

DERBY HOMES LIMITED

(A Company limited by guarantee)

Company No. 4380984

Report and Financial Statements

Year ended 31 March 2020

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Report and Financial Statements Year Ended 31 March 2020

Board Members, Executive Officers, Advisors and Bankers

Directors

I M MacDonald	appointed 28.02.02
M Ainsley (Chair)	appointed 29.09.11
R G H MacDonald	appointed 27.11.14
J M Shepherd	appointed 27.11.14
F Hussain	resigned 22.05.19
L H Care	appointed 23.05.18
R A Cooper	appointed 23.05.18; resigned 22.05.19
D J Rees	appointed 09.07.18; resigned 28.11.19
S Gutsa	appointed 29.11.18; resigned 25.07.19
S Russell	appointed 22.05.19
J Pearce	appointed 22.05.19; resigned 24.06.20
A W Graves	appointed 24.06.20
J Layton Annable	appointed 28.11.19
F Richards	appointed 28.11.19

Executive officers

M J Murphy
D Enticott
S Bennett
C Mehrbani

Secretary

D Enticott

Registered Office

839 London Road
Derby
DE24 8UZ

Auditor

BDO LLP
2 Snowhill
Birmingham
B4 6GA

Bankers

Lloyds Bank
31-33 St Peters Street
Derby
DE1 2AA

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 2020

Celebrating 100 years of Council Housing in Derby

This has been a year of centenaries – in July it was 100 years since the passing of the 'Addison Act' which paved the way for Council housing to take off.

Derby Homes has been actively celebrating this historic milestone by:

- Commissioning '100 years' t shirts, badges and even tea towels.
- Partnering with local businesses to produce 'Addison Ale' and coffee.
- Building 9 new bungalows for the Derby War Memorial Village in partnership with their committee and the Council through Right to Buy (RTB) receipts.
- Worked with the Council to host events including the Princess Royal visiting the War Memorial Village and St. Martin's Church.

In addition, we have also seen further centenaries during the year:

- Derby Homes now owns 100 properties as a Registered Provider ourselves.
- The completion of the first Council house in Derby (in Victory Road) was in February 1920, so Council housing in Derby is also now 100 years old.
- Derby Homes has started or completed 100 properties using our in-house led model alongside local building firms.

Alongside these exciting events, the core work of Derby Homes has continued with many other successful outcomes and innovation.

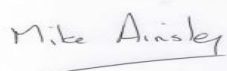
Our partnership approach to reducing homelessness, with the Police and Crime Commissioner, the Council and many local voluntary and charitable organisations, has been expanded further and has been rewarded with still further funding resulting in greater support for and lower numbers of rough sleepers.

Our core performance statistics across the board continue to show positive responses and our overall satisfaction rate has improved still further to 95.3% which demonstrates our relationship with and commitment to our customers.

Looking to the future, we welcome the expected government white paper increasing the focus on tenants' expectations and rights alongside safety measures relating to high rise blocks and social housing in general. We also anticipate that RTB reforms will be finalised shortly and that there will be further growth in delivery of new Council housing both locally – thanks to an increased investment plan instituted by the Council - and nationally.

Obviously at the time of writing this statement we are hugely concerned about the impact that the COVID-19 virus is having and will have on tenants and wider customers and are looking to support them and the Council in any way we can. Our response and the possible implications on Derby Homes are noted within this report.

I would like to thank all our Board members, staff, contractors and partners for their continued efforts over the last year and indeed 100 years and hope that we will play more than our part in paving the way for more successes over the next 100.



Mike Ainsley, Chair of Derby Homes

Date: 30 July 2020

Report of the Board of Management

Year ended 31 March 2020

The Board present their annual report and the audited financial statements for the year ended 31 March 2020.

Mission

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.

Principal Activities

The core business of Derby Homes is the management of and investment in, Derby City Council's social housing stock, comprising of 12,697 rented properties along with 60 shared ownership and other services as delegated by the Council in an agreement under s27 of the Housing Act 1985.

Derby Homes also directly provides services to 649 leaseholders of the Council and has agreements with external landlords to manage and maintain properties. These landlords are Guinness Northern Counties Housing Association and the War Memorial Village (Derby). 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 Regulator of Social Housing (RSH) and has 100 properties for rent including 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 considering an earlier settlement with Revive and the Council.

Review of Business

2019/20 was another successful year for Derby Homes.

Financial performance 2019/20

Operational (day to day) surplus - £2.3m

The underlying operational surplus (excluding pension fund impacts) of £2.3m set out on page 17 demonstrates that the company can continue to operate effectively within its income, although the amount of that surplus is expected to reduce significantly next year in line with plans approved by the Board. The company will have the main management fee with the Council reduced in line with the reducing numbers of properties to manage and invest in staffing resources plus wider neighbourhood services.

Formal accounting operational deficit - £1.1m

The operational deficit reported in the accounts is £1.1m (2019 – loss of £0.5m) and is due to employer pension charges to the statement of comprehensive income (SOCl) being set much higher in the accounts (based on a one day snapshot) than the day to day employer pension fund contribution level of 20.9% used in the management accounts - resulting in additional costs of £3.4m in the SOCl's operational surplus not included in the management accounts during the year.

Report of the Board of Management - year to 31 March 2020 cont.

Balance Sheet – positive gain of £16m and net positive overall

The balance sheet of the company, however, has significantly strengthened as a result of significant positive pension fund assumptions. The overall headline is a comprehensive gain for the year of £16.047m (2019 – loss of £9.7m). The overall pension fund deficit decreased from £33m to £19m. This remains repayable on a sustainable planned basis over the longer term: the latest actuarial assessment of the fund in 2019 (undertaken on a different basis to accounting) indicated a 106% funding level for Derby Homes. The overall balance sheet is now positive overall.

Effects of material estimates and judgements upon performance

The overall net worth of Derby Homes is now just over £1m, a change from the negative £15m compared a year ago. This net worth is highly volatile – a 0.5% increase in the pension fund discount rate (mostly linked to future increases in interest rates) would reduce the pension fund deficit – and hence increase the net worth of Derby Homes by over £11.7m. The triennial actuarial assessment in 2019 used a discount rate of 3.5% which if it were to prove correct in the longer term would reduce the pension fund deficit by around £28m. Looking at it the other way, if the discount rate remains at 2.3% there would be a need to fund increased contributions to the pension fund of £3.4m a year. The truth is probably somewhere in between, but any overall assessment of the company's financial position therefore needs to consider this huge volatility. The approach that the company has taken is to sustain a balanced or positive management account surplus which enables the underlying asset base of the company to continue to strengthen, combined with the Council's guarantee to fund any minimum pension fund contribution as long as the company aligns its retirement policy with the Council's. Using this approach, our view is that the key balance sheet figure is the 'net assets before pension liability' which has increased from £17.9m to £20.0m.

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 Council and Derby Homes pride ourselves on delivering good overall value for money. Rents 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. The rent charge is seen as value for money by 93% of tenants (2018/19: 90.1%). The Regulator of Social Housing (RSH) requires RPs to report key financial indicators as part of their VfM framework. These are set out in a later section.

Compliance with RSH Governance and Financial Viability Standard

Derby Homes considered its compliance with the RSH's Governance and Viability standard at its meeting in May 2020 and passed the following resolution to say that "In its view, the Derby Homes Board complies with the RSH Governance & Viability standard". The Board also stated that "in its view, Derby Homes Board complies with the NHF Code of Governance 2015. The Board recognises one declared non-compliance, related to Board Membership, as a result of our constitution.

Report of the Board of Management - year to 31 March 2020 cont.

Going Concern

At its meeting on 30 July 2020, 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 (2 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.

The Council recognises that, following the formal accounting standards applicable, the Company does not currently have enough 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.

We anticipate that the COVID-19 crisis will affect our financial position but not in a way that should impact on our ability to continue as a going concern. Our reserves and cash balances are adequate to deal with any likely outcome of the crisis. The Board considered the possible impacts at its meeting in July 2020 and expressed the opinion that Derby Homes is better placed in financial terms than many others, especially as a result of the support of the Council for its plans. Indeed, there may be longer term opportunities for Derby Homes to assist with any plan to expand the amount of affordable housing as part of any concerted effort to improve the economy.

Derby Homes has less than two years to run before its current contract with Derby City Council elapses. As such, we welcome the current review of the future of housing management by the Council, as it is required to establish the position beyond that date. The Council is required to give Derby Homes a minimum of six months' notice should it wish to continue the contract beyond 2022. The review has been affected by the COVID-19 crisis as it was expected to be completed by April but will now be delayed somewhat.

Report of the Board of Management - year to 31 March 2020 cont.

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. It 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 – reviewed and updated in 2017
- 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.

Derby Homes is a partner in the Central Midlands Audit Partnership (CMAP) which provides internal audit to several public sector bodies. Their work is based on their independent risk assessment combined with our own risk register.

The Head of Audit and Risk Management reports the results of internal audit work to the Audit Committee. CMAP also provides an independent opinion on the adequacy and effectiveness of the system of internal financial control, which is informed by the work of Derby Homes' managers, CMAP and external auditors.

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.

Report of the Board of Management - year to 31 March 2020 cont.

Employment Policies

Employment of Disabled Employees

- **Recruitment & Training**

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. Derby Homes offers a wide range of job-related training to all employees. We work with employees with disabilities to identify what adjustment and support they require to enable them to undertake their job role.

- **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 Occupational Health and that as the employer we have a proper understanding of what support is necessary to help an employee sustain their employment.

Employee Involvement

- **Communication with employees**

Derby Homes Limited 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. Communication with all employees continues through the intranet, 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. Formal meetings are held, and minutes of these meetings are made available to all employees.

- **Employee Volunteering Scheme**

We have an employee volunteering scheme as part of our commitment to corporate social responsibility and in recognition of the benefits to our employees, our organisation and local voluntary, charity and faith sectors. All employees are encouraged to participate in a day's volunteering each year, without affecting annual leave entitlements.

Report of the Board of Management - year to 31 March 2020 cont.

- **Equalities**

In addition to our statutory duties Derby Homes operates an Equalities Forum, now led by a Board champion. This group consists of several employees, volunteers from teams across the organisation who have shown an interest in equalities, their brief is to provide feedback to the Executive Team on key issues. The Forum also report key issues to the Board of Derby Homes. They can also propose new initiatives and events to encourage awareness and employee involvement. The company is committed to the creation of a happy and productive work environment that values and encourages all employee contributions.

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

Over the year there are three full company briefings that staff attend. We include an annual 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.

Report of the Board of Management - year to 31 March 2020 cont.

Board members' responsibilities

The board members are the Directors of the company and 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 2019. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board 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 company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements. The maintenance and integrity of the company'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.

Report of the Board of Management - year to 31 March 2020 cont.

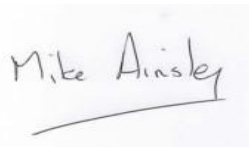
Auditors

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 Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

A handwritten signature in black ink that reads "Mike Ainsley". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Chair

Date 30 July 2020

Strategic Report for the year ended 31 March 2020

Under s172 of the Companies Act 2006, Derby Homes has a duty to promote the success of the company for the benefit of its members as a whole, having regard to:

- Maintaining a high standard of business conduct.
- Acting fairly between the members of the business.
- The interests of employees.
- Fostering business relationships with suppliers, customers and others.
- The impact of operations on the community and the environment.
- The likely consequence of any decision in the long term.

The Board also needs to address the following:

- The issues, factors and stakeholders the directors consider relevant in complying with the above and how we have formed that opinion.
- The methods the directors have used to engage with stakeholders and understand the issues to which they must have regard.
- The effect of that regard on the company's decisions and strategies during the year.

Derby Homes' s172 statement

Derby Homes' central role is to deliver its mission statement and strategic objectives.

Derby Homes' mission statement is:

High quality services for people, homes and communities

Derby Homes' strategic objectives are:

Strategic Objective 1	Service that puts our customers first
Strategic Objective 2	Quality homes and contributing to sustainable communities
Strategic Objective 3	Reducing homelessness and enabling access to affordable housing
Strategic Objective 4	Value for money is a consideration in everything we do

As a 100% owned subsidiary company of Derby City Council, our primary objective is to deliver our core services –managing, maintaining and delivering additional affordable rented homes. Working on behalf of the Council, delivering landlord functions to thousands of tenants and leaseholders, and delivering statutory homeless duties.

In delivering these services, the Board must balance the interests of the Council, tenants, prospective tenants, the homeless and our employees. Our approach to this is to deliver a good service at a reasonable rent to the tenants of the Council and ourselves. The rents charged are regulated by the Regulator of Social Housing (RSH) and are limited to the formulas set out by them to ensure fair rents.

Strategic Report - Derby Homes' s172 statement - cont.

In order to maintain a sustainable business plan and to enable an expansion of our own stock, we control our cost base as can be seen in our Value for Money strategy and statements.

Environmental and safety standards are central elements of our operations; the installation of sprinkler systems in new build is a standard consideration. We are working with the War Memorial Village to increase environmental standards even further and will be actively looking to adopt higher standards in our own developments and those for the Council in future schemes. We are continuing to review the future of our van fleet with the potential to move to electric vans. We are working with the council on plans for significant energy efficiency upgrades to the last few blocks of uninsulated non-traditional blocks of flats in Mackworth,

We consider the interests of our employees who benefit from stable employment prospects and a defined benefit pension scheme which allows employees to plan for their future. We undertake staff surveys and operate forums for Health and Safety and Equalities to ensure that views are considered. We formally recognise two Trades Unions and meet regularly with them.

Our detailed approach to meeting our objectives is set out in our Delivery Plan which is approved each year by the Council. The latest plan can be found at www.derbyhomes.org

The executive officers and the Chair meet quarterly with the Council to discuss various matters relating to our services including funding, policies and strategies across the whole housing service and where Derby Homes can add value to the Council. Discussion of the long-term ability to finance new homes, deal with homelessness and sustain a good level of service and fair rents for existing Council tenants also feature in such discussions and meetings.

The Board is supporting the Council to meet statutory duties introduced in the Homeless Reduction Act 2017. The Council has allocated grant resources to Derby Homes and we have added over £1m of our own resources to that funding and worked with community partners in the voluntary and public sectors to deliver additional services to reduce rough sleeping. This reflects our approach to working collaboratively with the community to deliver services for the benefit of those that need our help. We also regularly support other community projects with the support of other parties, volunteers and the Council.

Funding levels, staffing resources, support from the Council, opportunities to deliver new homes whether for the Council or in our own right and national policies with respect to Council and other affordable housing all influence the direction the company takes and our decisions.

Strategic Report - Derby Homes' s172 statement - cont.

Housing is a long-term asset that needs to be maintained properly and as such requires a long-term approach to many decisions. The Council's own plans for Council housing are set out over 30 years and this shows an intention to invest as much as is sustainable into new affordable housing. Our own plans reflect the income that we expect from that plan and translate that into practical choices for new homes as well as sustaining and improving the current stock of property so that it can be sustained into the future.

National policy changes have been positive over the last couple of years with the lifting of the HRA debt cap and lower interest rates on borrowing. If the scale of Right to Buy discounts could now be reduced to lower, more sustainable levels then the Council could then invest with much greater confidence for the long term and deliver an overall growth in overall affordable housing that it owns. In order to have influence on this and other relevant national issues, we join with others to attempt to influence government policy through the National Federation of ALMOs (NFA), the Local Government Association (LGA) and other bodies.

We are proud to be a Registered Provider of Social Housing and to follow the good governance rules set out in the National Housing Federation's Code of Governance 2015 as explained in full in reports to the Board each year.

The Board itself consists of a third each of Councillors, Tenants and Independents allowing for a balance of views and for tenant input into key decisions. Our Operational Board consisting of a majority of tenants monitors performance and makes decisions on operational matters of concern to tenants. We also support the Derby Association of Community Partners (DACP) which is a resident's group who influence our decisions, along with our Customer Voice who look at specific areas of operation and make recommendations for change. We also survey our tenants directly for their opinions and try wherever possible to follow up on complaints with a view to improving any issues that arise from any of these sources.

This year, we have:

- Increased still further our efforts in homelessness prevention in partnership with others:
 - Developed a sustainable Tenancy Programme with Action Housing, providing further capacity to support rough sleepers into supported accommodation.
 - Reshaped and enhanced our Rough Sleeping Initiative, focussing on increased access to daily structure and routine activities for guests at our 'Safe Space' facility.
 - Trained our staff working with the homeless in trauma informed practices.
 - Expanded our 'homes for me' partnership with Derwentio Housing Trust, providing supported housing to entrenched rough sleepers.
 - Expanded our Private Rented Sector Initiative, providing support and guidance to landlords and tenants in the private rented sector, including launching our 'Call before you serve' initiative for landlords.

Strategic Report - Derby Homes' s172 statement - cont.

- Listened to our tenants:
 - Derby Homes welcomes and actively promotes customer feedback, capturing and promoting this message through our strapline “listening to you, learning from you”, promoted across all our feedback channels.
 - Feedback is collected in both quantitative and qualitative forms and in a variety of ways such as:
 - ✓ Surveys.
 - ✓ Door Knock large scale engagement programme.
 - ✓ Customer Survey.
 - ✓ Service Specific Surveys.
 - ✓ Consultations – ‘Your service, your say’.
 - ✓ Complaints.
 - ✓ Open sessions – ‘Walk in Wednesdays’.
 - ✓ Focus groups.
 - ✓ Customer Scrutiny Panel – ‘Customer Voice’.
 - ✓ Tenant led Operational Board.
 - ✓ Tenant membership on Board.
 - We encourage further feedback from our customers by frequently demonstrating that we have listened and acted on their feedback through various media channels. We advertise and promote all feedback mechanisms through publication of Derby Homes news, the website and social media channels. We regularly published articles in Derby Homes News inviting residents to come and discuss services and performance as well as listen and respond to feedback through social media platforms in a timely and informative manner.
- Assisted the Council in launching a programme to support Care Leavers to start to live independently in their own home.
- Supported the Council’s drive to use Right to Buy receipts to acquire new homes, refurbishing them into good quality affordable rented properties, despite this impacting on our own targets for new homes within the RP.
 - Celebrated 100 years of Council housing - raising awareness of the importance and significance of social housing across the country and here in Derby.

One of our key objectives is to deliver additional homes available at affordable rents in Derby as part of the Council’s drive to support affordable 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. This requires a long-term approach, especially when analysing individual proposals for investment in homes. The delivery of as many homes as possible towards the Council’s targets must be balanced against retaining a prudent long term overall financial position for both ourselves and the Council.

Strategic Report for the year ended 31 March 2020 cont.

Previous and current financial performance

The current level of surplus (even after excluding the impact of the pension fund deficit) is unlikely to be sustained indefinitely. Our latest plans show an intention to reduce operational surpluses in the future and to continue to focus on service provision.

Previous operational surpluses (excluding pension fund impacts) have been:

Derby Homes Key figures	Actual £'000 16/17	Actual £'000 17/18	Actual £'000 18/19	Actual £'000 19/20	Budget £'000 20/21
Turnover £m	38.3	38.8	42.3	46.8	43.2
Operational Surplus £m	2.0	1.9	2.5	2.3	(0.1)
Surplus % Turnover	5.3	4.9	5.9	4.9	-
Council Homes managed (incl SO)	13,149	13,002	12,874	12,757	12,647
Derby Homes properties owned	90	90	97	100	110
Reserves £m exc LGPS	14.0	15.6	17.9	20.0	19.9
Reserves £m inc LGPS	-5.9	-5.2	-15.0	1.0	0.9

These show a sustainable level of reserves if the pension fund deficit is excluded. This deficit is effectively underwritten by the Council from its Housing Revenue Account as our contract includes a requirement for the Council to ensure that our pension fund contributions are reflected on our management fee income. In practical terms this means that any agreed contribution rate will be reflected in a change to our fee whether up or down. At the last actuarial review in 2019, our funding position was assessed at 106% meaning that a reduced contribution is now possible. The Council will therefore reduce our funding accordingly. While this is likely to reduce the reported funding level at the next review, the obligation would remain to increase our funding in line with any required future increase in contributions. The overall prospect for the pension fund deficit is therefore that it should be addressed in the medium to long term by continuing to pay a minimum of the required contributions for the foreseeable future.

The pension fund deficit has improved significantly this year from £33m to £19m - despite poor investment returns - as a result of changes in actuarial assumptions, notably around the level of future pension increases reducing from 2.5% a year to 1.8% mainly from lower inflation. This alone has reduced liabilities by over £13m.

The cash flow position remains very positive and able to withstand reasonable stress testing.

Strategic Report for the year ended 31 March 2020 cont.

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

The statement of comprehensive income for the year is set out on page 35. Following the processing of pension fund transactions, the business returned a deficit after taxation for the year of £2.134m. This was after a charge of £4.254m which arose from accounting adjustments for pensions, as disclosed in Note 8 to the financial statements plus £0.160m relating to interest payable on loans from the Council.

	£'000	£'000
Management account operating surplus		2,294
FRS 102 adjustments:		
Add back of employer pension contributions paid in year	2,923	
Less current service costs	<u>(6,345)</u>	<u>(3,422)</u>
Operating deficit		<u>(1,128)</u>
Less net interest on pensions		(832)
Less other interest payable		(160)
Less taxation		<u>(14)</u>
Deficit for the year		<u>(2,134)</u>
Actuarial gain on defined benefit obligations – pension scheme		<u>18,181</u>
Total comprehensive gain for the year		<u>16,047</u>

Financial performance – after pension factors are removed – continues to be positive. Still further savings have been delivered against management and maintenance fee income areas. As a result of the Council's requirement to focus most development on utilising its Right to Buy receipts quickly, our own development of stock has been less than we would be able to support, but those funds continue to be ready to invest once the balance of risk for the Council becomes such that our investment is preferred in some circumstances.

The number of directly owned properties has now increased to 100 following the acquisition of 3 homes initially allocated to support the Council's plans for Looked After Children to be able to transition towards their own tenancy. This is a focussed plan that is likely to expand further next year. It allows the Council to enable those children that could manage their own home on a trial basis with the Council's support to move out of Children's homes and into the community.

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 £7.7m and £20.045m. Fixed assets should rise further as the stock increases in line with the moderate growth expected over the next few years. The debt associated with this strategy remains affordable.

Strategic Report for the year ended 31 March 2020 cont.

Operational Performance

The table below is a sample of some key performance indicators comparing performance for 2019/20 with the previous three years.

Description	2016/17	2017/18	2018/19	2019/20
Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings.	73.9	73.7	75.2	75.5
Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account (HRA) dwellings	100.2%	99.0%	99.7%	99.3%
Rent arrears of current tenants as a % of rent roll.	1.87%	2.15%	2.29%	3.15%
Tenant Satisfaction with Landlord (All)	89.9%	91.3%	94.4%	95.3%
Tenant Satisfaction with views taken into account	84.2%	79.0%	83.3%	78.3%
Non-Decent Local Authority Dwellings (percentage)	0%	0%	0%	0%
Average time taken to re-let local authority housing. (days)	25.3	24.5	23.7	25.2

Performance Highlights 2019/20

Performance continues to be excellent, with most 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 most of its targets and has seen overall tenant satisfaction increase still further to 95.3% (2018/19 94.4%).

The rent charge is seen as value for money by 93% of tenants (2018/19 90.1%).

We continue to meet 100% targets for electrical and gas safety testing and expect to continue to do so. Repairs consistently meets response times (over 99%) and high satisfaction levels (over 99% positive when surveyed via text on last repair) while costs remain low.

The variability in the 'Views taken into account' results are entirely down to the scale of responses (almost double the response) and the increased proportion (21% - 13% last year) in the 'neither satisfied nor dissatisfied' category who do not count as satisfied. The proportion (1.3% - 3.9% last year) and number (14 – 22 last year) of dissatisfied tenants is lower than last year.

Strategic Report for the year ended 31 March 2020 cont.

Additional demand for Homelessness Services, as a result of the implementation of the Homeless Reduction Act 2017, has been still higher than the previous year. This has placed additional pressures on the use of temporary accommodation including the increased use of bed and breakfast placements, where the targets for use have been exceeded.

We have responded positively to the increased demand for services during the year with several new and continuing initiatives:

- YMCA Y Steps supported housing programme for under 35's who are homeless.
- Action Housing supported housing programme targeted at homeless people who are excluded from the housing register.
- Homes for Me project, targeted at entrenched street homeless people.
- Star Project to support those leaving prison.
- Continued operation of Safe Space to provide basic shelter and support to those unable to access accommodation and remain rough sleeping.
- Support for Churches winter night shelter, providing basic shelter over the winter months.
- Expansion of Private Rented Sector Initiative, including the launch of 'call before you serve' support to landlords and tenants in private rented sector.
- Increase in temporary accommodation units.
- Continued rough sleeping in reach and outreach service, to engage rough sleepers without the need for them to use traditional entry routes to services.

Rough sleeping continues to reduce, down from 37 in November 2017, to 15 in November 2019.

In other areas, Derby Homes continues to support community initiatives including a thirteenth year of helping to repair & improve the Skegness Derbyshire Children's Holiday centre. This year we have replaced old windows with modern Upvc double glazed windows, the windows were provided free of charge by Nationwide, our window manufacturing partner supported with funding from Buildbase for building materials. Our team match the contribution of labour time from Derby Homes with their own, spending four days away from home working long days to complete the work.

Staff and partners have again excelled themselves this year, raising over £7,000 for our charity of the year - one of the longest established charities in Derby, Padley, who help the most vulnerable in society such as the homeless.

We also continued to support preventative and diversionary activities for young people and many other initiatives which focus on improving life for tenants and residents within our communities.

Strategic Report for the year ended 31 March 2020 cont.

An example of activities Derby Homes hosts for young people include the Youth Panel. The Youth Panel have been to build on their communication skills, broaden their membership and encourage social inclusion in the community. Over the year, they have been:

- Rebranding and relaunching the Panel as 'Ignite & Connect'.
- Launch a branded social platform for sharing their news and promoting their work.
- Focus on projects which affect young people in their community.
- Work on events in the community such as tree planting, anti-bullying campaigns and hosting an 'open mic night' to engage with other young people in the community and encourage self-expression.

Ignite & Connect were fundamental to improvements to Osmaston with support and feedback from local schools. A BMX park consultation in Osmaston consisted of several sessions in local schools and parks to gain residents feedback to enable a bid for improvements and the creation of a volunteer committee to facilitate the BMX park to operate.

Since their rebranding, Ignite and Connect have become the first ever winners of the Team Award at the Derby Youth Awards 2019. The first Derby Youth Awards were hosted by Sporting Communities and sponsored by Derby City Council. They celebrate the inspirational stories of young people aged 11-25 who live in Derby. The Team Award is granted to a group of young people who have collectively contributed towards a great achievement within their community or the city.

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

- Overall tenant satisfaction at 95.3% - again higher than any previous year.
- Rent seen as value for money by 93% of tenants.
- Customer satisfaction with repairs and delivery times - all above 99%.
- No non-decent homes.
- Of 361 initial complaints – a 25% fall from last year's total, 98% were resolved at the first stage.
- No complaints found against us by the Housing Ombudsman.
- 6,890 tenants have signed up for online services – just under a 50% increase on last year and now most of all tenants.

Since January 2016, some new claimants are now on Universal Credit. The roll out of UC full service from July 2018 has started to impact on results and is creating additional pressure on household incomes. In December 2016 the benefit cap was reduced significantly from £26,000 a year to £20,000, and this has exacerbated the effect. Performance in this area was very positive until the final few weeks of the year when the COVID-19 crisis impacted quite strongly on the usual pattern of reduced arrears during the final 'rent free' week. Overall current tenant arrears have increased to reach £1.7m which still only represents around 3% of annual rent.

Strategic Report for the year ended 31 March 2020 cont.

Response to COVID-19

The World Health Organisation classed COVID-19 as a pandemic on 11 March 2020. Following that announcement, the UK Government introduced various measures to address the impact in the UK, resulting in lockdown from 23 March 2020.

We adopted several measures to ensure the safety of tenants, staff, contractors and the residents of Derby during this time. We undertook the following:

- Working alongside the Council, Atlas Hotel Group and several other partner agencies, we block-booked 100 rooms for 'roofless' citizens to isolate themselves during the coronavirus outbreak. This initiative ran for three months to mid-June and in total over 140 individuals were supported. Most importantly, move on accommodation and relevant personal support was made available to all when leaving the hotel, with the longer-term aim of assisting them to maintain permanent accommodation.
- We supported the Council in several its responses including:
 - Adapting part of our depot into a PPE storage facility as part of the City-wide distribution of PPE to essential services
 - Provided staff to volunteer in the "Community Hub" initiative to those identified as most vulnerable in the City.
 - Provided staff to switch roles into Council essential service delivery areas
- Provided regular contact with older and vulnerable tenants to ensure that they are well, feel supported and assisting them to get help where needed.
- With Council support, we amended the Allocations Policy and suspended the waiting list and allocation of properties to General Needs bidders. This allowed vacant properties to be available as part of the wider response to meeting statutory responsibilities around Homelessness.
- We suspended major component replacements such as kitchens and bathrooms. A phased re-introduction of these works commenced from the start of June 2020, initially with external works, such as roofing. Full-service resumption is planned by August 2020.
- Responsive repairs switched to an essential repairs service, with job numbers around a quarter of normal levels. A phased approach to resuming general repairs commenced from mid-June 2020.
- We continued to work on void (empty) properties, this was particularly important to keep a supply of temporary accommodation available for those most in need.
- We temporarily suspended gas servicing and electrical testing works. During this time, we monitored and considered the requirements from the Regulator of Social Housing and Health & Safety Executive. We communicated and got approval for our temporary position from the Board and the Council. These services re-commenced in May.

Strategic Report for the year ended 31 March 2020 cont.

- We suspended works on our new build sites in line with Government recommendations to protect our staff and business partners. A phased re-opening of these commenced from June 2020.
- We amended our rent arrears procedures to concentrate only on financial support and signposting to those in arrears. This supplemented the wider work our Derby Advice and Welfare Reform Teams were providing to both tenants and residents of Derby. We re-commenced some arrears collection procedures from 1 July 2020.
- All teams were and continue to work from home wherever possible. We are fortunate that our existing IT infrastructure allowed for this to take place very quickly.

Awards

ROSPA President's Award

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

CIPFA Innovations Award

In 2017, our Annual Report and Accounts 2015/16 won this national award in the category 'Achievement in Financial Reporting and Accountability'. Our Annual Reports for 2016/17, 2017/18 and now 2018/19 were also shortlisted for the same award, meaning that we have now been shortlisted four times in a row.

Top 50 Landlord

Derby Homes were again included in 24 Housing's 'Top 50 Landlords' in 2019, moving up to #9 on the list – the second highest ALMO

RSPCA Pawprints Awards 2019

We again received the Silver Housing Award to recognise our work towards encouraging responsible pet ownership amongst our tenants.

Derby Youth Awards 2019

Our Youth Panel Ignite & Connect, won the Team Award at the inaugural Derby Youth Awards.

Strategic Report for the year ended 31 March 2020 cont.

Other related recognition

In the Building Communities Awards we received recognition for our in-house Repairs Team and the Allenton Big Build partnership project on St Martin's Church, both of which were finalists.

We were runners up in the Apprentice Employer of The Year category in the Derby Telegraph Business Awards.

Electrician Neilesh Champaneri was awarded the East Midlands Apprentice Champion of the Year 2019 and was Highly Commended in the National Apprenticeship Awards.

We supported the work of local resident's association, Friends of Normanton Park with an entry into the Resolve ASB Awards, where they are currently finalists in the Resident and Communities Award.

Accreditations

Our ASB service is Housemark accredited.

Derby Advice is regulated by the Financial Conduct Authority.

Volunteering

Derby Homes works alongside partner organisations to promote the benefit and impact of volunteers. Roles include volunteering as part of our Customer Voice Tenant Panel (Scrutiny) to people volunteering in their community rooms running sessions from Bingo to Armchair Exercise classes, Coffee Mornings, Lunch Clubs or Day Trips to running the Milestone House Outlet venue. Volunteering delivery is always aimed at benefitting our customers, the community of Derby including those living on the estates that Derby Homes manage.

Each year we celebrate the contribution of our volunteers through an annual Volunteering celebration and Awards event. This year was the first year we collaborated with our partners in the city to host a bigger event. partners included Community Action Derby, Move More Derby and Derby City Council.

In addition, this year we have provided grant funding to Community Action Derby, who are the central co-ordinating body for Volunteering in the City, enabling tenants and those living on council owned estates to access wider volunteering training and opportunities. We have also continued our programme of refurbishing and upgrading our community rooms, ensuring they are vibrant and accessible spaces for community led activities.

Aligned with our Customer First Strategy, we are keen to support volunteering in our communities that strengthens the voices in our communities. We have seen an increase in our communities for residents' groups such as the West End Residents Group, the War Memorial Village and Allenton Residents group. Along with these groups, we have asked for support from Community Action Derby to allow the groups to become constituted and self-sustaining.

Strategic Report for the year ended 31 March 2020 cont.

Principal risks and uncertainties

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.

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 and allocates responsibility and monitoring roles within the organisation. This was updated this year and closely aligns with the Council's newly updated approach to risk management in terms of wording and scoring mechanisms.

Each risk is reviewed regularly and was reassessed with scores updated in March 2020, scrutinised by the Audit Committee and approved by the Board.

The principal uncertainty currently facing Derby Homes is the impact of the ongoing global COVID-19 outbreak. The Board and Senior Management Team, working alongside Derby City Council, continue to monitor the outbreak, including UK Government advice, and acknowledge that Derby Homes faces a period of uncertainty on how services will be required to be adapted going forwards. While the evolving nature of the situation means it is not possible to accurately quantify the financial impact, Derby Homes is in a good financial position to help manage this risk, as detailed in the Going Concern note.

Operationally, changes were made to ensure that essential services were maintained during initial lockdown, these are listed in the Strategic Report. Changes to service delivery methods continue to be made during the ongoing resumption of services. Infrastructure is in place to allow staff to work remotely and our key priority is to ensure, as far as possible, that our housing services are still available when needed.

Strategic Report for the year ended 31 March 2020 cont.

Financial and non-financial key performance indicators

Derby Homes has had another successful year. Not only have most performance targets been met, this has been done cost effectively and the efficiencies generated in day to day operations will continue to be reinvested in expanding the housing stock from 100 towards 150.

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 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. 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 Company Governance Arrangements include:

- The Memorandum and Articles of Association.
- Partnership agreement between the Council and Derby Homes.
- 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.

Strategic Report for the year ended 31 March 2020 cont.

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

- Operational Board – with a majority of tenants.
- Audit Committee.
- Governance Committee.

Membership of these groups consists of Board members and, in the case of the Operational Board and Audit Committee, 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 control and risk management systems.
- 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, companies have 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.

Value for money (VfM)

The Regulator of Social Housing (RSH) required that as a Registered Provider we include seven key financial metrics in this report. These are set out below. Derby Homes as an ALMO RP will look a little different in terms of results against 'standard' RPs as our business model is fundamentally different as we are mostly a manager (of Council housing) and not a standard RP landlord model. Comparison against last year's benchmarks is now possible and is included in brackets as follows:

Q1= upper quartile, Q4 = bottom quartile

m = median all RPs over 1,000 stock – RSH Global Accounts annex 2019.

Metric 1 – Reinvestment %

Good = higher

	£m
+ Development of new properties	0.242
+ Newly built properties acquired	-
+ Works to existing properties	-
+ Capitalised interest	-
+ Schemes completed	-
Total	0.242
Divided by	
+Tangible fixed assets: Housing properties at cost	6,902
+Tangible fixed assets: Housing properties at valuation	-
Total	6.902
Result Q4	3.5%

This is a measure of capital investment in existing and new homes against the existing asset base value. The median was 6.2% for 2019 and our result is in the lower quartile (below 4.2%) The current priority is for most new homes to be owned by the Council in order to utilise right to buy receipt funds available.

Metric 2a: New Supply (Social Housing Units) %

Good = higher

	Units
+ Total social units developed or acquired in year	2
+ Social leasehold units acquired in year	0
Total	2
Divided by	
+ Total social housing units owned	94
+ Social leasehold units owned	0
Total	94
Result Q2	2.1%

This result puts us above the median of 1.4% but below the top quartile of 2.5% on a very small base.

Value for money (VfM) cont

This year, Derby City Council has continued to have a need to invest its Right to Buy receipts quickly in order to retain them under the restrictive time period on their use. As a result, Derby Homes has not been investing in 'standard' social housing directly but has bought two flats using Homes England funding that are being leased back to the Council at Affordable Rent levels along with one further house – bought without any funding - at Intermediate Rent. All of these properties are being used to deliver the Looked After Children scheme. The two Affordable Rent properties are therefore the only ones added to our stock of social housing this year, falling short of our annual target of 5% as expected this year for the reasons outlined above.

Metric 2b: New Supply (Non - Social Housing Units) %

	Units
+ Total non - social units owned (acquired in year)	1
+ Non – social leasehold units owned (acquired in year)	0
+ New outright sale units developed or acquired	0
Total	1
Divided by	
+ Total social housing units owned	94
+ Total non-social rental housing units owned	6
+ Social leasehold units owned	0
+ Non-social leasehold units owned	0
Total	100
Result Q1	1%

The median result is 0%. The Board approved the principle of Intermediate Rent housing this year where no grant funding is available. The first house of this type has been purchased as mentioned at 2a above.

Metric 3 – Gearing % Good = lower

	£m
+ Short term loans	0.056
+ Long term loans	2.918
- Cash & cash equivalents	(15.906)
+ Amounts owed to group undertakings	3.460
+ Finance lease obligations	-
Total	(9.472)
Divided by	
+ Tangible fixed assets: Housing properties at cost	6.902
+ Tangible fixed assets: Housing properties at valuation	-
Total	6.902
Result Q1	(137%)

This is a measure that looks odd as we remain cash rich and therefore could invest in new homes should an opportunity arise that helps the Council more than direct investment in Council housing – as happened with the Looked After Children initiative. At present these opportunities are limited but it is expected that there could be some opportunities soon. It does support the Board's strategy and shows that Derby Homes does have – as planned - the financial capacity to deliver more homes. The comparison against a sector median of 43.4% places Derby Homes in Quartile 1.

Value for money (VfM) cont.

Metric 4 – Earnings before interest, tax, depreciation, amortisation, major repairs (EBITDA) Interest Cover % Good = higher

	£m	£m exc LGPS
+ Operating (deficit) / surplus	(1.128)	2.294
-Gain / loss on disposal of fixed assets	-	-
-Amortised grants	0.032	0.032
-Government grants taken to income	-	-
+ Interest receivable	-	-
-Capitalised major repairs expenditure for the period	-	-
+ Total depreciation charge for period	0.352	0.352
Total	(0.744)	2.678
Divided by		
+ Interest capitalised	-	-
+ Interest payable and financing costs	0.160	0.160
Total	0.160	0.160
Result Q4/Q1	(465%)	1673%

This result is another that looks strange as it includes all operating surplus (derived mainly from management and maintenance of Council housing), plus pension adjustments against the interest payable on loans on a small number of homes. Excluding the volatile pension fund adjustments strengthens the ratio and is more representative of the underlying position. Any comparison against the sector median of 184% and therefore our quartile 4 ranking or quartile 1 ranking post LGPS adjustments is potentially misleading.

Metric 5 – headline social housing cost per unit

Good = lower

Management costs

+service charge costs

+planned maintenance costs

+capitalised major repairs expenditure

+development services

+ other social housing activities

+routine maintenance costs

+major repairs expenditure

+other costs of social housing letting

+community /neighbourhood services

+ other charges for support services

= all housing costs

For Derby Homes, this is calculated by deducting the "Activities other than Social Housing" costs of £5.327m and depreciation of £0.352m from total Operating Costs of £47.943m = £42.264m.

Divided by

Total social housing units owned or managed= 13,584

Result = £3,111 (Q1, median £3,690)

It indicates that our overall costs are just under £60 a week although some costs are missing (e.g. some major works on Council housing where costs are directly incurred by the Council and not through Derby Homes).

Value for money (VfM) cont.

Metric 6a – Operating Margin (social housing lettings) %

Good = higher

	£m
+ Operating surplus (social housing lettings)	0.144
Divided by	
+ Turnover from social housing lettings	0.472
Result Q2	30%

Metric 6b: Operating Margin (Overall) %

	£m	Exc LGPS £m
+ Operating (deficit) / surplus (overall)	(1.128)	2.294
- Gain / (loss) on disposal of fixed assets (housing)	-	-
Total	(1.128)	2.294
Divided by		
Turnover (overall)	46.815	46.815
Result Q4	(2.4%)	4.9%

Measure A shows that the Board is now making a significant but normal level of operational surplus on its own properties – this is partly due to the nature of low repair costs in the early years but also because this measure excludes the cost of borrowing (£0.160m). If that is included the position is a small loss as expected and planned. Compared to median of 25.8%, the 30% represents quartile 2 performance.

Measure B shows the overall formal operational surplus inclusive of additional pension fund charges for the year – an alternative measure excluding those is also shown and indicates a more reasonable assessment of the current position. The comparator here does not work as Derby Homes is mainly a managing agent for the Council stock and works at a very low margin on that work rather than at a 'standard' 25% or so for 'normal' RP lettings.

Metric 7: Return on Capital Employed (ROCE)

	£m	Exc LGPS £m
Operating (deficit) / surplus (overall)	(1.128)	2.294
Share of operating surplus / (deficit) in joint ventures or associates	-	-
Total	(1.128)	2.294
Divided by		
Total assets less current liabilities	25.190	25.190
Result	(4.5%)	9.1%
Comparator Quartile (based on median of 3.8%)	4	1

ROCE also makes little sense for our business model where our income stems mainly from management of the Council's properties rather than our own. We therefore inevitably have similar variability in comparators as for metric 4 above.

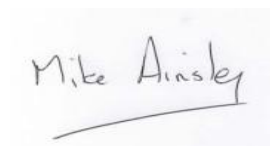
Value for money (VfM) cont.

Summary

The Board is satisfied with the financial and operational performance of the Company during 2019/20.

Approval

This Strategic Report was approved by order of the Board.

A handwritten signature in blue ink that reads "Mike Ainsley". The signature is written in a cursive style and is underlined with a single horizontal stroke.

M Ainsley
Chair

30 July 2020

A handwritten signature in black ink. The signature is highly stylized and cursive, appearing to read "D Enticott".

D Enticott
Secretary

30 July 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBY HOMES

Opinion

We have audited the financial statements of Derby Homes Limited for the year ended 31 March 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of the company's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly 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 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the board members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The board are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information including the Chair's Statement, Report of the Board of Management and Strategic Report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the Board for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Report of the Board have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Report of the Board.

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; 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.

Responsibilities of the board

As explained more fully in the board members responsibilities statement, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Company, as a body, in accordance with 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

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

Date: 3 August 2020

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

Statement of Comprehensive Income Year Ended 31 March 2020

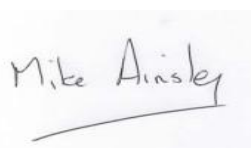
	Notes	2020 £'000	2019 £'000
Turnover	2	46,815	42,320
Operating costs	2	(47,943)	(42,800)
Operating (Deficit)	4	(1,128)	(480)
Interest payable and similar charges	6	(160)	(162)
Pension finance costs	6	(832)	(602)
(Deficit) before taxation		(2,120)	(1,244)
Taxation	7	(14)	(37)
(Deficit) for the year		(2,134)	(1,281)
Other comprehensive income for the year			
Actuarial gain / (loss) on defined benefit obligations – pension scheme	8	18,181	(8,448)
Total comprehensive gain / (loss) for the year		16,047	(9,729)

The notes on pages 39 – 62 form part of these financial statements.

Balance Sheet
At 31 March 2020

		2020 £'000	2019 £'000
Fixed assets			
Housing Properties			
Cost less depreciation		6,902	6,791
Tangible Fixed Assets – Housing		6,902	6,791
Tangible fixed assets - Other		806	629
	9	7,708	7,420
Current assets			
Debtors	11	7,429	5,150
Stock and Work in Progress	12	1,004	374
Bank and cash		15,906	14,480
		24,339	20,004
Creditors: amounts falling due within one year	13	(6,857)	(4,317)
Net current assets		17,482	15,687
Creditors: amounts falling due after one year	14	(5,145)	(5,183)
Net assets before pension liability		20,045	17,924
Defined benefit pension liability	8	(18,955)	(32,882)
Net assets / (liabilities) after pension liability		1,090	(14,958)
Reserves			
Defined benefit pension liability reserve		(18,955)	(32,882)
Designated reserves		18,345	16,224
Revenue reserves		1,700	1,700
Total funds		1,090	(14,958)

These financial statements were authorised and approved by the Board of Directors on 30th July 2020. Signed and dated on behalf of the Board of Directors:



M Ainsley Date 30 July 2020
Chair



D Enticott
Secretary

Date 30 July 2020

The notes on pages 39 - 62 form part of these financial statements.

Statement of changes in equity at 31 March 2019

	Pension reserve £'000	Designated reserve £'000	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2018	(20,851)	13,921	1,700	(5,230)
Comprehensive Income for the year				
(Deficit) for the year			(1,281)	(1,281)
Actuarial (losses) on defined benefit pension scheme	(8,448)			(8,448)
Other comprehensive income for the year	(8,448)	-	(1,281)	(9,729)
Reserve transfers:		(1,281)	1,281	-
Total net current service costs of pension scheme	(2,357)	2,357		-
Total past service cost	(624)	624		-
Total net interest cost on pension scheme	(602)	602		-
Total comprehensive income for the year	(12,031)	2,302	-	(9,729)
Rounding		1		1
Balance at 31 March 2019	(32,882)	16,224	1,700	(14,958)

Statement of changes in equity at 31 March 2020

	Pension reserve £'000	Designated reserve £'000	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2019	(32,882)	16,224	1,700	(14,958)
Comprehensive Income for the year				
(Deficit) for the year			(2,134)	(2,134)
Actuarial gain on defined benefit pension scheme	18,181			18,181
Other comprehensive income for the year	18,181	-	(2,134)	16,047
Reserves transfers:		(2,134)	2,134	-
Total net current service costs of pension scheme	(3,422)	3,422		-
Total net interest cost on pension scheme	(832)	832		-
Total comprehensive income for the year	13,927	2,120	-	16,047
Rounding		1		1
Balance at 31 March 2020	(18,955)	18,345	1,700	1,090

Cashflow Statement Year Ended 31 March 2020

	2020 £'000	2019 £'000
(Deficit) for the year	(2,134)	(1,281)
Interest payable and similar charges	160	162
Pension finance costs	832	602
Taxation	14	37
Cash flows from operating activities deficit for the financial year	(1,128)	(480)
Adjustments for:		
Depreciation of fixed assets - housing properties	131	127
Depreciation of fixed assets – other	221	314
Loss on disposal of fixed assets - other	-	2
Amortised grant (in year)	(32)	(30)
Difference between net pension expense and cash contribution	3,422	2,981
Taxation charge	(14)	(37)
(Increase) / Decrease in trade and other debtors	(2,279)	2,988
(Increase) in stocks & work in progress	(630)	(29)
Increase in trade creditors	36	334
Increase in accruals & provisions	2,504	606
Rounding	-	1
Net cash generated from operating activities	2,231	6,777
Cash flows from investing activities		
Purchase of fixed assets – housing properties	(242)	(332)
Purchases of fixed assets – other	(398)	-
Receipt of grant	50	80
Net cash from investing activities	(590)	(252)
Cash flows from financing activities		
Interest paid	(160)	(162)
Repayment of loans – Derby City Council	(55)	(51)
Net cash used in financing activities	(215)	(213)
Net increase cash and cash equivalents	1,426	6,312
Cash and cash equivalents at beginning of year	14,480	8,168
Cash and cash equivalents at end of year	15,906	14,480

Notes to the Financial Statements

Year Ended 31 March 2020

1. Principal accounting policies

The Company is incorporated under the Companies Act and is registered with the Regulator of Social Housing 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 2020 and these financial statements may be obtained from the address in note 16.

Going Concern

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

The Company's balance sheet shows a net asset position after 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 gain this year. The pension scheme continues to be underwritten by Derby City Council.

Notes to the Financial Statements

Year Ended 31 March 2020

The Board on 30 January 2020, approved the operational budget for 2020/21 and in principal future year budgets through to 2024/25. The budgets do plan for a small annual deficit, funded from reserves built up over previous years.

At the time of drafting the budgets, any financial impact from COVID-19 had not been incorporated. Subsequently the Senior Management Team have been monitoring and forecasting the potential financial impact on Derby Homes and on its cashflow from COVID-19. The Board is regularly briefed on the financial (and operational) impacts from COVID-19 and formally updated at planned Board meetings.

Given the current strength of the balance sheet, which includes strong liquidity from the £15.9m cash at bank holding, plus the strong partnership that exists with the company owner – Derby City Council, the Board believe that, while uncertainty exists, this does not pose a material uncertainty that would cast doubt on Derby Homes' ability to continue as a going concern. The Board, therefore, consider it appropriate for the accounts to be prepared on a going concern basis.

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 based on 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.

Notes to the Financial Statements

Year Ended 31 March 2020

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 2019/20	de minimis values – 2018/19
Housing Properties:			
Kitchens	Over 20 years	Nil	Nil
Bathrooms	Over 25 years	Nil	Nil
Boilers	Over 13 years	Nil	Nil
Heating system	Over 26 years	Nil	Nil
Roof	Over 60 years	Nil	Nil
Wiring	Over 40 years	Nil	Nil
Doors	Over 30 years	Nil	Nil
Windows	Over 30 years	Nil	Nil
Non-componentised	Over 80 years	Nil	Nil
Land	Not depreciated	-	-
Computer equipment	Over 3 years	£5,000	£5,000
Motor vehicles	Over 7 years	£5,000	£5,000
Plant & machinery	Over 5 years	£5,000	£5,000
Office equipment	Over 10 years	£5,000	£5,000

Where individual items are purchased at less than the above de Minimis values they will be written off to revenue. Any individual item above the de Minimis value will be capitalised and written off over the economic life on a straight-line basis with no residual income assumed.

Notes to the Financial Statements

Year Ended 31 March 2020

Impairment

The Company's housing portfolio is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit the asset concerned. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use. In the case of the Company's housing portfolio, the value in use is taken to be equal to the insurance reinstatement cost of the property concerned, which is management's assessment of the depreciated replacement cost of the asset.

Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to income and expenditure.

In the year ended 31 March 2020, no impairments were recognised.

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 based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the country (England) 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.

The liability recognised in the balance sheet in respect of the defined benefit plan is the assessed 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.

Notes to the Financial Statements

Year Ended 31 March 2020

Pension costs cont.

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.

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 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 continues to use FRS102 – Section 28.

Stocks and Work in Progress

Stocks relate to materials held on van stocks at year end and are valued at the lower of cost or net realisable value. Work in Progress relates to ongoing new build / refurbishment works to properties and is valued at cost. Any impairment identified would immediately be recognised in the statement of consolidated income.

Notes to the Financial Statements

Year Ended 31 March 2020

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.

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 our own 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 (RCGF) 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. Derby Homes has no RCGF at present as it has not sold any SHG funded properties.

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 2020

Reserves

General Reserve of £1.7m represents a small contingency.

Designated Reserve of £18.345m. 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. 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 HCA – now Homes England (HE), which is used to fund the acquisition and development of housing properties and their components. Grants of £2.5m (£1.8m from HE), received in respect of housing properties held at 31 March 2020 are 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 £2.259m at March 2020. The HCA imposes a future obligation to recycle such grant if the properties are disposed of. The potential liability to HE, in the event of a repayment requirement at 31 March 2020, would be £1.69m plus interest.

Key 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 relate to the following:

Useful lives of property, plant and equipment

Depreciation is provided 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.

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.

Notes to the Financial Statements

Year Ended 31 March 2020

Social Housing Grants

These 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.

Impairment of social housing properties

If there are indicators of impairment, this triggers the performance of an impairment review of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The members have considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost.

Notes to the Financial Statements

Year Ended 31 March 2020

2. Particulars of turnover and operating costs

All works were undertaken within the United Kingdom.

2020	Turnover £'000	Operating Costs £'000	Operating Surplus / (deficit) £'000
Social housing lettings (Note 3)	472	328	144
<u>Other Social Housing Activities</u>			
Management & maintenance of Derby City Council housing stock	30,152	30,138	14
Capital works to Derby City Council housing stock	10,805	10,803	2
Development work on Derby Homes and Derby City Council properties	90	408	(318)
Social Housing Grant recognised (Note 3)	32	-	32
Housing management and / or maintenance to other Landlords properties	913	939	(26)
<u>Activities other than Social Housing Activities</u>			
Maintenance of DCC public buildings and management of homeless hostel and other activities	4,351	5,327	(976)
	46,815	47,943	(1,128)

2019	Turnover £'000	Operating Costs £'000	Operating Surplus / (deficit) £'000
Social housing lettings (Note 3)	437	326	111
<u>Other Social Housing Activities</u>			
Management & maintenance of Derby City Council housing stock	29,058	28,612	446
Capital works to Derby City Council housing stock	9,054	8,717	337
Development work on Derby Homes and Derby City Council properties	55	291	(236)
Social Housing Grant recognised (Note 3)	30	-	30
Housing management and / or maintenance to other Landlords properties	179	167	12
<u>Activities other than Social Housing Activities</u>			
Maintenance of DCC public buildings and management of homeless hostel.	3,507	4,687	(1,180)
	42,320	42,800	(480)

Notes to the Financial Statements Year Ended 31 March 2020

3. Social Housing Lettings – General Needs properties

	2020 £'000	2019 £'000
Rents (net of void loss)	420	388
Service charge income	43	40
Other income	9	9
	472	437
Amortised government grant	32	30
Turnover from social housing lettings	504	467
Expenditure		
Housing Management	60	57
Service Charge related costs	43	41
Routine Maintenance	80	71
Property insurance	9	11
Other supplies & services	6	20
Depreciation	130	126
Operating Expenditure on social housing lettings	328	326
Operating surplus on Social Housing lettings pre interest charges	176	141
Void losses	3	3

Interest paid on property loans in 2019/20 was £160,000 (2018/19 £162,000).
Any subsidy on social housing, in the early years of new properties, is consistent with the long-term business plan.

4. Operating deficit

	2020 £'000	2019 £'000
The operating deficit is stated after charging:		
Depreciation - annual charge housing properties	131	127
Depreciation - other tangible fixed assets	221	316
Auditor's remuneration:		
- audit services	22	21
- tax services	1	1
- other non-audit services	1	1
Defined benefit pension cost (per note 8)	6,345	5,703

Notes to the Financial Statements

Year Ended 31 March 2020

5. Information regarding directors and employees

Directors and executive officers' emoluments are as shown below.

	2020 £	2019 £
Directors' emoluments		
Chair of Derby Homes – M Ainsley	8,754	8,782
Chair of Governance Committee – J Shepherd	3,217	1,370
Vice Chair of Derby Homes – RGH MacDonald	4,022	4,022
Audit Committee Chair – IM MacDonald	3,286	3,217
	<u>19,279</u>	<u>17,391</u>

Executive Officers' emoluments

During the period there were four permanent executive officers.

These executive officers are listed on page 2.

	2020 £'000	2019 £'000
Aggregate emoluments	390	295
Pension contributions	82	62
	<u>472</u>	<u>357</u>
Emoluments paid to the highest paid executive officer	122	119
Pension contributions – highest paid executive officer	25	25
	<u>147</u>	<u>144</u>

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 2020

Average number of persons employed (full time equivalents)

	2020 Number	2019 Number
Housing management	283	269
Central services and regeneration	17	14
Maintenance and repairs	259	248
	559	531

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

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

	2020 £'000	2019 £'000
Wages and salaries	14,911	13,838
Social security costs	1,409	1,310
Pension	7,200	6,305
	23,520	21,453

Salary bandings for all employees earning over £60,000

	2020 Number	2019 Number
£60,000 to £70,000	1	-
£70,001 to £80,000	-	-
£80,001 to £90,000	3	2
£90,001 to £100,000	-	-
£100,001 to £110,000	-	-
£110,001 to £120,000	-	1
£120,001 to £130,000	1	-
	5	3

6. Interest payable and similar charges

	2020 £'000	2019 £'000
Loans from Derby City Council	160	162
Net interest on net defined benefit liability	832	602

Notes to the Financial Statements

Year Ended 31 March 2020

7. Taxation

	2020 £'000	2019 £'000
Current tax for the year	<u>14</u>	<u>37</u>
	14	37
Factors affecting tax charge for year	2020 £'000	2019 £'000
The tax assessed for the year is lower than (2019: lower than) the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:		
(Loss) on ordinary activities before tax	<u>(1,288)</u>	<u>(612)</u>
(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	(245)	(116)
Effects of:		
Non-taxable income and deductions	259	153
Total tax charge for the year	<u>14</u>	<u>37</u>

The Company is a wholly owned subsidiary of Derby City Council and most 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 (2019: 0%).

Notes to the Financial Statements

Year Ended 31 March 2020

8. Pensions

The company is a scheduled 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 £2,923,000 (2018/19 - £2,722,000). The minimum contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. This was set at 13.4% for 2017/20. Derby Homes contributed this year at a higher rate of 20.9% reflecting the estimated underlying cost.

The Actuary has now undertaken a new triennial valuation as at 31 March 2019. As a result, the funding level at that point had increased to 106%, resulting in a minimum required contribution level of 14.4% plus a sum of £290,000 a year to be made for the next three years.

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 are those such as rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions can significantly influence the value of the liability recorded and annual defined benefit expense.

The Company expects to contribute around £2.3m to its defined benefit pension scheme in 2020/21. The employer contribution rate planned for 2020/21 is 14.4% plus £290,000 (2019/2020 – 20.9%). The Company – with the support of Derby City Council – had increased employer contributions over the past few years, from 15% in 2014/15, to 20% from 2015/16 and to 20.9% from 2017/18 to try and reduce the scale of pension fund deficits and improve funding levels over time. This strategy has worked and indeed has resulted in funding levels above the 100% level required. Employee contribution rates for 2019/2020 ranged from 3.25% to 11.4% (2018/19 – 3.25% to 11.4%).

At the year-end there were no outstanding employer and employee contributions (2018/19 - £306,955).

Notes to the Financial Statements

Year Ended 31 March 2020

The most recent valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2020 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 31/03/19.

Key assumptions used:	Valuation at	
	2020	2019
	%	%
Discount rate	2.3	2.4
Expected rate of salary increases	2.5	3.0
Future pension increases	1.8	2.5

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:

	2020	2019
	Years	Years
Male	21.6	21.9
Female	23.7	24.4

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

Male	22.6	23.9
Female	25.1	26.5

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 12%	11.749
Salary Increase Rate	Increase by 0.5%	Increase by 2%	1.817
Pension Increase Rate	Increase by 0.5%	Increase by 10%	9.789

Notes to the Financial Statements

Year Ended 31 March 2020

Reconciliation of present value of plan liabilities	2020 £'000	2019 £'000
At the beginning of the year	(115,334)	(96,432)
Current service costs	(6,345)	(5,079)
Past service costs	-	(624)
Interest costs	(2,843)	(2,675)
Plan participants contributions	(905)	(841)
Benefits paid	1,465	1,053
Changes in financial assumptions	13,553	(10,736)
Changes in demographic assumptions	4,412	-
Other experience	6,769	-
	<hr/>	<hr/>
At the end of the year	(99,228)	(115,334)
	<hr/>	<hr/>
Reconciliation of fair value of plan assets	2020 £'000	2019 £'000
At the beginning of the year	82,452	75,581
Interest income on plan assets	2,011	2,073
Plan participants contributions	905	841
Contributions made	2,923	2,722
Benefits paid	(1,465)	(1,053)
Return on assets excluding amounts included in net interest	(6,553)	2,288
	<hr/>	<hr/>
At the end of the year	80,273	82,452
	<hr/>	<hr/>
	2020 £'000	2019 £'000
Fair value of plan assets	80,273	82,452
Present value of plan liabilities	(99,228)	(115,334)
	<hr/>	<hr/>
Net pension scheme liability	(18,955)	(32,882)
	<hr/>	<hr/>

Notes to the Financial Statements Year Ended 31 March 2020

Amounts recognised in other comprehensive income are as follows:	2020 £'000	2019 £'000
Included in administrative expenses:		
Current service costs	6,345	5,079
Past service costs – impact of McCloud	-	624
	<u>6,345</u>	<u>5,703</u>

Amounts recognised in other finance costs		
Net interest costs	<u>832</u>	<u>602</u>

Analysis of actuarial profit / (loss) recognised in Other Comprehensive Income

Return on assets excluding amounts included in net interest	(6,553)	2,228
Changes in financial assumptions	13,553	(10,736)
Changes in demographic assumptions	4,412	-
Other experience	6,769	-
	<u>18,181</u>	<u>(8,448)</u>

Composition of plan assets	2020	2019
Equities	60%	62%
Bonds	25%	22%
Property	9%	8%
Cash	6%	8%
	<u>100%</u>	<u>100%</u>

	2020 £'000	2019 £'000
Actual return on plan assets	<u>(5,432)</u>	<u>4,361</u>

Notes to the Financial Statements Year Ended 31 March 2020

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						
At 1 April 2019	7,470	-	7,470	22	2,364	9,856
Additions	242	-	242	-	398	640
Disposals	-	-	-	(22)	-	(22)
At 31 March 2020	7,712	-	7,712	-	2,762	10,474
Depreciation						
At 1 April 2019	679	-	679	22	1,735	2,436
Disposals	-	-	-	(22)	-	(22)
Charge for the year	131	-	131	-	221	352
At 31 March 2020	810	-	810	-	1,956	2,766
Net book value						
At 31 March 2019	6,791	-	6,791	-	629	7,420
At 31 March 2020	6,902	-	6,902	-	806	7,708

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

The Social Housing Properties Held for Letting are Freehold, except for 47 which are leasehold from Derby City Council as freeholder.

The five flats held at 119 Green Lane, Derby are jointly held between Derby Homes and Revive, with an option for Derby Homes to buy at a discount in 2037.

No interest has been capitalised.

Notes to the Financial Statements

Year Ended 31 March 2020

10. Expenditure on works to existing properties

	2020 £'000	2019 £'000
Amount capitalised	-	-
Amount charged to income and expenditure account	80	70
	80	70

11. Debtors: amounts falling due within one year

	2020 £'000	2019 £'000
Rent and service charge arrears	15	15
Less: Provision for doubtful debts	(11)	(11)
	4	4
Amounts due from parent Company	6,796	4,597
Trade debtors	409	89
Social Housing Grant	25	-
Other taxation	-	239
Prepayments and accrued income	195	221
	7,429	5,150

12. Stocks and Work in Progress

	2020 £'000	2019 £'000
Raw materials and consumables	399	374
Work in Progress	605	-
	1,004	374

Notes to the Financial Statements Year Ended 31 March 2020

13. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Amounts owing to parent Company	3,460	907
Loans due to parent	56	54
	<u>3,516</u>	<u>961</u>
Deferred capital grant – note 15	32	31
Trade creditors	1,261	1,225
Corporation tax	21	25
Other taxation and social security	549	390
Sinking Fund balances	86	78
Accruals and deferred income	1,392	1,607
	<u>6,857</u>	<u>4,317</u>

Included within the Amounts owing to parent Company is £56,095 (2018/19 £53,708) relating to property loans.

14. Creditors: amounts falling due after one year

	2020 £'000	2019 £'000
Deferred Capital grant – note 15	2,227	2,210
Amounts owing to parent Company – New Build Loan	2,918	2,973
	<u>5,145</u>	<u>5,183</u>
Loan Repayments are due as follows:		
Between 1 and 2 years	59	56
Between 2 and 5 year	192	184
In more than 5 years	2,667	2,733

Included within the creditors falling due after more than 1 year is a loan of £1.052m (2018/19 - £1.058m) charged at 5.06% interest rate and a loan of £0.104m (2018/19 - £0.112m) charged at 6% interest rate. Other loans relating to the development at Chesapeake (at 4.05%) have £0.186m (2018/19 - £0.192m) outstanding over one year and £1.576m (2018/19 - £1.611m) 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 land and buildings.

Notes to the Financial Statements Year Ended 31 March 2020

15. Deferred Capital Grant

	2020 £'000	2019 £'000
At 1 st April	2,241	2,191
Grants received in year	50	80
Released to income in year	(32)	(30)
At 31 st March	<u>2,259</u>	<u>2,241</u>

16. 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, 839 London Road, Derby DE24 8UZ.

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 2FS.

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

17. Capital Commitments

	2020 £'000	2019 £'000
Commitments contracted but not provided for		
- Vehicles	-	47
Commitments approved by the Board but not contracted for		
- Properties held for letting	-	-

Notes to the Financial Statements Year Ended 31 March 2020

18. 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 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.

During the year Derby Homes paid a £12,140 grant (2018/19: £9,164) to DACP Ltd, a voluntary organisation for tenants, community groups and other partner agencies. Robert MacDonald, a Director of Derby Homes is also a Board Member and current Chair of the DACP. Dennis Rees, a Director of Derby Homes until 28 November 2019 was also a Board Member of the DACP until 17 December 2019.

Maria Murphy is also a Board Member with Social Landlords Crime & Nuisance Group – trading as Resolve Antisocial Behaviour. During the year services totalling £5,387 (2018/19: £1,490) were procured at arm's length and on commercial terms.

Derby Homes supplied at arm's length and on commercial terms £15,141 (2018/19: £10,476) minor building repair works to Lees Brook Community School, Derby. Mike Ainsley, Chair of Derby Homes is also a governor at the school.

Derby Homes supplied at arm's length and on commercial terms £nil (2018/19: £882) minor building repair works to Chaddesden Park Primary School, Derby. Shaun Bennett, Executive Officer, is also a governor at the school.

19. Operating Leases

At the end of the year amounts due under operating leases were as follows:

	2020	2019
	£'000	£'000
Amounts due less than 1 year	88	77
Between 2 and 5 years	134	140
Over 5 years	-	-
	222	217

Notes to the Financial Statements Year Ended 31 March 2020

20. Accommodation in Management and Development

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

	2020	2019
General Needs Housing		
- Social Rent	33	33
- Affordable Rent	61	59
- Intermediate Rent	1	-
- Market Rent	5	5
Total owned	100	97
Accommodation managed for others	12,835	12,954
	12,935	13,051
Leaseholders managed	649	622
Total owned and managed accommodation	13,584	13,673

Properties managed on behalf of other organisations were:

	2020	2019
Derby City Council	12,757	12,874
The Guinness Trust	33	33
War Memorial Village (Derby) Ltd	45	47
	12,835	12,954

21. Net debt reconciliation - Year ended 31 March 2020

	1 April 2019 £'000	Cash flows £'000	Acquisition & disposal of subsidiaries £'000	New finance leases £'000	Other non-cash changes £'000	31 March 2020 £'000
Cash at bank and in hand	14,480	1,426	-	-	-	15,906
Short term loans	-56	2	-	-	-	-54
Long term loans	-2,973	55	-	-	-	-2,918
Net assets	11,451	1,483	-	-	-	12,934

Notes to the Financial Statements Year Ended 31 March 2020

22. Emissions and Energy Consumption

During the year, in the delivery of the service, Derby Homes consumed an estimated 1,193 carbon tonnages and 3,086,000 kwh in gas and electricity. This is detailed in the table below:

Type of resource	Carbon tonnage	KWH
Diesel used in van fleet	535	-
Fuel used for business mileage in employees own cars	60	-
Gas used in offices and common rooms	411	2,237,694
Electricity used in offices and common rooms	172	845,585
Water used in offices and common rooms	15	-
	1,193	3,083,279
Total properties – owned and managed in year	13,584	13,584
Carbon tonnes consumed per 1,000 properties owned and managed	88	
KWH consumed per 1,000 properties owned and managed		226,979

The calculation is based on the methodology prescribed in the Government document issued by the Department for Business, Energy and Industrial Strategy and the Department for Environment, Food & Rural Affairs, a copy of which can be found from the following link:

<https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2019>

During the year, Derby Homes continued its feasibility review into the viability of replacing some / all its diesel van fleet with electric vans when each van is next renewed. A trial electric van is planned for 2020/21. Whilst this review is ongoing, the replacement / addition of new diesel vans is limited to just those vans that are beyond economic repair, long term lease buyouts or as a result of additional works.

We will continue to monitor and look to minimise these emissions and energy consumptions, where practical, within the delivery of the Environmental Policy.

23. Post Balance Sheet Event

The outbreak of the Covid-19 pandemic is an in-year event reflected in the financial statements to 31 March 2020. The pandemic has impacted on the operations of the company and this is expected to continue into the 2020/21 financial year. From a financial perspective activity has reduced due to lockdown which may reduce income however, as detailed in note 1, the Directors are satisfied that the company is a going concern.