

# **DERBY HOMES LIMITED**

(A Company limited by guarantee)

Company No. 4380984

## **Report and Financial Statements**

**Year ended 31 March 2018**



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**Year ended 31 March 2018**

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## **Report and Financial Statements Year Ended 31 March 2018**

### **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 resigned 23.05.18)
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 20.05.15)
C Reid	(appointed 17.11.15 resigned 29.01.18)
I Veitch	(appointed 26.11.15 resigned 15.06.18)
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 resigned 23.05.18)
L Care	appointed 23.05.18
R Cooper	appointed 23.05.18

#### **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.

## **Chair's Statement for the year ended 31 March 2018**

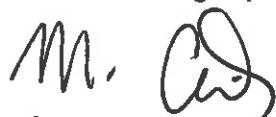
The last year has been a traumatic one for the social housing sector as a result of the Grenfell Tower fire and its aftermath. Fire safety is a matter that we treat as one of our top priorities, and we increased our focus on that area further after the fire at Victory Road that resulted in the deaths of six children in 2012.

Since then we have insisted that wherever practicable all new properties that we build for the Council or ourselves are fitted with sprinklers as standard, we employed our own in house fire safety officer and strengthened further our partnership with the Derbyshire Fire and Rescue Service (DFRS). We jointly held an emergency response to the Grenfell fire, and held an on-site meeting with residents of Derby's sole tower block – Rivermead House – within a couple of days including demonstrating that the DFRS could reach the whole height of the tower with their existing equipment. The block has two staircases/exits, does not have gas central heating (air source heat pumps were installed in 2017) and does not have ACM type cladding. We have had a few smaller fires over the years and in each case the 'compartmentalisation' or containment to the single flat of a fire has worked well. I am proud of Derby Homes' and the DFRS quick response and their approach and that we have together done what we can to reassure tenants of their safety.

Derby Homes' year has again been very successful. Our performance remains strong, against an increasingly challenging financial environment for both tenants and ourselves. Homelessness is an area where we have now been given responsibility by the Council to deliver as good a service as possible under the new Homelessness Act, and 2017/18 allowed us to gear up for that challenge by taking on staff transferred from the Council and create some new roles to help where we can. We have also taken on the whole of Derby Advice to sustain the excellent service that they provide to tenants in claiming relevant benefits. This meant becoming regulated by the Financial Conduct Authority (FCA).

We have once again won numerous awards both regional and national – details are in the report later. Satisfaction levels and the level of empty properties are around the best we have ever achieved and we have made progress in delivering more new homes for both the Council and in our own name. We could and want to deliver more if we can in partnership with the Council.

We remain grateful for the support and funding of Derby City Council without which Derby Homes could not deliver the service it does for tenants. I am confident that we remain as an integral part of the Council's housing strategy and can still sustain our mission to 'deliver a high quality housing service for Derby'.



**Mike Ainsley**  
**Chair of Derby Homes**

Date:

26/07/18

## **Report of the Board of Management**

### **Year ended 31 March 2018**

The Board present their annual report and the audited financial statements for the year ended 31 March 2018.

#### **Mission**

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

#### **Principal Activities**

The core business of Derby Homes is the management of and investment in, Derby City Council's social housing stock, comprising of 13,002 properties of which 70 are shared ownership and 12,932 are for rent, as delegated by the Council in an agreement under s27 of the Housing Act 1985.

Derby Homes also directly provides services to 601 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 Regulator of Social Housing (RSH) – formerly the Homes and Communities Agency (HCA) and has 85 properties for rent which it owns in its own right. Additionally, Derby Homes operates 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**

2017/18 was another successful year for Derby Homes.

#### **Financial performance 2017/18**

In financial terms, the balance sheet of the company has strengthened marginally as a result of pension fund assumptions. The overall headline is a comprehensive gain for the year of £0.7m (2017 – loss of £2.3m). The gain is due to the operational surplus on a management accounting basis of £1.9m offset by the impact of changes to the pension fund. The overall pension fund deficit increased from £20m to just under £21m. This remains repayable over the longer term: the latest actuarial assessment of the fund in 2016 (undertaken on a different basis to accounting) indicated a 96.5% funding level for Derby Homes.

The underlying operational surplus (excluding pension fund impacts) of £1.9m demonstrates that the company can continue to operate effectively within its income, although the amount of that surplus has reduced consistently over recent years with increasing financial pressure as a result of lower rental income to the Council and

## **Report of the Board of Management for the year ended 31 March 2018 cont.**

increased service demands on Derby Homes. The surplus is expected to reduce further next year.

The operational loss reported in the accounts is £1.5m and is due to employer pension charges to the statement of comprehensive income (SOCi) being set much higher than the day to day employer pension fund contribution level of 20.9% - resulting in additional costs of £3m in the SOCi not included in the management accounts during the year.

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 overall net worth of Derby Homes is now - £5.2m compared to - £5.9m a year ago. This net worth is highly volatile – a 0.5% increase in the pension fund discount rate (mostly linked to increased interest rates) would reduce the pension fund deficit – and hence increase the net worth of Derby Homes by over £10m.

### **Qualifying third party indemnity provisions**

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

### **Value for Money (VfM) self-assessment**

The Council and Derby Homes pride ourselves on delivering good overall value for money. Rents remain good VfM and provide a significant direct social benefit, plus considerable additional 'social value' generated by the overall operation of Council housing in Derby.

The Homes and Communities Agency (HCA – now Regulator of Social Housing (RSH)) consulted this year on a new framework for VfM which applies from this year. The essence is to 'optimise benefits' through the pursuit of VfM. This allows the Board and Council to balance the benefits to tenants with wider social benefits and delivery of new homes. These benefits are sometimes in conflict with each other but are always supported by good value for money delivering of core services. Dealing with this balance of objectives is the key to getting our mission right. The RSH now requires VfM metrics to be published and these are set out later in this report.

### **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 2018, and passed the following resolution to say that "In its view, the Derby Homes Board complies with the HCA Governance & Viability standard". 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 2018 cont.**

### **Going Concern**

At its meeting on 26 July 2018, 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 (4 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.

In its fourth review of housing management arrangements since 2002, Derby City Council concluded that Derby Homes has a useful function to play in delivering the Council's housing objectives and transferred more staff (Housing Options in April 2017 and Derby Advice in August 2017) to Derby Homes. We also agreed to help the Council more directly by providing and supporting housing facilities that the Council can no longer provide including Milestone House (homeless shelter) and a third sector provided domestic violence service. These services continue to be supported by Derby Homes.

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 – reviewed and updated in 2017
- an ongoing process for identifying, evaluating and managing significant risks faced by the Company
- comprehensive budgeting systems
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- setting targets to measure financial and other performance information and reporting.



## **Report of the Board of Management - year to 31 March 2018 cont.**

The Company is a partner in the Central Midlands Audit Partnership (CMAP) which provides internal audit to the Company and other public sector bodies. Their work is based on their independent risk assessment compared with our own risk register 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. CMAP also provides an independent opinion on the adequacy and effectiveness of the system of internal financial control, which is informed by:

- the work of 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.

#### **• Employees becoming disabled during employment**

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

### **Employee Involvement**

#### **• Communication with employees**

Derby Homes Limited believes there is a strong link between the provision of quality services to customers and a harmonious working environment, and this is best achieved where effective communications are established with management and employees. Communication with all employees continues through the intranet, team meetings and employee briefings.

## **Report of the Board of Management - year to 31 March 2018 cont.**

- **Consultation with employees**

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

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.

- **Time to change**

Derby Homes signed the Time to Change mental health campaign's Employer Pledge and chose Derbyshire Mind as our Charity of the Year. Both of these have made up part of the 'Our Health Project', a major piece of employee research that examined the risks sustained over employee's careers in various roles. The resulting actions we have implemented ensure we're doing even more to reduce undue long term health risks for our staff.

### **Board members' responsibilities**

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

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

## **Report of the Board of Management - year to 31 March 2018 cont.**

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. 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.

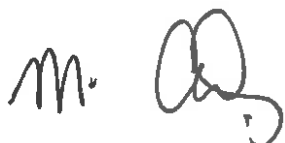
### **Auditors**

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



Chair

Date 26 July 2018

## **Strategic Report for the year ended 31 March 2018**

### **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](http://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 affordable housing development in Derby. To do that, we work with the Council to deliver new homes directly for the Council, but also on our own balance sheet. There is, therefore, a need to plan for the long term, especially when analysing individual proposals for investment in homes.

The current 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 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 a real terms reduction of income from the management fee for Council housing and increased investment into new homes both impact negatively. This has been a pattern over recent years and is expected to continue in the immediate future. The operational surplus (excluding pension fund impacts) has been:

Derby Homes Key figures	Actual £'000 15/16	Actual £'000 16/17	Actual £'000 17/18	Budget £'000 18/19
Turnover £m	37	38.3	38.8	40
Operational Surplus £m	3.0	2.0	1.9	0.5
Surplus % Turnover	8.2	5.3	4.9	1.2
Council Homes managed	13,307	13,149	13,002	12,849
Derby Homes properties owned	84	90	90	118
Reserves £m exc LGPS	11.5	14.0	15.6	16.1
Reserves £m inc LGPS	-3.6	-5.9	-5.2	-5.4

## **Strategic Report for the year ended 31 March 2018 cont.**

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 rent cuts imposed in 2015. 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.

The continued pressure on the Council's general fund is also impacting on the ability of Derby Homes to deliver housing services especially in our ability to reduce homelessness. The Council has been supportive and has enabled us to merge teams to operate more efficiently and effectively and allowed the full transfer of funds relating to homelessness grants. The extent of the increased demand placed on our services as a result of the Homelessness Act 2018 will become evident over the next year and it remains a risk that this may be insufficient.

### **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 26. Following the processing of pension fund transactions the business returned a surplus after taxation for the year of £0.7m. This was after a charge of £3.926m which arose from accounting adjustments for pensions, as disclosed in Note 8 to the financial statements plus £0.165m relating to interest payable on loans from the Council.

	£'000	£'000
Management account operating surplus		<b>1,851</b>
FRS 102 adjustments:		
Add back of employer pension contributions paid in year	2,633	
Less effect of business combinations	(971)	
Less current service costs	(4,958)	
Less past service costs	(62)	
		<u>(3,358)</u>
Operating deficit		(1,507)
Less net interest on pensions		(568)
Less other interest payable		(164)
Less taxation		(25)
Deficit for the year		<u>(2,264)</u>
Actuarial gain on defined benefit obligations – pension scheme		<u>2,944</u>
<b>Total comprehensive surplus for the year</b>		<b><u>680</u></b>

## **Strategic Report for the year ended 31 March 2018 cont.**

Financial performance – after pension factors are removed – continues to be positive. Further savings have continued to 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 housing services for the Council.

The number of directly owned properties remained at 90 but the development of 6 new homes at Wood Road, Chaddesden using HCA funding was almost complete at year end and have been subsequently completed. More schemes could be delivered in future 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 £7.5m and £15.6m and this should increase further as the stock grows. The interest payable on the debt associated with this strategy remains affordable at under £0.2m a year (about 0.5% of turnover). The debt (to the Council) is just over £3m against a book value of homes of just over £6.5m.

### **Operational Performance**

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

The table below is a sample of some key performance indicators comparing performance for 2017/18 with the previous two years.

<b>Indicator</b>	<b>Description</b>	<b>2015/16 Achieved</b>	<b>2016/17 Achieved</b>	<b>2017/18 Achieved</b>
DH Local 24 (BVPI 63)	Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings.	73.3	73.9	73.7
DH Local 43 (HMP210)	Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account dwellings	100.0%	100.2%	99.0%
DH Local 1	Rent arrears of current tenants as a % of rent roll.	1.94%	1.87%	2.15%
DH Local 27	Tenant Satisfaction with Landlord (All)	90.0%	89.9%	91.3%
DH Local 29 (BVPI 75a/b/c)	Tenant Satisfaction with views taken into account	79.0%	84.2%	79.0%
National Indicator 158	Non-Decent Local Authority Dwellings (percentage)	0%	0%	0%
DH Local 21 (BVPI 212)	Average time taken to re-let local authority housing.	23.0 days	25.3 days	24.5 days

## **Strategic Report for the year ended 31 March 2018 cont.**

### **Performance Highlights 2017/18**

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

While spending has been restrained, this has not been at the expense of performance. Derby Homes has met the majority of its targets and has seen overall tenant satisfaction increase to 91.3% (2016/17 89.9%).

Tenant satisfaction with views taken into account was 79.9% (2016/17 84.2%), and the rent charge is seen as value for money by 89% of tenants (2016/17 88.5%).

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.

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 resources being available to deliver solutions.

In other areas, Derby Homes continues to win awards and to support community initiatives including an eleventh year of helping to repair & improve the Skegness Derbyshire Children's Holiday centre. This year's initiative involved our staff, contractors and the Derbyshire Fire and Rescue Service installing sprinkler systems throughout the centre as well as other minor improvements.

We also continued to support Enthusiasm the youth charity, helped 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:

- Void loss - at 0.85% - of which under 0.5% was from active voids.
- customer satisfaction with appointments kept and satisfaction with repairs - all above 99%
- no non decent homes
- no complaints found against us by the Housing Ombudsman.

Despite the financial and welfare reform climate, current Derby City Council tenant arrears have increased by only £135,000 or about 0.2% of the rent roll. This represents a 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 as a result of rent arrears for 2017/18 were only 42 (2016/17: 49), evidencing the commitment to supporting tenants to sustain their tenancy. Since January 2016, some new claimants are now on UC. In December 2016 the benefit cap was reduced significantly from £26,000 a year to £20,000, and this has started to impact on performance. The roll out of full service in July 2018 is expected to worsen performance in this area next year as further pressure on household incomes arises.

## **Strategic Report for the year ended 31 March 2018 cont.**

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

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. Maria Murphy is now the Chair of the NFA's Executive Steering Group which advises their Board.

### **Awards**

#### **ROSPA President's Award**

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

#### **CIPFA Innovations Award**

In 2017, our Annual Report and Accounts 2015/16 won this national award in the category 'Achievement in Financial Reporting and Accountability'. The 2016/17 Annual Report was entered again for this award as it was also innovative insofar as it was put together using free software and online only, saving printing and publication costs. It was once again shortlisted for this year's award making Derby Homes one of very few organisations shortlisted in both years.

We were also nominated in the Community Engagement Project of the year for our overall approach and for the Aspire Wrestling Academy project in particular.

#### **Building Communities in the East Midlands Awards**

Derby Homes won a number of awards this year at these awards:

Social Housing Provider of the year – Awarded for our approach to working with contractors and strong relationships with partners, stakeholders and communities.

Tenant of the Year – for Dennis Rees OBE for his longstanding service to the local and national tenant movements over many years.

Board Member of the year - Kirsty Glover for her contribution as Youth Board member and a positive advocate for the voice of young people in Derby.

#### **TPAS Awards 2018 (Central Region)**

Derby Homes were finalists in the Central Region of the TPAS Awards this year. We won one award and this will also compete as a finalist in the national TPAS Awards in July.

Tenant of the Year - Dennis Rees OBE was shortlisted for his huge contribution to housing services and his continuing voluntary role at Parkland View Extra Care.

Excellence in Community Action - The Aspire Wrestling Academy project won for the delivery of wrestling academy based in a church community hall that uses wrestling



## **Strategic Report for the year ended 31 March 2018 cont.**

as a platform for supporting the socially excluded, those at risk of bullying or experiencing mental health issues.

### **NFA 2018 Photography Competition**

One of ten entries to make the shortlist with a photograph submitted on the theme: "Celebrating Community Champions"

### **Accreditations**

Our ASB service is Housemark accredited.

Derby Advice is regulated by the Financial Conduct Authority

### **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.

### **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 – with full service due to roll out from July 2018, which may result in additional pressure on the Company's housing management services. Departments particularly affected are those handling arrears and direct debit processing. The government fortunately has backed away from its previous proposal to restrict social landlords' rents to Local Housing Allowance levels which would have reduced our ability to develop new homes further.

The reduced welfare benefit cap has impacted negatively on our financial plans. The welfare cap has reduced from £26,000 to £20,000 a year, reducing some tenants' ability to pay their rent. The numbers of tenants affected by the cap has risen from 38 in December 2015 (before the change) to 97 in March 2018 and is expected to increase further. The benefit cap needs to increase in line with at least inflation and preferably rents as otherwise it will become the new main constraint on rents for many providers and lead to increased homelessness if as might be expected the arrears levels of affected tenants increases.

The Right to Buy for Registered Providers remains a voluntary arrangement. The government has now launched a pilot scheme for the Midlands which may be available to the Board. It will be for the Board to determine whether it wishes to take part with respect to its own stock. 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.

## **Strategic Report for the year ended 31 March 2018 cont.**

The forced sale of Council houses that are deemed 'higher' value remains government policy through a levy on Council housing although the start of this policy has been put back at least a further year and is not being introduced in 2018/19. While there would be no direct impact on Derby Homes' stock, the Council may be required to sell homes which would reduce our fee income, or to fund the levy through other means which may involve further reductions in capital or revenue HRA spending which may impact on Derby Homes. This policy is not set to start until 2019 at the earliest. Details are not yet available.

Set against these policies is a hope and expectation that government policy needs to be more positive about Council housing provision if it is to be successful in delivering more homes especially those at a social rent level. The Ministry of Housing, Communities and Local Government (MHCLG) and the Local Government Association (LGA) continue to try and find ways of allowing more freedom and flexibility for Councils and ALMOs to deliver more homes. This would require a positive response from all parts of government which appears increasingly possible.

Derby Homes continues to be financially 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. Should that supply of viable sites and permissions not be forthcoming, Derby Homes would have to reduce costs further. At present there appears to be a substantial ability for the Council to supply potential sites to a level above that which we require to break even.

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 homes should that still be desired – despite the risks outlined above, and potentially more if a positive environment for new homes supports ALMOs as well as Council delivery.

### **Investment and improvement for the future**

If the pension fund deficit of £21m is excluded – as it should eventually be filled through the contributions being made - the Company has reserves of £15.6m 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 250, 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. Current plans are to meet these as they arise, depending on the scale of funding actually required. Derby Homes is in the process of updating its major operating systems starting in 2017/18 and is well on the way on this process. Further costs are expected in 2018/19 before falling substantially thereafter.

## **Strategic Report for the year ended 31 March 2018 cont.**

The majority of the reserves remain available to support new homes owned by Derby Homes. Currently the Council and Derby Homes are concentrating on delivering new homes in the HRA for the Council rather than homes in Derby Homes in order to utilise as much of the recycling of Right to Buy (RTB) funds as possible. With the increased amount of sales over recent years, the concentration on this source of funds has been even greater and is likely to continue to be so for the immediate future.

Rules, however, can change and the government's need to increase levels of affordable housing may well result in new opportunities when holding stock in Derby Homes might once again be more attractive to the Council. Allowing ALMOs to use RTB receipts, the imposition of the Higher Value levy or other rules might mean that the balance changes again. The ability of the Council to change its overall delivery strategy relatively easily is something that is a positive asset for the Council when things do change.

### **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 and allocates responsibility and monitoring roles within the organisation. Risk can never be eliminated completely, so risk management is used to ensure risks are identified and their consequences understood. Based on this information, action can be taken to ensure appropriate resources are directed at controlling the risk or minimising the effect of potential loss.

Each risk is reviewed regularly and was reassessed with scores updated in March 2018, scrutinised by the Audit Committee and approved by the Board. Within the Strategic Risk Register one high risk issue – data protection (GDPR) compliance - is identified, with four amber risks. On the Operational risk Register there are no high risk issues and eight 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 continue to be reinvested in expanding the housing stock from 90 towards 250.

Wherever practical, our own new homes are 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 33 further homes; of which 24 are new build homes, including 15 homes that were built by Derby Homes' new build team. The final 9 were purchased by the Council on the open market. The additions to the stock were however, once again outweighed by the continuing loss through the Right to Buy – this year of 185 homes.

## **Strategic Report for the year ended 31 March 2018 cont.**

Rents remain low compared to market levels, leading to demand remaining high and low levels of voids – under 0.5% of active voids - in Council housing in Derby. There is a need to change the balance of the overall stock in Derby away from 3 bedroom homes. Of particular need are 4+ bed homes – but also 1 and 2 bed homes. 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. 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. We have converted four larger properties this year, increasing the number of larger bedroom properties by two (two having been sold through Right to Buy).

New homes investment is good for the public purse in the very long term (debt should be repaid within about 50 years – ideally this should be much shorter at around 30 years: to do this would require higher grant and/or RTB recycling rates) 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.

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 but is being suggested as a possible option for increased flexibility for Council delivery.

Land to build on 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 yet again to around 1.4% of overall housing stock. This will reduce our income from fees for management and maintenance next year (2019/20) by around 1% in real terms under the Council's agreed formula to fund Derby Homes' core activity.

### **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 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.

## **Strategic Report for the year ended 31 March 2018 cont.**

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. 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](http://www.derbyhomes.org) with agendas and reports.

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

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

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

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

The primary function of the Audit Committee is to:

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

### **Modern Slavery Act 2015**

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

**Strategic Report for the year ended 31 March 2018 cont.**

**Persons of Significant Control**

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

Derby City Council is clearly a PSC for Derby Homes.

## **Strategic Report for the year ended 31 March 2018 cont.**

### **Value for money (VfM)**

The Regulator of Social Housing (RSH) has implemented a new set of requirements with regard to VfM reporting, commencing from 1<sup>st</sup> April 2018. This means that as a Registered Provider we are required to include seven key financial metrics in this report. These are set out below. At this stage there is no simple way to benchmark these results against others as this is the first year of operation. Derby Homes as an ALMO RP may look a little different in terms of results against 'standard' RPs once such benchmarking is possible in any case.

#### **Metric 1 – Reinvestment %**

Good = higher

Development of New Properties	= £0.558m	
Works to existing properties	= £0.0m	
Capitalised Interest	= <u>£0.0m</u>	
Total	= £0.558m	
Divided by		
Tangible Fixed Assets (note 9)	= £6.58m	<b>Result = 8.5%</b>
(housing at cost period end)		

This is a measure of spending on new homes compared to our previous spending – while it is quite high this year (as a result of Wood Road) this reflects our low base of only 90 homes at present.

#### **Metric 2 – new supply delivered %**

Good = higher

##### **A Social housing (includes affordable housing)**

New supply	0	
Divided by		
Total at period end	85	<b>Result = 0%</b>

##### **B Non social housing**

New supply	0	
Divided by		
Total all stock at period end	90	<b>Result = 0%</b>

As Wood Road is not actually complete there have been no actual completions this year, reflecting the strategy of the Council to direct most land for development to the HRA.

#### **Metric 3 – Gearing % Good = lower**

Long term loans	£3.027m	
- cash and cash equivalents	-£8.138m	
+amounts owed to group undertakings	£0.970m	
+finance lease obligations	<u>£0.000m</u>	
Total	-£4.141m	
Divided by		
Housing Properties at Cost	£6.58m	<b>Result = - 63%</b>

## **Strategic Report for the year ended 31 March 2018 cont.**

### **Value for money (VfM) cont**

This is a measure that might look odd as we are currently cash rich and therefore have cash to invest in new homes should an opportunity arise that helps the Council more than direct investment in Council housing. At present these opportunities are limited but it is expected that there could be some opportunities in the near future. It does support the Board's strategy and shows that Derby Homes does have – as planned - the financial capacity to deliver more homes.

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

	<b>Headline</b>	<b>excluding LGPS</b>
Operating Surplus overall	-£1.507m	+ £1.851m
- gain on disposal of assets	£0.000m	
- amortised grants	£0.029m	
- grant taken to income	£0.000m	
+ interest receivable /other income	£0.000m	
- capitalised major repairs	£0.000m	
+ total depreciation charge	<u>£0.452m</u>	
<b>Total</b>	-£1.026m	+ £2.332m
Divided by		
Capitalised interest	£0.000m	
+ Interest payable and financing costs	<u>£0.164m</u>	
<b>Total</b>	£0.164m	+ £0.164m
<b>Result</b>	<b>- 625%</b>	<b>+1422%</b>

This result is one that looks very strange as it includes all operating surplus (derived mainly from management and maintenance of Council housing) and the interest payable relates to loans on a small number of homes making our interest cover look extremely high/good (excluding pension fund adjustments) – however once these are included the official result becomes very poor as a result of a headline loss exacerbated by a very small loan debt. This measure is extremely volatile as a result as demonstrated above.



## **Strategic Report for the year ended 31 March 2018 cont.**

### **Value for money (VfM) cont**

#### **Metric 5 – headline social housing cost per unit**

Good = lower

Management costs  
+service charge costs  
+routine maintenance costs  
+planned maintenance costs  
+major repairs expenditure  
+capitalised major repairs expenditure  
+other costs of social housing letting  
+development services  
+community /neighbourhood services  
+ other social housing activities  
+ other charges for support services  
= all housing costs

For Derby Homes, this is calculated by deducting the "Activities other than Social Housing" costs of £3.306m, depreciation of £0.452m and interest costs £0.164m from total Operating Costs of £40.339m = £36.417m.

Divided by

Total social housing units owned or managed = 13,786 **Result = £2,642**

It indicates that our overall costs are around £50 a week although some costs are missing (e.g. some major works on Council housing where costs are directly incurred by the Council and not through Derby Homes).

If the FRS102 adjustments for pensions (£3.358m) are excluded from the operating costs, then the cost per unit would be £2,398.

#### **Metric 6 – operating margin %**

Good = higher

##### **A Social housing lettings only**

Operating surplus	£0.162m
- gain on disposal of housing assets	-
	£0.162m

Divided by

Turnover from social housing lettings	£0.431m	<b>Result = 38%</b>
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##### **B Overall**

Operating surplus overall	Overall	Excluding LGPS
	- £1.507m	+ £1.851m

Divided by

Turnover overall	£38.8m	£38.8m
<b>Result</b>	<b>= -3.9%</b>	<b>+ 4.8%</b>

## **Strategic Report for the year ended 31 March 2018 cont.**

### **Value for money (VfM) cont**

Measure A shows that the Board is now making a significant operational surplus on its own properties – this is partly due to the nature of low repair costs in the early years but also because this measure excludes the cost of borrowing (£0.164m). If that is included the position is effectively break even.

Measure B shows the overall formal deficit as a result of pension fund charges – an alternative measure excluding those and based on contribution levels indicates a more positive and reasonable result.

<b>Metric 7 – Return on capital employed (ROCE)</b>	<b>Overall</b>	<b>Exc.LGPS</b>
Operating deficit overall	-£1.507m	+ £1.851m
Divided by		
Total assets less current liabilities	£13.278m	£13.278m
<b>Result</b>	<b>- 11.3%</b>	<b>+ 13.9%</b>

The operational surplus remains healthy (although planned to fall in future years) and as a proportion of the asset base is very high – again this is because the overall surplus relates to all managed properties and the asset base to 90, making the result look different than it would if the Councils HRA housing stock was included.

### **Summary**

The Board is satisfied with the financial and operational performance of the Company during 2017/18.

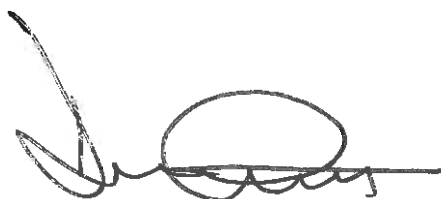
### **Approval**

This Strategic Report was approved by order of the Board



M Ainsley  
Chair

26 July 2018



D Enticott  
Secretary

26 July 2018

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBY HOMES**

### **Opinion**

We have audited the financial statements of Derby Homes Limited for the year ended 31 March 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of the company's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

### **Basis for opinion**

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

### **Conclusions relating to going concern**

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

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

### **Other information**

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

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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of the board**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

### **Use of our report**

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

BDO W

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

Date: 7 August 2018

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

**Statement of Comprehensive Income  
Year Ended 31 March 2018**


	<b>Notes</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>Turnover</b>	2	<b>38,832</b>	38,325
Operating costs	2	<b>(40,339)</b>	(36,099)
<b>Operating (Deficit) / Surplus</b>	4	<b>(1,507)</b>	2,226
Interest payable and similar charges	6	<b>(164)</b>	(167)
Pension finance costs	6	<b>(568)</b>	(551)
<b>(Deficit) / Surplus before taxation</b>		<b>(2,239)</b>	1,508
Taxation on surplus	7	<b>(25)</b>	(12)
<b>(Deficit) / Surplus for the year</b>		<b>(2,264)</b>	1,496
<b>Other comprehensive income for the year</b>			
Actuarial gain / (loss) on defined benefit obligations – pension scheme	8	<b>2,944</b>	(3,807)
<b>Total comprehensive gain / (loss) for the year</b>		<b>680</b>	(2,311)

The notes on pages 30 - 52 form part of these financial statements.

**Balance Sheet**  
**At 31 March 2018**

		<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
<b>Fixed assets</b>			
Housing Properties			
Cost less depreciation		<b>6,586</b>	<b>6,141</b>
<b>Tangible Fixed Assets – Housing</b>		<b>6,586</b>	<b>6,141</b>
Tangible fixed assets - Other		<b>945</b>	<b>818</b>
	<b>9</b>	<b>7,531</b>	<b>6,959</b>
<b>Current assets</b>			
Debtors	<b>11</b>	<b>8,138</b>	<b>7,123</b>
Stock and Work in Progress	<b>12</b>	<b>345</b>	<b>307</b>
Bank and cash		<b>8,168</b>	<b>7,465</b>
		<b>16,651</b>	<b>14,895</b>
<b>Creditors: amounts falling due within one year</b>	<b>13</b>	<b>(3,373)</b>	<b>(2,684)</b>
<b>Net current assets</b>		<b>13,278</b>	<b>12,211</b>
Creditors: amounts falling due after one year	<b>14</b>	<b>(5,188)</b>	<b>(5,211)</b>
<b>Net assets before pension liability</b>		<b>15,621</b>	<b>13,959</b>
Defined benefit pension liability	<b>8</b>	<b>(20,851)</b>	<b>(19,869)</b>
<b>Net liabilities after pension liability</b>		<b>(5,230)</b>	<b>(5,910)</b>
<b>Reserves</b>			
Defined benefit pension liability reserve		<b>(20,851)</b>	<b>(19,869)</b>
Designated reserves		<b>13,921</b>	<b>12,259</b>
Revenue reserves		<b>1,700</b>	<b>1,700</b>
<b>Total funds</b>		<b>(5,230)</b>	<b>(5,910)</b>

These financial statements were authorised and approved by the Board of Directors on 26 July 2018. Signed and dated on behalf of the Board of Directors:

 26/07/18  
M Ainsley  
Chair

Date

  
D Enticott  
Secretary

Date

26/7/18

The notes on pages 30 - 54 form part of these financial statements.

## Statement of changes in equity at 31 March 2017

	<b>Pension reserve £'000</b>	<b>Designated reserve £'000</b>	<b>General Reserve £'000</b>	<b>Total Reserves £'000</b>
Balance at 1 April 2016	(15,114)	9,816	1,700	(3,598)
<b>Comprehensive Income for the year</b>				
Surplus for the year		1,496		1,496
Actuarial losses on defined benefit pension scheme	(3,807)			(3,807)
<b>Other comprehensive income for the year</b>	(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		-
<b>Total comprehensive income for the year</b>	(4,755)	2,444	-	(2,311)
Rounding		(1)		(1)
<b>Balance at 31 March 2017</b>	<b>(19,869)</b>	<b>12,259</b>	<b>1,700</b>	<b>(5,910)</b>

## Statement of changes in equity at 31 March 2018

	<b>Pension reserve £'000</b>	<b>Designated reserve</b>	<b>General Reserve £'000</b>	<b>Total Reserves £'000</b>
Balance at 1 April 2017	(19,869)	12,259	1,700	(5,910)
<b>Comprehensive Income for the year</b>				
(Deficit) for the year		(2,264)		(2,264)
Actuarial gains on defined benefit pension scheme	2,944			2,944
<b>Other comprehensive income for the year</b>	2,944	(2,264)	-	680
Reserves transfers:				
Total net current service costs of pension scheme	(3,358)	3,358		-
Total net interest cost on pension scheme	(568)	568		-
<b>Total comprehensive income for the year</b>	(982)	1,662		680
Rounding				
<b>Balance at 31 March 2018</b>	<b>(20,851)</b>	<b>13,921</b>	<b>1,700</b>	<b>(5,230)</b>



**Statement of Cash Flows**  
**Year Ended 31 March 2018**

	2018 £'000	2017 £'000
<b>(Deficit) / Surplus for the year</b>	<b>(2,264)</b>	<b>1,496</b>
Interest payable and similar charges	164	167
Pension finance costs	568	551
Taxation	25	12
<b>Cash flows from operating activities surplus for the financial year</b>	<b>(1,507)</b>	<b>2,226</b>
Adjustments for:		
Depreciation of fixed assets - housing properties	113	113
Depreciation of fixed assets - other	339	273
Net fair value losses on properties	-	198
Amortised grant (in year)	(29)	(33)
Difference between net pension expense and cash contribution	3,358	397
Taxation charge	(25)	(12)
(Increase) in trade and other debtors	(1,014)	(616)
(Increase) in stocks & work in progress	(38)	(227)
Increase / (Decrease) in trade creditors	213	(245)
Increase / (Decrease) in accruals & provisions	477	(922)
Rounding		
<b>Net cash generated from operating activities</b>	<b>1,887</b>	<b>1,152</b>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets - housing properties	(559)	(528)
Purchases of fixed assets - other	(467)	(55)
Receipt of grant	55	45
<b>Net cash from investing activities</b>	<b>(971)</b>	<b>(538)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(164)	(167)
Repayment of loans - Derby City Council	(49)	(47)
<b>Net cash used in financing activities</b>	<b>(213)</b>	<b>(214)</b>
<b>Net increase cash and cash equivalents</b>	<b>703</b>	<b>400</b>
Cash and cash equivalents at beginning of year	7,465	7,065
<b>Cash and cash equivalents at end of year</b>	<b>8,168</b>	<b>7,465</b>

## Notes to the Financial Statements Year Ended 31 March 2018

### 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 2018 and these financial statements may be obtained from the address in note 16.

#### Going Concern

The financial statements have been prepared on a going concern basis. The Company's balance sheet shows a net 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 gain this year. The pension scheme continues to be underwritten by Derby City Council.

## **Notes to the Financial Statements Year Ended 31 March 2018**

### **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.

### **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:

## Notes to the Financial Statements

### Year Ended 31 March 2018

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.

#### 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 2018, no impairments were recognised.

## **Notes to the Financial Statements**

### **Year Ended 31 March 2018**

#### **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 (England) where the Company operates and generates income.

#### **Pension costs**

The Company operates a defined benefit plan. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. 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 assessed present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets at the balance sheet date out of which the obligations are to be settled.

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.

## **Notes to the Financial Statements**

### **Year Ended 31 March 2018**

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

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

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

The interest cost and the expected return on assets are included as other finance costs. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The Company continues to use Financial Reporting Standard 17 "Retirement Benefits".

#### **Debtors**

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

#### **Cash and cash equivalents**

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

#### **Creditors**

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

#### **Value Added Tax (VAT)**

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

## Notes to the Financial Statements Year Ended 31 March 2018

### Government grants

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

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

Where social housing grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund (RCGF) until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account. Derby Homes has no RCGF at present as it has not sold any SHG funded properties.

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

### Reserves

General Reserve of £1.7m. represents a small contingency.

Designated Reserve of £13.921m. This reserve holds the balance of funds available as approved by the Board. This is intended to subsidise investments in new build homes where Derby Homes are the substantive owner. The intention is to use these funds to meet any revenue shortfall in the initial years of any new investment above that budgeted for and / or cover any immediate impairment charge that may arise on the properties.

### Contingent Liabilities

Derby Homes receives grant from the HCA – now Homes England, which is used to fund the acquisition and development of housing properties and their components. Grants of £2.4m (£1.719m from the HCA), received in respect of housing properties held at 31 March 2018 are credited to reserves in respect of adoption of 'deemed' cost. These grants are amortised in line with accounting policy and has an outstanding balance of £2.191m at March 2018. 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 2018, would be £1.719m plus interest.

## **Notes to the Financial Statements**

### **Year Ended 31 March 2018**

#### **Key Judgments in applying accounting policies and key sources of estimation uncertainty**

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

#### **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.

#### **Social Housing Grants**

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

#### **Impairment of social housing properties**

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



## Notes to the Financial Statements Year Ended 31 March 2018

### 2. Particulars of turnover and operating costs

All works were undertaken within the United Kingdom.

<b>2018</b>	<b>Turnover £'000</b>	<b>Operating Costs £'000</b>	<b>Operating Surplus / (deficit) £'000</b>
Social housing lettings (Note 3)	431	269	162
<u>Other Social Housing Activities</u>			
Management & maintenance of Derby City Council housing stock	28,026	28,991	(965)
Capital works to Derby City Council housing stock	7,381	7,318	63
Development work on Derby Homes and Derby City Council properties	59	263	(204)
Social Housing Grant recognised (Note 3)	29	-	29
Housing management and / or maintenance to other Landlords properties	229	192	37
<u>Activities other than Social Housing Activities</u>			
Maintenance of DCC public buildings and management of homeless hostel and other activities	2,677	3,306	(629)
	<b>38,832</b>	<b>40,339</b>	<b>(1,507)</b>

<b>2017</b>	<b>Turnover £'000</b>	<b>Operating Costs £'000</b>	<b>Operating Surplus / (deficit) £'000</b>
Social housing lettings (Note 3)	420	474	(54)
<u>Other Social Housing Activities</u>			
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	33	-	33
Housing management and / or maintenance to other Landlords properties	182	160	22
	<b>35,693</b>	<b>33,401</b>	<b>2,292</b>
<u>Activities other than Social Housing Activities</u>			
Maintenance of DCC public buildings and management of homeless hostel.	2,212	2,224	(12)
	<b>38,325</b>	<b>36,099</b>	<b>2,226</b>

## Notes to the Financial Statements Year Ended 31 March 2018

### 3. Social Housing Lettings – General Needs properties

	2018 £'000	2017 £'000
Rents (net of void loss)	382	374
Service charge income	39	37
Other income	10	9
	<b>431</b>	<b>420</b>
Amortised government grant	29	33
<b>Turnover from social housing lettings</b>	<b>460</b>	<b>453</b>
<b>Expenditure</b>		
Housing Management	56	56
Service Charge related costs	39	37
Routine Maintenance	56	29
Property insurance	5	27
Other supplies & services	-	14
Impairment of housing properties	-	198
Depreciation	113	113
<b>Operating Expenditure on social housing lettings</b>	<b>269</b>	<b>474</b>
<b>Operating surplus / (deficit) on Social Housing lettings pre interest charges</b>	<b>191</b>	<b>(21)</b>
<b>Void losses</b>	<b>3</b>	<b>3</b>

Interest paid on property loans in 2017/18 was £165,000 (2016-17: £167,000). Any subsidy on social housing, in the early years of new properties, is consistent with the long term business plan.

### 4. Operating surplus

	2018 £'000	2017 £'000
The operating surplus is stated after charging:		
Depreciation - annual charge housing properties	113	113
Depreciation - other tangible fixed assets	339	273
Impairment of housing properties	-	198
Auditor's remuneration:		
- audit services	20	19
- tax services	2	2
- other non-audit services	1	1
Defined benefit pension cost (per note 8)	<b>5,991</b>	<b>2,865</b>

## Notes to the Financial Statements Year Ended 31 March 2018

### 5. Information regarding directors and employees

Directors and executive officers' emoluments are as shown below.

	2018 £	2017 £
<b>Directors' emoluments</b>		
Chair of Derby Homes – M Ainsley	8,775	8,781
Cadine Reid	-	114
Vice Chair of Derby Homes – RGH MacDonald	4,049	4,002
Audit Committee Chair – IM MacDonald	3,373	3,201
	<u>16,197</u>	<u>16,098</u>

#### Executive Officers' emoluments

During the period there were three permanent executive officers.

These executive officers are listed on page 2.

	2018 £'000	2017 £'000
Aggregate emoluments	270	270
Pension contributions	56	54
	<u>326</u>	<u>324</u>
 Emoluments paid to the highest paid executive officer	 111	 111
Pension contributions – highest paid executive officer	23	22
	<u>134</u>	<u>133</u>

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

## Notes to the Financial Statements

### Year Ended 31 March 2018

#### Average number of persons employed (full time equivalents)

	2018 Number	2017 Number
Housing management	240	222
Central services and regeneration	12	10
Maintenance and repairs	243	239
	<b>495</b>	<b>471</b>

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

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

	2018 £'000	2017 £'000
Wages and salaries	13,127	11,858
Social security costs	1,244	1,079
Pension	6,567	3,431
	<b>20,938</b>	<b>16,368</b>

#### Salary bandings for all employees earning over £60,000

	2018 Number	2017 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	-	-
£110,001 to £120,000	1	1

#### 6. Interest payable and similar charges

	2018 £'000	2017 £'000
Loans from Derby City Council	165	167
Net interest on net defined benefit liability	<b>568</b>	<b>551</b>

## Notes to the Financial Statements Year Ended 31 March 2018

### 7. Taxation on surplus

	2018 £'000	2017 £'000
Current tax on surplus for the year	<u>25</u>	<u>12</u>
	<u>25</u>	<u>12</u>
<b>Factors affecting tax charge for year</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
The tax assessed for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017 : 20%). The differences are explained below:		
(Loss) / Profit on ordinary activities before tax	<u>(2,239)</u>	<u>1,508</u>
(Loss) / Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 : 20%)	(425)	302
<b>Effects of:</b>		
Non-taxable income and deductions	450	(290)
<b>Total tax charge for the year</b>	<u>25</u>	<u>12</u>

The Company is a wholly owned subsidiary of Derby City Council and the majority of income is derived from services provided to the Council. HM Revenue and Customs has confirmed that transactions between ALMOs and their Councils do not amount to trading and, accordingly, any surplus or deficit arising thereon is outside the scope of corporation tax. As a result of this, the effective rate of tax is 0% on these transactions (2017: 0%).

## **Notes to the Financial Statements**

### **Year Ended 31 March 2018**

#### **8. Pensions**

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

During the year, the Company paid employer contributions of £2,633,000 (2016/17 - £2,468,000). The minimum contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. This was set at 13.4% for 2017/20. Derby Homes contributed this year at a higher rate of 20.9% reflecting the estimated underlying cost.

The Actuary has stated that in order to assess the value of the Employer's liabilities in the Fund as at 31 March 2018 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. A key change this year is to incorporate the assets and liabilities relating to the staff transferred from the Council during the year. This has resulted in a net cost of £971,000 in the year.

The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation are those such as rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions 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 2018/19. The employer contribution rate planned for 2018/19 is 20.9% (2017/18 – 20.9%). 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 and to 20.9% from 2017/18 to try and reduce the scale of pension fund deficits and improve funding levels over time. Employee contribution rates for 2017/18 ranged from 5.5% to 11.4% (2016/17 - 5.5% to 11.4%). At the year end there were no outstanding employer and employee contributions (2016/17 - nil) included within Accruals and Deferred Income figure in Note 13.

## Notes to the Financial Statements Year Ended 31 March 2018

The most recent valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2018 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	
	2018	2017
	%	%
Discount rate	2.7	2.6
Expected rate of salary increases	2.9	2.9
Future pension increases	2.4	2.4

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:

	2018	2017
	Years	Years
Male	21.9	21.9
Female	24.4	24.4

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

Male	23.9	23.9
Female	26.5	26.5

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

	Change in assumption	Overall impact on Employers liability	Approx. monetary amount £m
Discount rate	Decrease by 0.5%	Increase by 13%	12.4
Salary Increase Rate	Increase by 0.5%	Increase by 3%	2.6
Pension Increase Rate	Increase by 0.5%	Increase by 10%	9.5

## Notes to the Financial Statements Year Ended 31 March 2018

<b>Reconciliation of present value of plan liabilities</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
At the beginning of the year	(86,696)	(70,003)
Current service costs	(4,958)	(2,865)
Past service costs	(62)	-
Interest costs	(2,425)	(2,567)
Plan participants contributions	(798)	(712)
Benefits paid	1,067	876
Effects of business combinations	(4,917)	-
Changes in financial assumptions	2,357	(18,797)
Changes in demographic assumptions	-	922
Other experience	-	6,450
At the end of the year	(96,432)	(86,696)
<b>Reconciliation of fair value of plan assets</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
At the beginning of the year	66,827	54,889
Interest income on plan assets	1,857	2,016
Plan participants contributions	798	712
Contributions made	2,633	2,468
Benefits paid	(1,067)	(876)
Effects of business combinations	3,946	-
Return on assets excluding amounts included in net interest	587	7,618
At the end of the year	75,581	66,827
	<b>2018 £'000</b>	<b>2017 £'000</b>
Fair value of plan assets	75,581	66,827
Present value of plan liabilities	(96,432)	(86,696)
<b>Net pension scheme liability</b>	<b>(20,851)</b>	<b>(19,869)</b>



## Notes to the Financial Statements Year Ended 31 March 2018

<b>Amounts recognised in other comprehensive income are as follows:</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
Included in administrative expenses:		
Current service costs	4,958	2,865
Past service costs	62	-
Effects of business combinations	971	-
	<b>5,991</b>	<b>2,865</b>
<b>Amounts recognised in other finance costs</b>		
Net interest costs	<b>568</b>	<b>551</b>
<b>Analysis of actuarial profit / (loss) recognised in Other Comprehensive Income</b>		
Return on assets excluding amounts included in net interest	587	7,618
Changes in financial assumptions	2,357	(18,797)
Changes in demographic assumptions	-	922
Other experience	-	6,450
	<b>2,944</b>	<b>(3,807)</b>
<b>Composition of plan assets</b>	<b>2018</b>	<b>2017</b>
Equities	68%	72%
Bonds	20%	18%
Property	7%	6%
Cash	5%	4%
	<b>100%</b>	<b>100%</b>
	<b>2018 £'000</b>	<b>2017 £'000</b>
Actual return on plan assets	<b>2,444</b>	<b>9,634</b>

## Notes to the Financial Statements Year Ended 31 March 2018

### 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
<b>Cost</b>						
At 1 April 2017	6,532	48	6,580	267	1,915	8,762
Additions	0	558	558	0	466	1,024
Impairment	0	0	0	0	0	0
Disposals	0	0	0	(243)	0	(243)
Completions	0	0	0	0	0	0
<b>At 31 March 2018</b>	<b>6,532</b>	<b>606</b>	<b>7,138</b>	<b>24</b>	<b>2,381</b>	<b>9,543</b>
<b>Depreciation</b>						
At 1 April 2017	439	-	439	267	1,097	1,803
Disposals	0	0	0	(243)	0	(243)
Charge for the year	113	0	113	0	339	452
<b>At 31 March 2018</b>	<b>552</b>	<b>0</b>	<b>552</b>	<b>24</b>	<b>1,436</b>	<b>2,012</b>
<b>Net book value</b>						
At 31 March 2017	6,093	48	6,141	-	818	6,959
<b>At 31 March 2018</b>	<b>5,980</b>	<b>606</b>	<b>6,586</b>	<b>-</b>	<b>945</b>	<b>7,531</b>

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

The Social Housing Properties Held for Letting are Freehold. 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 2018

### 10. Expenditure on works to existing properties

	2018 £'000	2017 £'000
Amount capitalised	0	4
Amount charged to income and expenditure account	55	29
	<u>55</u>	<u>33</u>

### 11. Debtors: amounts falling due within one year

	2018 £'000	2017 £'000
Rent and service charge arrears	15	15
Less : Provision for doubtful debts	(11)	(11)
	<u>4</u>	<u>4</u>
Amounts due from parent Company	6,982	6,130
Trade debtors	172	102
Other taxation	951	829
Prepayments and accrued income	29	58
	<u>8,138</u>	<u>7,123</u>

### 12. Stocks and Work in Progress

	2018 £'000	2017 £'000
Raw materials and consumables	345	307
Work in Progress	-	-
	<u>345</u>	<u>307</u>

## Notes to the Financial Statements Year Ended 31 March 2018

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

	2018 £'000	2017 £'000
Amounts owing to parent Company	919	609
Loans due to parent	51	49
	<u>970</u>	<u>658</u>
Deferred capital grant	30	33
Trade creditors	891	678
Corporation tax	16	12
Other taxation and social security	345	307
Sinking Fund balances	71	63
Accruals and deferred income	1,050	933
	<u>3,373</u>	<u>2,684</u>

Included within the Amounts owing to parent Company is £51,441 (2016/17 - £49,287) relating to property loans.

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

	2018 £'000	2017 £'000
Deferred Capital grant	2,161	2,132
Amounts owing to parent Company – New Build Loan	3,027	3,079
	<u>5,188</u>	<u>5,211</u>
Loan Repayments are due as follows:		
Between 1 and 2 years	54	52
Between 2 and 5 year	176	168
In more than 5 years	2,797	2,859

Included within the creditors falling due after more than 1 year is a loan of £1.065m (2016/17 - £1.072m) charged at 5.06% interest rate and a loan of £0.12m (2016/17 - £0.128m) charged at 6% interest rate. Other loans relating to the development at Chesapeake (at 4.05%) have £0.199m (2016/17 - £0.205m) outstanding over one year and £1.643m (2016/17 - £1.673m) on the loan for Elton Road (at 5.5%).

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

## Notes to the Financial Statements Year Ended 31 March 2018

### 15. Deferred Capital Grant

	2018 £'000	2017 £'000
At 1 <sup>st</sup> April 2017	2,165	2,152
Grants received in year	55	45
Released to income in year	(29)	(33)
Rounding		1
At 31 <sup>st</sup> March 2018	2,191	2,165

### 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 2018

### 17. Capital Commitments

	2018 £'000	2017 £'000
<b>Commitments contracted but not provided for</b>		
Construction (Wood Road)	36	181
Vehicles	-	56
<b>Commitments approved by the Board but not contracted for</b>		
Construction (Wood Road)	25	581
Vehicles	-	441

At 31 March 2018, £606,000 has been incurred on works to build 6 homes at the Wood Road site in Chaddesden, Derby. These costs have been capitalised and funded from cash reserves and a £55,125 HCA grant. The balance of the scheme is planned to be funded in 2018/19 from the balance of £55,125 HCA grant, and the remainder from cash reserves. The overall budgeted scheme cost is £775,000.

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

## **Notes to the Financial Statements**

### **Year Ended 31 March 2018**

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

During the year a grant payment of £116,875 (2016/17: £100,000) was paid to Enthusiasm Trust Ltd, a charity which works alongside partner agencies provides support, mentoring and advice to children and young people. Maria Murphy, Managing Director of Derby Homes, is a Trustee and Director with Enthusiasm. 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.

Maria Murphy is also a Director with Social Landlords Crime & Nuisance Group – trading as Resolve Antisocial Behaviour. During the year training services totalling £3,401 (2016/17 : £2,540) were procured at arms length and on commercial terms.

Derby Homes supplied at arms length and on commercial terms £11,236 (2016/17 : £3,946) minor building repair works to Lees Brook Community School, Derby. Mike Ainsley, Chair of Derby Homes is also a governor at the school.

During the year Derby Homes provided gas servicing and associated repairs to 189 properties owned by Liversage Trust, an organisation that provide alms-house accommodation in Derby. Roy Webb, a Director of Derby Homes during the year, is also a Trustee with the Liversage Trust. All transactions were at arms length, on commercial terms and totalled £13,756 in 2017/18 (2016/17 : £6,956).

During the year Derby Homes paid a £7,000 grant (2016/17 : £7,000) to the Derbyshire Association of Community Partners (DACP), a voluntary organisation for tenants, community groups and other partner agencies. Robert MacDonald, a Director of Derby Homes is also a Board Member and current Chair of the DACP.

## Notes to the Financial Statements

### Year Ended 31 March 2018

#### 19. Accommodation in Management and Development

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

	2018	2017
<b>General Needs Housing</b>		
- Social Rent	33	33
- Affordable Rent	52	52
- Market Rent	5	5
<b>Total owned</b>	<b>90</b>	<b>90</b>
<b>Accommodation managed for others</b>	<b>13,095</b>	<b>13,241</b>
	<b>13,185</b>	<b>13,331</b>
Leaseholders managed	601	579
<b>Total owned and managed accommodation</b>	<b>13,786</b>	<b>13,910</b>

<b>Homes under construction</b>	<b>6</b>	<b>6</b>
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Properties managed on behalf of other organisations were:

	2018	2017
Derby City Council	13,002	13,148
Parkview Properties Derby Ltd	9	9
The Guinness Trust	33	33
War Memorial Village (Derby) Ltd	51	51
	<b>13,095</b>	<b>13,241</b>