneration Act 2008, Financial Reporting Standard 102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" the Statement of Recommended Practice (SORP), "Accounting by registered social housing providers" 2014, the Accounting Direction for Private Registered Providers of Social Housing 2015 and the Companies Act 2006.

Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Derby City Council as at 31 March 2016 and these financial statements may be obtained from the address in note 16.

Notes to the Financial Statements

Year Ended 31 March 2016

Going Concern

The financial statements have been prepared on a going concern basis. The Company's balance sheet shows a net liability due to the inclusion of pensions liabilities required under FRS102. These do include assumptions around the investments returns which are based on the FRS102 requirement for this to be matched to the discount rate. This has had a material effect on the actuarial loss this year. The pension scheme continues to be underwritten by Derby City Council.

Turnover

Turnover represents collectable rental income (i.e. rent debit less rent loss due to voids) and service charges, fees payable from Derby City Council and other income from operating activities.

Operating Costs

Operating costs are attributable to the day to day running costs of the Company. These include housing management, property repair, maintenance and major improvement works.

Overheads and Administrative Costs

These are allocated across operating cost headings on the basis of staff time or other appropriate methods.

Tangible fixed assets and depreciation

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Void Periods

The period between a new build property being handed over to its occupation by the first tenant is not treated as a void period. All subsequent periods where the property is empty are treated as a void period.

Notes to the Financial Statements Year Ended 31 March 2016

Properties

Housing properties are principally properties available for rent and are stated at cost less depreciation. Cost includes the cost of acquiring land and buildings, development costs and expenditure incurred in respect of improvements.

Improvements are works to existing properties, and component replacements which have been treated separately for depreciation purposes, which result in an increase in net rental income, a reduction in future maintenance costs, or result in a significant extension of the economic life of the property in the business. Only the direct overhead costs associated with new developments or improvements are capitalised. Direct overhead costs comprise the costs of staff time, including salary costs and other incremental direct costs incurred in the developments from the date it is reasonably likely that the development will go ahead, to the date of practical completion.

Depreciation

Depreciation is provided on all assets based on the historical cost above any de minimis value using the straight line method over the remaining life of the asset. The following component rates have been applied:

Asset Type	Depreciation	De minimis values
Housing Properties:		
Kitchens	Over 20 years	Nil
Bathrooms	Over 25 years	Nil
Boilers	Over 13 years	Nil
Heating system	Over 26 years	Nil
Roof	Over 60 years	Nil
Wiring	Over 40 years	Nil
Doors	Over 30 years	Nil
Windows	Over 30 years	Nil
Non-componentised	Over 80 years	Nil
Land	Not depreciated	
Computer equipment	Over 3 years	£100,000
Motor vehicles	Over 7 years	Nil
Plant & machinery	Over 5 years	£10,000
Office equipment	Over 10 years	£10,000

Where items of computer equipment, plant and machinery and office equipment are purchased at less than the above de minimis values they may be capitalised if they form part of a larger capital scheme.

Going forward the useful life of components will be reassessed annually.

Notes to the Financial Statements

Year Ended 31 March 2016

Impairment

The Company will undertake impairment reviews where there is an indication that impairment may have occurred.

Taxation including deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the country where the Company operates and generates income.

Pension costs

The Company operates a defined benefit plan. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets at the balance sheet date out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Notes to the Financial Statements

Year Ended 31 March 2016

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as Actuarial gain / (loss) on defined benefit obligations – pension scheme

The cost of the defined benefit plan, recognised in the Statement of Comprehensive Income as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the Statement of Comprehensive Income as 'Pension finance costs'

The amounts charged to operating surplus in respect of this scheme are the current service costs and any gains and losses on settlements and curtailments. They are included as part of staff costs.

The interest cost and the expected return on assets are included as other finance costs.

Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The Company has fully adopted Financial Reporting Standard 17 "Retirement Benefits" during the year.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Notes to the Financial Statements

Year Ended 31 March 2016

Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including loans, are measured at fair value, net of transaction costs.

Value Added Tax (VAT)

Rental income received from housing properties is exempt from VAT and accordingly any expenditure incurred in relation to those properties is inclusive of VAT. All other income and expenditure figures exclude VAT.

Government grants

Grants received in relation to assets that are presented at deemed cost at the date of transition have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grant received since the transition date in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected (see table of useful economic lives).

Where social housing grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance related conditions have been met, this is set at 80 years.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Notes to the Financial Statements Year Ended 31 March 2016

Reserves

General Reserve of £1.7m. This "Business Transformation Reserve" – is designed for 'Invest to Save' investments or where restructuring costs are to be incurred.

Designated Reserve of £9.86m. This reserve holds the balance of funds available as approved by the Board. This is intended to subsidise investments in new build homes where Derby Homes are the substantive owner. A number of sites have been identified and are being considered for development / acquisition and further schemes will follow over time as opportunities arise. The intention is to use these funds to meet any revenue shortfall in the initial years of any new investment above that budgeted for and / or cover any immediate impairment charge that may arise on the properties.

Contingent Liabilities

Derby Homes receives grant from the Homes and Communities Agency, which is used to fund the acquisition and development of housing properties and their components. Grants of £2.3m (£1.617m from the HCA) from all sources, received in respect of housing properties held at 31 March 2016 was credited to reserves in respect of adoption of 'deemed' cost. These grants are amortised in line with accounting policy and has an outstanding balance of £2.15m at March 2017.

The HCA imposes a future obligation to recycle such grant if the properties are disposed of. The potential liability to the HCA, in the event of a repayment requirement at 31 March 2016, would be £1.617m plus interest.

There are no plans for property disposal; hence, no provision has been recognised in these financial statements.

Judgments in applying accounting policies and key sources of estimation uncertainty

In the process of applying the company's accounting policies, the company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. The significant judgements relates to the following:

Notes to the Financial Statements

Year Ended 31 March 2016

Useful lives of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the company's accounting policy. The selection of these estimated lives requires the exercise of management judgement. Useful lives are regularly reviewed and should management's assessment of useful lives shorten then depreciation charges in the financial statements would increase and carrying amounts of property, plant and equipment would reduce accordingly. The carrying amount of property, plant and equipment by each class is included in note 9.

Social Housing Grant

Social Housing Grants are amortised over 80 years. This estimate is based on matching the write off period with depreciation estimate for non-componentised items in properties. Should management's assessment of the amortised period shorten then the adjustments would be made through the Statement of Comprehensive Income as appropriate.

Pensions

Estimates used in determining the pension liability as described in note 8 and detailed within the accounting policy are material to figures contained in the Balance Sheet and Statement of Comprehensive Income.

2. Particulars of turnover and operating costs

All works were undertaken within the United Kingdom.

2016	Turnover £'000	Operating Costs £'000	Operating Surplus / (deficit) £'000
Social housing lettings (Note 3)	414	271	143
<u>Other Social Housing Activities</u>			
Management & maintenance of Derby City Council housing stock	26,947	24,935	2,012
Capital works to Derby City Council housing stock	7,579	7,624	(45)
Development work on Derby Homes and Derby City Council properties	90	248	(158)
Social Housing Grant recognised (Note 3)	27	-	27
Housing management and / or maintenance to other Landlords properties	236	162	74
	34,879	32,969	1,910
<u>Activities other than Social Housing Activities</u>			
Maintenance of DCC public buildings and management of homeless hostel and other activities	2,004	2,001	3
	37,297	35,21	2,056

2015	Turnover £'000	Operating Costs £'000	Operating Surplus / (deficit) £'000
Social housing lettings (Note 3)	241	114	127
<u>Other Social Housing Activities</u>			
Management & maintenance of Derby City Council housing stock	25,995	23,942	2,053
Capital works to Derby City Council housing stock	5,705	5,707	(2)
Development work on Derby Homes and Derby City Council properties	148	281	(133)
Social Housing Grant recognised	0	0	0
Housing management and / or maintenance to other Landlords properties	575	466	109
	32,423	30,396	2,027
<u>Activities other than Social Housing Activities</u>			
Maintenance of DCC public buildings and management of homeless hostel.	1,652	1,674	(22)
	34,316	32,184	2,132

Notes to the Financial Statements

Year Ended 31 March 2016

3. Social Housing Lettings – General Need's properties

	2016 £'000	2015 £'000
Rents (net of void loss)	380	213
Service charge income	34	28
	<u>414</u>	<u>241</u>
Amortised government grant	27	-
Turnover from social housing lettings	441	241
Expenditure		
Housing Management	48	-
Service Charge related costs	34	-
Routine Maintenance	57	12
Bad debts	-	-
Property insurance	22	9
Other supplies & services	6	15
Depreciation	104	78
Operating Expenditure on social housing lettings	271	114
Operating surplus on Social Housing lettings pre interest charges	170	127
Void losses	2	2

Interest paid on property loans in 2015/16 was £190,000 (2014-15: £173,000). The overall subsidy on social housing, in the early years of new properties, is consistent with the long term business plan.

4. Operating surplus

	2016 £'000	2015 £'000
The operating surplus is stated after charging:		
Depreciation - annual charge housing properties	103	79
Depreciation – exceptional charge housing properties	98	-
Depreciation – other tangible fixed assets	273	322
Auditor's remuneration:		
- audit services	18	19
- tax services	2	1
- other non-audit services	1	1
Defined benefit pension cost (per note 8)	<u>947</u>	<u>742</u>

Notes to the Financial Statements Year Ended 31 March 2016

5. Information regarding directors and employees

Directors and executive officers' emoluments are as shown below. Actual fee levels have remained frozen in 2015/16.

	2016 £	2015 £
Directors' emoluments		
Chair of Derby Homes – M Ainsley	8,990	6,670
Chair of Derby Homes – AGS Osler	-	2,170
Vice Chair of Derby Homes – D Rees to 26.11.15	3,168	4,000
Vice Chair of Derby Homes – RGH MacDonald from 26.11.15	1,334	-
Vice Chair of Derby Homes – Cllr M Redfern to 20.05.15	-	-
Vice Chair of Derby Homes – Cllr R Webb from 26.11.15	-	-
Audit Committee Chair – IM MacDonald	3,201	3,200
	16,693	16,040

Executive Officers' emoluments

During the period there were three permanent executive officers.

These executive officers are listed on page 2.

	2016 £'000	2015 £'000
Aggregate emoluments	269	264
Pension contributions	54	40
	323	304
Emoluments paid to the highest paid executive officer	110	110
Pension contributions – highest paid executive officer	22	17
	132	127

The highest paid Executive Officer is a member of the Derbyshire County Council defined benefit superannuation fund, with ordinary member status with no enhanced or special terms applying. No contributions were payable to any personal pension scheme the Executive Officer may have.

Notes to the Financial Statements

Year Ended 31 March 2016

Average number of persons employed (full time equivalents)

	2016 Number	2015 Number
Housing management	219	213
Central services and regeneration	9	12
Maintenance and repairs	231	220
	459	445

Full time equivalents are calculated based on a standard working week of 37 hours.

Staff costs during the year (including direct and executive officers)

	2016 £'000	2015 £'000
Wages and salaries	11,213	10,751
Social security costs	761	734
Pension	3,977	2,477
	15,951	13,962

Salary bandings for all employees earning over £60,000

	2016 Number	2015 Number
£60,000 to £70,000	-	1
£70,001 to £80,000	2	2
£80,001 to £90,000	-	-
£90,001 to £100,000	-	-
£100,001 to £110,000	1	1

6. Interest payable and similar charges

	2016 £'000	2015 £'000
Loans from Derby City Council	190	173
Net interest on net defined benefit liability	766	(94)

Notes to the Financial Statements Year Ended 31 March 2016

7. Taxation on surplus

	2016 £'000	2015 £'000
Current tax on surplus for the year	-	-
	-	-
Factors affecting tax charge for year	2016 £'000	2015 £'000
The tax assessed for the year is lower than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015 : 20%). The differences are explained below:		
Surplus on ordinary activities before tax	<u>1,100</u>	<u>2,053</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 : 20%)	220	410
Effects of:		
Non-taxable income and deductions	(220)	(410)
Adjustment to tax in respect of prior periods	-	-
Total tax charge for the year	<u>-</u>	<u>-</u>

The Company is a wholly owned subsidiary of Derby City Council and the majority of income is derived from services provided to the Council. HM Revenue and Customs has confirmed that transactions between ALMOs and their Councils do not amount to trading and, accordingly, any surplus or deficit arising thereon is outside the scope of corporation tax. As a result of this, the effective rate of tax is 0% on these transactions (2015: 0%).

Notes to the Financial Statements

Year Ended 31 March 2016

8. Pensions

The company is an admitted member of the Local Government Pension scheme. This is a funded defined benefit scheme administered by Derbyshire County Council (DCC). Employees are eligible to join the Local Government Pension scheme subject to certain criteria. The pension costs charged to the Company in respect of those employees are equal to contributions paid to the fully funded pension scheme.

During the year, the Company paid employer contributions of £2,286,000 (2014/15 - £1,715,000). The minimum contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. This was set at 12.5% for 2014/17.

The Actuary has stated that in order to assess the value of the Employer's liabilities in the Fund as at 31 March 2016 they have rolled forward the value of the Employer's liabilities calculated at the latest formal valuation date, allowing for the different financial assumptions required under the Accounting Standard at the reporting date. In calculating the current service cost they have allowed for changes in the Employer's pensionable payroll as estimated from contribution information provided by Derby Homes. In calculating the asset share, they have rolled forward the Employer's share of the assets calculated at the latest formal valuation date, allowing for investment returns (estimated where necessary), the effect of contributions paid into (estimated where necessary), and estimated benefits paid from, the Fund by the Employer and its employees.

The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.

The Company expects to contribute over £2m to its defined benefit pension scheme in 2016/17. The employer contribution rate planned for 2016/17 is 20% (2015/16 - 20%). The Company – with the support of Derby City Council – has increased contributions in 2015/16 (2014/15 - 15%) to try and reduce the scale of pension fund deficits and improve funding levels over time. Employee contribution rates for 2015/16 ranged from 5.5% to 11.4% (2014/15 - 5.5% to 11.4%).

At the year end there were outstanding employer and employee contributions of £255,523 (£198,280 employer, £57,243 employee), (2014/15 - £191,097) included within Accruals and Deferred Income figure in Note 12. These relate to the March payroll deductions that were paid to Derbyshire County Council in April 2016.

Notes to the Financial Statements

Year Ended 31 March 2016

The most recent valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2016 by registered actuaries, Hymans Robertson Limited. The present values of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The last tri-annual actuarial valuation was carried out on 31/03/13.

Key assumptions used:	Valuation at	
	2016	2015
	%	%
Discount rate	3.60	3.30
Expected rate of salary increases	3.20	3.40
Future pension increases	2.20	2.50

Mortality rate assumptions are based on publicly available data in the UK. The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	2016	2015
	Years	Years
Male	22.0	22.0
Female	24.2	24.2

The average life expectancy for a pensioner retiring at 65, aged 45 at the reporting date:

Male	24.1	24.1
Female	26.6	26.6

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	Overall impact on Employers liability	Approx monetary amount £m
Discount rate	Decrease by 0.5%	Increase by 13%	9.388
Life Expectancy	Increase by 1 year	Increase by 3%	2.100
Salary Increase Rate	Increase by 0.5%	Increase by 6%	3.954
Pension Increase Rate	Increase by 0.5%	Increase by 8%	5.251

Notes to the Financial Statements Year Ended 31 March 2016

Reconciliation of present value of plan liabilities	2016 £'000	2015 £'000
At the beginning of the year	(75,530)	(59,824)
Current service costs	(3,233)	(2,457)
Past service costs		(40)
Interest costs	(2,542)	(2,619)
Plan participants contributions	(659)	(611)
Benefits paid	891	850
Changes in financial assumptions	10,615	(11,111)
Other experience	455	282
	<hr/>	<hr/>
At the end of the year	(70,003)	(75,530)
	<hr/>	<hr/>
Reconciliation of fair value of plan assets	2016 £'000	2015 £'000
At the beginning of the year	52,786	45,762
Interest income on plan assets	1,776	1,998
Plan participants contributions	659	611
Contributions made	2,286	1,715
Benefits paid	(891)	(850)
Return on assets excluding amounts included in net interest	(1,727)	3,550
	<hr/>	<hr/>
At the end of the year	54,889	52,786
	<hr/>	<hr/>
	2016 £'000	2015 £'000
Fair value of plan assets	54,889	52,786
Present value of plan liabilities	(70,003)	(75,530)
	<hr/>	<hr/>
Net pension scheme liability	(15,114)	(22,744)
	<hr/>	<hr/>

Notes to the Financial Statements Year Ended 31 March 2016

Amounts recognised in other comprehensive income are as follows:	2016 £'000	2015 £'000
Included in administrative expenses:		
Current service cost	3,233	2,457
Past service cost		40
	<u>3,233</u>	<u>2,497</u>
 Amounts recognised in other finance costs		
Net interest costs	<u>766</u>	<u>621</u>
 Analysis of actuarial profit / (loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	(1,727)	3,550
Changes in financial assumptions	10,615	(11,111)
Other experience	455	282
	<u>9,343</u>	<u>(7,279)</u>
 Composition of plan assets	2016	2015
Equities	70%	69%
Bonds	20%	20%
Property	6%	5%
Cash	4%	6%
	<u>100%</u>	<u>100%</u>
	2016 £'000	2015 £'000
Actual return on plan assets	<u>49</u>	<u>5,548</u>

Notes to the Financial Statements Year Ended 31 March 2016

9. Tangible fixed assets

	Social Housing Properties Held for letting	Social Housing Properties Under Development	Social Housing Total	Computer Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
Cost at 31 March 2015	5,925	70	5,995	1,805	1,430	9,230
Less Capital Grant	(2,220)	-	(2,220)	-	-	(2,220)
As previously stated 31 March 2015	3,705	70	3,775	1,805	1,430	7,010
FRS102 transitional adjustment	2,220	-	2,220	-	-	2,220
Restated At 1 April 2015	5,925	70	5,995	1,805	1,430	9,230
Additions	-	255	255	-	430	685
At 31 March 2016	5,925	325	6,250	1,805	1,860	9,915
Depreciation						
At 1 April 2015	125	-	125	1,805	551	2,481
Additional charge under new basis	98	-	98	-	-	98
Charge for the year	103	-	103	-	273	376
At 31 March 2016	326	-	326	1,805	824	2,955
Net book value						
Restated at 31 March 2015	5,800	70	5,870	-	879	6,749
At 31 March 2016	5,599	325	5,924	-	1,036	6,960

The loans are secured by way of a legal charge held by Derby City Council over all current and future land and buildings.

The Social Housing Properties Held for Letting are Freehold. No interest has been capitalised.

The five flats held at 119 Green Lane, Derby are jointly held between Derby Homes and Revive, with an option to buy in 2037. Negotiations are progressing with a view to exercising this option early by mutual consent.

Notes to the Financial Statements Year Ended 31 March 2016

10. Expenditure on works to existing properties

	2016 £'000	2015 £'000
Amount capitalised	-	-
Amount charged to income and expenditure account	57	12
	<u>57</u>	<u>12</u>

11. Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Rent and service charge arrears	15	
Less : Provision for doubtful debts	(11)	
	4	
Amounts due from parent Company	4,495	3,098
Trade debtors	320	208
Social Housing Grant receivable	-	-
Other taxation	1,614	1,083
Prepayments and accrued income	74	120
	<u>6,507</u>	<u>4,509</u>

12. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owing to parent Company	1,086	1,293
Loans due to parent	47	45
	<u>1,133</u>	<u>1,338</u>
Deferred capital grant	32	-
Trade creditors	923	616
Corporation tax	5	5
Other taxation and social security	269	255
Sinking Fund balances	56	-
Accruals and deferred income	1,430	1,887
	<u>3,848</u>	<u>4,101</u>

Included within the Amounts owing to parent Company is £47,240 (2014/15 -£45,297) relating to property loans.

Notes to the Financial Statements

Year Ended 31 March 2016

13. Creditors: amounts falling due after one year

	2016 £'000	Restated 2015 £'000
Deferred Capital grant	2,120	2,220
Amounts owing to parent Company – New Build Loan	3,128	3,191
	<u>5,248</u>	<u>5,411</u>
Loan Repayments are due as follows:		
Between 1 and 2 years	49	47
Between 2 and 5 year	161	154
In more than 5 years	<u>2,918</u>	<u>2,990</u>

Included within the creditors falling due after more than 1 year is a loan of £1.078m (2014/15 - £1.084m) charged at 5.06% interest rate and a loan of £0.136m (2014/15 - £0.160m) charged at 6% interest rate. Other loans relating to the development at Chesapeake (at 4.05%) have £0.212m (2014/15 - £0.218m) outstanding over one year and £1.702m (2014/15 - £1.729m) on the loan for Elton Road (at 5.5%).

The loans are secured by way of a legal charge held by Derby City Council over all current and future land and buildings.

14. Deferred Capital Grant

	2016 £'000	2015 £'000
At 1 st April 2015	2,220	2,220
Grants received in year	67	-
Released to income in year	(28)	-
Exceptional write off of amortised grant to March 2015	(107)	-
At 31 st March 2016	<u>2,152</u>	<u>2,220</u>

Notes to the Financial Statements

Year Ended 31 March 2016

15. Parent Undertaking

The Company is a local authority controlled Company within the meaning of Part V of the Local Government and Housing Act 1989, being a Company under the control of Derby City Council. Copies of the financial statements for Derby Homes Limited can be obtained from the Secretary, Derby Homes Limited, The Council House, Corporation Street, Derby, DE1 2FT.

Consolidated accounts are prepared by Derby City Council, where consolidated accounts are available from the Section 151 Officer, Derby City Council, The Council House, Corporation Street, Derby, DE1 2FT.

The Directors consider that Derby City Council is the ultimate controlling party.

16. Related Party Undertaking

The Company's ultimate parent and controlling party is Derby City Council.

Derby Homes Limited is an Arm's Length Management Organisation from Derby City Council to run the management and maintenance function of the Council's homes and other buildings.

The Company Board includes members who are tenants of Derby Homes and also members who are elected representatives of Derby City Council. The Company undertakes transactions with the Council at arm's length in the normal course of business.

Three Board members are also tenants of the Council and have a standard tenancy agreement and are required to fulfil the same obligations and receive the same benefit as other tenants. There are no significant rental arrears to report in relation to these tenants as at year end.

Notes to the Financial Statements

Year Ended 31 March 2016

18. Accommodation in Management and Development

At the end of the year accommodation in management for each class of accommodation was as follows:

	2016	2015
General Needs Housing		
- Social Rent	62	62
- Affordable Rent	22	22
Total owned	84	84
Accommodation managed for others	13,394	13,410
Total owned and managed accommodation	13,478	13,495
Units under construction	6	5

Properties managed on behalf of other organisations were:

	2016	2015
Derby City Council	13,295	13,311
Parkview Properties Derby Ltd	9	9
Lillian Prime Trust	6	6
The Guinness Trust	33	33
War Memorial Village (Derby) Ltd	51	51
	13,394	13,510

19. First time adoption of FRS102

There is no restatement of the opening reserves position required following the adoption of FRS102 for the March 2016 financial statements. No revaluations of investment properties, deferred tax or pension scheme restatements are required or have been made.

Historic social housing grant totalling £107,117 has been amortised to cover the period to March 2015 – see note 14. Similarly, a one off depreciation correcting charge of £97,577 has been included to represent the increased depreciation costs under FRS102 to cover the period to March 2015 – see note 9. The net gain of £9,600 has been written off within the Statement of Comprehensive Income.

A re-statement of prior year Statement of Comprehensive Income was not considered necessary in relation to the amortised social housing grant and depreciation. The estimated impact on the March 2015 accounts would have

resulted in a write off of additional depreciation of £72,495 and the £79,366 of amortised Social Housing Grant. The net additional income of £6,871 is not considered material.

The re-classification of Social Housing Grant within the Balance Sheet has resulted in the March 2015 Balance Sheet to be re-stated as below:

Table showing the impact on prior year Balance Sheets of the adoption of FRS 102

	Note	As previously stated 31 March 2014 £'000	Effect of transition 31 March 2014 £'000	FRS102 as restated 31 March 2014 £'000	As previously stated 31 March 2015 £'000	Effect of transition 31 March 2015 £'000	FRS102 as restated 31 March 2015 £'000
Tangible fixed assets							
- Housing		1,659	1,507	3,166	3,650	2,220	5,870
Tangible fixed assets							
- Other		1,027	-	1,027	879	-	879
	9	2,686	1,507	4,193	4,529	2,220	6,749
Current Assets		9,745	-	9,745	11,465	-	11,645
Creditors : amounts falling due within one year		(5,213)	-	(5,213)	(4,101)	-	(4,101)
Net current assets		4,532	-	4,532	7,364	-	7,364
Creditors : amounts falling due after one year	13	(1,258)	(1,507)	(2,765)	(3,191)	(2,220)	(5,411)
Net assets before pension liability		5,960	-	5,960	8,702	-	8,702
Defined benefit pension liability		(14,062)	-	(14,062)	(22,744)	-	(22,744)
Net liabilities after pension liability		(8,102)	-	(8,102)	(14,042)	-	(14,042)