ITEM 5

DERBY HOMES LIMITED

(A Company limited by guarantee)

Company No. 4380984

Report and Financial Statements

Year ended 31 March 2017

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Board Members, Executive Officers, Advisors and Bankers

Directors

I M MacDonald	(appointed 28.02.02)
R M Webb	(appointed 27.07.04; resigned 09.06.05; re-appointed 25.05.06)
M Ainsley (Chair)	(appointed 29.09.11)
R G H MacDonald	(appointed 27.11.14)
J M Shepherd	(appointed 27.11.14)
F Hussain	(appointed 25.05.06; resigned 25.05.07; re-appointed 20.05.15)
A Raju	(appointed 20.05.15; resigned 18.05.16)
C Reid	(appointed 17.11.15)
I Veitch	(appointed 26.11.15)
J P Bayliss	(appointed 20.02.02; resigned 09.05.06; re-appointed 25.05.07; resigned 04.05.12; re-appointed 18.05.16)

Executive officers
M J Murphy
D Enticott
S Bennett

Secretary
D Enticott

Registered Office
839 London Road
Derby
DE24 8UZ

Principal Solicitors
Anthony Collins Solicitors LLP
134 Edmund Street
Birmingham
B3 2ES

Auditor
BDO LLP
2 Snowhill
Birmingham
B4 6GA

Bankers
Lloyds Bank
43 Irongate
Derby
DE1 3FT

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

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

Derby Homes Limited
Company No. 4380984
(A Company limited by guarantee)

Chair's Statement for the year ended 31 March 2017

As Chair of Derby Homes, I am delighted to once again present our annual accounts. As a 100% owned subsidiary company of Derby City Council (ALMO), but also a Registered Provider of Social Housing (RP), we are one of only eight such organisations across the country. We see this as a positive place to be, with the ability to partner with both the Council and the Homes and Communities Agency (HCA) to deliver both good services to our tenants but also new homes for both the Council and on our own account.

Social housing has been under severe pressure over the last couple of years since the former Chancellor's reduction of rents by 1% a year from 2016 for four years was announced in 2015. This process reduced the Housing Revenue Account's (HRA) income by around 13% from what was previously expected, requiring the Council and ourselves to take stock of the position and adjust our ambitions.

The Council of course has also been under severe financial pressure and has asked us to help it to sustain some critical housing services, which our Board has agreed to as these services are vital in maintaining an overall excellent housing service for the people of Derby. As a result we are welcoming new employees transferring from the Council in the areas of housing options and advice where they will be able to work even closer with their colleagues in Derby Homes to try and sustain the excellent service that they had previously delivered for the Council.

We continue to explore with the Council ways in which we can deliver ever more value for the Council and tenants. To do that we have to continually search for efficiencies in operation and to sustain low costs. Our overall costs continue to be very low for our sector (as demonstrated in the value for money assessment) and this helps to sustain low rents which help to reduce the cost of our service to tenants.

As welfare reform continues – with the benefit cap reduction to £20,000 a year reducing some tenants' income severely, and the prospect of a cap on benefit support to other tenants from 2019, we will continue to face an ever tightening financial position. We have planned for this and have built up reserves to try and smooth the transition over the next few years.

We are therefore able to sustain our ambitious plans to continue to replace as many properties sold through the Right to Buy as possible, and to continue to support the Council's front line housing services.

M. A

Mike Ainsley
Chair of Derby Homes

Date :

Derby Homes Limited
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Report of the Board of Management

Year ended 31 March 2017

The Board present their annual report and the audited financial statements for the year ended 31 March 2017.

Principal Activities
The core business of Derby Homes is the management of and investment in, Derby City Council's social housing stock, comprising of 13,148 properties, as delegated by the Council in an agreement under s27 of the Housing Act 1985.

Derby Homes also directly provides services to 579 leaseholders of the Council and has agreements with external landlords to manage and maintain properties. These landlords include Guinness Northern Counties Housing Association, War Memorial Village (Derby) and other landlords. Derby Homes also provides other services to the Council, including housing options, homelessness and Derby Advice.

Derby Homes is a Registered Provider (RP) and Investment Partner (IP) with the Homes and Community Agency (HCA) and has 85 properties for rent which it owns in its own right. Additionally, Derby Homes has acquired 5 flats in a Victorian building which it partly owns and manages in partnership with Revive Healthy Living. Derby Homes has an option to purchase these 5 flats outright in 2037, but is considering an earlier settlement with Revive and the Council.

Review of Business
2016/17 was another extremely successful year for Derby Homes.

Financial performance 2016/17
In financial terms, the balance sheet of the company has appeared to weaken significantly as a result of pension fund assumptions – in particular the assumed discount rate reducing from 3.6% to 2.6% this year. This has materially contributed to the total comprehensive loss for the year of £2.3m (2016 – surplus of £10.4m). The loss is entirely due to the impact of changes to the pension fund, with the deficit increasing from £15m to just under £20m. This nominal loss of £5m has been offset by an operational surplus of just over £2.5m.

As a result the overall net worth of Derby Homes is now -£5.9m compared to -£3.6m a year ago. As stated in last year's accounts when the pension fund deficit reduced significantly, the deficit is highly volatile and could easily reverse in future. The underlying operational surplus, however, has been more stable and demonstrates that the company can continue to operate effectively within its income.

It is expected that the operational surplus will reduce significantly over the next couple of years as the impact of taking on additional responsibilities adds to our costs. This year's operational surplus is slightly higher than the planned £0.7m, partly due to lower than expected payments in the first year of our IT transformation programme, which is not expected to be repeated. A slight delay in the commencement of the new contract with Capita and associated new laptops and lower IT costs in the meantime amount to around £0.55m of one off savings.

Report of the Board of Management for the year ended 31 March 2017 cont.

The Council continues to support Derby Homes through underwriting our pension fund deficit, enabling us to continue as a 'going concern'. We expect to be able to continue to deliver services and sustain our financial future with the Council's continued support.

Effects of material estimates and judgements upon performance
The key swing financially this year has been the change of the assumed discount rate within the pension fund deficit which reduced from 3.6% to 2.6%. This increased the pension fund deficit by around £20m. The actuarial report stresses that the position remains highly volatile and represents the position as at 31.3.17 only. A variation of 0.5% in this key assumption will affect our nominal net worth reported in the accounts by around £10.5m. At the 2016 actuarial revaluation, our pension fund was assessed as 97% funded – 20% higher than the snapshot position at 31.3.17.

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

Value for Money (VfM) self-assessment
The overall VfM strategy adopted by both the Council and the Board has worked and continues to work in delivering a VfM service for tenants and outcomes in terms of replacement homes, decent homes and a good repair service for a reasonable rent. Rents themselves remain good VfM and provide a significant direct social benefit, plus considerable additional 'social value' generated by the overall operation of Council housing in Derby. Indeed the reduction of rents imposed by the government has increased this benefit for tenants and central government further. The Board is satisfied that the Company meets the overall VFM self-assessment requirements. The full VfM self-assessment is set out on pages 21-28.

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.

Compliance with HCA Governance and Financial Viability Standard
Derby Homes considered its compliance with the HCA's Governance and Viability standard at its meeting in May 2017, and passed the following resolution:

In its view, the Derby Homes Board complies with the HCA Governance & Viability standard. A copy of this is available at www.derbyhomes.org

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

Report of the Board of Management for the year ended 31 March 2017 cont.

Going Concern

At its meeting on 27 July 2017, 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 (5 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 has concluded its fourth review of housing management arrangements since 2002, and has concluded once again that Derby Homes has a useful function to play in delivering the Council's objectives, in particular in housing services, and has agreed to transfer more staff (Housing Options and Advice) to Derby Homes over the next year. We have also agreed to help the Council more directly by subsidising the provision of housing facilities that the Council can no longer afford to support including Milestone House (homeless shelter) and a third sector provided domestic violence service.

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

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

Assessment of the effectiveness of internal control

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

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. 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
- an ongoing process for identifying, evaluating and managing significant risks faced by the Company
- comprehensive budgeting systems
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- setting targets to measure financial and other performance information and reporting.

Report of the Board of Management - year to 31 March 2017 cont.

The Company is a partner in the Central Midlands Audit Partnership which provides internal audit to the Company and other public sector bodies. Internal audit's work is based on their independent risk assessment and complies with the CIPFA code of practice for internal audit. The Head of Audit and Risk Management reports the results of internal audit work to the Finance Director and Company Secretary and the Audit Committee. The Head of Audit and Risk Management also provides an independent opinion on the adequacy and effectiveness of the system of internal financial control, which is informed by:

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

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

Employment of Disabled Employees

- **Recruitment**

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

- **Training**

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

- **Employees becoming disabled during employment**

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

Report of the Board of Management - year to 31 March 2017 cont.

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. To support this, consultation with employees or the recognised trade unions has continued at all levels, with the aim of ensuring views are taken into account when decisions are made that are likely to affect their interests. Communication with all employees continues through electronic internal newsletters, team meetings and employee briefings.

- **Consultation with employees**

We have a formal system of collective bargaining and recognise three trade unions for consultation and negotiation. Formal JCC meetings are held three times a year. Minutes of these meetings are made available to all employees.

In addition Derby Homes operates an Employee Diversity Forum. This group consists of a number of employees who have shown an interest in diversity, their brief is to provide feedback to the Executive Team on key issues. 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. We undertake regular employee surveys. The latest survey had positive results.

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

Over the year there are two or three full company briefings which staff attend. Included in one of these sessions is usually an update on the current financial position of Derby Homes, its main objectives, its relationship with Derby City Council and wider sector issues like Welfare Reform which naturally dictate future service delivery plans and budgets.

Report of the Board of Management - year to 31 March 2017 cont.

Board members' responsibilities

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

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

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

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

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

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, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the board members. The board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the Board of Management - year to 31 March 2017 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

M. C

Chair

Date 27 July 2017

Derby Homes Limited
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Strategic Report for the year ended 31 March 2017

Objectives and strategies to achieve objectives

Derby Homes' mission statement is:
"To deliver a high quality housing service for Derby"

Derby Homes' strategic objectives are:

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

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

Business model

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

The strategy of delivering as many homes as possible towards the Council's targets has to be balanced against retaining a prudent overall financial position for the longer term. The expectation is that the balance sheet should grow over the medium term by a further £27m of assets, funded by around £15m of borrowing from the Council.

The current level of surplus (even after excluding the impact of the pension fund deficit) is unlikely to be sustained into the future, as a combination of reduced income from the management fee for Council housing and increased investment into new homes both impact negatively.

Reserves excluding pension fund should continue to increase marginally over time, although there will be a gradual shift from cash backed reserves to reserves held in bricks and mortar. Cash flow is likely to be the key constraint on Derby Homes' activities in future, but the cash flow position remains positive for the moment, and able to withstand reasonable stress testing.

The strategy for the delivery of new homes was reviewed following the reduced capacity resulting from lower future rental income as a result of rent cuts and the Local Housing Allowance cap that will apply from 2019 onwards. It is becoming increasingly difficult to deliver new social housing at social housing target rents, and consideration has to be given to new models of operation with the support of the Council to deliver more new homes in whatever way works.

Strategic Report for the year ended 31 March 2017 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 31. Following the processing of pension fund transactions the business returned a deficit after taxation for the year of £2.3m. This was after a charge of £0.948m which arose from accounting adjustments for pensions, as disclosed in Note 8 to the financial statements plus £0.167m relating to interest payable on loans from the Council.

	£'000	£'000
Management account operating surplus		2,821
Impairment of housing property valuation		(198)
FRS 102 adjustments:		
Add back of employer pension contributions paid in year	2,468	
Less current service costs	(2,865)	
		(397)
Operating surplus		2,226
Less net interest on pensions		(551)
Less other interest payable		(167)
Less taxation		(12)
Surplus for the year		**1,496**
Actuarial (loss) on defined benefit obligations – pension scheme		(3,807)
Total comprehensive loss for the year		(2,311)

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

The number of directly owned properties has increased to 90 this year, with a further 6 being developed now and plans for more starts in the future. Further schemes could be delivered with the support of the Council and Board. The pattern of recent years of increasing the fixed asset base of homes, in Derby Homes Limited, in both number and value terms should continue. At the start of HRA reform in 2012, the Company had under £0.7m fixed assets and £3.6m of reserves excluding pension fund deficit. The equivalent figures are now £7m and £14m and the fixed asset base should increase further during the next few years as the stock grows and the reserves are invested into further homes to rent. The debt associated with this strategy remains affordable.

Strategic Report for the year ended 31 March 2017 cont.

Operational Performance

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

The table below is a sample of key performance indicators comparing performance for 2016/17 with the previous two years.

Indicator	Description	2014/15 Achieved	2015/16 Achieved	2016/17 Achieved
DH Local 24 (BVPI 63)	Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings.	73.0	73.3	73.9
DH Local 43 (HMP210)	Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account (HRA) dwellings	100.1%	100.0%	100.2%
DH Local 1	Rent arrears of current tenants as a % of rent roll.	1.89%	1.94%	1.87%
DH Local 27	Tenant Satisfaction with Landlord (All)	85.7%	90.0%	89.9%
DH Local 29 (BVPI 75a/b/c)	Tenant Satisfaction with views taken into account	67.6%	79.0%	84.2%
National Indicator 158	Non-Decent Local Authority Dwellings (percentage)	0%	0%	0%
DH Local 21 (BVPI 212)	Average time taken to re-let local authority housing.	22.1 days	23.0 days	25.3 days

Strategic Report for the year ended 31 March 2017 cont.

Performance Highlights 2016/17

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

While spending has been restrained, this has not been at the expense of performance. Derby Homes has met the majority of its targets and has seen overall tenant satisfaction sustain at 89.9% (2015/16 90%).

Satisfaction with views taken into account has increased to 84.2% (2015/16 79%), and the Rent is seen as value for money by 88.5% (2015/16 87%).

We continue to meet 100% targets for electrical and gas safety testing and expect to continue to do so. Repairs consistently meet response times (over 99%) and high satisfaction levels (99% positive when surveyed via text on last repair, 89.5% via alternative survey methods), while costs remain low (see value for money section).

Missed targets continued to be evident on homelessness preventions where there has been a considerable difficulty managing higher level of demand as a result of lower Council resources being available to deliver solutions.

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

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

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

Despite the financial and welfare reform climate, current Derby City Council tenant arrears have decreased by £50,000 or (approx. 5%). This represents a much better performance than was expected, as a result of excellent performance from the relevant teams along with further delays to the implementation of Universal Credit (UC). Eviction numbers for 2016/17 were 49 (2015/16: 63), evidencing the commitment to supporting tenants to sustain their tenancy. Since January 2016, some new claimants are now on UC. Since December 2016 the benefit cap was reduced significantly from £26,000 a year to £20,000, and this is expected to start to impact on future performance.

Overall, in most areas performance this year remains excellent and above expectations.

Strategic Report for the year ended 31 March 2017 cont.

Derby Homes was elected by its regional peers to serve on the National Federation of ALMOs (NFA) Board for a four year term in March 2017 to represent Midlands ALMOs along with Nottingham City Homes.

Awards

CIPFA Innovations Award
Our Annual Report and Accounts 2015/16 won this national award in the category 'Achievement in Financial Reporting and Accountability' ahead of the other nominees - Transport for London, British Business Bank, Wales Audit Office and FRC group.

The judges said: "This was a highly innovative and imaginative example of financial reporting, with the extensive involvement of young people and stakeholders from the local community. It showed particular originality and use of social media to engage with its target audience." This award spans the entire public sector and we are particularly pleased to have won for our novel approach to accountability.

Heating and Ventilation News Awards
Our joint work with Vaillant (our gas boiler supplier) in delivering a targeted deep clean and makeover to a couple of streets in Normanton won a national award for collaboration, beating nominations for Heathrow Airport and Birmingham New Street station amongst others. This project also won a TPAS regional award for community engagement and active participation.

ROSPA President's Award
Derby Homes has now received the ROSPA Gold for Health and Safety for eleven consecutive years and this year was awarded our second ROSPA President's Award for Occupational Safety. The last year has seen a real focus on health and wellbeing in the workplace.

Housemark ASB accreditation
Our ASB service is Housemark accredited.

Building Communities in the East Midlands Awards
We also won the Health and safety award for our multi-faceted approach towards health and safety across the organisation.

Volunteering
Derby Homes, works alongside partner organisations to facilitate approx. 60 active volunteers. Roles include volunteering on the Tenant Panel (Scrutiny), to people volunteering in their community rooms running sessions from Bingo to Arm Chair Exercise classes, Coffee Mornings, Lunch Clubs, 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.

Strategic Report for the year ended 31 March 2017 cont.

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

The Welfare Reform Act and resultant changes to the Housing Benefit system – in particular Universal Credit as currently planned, which may result in additional pressure on the Company's housing management services. Departments particularly affected are those handling arrears and direct debit processing, both of which have had additional resources added to them.

The reduced welfare benefit cap has also impacted negatively on our financial plans. The welfare cap has impacted only in a limited way until now on a few families, but will be a more significant issue in future as benefits have been largely frozen and the cap reduced from £26,000 to £20,000 a year, reducing hugely some tenants' ability to pay their rent. Derby Homes is partially protected from this impact in the first place as it is Council rent that may not be recovered, but there will inevitably be increased pressure on our costs of recovery as it becomes more difficult to pay the rent for tenants. The numbers of tenants affected by the cap has risen from 38 in December 2015 to 120 in March 2017 and is expected to increase further.

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

The forced sale of Council houses that are deemed 'higher' value is now to be undertaken through a levy on Council housing. While there is no direct impact on Derby Homes' stock, the Council may have to sell homes which would impact on Derby Homes through a reduced fee income, or have to fund the levy through other means which may involve further reductions in capital spending which may impact on Derby Homes. This policy is not set to start until 2018 at the earliest and details of the exact scheme are awaited from Government.

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

The Company's financial position remains robust and has significantly strengthened over the last year in both operating and overall terms. The current level of operating surplus excluding pension fund adjustments means that sufficient funding is available to sustain the existing operations of the Company and fund the development of up to 250/300 homes – despite the increased risks outlined above.

Strategic Report for the year ended 31 March 2017 cont.

Investment and improvement for the future

If the pension fund deficit of £20m is excluded – as it should eventually be filled through the contributions being made - the Company has reserves of £14m and it still intends to invest funds in supporting the creation of more affordable housing for Derby or other objectives and issues that arise from time to time.

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

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

The majority of the reserves are available to support new homes owned by Derby Homes. Such investments remain protected from the Right to Buy and forced sales / levy on 'higher' value homes. This means that investments are possible where they may not be financially viable for the Council alone. Even if the Right to Buy does eventually apply in future to these homes, the government will need to compensate the Board in full for the loss of the asset. Such compensation would be significantly higher than the equivalent retention of Right to Buy receipts for Council housing, meaning that Derby Homes owned properties will often be a better investment than Council housing that is at risk of the Right to Buy. The exception will be where the Council needs to recycle Right to Buy funding, which is currently not permitted to be used on homes delivered by any Council company. As this is also currently an increasing amount, the balance of stock delivered may well shift back towards Council direct ownership in the short term at least.

Principal risks and uncertainties

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

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

Strategic Report for the year ended 31 March 2017 cont.

Each risk is reviewed regularly and was reassessed with scores updated in March 2017, scrutinised by the Audit Committee and approved by the Board. Within the Strategic Risk Register no high risk issues are identified, with seven amber risks. On the Operational risk Register there are no high risk issues and four amber risks.

Financial and non-financial key performance indicators

Derby Homes has had another successful year. Not only have the majority of performance targets been met, this has been done cost effectively and the efficiencies generated in day to day operations will be reinvested in expanding the housing stock from 90 towards 300.

Our own new homes are all fitted with sprinkler systems as standard. The in house new build team continues to deliver homes mostly directly for the Council rather than for Derby Homes' own stock to reflect the need to utilise higher Right to Buy receipts and to deliver homes as part of the grant agreement with the HCA. The Council's stock has been enhanced by 24 further homes; of which 21 are new build homes, including 9 homes that were built by Derby Homes' new build team – the other three were purchased. The additions to the stock were however, once again outweighed by the continuing loss through the Right to Buy – this year of 176 homes. Derby Homes also refurbished 6 properties in Nightingale Road on our own account through our new build team, as well as doing considerable work on other works in progress, some of which were delivered early in 2017/18.

Rents remain low compared to market levels, leading to demand remaining high and low levels of voids – under 1% at any one time - in Council housing in Derby. There is a real need to change the balance of the overall stock in Derby away from 3 bedroom homes. Of particular need are 4+ bed homes and smaller ones. There is also a need to try and deliver more accessible homes which tend to be more expensive to deliver and therefore more difficult to fund. To do this, Derby Homes and the Council are converting a number of 3 bedroom homes into larger ones to rebalance the supply and demand to a small extent, and concentrating new delivery on smaller or specialist properties.

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

Strategic Report for the year ended 31 March 2017 cont.

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

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

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

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

The Company Governance Arrangements include:

- the Memorandum and Articles of Association
- Partnership or management 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

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

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

Strategic Report for the year ended 31 March 2017 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, tenant and leaseholder representatives.

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

The primary function of the Audit Committee is to:

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

Modern Slavery Act 2015

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

Persons of Significant Control

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

Derby City Council is clearly a PSC for Derby Homes.

Summary

The Board is satisfied with the financial and operational performance of the Company during 2016/17.

Approval

This Strategic Report was approved by order of the Board

M. Ainsley

M Ainsley
Chair

27 July 2017

D Enticott
Secretary

27 July 2017

Value for money (VfM) self-assessment

Derby Homes has consistently delivered efficiency gains and has the delivery of excellent, value for money services to tenants as a central strategic objective (Great Value).

History of efficiency gains and strategic approach

Derby Homes has a culture of seeking VfM throughout the organisation to make sure we meet the needs of all of our stakeholders. This is shown in financial and operational performance and also by:

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

Every year further efficiency gains are made and this is evidenced through the budget process. Further efficiency gains made this year include:

- Reduced senior management team
- Investment in asbestos manager delivering asbestos training.
- Investment in new lifts reducing on-going maintenance
- Increased income from capital works overheads
- Reduced spending on alarms/emergency equipment (by in-housing)
- Housing management savings

Further savings are planned for 2017/18, including:

- Further alarm spending reduction
- Further housing management / customer service cost reductions
- IT support savings (through DCC direct)
- Additional service charge income
- Planned reduced spending on cyclical maintenance

Overall the income we are likely to receive from the Council in the future is being reduced significantly. The Board is confident that it should be able to deliver the required savings to sustain good service for tenants. The scale of new efficiency gains and savings each year is, however, starting to reduce as it gets harder to deliver further savings without impact on tenants' services.

Investment of savings

The scope for reinvestment of savings for the 2017/18 is much less than in previous years. What savings have been made have been used to support key Council initiatives relating to housing services under severe financial and operational pressures. These include Milestone House, Refuge and homelessness services.

Value for money self-assessment cont.

New Homes

The Board approved a strategy in January 2013 of investing as much as possible into subsidising the creation of as many new homes as possible. This strategy remains. Discussion with the Council about future strategy for Derby Homes may change the extent of this ambition, especially as the Council cannot allocate Right to Buy 141 replacement funds to Derby Homes and may need to invest more directly in Council housing stock rather than Derby Homes owned stock as a result of the need to use Right to Buy 141 funds which are increasing with higher sales levels. This remains positive for Derby Homes as we will manage those new homes and in many cases will build, or help to build them too.

Derby Homes now has 90 homes directly owned, with a further six under construction and continues to plan to increase this to around 300 depending on funding and site availability. Current and future plans include:

- Delivery of the HCA approved plan at Wood Road now on site (HCA Affordable Homes Programme).
- Purchase of affordable homes as a result of the joint venture vehicle for Osmaston (former Rolls-Royce factory site) between the Council and Keepmoat – expected to be around 30 to 40 more homes.
- Further sites as agreed with the Council.

In terms of VfM, the strategy recognises that these assets will not be financially viable on their own and require subsidy. Many have the support of the Council (through land) and the HCA (through grant) which reduces the investment required by Derby Homes and therefore stretches overall plans. This support is critical to Derby Homes' ambitions to deliver more homes, but works counter to any formal measure of VfM. There is therefore a need to factor in the social value of a home.

Overall, new homes investment is good for the public purse in the very long term (debt should be repaid within about 50 years) and helps to sustain lower rents and lower spending on benefits. The value of such homes should increase over time and generate long term gains in overall value. The short term subsidy required can be covered from the funds that we have set aside for this purpose.

Derby Homes could of course do more, with more direct support through grants or if government rules allowed Councils to recycle more directly and locally their Right to Buy receipts in companies owned by Councils – something that is currently not permitted.

Land remains an issue, along with the extent of the Right to Buy receipts needing to be used directly by the Council. Numbers of Right to Buys has increased further this year to 176 (1.3% of overall housing stock). This will reduce our income from fees for management and maintenance next year (2018/19) by 0.9% under the Council's agreed formula to fund Derby Homes' core activity.

Value for money self-assessment cont.

Social Value
A simple measure of the VfM of new homes delivered through the Council or RPs including Derby Homes is to compare the rent paid by tenants (average £78 a week) with the median rent for the city. This results in a saving to either the tenant or benefits of between £25 (at the comparable LHA rent for a 2 bed property) and £49 (at the full private sector median rent) a week, or the equivalent of between £17m and £34m a year. Around 51% of this gain results in lower rental elements within the housing benefit system, with the other 49% for tenants. In other words, if rents were set by the Council at average market levels, rents would rise by almost £50 a week and this would cost paying tenants £17m a year (and a further saving to the government of another £17m a year).

The long term public benefit underpins the Board's commitment to new homes. The Right to Buy and impending higher value sales undermine this positive case for direct Council investment, and the Board has therefore agreed to assist with overall development targets for the Council as much as it reasonably can, where the rules that apply to ALMOs or RPs differ from those that apply to Councils. This flexibility in development remains available to the Council and will help to sustain the long term future of Council housing in Derby.

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

Planned improvement – Our Estates Pride programme delivered a further £0.6m of improvements across the city. Key works completed included:

- Further improvements to car parking facilities. There were 50 individual hardstanding's installed to enable off street parking in tenants gardens. We also resurfaced residents' communal car parks at Lathkill Road, Ellesmere Avenue, Laurie Place bungalows and Rebecca House.
- New improved bin stores to the Burton Road flats, which included a recycling facility.
- Landscaping and fencing works to various sites including Ashworth Avenue, Audrey Drive, Hollis Street, Stratford Road
- Path renewals to Cavan Drive, Southcroft, Stockbrook Street and Ellesmere Avenue (to allow a gas main to be installed to flats),
- Structural improvements to the boundary wall at Fairdene Court and the bridges at Lambe and Rauche Court
- New secure external Mobility Scooter stores at Filbert Walk and Humber Close, including charging points.

Value for money self-assessment cont.

A positive impact on the local labour market through decent working conditions and opportunities for apprentices in particular – we pay the minimum wage not an apprentice rate for apprentices, but for all our employees. We have continued to manage to avoid compulsory redundancies and have a positive relationship with our Trade Unions. We have also implemented the Living Wage for all our non apprentice employees, and are looking to require this of suppliers in future contracts. Our new build team has also engaged a number of local builders who give us good value and retain the work within Derby wherever possible.

Fire Safety impacts – we remain committed to installing sprinklers in all our new homes where this is technically feasible, and have hard wired smoke detectors in all homes. We are working in partnership with Derbyshire Fire and Rescue Service to support their national and local campaigns to get sprinklers fitted as standard in all new homes. A few years ago, Derby Homes funded the University of Dundee to undertake research into smoke alarms' effectiveness in waking children. Significant progress on this has been made this year, with a working model that appears to be much more effective than standard alarms. If this now leads to production of useful units, this investment will have paid off not just for Derby but for the wider community.

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

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

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

Value for money self-assessment cont.

Apprentice Scheme

Our apprentice scheme continues to deliver positive results for both the apprentices and our own performance. At the end of March we had 20 apprentices employed. While we cannot guarantee posts for all, we are managing the situation through vacancy control to identify options for those within their final year. 14 apprentices have found employment with us this year upon completing their apprenticeships. We are keen to ensure that having invested in the apprentices we should retain their skills and knowledge. Where this is not possible we will support them to gain employment with other employers.

Building new homes

Our partnership with the Council in producing new homes is creating high quality, affordable homes for local people. Our approach of building as many homes as possible ourselves means that most of those jobs are local, either within our own workforce or with small, local building firms, helping to retain and recycle the money within the local economy. At the end of 2016/17, 312 completions and 24 properties on site have been made towards the target. The rate of progress has slowed over the last year but we are expecting it to pick up again to around 60 a year from now on.

Youth Intervention Work

Derby Homes continues to support and commission Enthusiasm – a local youth work charity. This service provides essential youth work and one to one mentoring on estates. We also run a Junior Wardens scheme that involves younger children in taking responsibility for their communities and also provides them with basic life skills essential for their development. Mash Up Theatre now runs our Junior Wardens scheme and was instrumental in helping young people to shape our award winning Annual Report last year.

Partnership Working

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

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

Value for money self-assessment cont.

Benchmarking / Financial returns

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

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

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

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

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

Rents and operating margins are in the lower quartile, and operating costs are low. Derby operates a low cost model which does not translate into poor quality – indeed our stock continues to improve in energy efficiency terms, with our SAP rating now standing at 73.9 compared to around 70.7 for our comparator Housemark group. This equates to a saving for tenants in their energy bills of around £500k a year, and Co2 emission reductions of about 5,300 tonnes better than our comparator group.

Value for money self-assessment cont.

Measure	Derby 2017/18 budget	Derby 2016/17 budget	Change	Capita Med'n	Capita position (out of /24)	CIPFA Green	CIPFA Red	CIPFA Result
Income								
Rent and service charges per home £	4,451	4,476	-0.6%	4,736	17			
Costs								
Management costs / turnover % (DH+DCC)	22%	24%	-2%	-	-	< 20%	>25%	Amber
Maintenance costs per home £	1,284	1,248	3%	-	-	<£1,200	>£1,500	Amber
Operating costs per home £	2,323	2,261	3%	2,428	8			
Operating Surplus per home £	1,087	1,078	1%	1,514	6			
Operating Surplus / turnover %	22%	24%	-2%	21%	11	>20%	<10%	Green
Capital spend per home £	795	768	4%	1,369	2			
Debt and Ratios								
Return on Capital Employed	3.3%	3.5%	-6%	1.8%	2			
Debt per home £	17,554	17,422	1%	17,233	14			
Interest rate on debt %	4.6%	4.6%	0%	3.7%	21	<5.5%	>7%	Green
Debt/Debt+Reserves%	52%	44%	8%	37%	16			
Reserves /Turnover %	81%	80%	1%	-	-	>20%	<5%	Green
Debt / Asset Value (EUVSH) %	50%	60%	-10%	-	-	<60%	>80%	Green
Use of the Debt Cap	96%	96%	0%	90%	19			
Interest Cover	1.2	1.4	-14%	1.5	21	>1.2	<1.05	Green

The figures overall reflect the strategic approach adopted by the Council and Derby Homes to the management of the HRA. HRA costs are about median while rent is lower than the median, with a lower but still adequate operating margin as a result. The debt is below average at ~£17,500 a home and is around 50% of the Existing Use Value for Social Housing (EUVSH) – which itself is only 42% of the Open Market Value (average £84k), indicating that there would be significant capacity to support further borrowing in future if the investment conditions are right. The gross yield is 11% reflecting the very low asset values in the plan as a result of valuing on a EUVSH basis (about £35k a home).

The average return on capital employed is 3.3%, again reflecting the approach to lower returns in order to support lower rents and better service to tenants.

Value for money self-assessment cont.

The rent cuts have directly impacted on the margins above – the loss of 1% of rental income has squeezed the margin by 2% and Derby Homes has had to reduce budgets for management by 2%. The overall HRA margin is now about £2m (or £150 a property) and has fallen by half this year. As two more years of rent reductions are due, it is expected that this will turn into a loss over that time before gradually returning towards a break even position. The HRA has sufficient reserves to sustain this pattern without eliminating services to tenants, but clearly the financial position is becoming much more challenging over time.

The HCA now publishes an annual assessment of costs per property in housing associations. For 2015/16 these were as follows:

	Upper Quartile	Median	Lower Quartile
Management	£ 740	£1,020	£1,320
Service Charge costs	£ 240	£ 360	£ 600
Maintenance	£ 790	£ 970	£1,180
Major Repairs	£ 540	£ 810	£1,080
Other costs	£ 80	£ 210	£ 450
Total	**£3,120**	**£3,570**	**£4,380**
Exc. Major Repairs	£2,580	£2,760	£3,300

The total cost planned in the HRA for DCC and DH together for 2017/18 (two years later) is £3,349 per property. Within that total is £795 for Major repairs, meaning that the core revenue cost per property excluding major repairs (which are more of an investment than a cost) is lower than the upper quartile for Registered Providers a year ago (£2,554 or £49 a week per property).

These low costs are crucial in sustaining low rents of an average of £78 a week.

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

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

We have audited the financial statements of Derby Homes Limited for the year ended 31 March 2017 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the board and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 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 prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing in England 2015.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the 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.

Based on our knowledge and understanding of the company and its environment obtained during the course of the audit we have identified no material misstatements in the strategic report or the report of the Board.

Matters on which we are required to report by exception

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

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

BDO LLP

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

Date: 7 August 2017

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

Statement of Comprehensive Income
Year Ended 31 March 2017

	Notes	**2017**	2016
		£'000	£'000
Turnover	2	**38,325**	37,297
Operating costs	2	**(36,099)**	(35,241)
Operating Surplus	4	**2,226**	2,056
Interest payable and similar charges	6	**(167)**	(190)
Pension finance costs	6	**(551)**	(766)
Surplus before taxation		**1,508**	1,100
Taxation on surplus	7	**(12)**	-
Surplus for the year		**1,496**	1,100
Other comprehensive income for the year			
Actuarial (loss) / gain on defined benefit obligations – pension scheme	8	**(3,807)**	9,343
Total comprehensive (loss) / income for the year		**(2,311)**	10,443

The notes on pages 35 - 58 form part of these financial statements.

Derby Homes Limited
Company No. 4380984
(A Company limited by guarantee)

Balance Sheet
At 31 March 2017

		2017	2016
		£'000	£'000
Fixed assets			
Housing Properties			
Cost less depreciation		**6,141**	5,924
Tangible Fixed Assets – Housing		**6,141**	5,924
Tangible fixed assets - Other		**818**	1,036
	9	**6,959**	6,960
Current assets			
Debtors	11	**7,123**	6,507
Stock and Work in Progress	12	**307**	80
Bank and cash		**7,465**	7,065
		14,895	13,652
Creditors: amounts falling due within one year	13	**(2,684)**	(3,848)
Net current assets		**12,211**	9,804
Creditors: amounts falling due after one year	14	**(5,211)**	(5,248)
Net assets before pension liability		**13,959**	11,516
Defined benefit pension liability	8	**(19,869)**	(15,114)
Net liabilities after pension liability		**(5,910)**	(3,598)
Reserves			
Defined benefit pension liability reserve		**(19,869)**	(15,114)
Designated reserves		**12,259**	9,816
Revenue reserves		**1,700**	1,700
Total funds		**(5,910)**	(3,598)

These financial statements were authorised and approved by the Board of Directors on 27July 2017. Signed and dated on behalf of the Board of Directors:

M Ainsley
Chair

Date 27/07/17

D Enticott
Secretary

Date 27/7/17

The notes on pages 35 - 58 form part of these financial statements.

Derby Homes Limited
Company No. 4380984
(A Company limited by guarantee)

Statement of changes in equity at 31 March 2017

	Pension reserve £'000	Designated reserve £'000	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2016	**(15,114)**	**9,816**	**1,700**	**(3,598)**
Comprehensive Income for the year				
Surplus for the year		1,496		1,496
Actuarial losses on defined benefit pension scheme	(3,807)			(3,807)
Other comprehensive income for the year	(3,807)	1,496	-	(2,311)
Reserve transfers:				
Total net current service costs of pension scheme	(397)	397		-
Total net interest cost on pension scheme	(551)	551		-
Total comprehensive income for the year	**(4,755)**	**2,444**	**-**	**(2,311)**
Rounding		(1)		(1)
Balance at 31 March 2017	**(19,869)**	**12,259**	**1,700**	**(5,910)**

Statement of changes in equity at 31 March 2016

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

Derby Homes Limited
Company No. 4380984
(A Company limited by guarantee)

Statement of Cash Flows
Year Ended 31 March 2017

	2017 £'000	2016 £'000
Surplus for the year	**1,496**	1,100
Interest payable and similar charges	**167**	190
Pension finance costs	**551**	766
Taxation	**12**	-
Cash flows from operating activities surplus for the financial year	**2,226**	2,056
Adjustments for:		
Depreciation of fixed assets - housing properties	**113**	103
Depreciation of fixed assets – other	**273**	273
Net fair value losses on properties	**198**	-
Amortised grant (in year)	**(33)**	(28)
Net adjustment to historic grants and depreciation	**-**	(10)
Difference between net pension expense and cash contribution	**397**	947
Taxation charge	**(12)**	-
Increase in trade and other debtors	**(616)**	(1,998)
(Increase) / Decrease in stocks & work in progress	**(227)**	22
(Decrease) / Increase in trade creditors	**(245)**	307
Decrease in accruals & provisions	**(922)**	(594)
Rounding	**-**	2
Net cash generated from operating activities	**1,152**	1,080
Cash flows from investing activities		
Purchase of fixed assets – housing properties	**(528)**	(255)
Purchases of fixed assets – other	**(55)**	(431)
Receipt of grant	**45**	68
Net cash from investing activities	**(538)**	(618)
Cash flows from financing activities		
Interest paid	**(167)**	(190)
Repayment of loans – Derby City Council	**(47)**	(61)
Net cash used in financing activities	**(214)**	(251)
Net increase cash and cash equivalents	**400**	211
Cash and cash equivalents at beginning of year	**7,065**	6,854
Cash and cash equivalents at end of year	**7,465**	7,065

Notes to the Financial Statements
Year Ended 31 March 2017

1. Principal accounting policies

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

Legal Status

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

Basis of accounting

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

Financial reporting standard 102 - reduced disclosure exemptions

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

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

This information is included in the consolidated financial statements of Derby City Council as at 31 March 2017 and these financial statements may be obtained from the address in note 16.

Notes to the Financial Statements
Year Ended 31 March 2017

Going Concern

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

Turnover

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

Operating Costs

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

Overheads and Administrative Costs

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

Tangible fixed assets and depreciation

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

Void Periods

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

Notes to the Financial Statements
Year Ended 31 March 2017

Properties

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

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

Depreciation

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

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

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

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

Notes to the Financial Statements
Year Ended 31 March 2017

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 2017, an impairment of £198,000 was recognised relating to 6 properties. Prior to the impairment, the carrying value of the properties was £637,915.

Taxation including deferred tax

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

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

Notes to the Financial Statements
Year Ended 31 March 2017

Pension costs

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements
Year Ended 31 March 2017

Pension costs (cont)

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

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

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

Debtors

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

Cash and cash equivalents

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

Creditors

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

Value Added Tax (VAT)

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

Notes to the Financial Statements
Year Ended 31 March 2017

Government grants

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

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

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

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

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

Reserves

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

Designated Reserve of £12.259m. This reserve holds the balance of funds available as approved by the Board. This is intended to subsidise investments in new build homes where Derby Homes are the substantive owner. A number of sites have been identified and are being considered for development / acquisition and further schemes will follow over time as opportunities arise. The intention is to use these funds to meet any revenue shortfall in the initial years of any new investment above that budgeted for and / or cover any immediate impairment charge that may arise on the properties.

Notes to the Financial Statements
Year Ended 31 March 2017

Contingent Liabilities

Derby Homes receives grant from the Homes and Communities Agency, which is used to fund the acquisition and development of housing properties and their components. Grants of £2.3m (£1.663m from the HCA) from all sources, received in respect of housing properties held at 31 March 2017 was credited to reserves in respect of adoption of 'deemed' cost. These grants are amortised in line with accounting policy and has an outstanding balance of £2.165m at March 2017.

The HCA imposes a future obligation to recycle such grant if the properties are disposed of. The potential liability to the HCA, in the event of a repayment requirement at 31 March 2017, would be £1.663m plus interest.

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

Judgments in applying accounting policies and key sources of estimation uncertainty

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

Useful lives of property, plant and equipment

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

Social Housing Grant

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

Notes to the Financial Statements
Year Ended 31 March 2017

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.

Impairment of social housing properties

The extent to which there have been indicators of impairment triggering 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 2017

2. Particulars of turnover and operating costs

All works were undertaken within the United Kingdom.

2017	Turnover £'000	Operating Costs £'000	Operating Surplus / (deficit) £'000
Social housing lettings (Note 3)	420	474	(54)
Other Social Housing Activities			
Management & maintenance of Derby City Council housing stock	27,312	24,859	2,453
Capital works to Derby City Council housing stock	8,173	8,173	-
Development work on Derby Homes and Derby City Council properties	(7)	209	(216)
Social Housing Grant recognised (Note 3)	33	-	33
Housing management and / or maintenance to other Landlords properties	182	160	22
	35,693	**33,401**	**2,292**
Activities other than Social Housing Activities			
Maintenance of DCC public buildings and management of homeless hostel and other activities	2,212	2,224	(12)
	38,325	**36,099**	**2,226**

2016	Turnover £'000	Operating Costs £'000	Operating Surplus / (deficit) £'000
Social housing lettings (Note 3)	414	271	142
Other Social Housing Activities			
Management & maintenance of Derby City Council housing stock	26,947	24,935	2,012
Capital works to Derby City Council housing stock	7,579	7,624	(45)
Development work on Derby Homes and Derby City Council properties	90	248	(158)
Social Housing Grant recognised	27	-	27
Housing management and / or maintenance to other Landlords properties	236	162	74
	34,879	**32,969**	**1,910**
Activities other than Social Housing Activities			
Maintenance of DCC public buildings and management of homeless hostel.	2,004	2,001	3
	37,297	**35,241**	**2,056**

Notes to the Financial Statements
Year Ended 31 March 2017

3. Social Housing Lettings – General Needs properties

	2017 £'000	2016 £'000
Rents (net of void loss)	**374**	380
Service charge income	**37**	34
Other income	**9**	-
	420	414
Amortised government grant	**33**	27
Turnover from social housing lettings	**453**	441
Expenditure		
Housing Management	**56**	48
Service Charge related costs	**37**	34
Routine Maintenance	**29**	57
Bad debts	**-**	-
Property insurance	**27**	22
Other supplies & services	**14**	6
Impairment of housing properties	**198**	-
Depreciation	**113**	104
Operating Expenditure on social housing lettings	**474**	271
Operating (deficit) / surplus on Social Housing lettings pre interest charges	**(21)**	170
Void losses	**3**	2

Interest paid on property loans in 2016/17 was £167,000 (2015-16: £190,000). The overall subsidy on social housing, in the early years of new properties, is consistent with the long term business plan.

4. Operating surplus

	2017 £'000	2016 £'000
The operating surplus is stated after charging:		
Depreciation - annual charge housing properties	**113**	103
Depreciation - exceptional charge housing properties	**-**	98
Depreciation - other tangible fixed assets	**273**	273
Impairment of housing properties	**198**	-
Auditor's remuneration:		
- audit services	**18**	18
- tax services	**2**	2
- other non-audit services	**1**	1
Defined benefit pension cost (per note 8)	**2,865**	3,233

Notes to the Financial Statements
Year Ended 31 March 2017

5. Information regarding directors and employees

Directors and executive officers' emoluments are as shown below.

	2017	2016
	£	£
Directors' emoluments		
Chair of Derby Homes – M Ainsley	**8,781**	8,990
Cadine Reid	**114**	-
Vice Chair of Derby Homes – D Rees to 26.11.15	**-**	3,168
Vice Chair of Derby Homes – RGH MacDonald	**4,002**	1,334
Audit Committee Chair – IM MacDonald	**3,201**	3,201
	16,098	16,693

Executive Officers' emoluments

During the period there were three permanent executive officers.

These executive officers are listed on page 2.

	2017	2016
	£'000	£'000
Aggregate emoluments	**270**	269
Pension contributions	**54**	54
	324	323
Emoluments paid to the highest paid executive officer	**111**	110
Pension contributions – highest paid executive officer	**22**	22
	133	132

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 2017

Average number of persons employed (full time equivalents)

	2017 Number	2016 Number
Housing management	**222**	219
Central services and regeneration	**10**	9
Maintenance and repairs	**239**	231
	471	459

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

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

	2017 £'000	2016 £'000
Wages and salaries	11,858	11,213
Social security costs	1,079	761
Pension	3,431	3,977
	16,368	15,951

Salary bandings for all employees earning over £60,000	**2017 Number**	2016 Number
£60,000 to £70,000	-	-
£70,001 to £80,000	2	2
£80,001 to £90,000	-	-
£90,001 to £100,000	-	-
£100,001 to £110,000	-	1
£110,001 to £120,000	1	-

6. Interest payable and similar charges

	2017 £'000	2016 £'000
Loans from Derby City Council	**167**	190
Net interest on net defined benefit liability	**551**	766

Notes to the Financial Statements
Year Ended 31 March 2017

7. Taxation on surplus

	2017 £'000	2016 £'000
Current tax on surplus for the year	**12**	-
	12	-

Factors affecting tax charge for year	**2017 £'000**	2016 £'000
The tax assessed for the year is lower than (2016: lower than) the standard rate of corporation tax in the UK of 20% (2016 : 20%). The differences are explained below:		
Surplus on ordinary activities before tax	**1,508**	1,100
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 : 20%)	**302**	220
Effects of:		
Non-taxable income and deductions	**(290)**	(220)
Total tax charge for the year	**12**	-

The Company is a wholly owned subsidiary of Derby City Council and the majority of income is derived from services provided to the Council. HM Revenue and Customs has confirmed that transactions between ALMOs and their Councils do not amount to trading and, accordingly, any surplus or deficit arising thereon is outside the scope of corporation tax. As a result of this, the effective rate of tax is 0% on these transactions (2016: 0%).

Notes to the Financial Statements
Year Ended 31 March 2017

8. Pensions

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

During the year, the Company paid employer contributions of £2,468,000 (2015/16 - £2,286,000). The minimum contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. This was set at 13.4% for 2017/18. Derby Homes contributed at a higher rate of 20% plus £281,000 in 2016/17, and has agreed to increase the core rate to 20.9% for 2017/18.

The Actuary has stated that in order to assess the value of the Employer's liabilities in the Fund as at 31 March 2017 they have rolled forward the value of the Employer's liabilities calculated at the latest formal valuation date, allowing for the different financial assumptions required under the Accounting Standard at the reporting date. In calculating the current service cost they have allowed for changes in the Employer's pensionable payroll as estimated from contribution information provided by Derby Homes. In calculating the asset share, they have rolled forward the Employer's share of the assets calculated at the latest formal valuation date, allowing for investment returns (estimated where necessary), the effect of contributions paid into (estimated where necessary), and estimated benefits paid from, the Fund by the Employer and its employees.

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

The Company expects to contribute over £2.5m to its defined benefit pension scheme in 2017/18. The employer contribution rate planned for 2017/18 is 20.9% (2016/17 - 20%). The Company – with the support of Derby City Council – has increased employer contributions over the past few years, from 15% in 2014/15, to 20% from 2015/16 to try and reduce the scale of pension fund deficits and improve funding levels over time. Employee contribution rates for 2016/17 ranged from 5.5% to 11.4% (2015/16 - 5.5% to 11.4%).

At the year end there were no outstanding employer and employee contributions (2015/16 - £255,523) included within Accruals and Deferred Income figure in Note 13.

Notes to the Financial Statements
Year Ended 31 March 2017

The most recent valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2017 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 31/03/16.

Key assumptions used:	Valuation at 2017 %	2016 %
Discount rate	2.60	3.60
Expected rate of salary increases	2.90	3.20
Future pension increases	2.40	2.20

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:

	2017 Years	2016 Years
Male	21.9	22.0
Female	24.4	24.2

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

Male	23.9	24.1
Female	26.5	26.6

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

	Change in assumption	Overall impact on Employers liability	Approx monetary amount £m
Discount rate	Decrease by 0.5%	Increase by 12%	10.5
Salary Increase Rate	Increase by 0.5%	Increase by 3%	2.4
Pension Increase Rate	Increase by 0.5%	Increase by 9%	7.9

Notes to the Financial Statements
Year Ended 31 March 2017

Reconciliation of present value of plan liabilities	**2017 £'000**	**2016 £'000**
At the beginning of the year	(70,003)	(75,530)
Current service costs	(2,865)	(3,233)
Past service costs		
Interest costs	(2,567)	(2,542)
Plan participants contributions	(712)	(659)
Benefits paid	876	891
Changes in financial assumptions	(18,797)	10,615
Changes in demographic assumptions	922	-
Other experience	6,450	455
At the end of the year	(86,696)	(70,003)

Reconciliation of fair value of plan assets	**2017 £'000**	**2016 £'000**
At the beginning of the year	54,889	52,786
Interest income on plan assets	2,016	1,776
Plan participants contributions	712	659
Contributions made	2,468	2,286
Benefits paid	(876)	(891)
Return on assets excluding amounts included in net interest	7,618	(1,727)
At the end of the year	66,827	54,889

	2017 £'000	**2016 £'000**
Fair value of plan assets	66,827	54,889
Present value of plan liabilities	(86,696)	(70,003)
Net pension scheme liability	**(19,869)**	**(15,114)**

Notes to the Financial Statements
Year Ended 31 March 2017

Amounts recognised in other comprehensive income are as follows:	**2017 £'000**	**2016 £'000**
Included in administrative expenses:		
Current service cost	2,865	3,233
Amounts recognised in other finance costs		
Net interest costs	551	766
Analysis of actuarial profit / (loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	7,618	(1,727)
Changes in financial assumptions	(18,797)	10,615
Changes in demographic assumptions	922	-
Other experience	6,450	455
	(3,807)	9,343

Composition of plan assets	**2017**	**2016**
Equities	72%	70%
Bonds	18%	20%
Property	6%	6%
Cash	4%	4%
	100%	100%

	2017 £'000	**2016 £'000**
Actual return on plan assets	9,634	49

Derby Homes Limited
Company No. 4380984
(A Company limited by guarantee)

Notes to the Financial Statements
Year Ended 31 March 2017

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 2016	5,925	325	6,250	1,805	1,860	9,915
Additions	480	48	528	-	55	583
Impairment	(198)	-	(198)	-	-	(198)
Disposals	-	-	-	(1,538)	-	(1,538)
Completions	325	(325)	-	-	-	-
At 31 March 2017	**6,532**	**48**	**6,580**	**267**	**1,915**	**8,762**
Depreciation						
At 1 April 2016	326	-	326	1,805	824	2,955
Disposals	-	-	-	(1,538)	-	(1,538)
Charge for the year	113	-	113	-	273	386
At 31 March 2017	**439**	**-**	**439**	**267**	**1,097**	**1,803**
Net book value						
At 31 March 2016	5,599	325	5,924	-	1,036	6,960
At 31 March 2017	**6,093**	**48**	**6,141**	**-**	**818**	**6,959**

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

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

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

Notes to the Financial Statements
Year Ended 31 March 2017

10. Expenditure on works to existing properties

	2017 £'000	2016 £'000
Amount capitalised	4	-
Amount charged to income and expenditure Account	29	57
	33	57

11. Debtors: amounts falling due within one year

	2017 £'000	2016 £'000
Rent and service charge arrears	15	15
Less : Provision for doubtful debts	(11)	(11)
	4	4
Amounts due from parent Company	6,130	4,495
Trade debtors	102	320
Other taxation	829	1,614
Prepayments and accrued income	58	74
	7,123	6,507

12. Stocks and Work in Progress

	2017 £'000	2016 £'000
Raw materials and consumables	307	-
Work in Progress	-	80
	307	80

Notes to the Financial Statements
Year Ended 31 March 2017

13. **Creditors:** amounts falling due within one year

	2017 **£'000**	2016 £'000
Amounts owing to parent Company	**609**	1,086
Loans due to parent	**49**	47
	658	1,133
Deferred capital grant	**33**	32
Trade creditors	**678**	923
Corporation tax	**12**	5
Other taxation and social security	**307**	269
Sinking Fund balances	**63**	56
Accruals and deferred income	**933**	1,430
	2,684	3,848

Included within the Amounts owing to parent Company is £49,287 (2015/16 £47,240) relating to property loans.

14. **Creditors:** amounts falling due after one year

	2017 **£'000**	2016 £'000
Deferred Capital grant	**2,132**	2,120
Amounts owing to parent Company – New Build Loan	**3,079**	3,128
	5,211	5,248
Loan Repayments are due as follows:		
Between 1 and 2 years	**52**	49
Between 2 and 5 year	**168**	161
In more than 5 years	**2,859**	2,918

Included within the creditors falling due after more than 1 year is a loan of £1.072m (2015/16 - £1.078m) charged at 5.06% interest rate and a loan of £0.128m (2015/16 - £0.136m) charged at 6% interest rate. Other loans relating to the development at Chesapeake (at 4.05%) have £0.205m (2015/16 - £0.212m) outstanding over one year and £1.673m (2015/16 - £1.702m) on the loan for Elton Road (at 5.5%).

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

Notes to the Financial Statements
Year Ended 31 March 2017

15. Deferred Capital Grant

	2017 **£'000**	2016 £'000
At 1st April 2016	**2,152**	2,220
Grants received in year	**45**	67
Released to income in year	**(33)**	(28)
Rounding	**1**	-
Exceptional write off of amortised grant to March 2015	**-**	(107)
At 31st March 2017	**2,165**	2,152

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 2FT.

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

Notes to the Financial Statements
Year Ended 31 March 2017

17. Capital Commitments

	2017 £'000	2016 £'000
Commitments contracted for but not provided for		
Construction (Wood Road)	**181**	
Vehicles	**56**	-
Commitments approved by the Board but not contracted for		
Construction (Wood Road)	**581**	
Vehicles	**441**	-

In 2016/17, £48,000 was incurred on preliminary works to build 6 homes at the Wood Road site in Chaddesden, Derby. These costs have been capitalised and funded from cash reserves. The balance of the scheme is planned to be funded in 2017/18 from a £110,000 HCA grant, a £333,000 loan from Derby City Council and the remaining £329,000 from cash reserves. The overall budgeted scheme cost is £810,000.

Capital commitments for vehicles will be funded through the use of cash reserves.

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 also members who are elected representatives of Derby City Council. The Company undertakes transactions with the Council at arm's length in the normal course of business. Three Board members are also tenants of the Council and have a standard tenancy agreement and are required to fulfil the same obligations and receive the same benefit as other tenants. There are no significant rental arrears to report in relation to these tenants as at year end.

Notes to the Financial Statements
Year Ended 31 March 2017

During the year a grant payment of £100,000 (2015/16: £100,000) was paid to Enthusiasm Trust Ltd, a charity which works alongside partner agencies to provide support, mentoring and advice to children and young people. Maria Murphy, Managing Director of Derby Homes, became a Trustee and Director with Enthusiasm on 6th September 2016. The payment is supported by a service specification - to deliver support packages and mentoring to those young people who are not in Education, Employment or Training (NEET) or those young people who are in trouble with the Police. The project is overseen with an annual report through to the Operational Board.

During the year Derby Homes provided gas servicing and associated repairs to 189 properties owned by Liversage Trust, an organisation that provide almshouse accommodation in Derby. Roy Webb, a Director of Derby Homes, is also a Trustee with the Liversage Trust. All transactions were at arms length, on commercial terms and totalled £6,956 in 2016/17 (2015/16 : £10,546).

19. Accommodation in Management and Development

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

	2017	2016
General Needs Housing		
- Social Rent	**33**	33
- Affordable Rent	**52**	46
- Market Rent	**5**	5
Total owned	**90**	84
Accommodation managed for others	**13,241**	13,394
Total owned and managed accommodation	**13,331**	13,478
Units under construction	**6**	6

Properties managed on behalf of other organisations were:

	2017	2016
Derby City Council	**13,148**	13,295
Parkview Properties Derby Ltd	**9**	9
Lillian Prime Trust	**0**	6
The Guinness Trust	**33**	33
War Memorial Village (Derby) Ltd	**51**	**51**
	13,241	13,394