

Derby Homes – Self Assessment from 1 April 2021 to 31 March 2022 on the Regulator of Social Housing's (RSH) Governance & Financial Viability Standard Code of Practice

This is the seventh annual self-assessment of Derby Homes' compliance with the RSH Governance and Financial Viability Standard.

This code of practice is designed to assist Registered Providers (RP) understand what the Regulator of Social Housing (RSH) is looking for when seeking assurances from RP Boards on compliance with the standard.

The RSH has adopted the Homes England guidance within the Code of Practice on both the high-level obligations on RP's and specific expectations. These are considered individually in the tables below, with an assessment on how Derby Homes complies with such obligations and where, if applicable, further assurances are required.

The standard sets out outcomes that need to be demonstrated or reasons for non-compliance explained. The highlighted sections below are the standard with which Derby Homes is expected to comply. The other sections are the guidance given by the Code of Practice and our compliance position with relevant explanations.

Required Outcomes 1.1 - Governance	
<p>The standard is: Registered providers shall ensure effective governance arrangements that deliver their aims, objectives and intended outcomes for tenants and potential tenants in an effective, transparent and accountable manner. Governance arrangements shall ensure registered providers:</p> <ul style="list-style-type: none"> a) adhere to all relevant law b) comply with their governing documents and all regulatory requirements c) are accountable to tenants, the regulator and relevant stakeholders d) safeguard taxpayers' interests and the reputation of the sector e) have an effective risk management and internal controls assurance framework f) protect social housing assets. 	
Code of Practice Guidance Paragraph 1.1	
6 (NB 1-5 are introductory)	The required outcome for governance ensures the delivery of a registered provider's objectives, including being responsible holders and stewards of social housing assets. The regulator considers the reference to compliance with 'all relevant law' in the first bullet point encompasses legislation (including secondary legislation), and common law. In ensuring compliance registered providers should have regard to relevant statutory guidance. To meet the required outcome on adherence to all relevant law boards should take reasonable measures to assure themselves of their compliance.
7	(d) concerns reputation. Reputation is key in maintaining confidence in the sector. The social housing sector has benefited from being part of a regulated sector with low lending rates combined with the

	availability of public investment. Registered Providers should ensure that they manage their businesses and their risks in such a way that they do not negatively impact on the reputation of the sector.
Derby Homes Position on 1.1 – Compliant	
<p>a) Adhere to all relevant law – the Board takes reasonable measures to assure itself of compliance including:</p> <ul style="list-style-type: none"> • appointment of non-executive directors with specific expertise required by the Board: Derby Homes undertakes a gap analysis by using a Board Member Skills matrix; appointment and retention of a very experienced and effective management team. • an internal audit programme agreed and reviewed by the Audit Committee. • risk map highlighting potential impact on changes in legislation, case law etc. Derby Homes has both an Operational and Strategic Register. • review of policies to ensure compliance with current legislation in accordance with Derby Homes policy review process • Health and Safety Compliance reporting has been reviewed to ensure all actions are formally recorded and remain compliant. <p>b) Complies with its governing documents and all regulatory requirements – the Board gains assurance of compliance with these through a regular review of governance undertaken by the Governance Committee with recommendations to Board and a regular review of compliance with regulatory standards undertaken by the Governance Committee on behalf of and reporting to the Board for final approval. This document is that review.</p> <p>c) Is accountable to tenants, the Regulator and relevant stakeholders – Derby Homes is accountable to:</p> <ul style="list-style-type: none"> • Tenants – directly through the work of the Customer Voice, virtual panel, and the Operational Board (tenant majority membership), who report directly to the Board, through consultation with residents’ organisations and through a third of the Board being tenants. • The Regulator – through timely submission of data and information. • Relevant stakeholders – this is principally Derby City Council as sole owner of Derby Homes. <p>d) Safeguard taxpayers’ interests and the reputation of the sector – Derby Homes achieves these aims through:</p> <ul style="list-style-type: none"> • A rigorous approach to achieving value for money as set out in our value for money statement and policy. • Robust arrangements for internal and external audit. • Adherence to a strong set of organisational values. • Adoption and compliance with best practice in governance (The NHF Code of Governance 2020 and a Code of Conduct have been adopted). <p>e) Have an effective risk management and internal controls assurance framework – Derby Homes has a comprehensive risk register which is reviewed annually by the Audit Committee and monitored quarterly. The Board review high level and emerging risks. Derby Homes also helps</p>	

Derby City Council with the preparation of a HRA Risk Register on a similar basis. Internal controls assurance is reported annually to the Board as part of the assurance framework for the annual accounts.	
<p>f) protect social housing assets Derby Homes has no plans to sell any of its homes and intends to expand the number of homes it provides for local people.</p>	
Section 1.1 Recommendations for Improvement	
1 Continue to review Governance arrangements on a regular basis.	
Required Outcomes: 1.2 Financial Viability	
Registered providers shall manage their resources effectively to ensure their viability is maintained while ensuring that social housing assets are not put at undue risk.	
Code of Practice Paragraph 1.2	
8	<p>Registered providers should take all such steps as are reasonably necessary to ensure that any activities they undertake do not place social housing assets, activities relating to the provision of social housing or their own financial viability at undue risk. The regulator recognises that registered providers should have the flexibility to consider risks in light of their individual circumstances. Boards of registered providers have the responsibility to satisfy themselves and provide assurance to the regulator that:</p> <ul style="list-style-type: none"> • they have considered the requirement appropriately in relation to their own external and internal operating environment • they are satisfied they will comply with regulatory requirements now and in the foreseeable future
9	<p>Examples of what the regulator considers to be unacceptable outcomes resulting from social housing assets being put at undue risk are outlined below. These examples are not intended to be exhaustive but rather to give context to registered providers in considering the risks within their business:</p> <ul style="list-style-type: none"> • loss of social housing assets and/or tenants losing their home or the benefits of being within a regulated sector due to lenders or others enforcing their security or insolvency • loss of social housing assets where the sale of those assets is the result of poor business planning and decisions or where the reason for the sale is to make good an unplanned cash shortfall
10	<p>The regulator recognises every business decision will carry risk and sometimes those risks will crystallise. There is, however, a difference between managed risk and uncontrolled loss. The regulator expects boards to manage the business to promote the former and avoid the latter. In addition, the regulator does not intend that all social housing assets should remain in the sector for ever. However, the value in the assets should not be lost to the sector. Under the Value for Money</p>

	Standard, registered providers are expected to consider how to make best use of their assets.
Derby Homes Compliance Position - Compliant	
Derby Homes manages its resources effectively as evidenced through the annual budget setting process, long term financial business plan and partnership working with Derby City Council.	
<p>Annual Budget Process – following a period of consultation a minimum three-year budget is approved by the Board each year. This demonstrates an approved medium-term plan – maintaining and growing the company’s balance sheet while developing new homes in line with targets.</p> <p>Long Term Business Plan. This involves assessing the going concern of the company and undertaking a “stress test” on the cashflow of the company to test if the company could withstand a sudden drop in income / additional expenditure. Alongside this is consideration by the Board on an annual basis for its priorities on how and where the company reserves should be invested and the level of reserves to be retained as contingencies. This position is considered by Board at least annually. Such an example could be a material change to the Rent Standard, necessitating the HRA to review the base management fee to Derby Homes.</p> <p>The risk on loans is minimised by the loan deals secured only with our 100% owner, Derby City Council (fixed rate interest, with no covenants, full loan repayment only in the event of payment default, long term repayment plan with no periodic review)</p> <p>Internal and external audit provide control assurance to the Audit Committee and the Board with an internal controls statement.</p> <p>Risk Identification All reports to Board and Audit Committee requiring approval include the identification of potential risks and strategies to mitigate any such risks. Risks are recorded in the Derby Homes Strategic and Operational Risk Register. This is subject to annual review by the Senior Management Team, Audit Committee and the Board.</p> <p>There are periodic updates of the Risk Register sent through to the Board during the year based on updates prepared by the relevant Head of Service / Director.</p> <p>Sale of Social Housing Assets Although this technically is an option for Derby Homes, there is no short- or medium-term intention to sell existing owned properties. Based on the stock condition, current level of voids and underlying financial performance it is not anticipated that sales of our own property will be necessary or represent value for money.</p> <p>If tenants exercise their existing Right to Acquire (where applicable) then - all proceeds from these plus any compensation received from Government will be fed back into the delivery of new social/affordable housing.</p> <p>Derby Homes has no control over the sale under Right to Buy legislation of the stock it manages for Derby City Council, and therefore cannot prevent the loss of social</p>	

homes from this legal requirement. It does, however, continue to press for reforms to the Right to Buy to lessen its impact on the availability of social rented homes.

Section 1.2 Recommendations for Improvement

1	Continue to use the methodology around stress testing the DH Business Plan.
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2 Specific expectations applicable to all registered providers

Standard 2.1	Registered providers shall adopt and comply with an appropriate code of governance. Governance arrangements should establish and maintain clear roles, responsibilities and accountabilities for their board, chair and chief executive and ensure appropriate probity arrangements are in place. Areas of non-compliance with their chosen code of governance should be explained. Registered providers should assess the effectiveness of their governance arrangements at least once a year.
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Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.1

12	Registered providers should demonstrate their actions are consistent with both the principles and relevant provisions of their code of governance and overall contribute to sound governance
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13	The regulator anticipates that an assessment of the effectiveness of governance arrangements may vary in terms of depth and scope in line with the internal and external environment within which the registered provider operates. Some parts of a governance review may be carried out to a different timescale than an annual review where this helps ensure the quality and effectiveness of the review. Where this is the case, the annual assessment of the effectiveness of governance arrangements should give assurance on the timescale and progress of work on these areas.
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DH Compliance Position – Compliant

DH Board has adopted the NHF Code of Governance (updated 2020) and updated its Code of Conduct in 2021.

The Governance Committee will undertake a detailed assessment of compliance with NHF Code on an annual basis.

Section 2.1 Recommendation for Improvement

Continuing to review the NHF code and its requirements, leading to consideration of areas for improvement on an annual basis.

2.2	Registered providers shall ensure that they manage their affairs with an appropriate degree of skill, independence, diligence, effectiveness, prudence and foresight.
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Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.2	
14	Paragraph 2.2 of the Standard complements the board's responsibilities to act lawfully and responsibly. Compliance will include both behavioural aspects, such as ensuring that the board and executive foster a culture of constructive challenge and debate, and good governance practices.
15	<p>To ensure that registered providers have the requisite skills and capability to perform their functions, the regulator would expect them to:</p> <ul style="list-style-type: none"> • have an appropriate skills strategy to address the needs of the business • regularly assess whether boards and management have the right competencies, experience, and technical knowledge appropriate to the size, scale and risk profile of the organisation • ensure that all material decisions are made with appropriate internal/external expertise or advice and should satisfy themselves of the impartiality of any support or advice • have plans to address any skills gaps identified (including through bringing in external skills), and such plans should be monitored to ensure that they are followed through
16	In order to determine the appropriate level of independence, registered providers should have regard to their adopted code of governance, relevant legal requirements, e.g., charity law and to their business model. In some businesses, influence is inherent in the corporate structure of the registered provider (for example a profit-making registered provider which is a subsidiary of a group). In other cases, influence may not be inherent in the corporate structure but result from close associations the registered provider has with other organisations or individuals.
17	In managing their affairs with an appropriate degree of independence, board members should exercise independence of judgement and act at all times in the best interests of the registered provider. There should also be appropriate mechanisms in place to manage any conflicts of interest to demonstrate probity and value for money.
18	Registered providers should not be subject to undue influence from third parties that could reasonably be expected to lead to non-compliance with regulatory standards.
Derby Homes Compliance Position – Compliant	
<p>Derby Homes Board comprises 9 Members, 3 Councillors, 3 independents plus 3 tenants.</p> <p>The Board and Executive undertakes specific training facilitated by external parties to address any areas that it feels are relevant to its development – for instance on finance or to foster a culture of constructive challenge and debate aligned to the cultural values of the whole organisation and linkages with DCC, as its sole Shareholder as well as any other issue that it feels needs to be addressed through training – whether in the traditional manner or through e-learning.</p>	

The Board Member skills audit is updated regularly with each change in Board membership (normally more than once a year) with succession and recruitment strategies designed to ensure Board retain a mix of essential skills.

DH complies with the NHF Code of Governance 2020, our Memorandum & Articles of Association and Company Law. We are further regulated and managed by our sole owner, Derby City Council. We are regulated by the Financial Conduct Authority (FCA) with respect to Derby Advice's service to the public including tenants.

Board members demonstrate independence of judgement whilst acting in the best interests of DH. These requirements are set out within the NHF Code of Governance 2020, and the Board Member Code of Conduct adopted by Derby Homes with specific mechanisms in place to report, record and declare conflicts of interest.

The DH Memorandum & Articles of Association and Board composition ensure that the Board is not subject to undue influence from third parties.

An independent review of compliance with the NHF 2015 Code was undertaken by Nottingham City Homes in 2019, with changes made as a consequence.

2.3	Registered providers shall communicate in a timely manner with the regulator on material issues that relate to non-compliance or potential non-compliance with the standards.
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Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.3

19	The regulator requires registered providers to tell it at the earliest opportunity about any material issues that indicate there has been or may be a breach of the standards. This might include, for example, material frauds, liquidity issues, breaches of lenders covenants or failures of governance. This transparency is a fundamental pillar of the co-regulatory approach.
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20	In deciding what is material, registered providers should be mindful of the regulator's role in the consumer standards. The regulator may only intervene where there has been a breach of the standard which has, or may cause, serious detriment. In relation to the consumer standards registered providers are only obliged to disclose those matters which have or may relate to such a breach.
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Derby Homes Compliance Position – Compliant

Derby Homes is committed to transparent and timely communication with the Regulator and reported a short-term shortfall in electrical and gas servicing compliance through the RSH's CORS returns during 2020/21. In each case, the position had been recovered to full compliance by the time of the next return.

2.4	Registered providers shall ensure that they have an appropriate, robust and prudent business planning, risk and control framework.
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2.4.1	The framework shall ensure: a) there is access to sufficient liquidity at all times
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	<p>b) financial forecasts are based on appropriate and reasonable assumptions</p> <p>c) effective systems are in place to monitor and accurately report delivery of the registered provider's plans</p> <p>d) the financial and other implications of risks to the delivery of plans are considered</p> <p>e) registered providers monitor, report on and comply with their funders' covenants.</p>
2.4.2	The framework shall be approved by the registered provider's board and its effectiveness in achieving the required outcomes shall be reviewed at least once a year.
Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.4	
21	Registered providers need to ensure their business planning, risk management and control framework is effective. It should cover all areas of the registered provider's business. This should demonstrate the registered provider fully understands and has considered its operating environment, so it can deliver its business plan and organisational objectives. It does not need to be captured in a single document.
22	Registered providers should have a clear understanding of their risk tolerances and ensure that they are appropriate to the scale and nature of the activities they are undertaking and their role as a registered provider. Registered providers should be able to identify the capital at risk from any investment activities and ensure that investment is priced at such a level with a rate of return which is commensurate to the level of risk presented. Where a registered provider is a charity, they should consider this alongside their objects and duties under charity law. Registered providers should consider the potential aggregated impact of risks, as well as their impact at an individual level.
23	Registered providers should ensure that they have access to sufficient committed and available liquidity at all times. They should understand the timing of cash flows and any conditions for a drawdown so they can manage cash flow risk. This means registered providers should understand the receipts and outgoings of the business, for example, rental income, investment in existing stock, the costs of development, receipts from sales and other business, financing costs (loan capital and interest payments) and build sufficient prudence into their plans to cope with changes. In particular, boards should assure themselves that they put funding lines in place in sufficient time to cope with major cash outflows. Boards should ensure that they effectively identify and manage any risks of re-financing whether planned or in reaction to changes in the operating environment.
24	Registered providers should also look at the relationship between operational and capital cash flows. Non-discretionary expenses, including all major repairs (whether capitalised or not) and interest costs, should be met from operating income. When using capital

	income (for example, receipts from disposals) to meet operating expenses, boards should ensure there is a plan that ensures operating cash flows fully cover operating expenses in the future. While this is not the case, registered providers need a plan to ensure that exposures are managed.
25	Registered providers need to build their business on robust and prudent assumptions. Registered providers should assure themselves the assumptions used are reasonable. For example, these may be based on: <ul style="list-style-type: none"> · past performance · market conditions · deliverability and forecasts of possible future conditions
26	The regulator expects these assumptions will be kept under review and updated in the light of changing circumstances. It is important that registered providers ensure their plan enables them to meet lenders' covenants. Registered providers need to ensure sufficient headroom to allow them to take remedial action if assumptions within the plan significantly change or (potentially) if they are not delivering against the plan.
27	The regulator expects registered providers to identify the impact of significant business decisions (for example, major changes in development appetite, a new major scheme, moving into a new business stream or taking on new sources of funding) on viability (including continued covenant compliance). It also expects registered providers to report these to the board and take remedial action where necessary. Registered providers should think about their covenants in the broadest sense (financial and non-financial), set target measures of financial performance which provide headroom over covenants, and ensure they monitor all covenants.
28	The boards of registered providers should also be aware of the risks posed where separate companies are in effect controlled by others (through common or shadow directorships) and liabilities may be attributed to the registered provider putting social housing assets at risk. These risks should also be identified and mitigated.

Derby Homes Compliance Position – Compliant

The Business Plan is reviewed annually by the Board – in setting its budget and its medium-term planning.

All loans are with Derby City Council and are structured in a way that provides long term fixed levels of repayment with limited opportunity or likelihood of immediate repayment from DCC. The only covenant imposed by the Council is that payment of interest on and repayment of its loans are made on time. The Council has also indicated (although not formally set) a minimum cash position of a positive £250,000 at all times. Current plans are set well in excess of this level at all times. Plans are set with an aim to sustain a cash balance in excess of £2.5m – well above the “failure” point for Council loans to ensure a buffer is maintained.

Effective controls

In order to ensure that the company is pursuing the right objectives, the Board undertakes an annual review of the operating environment, including an assessment of significant risks facing the business as recorded in the Strategic and Operational Risk Registers. Additionally the Finance Director, working with Council colleagues reviews the DCC HRA Risk Register and incorporates any relevant issues within the Derby Homes Risk Registers, which are reported to Board.

These risks are considered alongside the annual budget setting processes to ensure detail actions set out within the Risk Register and the Annual Delivery Plan are fully funded.

Monitoring Delivery of Plans

The Annual Delivery Plan is approved annually by Board and the Council and monitored by the Board & Operational Board.

Financial Plans

Financial reports are presented to the Board at each meeting (6 times a year).

The Chair is updated verbally each month of any major variations in financial performance. The Senior Management Team receives quarterly management accounts. This enables timely corrective action to be put in place as necessary.

The position of Derby Homes is unusual for an RP as the vast majority of income comes not from rent but from our management arrangement with the Council to manage and maintain its homes. This means that the relative risk on our own developments is much less than would be the case for other RPs as our rental income is currently of the order of 1% of income and is unlikely to rise above 3% in the medium term. This means that the relative impact of development risk is very small compared to the core Council housing funding.

Liquidity

A long term cashflow forecast is included within the assessment on going concern, and continues to be very positive.

The level of loans for each development is considered on a case-by-case basis, ensuring a balance between overall cost and funding required. Borrowing levels are limited by the Council to 75% of the open market value of the properties, but in general no more than 60% is normally borrowed to reduce the exposure. Overall debt levels are still below 33% of the open market value of the owned homes. While there is no intention to sell any property, recovery or repayment of loans could be easily facilitated through sales should it be necessary. There is no need on current plans to do so. Current plans do not envisage going significantly above EUVSH (42% of Open Market Value) although the capacity to do so remains should plans require it.

In year cash balances are managed by the Accountancy team to ensure that the bank balance does not fall below £2.5m and does not exceed £8m. This is achieved via the agreement with DCC to pay the core management fee and main capital works monthly on account. A number of deposit accounts are also held to manage the cash levels in the main current account.

If there was a need for short term cash, then the immediate plan would be to amend the payment schedules of the management fees receivable from DCC forward. The second option would be to re-finance the loans with DCC and create additional cash that way – the loan agreements allow for such an option. Leasing of future vehicle replacements would also be possible if necessary to manage cash flow. None of these actions are likely in the foreseeable future, although should investment plans increase further, or unexpected losses occur, a re-financing of loans in around 3- or 4-years' time may be required.

Risk

The annual Strategic & Operational Risk Registers on-going risk management is monitored by the Board on quarterly updates. Risk is also monitored by the Audit Committee through annual approval of the registers.

Internal Audit includes risk management within their annual audit plan. This is currently assessed as high risk and work is done in most years by internal audit to ensure internal controls and procedures are adequate.

2.5	<p>In addition to the above registered providers shall assess, manage, and where appropriate address risks to ensure the long-term viability of the registered provider, including ensuring that social housing assets are protected. Registered providers shall do so by:</p> <p>a) maintaining a thorough, accurate and up to date record of their assets and liabilities and particularly those liabilities that may have recourse to social housing assets</p> <p>b) carrying out detailed and robust stress testing against identified risks and combinations of risks across a range of scenarios and putting appropriate mitigation strategies in place as a result.</p> <p>c) before taking on new liabilities, ensuring that they understand and manage the likely impact on current and future business and regulatory compliance.</p>
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Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.5

29	<p>Boards are the custodians of social housing assets and the financial viability of the registered providers that hold those assets.</p> <p>The responsibility for managing risks, and specifically risks to social housing assets, lies with boards. As social housing is a long-term asset, normally funded by long-term debt, it follows that boards need to maintain a long-term perspective on managing risk. They need to ensure that their decisions do not put short-term gains ahead of the long-term sustainability of the business and the security of their social housing assets.</p>
30 Paragraph 2.5a	<p>The primary purpose of this requirement is to ensure that registered providers understand their housing assets and security position and have swift access to this information in decision making and risk management. Such information needs to be readily available in the event of a potential or actual failure of the registered provider. This</p>

	will enable the regulator to draw up resolution strategies and aid a potential rescuer to value the social housing assets. The asset and liability register should contain sufficient information to enable a potential buyer to accurately price the value of the business and/or the value of the social housing assets in the event of distress.
31 Paragraph 2.5a	It is for registered providers to ensure such information is accurate and up to date. They should be able to produce an overview for the regulator at short notice. The records need to cover the breadth of the registered provider's activities (including activities carried out in subsidiaries, joint ventures and SPVs) and identify its assets and liabilities. The regulator does not prescribe the format of such records. The approach taken is likely to vary according to the size and complexity of the registered provider. The regulator expects that a registered provider's board will oversee the maintenance of these records and that they are readily reconcilable and regularly reconciled.
32 Paragraph 2.5a	Asset records should clearly identify social housing assets and where these assets are encumbered. Such records would normally include, but are not limited to, treasury arrangements, key contracts, title information and any restrictions on that title (for example planning obligations, charitable or other restrictions), valuations, stock condition and lender covenants.
33 Paragraph 2.5a	Registered providers should consider and record their liabilities in the widest context. The regulator considers the liabilities should include items which relate directly to the social housing assets and those which might have an impact on the business as a whole. This may include, but is not limited to: <ul style="list-style-type: none"> • loans including borrowing from other group companies or related undertakings • guarantees, indemnities etc. including those provided to subsidiaries and SPVs, whether secured or unsecured • leases, sale/lease and leaseback transactions • market-to-market exposures on derivative positions • cross default provisions (for example, a provision in a loan agreement which provides that a default on one loan agreement gives rise to a default on another one, including where these potentially cross between entities) • a duty or responsibility that obligates the entity to another, leaving it little or no discretion to avoid settlement • the potential for any impairment particularly in relation to investments in non-core activities.
34 Paragraph 2.5a	Within group structures, boards should ensure they have full understanding of where liabilities exist between all entities (both registered and unregistered). This should include understanding of how a failure in one part of the group may affect other members of the group. Registered providers in a group should ensure they have an appropriate methodology to model and communicate the impacts of risks crystallising in one entity on other entities within the group, in particular where there would be recourse to social housing assets.

35 Paragraph 2.5b	<p>The regulator expects registered providers, as part of their risk management approach, to stress test their plans against different scenarios across the whole group. The scenarios used will vary according to the size, type and structure of the organisation. Registered providers should go beyond simple sensitivity testing and include multi-variate analysis which tests against potential serious economic and business risks. Registered providers should explore those conditions which could lead to failure of the business, even if planned mitigations and controls are successfully implemented. They should assure themselves that the scenarios are consistent with what they consider to be acceptable levels of risk and their obligations. Stress testing should employ scenarios that are designed to assess resilience.</p>
36 Paragraph 2.5b	<p>In designing the stress testing, boards should consider both the long term, cyclical nature of economic factors that impact on the business as well as internal business risks.</p>
37 Paragraph 2.5	<p>Two potential examples are offered by way of illustration:</p> <p>a) The board of a developing registered provider with a shared ownership and outright sale programme that is raising external debt will need to think about how key variables in the business plan would move during a housing market slowdown or crash.</p> <p>This would include, for example:</p> <ul style="list-style-type: none"> • what is happening to sale prices and volumes • how lenders would be operating in that market • the potential for impairment • what might be happening to variable rate debt and the costs of working capital • other costs of holding the asset such as increased security costs and the movements in nominal and real inflation rates <p>b) The board of an organisation with significant supported housing business, but little new development, will need to think about for example:</p> <ul style="list-style-type: none"> • what might happen to corporate overheads and contract-specific costs if the registered provider lost key contracts • unsustainable price inflation or wage growth that removed margin from the business
38 Paragraph 2.5b	<p>Managing and addressing risk should involve developing plausible scenarios that test the business plan against adverse movements in the operating environment. Doing so will help underpin boards' understanding of where the risks lie and inform their consideration and planning for remedial action if the risks crystallise either singly or in combinations. Registered providers should consider the implications of this stress testing for its existing business including how the business may need to respond, whether business streams may need to be altered or stopped, whether it has sufficient headroom, what controls they have in place and how those controls are implemented.</p>
39 Paragraph 2.5b	<p>As long-term businesses, registered providers need to ensure that they can withstand the long-term cycles in the economy and that short term decisions do not constrain their ability to cope with risk. This</p>

	does not prevent registered providers from taking on measured risk to deliver their objectives. It means that when taking on risks, boards should fully understand the impact on their business in the round, as well as on their social housing assets. Boards should have appropriate mitigations and controls in place as well as a strategy to protect those assets during the long term.
Derby Homes Compliance Position - Compliant	
<p>2.5a Derby Homes has completed an Assets Register (which includes liabilities) as required by the RSH. This is maintained by the Company Solicitor. The only material liabilities that Derby Homes has are those secured loans with Derby City Council on certain properties. Additionally, there is a contingent liability around Homes England (HE) grants which require Derby Homes to comply with HE grants conditions. There is also a large pension scheme liability, but this is underwritten by Derby City Council.</p> <p>2.5b The Derby Homes' long term financial health is subject to stress testing as part of the annual review process. Stress testing of the Plan was undertaken to identify at which point the plan breaks. This highlighted cash as the limiting factor, which reached breaking point at differing levels of management fee reduction and / or increases in new homes plans. The annual business plan is set at levels well above these identified breaking points.</p> <p>2.5c As part of the approval process in taking on any new liabilities the Board will require that all risks are identified and the impact/probability of that risk on the business is fully understood. This includes the requirement for all new loans from DCC to have Board approval in advance of the loan being sought.</p> <p>The relative risk in developing new homes is limited as explained in 2.4 above. Derby Homes currently has no supported housing of its own nor does it have any complicated group structures. Our arrangements are very straightforward and clear with only one lender (Derby City Council) and no formal covenants. The extent of scenario testing really relates to the extent to which any reductions in our core income cannot be delivered by reductions in related spending.</p>	
2.6	Registered providers shall ensure that any arrangements they enter into do not inappropriately advance the interests of third parties or are arrangements which the regulator could reasonably assume were for such purposes.
Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.6	
40	Registered providers should act in good faith appropriately advancing their own interests and those of their tenants. The focus here is on transactions which, for example, over-price services received so the contractor receives an inflated price or, where services are given without a suitable charge being levied.
41	For the avoidance of doubt, the regulator does not intend those transactions undertaken to promote charitable or social objectives, nor appropriate dividend payments by profit making registered providers will be caught by this expectation.

42	Where there are conflicts or perceived conflicts of interest, registered providers should clearly set out how they effectively manage these. They should ensure that, for example, parent companies, other entities or individuals who have control or influence (or whom the regulator reasonably believes has such control or influence) cannot or do not exert influence which would have a damaging effect on the registered provider or its compliance with standards. This could be, for example, charging unfavourable prices for the provision of services.
43	Third parties are any person or body which is not the registered provider. This includes, for example, directors and board members and may also include individuals or organisations that have close links to the registered provider.
Derby Homes Compliance Position – Compliant	
<p>Robust mechanism for declaration and recording of interests is in place via the annual “Conflicts of Interest” form.</p> <p>Derby Homes, whilst being fully owned by Derby City Council, does procure, and sell a number of services to and from DCC. These are set at levels which are broadly representative of the services being supplied or provided. The application of funds received from the Council are restricted by the Objectives of the company to ‘housing related’ items or to other services provided by Registered Providers of Social Housing. This does allow Derby Homes to choose to subsidise such activity – whether it be related to development of new homes or delivery of non-social housing services. Derby Homes also needs to get Council permission to give grants to housing related external parties and has done so regularly, supporting homelessness initiatives and other charitable housing related activities that support both ours and the Council’s objectives. Derby Homes’ objectives clearly overlap with Derby City Council in the area of housing provision and there are regular discussions with a view to working together to meet overall Council housing objectives.</p>	
2.7	Registered providers shall communicate with the regulator in an accurate and timely manner. This includes returns to the regulator, including an annual report on any losses from fraudulent activity, in a form determined by the regulator.
Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.7	
44	The regulator requires registered providers to communicate with them in an accurate and timely manner. This includes provision of information, for example data returns. The regulator will clearly articulate its requirements for regulatory returns to the sector and, where appropriate, will consult on these. It is the responsibility of registered providers to ensure that they submit required data returns in a timely manner and the information provided is of a good quality. This includes for example ensuring that returns such as the Financial Forecast Return are fully complete with no missing information, that the data is accurate and submitted by the deadline required. It is not the regulator’s role to correct or fill in incorrect or missing data and we will view such returns as evidence of a weak control environment.

Derby Homes Compliance Position - Compliant	
Derby Homes completes RSH returns within stated timeframes.	
2.8	Registered providers shall assess their compliance with the Governance and Financial Viability Standard at least once a year. Registered providers' boards shall certify in their annual accounts their compliance with this Governance and Financial Viability Standard.
Code of Practice: Specific expectations applicable to all registered providers; paragraph 2.8	
45	In addition to assuring themselves of compliance with standards on a yearly basis, boards need to assure themselves of their continuing compliance when taking on significant new risks. This could be, for example, when undertaking a new development or entering a major contract. Registered providers' boards shall certify their compliance in the narrative report which accompanies their financial statements. When certifying compliance with the Standard, registered providers shall ensure that they consider compliance with regulatory standards in the round as set out in the required outcomes of the Standard.
Derby Homes Compliance Position – Compliant	
<p>The Board will consider this self-assessment position statement at the November 2022 meeting. A formal statement of compliance will be included in the 2021/22 financial statements. Any major decision requiring the Board's approval requires the legal, financial, governance implications to be considered. Over recent years, Derby Homes has taken on significant new risks in terms of operating Milestone House, TUPE transferring staff to deliver Housing Options and Advice and giving a grant to a domestic violence refuge. These were discussed at the Board and funding set aside to cover the likely extent of these new risks. Further services are provided with the increase in funding available for homelessness prevention via the flexible homelessness prevention grants which have been passed by Derby City Council to Derby Homes to deliver additional activity and to avoid homelessness where possible. While this places still further financial pressure on Derby Homes and the expected operational surplus has reduced significantly since a few years ago, the overall financial outlook remains positive thanks to ongoing revenue efficiency gains.</p> <p>Due to the delayed appointment of external auditors, the 2021/22 financial statements will be considered by Board in November 2022. This means that Derby Homes will have not met the filing deadline for financial statements of September 2022. This technical breach has been proactively notified to the RSH and they have sent a reply that they will monitor the position and our intention to file in late November / early December 2022. At the time of drafting this update, although Derby Homes is in technical breach, the RSH have not formerly notified that such a breach has occurred.</p>	
3. Specific expectations applicable to specific categories of registered provider	
Registered group parents	

3.1	Registered providers which are parent companies shall, as appropriate, support or assist those of their subsidiaries that are registered providers with a view of ensuring compliance with regulatory requirements.
Code of Practice: Specific expectations applicable to all registered providers; paragraph 3.1	
48	Paragraphs 3.1 and 3.3 seek to ensure that where a registered provider is part of a group, it can look to other entities within that group for assistance with achieving compliance with regulatory requirements. If a registered provider is part of a corporate group, the regulator expects the registered provider will ensure that other entities within the group are aware of the regulatory requirements placed on the registered provider and understand the implications of them.
49	Pursuant to paragraph 3.1, in groups where the parent is a registered provider, the parent is required to provide support or assistance to ensure the group's compliance with regulatory standards. This includes, where appropriate, ensuring the ongoing viability of the group, and may require assistance to one registered provider from other registered providers to ensure continued compliance with regulatory standards.
Derby Homes Compliance Position	
Not applicable DH is not a parent company within a RP group.	
Registered providers with unregistered parents	
3.2	Registered providers with parent companies who are not registered providers shall ensure that they do not enter into agreements to support the activity of the parent or another group member that may have a material negative impact on the social housing assets of the registered provider.
Code of Practice: Specific expectations applicable to all registered providers; paragraph 3.2	
47	Where a registered provider has an unregistered parent, the social housing assets should not be used to support non-social housing activity in other parts of the business to the extent that it may have a material negative impact on, or material recourse to the social housing assets. The regulator would also expect the risk to the social housing assets to be low. Registered providers would not be expected to enter into, for example: <ul style="list-style-type: none"> · formal agreements such as guarantees or cross default clauses in loan agreements · less formal or indirect arrangements such as making investments which lead to impairment, or which, in the event of insolvency, might allow recourse to the social housing assets.
Derby Homes Compliance Position	
Not applicable – our owner Derby City Council is a Registered Provider (as a Council).	

3.3	<p>To enable compliance with the regulator's standards or other regulatory requirements, registered providers with parent companies that are not registered providers shall have in place effective mechanisms to ensure that:</p> <ul style="list-style-type: none"> · such parent companies will give any appropriate support or assistance as necessary to the registered provider · such registered providers have the ability to require the support or assistance of the parent company concerned · the registered provider's ability to meet the regulator's standards and other regulatory requirements is not and cannot be prejudiced by the activities or influence of the parent company or another part of the group.
Code of Practice: Specific expectations applicable to all registered providers; paragraph 3.3	
50	<p>Paragraph 3.3 means if a registered provider has an unregistered parent company, the registered providers must put in place mechanisms to ensure the parent company concerned will assist the registered provider to comply with regulatory requirements. Also, to ensure the parent company or another part of the group does not do anything that compromises the registered provider's ability to meet regulatory requirements. In some circumstances it may be appropriate for the regulator to be a party to such agreements.</p>
Derby Homes Compliance Position	
Not applicable – our owner Derby City Council is a Registered Provider (as a Council).	
Profit making registered providers	
3.4	Profit making registered providers shall ensure that they undertake their social housing activities in an entity which is legally and operationally separated from any other activities they may undertake, except as set out below.
3.5	<p>Profit making registered providers should ensure that activities they undertake which do not relate to the provision of social housing:</p> <ul style="list-style-type: none"> a) form only a very small part of the activities they undertake b) are not such as to mean that registered providers place social housing assets, activities relating to the provision of social housing or their own financial viability at undue risk.
Code of Practice: Specific expectations applicable to all registered providers; paragraph 3.4 and 3.5	
51	<p>Profit making registered providers should separate any activities that do not relate to providing social housing from those that do. The regulator is concerned that any potential recourse to the social housing assets from other non-social housing parts of the business is minimal. Profit making registered providers should manage their affairs in such a way that this is the case.</p>

52	<p>A small amount of activity that does not relate to providing social housing is permitted within the legal entity. This is to allow for situations where the activity is undertaken for both social and non-social housing reasons, for example, mixed tenure developments. In such circumstances, the registered provider should ensure the non-social housing activity within the entity does not place social housing assets, activities or its own financial viability at undue risk. The regulator considers, where it is necessary for non-social housing activity to be carried out in the legal entity, the amount of non-social housing activity should be in the region of no more than 5% of capital or turnover. Registered providers should include within the calculation of the amount of non-social housing activity any agreements entered which relate to non-social housing activity by others, which could have a material negative impact on the social housing assets.</p>
53	<p>Boards of profit-making registered providers should consider what are social housing or non-social housing activities and should approve the final designation. The regulator may seek assurance on the robustness of the processes and challenge if it considers the conclusions are inconsistent with the required outcomes contained in the Standard. The designation of activities should be considered by boards and updated as activities start or stop or when the organisation enters into new ventures. To aid boards, the regulator lists below some activities which are not considered to be related to the provision of social housing:</p> <ul style="list-style-type: none"> · management/maintenance services to other organisations · management/maintenance services for own non-social housing · care services · development and letting of market rent housing and provision of any associated services · development and sale of outright market sale properties · development and letting of student housing and provision of any associated services · development activity (other than affordable/social housing development) · estate agency services
Derby Homes Compliance Position	
Not applicable Derby Homes is a not for profit RP.	