DERBY HOMES BOARD
28 JULY 2011

ITEM B4

DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS 2010-11

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 2011.

1.2 The report also explains the changes made to the accounts since the period 11 forecast out-turn was presented to the Resources, Remuneration & Regeneration Committee meeting on 21 April 2011.

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 2011 as a going concern.

2.2 To note the explanation of the changes made to the accounts since the forecast out-turn was presented to the Resources, Remuneration and Regeneration Committee meeting on 21 April 2011.

2.3 To authorise the Chair and Company Secretary to sign the accounts at this Board meeting.

2.4 To authorise the Chair, Chief Executive and Director and Company Secretary to sign a letter of representation requested by PKF (UK) LLP at this Board meeting.

2.5 To approve the change in depreciation policy applied in the drafting of the financial statements.
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2.6 In accordance with governance regulations, to approve the carry forward of IT revenue and capital expenditure in respect of work that is ongoing or planned but was not completed at 31 March 2011.

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 2011. 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 PKF (UK) LLP.

3.3 Also attached to this report are copies of:

- a representation letter from Derby City Council (DCC) to PKF (UK) LLP, signed by Roger Kershaw, the Strategic Director of Resources, enabling PKF (UK) LLP 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 2011

- a management representation letter from Derby Homes to PKF (UK) LLP to be signed following Board approval of the accounts by the Chair, the Chief Executive and the Director and Company Secretary.

3.4 The accounts show an operating surplus before tax of £1,800,000. This is after processing a provision for repairs commitments at 31 March 2011 of £236,000 and accounting entries associated with FRS17 which resulted in a credit to the income and expenditure account of £1,917,000. The underlying operating surplus was therefore £119,000 as summarised in Appendix 1. The movement between the operating surplus and the final accounts is made up as follows:

	£'000	£'000
Operating surplus for 2010/11 as per Appendix 1	119	
Less provision for repairs commitments	(236)	
Position before FRS17 adjustments		(117)
FRS 17 adjustments :		
Add back employers pension contributions	1,389	
Add past service gain	2,724	
Less FRS17 restated Pension Contributions:		
Current service costs	(1,573)	
Curtailments	(73)	
Net interest/return on assets	(550)	
Net Pension credit for year		1,917
Restated surplus for 2010/11 before tax		**1,800**
Provision for tax		(1)
Restated surplus for 2010/11 after tax		**1,799**

3.5 Appendix 1 is a summary of the trading results prior to the adjustments for FRS17. Also attached are the following appendices:

Appendix 1.1 Trading result for Management Fee operations
Appendix 1.2 Trading result for Repairs Housing Operations
Appendix 1.3 Capital works undertaken for DCC
Appendix 1.4 Works undertaken for Public Buildings

3.6 Appendix 2 is a copy of the forecast out-turn as at end of February 2011 presented to the Resources, Remuneration & Regeneration Committee meeting on 21 April 2011.

3.7 Appendix 3 is an analysis and explanation of the changes to the turnover and expenditure as a consequence of the year-end close-down process.

3.8 Income variances include the incentive scheme payment from DCC of £150,000. There was also a reduction in the fee income of £225,000 in respect of furniture packs transferred back to DCC at the year end but this is compensated by an invoicing to DCC in the same amount.

3.9 A major expenditure variance was an increased charge of depreciation of IT equipment in the year of £133,000 compared with the forecast. This results from a change to the way in which the accounting policies for fixed assets are applied which was introduced in order to align the company more to the DCC depreciation policies and with current practice. Approval of this is suggested by the external auditors as best practice, hence it is recommended that this change be approved.

3.10 Changes as a result of audit requirements:

(a) A provision for commitments in the Repairs Housing trading accounts has been made in an amount of £236,000. This is in accordance with FRS12 and is based on the estimate of all jobs booked in prior to 31 March 2011 but which were not completed until 2010/11. This is a new requirement for these trading operations that did not apply when they were a part of DCC.

(b) During the audit process it was discovered that an accrual for the balance due on the upgrade of the housing management system had been overstated by £89,000. This was corrected and the accounts accompanying this report reflect the accurate position. Certain items of income and expenditure were reclassified but there were no other changes.

3.11 The draft accounts and the external audit management letter were discussed and formally accepted by Audit Committee at a meeting held on Monday 4 July 2011. A copy of the minutes of that meeting is included on the Board's agenda for this meeting. The Chair of Audit Committee or an Audit Committee member will be invited to comment to the Board on this discussion.

3.12 At the Audit Committee meeting, the external auditor requested a change to the accounts to reflect the transfer of certain reserves of £678,000 from DCC as a prior year adjustment. This increased the opening reserves balance in the balance sheet and certain notes to the accounts but there was no effect on the income and expenditure account for the year ended 31 March 2011 or the prior year. A number of wording changes to the Directors' Report were also requested by the Audit Committee. These changes were incorporated in the draft report and financial statements presented to the Resources, Remuneration and Regeneration Committee at the meeting of 7 July 2011.

3.13 The draft accounts and the external audit management letter were discussed and formally accepted by Resources, Remuneration & Regeneration Committee at a meeting held on Thursday 7 July 2011. A copy of the minutes of that meeting is included on the Board's agenda for this meeting.

3.14 Appendix 4 is an analysis of Derby Homes' reserves. At 31 March 2010 two of these reserves were held in ring-fenced holding accounts in the Housing Revenue Account on behalf of the Company but on 22 July 2011 these were transferred to Derby Homes and are treated as a prior year adjustment.
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3.15 Appendix 5 shows the current operating reserve balance of £2,573,000. It also shows how the reserves will be used during 2011/12. The unallocated balance is represented by the retained earnings reserve of £1,419,000. The recommended level of this reserve is 5% of turnover being £1,500,000.

3.16 Further consideration of reserves is being addressed in the report on the Medium Term Finance Strategy elsewhere on the agenda for this meeting.

3.17 Appendix 6 shows the detail of IT revenue and capital expenditure that was not completed by 31 March 2011. As these projects have already received approval, it is proposed to carry the budgets for this expenditure forward into 2011/12 and formal Board approval for this is recommended. This requirement was not discussed at the Audit Committee meeting on 4 July 2011 nor at the Resources, Remuneration and Regeneration Committee meeting on 7 July 2011 as the need for further formal Board approval was only established after those meetings had taken place.

4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

The accounts will be filed at Companies House.

5. LEGAL AND CONFIDENTIALITY IMPLICATIONS

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.

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

- Consultation
- 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 Phil Davies, Chief Executive, phil.davies@derbyhomes.org – Phone: 01332 888528

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Email : david.enticott@derbyhomes.org
Background Information: None
Supporting Information: None

DERBY HOMES LIMITED

(A company limited by guarantee)

Company No 4380984

Report and Financial Statements

Year ended 31 March 2011

DERBY HOMES LIMITED

(A company limited by guarantee)

Company No 4380984

Report and Financial Statements

Year ended 31 March 2011

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Report and Financial Statements
Year Ended 31 March 2011

Officers and Professional Advisers

Directors

J P Bayliss	(appointed 25.02.02: resigned 09.05.06: re-appointed 25.05.07)
D J Rees	(appointed 28.02.02)
A G S Osler (Chair)	(appointed 28.02.02)
I M MacDonald	(appointed 28.02.02)
R Troup	(appointed 29.05.03: resigned 27.05.08 re-appointed 07.06.10)
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)
M Rowland	(appointed 25.10.07: resigned 28.10.10)
D R Batey	(appointed 18:07.08: resigned 07.06.10)
A Brown	(appointed 25.09.08: resigned 04.04.11)
J Bloxsom	(appointed 29.01.09)
A Holme	(appointed 17.02.09)
S B Perry	(appointed 17.02.09)
S Davis	(appointed 19.10.09: resigned 07.06.10)
M Barker	(appointed 07.06.10: resigned 25.05.11)
P Molson	(appointed 27.01.11)
J Keith	(appointed 25.05.11)

Executive officers
P J Davies
D Enticott
S Bennett
M J Murphy

Secretary
D Enticott

Registered Office
Floor 2
South Point
Cardinal Square
10 Nottingham Road
Derby
DE1 3QT

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

Auditor
PKF (UK) LLP
5 Temple Square
Temple Street
Liverpool
L2 5RH

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

Directors' Report
Year Ended 31 March 2011

The directors present their annual report and the audited financial statements for the year ended 31 March 2011.

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

Date of Incorporation

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

Principal Activities

The principal activity of the company is to act as the managing agent of the stock of over 13,500 public sector properties owned by Derby City Council. Derby Homes Limited is an Arms Length Management Organisation or ALMO. This means that, while the council established the company and wholly owns it, it operates independently from it on day-to-day matters.

Derby Homes works with Derby City Council to make sure that it contributes appropriately to the Council Plan and the wider Derby Plan. In particular the following Council Plan objectives are supported by Derby Homes' activities:

- A thriving sustainable economy,
- Good health and wellbeing,
- Being safe and feeling safe, and
- A strong community

These objectives are also reflected in the Derby Plan 2011/26, which additionally aims to provide further outcomes to which Derby Homes can contribute:

- A better built and natural environment
- More good quality and affordable housing
- More people living longer in better health
- More choice and influence over services
- Less crime
- Less fear of crime and anti social behaviour
- Less injuries and harm to vulnerable children and adults
- More people volunteering
- More people influencing local decisions
- More people feeling they belong to their neighbourhood
- More people feeling that people from different backgrounds get on well together

Directors' Report (Continued)

Review of Developments

The income and expenditure account for the period is set out on page 16. Following the processing of FRS17 transactions the business returned a surplus after taxation for the period of £1,799k. This was after a credit of £1,917k which arose from the application of FRS17 on accounting for pensions, as disclosed in Note 8.

	£'000
Add back of employer pension contributions paid in year	1,389
Add past service gain	2,724
Less current service costs	(1.573)
Less curtailments	(73)
Less net interest/return on assets	(550)
	1,917

The underlying operating deficit was therefore £(118)k but this was after an accrual for commitments of £236k that were not previously recognised. Prior to the accrual for commitments the consolidated result before FRS17 transactions was a surplus of £118k and the Board is satisfied with the performance of the company.

On 1 June 2010, Derby Homes took over the operation of the former council Direct Labour Organisation for housing and public buildings and control of the repairs account of the Council. This has had a major impact on the turnover of the business, with an increase of £13m or almost 100% from £15m to £28m. As a result, year to year comparisons will be less relevant than in previous years, as Derby Homes is almost double the size of the arrangements that applied in 2009/10. There will be a further increase in 2011/12 as the full year impact of the changes is felt.

Future Prospects

Derby Homes' services agreement concludes on 31 March 2012. Derby City Council has determined that Housing Management & Maintenance Services from April 2012 will be given to Derby Homes for a further period of 10 years, with a break clause after 5 years. The clarity that this decision gives to the future role of Derby Homes is particularly welcome as it coincides with the reform of the Housing Revenue Account subsidy system, which will enable council housing finance to be managed locally.

The council has determined that the management fee for Derby Homes will be reduced over the next four years by £1m in real terms, enabling a greater proportion of funding to be directed towards maintenance and capital than has previously been the case. These changes taken together give much greater certainty to the future for Derby Homes and should enable still greater efficiency to be generated particularly in the area of maintenance. It will also allow a plan for the future of council housing in Derby to be considered that should be sustainable over the long term.

Directors' Report (Continued)

Going Concern

At its meeting on 28 July 2011, 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. Accordingly, it continues to adopt the going concern basis in preparing the financial statements. This is based on the contract in place with Derby City Council to pay management fees in return for delivery of housing management and maintenance services, as prescribed in the Services Agreement. In addition, the council recognises that, following the processing of FRS17 accounting transactions, the company does not have sufficient reserves to offset the resultant 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.

Further services provided

Derby Homes Limited manages 34 units of temporary accommodation for homeless people, and provides short-term accommodation for people who are assessed as statutorily homeless. These services are provided on behalf of Derby City Council to fulfil its statutory homelessness responsibilities. The company also provides services to vulnerable tenants funded by the Supporting People Commissioning Board. Derby Homes has been commissioned by the Community Safety Partnership to run a Family Intervention Project which offers a last chance opportunity for dysfunctional families to address their behaviour and avoid eviction. It also receives other grants for time-limited specific activities.

In 2008 partnership working between Derby Homes, Derby City Council and Derwent Community Team enabled the acquisition of a converted Victorian house. Derby Homes owns the 5 flats which are managed via an 80 year net rental agreement with a 30 year break clause.

On 18 May 2009 contracts/legal agreements were signed with Derby City Council and Strata Regeneration Limited to construct 39 homes on 4 sites in Derby with 10 properties being retained as rentable Social Housing units. This was achieved with the support of £200,000 Prudential borrowing by Derby City Council on behalf of Derby Homes and £380,000 grant from the Homes and Communities Agency. Construction commenced in summer 2009 with practical completion on the Social Housing units in 2010.

On 26 April 2009 a contract was signed with a private developer to manage and maintain a block of 9 flats on Leytonstone Drive. This adds to the total of properties managed for external landlords within Derby which now totals 108.

Corporate Governance

The Board of Derby Homes Limited consists of 15 voluntary members (4 tenant, 1 leaseholder, 5 Councillor and 5 independent members). The make up of the Board

Directors' Report (Continued)

and their term of office is determined by Derby Homes Limited Memorandum and Articles of Association, which govern the Company.

The Board is responsible for the strategic direction of the Company. 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 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

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.

Draft 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 the City Board, tenant and leaseholder representatives.

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.

Directors' Report (Continued)

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.

Risks are separated between strategic and operational and assessed for likelihood and impact and designated, red, amber and green. There were 2 strategic red risks and no operational red risks. The strategic red risks are:

- Risk 13 (high likelihood and critical impact) – options appraisal/HRA review fails to deliver on time.
- Risk 15 (high likelihood and critical impact) – failure to achieve Business Transformation savings of £2.2m in 4 years 2011-15.

Each risk has a Risk Management Action Plan. Progress on these plans was reviewed and reassessed and scores updated in March 2011.

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 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.

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 introduced an E-Induction training package during 2008. 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. E-training for Board members has now been introduced for many areas of training need.

Directors' Report (Continued)

Key Performance Indicators

The Chairs Brief reviews the organisation's performance indicators and the implementation of action plans arising from this. The table below is a sample of key performance indicators comparing performance for 2010/11 with 2009/10.

Indicator	Description	2009/10 Achieved	2010/11 Target	2010/11 Achieved
Key Performance Indicators				
BVPI 63	Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings.	70.95	71.00	71.00
BVPI 66a	Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account (HRA) dwellings.	98.26%	98.35%	98.37%
BVPI 66b	No. of tenants with more than seven weeks of (gross) rent arrears as a % of the total number of tenants.	6.58%	5.00%	6.57%
BVPI 66c	% of tenants in arrears who have had NSP served.	14.69%	14.50%	16.50%
BVPI 66d	% of tenants evicted as a result of rent arrears.	0.16%	0.16%	0.16%
National Indicator 160	Tenant Satisfaction with Landlord (All)	82%	82%	86%
BVPI 75a/b/c	Tenant Satisfaction with views taken into account	62%	65%	62%
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%	1.00%	0.00%
BVPI 212	Average time taken to re-let local authority housing.	29.20 days	26 days	24.91 days
DH Local 30 Old BVPI 72	% of urgent repairs carried out within Government time limits	92.00%	95.00%	92.20%

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.

Directors' Report (Continued)

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 .

It is recognised by the directors that Derby Homes has undergone a significant change programme since 2002 and this is likely to continue for the foreseeable future. It is understood that change of this type can affect staff morale. Derby Homes is committed to addressing staff morale through the implementation of a variety of initiatives branded under the Derby Homes "Big Thank You" scheme. A staff survey recently completed pleasingly 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. 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.

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.

Directors' Report (Continued)

The Derby Homes Equality and Diversity Policy will lead to a workforce that is diverse. The workforce will be drawn from a variety of racial, ethnic and religious backgrounds, including disabled people, younger and older people, men and women. People's sexuality will be irrelevant to their career development or treatment.

Job applications received from disabled people are always positively encouraged. Selection is based on their skills and experience matched against a person specification.

Support is given to disabled employees in accordance with the Disability Discrimination Act 1995. Every effort is made to ensure that current and prospective employees are supported and any reasonable adjustments considered and provided. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

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

A G S Osler	D Enticott
Chair	Secretary
28 July 2011	28 July 2011

Statement on Control Self Certification and Internal Reporting Year Ended 31 March 2011

This statement is given in respect of the financial accounts for Derby Homes Limited. We acknowledge our 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

Statement on Control Self Certification and Internal Reporting (Continued)

- the external auditors in their reports.

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.

A G S Osler
Chair
On behalf of the Board
28 July 2011

Statement of Directors' Responsibilities
Year Ended 31 March 2011

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

Company law requires 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;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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. 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.

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 2011 which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 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.

Independent Auditor’s Report to the Members of Derby Homes Limited (Continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Brian Ricketts (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor
Liverpool, UK

Date:

Income and Expenditure Account
Year Ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Turnover	2	**28,133**	15,333
Operating costs	3	**(28,504)**	(15,017)
Past service cost gain	3	**2,724**	-
Operating Surplus	5	**2,353**	316
Interest payable and similar charges		**(3)**	-
Pension finance costs	6	**(550)**	(529)
Surplus/(Deficit) on ordinary activities before taxation		**1,800**	(213)
Tax on surplus/(deficit) on ordinary activities	7	**(1)**	(5)
Surplus/(Deficit) on ordinary activities after taxation	13	**1,799**	(218)
Retained surplus/(deficit) for the year		**1,799**	(218)

All amounts relate to continuing activities.

There are no differences between the surplus/(deficit) for the year and its historical cost equivalent.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2011.

Surplus/(Deficit) for the financial year	2011 £'000	2010 £'000
Surplus/(Deficit) for the financial year	**1,799**	(218)
Actuarial gains and (losses) relating to pensions	**113**	(5437)
	1,912	(5655)
Prior year adjustment (see note 18)	**678**	-
Total recognised gains and (losses) since last annual report	**2,590**	(5,655)

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

Balance Sheet
At 31 March 2011

	Notes	2011 £'000	2010 £'000 Restated
Fixed assets			
Tangible assets	9	**459**	401
Current assets			
Debtors	10	**7,209**	4,618
Stock		**41**	-
Cash in hand		**3**	4
		7,253	4,622
Creditors: amounts falling due within one year	11	**(4,939)**	(2,332)
Net current assets		**2,314**	2,290
Creditors: amounts falling due after one year	12	**(200)**	-
Total net assets excluding pension liability		**2,573**	2,691
Defined benefit pension liability	8	**(9,321)**	(11,351)
Total net liabilities including pension liability		**(6,748)**	(8,660)
Reserves			
Revenue reserve	13	**(6,748)**	(8,660)
Total funds	13	**(6,748)**	(8,660)

These financial statements were authorised and approved by the Board of Directors on 28 July 2011.

Signed on behalf of the Board of Directors

A G S Osler
Chair

D Enticott
Secretary

Cash Flow Statement
Year Ended 31 March 2011

	2011	2010
	£'000	£'000
Reconciliation of operating surplus to net cash Inflow/(outflow) from operating activities		
Operating surplus	**2,353**	316
Depreciation	**439**	253
Increase in stocks	**(41)**	-
Increase/(decrease) in debtors	**(2,591)**	378
Increase/(decrease) in creditors	**2,607**	(498)
Movement in FRS17 adjustment	**(2,467)**	(272)
Net cash inflow from operating activities	**300**	177
Cash flow statement		
Net cash inflow from operating activities	**300**	177
Return on investments and servicing of finance	**(3)**	-
Capital Expenditure:		
Fixed Asset additions	**(775)**	(273)
Less Capital Grant Received	**278**	102
Net Capital expenditure	**(497)**	(171)
Taxation	**(1)**	(5)
Cash (outflow)/inflow before financing	**(201)**	1
Financing – new loans	**200**	-
(Decrease)/increase in cash	**(1)**	1
Reconciliation of net cash flow to movement in net funds		
Net funds at beginning of year	**4**	3
(Decrease)/Increase in the period	**(1)**	1
Net funds at 31 March 2011	**3**	4

Notes to the Financial Statements
Year Ended 31 March 2011

1. **Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

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 fees payable from Derby City Council and other income from operating activities.

Tangible fixed assets and depreciation

Housing properties are principally properties available for rent and are stated at cost. 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.

Depreciation is provided on all assets above the de minimis value using the straight line method over the remaining life of the asset. The treatment of fixed assets and depreciation charges are:

Land and Buildings

Depreciation is provided to write down the value of housing properties (after deducting land costs and grants received) on a straight-line basis over their expected useful economic life of 50 years.

Plant and machinery

A de minimis value of £10,000 applies although where individual items costing less than this amount are being purchased as part of a larger capital scheme these can be capitalised. Assets will be depreciated over 5 years.

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

Office equipment

A de minimis value of £10,000 applies although where individual items costing less than this amount are being purchased as part of a larger capital scheme these can be capitalised. Assets will be depreciated over 10 years.

IT equipment and systems development

A de minimis value of £10,000 applies although where individual items costing less than this amount are being purchased as part of a larger capital scheme these can be capitalised. Assets will be depreciated over 3 years.

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.

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.

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

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

company during the year are included, whether or not the cash has been received or paid in the year.

All 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.

True and Fair Override
Capital grant income received as a contribution towards capital cost of fixed assets is deducted from the fixed asset cost in accordance with the statement of Standard Accounting Practice (SSAP4). 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. 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.

2 **Turnover**	**2011**	2010
	£'000	£'000
Supervision and management charge fee	**11,245**	11,734
Maintenance fees and charges	**8,898**	-
Capital works undertaken for the council	**2,889**	-
Public Building works undertaken for the council	**1,549**	-
Charges outside the supervision and management charge fees	**1,211**	1,323
Grants received	**1,340**	1,443
Other fee income	**1,001**	833
Total income for year	**28,133**	15,333

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

3 Net operating expenses

	2011 £'000	2010 £'000
Employees	**12,390**	7,750
Other employee costs	**201**	301
Maintenance other direct costs	**8,085**	-
Property	**1,144**	1,379
Travel	**852**	281
Supplies and services	**5,390**	3,632
Recharges from Derby City Council	**442**	1,674
	28,504	15,017
Past service cost gain	**(2,724)**	-
	25,780	15,017

4 Information regarding directors and employees

Directors are unpaid volunteers. No pension contributions were made for directors.

Executive Officers' emoluments	2011 £'000	2010 £'000
Aggregate emoluments	**327**	332
Pension contributions	**50**	50
	377	382

Average number of persons employed

Operations	**340**	238
Administration	**42**	44
	382	282

Staff costs during the year (including executive officers)	2011 £'000	2010 £'000
Wages and salaries	**10,027**	6,684
Social security costs	**724**	483
Pension	**1,639**	583
	12,390	7,750
Past service cost gain	**(2,724)**	-
	9,666	7,750

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

5 Operating surplus

	2011 £'000	2010 £'000
The operating surplus is after charging:		
Depreciation	**439**	253
Auditors' remuneration:		
- audit services	**24**	14
- non-audit services, taxation	**2**	1
Operating lease rentals - equipment	**10**	8

6 Other finance costs

	2011 £'000	2010 £'000
Interest cost on pension obligation	**2,450**	1,419
Expected return on assets	**(1,900)**	(890)
	550	529

7 Tax on surplus on ordinary activities

	2011 £'000	2010 £'000
United Kingdom corporation tax @ 21%	**5**	5
Adjustments in respect of prior periods	**(4)**	-
	1	5

Factors affecting tax charge for year

	2011 £'000	2010 £'000
Surplus/(Deficit) on ordinary activities before tax	**1,800**	(213)
Surplus/(Deficit) on ordinary activities multiplied rate of corporation tax @ 21%	**378**	(45)
Effects of:		
Non taxable income and deductions	**(373)**	50
Adjustment to tax in respect of prior periods	**(4)**	-
	1	5

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

8 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 Derby 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 2011.

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 actuarial gains and losses for the period include the impact of the change in the calculation method for pension increases and revaluation from RPI to CPI that reduced the liabilities of the scheme.

The amounts recognised in the balance sheet are as follows:

	2011	2010
	£'000	£'000
Present value of funded obligations	**(44,515)**	(31,169)
Fair value of scheme assets	**35,194**	19,818
Deficit	**(9,321)**	(11,351)

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

	2011	2010
	£'000	£'000
Interest on obligation	**2,450**	1,419
Expected return on scheme assets	**(1,900)**	(890)
Finance costs	**550**	529
Current service cost	**1,573**	599
Past service (gain)/cost	**(2,724)**	-
Effect of curtailments	**73**	-
Total	**(528)**	1,128

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

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

	2011 **£'000**	2010 £'000
Actuarial gains and (losses) relating to pensions	**2,106**	(5,437)
Effect of Business combinations	**(1,993)**	-
Net gains/(losses)	**113**	(5,437)

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

	2011 **£'000**	2010 £'000
Opening defined benefit obligation	**31,169**	19,752
Interest cost	**2,450**	1,419
Actuarial (gains)/losses	**(1,526)**	9,531
Benefits paid	**(959)**	(501)
Current service cost	**1,573**	599
Curtailments	**73**	-
Past service cost	**(2,724)**	-
Business combinations – DLO transfer	**13,571**	-
Members contributions	**888**	369
Closing defined benefit obligation	**44,515**	31,169

Changes in the fair value of scheme assets are as follows:	**2011** **£'000**	2010 £'000
Opening fair value of scheme assets	**19,818**	14,095
Expected return	**1,900**	890
Actuarial gains	**580**	4,094
Business combinations – DLO transfer	**11,578**	-
Contributions by employer	**1,389**	871
Benefits paid	**(959)**	(501)
Members contributions	**888**	369
Closing fair value of scheme assets	**35,194**	19,818

The actual gain on scheme assets in the period was £2,946,000 (2009/10 - £4,984,000) gain).

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

During the year, the Company paid employer contributions of £1,389,000. The contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. The company expects to contribute £1,187,000 to its defined benefit pension scheme in 2011/12.

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

	2011	2010
	%	%
Equities	**68.5**	68.0
Property	**5.1**	5.1
Government bonds	**6.8**	14.6
Other bonds	**5.6**	5.8
Cash/liquidity	**6.3**	5.8
Other	**7.7**	0.7
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 2011 and 31 March 2010.

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

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

	2011	2010
	%	%
RPI Inflation rate	**3.5**	**3.5**
CPI Inflation rate	**3.0**	**3.0**
Discount rate	**5.5**	**5.7**
Rate of increase in salaries	**4.75**	**5.0**
Rate of increase in pensions	**3.0**	**3.5**
Expected rate of return on assets	**6.47**	**6.32**

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

Life expectancy at 31 March 2011:

Of a male/(female) future pensioner aged 65 in 20 years time	23.1 (25.9) years
Of a male/(female) current pensioner aged 65	21.7 (24.3) years

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

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Defined benefit obligation	(44,515)	(31,169)	(19,752)	(23,988)	(20,648)
Scheme assets	35,194	19,818	14,095	16,170	15,976
	(9,321)	(11,351)	(5,657)	(7,818)	(4,672)
Experience adjustments on scheme liabilities	1,658	-	-	(631)	-
Experience adjustments on scheme assets	580	4,094	(4,024)	(1,413)	(47)

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 2011 (Continued)

9 Tangible fixed assets

	Land & Buildings	Computer Equipment	IT Systems Development & Implementation	Plant & Machinery & Office Equipment	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At 1 April 2010	811	682	968	13	2,474
Disposals	-	(60)	-	-	(60)
Additions	418	105	252	-	775
At 31 March 2011	**1,229**	**727**	**1,220**	**13**	**3,189**
Depreciation					
At 1 April 2010	-	657	632	13	1,302
Disposals	-	(60)	-	-	(60)
Charge for the year	4	47	388	-	439
At 31 March 2011	**4**	**644**	**1,020**	**13**	**1,681**
Capital Grant					
At 1 April 2010	(771)	-	-	-	(771)
Receipts in year	(278)	-	-	-	(278)
At 31 March 2011	**(1,049)**	**-**	**-**	**-**	**(1,049)**
Net book value					
At 31 March 2010	40	25	336	-	401
At 31 March 2011	**176**	**83**	**200**	**-**	**459**

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 additions to land and buildings during the year represent completion to the construction of 10 properties which will be retained as rentable social housing units. These properties are stated at cost less grant received.

Notes to the Financial Statements
Year Ended 31 March 2011 (Continued)

10 Debtors

	2011	2010
	£'000	£'000 Restated
Amounts due from parent company	**6,854**	4,053
Trade debtors	**160**	135
Prepayments and accrued income	**195**	430
	7,209	4,618

Included in amounts due from the parent company is £3,273,000, (2010 £1,557,000), being a bank account held on the company's behalf by Derby City Council.

11 Creditors: amounts falling due within one year

	2011	2010
	£'000	£'000
Amounts owing to parent company	**1,863**	989
Trade creditors	**1,301**	243
Corporation tax	**5**	5
Other taxation and social security	**538**	335
Accruals and deferred income	**1,232**	760
	4,939	2,332

12 Creditors: amounts falling due after one year

	2011	2010
	£'000	£'000
Amounts owing to parent company – New Build Loan	**200**	-

Repayments are due as follows:

In 5 years or more	**200**	-

The New Build loan of £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 2011 (Continued)

13 Reserves

	Revenue reserve
	£'000
Balance at 1 April 2010 (as previously stated)	**(9,338)**
Prior year adjustment (see note 18)	**678**
Balance at 1 April 2010 (restated)	**(8,660)**
Surplus for the year	**1,799**
Actuarial gain in year	**113**
Balance at 31 March 2011	**(6,748)**

14 Capital Commitments

At 31 March 2011 there was a capital commitment approved but not contracted for in respect of a new accounting and costing system for Maintenance in an amount of £150,000. There were no other capital commitments.

15 Operating Lease Commitments

At 31 March 2011the company had annual commitments under non-cancellable operating leases as follows:

Equipment	**2011**	2010
	£'000	£'000
Expiry date :		
Between 1 and 2 years	**1**	-
Between 2 and 5 years	**9**	8

16 Parent Undertaking

The Company is a local authority controlled company within the meaning of Part V of the Local Government and Housing Act 1989, being a company under the control of Derby City Council. Copies of the financial statements for Derby Homes Limited can be obtained from the Secretary, Derby Homes Limited, 2nd Floor, South Point, Cardinal Square, Derby, DE1 3QT.

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 2011 (Continued)

17 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.

18 Prior year adjustment

Analysis of prior year adjustment

	2011
	£'000
Underpayment of management fee by Derby City Council	**678**
	678

The prior year adjustment relates to underpayments of the management fee by Derby City Council from the period 2002 to 2009. There is no direct effect upon the income and expenditure account for the year ended 31 March 2011 or the year ended 31 March 2010.

PKF

Accountants &
business advisers

Derby Homes Limited

Year Ended 31 March 2011

Audit Feedback Report

July 2011

Contents

1 Introduction

As part of our continuing commitment to providing benefits to our clients through our assurance and advisory work we have produced this audit feedback report to bring to your attention various matters arising from our work.

This report has been discussed with management and their comments have been incorporated into the report where appropriate.

We hope that the Board will find this feedback report useful. We would be happy to provide further clarification on any of the matters which we have raised. We would also welcome any comments on how we could improve the content and presentation of this report.

Finally, we would like to thank the members of the finance department for the assistance and co-operation we received during the course of our audit.

Scope and use of our report

Our work was carried out on the basis set out in our engagement letter dated 08 May 2009. The procedures that we carry out are designed to provide us with reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. They are not designed to disclose all errors or weaknesses in controls that exist, and we report only on those that we have discovered during the course of our work.

We would emphasise that this report has been prepared for the Board's information and use only and is not intended to include every matter that may have come to our attention. We accept no responsibility for any reliance that might be placed on it for any purpose by third parties, to whom it should not be shown without our prior written consent.

2 Final ISA Letter – Communication with those charged with Governance

Audit of the financial statements of Derby Homes Limited for the year ended 31 March 2011

2.1 The purpose of this letter is to report to you the significant findings from the audit of the company's financial statements and to assist you in fulfilling your responsibilities as the Board and to maintain an effective two-way communication between us.

2.2 In addition, we are required by International Standards on Auditing (ISAs) (UK & Ireland) to communicate certain matters to you in connection with our audit.

2.3 Our findings have been discussed with Tony Muldoon (Head of Finance) and we report below those matters which we consider merit your attention.

Significant findings from the audit

2.4 Significant findings from the audit have been presented in section 3 of this report

Expected modifications to our auditor's report

2.5 As a result of our work and the conclusions on the sufficiency and appropriateness of the audit evidence obtained, we expect to issue a standard unqualified audit report.

Written representations

2.6 We are required by ISAs to obtain written confirmation from you of certain representations that have been made to us during the course of our audit. Accordingly, please find enclosed a draft letter of representation. We should be grateful if you could arrange for this to be typed on the entity's letterhead, signed on behalf of the board and dated at the same time the financial statements are approved by the board and returned to us.

Identified misstatements

2.7 To assist you in fulfilling your governance responsibilities, which include maintaining oversight of the financial reporting process and the effectiveness of the system of internal control we include, in section 4 of this report, a list of the misstatements that were detected during the course of our audit excluding those that we consider to be clearly trivial.

During the audit errors that were significantly less than material and that arose from isolated errors have been regarded as trivial and such errors have not been reported to you. The triviality level was set at £8,700.

Deficiencies in internal control

2.8 A deficiency in the design or operation of internal control systems could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. There were no material deficiencies in internal control noted. Any minor weakness have been disclosed in section 3.

Confidentiality

2.9 This report has been prepared for your use only and should not be disclosed to any third party, or quoted or referred to, without our prior written consent. No responsibility is accepted or assumed by us to any other party.

We hope that you have found this report useful and we would be pleased to discuss any aspect with you. We would like to take this opportunity to thank you and your staff for the courtesy and co-operation we received as we conducted our audit work.

Yours faithfully

Brian Ricketts
Partner
PKF (UK) LLP

3 Audit and Accounting Issues

3.1 Audit Issues

The audit has been carried out in accordance with Auditing Standards issued by the auditing Practices Board and has included such tests of transactions and of the existence, ownership and valuation of assets and liabilities, as considered necessary.

The audit was planned on the basis of an understanding of the business and its accounting system. This has allowed work to be concentrated on areas where the risk of material misstatement is highest.

Whilst the Directors remain responsible for the prevention and detection of fraud, other irregularities and errors, the work was planned to give a reasonable expectation of detecting material misstatement, whether intentional or unintentional.

3.2 Significant Risks

At the planning stage the following significant risks were identified as areas where we would apply particular attention:-

3.2.1 Management over-ride of controls

As stated in our ISA 260 planning letter issued to the Board Members, there is a presumed risk that management override of controls is present in all entities.

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.

3.2.2 Revenue recognition

As stated in our ISA 260 planning letter ISA (UK & Ireland) 240 *The auditor's responsibilities in relation to fraud in an audit of financial statements* requires us to presume that there are risks of fraud in revenue recognition. Our audit work focussed on the risks arising from the use of inappropriate accounting policies, failure to apply the company's stated accounting policies or from an inappropriate use of estimates in calculating revenue.

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.

3.2.3 **Property development during the year – accounting recognition and disclosure**

As stated in our ISA 260 planning letter we considered a risk in relation to the accounting recognition and disclosure of the property development during the year due to it being a transaction outside the normal business of the company.

During the year the company made additions of £418k due to new build developments against which grant income of £278k was received along with a loan amounting to £200k from Derby City Council in connection to these new developments. We reviewed the accounting treatment of these items and are satisfied that they have been accounted for correctly and appropriately disclosed within the financial statements.

3.2.4 **DLO accounting – accurate accounting for the inclusion of the DLO transactions during the year and cut off of purchasing at the year end.**

As stated in our ISA 260 planning letter we considered a risk in relation to the DLO transfer during the year. Due to the nature of the transaction we considered a risk in relation to accounting for any transfer of assets or liability and ensuring the correct cut off of day to day transactions at the year end.

On 1 June 2010, Derby Homes Limited took over the operation of the former Derby City Council Direct Labour Organisation (DLO) for housing and public buildings maintenance and repair work. As part of our audit we obtained a detailed understanding of the DLO's system of internal control which involved visits to the London Road premises. We assessed the adequacy of the design of specific controls and carried out procedures to test the operating effectiveness of those.

Our audit procedures did not identify any significant issues or deficiencies in internal control over the DLO operations. Our detailed transaction testing carried out on the DLO purchases and cut off did not identify any issues and we are satisfied from our testing that DLO income and expenditure is not materially misstated in the financial statements.

We note the requirement to commitment account following FRS12 for the provision for committed costs. Currently included within the financial statements is £235k of jobs raised at the year end for work ordered before the year end..

During the audit we noted a potential overstatement within this provision, with the actual orders being processed valued at £208k. This is highlighted within section 4 to this report.

Significant Audit Risks - Conclusion

We can confirm to the Board that the points noted as areas of significant audit risk per our letter have all been reviewed as part of our audit process and we are satisfied that these are being managed satisfactorily and that there are no further matters to raise with regard to the significant risks identified.

3.3 Accounting and Disclosure Issues

3.3.1 Pension Disclosure-FRS 17

The company operates a defined benefit pension scheme and FRS 17 has been fully implemented in the accounts. The local authority scheme liability is based on the calculations provided by Mercers Human Resources Consultants. The impact of this is that the balance sheet disclosed a significant net liability of £9.32m. This has decreased from £11.35m in 2010.

The key elements to the decrease in liability were:

(i) Past service cost gain of £2.7m

(ii) £2.1m actuarial gain due to improvements in investment returns

(iii) Additional service cost of £1m due to DLO TUPE staff transfer

(iv) Transfer of £2m pension liability relating to DLO staff

We have reviewed the assumptions utilised by the actuary in their calculations and conclude that these appear prudent and reasonable.

We note that the pension liability is underwritten in full by Derby City Council.

3.3.2 Going concern

The current management agreement with the Council expires in March 2012. On the 22nd March 2011, Derby Homes signed an agreement with Derby City Council to manage and maintain its Council Housing for a further period of ten years from April 2012. The formal management agreement has yet to be formally signed, however negotiations are at an advanced stage and the agreement is expected to be signed well before March 2012.

3.3.3. New Build Loan Disclosure

During the year a £200k loan was received from Derby City Council in relation to the new build developments. It was noted that the loan had simply been classified as being due after more than one year with no further disclosure regarding the maturity of the loan, repayment terms, interest charged and security involved. This was discussed with management who agreed to obtain the additional information as required. Furthermore it was noted that within the cash flow statement, the receipt of the loan had been classified as an "Operating activity". This was discussed with management who duly agreed to reclassify this as a "Financing" activity.

Email confirmation of loan terms has been received from the Derby City Council principal accountant and a formal agreement is expected in due course.

See management recommendation 3.4.1

3.3.4 True and Fair Override

As in the previous year, the accounting policies include a true and fair override around the accounting and disclosure for the development this year.

This is required, because whilst the disclosure in the financial statements meets Accounting Standards and normal accounting practice for Housing Associations, it is not allowable by the Companies Act. We have reviewed this disclosure of the capital grant income and are satisfied that in line with the Directors' view, the treatment is required in order to give a true and fair view of the financial position of the company.

3.4 Management Letter Points Identified

3.4.1 New Build Development Loan Agreement

A new loan amounting to £200,000 was received in the year from Derby City Council in connection with the new build developments. However a formal loan agreement is not in place which stipulates the terms and conditions of repayment. There is a risk that Derby Homes is not aware of its obligations in respect of this loan and that the company will not be afforded the protection of a signed contract in the event of a potential dispute or disagreement.

Recommendation

We therefore recommend that a loan agreement is drawn up which stipulates at the very least the loan amount, term, repayment method, interest charged, any security involved and the consequences of default.

Management response

An email has been received from Derby council confirming terms and conditions. A formal agreement is being drawn up with Derby City Council.

3.5 Internal Controls

No further material weaknesses in internal controls were identified which we felt required formal reporting.

3.6 Internal Audit

We reviewed the internal audit reports issued in the year under review and noted that although various recommendations have been raised ranging from those considered to be significant to those that simply merit attention; none however are considered to be fundamental.

3.7 Prior Year Issues

There were no issues raised in the 2010 client report which were required to be followed up.

4 Audit Adjustments

During the course of our audit any significant findings were discussed. These are as follows:

Unadjusted Journals

		DR	CR
1.	Creditors – accruals (BS)	27,174	
	Operating costs – Maintenance (P/L)		27,174

Being to correct for the potential overstatement of the provision for committed jobs.

		DR	CR
2.	Creditors – accruals	128,214	
	DCC intercompany creditor		128,214

Being to reclassify income received in advance received from DCC but included within external accruals and deferred income.

There were no further adjustments made other than those which were trivial in nature.

5 Independence and Materiality

Independence

5.1 We have considered our independence as auditors of Derby Homes Limited and we disclose to the directors that, in addition to our work as auditors for the company we also provide other ad hoc advice from time to time as requested by the company.

5.2 PKF aims to meet or exceed its clients' valid expectations and all the legal and professional requirements regarding the quality of its work. We operate comprehensive quality control and quality assurance processes to ensure this. Our files are subject to regular quality assurance reviews both by internal and external bodies.

5.3 We have considered the above information and confirm to you that, in our professional judgement, the firm is independent within the meaning of regulatory and professional requirements and the objectivity of our staff is not impaired, and there are no relationships between PKF and our related entities and Derby Homes Limited and your related entities that may reasonably be thought to bear on the independence and objectivity of our staff.

Materiality

5.4 The PKF approach to materiality is as follows.

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

In the context of an audit, materiality has significance:

(i) At the planning stage, when our assessment of materiality is used in determining the nature and extent of assurance procedures to be carried out; and

(ii) At the completion stage when we evaluate potential misstatements identified by our work for the purposes of communication to management and those charged with governance and for the purposes of formulating our audit opinion.

Materiality has both quantitative and qualitative aspects. It is influenced by:

(i) The magnitude of the misstatement, both in terms of the reported performance and financial position of the entity for the current period and its effect on trends and key performance indicators; and

(ii) The nature of the omission or misstatement and its potential significance to users of the financial statements.

6 Reporting

6.1 We confirm that we have communicated to those charged with governance:-

(*i)* Any expected changes to the auditors report;

(*ii)* Any unadjusted misstatements;

(*iii)* Any material weaknesses in the accounting and internal control systems identified during the audit;

(*iv)* Our views about the qualitative aspects of the entity's accounting practices and financial reporting;

(*v)* Matters specifically required by other Auditing Standards to be communicated to those charged with governance;

(*vi)* Any other relevant matters relating to the audit.

7 Emerging Issues

7.1 Regulatory Regime

7.1.1 From April 2010 the Tenant Services Authority (TSA) took over the regulation of the Housing Sector.

7.1.2 The TSA normally would regulate the Council not the ALMO, however, this situation changes when the ALMO receives grant directly from the Homes Community Agency (HCA).

7.1.3 As from 1 April 2010 the HCA has imposed a condition that when housing is made available for letting the landlord has to be a registered provider with the Tenant Services Authority. So where ALMO's own or develop the housing, it is required to be a registered provider. An ALMO who becomes a registered provider will have to meet the TSA's governance and viability standard and statutory accounting requirements. This will impact on Derby Homes for the year ended 31 March 2012.

7.2 Impact of IFRS (International Financial Reporting Standards)

7.2.1 Listed companies already have to provide accounting information under International Financial Reporting Standards.

7.2.2 Local government accounts are preparing in accordance with IFRS starting in the 2010/11 financial year. It is still unclear at present when ALMO's will also have to present their numbers under full IFRS, however ALMO's will at least have to provide certain information to their parent bodies in IFRS format. We are advising ALMOs to contact Council Finance Departments to clarify the position.

7.3 HRA Reform

7.3.1 The consultation period on the review of the national subsidy system has ended and announcement is expected in late 2011. Derby Homes have reviewed the impact of HRA reform on their business, particularly around the allocation of debt. Other issues which were noted by the National Federation of ALMOs in its response to the consultation were around:

- The decision not to publish updated HRA ring fence guidelines.

- Treatment of RTB receipts.

- Obstacles with regard to new build.

7.4 **PKF Sector Reports**

7.4.1 PKF have issued two recent reports which are relevant to the sector and are issues for Derby Homes which may merit further consideration.

7.5 **The Resilience to Fraud of the UK Public Sector**

7.5.1 A report published by PKF and University of Portsmouth 'The Resilience to Fraud of the UK Public Sector' survey – the most comprehensive study of its type ever undertaken – looks at how well the public sector protects itself against fraud, highlighting where it is getting it right and identifying areas for improvement.

7.5.2 Using a 50 point scale to asses the fraud resilience of 267 public bodies, the study finds that public sector organisations achieved an average score of 34.4 points, compared with 30.6 points among private sector companies.

7.5.3 The results reveal a wide variety of performance within the public sector, with the NHS scoring best overall with 44.4 points, whilst higher education institutions had the lowest score of just 28.9 points.

7.5.4 'The Resilience to Fraud of the UK Public Sector' is published at a time when the public sector is beginning to reassess its counter fraud measures in the wake of budgetary pressures, and follows the publication of a ten point 'counter-fraud blueprint' by Communities and Local Government Secretary Eric Pickles earlier this month. Public sector fraud dominated the agenda at the National Fraud Authority Conference on 8 June, which was attended by a number of senior politicians including Rt Hon Francis Maude MP, Minister for the Cabinet Office and Paymaster General.

7.6 **Welfare to Work in the 21st Century**

7.6.1 A report co-authored by Jim Gee, PKF Director of Counter Fraud Services, was launched in May 2011 by Kennedy Scott and GMB in the House of Lords. Entitled 'Welfare to Work in the 21st Century'. The document makes a number of key recommendations to tackle unemployment through the Coalition Government's 'Work Programme'.

7.6.2 The report recommends that the Department for Works and Pensions pilots an innovative US welfare-to-work programme developed by America Works. America Works has successfully placed over 200,000 previously unemployed US citizens - primarily those that are seen as the hardest to help: ex servicemen, offenders, disabled and long-term unemploy ed - in new jobs.

7.6.3 The report concludes that the Work Programme should embrace best practice service from the UK and US and proposes a series of pilots, following the America Works model, with a variety of hard-to-help groups based on a system of outcome driven payments.

8 Points Outstanding/For Discussions

Your ref
Our ref TM/JW
Contact Tony Muldoon
email tony.muldoon@derbyhomes.org
Tel 01332 888412
Fax
Minicom
Date 1st June 2011

PKF (UK) LLP
5 Temple Square
Temple Street
Liverpool
L2 5RH

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 2011 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 2011 and of its profit and cash flow for the period 1 April 2010 to 31 March 2011 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 £11.246m for the period 1 April 2010 to 31 March 2011 and the fees paid to Derby Homes Limited in respect of the Repairs and Investment operations amount to £13.140m for the period 1 June 2010 to 31 March 2011.

Inter-organisation balances

Derby Homes' gross inter-organisation debtor is £3.573m and the gross inter-organisation creditor is £2.055m. The net inter-organisation debtor is £1.518m.

All material amounts due to and payable by Derby City Council as at 31 March 2011 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 £8,700.

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 2011 amounts to £4.195m cleared funds per the bank statement. The reconciled balance within Derby Homes' balance sheet is £3.273m.

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 2011 there was a net deficit of £9.321m 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

PKF (UK) LLP
5 Temple Square
Temple Street
Liverpool
L2 5RH

Dear Sirs

Financial statements of Derby Homes Limited for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Derby Homes Limited for the year ended for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of directors and officials of the company, the following representations given to you in connection with your audit of the company's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 1 June 2011, for the preparation of the financial statements which give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

Significant assumptions

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Accounting policies

We confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Plans or intentions

We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Litigation and claims

We confirm that there are no actual or possible litigation and claims affecting the company.

Related parties

We confirm that related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of the applicable financial reporting framework.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

Uncorrected misstatements

You have brought to our attention potential misstatements in the financial statements as listed in section 4 of the client feedback report. We do not wish to amend the financial statements to reflect any of these items as we believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole.

Going concern

We confirm that we are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion we have taken into account all relevant matters of which we are aware, including the availability of working capital and have considered a future period of at least one year from the date on which the financial statements will be approved.

We have also considered the adequacy of the disclosures in the financial statements relating to going concern and are satisfied that sufficient disclosure has been made in order to give a true and fair view.

INFORMATION PROVIDED

Completeness of information

We have provided you with access to all information of which we are aware is relevant to the financial statements. We have provided you with all other information that you have requested from us and given you unrestricted access to persons within the company from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and shareholders' meetings (held during the year and up to the date of this letter) have been made available to you.

All transactions undertaken by the company have been recorded in the accounting records and are reflected in the financial statements.

So far as each director is aware, there is no information needed by you in connection with preparing your audit report (relevant audit information) of which you are unaware. Each individual director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that you are aware of that information.

Internal control

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

There have been no deficiencies in internal control of which we are aware.

Fraud

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We are not aware of any fraud or suspected fraud affecting the company and no allegations of fraud or suspected fraud affecting the financial statements have been communicated to us by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

We are not aware of any actual or possible instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the company.

Control

We confirm that the ultimate controlling party of the company is Derby City Council.

Related parties

We confirm that we have disclosed to you the identity of all the company's related parties, related party relationships and transactions of which we are aware.

Liabilities, contingent liabilities or guarantees

There are no liabilities, contingent liabilities or guarantees to third parties other than those disclosed in the financial statements.

Title to assets

As at 31 March 2011 the company has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

Contractual agreements

The company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

Signed on behalf of the board of directors

.... Date ....
A G S Osler - Chair

.... Date ....
P J Davies – Chief Executive

.... Date ....
D Enticott – Director & Company Secretary

Derby Homes Ltd

Appendix 1

Summary of results for the year ended 31 March 2011

	Ongoing Operations	Housing Repairs Team	Capital	Public Buildings	Total Repairs, Investment and Public Buildings	Company Total
Months of operation	12	10	10	10	10	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Operating Result:						
Surplus/(deficit)	94	25	(350)	0	(325)	(231)
Additional funding:						
HRA Capital Programme			350		350	350
Net operating surplus for year prior to Taxation	**94**	**25**	**0**	**0**	**25**	**119**
Provision for commitments	0	(236)	0	0	(236)	(236)
Net surplus/(deficit) after provision for commitments	**94**	**(211)**	**0**	**0**	**(211)**	**(117)**
Provision for taxation	(1)	0	0	0	0	(1)
Net surplus/(deficit) after provision for commitments and taxation	**93**	**(211)**	**0**	**0**	**(211)**	**(118)**

Results prior to FRS17 adjustments

Derby Homes Limited **Appendix 1.1**

Management Fee Operating Statement: March 2011 Pre FRS

	Budget Year to Date	*Actual Year to Date*	*Variance Year to Date*	*Variance %*	*Budget Full Year*	*Last year Equivalent*
	£	*£*	*£*		*£*	*£*
Fee Income	11,251,754	11,245,558	(6,196)	(0.1)	11,251,754	11,733,893
Misc Income:						
Council Tax Collection	25,000	19,820	(5,180)	(20.7)	25,000	31,981
Capital Programme/Estates Pride	847,308	861,052	13,744	1.6	847,308	833,600
Supporting People Grant - Tenancy Support	272,975	272,520	(455)	(0.2)	272,975	270,272
Supporting People Grant - Sheltered Housing	737,925	738,380	455	0.1	737,925	730,619
External Management - Rents	289,092	320,506	31,414	10.9	289,092	294,727
External Management & Consultancy fees	69,161	95,263	26,102	37.7	69,161	115,204
Other Council Services	142,564	170,371	27,807	19.5	142,564	207,049
Other Income	960,539	926,915	(33,624)	(3.5)	960,539	1,115,553
Total Income	14,596,318	14,650,385	54,067	0.4	14,596,318	15,332,898
Employee Costs	8,451,683	8,346,684	104,999	1.2	8,451,683	8,323,381
Travel Expenses	311,710	299,426	12,284	3.9	311,710	281,384
Office Costs	1,131,508	1,108,980	22,528	2.0	1,131,508	1,378,153
Supplies & Services	4,398,247	4,500,613	(102,366)	(2.3)	4,398,247	5,010,066
Support Services	302,994	300,997	1,997	0.7	302,994	295,815
Total Expenses	14,596,142	14,556,700	39,442	0.3	14,596,142	15,288,799
Net Operating Surplus before taxation	176	93,685	93,509		176	44,099
Provision for taxation	-	1,109	(1,109)	-	-	5,000
Net Operating Surplus / (Deficit)	176	92,576	92,400		176	39,099

DERBY HOMES HOUSING TRADING ACCOUNTS 2010/11 **Appendix 1.2**

	June 2010 to to March 2011			
Summary - Housing	**Budget YTD**	**Actual YTD**	**Under (Over) Spend**	**2010/11 Forecast**
Derby Homes Repairs Trading	**£**	**£**	**£**	**£**
Income	8,718,000	8,880,149	162,149	8,778,397
Direct Costs	7,904,809	8,073,597	(168,788)	8,056,357
Gross Profit	**813,191**	**806,551**	**(6,640)**	**722,040**
Overheads	181,015	94,906	86,109	110,000
London Road Recharges	632,176	660,927	(28,751)	680,000
DH management charge	0	205,171	(205,171)	206,483
Total Overheads	**813,191**	**961,004**	**(147,813)**	**996,483**
Use of HRA funds to fund 'One-Off' costs	**0**	**180,000**	**180,000**	**180,000**
Net surplus/deficit	**0**	**25,548**	**25,548**	**(94,443)**
Repairs commitment provision		**235,890**		
Net deficit including commitment		**(210,342)**		

	Income	**Expenditure**	**Under (Over) Spend**	**2010/11 Forecast**
	£	**£**	**£**	**£**
Day to Day	3,924,691	4,059,540	(134,849)	(256,103)
Voids	1,634,113	1,909,965	(275,852)	(209,747)
Equipment, servicing & maintenance	2,306,949	2,362,265	(55,316)	(115,423)
Cyclical	833,000	320,852	512,148	522,491
Housing projects	361,396	381,980	(20,584)	(35,661)
TOTAL prior to commitment	**9,060,149**	**9,034,602**	**25,548**	**(94,443)**

DERBY HOMES CAPITAL 2010/11 **Appendix 1.3**

Capital	Budget 2010/11	Budget YTD	Actual YTD	Under/(Over) Spend	2010/11 Forecast
Income	2,468,000	2,468,000	2,469,163	1,163	2,470,162
Staff costs	1,036,950	1,036,950	971,155	65,795	**950,000**
Subcontractor	300,000	300,000	382,061	(82,061)	360,000
Materials	768,000	768,000	1,008,555	(240,555)	910,000
Vehicle costs	133,330	133,330	133,964	(634)	135,000
Total Direct Costs	2,238,280	2,238,280	2,495,735	(257,455)	2,355,000
Gross Profit	**229,720**	**229,720**	**(26,572)**	**(256,292)**	**115,162**
Overheads	74,325	74,325	8,131	66,194	10,000
London Road Rechc	155,395	155,395	325,592	(170,197)	350,000
DH management charge			59,705	(59,705)	76,763
Total Overheads	**229,720**	**229,720**	**393,428**	**(163,708)**	**436,763**
Use of HRA funds to fund 'One-Off' costs			**70,000**	70,000	**70,000**
Net surplus/(deficit)	**0**	**0**	**(350,000)**	**(350,000)**	**(251,601)**
Additional Income from DCC to cover additional works			**350,000**		**251,601**
			0		**0**
TOTAL INCOME			**2,889,163**		**2,791,763**
TOTAL EXPENDITURE			**2,889,163**		**2,791,763**
NET SURPLUS/DEFICIT			**0**		**0**

DERBY HOMES PUBLIC BUILDINGS TRADING ACCOUNT 2010/11 **Appendix 1.4**

Public Buildings	Forecast 2010/11	10 months to March 2011 Actual YTD	Under/(Over) Spend
Income	1,530,000	1,548,465	18,465
Staff costs	605,000	613,874	(8,874)
Subcontractor	200,000	194,692	5,308
Materials	285,000	312,750	(27,750)
Vehicle costs	100,000	95,584	4,416
Direct Costs	1,190,000	1,216,900	(26,900)
Gross Profit	**340,000**	**331,565**	**(8,435)**
Overheads	25,000	23,657	1,343
Support Services	80,000	91,646	(11,646)
London Road Recharges	200,000	181,136	18,864
DH management charge	35,000	35,126	(126)
Net surplus/deficit	**0**	**0**	**0**

DERBY HOMES LIMITED **Actual vs Forecast Comparison 2010/11** **Appendix 2**

	Actual Operating statement March 2011	Forecast Full Year Operating statement February 2011	Variance
	£'000	£'000	£'000
INCOME			
Management Fee and miscellaneous income	14,650	14,654	(4)
Repairs, Investment & Public Buildings income	12,898	12,778	120
Use of HRA to fund 'One-Off' costs	250	250	0
Additional income from DCC to fund capital overspend	350	252	98
	28,148	27,934	214
EXPENDITURE			
Ongoing management fee operations:			
Employee Costs	8,647	8,531	(116)
Recharge of employee costs to Repairs, Investments & Public Buildings	(300)	(300)	0
Vehicle and Travel Expenses	299	312	13
Office Costs	1,109	1,147	38
Supplies & Services	4,501	3,058	(1,443)
Support Services	301	1,793	1,492
	14,557	14,541	(16)
Repairs, Investment & Public Buildings:			
Employee Costs	3,794	3,795	1
Sub-contractor costs	5,166	5,029	(137)
Materials	2,275	2,214	(61)
Vehicle and Travel Expenses	550	563	13
Indirect Repairs overheads	219	200	(19)
Allocation of central Repairs and Investment overheads	1,168	1,230	62
Allocation of overhead charge from ongoing operations	300	343	43
	13,472	13,374	(98)
TOTAL EXPENDITURE	**28,029**	**27,915**	**(114)**
OPERATING SURPLUS	**119**	**19**	**100**

DERBY HOMES LIMITED

Appendix 3

Explanation of movement in Forecast Out-turn

		Management fee Operations	Repairs Investment & Public Buildings	Total Changes to Out-turn
		£'000	£'000	£'000
	Forecast Operating Surplus/(Deficit) as at Period 11	**113**	**(94)**	**19**
	Incentive scheme payment from Derby City Council	150		150
1	Reduction in fee for Furniture packs transferred back to DCC	(225)		(225)
	Income not forecast from management fee operations and external income		102	102
	Other income variances	71		71
	Total income variance from forecast	**(4)**	**102**	**98**
1	Housing projects surplus compared to forecast overspend after charge back to DCC	202		202
R	Overspend on IT revenue budget, initially expected to be funded from reserves	(161)		(161)
	Inreased depreciation as a result of change of depreciation policy and timing	(133)		(133)
	Reduced saving on employee costs due to VR and VER payments	(73)		(73)
R	Contribution agreed on refurbishments not forecast	(83)		(83)
	Over-provision of service charges at Cardinal Square	40		40
	Photocopying and postages over budget not forecasted	(26)		(26)
R	Crime prevention scheme contribution	(40)		(40)
	Over provision of CT on voids	44		44
	Variances on lease costs and forecast lease termination costs	63		63

Over provision of electricity charges and telephony costs	78		78
Other minor variances	74		74
Increase in Repairs direct costs and overheads		17	17
Provision for repairs Commitments in accordance with FRS12		(236)	(236)
Total expenditure variance from forecast	**(15)**	**(219)**	**(234)**
Operating surplus before pensions adjustment as at 31 March 2011	**94**	**(211)**	**(117)**
Eliminate employer pension contributions in accordance with FRS17	1,389		1,389
Restated net pension cost per actuarial report - credit	1,078		1,078
Financial costs arising per actuarial report	(550)		(550)
Operating Surplus as at 31 March 2011 prior to taxation	**2,011**	**(211)**	**1,800**

1 Compensating items

R Expenditure agreed chargeable to reserves

DERBY HOMES LIMITED

APPENDIX 4

RESERVES AT 31 MARCH 2011

	Balance at 01/04/2010 £000	Balances transferred to Derby Homes 22/07/10 £000	Balance after Inter-group transfers £000	Used in 2010/11 £000	Transfers 2010/11 £000	Total Reserves at 31/03/2011 £000
At Derby City Council						
Contingency budget	**321**	**(321)**	**-**	**-**	**-**	**-**
Depreciation reserve	**357**	**(357)**	**-**	**-**	**-**	**-**
At Derby Homes Ltd						
Retained earnings account	**2013**	**678**	**2,691**	**(922)**	**804**	**2,573**
Deficit after tax				**(118)**		

Note : All reserves are stated prior to FRS 17 adjustments

DERBY HOMES LIMITED **APPENDIX 5**

ALLOCATION OF RESERVES AT 31 MARCH 2011

	Balance at 01/04/2010	Used 2010/11	Transfers 2010/11	Total Reserves at 31/03/2011	**Allocated 2011/12**	**Allocated 2012/13 or later**
	£000		£000	£000		
Housing Management & Maintenance system	245		(245)	0		
Electronic Document Management project	55		(55)	0		
Voip Project	22		(22)	0		
Transfer of DCC reserve for depreciation	357		(357)	0		
IT capitalised						
	679		(679)	0		
NOTE:						
IT projects have been capitalised and the related depreciation						
and projected depreciation 2011/12 to 2013/14 is within revenue budgets.				0		
Contractor - Revenue		(43)	81	38	38	
Meridio/Academy project contingency	55	(153)	154	56	56	
IT Project SMS texting	82	(6)		76	76	
LHO Telecoms		(37)	37	0		
Ended Schemes - see Appendix 5.1	1,146	(383)	(763)	0		
Continuing schemes:						
Family Intervention Project overspends	60	(16)		44	44	
Use of reward fund, eg. Refurbishment of common rooms etc			150	150	150	
Temp.systems co-ordinator post	61	(26)		35	35	
Development Officer	78	(46)	58	90	45	45
Business Transformation		(212)	277	65	65	
Repayment of loan			200	200		200
Future development projects			400	400	100	300
Retained earnings reserve	530		889	1,419	1,964	1,419
Total	2,691	(922)	804	2,573	2,573	1,964

DERBY HOMES LIMITED **APPENDIX 5.1**

ALLOCATION OF RESERVES AT 31 MARCH 2011

	Balance at 01/04/2010 £000	Used 2010/11	Transfers 2010/11 £000	Total Reserves at 31/03/2011 £000
Ended Schemes:				
Conversion of old Austin LHO	35	(35)		0
Previous Brook Street Office conversion	5	(3)	(2)	0
Mackworth co-location at library	25	(5)	(20)	0
Energy/fuel poverty campaign 2008-09	8	(1)	(7)	0
2 year Burglary reduction scheme	50	(40)	(10)	0
2 year Midland Community Finance funding	17	(17)		0
Apprenticeships	27	(5)	(22)	0
QSH Private leasing scheme	125		(125)	0
Contribution to Community Fire Safety Officer	7	(14)	7	0
Contribution to Kestrel House repairs	31	(34)	3	0
Repairs Team pump priming investment	325	(140)	(185)	0
Energy initiatives support	28	(26)	(2)	0
Credit Union seconded post	29	(27)	(2)	0
Schools citizenship project	7		(7)	0
Mobile IT/DECATS	95		(95)	0
New Tenants Sustainment Service start up	30	(36)	6	0
IT projects capitalised				
Open Contractor	127		(127)	0
VOIP recording equipment	13		(13)	0
EDRMS phase 3	20		(20)	0
SQL server clustering	35		(35)	0
Additional mobile IT	2		(2)	0
Supported living database	55		(55)	0
Miscellaneous it projects	50		(50)	0
	1,146	(383)	(763)	0

DERBY HOMES LIMITED **APPENDIX 6**

IT CAPITAL AND REVENUE PROJECT COSTS BEING CARRIED FORWARD INTO 2011/12

	£000
Revenue Amounts from 2010/11:	
SMS Texting Project	76
DLO IT Options Review and expenses	15
100MB Ethernet Circuit	3
StrawberrySync Remainder	10
TotalMobile Extension to Incidents etc	5
Migration of T:\ Drive	12
Meridio Upgrade to Version 5.2	1
Keystone 3.2 Upgrade	1
Mark Faint Extension (Until June 2011)	29
Academy Housing Contact Point	12
	163
Capital Amounts from 2010/11:	
Capita Contractor	119
Mobile IT and mobile phones	58
SQL Server Clustering	35
EDRMS Phase 3	17
Maintenance becoming Paperless	10
Supported Living Database	55
	294

The original budget for capital items in 2011/12 was £75,000. These brought forward amounts result in total capital expenditure for 2011/12 of £369,000. Depreciation calculations on this amount and on other capital items with a net book value at the start of 2011/12 are within the revenue budget set aside for depreciation.

No further allocation of reserves in respect of the capital items is therefore necessary.