**DERBY HOMES BOARD**
**25 JULY 2013**

# ITEM B4

## DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS

Report of the Director & Company Secretary

### 1. SUMMARY

1.1 This report accompanies the draft annual report and financial statements for Derby Homes for the year ended 31 March 2013.

1.2 The report also explains the changes made to the accounts since the period 10 forecast out-turn were e-mailed to members of the Resources, Remuneration & Regeneration Committee in March 2013.

### 2. RECOMMENDATION

2.1 To accept the draft annual report and financial statements as a true and fair view of the Company's financial affairs as at 31 March 2013 as a going concern.

2.2 To note the explanation of the changes made to the accounts since the forecast out-turn was e-mailed to members of the Resources, Remuneration and Regeneration Committee in March 2013.

2.3 To authorise Bob Osler, Chair, and David Enticott, Company Secretary, to sign the accounts at this Board meeting.

2.4 To recommend the Board authorises the Chair, to sign a letter of representation requested by BDO (LLP) Ltd at the Board meeting on 25 July 2013.

2.5 To authorise the use of the Company's reserves as detailed in section 3.7.

### 3. MATTER FOR CONSIDERATION

3.1 Attached to this report is a copy of the draft annual report and financial statements for Derby Homes, prepared as at 31 March 2013. Pease note that in this report the term "Directors" relates to the Companies Act definition and means Board Members. Senior Officers are referred to as "Executive Officers".

3.2 Also attached to the report is a copy of the External Audit Management Letter prepared by BDO LLP Ltd.

3.3 Also attached to this report are copies of:

- a representation letter from Derby City Council (DCC) to BDO (LLP) Ltd, signed by Roger Kershaw, the Strategic Director of Resources, enabling BDO (LLP) Ltd to give an audit opinion that the financial statements give a true and fair view of the state of the Company's affairs at 31 March 2013.

- a management representation letter from Derby Homes to BDO (LLP) Ltd to be signed following Board approval of the accounts by the Chair.

3.4 The accounts show an operating surplus before tax of £1,061,000. This is after processing accounting entries associated with FRS17 which resulted in a charge to the income and expenditure account of £735,000 and £12,000 interest charges. The underlying operating surplus was therefore £1,808,000 as summarised in Appendix 1. The movement between the operating surplus and the final accounts is made up as follows:

| | | **£'000** | **£'000** |
|---|---|---:|---:|
| | | | |
| Management fee surplus | | | 1,328 |
| Maintenance & Repairs Operations | | | 480 |
| **Operating surplus** | | | **1,808** |
| | | | |
| FRS17 adjustments: | | | |
| Add back of employers pension contributions | | 1,251 | |
| Restated current service costs | | (1,512) | |
| Past service costs | | (31) | |
| Net interest/return on assets | | (443) | |
| | | | (735) |
| Other interest payable | | | (12) |
| **Restated surplus for 2012/13 before taxation** | | | **1,061** |
| Taxation | | | - |
| **Restated surplus for 2012/13 after taxation** | | | **1,061** |

3.5 The period 10 management accounts which were e-mailed to the Resources, Remuneration & Regeneration Committee in March forecasted an operating surplus of £1,004,000.

This was split £690,000 for the Management Fee operations and £314,000 for the Maintenance & Repairs operations. As noted above the draft financial statements before FRS17 adjustments show a surplus of £1,328,000 for the Management Fee operations and a surplus of £480,000 for the Maintenance & Repair operations. Appendix 2 is an analysis of the changes to turnover and expenditure which resulted from the year end close-down process.

3.6 The draft accounts and an external audit management letter were discussed and formally accepted by Audit Committee at their meeting held on Monday 1 July 2013 and the Resources, Remuneration and Regeneration Committee at a meeting held on Thursday 11 July 2013. A copy of the minutes of that meeting will be tabled as a late item for the Committee meeting on 11 July 2013 and included on the Board's agenda for the meeting on 25 July 2013.

3.7 At 31 March 2013 Derby Homes' reserves shown in the draft financial statements are as follows:

| | | £'000 |
|---|---|---|
| Revenue reserves | | 1,300 |
| Designated reserves | | 4,144 |
| Defined benefit pension liability | | (15,739) |
| **Total Funds** | | **(10,295)** |

The defined benefit pension liability is underwritten by Derby City Council. It is proposed to utilise the underlying reserves as follows:

| | Ref | £'000 |
|---|---|---|
| Gas related works | A | 650 |
| Electrical testing | A | 700 |
| Investment in refurbishment of property - (subject to purchase) | A | 600 |
| Business Transformation reserve | A | 500 |
| Improving access to IT and common rooms | A | 70 |
| Development pump priming | A | 150 |
| Whitecross scooter store | A | 30 |
| Asbestos removal – BISF properties | B | 100 |
| Contribution to Supported Living service | B | 250 |
| New build / acquisition reserve | B | 1,094 |
| **Designated reserves** | | **4,144** |
| Revenue reserves | C | 1,300 |
| **Total allocation of reserves** | | **5,444** |

A – Reserve use approved by Board at 17 January 2013 meeting

B – Reserve use approved by Board at 21 March 2013 meeting

C - Derby Homes aims to keep around 5% of turnover as a normal level of contingency within its reserves and the uncommitted reserves noted above equate to just over 4% of the expected turnover.

## 4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

The accounts will be filed at Companies House

## 5. LEGAL AND CONFIDENTIALITY IMPLICATIONS

5.1 Derby Homes is required to prepare accounts that comply with Companies Act legislation. This obligation is met when the accounts are filed at Companies House.

5.2 The accounts also comply with the Statement of Recommended Practice (SORP) for registered social housing providers and will be filed with the Homes and Communities Agency (HCA).

The areas listed below have no implications directly arising from this report:

Consultation
Council
Personnel
Environmental
Equalities Impact Assessment
Health & Safety
Risk
Policy Review

If Board members or others would like to discuss this report ahead of the meeting please contact the author, or David Enticott, Director & Company Secretary, Telephone: 01332 888528
david.enticott@derbyhomes.org

Author: Michael Kirk, Head of Finance, Telephone: 01332 888703
michael.kirk2@derbyhomes.org

| | |
|---|---|
| Background Information: | None |
| Supporting Information: | Copy of 2013 Derby Homes Draft Accounts<br>Appendix 1 – Analysis of Derby Homes surplus 2012/13<br>Appendix 2 – Key reasons for movements in surplus forecast |

# DERBY HOMES LIMITED

(A company limited by guarantee)

Company No: 4380984

**Registered with**
**The Homes & Communities Agency**
**No: 4576**



## Report and Financial Statements

## Year ended 31 March 2013

# DERBY HOMES LIMITED

(A company limited by guarantee)

Company No 4380984

## Report and Financial Statements

## Year ended 31 March 2013



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# Report and Financial Statements
# Year Ended 31 March 2013

## Board Members, Executive Officers, Advisors and Bankers

### Directors

| | |
|---|---|
| J P Bayliss | (appointed 25.02.02; resigned 09.05.06; re-appointed 25.05.07; resigned 04.05.12) |
| D J Rees | (appointed 28.02.02) |
| A G S Osler (Chair) | (appointed 28.02.02) |
| I M MacDonald | (appointed 28.02.02) |
| R M Troup | (appointed 29.05.03; resigned 27.05.08; re-appointed 07.06.10; resigned 23.05.12; re-appointed 22.5.13) |
| T Ndlovu | (appointed 07.05.04) |
| R M Webb | (appointed 27.07.04; resigned 09.06.05; re-appointed 25.05.06) |
| M Redfern | (appointed 26.07.05) |
| K Whitehead | (appointed 24.10.07) |
| A Holme | (appointed 17.02.09) |
| S B Perry | (appointed 17.02.09) |
| J Keith | (appointed 25.05.11; resigned 22.5.13) |
| M Ainsley | (appointed 27.09.11) |
| M Menzies | (appointed 27.10.11) |
| A Martin | (appointed 23.05.12) |
| L Winter | (appointed 23.05.12; resigned 22.5.13) |
| F Walker | (appointed 29.11.12) |
| D Roberts | (appointed 22.5.13) |

**Executive officers**
P J Davies – deceased 03.07.12
D Enticott
S Bennett
M J Murphy

**Secretary**
D Enticott

**Registered Office**
Floor 3
The Council House
Corporation Street
Derby
DE1 2FT

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

**Auditor**
BDO LLP
5 Temple Square
Temple Street
Liverpool
L2 5RH

**Bankers**
The Co-operative Bank
East Street
Derby
DE1 2AL

# Report of the Directors
# Year Ended 31 March 2013

The Directors also referred to as the Board, present their annual report and the audited financial statements for the year ended 31 March 2013.

A list of the directors who have served during the year is included on page 2.

## Date of Incorporation

The date of incorporation was 25 February 2002 with trading commencing on 10 April 2002.

## Principal Activities

The core business of Derby Homes is the management of and investment in Derby City Council's social housing stock comprising of 13,500 properties, under delegation from the council under section 27 of the Housing Act 1985.

This includes:

- Housing management of the council's residential stock, including rent calculation and collection, leasehold management, and repairs ordering
- Maintaining council housing and council owned public buildings through our Repairs Team (since 1 June 2010).
- Maintenance of the council's residential stock including asset management planning, preparing and monitoring the investment programme for Estates Pride and major capital works, planned maintenance and responsive repairs through providers and contractors and developing partnering arrangements
- Contributing to the council's Housing Strategy, working in partnership and developing other strategic initiatives
- Tenant involvement
- Financial control of the management fees drawn down from the Housing Revenue Account (HRA) and other income
- Calculation and collection of leasehold charges.

Derby Homes also directly provides services to 499 leaseholders of the council and has agreements with external landlords to manage and maintain 113 properties. These landlords include Metropolitan, Guinness and Northern Counties Housing Association, Lillian Prime Ltd and other landlords. Derby Homes also provides other services to the Council and to leaseholders of the Council.

Derby Homes is registered with the Homes and Community Agency and has built 10 properties for affordable rent which it manages. Derby Homes has also acquired flats in a Victorian building which it owns and manages in partnership with Derwent New Deal, who are currently in the process of novating contracts to Revive Healthy Living.

# Report of the Directors (continued)
# Year Ended 31 March 2013

## Review of Results

The income and expenditure account for the period is set out on page 22. Following the processing of FRS17 transactions the business returned a surplus after taxation for the period of £1.061m. This was after a charge of £0.735m which arose from the application of FRS17 on accounting for pensions, as disclosed in Note 7 to the financial statements.

| | £'000 | £'000 |
|---|---|---|
| Underlying management account operating surplus | | 1,808 |
| FRS 17 adjustments: | | |
| Add back of employer pension contributions paid in year | 1,251 | |
| Less past service cost | (31) | |
| Less current service costs | (1,512) | |
| | | (292) |
| Operating surplus | | 1,516 |
| Less net interest on pensions | | (443) |
| Less other interest payable | | (12) |
| Retained surplus for the year | | **1,061** |

The company has this year achieved its target of saving £1m a year in management costs to enable the Council to target more resources at capital spending. Indeed it has reduced costs further than this and is planning to reinvest in new homes using that resource and borrowing from the Council.

The 2012/13 financial performance – once pension factors are removed – has been exceptional as a result of huge investment into new vans and a renewal of the maintenance depot as an office base, and a significant increase in productivity within responsive repairs and voids. As the company has achieved its target savings well ahead of schedule, surpluses have arisen that will reduce in future as the management fee is reduced.

The Board is satisfied with the performance of the company during 2012/13.

## Going Concern

At its meeting on 25 July 2013, the Board of Derby Homes Ltd approved the statement that, in their opinion, Derby Homes Ltd has adequate resources to continue in operational existence for the foreseeable future. The company has a 10 year contract (9 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.

## Report of the Directors (continued)
## Year Ended 31 March 2013

In addition, the council recognises that, following the processing of FRS17 accounting transactions, the company does not have sufficient reserves to offset the resultant pension fund deficit. The council therefore undertakes to provide continuing support to enable the financial statements of Derby Homes to be prepared on a going concern basis.

Furthermore, the Council has announced that the outcome of the review into Housing services is that Derby Homes will remain as a separate company for the foreseeable future.

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

### The Board and Executive Officers

The Board of Derby Homes Limited consists of 15 voluntary members. There are 4 tenant, 1 leaseholder, 5 councillor and 5 independent members. The makeup of the Board and their term of office is determined by Derby Homes Limited Memorandum and Articles of Association, which govern the Company. These may be changed by the Council in the next year as part of the outcome of their review.

The Board and Executive Officers are set out on page 2

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

### Corporate Governance

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 Chief Executive and other Executive Officers who attend Board meetings and meet regularly between Board meetings.

The Company Governance Arrangements include:

- the Memorandum and Articles of Association
- standing orders for conduct of Board and General meetings
- City Board constitution
- delegation of responsibilities
- financial regulations
- contract procedure 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
- services or management agreement between the Council and Derby Homes.

## Report of the Directors (continued)
## Year Ended 31 March 2013

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

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

The Board delegates some decision making to the following Boards or Committees:
- City Board
- Resources, Remuneration & Regeneration Committee.

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

**Audit Committee**

This 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 Committee is to:
- monitor the integrity of financial statements of the company
- review the Company's internal financial control system and risk management system
- monitor and review the effectiveness of the company's internal audit function.

**Employee Involvement**

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

Staff surveys reported improvements across a number of areas in respect of staff assessment of morale. The company is committed to the creation of a happy and productive work environment that values and encourages all employee contributions.

# Report of the Directors (continued)
# Year Ended 31 March 2013

The company continues to operate a policy of no compulsory redundancy. New employment opportunities will be found for those people who want to remain working at Derby Homes. This policy will be continued for at least the immediate future, but may have to be reviewed should restructuring in the future result in costs that cannot be supported. At the moment, this is not the case and the policy can continue to be applied.

Derby Homes have committed to recruiting up to 20 apprentices in 2013/14 to supplement the existing workforce. These will be short term opportunities to learn and train while carrying out real work which should help them to get a job in the future.

**Equality and Diversity**

The Directors of Derby Homes Ltd believe everyone has the right to the same access to services and employment opportunities, to respect and to feel safe and secure in their own home and neighbourhood. Everyone has a right to make use of the opportunities offered by Derby Homes Ltd and to use all parts of our service.

Through our Equalities Scheme, Actions Plans and Equality Impact Assessments the Board promotes diversity in the provision of our services and employment and will not tolerate discrimination. Derby Homes Ltd will make sure no individual or group applying for housing services or employment is treated less favourably than any other person or group because of their individual characteristics. These characteristics include, but are not limited to, disability, ethnicity, colour, race, religion, gender, sexual orientation and age. The Directors will work together with all service providers and customers to ensure that this commitment is met across the entire organisation.

Derby Homes is committed to promoting equal opportunities and valuing diversity. Our aim is equality for everyone who works for Derby Homes and uses our services. We recognise that we must have a workforce that is as diverse as the community we live in, so that we can provide the most effective services. Our objective is to create a workplace culture that respects and values each other’s differences.

A diverse workforce adds value to any organisation, making it more responsive and flexible and making it a place where people want to work. Having a diverse workforce ensures that we have high levels of skills and understanding, that improves our ability to meet the needs and aspirations of the communities we serve.

# Report of the Directors (continued)
# Year Ended 31 March 2013

## Training Employees and the Board

The Board is committed to training and developing Board members and employees. The organisation is recognised as an Investor-In-People. Performance reviews or job chats are carried out with every employee and a personal training plan developed. The company operates an annual Qualification Training Scheme open to all employees. This scheme enables employees to apply for financial assistance and paid leave to attend academic courses. An in-house training programme is operated. The company operates both an E-Induction training package for employees and E-training for Board Members. The Board has a training and development programme which includes an individual appraisal scheme which identifies personal areas for development. An annual training programme is carried out for Board members of compulsory and optional courses, both internally and externally run.

## Risk Management

Derby Homes has a successful track record of managing risk as an integral part of its governance and management systems. Resources, Remuneration & Regeneration Committee approves a written risk management policy, strategy and framework which defines risk, sets out a statement of intent, identifies a risk framework and allocates responsibility and monitoring roles within the organisation.

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

Each risk has a Risk Management Action Plan. Progress on these plans was reviewed and reassessed and scores updated in March 2013. There are three high risk issues identified:

- Possible reduction in Supporting People grant
- Failure to anticipate and prepare for Government policy changes and their impact on tenants
- Failure to update and maintain our tenant profile database to be used in improving customer service

# Report of the Directors (continued)
# Year Ended 31 March 2013

## Internal Controls Assurance

In accordance with good practice relating to Internal Controls Assurance, this statement is given in respect of the financial accounts for Derby Homes Limited. The Board acknowledges responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned.

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

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

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

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

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

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

## Report of the Directors (continued)
## Year Ended 31 March 2013

The Audit Committee has received the Chief Executive's 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.

**Provision of Information to Auditor**

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)).

By order of the Board

| | |
|---|---|
| AGS Osler | D Enticott |
| Chair | Secretary |
| 25 July 2013 | 25 July 2013 |

## Statement of Directors' Responsibilities
## Year Ended 31 March 2013

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law and law applicable to registered social housing providers in England require the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements 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 profit or loss of the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Housing SORP;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 directors 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 and the Housing and Regeneration Act 2008. 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 directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

# Operating and Financial Review
# Year Ended 31 March 2013

## Major Developments during 2012/13

There have been several major developments affecting the future of Derby Homes during 2012/13.

Firstly, Derby Homes' original services agreement concluded on 31 March 2012 and Derby City Council has agreed a new contract with Derby Homes under which the company is responsible for the Housing Management & Maintenance Services from April 2012 for a further period of 10 years, with a break clause after 5 years. This is therefore the first year of operation of the latest contract.

Secondly, April 2012 saw the start of the reformed financial system for the Council's Housing Revenue Account (HRA) – the first year where subsidy no longer applied in exchange for adjusted debt. This translates to give more resources to the Council's HRA to invest in Council housing. While this has no direct bearing on Derby Homes' financial position, it enables the Council to consider further what additional housing, services and maintenance of existing homes it wishes to consider using the resources it has to best effect. Derby Homes' management fee has been reduced in real terms but its maintenance funding has been increased and major repairs – funded directly by the Council – have also been increased substantially as a result. This change to the system has transformed a long term deficit for the HRA – which would have been problematic for Derby Homes – into a surplus, which presents a number of opportunities for Derby Homes and the Council.

Partly as a result of the funding change, Derby City Council announced a further review of housing management during 2012. Following the Council Cabinet's confirmation of the outcome of that review, Derby Homes is able to confirm that it will continue to operate as a separate company into the future, although there will undoubtedly be a change in the way that the Council and Derby Homes operate together.

Thirdly, Derby Homes' company headquarters moved during the financial year from Cardinal Square, Derby to Corporation Street, Derby, renting the top floor of the new Council House building. Derby Homes operates throughout the City of Derby area.

Furthermore, Derby Homes has been affected by two tragic events during the year – the deaths of six children in one of our properties on Victory Road, Osmaston and of our Chief Executive, Phil Davies. While the company has coped, we have been affected by both and we would hope that we never have to experience similar events again.

Now that the Council's review of housing has concluded, the future for Derby Homes looks good. Our financial position – while appearing difficult overall due to the presence of a considerable pension fund deficit of £15.7m – for which there is a long term recovery plan in place – remains robust and indeed should enable sensible investment in partnership with the Council to develop new homes to let at social rented levels.

# Operating and Financial Review (continued)
# Year Ended 31 March 2013

**Value for Money Review**

Derby Homes is committed to embracing a value for money culture by continuing to deliver continuous improvement on the performance of running costs and the use of assets. This can be evidenced by:

1) Robust Approach to Making Decisions

Derby Homes has developed a Value for Money strategy that is approved by the Board; this will further be enhanced through taking into account best practices, in particular with respect to the developing areas of social and environmental returns on assets.

2) Optimising Return on Assets

Alongside the principal activities undertaken as detailed on page 3, there are a number of both social and environmental benefits arising from these key functions and related activities, these include:

- Working alongside a local community group, OSCAR, in developing the largest community led housing development scheme in the country to go alongside OSCAR's achievements in setting up and running the largest Neighbourhood Watch in the country.
- Working alongside Derbyshire Fire and Rescue Service in installing sprinkler systems in new build properties
- Attracting over £4m of CESP funding to fund energy saving measures including insulation related improvements to 2,700 homes
- Starting the first significant new build of Council housing in Derby for over 30 years, with plans for expansion in this area in the short and medium term.

The overall value of Council housing can be partly assessed by comparing the rents that might be charged if all Council housing was set at the Local Housing Allowance (LHA) level and comparing this with the target rents that will be charged once all properties converge (actual rents are currently protected at lower levels for some tenants). This amounts to a net benefit of approx. £20m, of which around half would be charged to the government in higher Housing Benefit if tenants rented from the private sector at the LHA level, leaving £10m as a yearly social return for tenants.

We will be considering further methods in measuring the social and environmental return on our investments and utilising these as part of the future decisions about real returns on investments in homes. Reductions in costs of tenants through energy efficiency for instance make no direct contribution to our financial position but clearly have a benefit to both tenants and the environment. The investment of £6m in solar panels in 2011 is already returning a direct payment to the Council of around 12.5% but will be enhanced by a benefit of at least £150 a year to tenants – which amounts to a further 2.2% return on the original investment.

## Operating and Financial Review (continued)
## Year Ended 31 March 2013

3) Performance management and Scrutiny

In 2012/13 we concluded the business transformation programme. The original objective was to save £2.2m from our costs within four years from 2010/11. The move away from Cardinal Square to a combination of the Council House and London Road has – on top of a large number of efficiencies already delivered – now completed that task a year ahead of schedule. As a result, the Council has saved £1m in management fee in real terms and the company's financial results (before pension fund deficit) have been very positive.

As a result, it has enabled the re-investment of savings into front line maintenance, but at the same time productivity of operations has improved markedly. This combination delivers a significant improvement in value for money for tenants overall.

4) Understanding Costs and outcomes

The broad costs of the key areas of the services are summarised in the table shown in Note 2 of the accounts on page 30. There is considerable consultation and review with the tenants, through the tenants group DACP and Housing Focus Groups, in both the types of services offered and quality standards associated with these.

The overall strategy for Derby Homes is set by Derby City Council as part of the management agreement in place. These support the wider strategic aims that the Council is looking to provide for the City as a whole.

**Principal themes of the Long Term Finance Strategy and outcomes are as follows:**

The ten year contract to manage council housing until 2022 required a reduction of £1m in the management fee over the four years to 2014/15 in order to increase spending on delivery and maintenance of the Council's housing stock. As a result of costs being reduced ahead of the reductions in management fee, the financial results and reserves are better than they will be in the longer term. The overall position was set out in a paper to the Board, which suggested there is now an underlying surplus of around £0.5m a year. The Board agreed to set this towards subsidising future new build properties owned by Derby Homes.

The financial result for the year shows a surplus of £1.1m after FRS 17 pension adjustments of £0.7m and, while the balance sheet overall shows a negative value of the company of £10.3m, this is due entirely to the pension fund deficit which now stands at £15.7m. This is being dealt with by increased contributions from Derby Homes relating to this deficit, over a period determined by Derbyshire County Council as pension fund administrators. This will be further reviewed next year as part of the triennial review of the pension fund. In 2014, the implementation of pension fund reforms is likely to result in lower long term liabilities and greater contributions from staff. As a result of the overall deficit, the Company relies on the

## Operating and Financial Review (continued)
## Year Ended 31 March 2013

Council to support it through a representation letter from the council's Strategic Director of Resources, which effectively underwrites the pension fund deficit of the company. If the pension fund deficit is removed, balance sheet reserves stand at £5.4m, of which £4.1m are designated reserves, with a balance of £1.3m held as general reserves.

The Chair's Briefing meeting reviews the organisations performance indicators and the implementation of action plans arising from this. The table below is a sample of key performance indicators comparing performance for 2012/13 with 2011/12

| Indicator | Description | 2011/12 Achieved | 2012/13 Target | 2012/13 Achieved |
|---|---|---|---|---|
| DH Local 24 (BVPI 63) | Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings. | 71.00 | 72.00 | 72.01 |
| DH Local 43 (HMP210) | Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account (HRA) dwellings | 98.28%* | 99% | 99.83% |
| DH Local 8 (BVPI 66b) | No. of tenants with more than seven weeks of (gross) rent arrears as a % of the total number of tenants. | 6.49% | 6.25% | 5.78% |
| DH Local 27 | Tenant Satisfaction with Landlord (All) | 83.08% | 88.00% | 83.40% |
| DH Local (BVPI 75a/b/c) | Tenant Satisfaction with views taken into account | 64.40% | 68.00% | 61.80% |
| (BVPI 164) | Does the authority follow the Commission for Racial Equality's Code of Practice in rented Housing and the Good Practice Standards for Social Landlords on tackling Harassment? | Yes | Yes | Yes |
| National Indicator 158 | Non-Decent Local Authority Dwellings (percentage) | 0.00% | 0.00% | 0.00% |
| DH Local 21 (BVPI 212) | Average time taken to re-let local authority housing. | 23.32 days | 23.50 days | 20.31 days |

* 11/12 Rent measure was BV66a (12/13: 98.25%)

# Operating and Financial Review (continued)
# Year Ended 31 March 2013

## Performance Highlights 2012/13

Performance remains very good, with key indicators all meeting targets set by the Council with the exception of customer satisfaction where a challenging target of 88% was set. Performance is broadly the same at 83.4%. Of those tenants that 'expressed a preference' satisfaction reached 91%.

Void performance has been outstanding. Average void re-let time has reduced to 21 days. Costs have also reduced. Partly this performance relates to consistent high demand and lower turnover of voids as a result of tenants wishing to stay longer, but there has also been a significant improvement in efficiency. There is likely to be no further significant improvement in this area in terms of turnover as the demand for almost half of the stock which is three bedrooms may reduce as a result of the under occupancy charge or bedroom tax which will also create a corresponding increase in demand for smaller properties to add to the huge demand already evident for them. As a result, we can expect to see an increased time to re-let properties in future.

Rent collected has also remained about the same level of overall collection at 99.83% despite a considerable (8.2%) increase in average rent levels and the start of welfare reform. The prospects for the future in this area are clearly going to be difficult as a result of welfare reform and universal credit in particular once this applies fully locally. The impact of these reforms will take a few years to come through, but will inevitably worsen performance in a number of areas – income recovery/arrears, void turnover and costs are all expected to get worse. Derby Homes will of course attempt to mitigate these effects as much as possible.

## Awards

Derby Homes has been supporting the Osmaston Community Association of Residents (OSCAR), which apart from running the country's largest Neighbourhood Watch scheme, has made a successful bid to the Homes and Communities Agency for over £1m of funding for the redevelopment of the Osmaston estate. This resulted in a nomination for Best Community Group at the National Chartered Institute of Housing Awards ceremony.

Derby Homes remains accredited to a number of awards including ROSPA Gold for Health and Safety, Investors in People, ISO 9001 and others.

# Operating and Financial Review (continued)
# Year Ended 31 March 2013

### Dynamics of the company

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 which may result in additional pressure on the company's housing management services. Departments particularly affected are those handling arrears and direct debit processing, both of which are likely to increase substantially. This has been addressed by employing additional staff in both areas with a view to keeping up levels of support and advice to tenants and then recovery from tenants who do fall into arrears.

Right to Buy numbers have increased markedly during the year from 35 in 2011/12 to 70. This increase means that a limited amount of funding (£0.5m) can be retained by the Council for reinvestment into new Council housing. Levels of sales are expected to increase further – the HRA business plan allows for 108 a year to be lost, but to be largely replaced over the next three years by new investment by the Council and Derby Homes.

The Company's financial position is robust in the short term. The current level of operating surplus excluding pension fund adjustments means that sufficient funding is available to sustain the existing operations of the Company.

The most immediate pressure on the Company's finances is to deal with the implications of the loss of funding through Supporting People funding or eligible service charges for the Supported Living Service, Tenancy Support and Tenancy Sustainment. These services can be combined to increase overall efficiency, but at the present time will have no funding beyond the current financial year. If no action is taken this pressure would be greater than the savings accrued to date for new build properties.

# Operating and Financial Review (continued)
# Year Ended 31 March 2013

## Investment and improvement for the future

As a result of the funding available to the HRA and its ability to replace some lost RTB properties, as well as dealing with the major issues outlined above, it is anticipated that reserve levels can be reduced and applied to areas where investment will produce further savings / increased revenue for the future or funds works associated in complying with current best practices and legislation.

Current approved plans for the designated reserves are:

- Investment in refurbishment of property (subject to purchase) £600,000
- Gas related works £650,000
- Electrical testing £700,000
- Improving access to IT and common rooms £70,000
- Development pump priming £150,000
- Whitecross scooter store £30,000
- Asbestos replacement £100,000
- Contribution towards Supported Living Service £250,000
- Business Transformation Reserve £500,000
- New build / acquisition reserve £1,094,000

This takes the immediate reinvestment programme to £4.144m, reducing the uncommitted general reserves to £1.3m. Derby Homes has always aimed to keep around 5% of turnover as a ‘normal’ level of contingency within its reserves and £1.3m is just over 4% of the underlying turnover.

The new build revenue reserve, created using the balance of savings made over the past few years, now has £1.094m available. This funding can be used alongside borrowing from the Council to purchase or build new homes as part of the new partnership arrangements. Such investments would be protected from the Right to Buy and for flats in particular could mean that investments become possible where they would not be viable for the Council directly.

## Financial Review and Capital Structure

The main accounting policies are set out on pages 27 to 30.

As a wholly owned ALMO subsidiary of Derby City Council, the capital structure has been approved by the council. The balance sheet set out on page 24 shows a deficiency of total funds which results from the defined pension fund liability but as noted in the Directors’ Report and Accounting Polices, this major liability is underwritten by the council. Excluding the pension liability, total reserves as at 31 March 2013 amount to £5.444m.

## Operating and Financial Review (continued)
## Year Ended 31 March 2013

### Treasury Policy, Cash Flows and Liquidity

The company benefits from participation in the council's treasury policy arrangements and management and other fees are paid in advance during the year, allowing the company to maintain a satisfactory cash flow and liquidity position. As part of the council's group banking arrangements, temporary cash flow issues are managed by the council. The Company is also able to benefit from the council's access to the Public Works Loans Board for long term fixed rate borrowing should it be necessary. In practice the cash flow is largely positive at present.

### Statement of Compliance

The Board has endeavoured to follow the principles as detailed in the 2008 statement of Recommended Practice in the production of its Operating and Financial Review.

The Board is of the opinion that the Operating and Financial Review meets the requirement of the Accounting Standard Board's 2006 Reporting Statement.

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

We have audited the financial statements of Derby Homes Limited for the year ended 31 March 2013 which comprise the income and expenditure account, the statement of total recognised surpluses and deficits, the balance sheet, the cash flow statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the association'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 association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

### *Respective responsibilities of the directors and auditors*

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

### *Scope of the audit of the financial statements*

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

### *Opinion on financial statements*

In our opinion the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2013 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Registered Providers of Social Housing 2012.

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

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

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

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

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

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

*Hamid Ghafoor (senior statutory auditor)*
*For and on behalf of BDO LLP, statutory auditor*
*Liverpool*
*United Kingdom*
*Date*

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

# Income and Expenditure Account
# Year Ended 31 March 2013

| | Notes | **2013 £'000** | 2012 £'000 |
|---|---|---|---|
| **Turnover** | 2 | **30,062** | 35,986 |
| Operating costs | 2 | **(28,546)** | (35,187) |
| **Operating Surplus** | 4 | **1,516** | 799 |
| Interest payable and similar charges | | **(12)** | (14) |
| Pension finance costs | 5 | **(443)** | (164) |
| **Surplus on ordinary activities before taxation** | | **1,061** | 621 |
| Tax on surplus/(deficit) on ordinary activities | 6 | **-** | - |
| **Surplus on ordinary activities after taxation** | 12 | **1,061** | 621 |
| **Retained surplus for the year** | | **1,061** | 621 |

All amounts relate to continuing activities.

There are no differences between the surplus for the year and its historical cost equivalent.

**Statement of Total Recognised Surpluses and Deficits for the year ended 31 March 2013**

| Surplus for the financial year | **2013** | 2012 |
| --- | --- | --- |
| | **£'000** | £'000 |
| Surplus for the financial year | **1,061** | 621 |
| Actuarial (losses) relating to pensions | **(3,524)** | (1,712) |
| | **(2,463)** | (1,091) |
| Prior year adjustment | **-** | - |
| Total recognised (losses) since last annual report | **(2,463)** | (1,091) |

All recognised gains and losses are included in this statement and all relate to continuing activities.

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

# Balance Sheet
# At 31 March 2013

| | Notes | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Housing Properties | | | |
| Cost less depreciation | | **1,213** | 1,219 |
| Capital grant | | **(1,049)** | (1,049) |
| **Net book value of housing properties** | | **164** | 170 |
| Other fixed assets | | **1,000** | 523 |
| | 8 | **1,164** | 693 |
| **Current assets** | | | |
| Debtors | 9 | **6,679** | 7,737 |
| Stock | | **131** | 113 |
| Cash in hand | | **2** | 2 |
| | | **6,812** | 7,852 |
| **Creditors: amounts falling due within one year** | 10 | **(2,348)** | (4,712) |
| **Net current assets** | | **4,464** | 3,140 |
| Creditors: amounts falling due after one year | 11 | **(184)** | (192) |
| Net assets before pension liability | | **5,444** | 3,641 |
| Defined benefit pension liability | 7 | **(15,739)** | (11,480) |
| Net liabilities after pension liability | | **(10,295)** | (7,839) |
| **Reserves** | | | |
| Defined benefit pension liability reserve | | **(15,739)** | (11,480) |
| Designated reserves | | **4,144** | 2,050 |
| Revenue reserves | | **1,300** | 1,591 |
| **Total funds** | 12 | **(10,295)** | (7,839) |

These financial statements were authorised and approved by the Board of Directors on 25 July 2013.

Signed on behalf of the Board of Directors

D Rees
Vice Chair

D Enticott
Secretary

# Cash Flow Statement
# Year Ended 31 March 2013

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| **Reconciliation of operating surplus to net cash Inflow/(outflow) from operating activities** | | |
| Operating surplus | **1,516** | 799 |
| Loss on disposal of fixed assets | **29** | - |
| Depreciation | **396** | 324 |
| Increase in stocks | **(18)** | (72) |
| Decrease / (Increase) in debtors | **1,058** | (528) |
| Decrease in creditors | **(2,364)** | (228) |
| Prior year adjustment on fixed assets | **7** | - |
| Movement in FRS17 adjustment | **292** | 283 |
| **Net cash inflow from operating activities** | **916** | 578 |
| | | |
| **Cash flow statement** | | |
| Net cash inflow from operating activities | **916** | 578 |
| Return on investments and servicing of finance | **(12)** | (14) |
| **Capital Expenditure:** | | |
| Fixed Asset additions | **(896)** | (557) |
| Cash inflow before financing | **8** | 7 |
| Financing – loan principal repayments | **(8)** | (8) |
| (Decrease) in cash | **-** | (1) |

## Reconciliation of net cash flow to movement in net debt for the year ended 31 March 2013

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Decrease in cash in the year | - | (1) |
| Cash outflow from decrease in debt and lease financing | 8 | 8 |
| **Movement in net debt in the year** | 8 | 7 |
| Net debt at 1 April 2012 | (190) | (197) |
| **Net debt at 31 March 2013** | (182) | (190) |

## Analysis of changes in net debt

| | 1 April 2012 £'000 | Cash flow | 31 March 2013 £'000 |
|---|---|---|---|
| Cash at bank and in hand | 2 | - | 2 |
| | 2 | - | 2 |
| Debts falling due after more than one year | (192) | 8 | (184) |
| **Net debt** | (190) | 8 | (182) |

# Notes to the Financial Statements
# Year Ended 31 March 2013

## 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.

### Basis of accounting

The financial statements of the company are prepared in accordance with applicable accounting standards and the Statement of Recommended Practice (SORP) 2010 – Accounting by registered social housing providers update 2010, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2012.

### 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 FRS 17, Retirement Benefits. However, this is underwritten by Derby City Council.

### Turnover

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

### Operating Costs

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

### Overheads and Administrative Costs

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

### Tangible fixed assets and depreciation

Housing properties are principally properties available for rent and are stated at cost less social housing grants and depreciation. Any additions include the cost of acquiring land and buildings, development costs and expenditure incurred in respect of enhancements to existing properties. Other fixed assets are included in the balance sheet at historical cost, less depreciation where appropriate.

## Notes to the Financial Statements
## Year Ended 31 March 2013 (Continued)

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

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

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

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

**Impairment**

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

**Taxation including deferred tax**

The charge for taxation is based on the surplus for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on all timing differences in accordance with FRS 19 – Deferred Taxation. Deferred tax assets are accounted for to the extent they are regarded as recoverable. The company does not discount deferred tax.

**Operating leases**

Rentals under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

**Pension costs**

**Local government pension scheme**

The company participates in the Derbyshire County Council defined benefit (open) superannuation fund, a funded benefit scheme. The pension charge is based on a full actuarial valuation of the fund as at 31 March 2010.

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

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

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

The company has fully adopted Financial Reporting Standard 17 “Retirement Benefits” during the year.

**Debtors and creditors**

The income and expenditure and balance sheet accounts of the company are maintained on an accruals basis. This means that sums due to or from the company during the year are included, whether or not the cash has been received or paid in the year.

**Value Added Tax (VAT)**

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

**Accounting for grants**

Grants received relating to revenue expenditure are credited to the income and expenditure account as they become receivable. In certain circumstances, grant funding may be repayable if the conditions of the funding are not met.

Where grant is received as a contribution towards the capital cost of fixed assets it is deducted from the fixed asset cost.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

### Reserves

The Board at its meeting in January set aside from within its projected reserves funding for various projects listed in page 18 above. These have been classified as designated reserves and are expected to be utilised within two years with the majority of the funding to be used within a year.

Two projects may take longer to be fully utilised: firstly Business Transformation Reserve – which is designed for 'Invest to Save' investments or where restructuring costs are to be incurred. Currently there are no firm plans against this reserve. Finally there is a New build reserve which comprises the balance of funds available as approved by the Board in March. This is intended to subsidise investments in new build homes where Derby Homes are the substantive owner. The first plan relating to this fund is already being considered and further schemes will follow over time as opportunities arise. The intention is to use these funds to meet any revenue shortfall in the initial years of any new investment.

### True and Fair Override

Under the requirements of the SORP, capital grant income received as a contribution towards capital cost of fixed assets is deducted from the fixed asset cost on the balance sheet. This treatment is contrary to the Companies Act 2006 which states fixed assets should be stated at purchase price, or valuation, less any provision for depreciation or diminution in value and that grants should be shown as deferred income. The purpose of the capital grants is to subsidise the cost of the social housing and the income from properties is a function of net cost. Accordingly the Board considers it necessary to adopt the treatment set out in SSAP4 in order to give a true and fair view of the financial position of the company.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

## 2. Turnover, operating costs and operating surplus/ (deficit)

| | Year ended 31 March 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Notes | Turnover | Operating Costs | Additional FRS 17 pension costs | Total Operating Costs | Operating Surplus or (deficit) |
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Social Housing Lettings | 2.1 | 57 | 35 | - | 35 | 22 |
| Management of Social Housing for the council | | 10,352 | 9,070 | 140 | 9,210 | 1,142 |
| Maintenance and Repair of Social Housing for the Council | | 15,089 | 14,643 | 115 | 14,758 | 331 |
| Capital Works undertaken for the Council | | 2,714 | 2,688 | 24 | 2,712 | 2 |
| Public Buildings Work undertaken for the Council | | 1,392 | 1,411 | 13 | 1,424 | (32) |
| Other activities | | 458 | 407 | - | 407 | 51 |
| **Total** | | **30,062** | **28,254** | **292** | **28,546** | **1,516** |

The additional FRS 17 pension costs are due to the actuarial assessment of pension current service costs included above being at a higher level than the actual pension contributions which were paid and included in operating costs.

As a result of the above the Capital Works and the Public Buildings work undertaken for the council show deficits for the year but would otherwise have showed break even, the arrangements with the Council being on an actual cost recovery basis.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

| | Year ended 31 March 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Notes | Turnover | Operating Costs | Additional FRS 17 pension costs | Total Operating Costs | Operating Surplus or (deficit) |
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Social Housing Lettings | 2.2 | 56 | 44 | - | 44 | 12 |
| Management of Social Housing for the council | | 12,753 | 11,864 | 147 | 12,011 | 742 |
| Maintenance and Repair of Social Housing for the Council | | 12,358 | 12,201 | 104 | 12,305 | 53 |
| Capital Works undertaken for the Council | | 9,005 | 9,005 | 19 | 9,024 | (19) |
| Public Buildings Work undertaken for the Council | | 1,371 | 1,371 | 12 | 1,383 | (12) |
| Other activities | | 443 | 419 | 1 | 420 | 23 |
| **Total** | | **35,986** | **34,904** | **283** | **35,187** | **799** |

## 2.1 Social Housing Lettings

| | 2013 | 2012 |
|---|---|---|
| | £'000 | £000 |
| Rents (net of void loss) | 50 | 49 |
| Service charge income | 7 | 7 |
| **Net rental income** | **57** | 56 |
| **Expenditure** | | |
| Property insurance | 3 | 3 |
| Other supplies & services | 26 | 35 |
| Depreciation | 6 | 6 |
| **Total Expenditure** | **35** | 44 |
| **Operating surplus on Social Housing lettings** | **22** | 12 |

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

## 3. Information regarding directors and employees

Directors and executive officers' emoluments are as shown below. No pension contributions were made for Directors. Directors emoluments were introduced from October 2011, hence the part year totals for 2011/12. Actual fee levels have remained frozen in 2012/13.

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| **Directors' emoluments** | | |
| Aggregate emoluments | **16** | 8 |
| Pension contributions | **-** | - |
| | **16** | 8 |

**Executive Officers' emoluments**

At the start of the period there were four permanent executive officers including a Chief Executive. Following the death of the Chief Executive in July 2012, an Interim Chief Executive was appointed on a consultancy basis until February 2013. The cost of this work was £57,400. Since then the Chief Executive duties were undertaken by one of the three Executive Officers.

These executive officers are listed on page 2.

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| Aggregate emoluments – executive officers | **262** | 333 |
| Pension contributions – executive officers | **28** | 38 |
| | **290** | 371 |
| Interim Chief Executive consultant | **57** | - |
| | **347** | 371 |
| Emoluments paid to the highest paid executive officer | **75** | 113 |
| Pension contributions – highest paid executive officer | **8** | 12 |
| | **83** | 125 |

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.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

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

| | 2013 | 2012 |
|---|---|---|
| Housing management | **181** | 182 |
| Central services and regeneration | **38** | 63 |
| Maintenance and repairs | **195** | 160 |
| | **414** | 405 |

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

| Staff costs during the year (including directors and executive officers) | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Wages and salaries | **10,263** | 10,043 |
| Social security costs | **754** | 752 |
| Pension | **1,519** | 1,521 |
| | **12,536** | 12,316 |
| Past service cost | **31** | - |
| | **12,567** | 12,316 |

| Salary bandings for all employees earning over £60,000 | 2013 Number | 2012 Number |
|---|---|---|
| £60,000 to £70,000 | **-** | - |
| £70,001 to £80,000 | **3** | 3 |
| £80,001 to £90,000 | **-** | - |
| £90,001 to £100,000 | **-** | - |
| £100,101 to £110,000 | **-** | 1 |

## 4. Operating surplus

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| The operating surplus is after charging: | | |
| Depreciation | **396** | 324 |
| Loss on disposal of assets | **29** | - |
| Auditor's remuneration: | | |
| - audit services | **18** | 20 |
| - non-audit services, taxation | **3** | 8 |
| Operating lease rentals - equipment | **14** | 10 |

## Notes to the Financial Statements Year Ended 31 March 2013 (Continued)

| **5. Other finance costs** | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Interest cost on pension obligation | **2,464** | 2,473 |
| Expected return on assets | **(2,021)** | (2,309) |
| | **443** | 164 |

| **6. Tax on surplus on ordinary activities** | **2013 £'000** | 2012 £'000 |
|---|---|---|
| United Kingdom corporation tax | **-** | 5 |
| Adjustments in respect of prior periods | **-** | (5) |
| | **-** | - |

| **Factors affecting tax charge for year** | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Surplus on ordinary activities before tax | **1,061** | 621 |
| Surplus on ordinary activities multiplied by corporation tax | **212** | 124 |
| **Effects of:** | | |
| Non taxable income and deductions | **(212)** | (123) |
| Adjustment to tax in respect of prior periods | **-** | (1) |
| | **-** | - |

### 7. Pensions

The company participates in the Derbyshire County Council defined benefit (open) superannuation fund, a funded final salary benefit scheme. In accordance with Financial Reporting Standard No. 17 – Retirement Benefits (FRS 17), the Company is required to disclose certain information regarding assets, liabilities, income and expenditure related to pension schemes for its employees.

The most recent valuation was carried out as at 31 March 2010 and has been updated by independent actuaries to the Derbyshire County Council Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the fund as at 31 March 2013.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

Pension obligations were transferred to the company on 25 February 2002 when the company commenced trading. Any net pension deficit as at this date relating to employees who transferred to the company remained a liability of the parent organisation Derby City Council.

The amounts recognised in the balance sheet are as follows:

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| Present value of funded obligations | **(57,726)** | (47,887) |
| Fair value of scheme assets | **41,987** | 36,407 |
| Deficit | **(15,739)** | (11,480) |

The amounts recognised in the income and expenditure account are as follows:

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| Interest on obligation | **2,464** | 2,473 |
| Expected return on scheme assets | **(2,021)** | (2,309) |
| Finance costs | **443** | 164 |
| Current service cost | **1,512** | 1,504 |
| Past service cost | **31** | - |
| Total | **1,986** | 1,668 |

The amounts recognised in the statement of recognised gains and losses are as follows:

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| Actuarial (losses) relating to pensions | **(3,524)** | (1,712) |
| Net (losses) | **(3,524)** | (1,712) |

## Notes to the Financial Statements
## Year Ended 31 March 2013 (Continued)

Changes in the present value of the defined benefit obligation are as follows:

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| Opening defined benefit obligation | **47,887** | 44,515 |
| Interest cost | **2,464** | 2,473 |
| Actuarial loss | **6,482** | - |
| Benefits paid | **(1,223)** | (1,176) |
| Current service cost | **1,512** | 1,504 |
| Past service cost | **31** | - |
| Members contributions | **573** | 571 |
| Closing defined benefit obligation | **57,726** | 47,887 |

| Changes in the fair value of scheme assets are as follows: | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| Opening fair value of scheme assets | **36,407** | 35,194 |
| Expected return | **2,021** | 2,309 |
| Actuarial gains/(losses) | **2,958** | (1,712) |
| Contributions by employer | **1,251** | 1,221 |
| Benefits paid | **(1,223)** | (1,176) |
| Members contributions | **573** | 571 |
| Closing fair value of scheme assets | **41,987** | 36,407 |

The actual gain on scheme assets in the period was £4,979,000 (2011/12 - £597,000) gain).

During the year, the Company paid employer contributions of £1,251,000. The contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. The company expects to contribute £1,223,000 to its defined benefit pension scheme in 2013/14.

## Notes to the Financial Statements
## Year Ended 31 March 2013 (Continued)

The major categories of scheme assets as a percentage of total scheme assets are as follows:

| | **2013 %** | 2012 % |
|---|---|---|
| Equities | **66.0** | 64.3 |
| Property | **5.0** | 5.4 |
| Government bonds | **15.0** | 16.7 |
| Other bonds | **5.0** | 5.3 |
| Cash/liquidity | **8.0** | 7.3 |
| Other | **1.0** | 1.0 |
| Total assets | **100** | 100 |

The proportions of total assets held in each asset type, shown above, reflect the proportion held by the fund as a whole at 31 March 2013 and 31 March 2012.

Assets are valued at realisable value, principally bid price for investments.

The principal actuarial assumptions at the balance sheet date are as follows:

| | **2013 %** | 2012 % |
|---|---|---|
| CPI Inflation rate | **2.4** | 2.6 |
| Discount rate | **4.4** | 5.1 |
| Rate of increase in salaries | **4.15** | 4.35 |
| Rate of increase in pensions | **2.4** | 2.6 |
| Expected rate of return on assets | **5.47** | 5.51 |

Life expectancy at 31 March 2013:

| | |
|---|---|
| Of a male/ (female) future pensioner aged 65 in 20 years' time | 24.0 (26.8) years |
| Of a male/ (female) current pensioner aged 65 | 22.2 (24.8) years |

## Notes to the Financial Statements
## Year Ended 31 March 2013 (Continued)

The amounts of deficits and experience adjustments for defined benefit pension plans for the current and previous four periods are as follows:

Defined benefit pension plans

| | 2013<br>£'000 | 2012<br>£'000 | 2011<br>£'000 | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|---|---|---|
| Defined benefit obligation | (57,726) | (47,887) | (44,515) | (31,169) | (19,752) |
| Scheme assets | 41,987 | 36,407 | 35,194 | 19,818 | 14,095 |
| | (15,739) | (11,480) | (9,321) | (11,351) | (5,657) |
| Percentage funded | 73% | 76% | 79% | 64% | 72% |
| Experience adjustments on scheme liabilities | - | - | 1,658 | - | - |
| Experience adjustments on scheme assets | 2,958 | (1,712) | 580 | 4,094 | (4,024) |

None of the comparative figures have been restated to reflect the change in equities value from mid-market price to bid price. The restatement has not been made on the basis that any adjustments are not material to the financial statements.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

## 8. Tangible fixed assets

| | Social Housing Properties Held for letting £'000 | Computer Equipment £'000 | Motor Vehicles £'000 | Other Assets £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2012 | 1,229 | 2,223 | 170 | 13 | 3,635 |
| Disposals | - | (392) | - | - | (392) |
| Additions | - | 19 | 877 | - | 896 |
| **At 31 March 2013** | **1,229** | **1,850** | **1,047** | **13** | **4,139** |
| **Depreciation** | | | | | |
| At 1 April 2012 | 10 | 1,846 | 24 | 13 | 1,893 |
| Disposals | - | (363) | - | - | (363) |
| Charge for the year | 6 | 242 | 148 | - | 396 |
| **At 31 March 2013** | **16** | **1,725** | **172** | **13** | **1,926** |
| **Capital Grant** | | | | | |
| At 1 April 2012 | (1,049) | - | - | - | (1,049) |
| Receipts in year | - | - | - | - | - |
| **At 31 March 2013** | **(1,049)** | **-** | **-** | **-** | **(1,049)** |
| **Net book value** | | | | | |
| At 31 March 2012 | 170 | 377 | 146 | - | 693 |
| **At 31 March 2013** | **164** | **125** | **875** | **-** | **1,164** |

There is a legal charge on certain land and buildings held by Derby City Council as security that the company will discharge all its liabilities in relation to the property.

The Social Housing Properties Held for Letting are Freehold.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

| **Expenditure on works to existing properties** | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Amount capitalised | **-** | - |
| Amount charged to income and expenditure account | **19** | - |
| | **19** | - |

**9. Debtors:** amounts falling due within one year

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Amounts due from parent company | **5,402** | 7,204 |
| Trade debtors | **90** | 67 |
| Other taxation | **1,031** | - |
| Prepayments and accrued income | **156** | 466 |
| | **6,679** | 7,737 |

Included in amounts due from the parent company is £1,479,000, (2012 £514,000), being a bank account held on the company's behalf by Derby City Council.

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

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Amounts owing to parent company | **777** | 1,130 |
| Trade creditors | **612** | 738 |
| Corporation tax | **5** | 5 |
| Other taxation and social security | **27** | 1,362 |
| Other creditors | **-** | 150 |
| Accruals and deferred income | **927** | 1,327 |
| | **2,348** | 4,712 |

**11 Creditors:** amounts falling due after one year

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Amounts owing to parent company – New Build Loan | **184** | 192 |
| Repayments are due as follows: | | |
| Within 5 years | **40** | 40 |
| In more than 5 years | **144** | 152 |

The New Build loan originally for £200,000 is currently on a fixed rate of interest of 6%. The loan is secured by way of a legal charge held by Derby City Council over certain land and buildings.

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

## 12 Reserves

| | Pension Reserve | Designated reserves | General reserves | **Total reserves** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | **£'000** |
| Pension reserve | (11,480) | | | **(11,480)** |
| Designated reserves | | 2,050 | | **2,050** |
| Revenue reserves | | | 1,591 | **1,591** |
| Balance at 1 April 2012 | (11,480) | 2,050 | 1,591 | **(7,839)** |
| Prior year adjustment | | | 7 | **7** |
| Surplus for the year | (735) | 2,094 | (298) | **1,061** |
| Actuarial losses in year | (3,524) | | | **(3,524)** |
| **Balance at 31 March 2013** | (15,739) | 4,144 | 1,300 | **(10,295)** |

The designated reserves totalling £4.144m are planned to be used to fund a variety of works as detailed on page 18 of the Operating & Financial Review.

## 13 Capital Commitments

At 31 March 2013 there were no capital commitments (2011/12 - £559,000).

## 14 Operating Lease Commitments

At 31 March 2013 the company had annual commitments under non-cancellable operating leases as follows:

| **Equipment** | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| Expiry date : | | |
| Between 1 and 2 years | **13** | 7 |
| Between 2 and 5 years | **1** | 2 |

## 15 Parent Undertaking

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

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

# Notes to the Financial Statements
# Year Ended 31 March 2013 (Continued)

## 16 Related Party Undertaking

During the year Derby Homes received income from Derby City Council, its parent company, and paid for services provided by Derby City Council. The company has taken advantage of the exemptions available under FRS 8 for the disclosures relating to transactions with other group companies.

Four 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. One board member holds a leasehold contract with the council and enjoys the same benefit as other leaseholders with the same agreement and fulfils the same obligations as other leaseholders. There are no significant rental arrears to report in relation to these tenants or leaseholder as at year end.

## 17 Accommodation in Management and Development

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

| | **2013** | 2012 |
|---|---|---|
| **Social Housing** | | |
| General needs housing – social | **11,915** | 11,985 |
| General needs housing – affordable | **-** | - |
| Supported housing and housing for older people | **1,654** | 1,654 |
| **Total Social Housing** | **13,569** | 13,639 |
| **Non Social Housing** | | |
| Market rent | **14** | 14 |
| Other shared equity | **-** | - |
| **Total non Social Housing** | **14** | 14 |
| **Total owned and managed** | **13,583** | 13,653 |

Included in the above table are 10 (2012:10) owned properties let as general needs housing – social and 5 (2012:5) owned properties let as non social housing at market rent.

All other properties are managed on behalf of other organisations:

| | **2013** | 2012 |
|---|---|---|
| Derby City Council | **13,455** | 13,525 |
| Metropolitan Housing Ltd | **66** | 66 |
| Parkview Properties Derby Ltd | **9** | 9 |
| Lilian Prime Trust | **5** | 5 |
| The Guinness Trust | **33** | 33 |

# EXTERNAL AUDIT HIGHLIGHTS REPORT (INCLUDING MANAGEMENT LETTER)

# Derby Homes Limited

Audit for the year ended 31 March 2013



# EXECUTIVE SUMMARY

**The contacts at BDO in connection with this report are:**

**Hamid Ghafoor**
Partner
Mobile: 07816 227021
Email:hamid.ghafoor@bdo.co.uk

**Gurjinder Giran**
Audit Manager
Direct tel: 0115 962 9286
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This report sets out our findings from the external audit of the financial statements of Derby Homes Limited for the year ended 31 March 2013. This summary covers those matters we believe to be material in the context of our work. However, you should read the entire report as there may be other matters raised that you consider important.

| Key area | Summary | Page |
|---|---|---|
| Audit status | We have substantially completed our audit work for the entity. There are however some outstanding items to be completed as noted. | 2 |
| Management letter | We have identified 1 recommendation from our audit work which is included in our management letter. | 4 |
| Unadjusted audit differences | No unadjusted audit differences were identified. | 4 |
| Written representations | We require a representation letter. | 5 |
| Independence | There are non-audit fees for the full year to 31 March 2013. | 6 |
| Financial reporting/regulation | The new Accounting Direction for Private Registered Providers of Social Housing 2012 applied to this year's financial statements for the registered providers in the group. No issues arising. | 7-9 |
| Significant issues and areas for attention | The significant issues and areas for attention identified in our audit strategy have been satisfactorily audited and concluded upon. | 10-15 |
| Issues identified during the audit | We identified 1 issue during the course of our audit work. | 16 |

# EXTERNAL AUDIT SUMMARY

| Key contents | High Level Summary |
|---|---|
| **Audit status** | We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2013 and anticipate issuing an unqualified audit opinions for the entity subject to the outstanding matters listed below.<br>**Outstanding items required to enable us to complete our files:**<br>• Representation letter from Derby City Council<br>• Final amended version of the financial statements |

# EXTERNAL AUDIT SUMMARY

| Key contents | High Level Summary |
|---|---|
| Significant risks, issues and areas for attention | The risks and issues identified in our audit strategy document were:<br>• Future funding requirements, business planning and going concern<br>• Revenue recognition<br>• Open Contractor - Oracle interface<br>• Management override<br>• Pension<br>• Housing SORP and Accounting Direction 2012<br>In addition to the above, which are discussed in detail on pages 10 to 15, we have also included in this report the following matters identified through our final audit work:<br>• Disclosure requirements per Accounting Direction 2012 |

# EXTERNAL AUDIT SUMMARY

| Key contents | High Level Summary |
|---|---|
| **Management letter** | Our audit work highlighted the following areas where processes and controls could be improved:<br>• Monitoring of job completion dates in Open Contractor<br><br>This is included in the management letter later in this report.<br><br>The following areas have been revisited from the 2012 audit:<br>• Bad debt provision – clearing older balances - no recurring issue<br>• Supplier statement reconciliations not reconciled to postings on creditors ledger - no recurring issue<br>• Provision for committed costs - recommended again for the current year<br>• Inaccuracies in treatment of VAT - no recurring issue |
| **Unadjusted audit differences** | As communicated at the planning stage of our audit, in accordance with auditing standards we communicate to you all unadjusted items identified during our audit, other than those which we believe are “clearly trivial”. Clearly trivial is defined as matters which will be a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit and will be matters that are clearly inconsequential, whether taken individually or in aggregate. For the company this has been established at £16,000.<br>No unadjusted differences have been identified during the audit. |

# EXTERNAL AUDIT SUMMARY

| Key contents | High Level Summary |
|---|---|
| Written representations | Following completion of our work, we will require a representation letter as detailed in this report. |

# EXTERNAL AUDIT SUMMARY

| Key contents | High Level Summary |
|---|---|
| Independence | Prior to commencement of our audit of the financial statements for the year ended 31 March 2013 we confirmed to you our independence in accordance with Auditing and Ethical Standards.<br>We confirm that there have been no changes to our independence since the planning stage of our audit and that:<br>• the firm complies with the APB Ethical Standards and in our professional judgement, is independent and objective within the meaning of those standards; and<br>• in our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.<br>We have also taken this opportunity to update the table of fees for non-audit services since we last communicated this to you in our external audit strategy. This is in respect of non-audit fees for the financial year to 31 March 2013. |

| Non-audit services to date | Principal independence threats | Safeguards | Fees (excl VAT) £ |
|---|---|---|---|
| Taxation services | BDO carries out tax compliance work for the company | Tax work is carried out and reviewed by different staff from those involved with audit | 950 |

# FINANCIAL REPORTING/REGULATION

**The Accounting Direction for Private Registered Providers of Social Housing 2012**

The Accounting Direction for Private Registered Providers of Social Housing 2012 was issued in September 2012, applicable to accounting periods beginning on or after 1 April 2012. Therefore, for most registered providers the year ended 31 March 2013 is the first year of implementation.

The significant changes, and compliance by the company, are set out below:

| Changes | Requirement in the Accounting Direction 2012 | Compliance by the company |
|---|---|---|
| **Value for money statement** | The Accounting Direction for Private Registered Providers of Social Housing 2012 requires that registered providers include a Value for money statement (VFM) in their Operating and Financial Review or Directors Report. Whilst Derby Homes are not regulated on VFM by the Homes and Communities Agency, it is required to meet the accounting requirement as set out in the Accounting Direction. | Disclosure has been included within the board report of the company as required.<br>We have reviewed the statement to ensure that the disclosure is consistent and in line with the company's VFM strategy.<br>Our review of the draft financial statements remains in progress but no issues are anticipated in this regard. |



Continued on next page

# FINANCIAL REPORTING/REGULATION

## The Accounting Direction for Private Registered Providers of Social Housing 2012

| Changes | Requirement in Accounting Direction 2012 | Impact |
|---|---|---|
| **Extension of meaning of 'Director'** | Disclosure requirements relating to 'Directors' have now been extended to also include those of the Chief Executive and all Senior Management.<br><br>There is an additional requirement to disclose the full time equivalent number of staff whose remuneration payable in relation to the period of account fell within each band of £10,000 from £60,000 upwards. Remuneration should also include benefits in kind and compensation for loss of office. | The company was required to include this additional banding analysis.<br><br>Disclosures fully compliant in the draft financial statements. |
| **Accommodation in management** | The number of units of different types of social housing accommodation managed by the RP at both the start and the end of the period of account is required to be disclosed.<br><br>The number of general needs units disclosed should be split between those let at social rent and those at Affordable Rent levels. | The company was required to include this additional detail in the financial statements. |

# SIGNIFICANT RISKS, ISSUES AND AREAS FOR AUDIT ATTENTION

| Risk/issue | Audit work carried out | Results of audit work |
| --- | --- | --- |
| **Future funding requirements and business planning** | | |
| • A 10 year management agreement was signed with Derby City Council in October 2011, covering the provision of management services to the council until 2022.<br>• We understand that Derby City Council are reviewing this management arrangement going forward however at present there is fundamental uncertainty regarding the structure of Derby Homes in the future. For this reason the going concern status of the company is considered to be a significant risk area. | • We reviewed the financial budgets and forecasts for 2013/2014 and considered the period after this.<br>• We have also taken into account the current 10 year service level agreement in place with Derby City Council. The Council also indemnify the ALMOs pension liability. | • We are satisfied that the Council will provide continuing support to Derby Homes and that it is appropriate for the financial statements to be prepared on a going concern basis.<br>• Following the Council Cabinet's confirmation we are satisfied that Derby Homes will continue to operate as a separate company into the future. DCC have recommended a "Partnership Model" as being adopted. There is no change in the way that the management fee would be remitted (although fluctuations in management fee are likely), with Derby Homes continuing into the future as a separate legal entity.<br>• We note that the board of Derby Homes is yet to formally approve the recommendation presented by DCC, however given the overall control exercised by the council this decision is unlikely to have an effect on the going concern status of the company. |

# SIGNIFICANT RISKS, ISSUES AND AREAS FOR AUDIT ATTENTION

| Risk/issue | Audit work carried out | Results of audit work |
|---|---|---|
| **Housing SORP and Accounting direction 2012** | | |
| • Derby Homes Limited became a Registered Provider of Social Housing (RP) in April 2011 and is now regulated by the Homes and Communities Agency (HCA). As a result, the company's financial statements are now required to comply with the Statement of Recommended Practice – Accounting by Registered Social Housing Providers Update 2010 and the HCA's Accounting Direction for Private Registered Providers of Social Housing 2012.<br>• These regulations include more onerous requirements regarding the format of the financial statements and the number and level of detail of the disclosures therein.<br>• There is also a requirement for a Value for Money Statement in the Operating Financial Review | • Our audit procedures were designed to focus on the formatting of the financial statements and the disclosures therein and their compliance with the Housing SORP and the Accounting Direction 2012. Our audit procedures resulted in minor revisions to the financial statements. | • We are satisfied that the disclosures contained within the financial statements are complete and accurate and are in compliance with the Statement of Recommended Practice – Accounting by Registered Social Housing Providers Update 2010 and the HCA's Accounting Direction for Private Registered Providers of Social Housing 2012. |

# SIGNIFICANT RISKS, ISSUES AND AREAS FOR AUDIT ATTENTION

| Risk/issue | Audit work carried out | Results of audit work |
|---|---|---|
| **Revenue recognition** | | |
| • Under International Standard on Auditing 240 “The auditor’s responsibility to consider fraud in an audit of financial statements” there is an assumption that revenue recognition is a fraud risk. | • We undertook detailed testing in relation to the management fee received and reviewed the systems and controls in place surrounding the recognition of management charges and performed audit testing in respect of the contract. We also designed testing to include items classified as other income within the financial statements where material.<br>• The cut off testing which was designed and carried out has provided us with assurance that revenue has been recognised in the correct accounting period.<br>• A detailed review was carried out for revenue occurrence and completeness. We are satisfied from our testing that revenue is not materially misstated in the financial statements. | • We are satisfied from our testing that revenue is not materially misstated in the financial statements. |
| **Management override** | | |
| • As with revenue recognition our auditing standards require us to presume that the risk of management override of controls is present and significant in all entities.<br>• We are required to respond to this risk by testing the appropriateness of journal entries recorded in the general ledger, unusual transactions, any estimations included in the accounts and other adjustments made in the preparation of the financial statements. | • A comprehensive understanding of the business rationale of significant transactions was obtained at the audit planning visit, with a review of significant accounting estimates and journals posted (both throughout the year and as part of the close-down procedures) undertaken as part of final assurance procedures. None of the work performed highlighted unusual items or bias. | We are therefore satisfied that undue management override has not occurred in the period under review. |

# SIGNIFICANT RISKS, ISSUES AND AREAS FOR AUDIT ATTENTION

| Risk/issue | Audit work carried out | Results of audit work |
|---|---|---|
| **Pension** | | |
| • Derby Homes Limited is a member of the Derbyshire County Council Local Government Pension Scheme (LGPS). In 2012 there was a net pension liability within the financial statements of £11.5m on the scheme.<br>• The costs of the scheme needs must be managed closely by the company and the accounting treatment and disclosures of the transactions, assets and liabilities must be in line with the requirements set out in Financial Reporting Standard 17 (FRS 17). | • Upon reviewing the pension disclosures we evaluated the assumptions used by the actuary (Mercer Limited) and benchmarked these assumptions to similar schemes across the sector. At year end there was a net pension liability of £15.74m which is indemnified by the Council and we consider the year end position to be accurately presented in the financial statements. | • We have ensured that the accounting treatment and disclosure within the financial statements meets the requirements of FRS 17. |

# SIGNIFICANT RISKS, ISSUES AND AREAS FOR AUDIT ATTENTION

| Risk/issue | Audit work carried out | Results of audit work |
|---|---|---|
| **Open Contractor – Oracle Interface** | | |
| We understand that a new financial "Open Contractor" system was implemented during the year in order to capture and record transactions related to the DLO. We also note the requirement to commitment account following FRS12 for the provision for committed costs.<br><br>We understand that there have been problems with the implementation of the system, particularly surrounding the interface between the Open Contractor system and the Oracle financial system. | • We obtained a detailed understanding of the system of internal control and assessed the adequacy of the design of specific controls.<br>• We carried out procedures to test the operating effectiveness of those controls.<br>• We performed detailed testing on purchases and performed cut off procedures to ensure income and expenditure was not materially misstated.<br>• We performed testing to support the reasonableness of any provision for committed costs. | • We understand that due to a breakdown in the interface between Open Contractor and Oracle and due to certain implementation issues concerning the OC system, purchase invoices are being directly processed through the Oracle financial system.<br>• Our audit work on repairs expenditure provides sufficient and appropriate evidence that such expenditure is not materially misstated within the financial statements.<br>• The estimate of the provision costs are based on the estimated job costs within the Open Contractor (OC) system which are based on National schedule of rates values "SOR". Our testing suggests that although the SOR cost base may be slightly inflated this does not create a material overstatement in the financial statements.<br>• We tested the integrity of the dating of the provision for various repairs jobs. When enquiring within OC and checking the job ticket information, it was found that in many cases these had been completed before year end. Although this did not create a material misstatement in the accounts a management letter point has been raised on this matter. |

# SIGNIFICANT RISKS, ISSUES AND AREAS FOR AUDIT ATTENTION
## Other issues identified during the final audit

| Issue 1 |
|---|
| • The grounds maintenance accrual for Sodexo was understated by £42,000 at the year end. |
| **BDO conclusion** |
| • An adjustment has been entered to adjust for the accrual. This was agreed with management. |

# Derby Homes Limited

**MANAGEMENT LETTER**

**External Audit for the year ended 31 March 2013**



BDO

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Liverpool, L2 5RH
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Mr D Enticott
Derby Homes Ltd
Floor 3
Council House
Corporation Street
Derby
DE1 2FT

21 June 2013

Dear Sir

**Audit management letter for the year ended 31 March 2013**

We have recently completed our audit and we are pleased to note that there are no significant matters arising from our work that we wish to bring to your attention.

International Standards of Auditing provide guidance on the communication of relevant matters between the auditors and those charged with governance and for completeness we are taking this opportunity to report on those matters as we are required to do at the conclusion of our audit. Auditing and Ethical Standards require us as auditors to confirm our independence to those charged with governance. We provided this confirmation before commencing the audit and for completeness we are taking this opportunity to update this confirmation.

**Audit report**

The results of our work will not lead to any modifications to our audit report.

**Auditing and Ethical Standards**

Under Auditing and Ethical Standards we are required as auditors to confirm our independence to those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our Conduct of Professional Services Manual. In addition, we have issued supplementary written guidance and embedded the requirements of the Standards in our internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. This letter considers such matters in the context of our audit for the year ended 31 March 2013.

We have not identified any potential threats to our independence as auditors.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgment, is independent and objective within the meaning of those Standards.

**Accounting and internal control systems and accounting practices and financial reporting**

We have identified a number of areas where improvements could be made. These are set out on the following pages.

**Unadjusted audit differences**

As communicated at the planning stage of our audit, in accordance with auditing standards we communicate to the Audit Committee all unadjusted items identified during our audit, other than those which we believe are "clearly trivial". Clearly trivial is defined as matters which will be a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit and will be matters that are clearly inconsequential, whether taken individually or in aggregate. No unadjusted audit differences have been identified during the audit.

**Other matters**

We have no other matters to report.

As the purpose of our audit is to form an opinion on the financial statements you will appreciate that our examination cannot necessarily be expected to disclose all shortcomings of the system and for this reason the matters raised may not be the only ones, which exist. We have prepared this letter for your use only; we can assume no responsibility to any person to whom it is disclosed.

Yours faithfully

BDO LLP

# MANAGEMENT LETTER POINTS
## Matters arising from the 2013 audit

**Recommendation 1**

**Finding**

We tested the integrity of the dating of the provision for various repairs jobs. When enquiring within OC and checking the job ticket information, it was found that in many cases these had been completed before year end.

**Recommendation**

We recommend a system of closer monitoring of repairs jobs which are open, on-going and span the year end. This should be coupled with the provision of training to operatives working for the repairs team to ensure that once jobs are completed, these are appropriately closed off within Open Contractor on a timely basis. This should improve management reporting of the provision at any point in time and ensure that there is no overstatement in the provision for committed repairs jobs at year end.

**Management response**

We will look at all aspects of updating the job status within OC, which will include both jobs undertaken by operatives and subcontractors. We are confident that the resulting improvements will further improve the timeliness that the job status is updated and consequently improve the accuracy of the estimated committed costs on incomplete jobs.

# MANAGEMENT LETTER POINTS

## Follow up of matters raised during the 2012 audit

| MLP 1 |
| --- |
| **Original finding in 2012** |
| The bad debt provision of £280k has been slowly building up over the years and includes numerous balances dating back as far as 2006. These balances are almost certainly irrecoverable and thought should be given to removing them from the debtors ledger permanently and releasing a corresponding portion of the bad debt provision. |
| **Recommendation in 2012** |
| It is understood that the decision to make permanent write-offs has previously been made by Derby City Council debt collection services department, but that under the terms of a new SLA, Derby Homes is expected to obtain the autonomy to write off balances as appropriate. Therefore it is recommended that when the SLA has been put in place, the bad debt provision is reviewed and these old historic balances be permanently removed as appropriate. |
| **Management response in 2012** |
| Agreed. We will undertake a formal review of the outstanding debt position. During 2012/13, we plan to transfer debts relating to rechargeable works onto the individuals rent account where possible and directly chase these debts through our internal rental arrears team (all future rechargeable works will be managed this way). All other remaining debts will be reviewed, where practical debts will be chased with the balance formerly written off as bad debts. |
| **BDO update in 2013** |
| We are satisfied that a formal review of the bad debt provision and the trade debtors ledger has been undertaken, with the ledger now in a much improved “clean” state. As a result no issue has been raised in the current years findings. |

# MANAGEMENT LETTER POINTS

## Follow up of matters raised during the 2012 audit

| MLP 2 |
| --- |
| **Original finding in 2012** |
| During our testing of trade creditor balances it was noted that the supplier statement reconciliations performed by the Derby Homes team serve to reconcile the supplier statement balances to supplier invoices received, regardless of whether these invoices have been posted to the trade creditors ledger or whether these invoices have been accrued for. |
| **Recommendation in 2012** |
| It is recommended that the supplier statement reconciliation process is amended so that supplier balances are compared directly with the creditors ledger at year end. Secondly it may be useful for the finance team to run post year end invoice review process above a particular threshold to ensure that larger value invoices are reviewed to ensure that they have been booked into the correct accounting period. |
| **Management response in 2012** |
| We agree and will implement the recommendations suggested. |
| **BDO update in 2013** |
| We are satisfied that where differences between the supplier statements and the creditors ledger occurs then the finance team investigate and contact the supplier where necessary. Our testing did not reveal any discrepancies in the reconciliation procedures carried out by the Derby Homes team. Therefore no further issues to report for the current year. |

# MANAGEMENT LETTER POINTS

## Follow up of matters raised during the 2012 audit

| MLP 3 |
| --- |
| **Original finding in 2012** |
| The testing on the provision for committed costs identified a general trend of actual completion costs of jobs post year end per the Open Contractor system as being recorded lower than the original estimate. We understand that this is principally caused by the provision being originally placed through use of the National Schedule of Rates. |
| **Recommendation in 2012** |
| To ensure that the company obtains more meaningful budgetary information it is recommended that the accuracy of the job costing system is improved to better reflect the actual overall cost of completing works to take into account fixed administrative and overhead costs of delivering the service which would also include management/supervisory labour elements. |
| **Management response in 2012** |
| We agree that this area requires further development. The Open Contractor system is planned to be further established in 2012/13. We plan to extend the implementation team through to June 2013 to achieve this. This will include implementing a more detailed individual job recording process to more accurately reflect the overall cost of a job. This will lead to a more accurate estimation of the value of committed costs. |
| **BDO update in 2013** |
| We understand that due to a breakdown in the interface between Open Contractor and Oracle and due to certain implementation issues concerning the OC system, purchase invoices are being directly processed through the Oracle financial system. The provision is still placed through use of the National Schedule of Rates. As such this recommendation will remain open to be followed up in the following year. |

# MANAGEMENT LETTER POINTS

## Follow up of matters raised during the 2012 audit

| MLP 4 |
| --- |
| **Original finding in 2012** |
| During the course of the audit we have reviewed the results of the VAT inspection which occurred between March and November 2011. A suspended penalty had been levied against Derby Homes as a result of certain inaccuracies in the treatment of VAT. The suspension period elapsed in May 2012 and the penalty subsequently cancelled. |
| **Recommendation in 2012** |
| To mitigate the risk of breaches occurring in the future we recommend that the terms of the suspension are adopted as best practice going forward and that appropriate technical advice is sought where necessary. |
| **Management response in 2012** |
| Agreed. The recommendations relating to improved controls and procedures arising from the VAT inspection have already been incorporate into monthly and quarterly procedures. |
| **BDO update in 2013** |
| We are satisfied that appropriate procedures are in place to implement issues stemming from VAT inspections including seeking advice from the Tax Advice and Compliance Manager (DCC). |

# AUDIT DIFFERENCES

| ADJUSTED AUDIT DIFFERENCES | | I&E account | | Balance Sheet | |
|---|---|---|---|---|---|
| | £'000 | DR £'000 | CR £'000 | DR £'000 | CR £'000 |
| **Surplus for the year before adjusted audit differences** | **1,103** | | | | |
| Dr Service charges | | 42 | | | |
| Cr Accruals | | | | | 42 |
| Being grounds maintenance accruals for Sodexo which have been understated by £42,000 at year end | | | | | |
| Total adjustments | | **42** | **-** | **-** | **42** |
| **Surplus for the year after adjusted audit differences** | **1,061** | | | | |

| UNADJUSTED AUDIT DIFFERENCES |
|---|
| There are no unadjusted audit differences within the financial statements |

# APPENDICES

# MANAGEMENT REPRESENTATION LETTER

[TO BE TYPED ON YOUR HEADED NOTEPAPER]
BDO LLP
5 Temple Square
Temple Street
Liverpool
L2 5RH

Dear Sirs

**Financial Statements of Derby Homes Limited for the year ended 31 March 2013**

We confirm that the following representations given to you in connection with your audit of the company's financial statements for the year ended 31 March 2013 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other directors and officials of the company.

We have fulfilled our responsibilities as directors for the preparation and presentation of the financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of the company as of 31 March 2013 and of the results of its operations and cash flows for the year then ended in accordance with in accordance with United Kingdom Generally Accepting Accounting Practice and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders' meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which our business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.



There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

We have disclosed to you all instances of fraud or suspected fraud that we have knowledge of, involving:

- management;
- employees; or
- others where the fraud could have a material effect on the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

There were no loans, transactions or arrangements between the company and its directors and their connected persons at any time in the year which were required to be disclosed.

# MANAGEMENT REPRESENTATION LETTER (continued)

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice.

The disclosures in the financial statements concerning related party transactions are complete and adequate.

The disclosures in the financial statements concerning the controlling and ultimate controlling party of the business are accurate.

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

We consider that the company is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 1 to the financial statements are sufficient.

We confirm that none of the company's assets are stated in the balance sheet at 31 March 2013 at an amount exceeding their recoverable amount as defined in Financial Reporting Standard 11 – Impairment of Fixed Assets and Goodwill.

All housing properties are in existence and beneficially owned by the group. Title deeds are held by mortgagees, local authorities or solicitors as security for specific charges against the properties, in respect of housing loans outstanding at the balance sheet date, where appropriate.

We have disclosed all known actual or possible cross guarantees between entities in the group or with third parties and in particular any such guarantees between regulated and non regulated entities.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

(Signed on behalf of the Board)

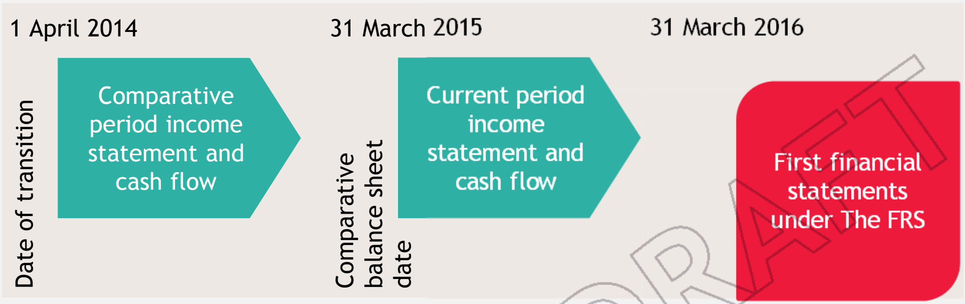
Date: (this must be the same date that the audit report is to be signed)

# LOOKING FORWARDS

# PROTECTING SOCIAL HOUSING ASSETS IN A MORE DIVERSE SECTOR

| Sector developments | Description | Potential impact |
| --- | --- | --- |
| **HCA discussion paper on potential changes to the Regulatory Framework** | On 9 April 2013, the HCA published a discussion document *called Protecting Social Housing Assets in a More Diverse Sector - A discussion paper on the principles for amending the Regulatory Framework for social housing in England*. The focus was on ring fencing social housing assets, recovery planning and protecting public value on disposal. Responses were requested by 4 June 2013.<br><br>**Ring fencing social housing assets**<br><br>Enhancements proposed by the HCA for future regulation in this area include:<br><br>• Viability regulation so there is a sharper regulatory focus on exposures from non-social housing activities on the financial position of providers.<br><br>• Disposal consents to ensure that there is enough protection of social housing assets in all cases.<br><br>• Requirements on ultimate controller undertakings and the use of intra-group agreements in all scenarios where the ultimate controlling parent is not on the register (and wherever a for-profit provider is part of a group). There are also proposals to introduce requirements on independence of boards to ensure that the board of the registered provider is strong enough to enforce such agreements if necessary.<br><br>• The use of discrete corporate entities for social housing so that the regulated activity is carried out in a separate legal entity. Such legal entities will be restricted to only carrying out the regulated activity plus a de minimis level of non-regulated activity (typically in the region of 2.5% to 5% of turnover).<br><br>• Operating on ordinary commercial 'arms length' terms ensuring value is not lost through a range of different possible transactions between related companies such as pricing mechanisms in which the regulated entity pays too much for services or franchises or receives a return that is less than the market rate if and when it provides debt (e.g. by on-lending).<br><br>• New restrictions on indebtedness to control liabilities being placed on the regulated business arising from the non-regulated parts of the business. Existing protection does not cover the full range of liabilities that may currently exist or be created in the future and broader requirements are considered necessary. The HCA's starting point is that providers should undertake such activities on a non-recourse basis, off the balance sheet of the social housing asset holding regulated entities, with any liability from the unregulated activity to the regulated business capped and disclosed to the regulator in a transparent fashion.<br><br>**Recovery planning**<br><br>The HCA would like registered providers to better understand the impact of a business failure and to develop a recovery plan or a living will where appropriate. Recovery plans would enable any party taking over assets to immediately have access to key information such as title, covenants and guarantees. Providers considered at risk may have to provide contingency plans to facilitate rapid action when needed. There is much concern about guarantees given to or by other entities and commitments for long term projects and their exit arrangements. | It is important to protect social housing assets in an environment of co-regulation.<br><br>Ring fencing core and non-core activities, and their separation into different corporate entities is sound business practice but from our early discussions in the sector there is some concern that prescribing this within a regulatory standard will be counter to many housing association business models.<br><br>Concern extends to how this could make it more difficult to finance non-core activities on which registered providers are increasingly reliant to develop new affordable housing.<br><br>Many feel that the proposals under-estimate the hurdles in creating an effective ring-fence which would require very precise definitions of what is core and non-core.<br><br>Boards will therefore have something new to think about. The last round of regulatory reforms moved ultimate responsibility to the board, requiring skills and capacity to improve. Many associations are still managing governance changes triggered at that time and these new proposals would create greater challenges.<br><br>For example, the proposals suggest a requirement for boards to check operational documentation. This is a departure from having strategic boards that focus on outcomes rather than detailed process and could be a distraction in the drive for sound governance. |

# THE FUTURE OF UK GAAP

<table>
<tr><th>Sector developments</th><th>Description</th><th>Potential impact</th></tr>
<tr>
<td>Finalisation of FRS 102 and an impending SORP 2014</td>
<td>
FRS 102 was published in February and is applicable for accounting periods beginning 1 January 2015. For most housing associations this will first affect financial years ending 31 March 2016, although for those with December year ends, it will first affect accounts with year ends 31 December 2015. As a reminder of previous updates, the timetable looks like this:


There is a delay in consultation on the revision of the housing SORP whilst the responses to the Invitation to Comment (ITC) are being considered. The SORP Working Party plans to finalise a new SORP for exposure towards the end of 2013 with final publication in Spring 2014.
</td>
<td>
Primary areas expected to have an impact on housing association financial accounts include:
<ul>
<li>Grant accounting which will no longer be shown as a deduction from fixed asset housing properties. There is still much debate on the use of either the accruals or performance method for recognition of social housing grant in the Income Statement.</li>
<li>Financial instruments which could introduce fair value accounting and greater volatility from year to year in the Income Statement.</li>
<li>Accounting for pension fund deficits, especially the SHPS multi-employer scheme which for now continues to be accounted for as a defined contribution scheme but which could see a new liability on the face of the balance sheet where a funding agreement is in place to fund a deficit. This would require the recognition of a liability in relation to the payments due under that agreement.</li>
</ul>
Planning for the above needs to start now, with audit work scheduled from the beginning of the 2014/15 financial year. This can be difficult without a firmed up SORP 2014 but many are already looking at the nature of their financial instruments, especially the distinction between “basic” and “other”. Now is the time to review your loan portfolio for those with complex terms. FRS 102 usually requires these to be measured at fair value at each balance sheet date with movements recognised each year through the Income Statement. Hedge accounting is permitted under FRS 102 but only for certain specified types of hedges. Understanding these instruments now and the nature of the accounting is strongly recommended.
</td>
</tr>
</table>

# AUTOMATIC ENROLMENT

| Sector developments | Description | Potential impact |
|---|---|---|
| **Changes to the provision of pensions in the UK** | Automatic enrolment finally arrived on 1 October 2012 and signals the biggest change to pension provision in the UK for generations. In short it means:<br>• That all UK employers will have to auto-enrol all their eligible jobholders into a contributory pension scheme<br>• There are minimum requirements for contributions, which are being phased in between 2012 and 2017<br>• Employers must comply with new requirements around the disclosure of information to prospective members and a paperless joining process.<br>When an employer reaches its staging date (although it can, in certain circumstances, opt for a date up to three months later), it must enrol all eligible jobholders into either a Qualifying Workplace Pension Scheme (QWPS) or NEST (National Employment Savings Trust). Employers must enrol their eligible jobholders into a pension scheme. However, determining whether someone is an eligible jobholder, or another one of the jobholder/worker categories is not a straightforward task.<br>**For eligible jobholders the employer must**:<br>• Ensure they are enrolled into a Qualifying Workplace Pension Scheme from the staging date or when they first become eligible.<br>• Pay contributions on their qualifying earnings and comply with the information requirements.<br>• Re-enrol those who opted out every three years.<br>**For non-eligible jobholders the employer must:**<br>• Provide the statutory information and also advise that they can join the pension scheme if they wish.<br>• Pay contributions if they elect to join the scheme.<br>**For entitled workers the employer must:**<br>• Provide information about the scheme but should the member join there is no requirement for the employer to make contributions for them.<br>Jobholders have the right to opt out and there is a prescribed method by which the auto-enrolment occurs and the jobholder opts out. | Auto-enrolment is not just a pension issue. It is likely that the impact will be more than just extra pension contribution costs as Human Resources, IT, payroll, pensions and finance functions will all be involved. For many employers the process will be costly and resource intensive. Being ready to comply with auto-enrolment could take 12-18 months. Early preparation is essential to ensure the changes required to systems, processes and communication materials are identified and effectively addressed.<br>**Actions to take in the run up to your staging date**<br>As you move towards your staging date you must take action and the short checklist below will help with implementation:<br>1. Know your staging date – every other task relates to this date.<br>2. Calculate the additional cost (e.g. contributions).<br>3. Look at strategies to mitigate the costs, for example, pension salary exchange.<br>4. Review your existing pension arrangements.<br>5. Consider your method to monitor the auto enrolment process and when workers become eligible to join the scheme.<br>6. Consider what impact this will have on your HR, payroll and other processes and identify training needs for staff.<br>7. Devise a communication strategy to engage with your employees.<br>8. Appoint a project team to manage the processes.<br>9. Consider establishing a governance sub-committee to monitor and review the employer arrangements. |

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do no purport to be all matters arising. This report is prepared solely for the use of the group and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.



www.bdo.co.uk

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Corporation Street
DERBY
DE1 2FT

01332 888777

www.derbyhomes.org

enquirycentre@derbyhomes.org

BDO LLP
5 Temple Square
Temple Street
Liverpool
L2 5RH

**Our Reference**

**Date**
25 July 2013
**Contact**
Davd Enticott
**Telephone**
01332 888523
**E-mail**
david.enticott@derbyhomes.org



Dear Sirs

**Financial Statements of Derby Homes Limited for the year ended 31 March 2013**

We confirm that the following representations given to you in connection with your audit of the company's financial statements for the year ended 31 March 2013 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other directors and officials of the company.

We have fulfilled our responsibilities as directors for the preparation and presentation of the financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of the company as of 31 March 2013 and of the results of its operations and cash flows for the year then ended in accordance with in accordance with United Kingdom Generally Accepting Accounting Practice and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders' meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which our business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note.  Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

We have disclosed to you all instances of fraud or suspected fraud that we have knowledge of, involving:

- management;
- employees; or
- others where the fraud could have a material effect on the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

There were no loans, transactions or arrangements between the company and its directors and their connected persons at any time in the year which were required to be disclosed.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware.  We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice.

The disclosures in the financial statements concerning related party transactions are complete and adequate.

The disclosures in the financial statements concerning the controlling and ultimate controlling party of the business are accurate.
We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

We consider that the company is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 1 to the financial statements are sufficient.

We confirm that none of the company's assets are stated in the balance sheet at 31 March 2013 at an amount exceeding their recoverable amount as defined in Financial Reporting Standard 11 – Impairment of Fixed Assets and Goodwill.

All housing properties are in existence and beneficially owned by the group. Title deeds are held by mortgagees, local authorities or solicitors as security for specific charges against the properties, in respect of housing loans outstanding at the balance sheet date, where appropriate.

We have disclosed all known actual or possible cross guarantees between entities in the group or with third parties and in particular any such guarantees between regulated and non regulated entities.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

(Signed on behalf of the Board)

Date: …………………….

DERBY CITY COUNCIL

one Derby one council

BDO LLP
Regent House
Clinton Avenue
Nottingham
NG5 1AZ

Your ref
Our ref
Contact
email
Tel
Fax
Minicom
Date 1st June 2013

Dear Sirs

**REPRESENTATION LETTER IN RESPECT OF DERBY HOMES LIMITED**

This representation letter is provided in connection with your audit of the financial statements of Derby Homes Limited for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2013 and of its profit and cash flow for the period 1 April 2012 to 31 March 2013 in accordance with Companies Act 2006.

I confirm, to the best of my knowledge and belief by having made appropriate enquiries, the following representations:

**Management and other fees**

The management fee payable to Derby Homes Limited, in respect of services provided to Derby City Council, amounts to £8.852m for the period 1 April 2012 to 31 March 2013 and the fees paid to Derby Homes Limited in respect of the Repairs and Investment operations amount to £17.407m for the period 1 April 2012 to 31 March 2013.

**Inter-organisation balances**

Derby Homes' gross inter-organisation debtor is £3.923m and the gross inter-organisation creditor is £0.961m. The net inter-organisation debtor is £2.962m.

All material amounts due to and payable by Derby City Council as at 31 March 2013 in respect of services exchanged between Derby Homes Limited and the Council have been identified and are accurate to within the Derby Homes' level of triviality of £18,000.



Roger Kershaw | Strategic Director of Resources | Resources Directorate | 4th Floor, Saxon House, Heritage Gate, Friary Street, Derby, DE1 1AN | www.derby.gov.uk

**Cash balance attributable to Derby Homes Limited**

The cash balance attributable to Derby Homes Limited, held under the umbrella of the Council's bank account as at 31 March 2013 amounts to £3.026m cleared funds per the bank statement. The reconciled balance within Derby Homes' balance sheet is £1.479m.

**Going concern and pension liabilities – FRS17**

Under FRS 17 the company must account for the net surplus or deficit arising from its share of the pension assets and liabilities in respect of its employees who are members of the Derbyshire Superannuation Fund. As at 31 March 2013 there was a net deficit of £15.739m in respect of the company's pension liabilities. The company does not have sufficient reserves to offset this deficit and therefore the parent organisation, Derby City Council, undertakes to provide continuing financial support to enable the financial statements of Derby Homes to be prepared on a going concern basis.

Yours faithfully

Roger Kershaw
Strategic Director of Resources

| **Derby Homes - Summary of main budget variations 2012/13** | | | **Appendix 1** |
|---|---|---|---|
| Description | **Amount £'000** | Maintenance Fee £'000 | Management Fee £'000 |
| Investments in Mill Refurbishment | **574** | 574 | |
| One off costs associated with fleet purchases | **302** | 302 | |
| Savings in day to day repairs | **-500** | -500 | |
| Underspend on voids due to lower numbers completed compared to budget plus service improvements | **-285** | -285 | |
| Gas - additional works associated with flues and hatches | **86** | 86 | |
| Specialist works - minor variances across work areas | **-55** | -55 | |
| Social Enterprise Budget not required in 12/13 | **-250** | -250 | |
| Planned repairs - additional works undertaken | **111** | 111 | |
| Estate Maintenance - saving on external contract and increased service charge income | **-341** | -341 | |
| Budgeted profit and incentive scheme bonus | **-487** | | -487 |
| Savings in staffing budgets through vacancy control | **-265** | | -265 |
| Various overhead savings, inc contingency, IT depreciation & insurance retender | **-576** | | -576 |
| Other differences | **-122** | -122 | |
| Operating surplus prior to accounting adjustments | **-1,808** | **-480** | **-1,328** |

| Derby Homes Ltd - Explanation of movement in 2012/13 Forecast Out-turn | | Appendix 2 |
|---|---|---|
| | | |
| | **Management Fee Operations** | |
| | **£'000** | **£'000** |
| Forecasted operating surplus as at period 10 | | 690 |
| Staff related net savings, through vacancy management etc | 173 | |
| Reduction in IT depreciation post major IT investments in previous years | 46 | |
| DCC Support Services Costs lower than budgeted | 66 | |
| Professional Charges - costs lower than previous year and budgeted | 50 | |
| Savings in postage following change to Hybrid mail, stopping rent statements to tenants and reduced size of DH newsletter | 44 | |
| Telephone costs savings following decommission of horizon units | 60 | |
| Reduced external Legal charges following employment of in house Solicitor | 60 | |
| Tenancy Sustainment service charge income above forecast | 13 | |
| Trading Accounts - from external managed sites | 24 | |
| Misc savings on Local Housing Offices | 27 | |
| Mobile phone small savings against budget | 13 | |
| Electricity refund on demolished sheltered scheme | 38 | |
| Additional savings on communal utility costs | 61 | |
| Other differences (bal) | -37 | |
| | | 638 |
| **Operating Surplus - Management Fee** | | **1,328** |
| | | |
| | | |
| | **Maintenance Fee Operations** | |
| | **£'000** | **£'000** |
| Forecasted operating surplus as at period 10 | | 314 |
| Spend on Mill refurbishment in 12/13 (£574k) lower than forecasted £626k | 52 | |
| Voids - lower costs than forecasted because of lower number of voids from projected 1170, actual 1128 | 35 | |
| Estate maintenance - forecasted net saving of £370k was reduced following year end contract negotiations | -39 | |
| Specialist works & Planned repairs - Forecasted net underspend of £115k, actual position was £56k overspend following additional works on repairs prior to painting and external painting | -171 | |
| Delays in completing asbestos removal works | 24 | |
| DCC Support Services Costs lower than budgeted | 77 | |
| Spend on gas related works was forecasted at £137k overspend, actual overspend was £86k | 51 | |
| The one off costs associated with the van purchases was lower than the projected £414k at £302k | 112 | |
| Other differences (bal) | 25 | |
| | | 166 |
| **Operating Surplus - Maintenance Fee** | | **480** |
| | | |
| **Overall Operating Surplus** | | **1,808** |