RESOURCES, REMUNERATION & REGENERATION COMMITTEE
12 JULY 2012

ITEM B2

DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS

Report of the Director & Company Secretary

1. SUMMARY

1.1 This report accompanies the draft annual report and financial statements for Derby Homes for the year ended 31 March 2012.

1.2 The report also explains the changes made to the accounts since the period 11 forecast out-turn were presented to the Resources, Remuneration and Regeneration Committee meeting of 26 April 2012.

2. RECOMMENDATION

2.1 To consider the draft annual report and financial statements and recommend the Board accepts them at the meeting of 26 July 2012 as a true and fair view of the Company's financial affairs as at 31 March 2012 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 of 26 April 2012.

2.3 To recommend the Board authorises Dennis Rees, Vice Chair, and David Enticott, Company Secretary, to sign the accounts at the Board meeting on 26 July 2012.

2.4 To recommend the Board authorises Dennis Rees, Vice Chair, and David Enticott, Director and Company Secretary, to sign a letter of representation requested by PKF (UK) LLP at the Board meeting on 26 July 2012.

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 2012. 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 2012

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

3.4 The accounts show an operating surplus before tax of £621,000. This is after processing accounting entries associated with FRS17 which resulted in a charge to the income and expenditure account of £447,000. The underlying operating surplus was therefore £1,068,000 as summarised in Appendix 1. The movement between the operating surplus and the final accounts is made up as follows:

		£'000	**£'000**
Management fee surplus		911	
Maintenance & Repairs Operations		157	
Operating surplus			1,068
FRS17 adjustments:			
Add back of employers pension contributions		1,221	
Restated current service costs		(1,504)	
Net interest/return on assets		(164)	
			(447)
Restated surplus for 2011/12 before taxation			621
Taxation			-
Restated surplus for 2011/12 after taxation			**621**

3.5 The period 11 management accounts which were presented to the Resources, Remuneration and Regeneration Committee on 26 April 2012 included a forecast out-turn surplus of £337,000.

This was split £390,000 for the Management Fee operations and a forecast deficit of £53,000 for the Maintenance and Repairs operations. As noted above the draft financial statements before FRS17 adjustments show a surplus of £911,000 for the Management Fee operations and a surplus of £157,000 for the Maintenance and Repair operations. Appendix 2 is an analysis of the changes to turnover and expenditure which resulted from the year end close-down process.

3.6 The draft accounts and an external audit management letter were discussed and formally accepted by Audit Committee at a meeting held on Monday 2 July 2012. A copy of the minutes of that meeting will be tabled as a late item for the Committee meeting on 12 July 2012 and included on the Board's agenda for the meeting on 26 July 2012. The Chair of Audit Committee or an Audit Committee member will be invited to comment to the Board on this discussion.

3.7 At 31 March 2012 Derby Homes' reserves shown in the draft financial statements are as follows:

		£’000
Reserves – deficit		(7,839)
Defined benefit pension liability		(11,480)
Underlying reserves – surplus		**3,641**

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

		£’000
Investment in HQ movements – London Road & Civic Offices		540
Investment in refurbishment of property - (subject to purchase)		600
Business Transformation reserve		400
Cyclical Maintenance carry forward from 2011/12		100
Loan to Social Enterprise over next three years		400
Reward Funding 2011/12 – use of (up to – no specific plans yet)		150
Total commitments		**2,190**
Uncommitted reserves / contingency		1,451
Total allocation of reserves		**3,641**

Derby Homes aims to keep around 5% of turnover as a normal level of contingency within its reserves and the uncommitted reserves noted above equate to 5% of the turnover (excluding the one-off Solar Panel turnover in the year).

4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

The accounts will be filed at Companies House.

5. LEGAL AND CONFIDENTIALITY IMPLICATIONS

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

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

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

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

If Board members or others would like to discuss this report ahead of the meeting please contact the author, or Phil Davies, Chief Executive, phil.davies@derbyhomes.org – Phone: 01332 888528

Author: David Enticott, Director & Company Secretary, Telephone: 01332 888528
david.enticott@derbyhomes.org

Background Information: None.
Supporting Information: None.

DERBY HOMES LIMITED

(A company limited by guarantee)

Company No: 4380984

Registered with
The Housing & Communities Agency
No: 4576

Report and Financial Statements

Year ended 31 March 2012

DERBY HOMES LIMITED

(A company limited by guarantee)

Company No 4380984

Report and Financial Statements

Year ended 31 March 2012

Contents	**Pages**

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

Report and Financial Statements
Year Ended 31 March 2012

Board Members, Executive Directors, Advisors and Bankers

Directors

J P Bayliss	(appointed 25.02.02; resigned 09.05.06; re-appointed 25.05.07; resigned 04.05.12)
D J Rees	(appointed 28.02.02)
A G S Osler (Chair)	(appointed 28.02.02)
I M MacDonald	(appointed 28.02.02)
R Troup	(appointed 29.05.03; resigned 27.05.08; re-appointed 07.06.10; resigned 23.05.12)
T Ndlovu	(appointed 07.05.04)
R M Webb	(appointed 27.07.04; resigned 09.06.05; re-appointed 25.05.06)
M Redfern	(appointed 26.07.05)
K Whitehead	(appointed 24.10.07)
A Brown	(appointed 25.09.08; resigned 04.04.11)
J Bloxsom	(appointed 29.01.09; resigned 27.10.11)
A Holme	(appointed 17.02.09)
S B Perry	(appointed 17.02.09)
M Barker	(appointed 07.06.10; resigned 25.05.11)
P Molson	(appointed 27.01.11; resigned 10.02.12)
J Keith	(appointed 25.05.11)
M Ainsley	(appointed 27.09.11)
M Menzies	(appointed 27.10.11)
A Martin	(appointed 23.05.12)
L Winter	(appointed 23.05.12)

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

Report of the Directors
Year Ended 31 March 2012

The Directors also referred to as the Board, present their annual report and the audited financial statements for the year ended 31 March 2012.

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

Date of Incorporation

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

Principal Activities

The principal activity of the company is to act as the managing agent of the stock of around 13,500 public sector properties owned by Derby City Council, also referred to as the 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.

Review of Results

The income and expenditure account for the period is set out on page 22. Following the processing of FRS17 transactions the business returned a surplus after taxation for the period of £621k. This was after a charge of £447k which arose from the application of FRS17 on accounting for pensions, as disclosed in Note 7 to the financial statements.

	£’000	£’000
Underlying operating surplus		1,068
FRS 17 adjustments:		
Add back of employer pension contributions paid in year	1,221	
Less current service costs	(1,504)	
Less net interest/return on assets	(164)	(447)
		621

In 2010/11 the council determined that the fee payable to Derby Homes for the management of its housing stock of 13,500 properties would be reduced over the period 2011/12 to 2014/15 by £1m in real terms, enabling a greater proportion of funding to be directed towards maintenance and capital than has previously been the case. As a result of this the company set in place an extensive programme of business transformation with the objective of generating savings to compensate for the reduction in fee. This programme has been successful and the operating surplus for the year reflects that the business transformation measures taken are already generating savings ahead of the planned reduction in fees.

In view of the measures taken, the Board is satisfied with the performance of the company.

Report of the Directors (continued)
Year Ended 31 March 2012

Going Concern

At its meeting on 26 July 2012, 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 10 year 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 pension fund deficit. The council therefore undertakes to provide continuing support to enable the financial statements of Derby Homes to be prepared on a going concern basis.

The Board and Executive Officers

The Board of Derby Homes Limited consists of 15 voluntary members. There are 4 tenant, 1 leaseholder, 5 councillor and 5 independent members. There is currently 1 tenant member vacancy. The makeup of the Board and their term of office is determined by Derby Homes Limited Memorandum and Articles of Association, which govern the Company.

The Board and Executive Officers are set out on page 2

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

Corporate Governance

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

The Company Governance Arrangements include:

- the Memorandum and Articles of Association
- standing orders for conduct of Board and General meetings
- City Board constitution
- delegation of responsibilities
- financial regulations
- contract procedure rules
- appointment and recruitment of Board members
- code of conduct for Board members
- standing orders for Appointment of Staff
- protocol on Board member, Executive team and staff relations
- services or management agreement between the Council and Derby Homes.

Report of the Directors (continued)
Year Ended 31 March 2012

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 of the City Board, tenant and leaseholder representatives.

Audit Committee

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

The primary function of the Committee is to:

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

Employee Involvement

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

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

Report of the Directors (continued)
Year Ended 31 March 2012

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.

Training Employees and the Board

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

Risk Management

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

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

Each risk has a Risk Management Action Plan. Progress on these plans was reviewed and reassessed and scores updated in March 2012.

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 one operational red risk. The strategic red risks are:

- Risk 11 (almost certain and catastrophic) Supporting People grant continues to reduce. This risk is being dealt with by addressing the potential for a new extended tenancy sustainment service, extended to tenants requiring all forms of intensive housing management. Should this approach fail – and it is not considered likely at this stage – then the approach will be to reduce the service adequately to cope within severely limited resources after June 2013 when supporting people grant is likely to reduce by a large proportion. In either event, the otherwise potentially catastrophic impact on income will be managed.

- Risk 4 (possible and catastrophic impact) – Failure to anticipate and prepare for Government Policy change and economic climate impact on tenants: This issue is also being mitigated as far as possible and will be addressed during the coming year – there will inevitably be lower rental income for the Council and higher costs of collection for Derby Homes as a result, but these impacts can be managed in partnership with the Council. The financial impact will inevitably be large but managed towards the minimum possible within the constraints of the new arrangements.

Report of the Directors (continued)
Year Ended 31 March 2012

The operational red risk is:

- Failure to maintain complete and accessible database of customer profile information and failure to use the information to improve our customer service. (Possible and catastrophic impact): Again this relates to the requirement to update data with respect to bedroom tax welfare changes in 2013 onwards. This is being tackled over the next year and will be used to deliver information on these changes to tenants.

Internal Controls Assurance

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

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

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

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

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

Report of the Directors (continued)
Year Ended 31 March 2012

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

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

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

Provision of Information to Auditor

So far as each of the directors is aware at the time this report is approved:

- There is no relevant audit information of which the company's auditor is unaware, and

- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information (s234 ZA(2)).

By order of the Board

D Rees	D Enticott
Vice Chair	Secretary
26 July 2012	26 July 2012

Statement of Directors' Responsibilities
Year Ended 31 March 2012

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

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

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Housing SORP;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Operating and Financial Review
Year Ended 31 March 2012

Activities

Derby Homes Limited is an Arms Length Management Organisation (ALMO), wholly owned by Derby City Council. This means that, while the council established the company, it operates independently from it on day-to-day matters. The ALMO was incorporated on 25 February 2002 and began trading on 10 April 2002.

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

This includes:

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

Derby Homes also directly provides services to 490 leaseholders of the council and has agreements with external landlords to manage and maintain 113 properties. These landlords include Spirita, Guinness and Northern Counties Housing Association, Lillian Prime Ltd and other private landlords.

Derby Homes is registered with the Tenants Services Authority and has built 10 properties for affordable rent which it manages, and has acquired 5 flats in a Victorian building which it owns and manages in partnership with Derwent New Deal.

The company also manages 17 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 worked with the council to successfully open a purpose built traveller's site, Imari Park.

Operating and Financial Review (continued)
Year Ended 31 March 2012

Derby Homes also runs the Family Intervention Project which offers a last chance opportunity for dysfunctional families to address their behaviour and avoid eviction. Derby Homes has continued to fund a reduced scale service despite the loss of all grant income from the government and Community Safety Partnership, and is working with the council to try and find a longer term funding source for the service.

During 2011/12, the company was responsible on behalf of the council for the procurement, supply and installation of solar panels to approximately 900 council properties, payment being received on a full cost recovery basis. The value of these works was around £6m and clearly increases the turnover of the company on a one off basis this year. In addition, 2011/12 was the first full financial year including the council's former DLO repairs operation which was taken over by Derby Homes in June 2010. This increases the turnover by over £2m a year on a permanent basis.

Derby Homes' original services agreement concluded on 31 March 2012 and Derby City Council has agreed a new contract with Derby Homes under which the company is responsible for the Housing Management & Maintenance Services from April 2012 for a further period of 10 years, with a break clause after 5 years. 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 company currently has its headquarters at Cardinal Square, Derby and currently operates throughout the City of Derby area. The headquarters will move in the next financial year to Corporation Street, with maintenance operations being centred at the London Road Depot. It is expected that formal contracts for these moves will be signed during 2012/13.

Objectives

Customer care is an essential part of our service delivery and we seek to engage and involve the communities that we serve. The ongoing commitment to customer care is evidenced by our promises to tenants which are that we will:

- Achieve 90% customer satisfaction with the overall service
- Keep 100% of homes at the Decent Homes standard
- Encourage tenants to get involved in improving the service
- Achieve the local standards set by tenants
- Deliver services that are accessible to all
- Get things right first time
- Keep tenants informed
- Support tenants who need to move to more suitable accommodation
- Reward good tenants and take action against bad tenants
- Provide services that are sensitive to the needs of vulnerable people.

The company has also gained accreditation to Customer Service Excellence, previously Charter Mark.

Operating and Financial Review (continued)
Year Ended 31 March 2012

In addition we have developed 23 Local Offers set by the Tenants and Leaseholders of Derby Homes. They cover the Home, Tenancy and Neighbourhood and Community standards. The Value for Money and Tenant Involvement and Empowerment standards are cross cutting and run in conjunction with these.

Home Standard

There are 10 Local Offers under this standard which assess how well we provide the Repairs and Maintenance service along with management of empty properties. 3 of the local offers within the Home standard have targets attached to them. Of these

Local Offers, 2 were fully met in 2011/12, with 1 just falling short of target. The other 7 have measures to monitor delivery of the local offer but no target attached.

Tenancy Standard

There are 6 Local Offers under this standard which assess how well we provide support to tenants and deliver our Income Management Services. These offers have measures to monitor delivery of the local offer but no target attached.

Neighbourhood and Community

There are 7 Local Offers under this standard which assess how well we provide our Neighbourhood Safety and Estate Services. These offers have measures to monitor delivery of the local offer but no target attached.

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:

> The key strategic outcomes of the Council are to work together so that all people in Derby will enjoy:

- CP01 - A thriving sustainable economy
- CP02 - Achieving their learning potential
- CP03 - Good health and well-being
- CP04 - Being safe and feeling safe
- CP05 - A strong community
- CP06 - An active cultural life
- CP07 - Good quality service that meets local needs
- CP08 - A skilled and motivated workforce.

These commitments are contained within the Council Plan 2011/12 – 2013/14 and the Derby Plan for 2011 – 2026.

Details of our contributions to these strategic objectives are contained within Derby Homes Business & Delivery Plan 2012/13.

Operating and Financial Review (continued)
Year Ended 31 March 2012

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

The ten year contract to manage council housing until 2022 called for a reduction of £1m in the management fee over the four years to 2014/15 and in order to allow for the pressure on resources over that period a target for cost reduction of £1.2m was set. As at 31 March 2012 savings and cost reductions of £813k have been achieved compared to a target of £300k, and fee reduction of £250k. The savings of approximately £560k in advance of the first year of a four year programme are the principal reason for the substantial underlying surplus achieved in 2011/12. There are plans in place to deliver the remaining savings required over the remaining period. As a result it is anticipated that the overall budget should be in balance without further large scale savings as have been necessary during the last year. It is hoped that a period of greater stability in income and expenditure levels should now be possible over the next few years.

The strategy also called for efficiencies of £1m to be generated within the maintenance operations and for these to be reapplied to maintenance and capital spending to generate a higher level of service to tenants. Broadly this objective is on course to be met within the four year period.

It was proposed in the strategy that the budget process for 2012/13 would set budgets not just for one year but in outline for the following two years. This proposal was implemented with the result that the budget setting process was brought into line with the medium term finance strategy.

The financial result for the year shows a surplus after the FRS 17 pension adjustments of £621k and, while the balance sheet overall still shows a negative value of the company of just under £8m, this is due entirely to the pension fund deficit which now stands at £11.5m. This is being dealt with by increased contributions from Derby Homes relating to this deficit, over a period determined by Derbyshire County Council as pension fund administrators – currently 18 years. As a result of the overall deficit, the Company relies on the council to support it through a representation letter from the council's Director of Resources, which effectively underwrites the pension fund deficit of the company. If the pension fund deficit is removed, balance sheet reserves stand at £3.6m.

Operating Review

The company received fees of £12.36m from the council for maintenance and repair of social housing in 2011/12 and operating costs amounted to £12.21m. These operations include Day to Day Repairs, Gas Servicing and Breakdowns, Specialist and Planned Works and other services. The surplus of £150k was due mainly to the timing of Specialist Works of around £100k and an underspend on the Day to Day and contingency budgets.

Operating and Financial Review (continued)
Year Ended 31 March 2012

In respect of the installation of Kitchens and Bathrooms fees receivable from the council's capital account amounted to £3m and this covered all operating costs and overheads resulting in a break even result. Completions and total costs were as follows:

	Completions	**Total cost £'000**	**Average cost £'000**
Kitchens	563	2,053	3.65
Bathrooms	410	959	2.34
Total cost		**3,012**	

The company's operations in relation to Public Buildings Works are also on a cost recovery basis. Fees receivable in 2011/12 were £1.4m and fully covered costs.

Performance in the year

The financial result for the year ended 31 March 2012 was as follows:

	2012 £'000
Turnover	35,986
Operating costs (recurring)	(35,187)
Operating Surplus	799
Interest payable	(14)
Pension finance costs	(164)
Surplus for the year	**621**

Operating and Financial Review (continued)
Year Ended 31 March 2012

The Chair's Briefing meeting reviews the organisations performance indicators and the implementation of action plans arising from this. The table below is a sample of key performance indicators comparing performance for 2011/12 with 2010/11.

Indicator	Description	2010/11 Achieved	2011/12 Target	2011/12 Achieved
Key Performance Indicators				
DH Local 24 (BVPI 63)	Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings.	71.00	72.00	71.00
DH Local 7 (BVPI 66a)	Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account (HRA) dwellings.	98.37%	98.10%	98.28%
DH Local 8 (BVPI 66b)	No. of tenants with more than seven weeks of (gross) rent arrears as a % of the total number of tenants.	6.57%	5.65%	6.49%
DH Local 27 (National Indicator 160)	Tenant Satisfaction with Landlord (All)	86.00%	85.00%	83.08%
DH Local (BVPI 75a/b/c)	Tenant Satisfaction with views taken into account	62.00%	68.00%	64.40%
(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
National Indicator 158	Non-Decent Local Authority Dwellings (percentage)	0.00%	0.00%	0.00%
DH Local 21 (BVPI 212)	Average time taken to re-let local authority housing.	24.91 days	23.50 days	23.32 days

Operating and Financial Review (continued)
Year Ended 31 March 2012

Performance Highlights 2011/12

In addition to assisting the council by installing 900 solar panels at a cost of £6m, Derby Homes has supported the council's use of the Community Energy Saving Programme (CESP) by using that funding alongside Council capital programme funding to improve insulation and heating to around 2,200 homes. These measures combine to make a significant impact on energy efficiency of those homes, reducing carbon and fuel poverty.

Awards

Derby Homes is proud to have won a couple of National Federation of ALMOs awards in 2011: Best Community Initiative for work to address barriers to employment faced by hearing impaired candidates, and for Best Use of Communication for the DVD 'It's not good enough' to increase awareness of the problems faced by tenants and leaseholders with learning difficulties.

The Tenants Review Panel has also been set up and has already issued their first report on the repairs service. Derby Homes has also been working with tenants on financial inclusion issues and has agreed additional resources to be put into this area from the HRA with the council.

Derby Homes has also been supporting the Osmaston Community Association of Residents (OSCAR), which has led to the formation of the country's largest Neighbourhood Watch scheme and a bid to the Homes and Communities Agency for funding for the redevelopment of the Osmaston estate.

Derby Homes has also entered the social networking world with a presence on Facebook and Twitter.

Dynamics of the company

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

The Welfare Reform Act and resultant changes to the Housing Benefit system which may result in additional pressure on the company's housing management services. Departments particularly affected are those handling arrears and direct debit processing, both of which are likely to increase substantially.

Government policy and changing legislation is likely to encourage an increase in future Right to Buy Sales (RTBs) of council housing. It is too early to assess the scale of the impact of this but in the longer term it is likely to lead to reduced rental income for Derby City Council which in turn would result in reduced management fees being paid to the company. This loss of income is likely to be mitigated to a significant degree by the application by the council of a large portion of the income received from these sales into supply of additional council owned rented homes, using an agreement with the Secretary of State that allows such funds to be locally recycled in this way.

Operating and Financial Review (continued)
Year Ended 31 March 2012

In the shorter term, there is considerable doubt over the funding of the Company's services to vulnerable tenants which are currently funded by the Supporting People Commissioning Board. Adjustments have been made to the 2012/13 budget but any further material reduction in Supporting People income will involve either a need for alternative means of funding to be found or a restructuring of the service.

Any loss of work which is due to be re-tendered could result in a reduction in overhead recovery which was charged to the services concerned in 2011/12, thus adding additional overhead pressure to the organisation as a whole.

In the medium term, the Company faces a considerable loss of income from the council's capital programme relating to Kitchens and Bathroom works as these programmes reduce in scale from 2015/16 in particular. Income of around £1.7m a year is likely to be lost and this loss will inevitably reduce required staffing levels and overhead recovery within maintenance. It is likely therefore that some restructuring in this area will be necessary. Workforce planning will be necessary to move staff to other areas over the next three years while maintaining the service in the meantime.

Investment and improvement for the future

While there are a number of significant threats to the Company's income noted above, the overall picture for council housing is better than it has been for a long time. The reform of the Housing subsidy system has left the council's HRA with sufficient resources to maintain homes adequately into the future, and also to start to replace around half of the properties lost through RTBs. It is hoped that by managing to get ahead of the changes to welfare and to build up resources in collection and arrears management the losses experienced can be minimised, perhaps leading to greater resources in the future.

As a result of the funding available to the HRA and its ability to replace some lost RTB properties, as well as dealing with the major issues outlined above, it is anticipated that the reserves of £3.6m can be reduced and applied to areas where investment will produce further savings for the future or will result in an increased revenue for the Company.

The current plans for the reserves are:

- Investment in HQ movements – London Road and Corporation Street ~£550k
- Investment in refurbishment of property (subject to purchase) ~ £600k
- Business Transformation Reserve ~£400k
- Cyclical Maintenance carry forward ~ £100k
- Loan to Social Enterprise ~ £400k

This takes the immediate reinvestment programme to around £2.05m, reducing the uncommitted reserves to just over £1.5m. Derby Homes has always aimed to keep around 5% of turnover as a 'normal' level of contingency within its reserves and £1.5m is 5% of the underlying turnover excluding the one off Solar Panel investment this year. The immediate prospects are therefore good and cover fully the investments above. The intention is that the HQ investments will help to deliver

Operating and Financial Review (continued)
Year Ended 31 March 2012

£100k a year of ongoing savings in office costs, that the property refurbishment would deliver a return of income each year, that the Loan to the Social Enterprise would be recovered over time should that enterprise be as successful as hoped, and that the business transformation reserve will result in further efficiencies or service improvements. Cyclical maintenance is a carried forward fund that will be added to funds made available for investment in estates.

Financial Review and Capital Structure

The main accounting policies are set out on pages 27 to 31 of the financial statement.

As a wholly owned ALMO subsidiary of Derby City Council, the capital structure has been approved by the council. The balance sheet set out on page 24 shows a deficiency of total funds which results from the defined pension fund liability but as noted in the Directors' Report and Accounting Polices, this major liability is underwritten by the council. Excluding the pension liability, total reserves as at 31 March 2012 amount to £3.6m.

Treasury Policy, Cash Flows and Liquidity

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

During 2010/11 the company drew down £200k from a loan facility granted by the council on 18 May 2009. This loan was to part finance the 10 New Build Properties which are now included in fixed assets as Social Housing Held for Letting. The loan is repayable over 25 years and capital repayments of £8k are made annually. Interest is fixed at 6% per annum.

Statement of Compliance

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

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

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

We have audited the financial statements of Derby Homes Limited ("the RP") for the year ended 31 March 2012 which comprise the income and expenditure account, the statement of total recognised surpluses and deficits, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to Derby Homes Limited in accordance with section 137(1) of the Housing and Regeneration Act 2008 and to the RP'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 RSL and the RP'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 RP and the RP'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 statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 RP'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 RP's affairs as at 31 March 2012 and of the income and expenditure 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 and in accordance with the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the report of the directors, 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 or the Housing and Regeneration Act 2008 require us to report to you if, in our opinion:

- adequate and proper accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the RP has not maintained a satisfactory system of control over its transactions; 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.

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

Date:

Income and Expenditure Account
Year Ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Turnover	2	**35,986**	28,133
Operating costs	2	**(35,187)**	(28,504)
Past service cost gain	2	**-**	2,724
Operating Surplus	4	**799**	2,353
Interest payable and similar charges		**(14)**	(3)
Pension finance costs	5	**(164)**	(550)
Surplus on ordinary activities before taxation		**621**	1,800
Tax on surplus/(deficit) on ordinary activities	6	**-**	(1)
Surplus on ordinary activities after taxation	12	**621**	1,799
Retained surplus for the year		**621**	1,799

All amounts relate to continuing activities.

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

Statement of Total Recognised Surpluses and Deficits for the year ended 31 March 2012.

Surplus for the financial year	**2012**	2011
	£'000	£'000
Surplus/(Deficit) for the financial year	**621**	1,799
Actuarial (losses)/gains relating to pensions	**(1,712)**	113
	(1,091)	1,912
Prior year adjustment	**-**	678
Total recognised (losses) and gains since last annual report	**(1,091)**	2,590

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

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

Balance Sheet
At 31 March 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Housing Properties			
Cost less depreciation		**1,219**	1,225
Capital grant		**(1,049)**	(1,049)
Net book value of housing properties		**170**	176
Other fixed assets		**523**	283
	8	**693**	459
Current assets			
Debtors	9	**7,737**	7,209
Stock		**113**	41
Cash in hand		**2**	3
		7,852	7,253
Creditors: amounts falling due within one year	10	**(4,712)**	(4,939)
Net current assets		**3,140**	2,314
Creditors: amounts falling due after one year	11	**(192)**	(200)
Net assets before pension liability		**3,641**	2,573
Defined benefit pension liability	7	**(11,480)**	(9,321)
Net liabilities after pension liability		**(7,839)**	(6,748)
Reserves			
Revenue reserve		**(7,839)**	(6,748)
Total funds	12	**(7,839)**	(6,748)

These financial statements were authorised and approved by the Board of Directors on 26 July 2012.

Signed on behalf of the Board of Directors

D Rees
Vice Chair

D Enticott
Secretary

Cash Flow Statement
Year Ended 31 March 2012

	2012	2011
	£'000	£'000
Reconciliation of operating surplus to net cash Inflow/(outflow) from operating activities		
Operating surplus	**799**	2,353
Depreciation	**324**	439
Increase in stocks	**(72)**	(41)
Increase in debtors	**(528)**	(2,591)
(Decrease)/increase in creditors	**(228)**	2,607
Movement in FRS17 adjustment	**283**	(2,467)
Net cash inflow from operating activities	**578**	300
Cash flow statement		
Net cash inflow from operating activities	**578**	300
Return on investments and servicing of finance	**(14)**	(3)
Capital Expenditure:		
Fixed Asset additions	**(557)**	(775)
Less Capital Grant Received	**-**	278
Net Capital expenditure	**(557)**	(497)
Taxation	**-**	(1)
Cash inflow/(outflow) before financing	**7**	(201)
Financing – loan principal repayments	**(8)**	200
(Decrease) in cash	**(1)**	(1)

Reconciliation of net cash flow to movement in net debt for the year ended 31 March 2012

	2012 £'000	2011 £'000
Decrease in cash in the year	**(1)**	(1)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	**8**	(200)
Movement in net debt in the year	**7**	(201)
Net debt at 1 April 2011	**(197)**	4
Net debt at 31 March 2012	**(190)**	(197)

Analysis of changes in net debt

	1 April 2011 £'000	**Cash flow**	**31 March 2012 £'000**
Cash at bank and in hand	**3**	**(1)**	**2**
	3	**(1)**	**(2)**
Debts falling due after more than one year	**(200)**	**8**	**(192)**
Net debt	**(197)**	**7**	**(190)**

Notes to the Financial Statements
Year Ended 31 March 2012

1. **Principal accounting policies**

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

Basis of accounting

The financial statements of the company are prepared in accordance with applicable accounting standards and the Statement of Recommended Practice (SORP) 2008 – Accounting by Registered Social Landlords, and comply with the Accounting Requirements for Registered Social landlords general determination 2006.

Going Concern

The financial statements have been prepared on a going concern basis. The company's balance sheet shows a net liability due to the inclusion of pensions liabilities required under FRS 17, Retirement Benefits. However, this is underwritten by Derby City Council.

Turnover

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

Operating Costs

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

Overheads and Administrative Costs

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

Tangible fixed assets and depreciation

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

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

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

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

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

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

Impairment

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

Taxation including deferred tax

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

Operating leases

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

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

Pension costs

Local government pension scheme

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

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

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

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

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

Debtors and creditors

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

Value Added Tax (VAT)

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

Accounting for grants

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

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

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

True and Fair Override

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

2.1 Turnover, operating costs and operating surplus/ (deficit)

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

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

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

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

	Year ended 31 March 2011					
	Notes	Turnover	Operating Costs	Additional FRS 17 pension costs	Total Operating Costs	Operating Surplus or (deficit)
		£'000	£'000	£'000	£'000	£'000
Social Housing Lettings	2.2	12	23	0	23	(11)
Management of Social Housing for the council		14,254	14,176	172	14,348	(94)
Maintenance and Repair of Social Housing for the Council		9,045	9,256	51	9,307	(262)
Capital Works undertaken for the Council		2,889	2,889	21	2,910	(21)
Public Buildings Work undertaken for the Council		1,549	1,549	13	1,562	(13)
Other activities		384	354	-	354	30
Total prior to exceptional item		28,133	28,247	257	28,504	(371)
Exceptional item		-	-	(2,724)	(2,724)	2,724
Total		**28,133**	**28,247**	**(2,467)**	**25,780**	**2,353**

The exceptional item of £2.724m relates to the credit to the Income and Expenditure account relating to past service gains resulting from the change to the pensions inflation assumptions from Retail Price Index to Consumer Price Index.

2.2 Social Housing Lettings

	2012	2011
	£'000	£000
Rents (net of void loss)	49	11
Service charges	7	1
Net rental income	**56**	12
Expenditure		
Maintenance	-	3
Property insurance	3	1
Other supplies & services	35	15
Depreciation	6	4
Total Expenditure	**44**	23
Operating surplus on Social Housing Lettings	**12**	(11)

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

3 Information regarding directors and employees

Directors and executive officers' emoluments are as shown below. No pension contributions were made for directors.

	2012	2011
	£'000	£'000
Directors' emoluments		
Aggregate emoluments	**8**	-
Pension contributions	**-**	-
	8	-

Executive Officers' emoluments

There are four permanent executive officers including a Chief Executive. These executive officers are listed on page 2

Aggregate emoluments – executive officers	**333**	327
Pension contributions – executive officers	**38**	50
	371	377
Emoluments paid to the highest paid executive officer	**113**	113
Pension contributions – highest paid executive officer	**12**	12
	125	125

The Chief Executive is the highest paid Executive Officer and is a member of the Derbyshire County Council defined benefit superannuation fund. He is an ordinary member of the fund and no enhanced or special terms apply.

Average number of persons employed (full time equivalents)	**2012**	2011
Housing management	**182**	194
Central services and regeneration	**63**	84
Maintenance and repairs	**160**	125
	405	403

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

Staff costs during the year (including directors and executive officers)	**2012 £'000**	2011 £'000
Wages and salaries	**10,043**	10,027
Social security costs	**752**	724
Pension	**1,521**	1,639
	12,316	12,390
Past service cost gain	**-**	(2,724)
	12,316	9,666

4 Operating surplus

	2012 £'000	2011 £'000
The operating surplus is after charging:		
Depreciation	**324**	439
Auditor's remuneration:		
- audit services	**20**	24
- non-audit services, taxation	**8**	2
Operating lease rentals - equipment	**10**	10

5 Other finance costs

	2012 £'000	2011 £'000
Interest cost on pension obligation	**2,473**	2,450
Expected return on assets	**(2,309)**	(1,900)
	164	550

6 Tax on surplus on ordinary activities

	2012 £'000	2011 £'000
United Kingdom corporation tax @ 20%	**5**	5
Adjustments in respect of prior periods	**(5)**	(4)
	-	1

Factors affecting tax charge for year	**2012 £'000**	2011 £'000
Surplus on ordinary activities before tax	**621**	1,800
Surplus on ordinary activities multiplied by corporation tax @ 20%	**124**	378
Effects of:		
Non taxable income and deductions	**(123)**	(373)
Adjustment to tax in respect of prior periods	**(1)**	(4)
	-	1

7 Pensions

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

The most recent valuation was carried out as at 31 March 2010 and has been updated by independent actuaries to the Derbyshire County Council Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the fund as at 31 March 2012.

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 2011 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:

	2012 £'000	2011 £'000
Present value of funded obligations	**(47,887)**	(44,515)
Fair value of scheme assets	**36,407**	35,194
Deficit	**(11,480)**	(9,321)

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

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

	2012 £'000	2011 £'000
Interest on obligation	**2,473**	2,450
Expected return on scheme assets	**(2,309)**	(1,900)
Finance costs	**164**	550
Current service cost	**1,504**	1,573
Past service (gain)/cost	**-**	(2,724)
Effect of curtailments	**-**	73
Total	**1,668**	(528)

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

	2012 £'000	2011 £'000
Actuarial (losses) and gains relating to pensions	**(1,712)**	2,106
Effect of Business combinations	**-**	(1,993)
Net (losses)/gains/	**(1,712)**	113

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

	2012 £'000	2011 £'000
Opening defined benefit obligation	**44,515**	31,169
Interest cost	**2,473**	2,450
Actuarial (gains)/losses	**-**	(1,526)
Benefits paid	**(1,176)**	(959)
Current service cost	**1,504**	1,573
Curtailments	**-**	73
Past service cost	**-**	(2,724)
Business combinations – DLO transfer	**-**	13,571
Members contributions	**571**	888
Closing defined benefit obligation	**47,887**	44,515

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

Changes in the fair value of scheme assets are as follows:	**2012**	2011
	£'000	£'000
Opening fair value of scheme assets	**35,194**	19,818
Expected return	**2,309**	1,900
Actuarial (losses)/gains	**(1,712)**	580
Business combinations – DLO transfer	**-**	11,578
Contributions by employer	**1,221**	1,389
Benefits paid	**(1,176)**	(959)
Members contributions	**571**	888
Closing fair value of scheme assets	**36,407**	35,194

The actual gain on scheme assets in the period was £597,000 (2010/11 - £2,946,000) gain).

During the year, the Company paid employer contributions of £1,221,000. The contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. The company expects to contribute £1,225,000 to its defined benefit pension scheme in 2012/13.

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

	2012	2011
	%	%
Equities	**64.3**	68.5
Property	**5.4**	5.1
Government bonds	**16.7**	6.8
Other bonds	**5.3**	5.6
Cash/liquidity	**7.3**	6.3
Other	**1.0**	7.7
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 2012 and 31 March 2011.

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

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

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

	2012	2011
	%	%
RPI Inflation rate	**-**	3.5
CPI Inflation rate	**2.6**	3.0
Discount rate	**5.1**	5.5
Rate of increase in salaries	**4.35**	4.75
Rate of increase in pensions	**2.6**	3.0
Expected rate of return on assets	**5.51**	6.50

Life expectancy at 31 March 2012:

Of a male/ (female) future pensioner aged 65 in 20 years time	23.2 (26.0) years
Of a male/ (female) current pensioner aged 65	21.8 (24.4) 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

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(47,887)	(44,515)	(31,169)	(19,752)	(23,988)
Scheme assets	36,407	35,194	19,818	14,095	16,170
	(11,480)	(9,321)	(11,351)	(5,657)	(7,818)
Percentage funded	76%	79%	64%	72%	67%
Experience adjustments on scheme liabilities	-	1,658	-	-	(631)
Experience adjustments on scheme assets	(1,712)	580	4,094	(4,024)	(1,413)

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 2012 (Continued)

8 Tangible fixed assets

	Social Housing Properties Held for letting £'000	Computer Equipment £'000	Motor Vehicles £'000	Other Assets £'000	Total £'000
Cost					
At 1 April 2011	1,229	1,948	-	13	3,190
Disposals	-	(112)	-	-	(112)
Additions	-	387	170	-	557
At 31 March 2012	**1,229**	**2,223**	**170**	**13**	**3,635**
Depreciation					
At 1 April 2011	4	1,664	-	13	1,681
Disposals	-	(112)	-	-	(112)
Charge for the year	6	294	24	-	324
At 31 March 2012	**10**	**1,846**	**24**	**13**	**1,893**
Capital Grant					
At 1 April 2011	(1,049)	-	-	-	(1,049)
Receipts in year	-	-	-	-	-
At 31 March 2012	**(1,049)**	**-**	**-**	**-**	**(1,049)**
Net book value					
At 31 March 2011	176	283	-	-	459
At 31 March 2012	**170**	**377**	**146**	**-**	**693**

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

The Social Housing Properties Held for Letting are Freehold.

Notes to the Financial Statements
Year Ended 31 March 2012 (Continued)

Expenditure on works to existing properties	2012 £'000	2011 £'000
Amount capitalised	-	418
Amount charged to income and expenditure account	-	3
	-	421

9 Debtors: amounts falling due within one year	2012 £'000	2011 £'000
Amounts due from parent company	7,204	6,854
Trade debtors	67	160
Prepayments and accrued income	466	195
	7,737	7,209

Included in amounts due from the parent company is £514,000, (2011 £3,273,000), being a bank account held on the company's behalf by Derby City Council.

10 Creditors: amounts falling due within one year	2012 £'000	2011 £'000
Amounts owing to parent company	1,130	1,863
Trade creditors	738	1,301
Corporation tax	5	5
Other taxation and social security	1,362	538
Other creditors	150	0
Accruals and deferred income	1,327	1,232
	4,712	4,939

11 Creditors: amounts falling due after one year	2012 £'000	2011 £'000
Amounts owing to parent company – New Build Loan	192	200
Repayments are due as follows:		
Within 5 years	40	
In more than 5 years	152	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 2012 (Continued)

12 Reserves

	Revenue reserve
	£'000
Balance at 1 April 2011	**(6,748)**
Surplus for the year	**621**
Actuarial losses in year	**(1,712)**
Balance at 31 March 2012	**(7,839)**

13 Capital Commitments

At 31 March 2012 there was a capital commitment approved but not contracted for in respect of the acquisition of 32 motor vehicles for Maintenance in an amount of £559,000. There were no other capital commitments.

14 Operating Lease Commitments

At 31 March 2012 the company had annual commitments under non-cancellable operating leases as follows:

Equipment	**2012**	2011
	£'000	£'000
Expiry date :		
Between 1 and 2 years	**7**	1
Between 2 and 5 years	**2**	9

15 Parent Undertaking

The Company is a local authority controlled company within the meaning of Part V of the Local Government and Housing Act 1989, being a company under the control of Derby City Council. Copies of the financial statements for Derby Homes Limited can be obtained from the Secretary, Derby Homes Limited, 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 2012 (Continued)

16 Related Party Undertaking

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

Four Board members are also tenants of the council and have a standard tenancy agreement and are required to fulfil the same obligations and receive the same benefit as other tenants. One board member holds a leasehold contract with the council and enjoys the same benefit as other leaseholders with the same agreement and fulfils the same obligations as other leaseholders. There are no significant rental arrears to report in relation to these tenants or leaseholder as at year end.

Derby Homes Limited

Draft Audit Feedback Report

June 2012

Accountants &
business advisers

This document is prepared solely for the use and benefit of addressees of our engagement letter. Neither the authors nor PKF (UK) LLP accept or assume any responsibility or duty of care to any third party.

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Contents

1. Introduction

As part of our continued commitment to providing benefits to clients through our assurance and advisory work, we have addressed in this report various matters arising from our work.

We have discussed the issues in this report with the directors, but would be happy to provide further clarification on any of the matters we have raised.

Finally, we would like to thank you and your staff for the co-operation that we received during the course of our work.

Scope and use of our report

Our work was carried out on the basis set out in our engagement letter dated 14 February 2012. 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.

This report 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.

Independence

We have considered our independence as auditors of Derby Homes Limited as at 31 March 2012 ("the company") and we disclose to the board that, in addition to our work as auditors for the company, we carry out tax compliance work and have provided counter fraud advice and other ad hoc advice from time to time as requested by the company.

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.

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 and your related entities that may reasonably be thought to bear on the independence and objectivity of our staff.

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:

- 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
- 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

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

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

We are able to confirm that, as a result of our audit work we did not have to amend the level of materiality initially applied.

2. ISA 260 Letter

The Board of Directors
Derby Homes
Floor 2, South Point
Cardinal Square
10 Nottingham Road
Derby
DE1 3QT

Date: June 2012

Ref: HG/GG/4008647

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

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

Our findings have been discussed with David Enticott as well the heads of the individual finance teams and we report below those matters which we consider merit your attention.

Significant findings from the audit

The significant findings from the audit have been presented in section 5 of this report.

Expected modifications to our auditor's report

As a result of our work and the conclusions on the sufficiency and appropriateness of the audit evidence obtained, we do not expect to make any modifications to our auditor's reports for the group entities.

Written representations

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

The misstatements identified have been noted in section 6 of this report. We have noted within this section where these have been corrected by management within the financial statements and where they have not.

Confidentiality

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

Hamid Ghafoor
Partner
PKF (UK) LLP

3. 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 Board of 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.

Issues and Risks identified at the planning stage

At our audit planning stage and following discussion with the separate finance heads within the Derby Homes Limited, the following key audit issues and risks were identified:

- **Future funding requirements and business planning**
- **Housing SORP and General Determination 2006**
- **DLO systems**
- **Revenue recognition**
- **Pension**
- **Management override**

These issues and risks, together with how we have dealt with these within our audit approach are detailed over the following pages.

Key Issue	Issue identified	How we have dealt with this in our audit approach
Future funding requirements and business planning	A new 10 year management agreement was signed with Derby City Council in October 2011, which will ensure that the ALMO continues to provide management services to the council until 2022. The ALMO has suffered a funding reduction in its management fee of approximately £1m over the 4 year period to 2015. The ALMO's budgets take this reduction in funding into account by factoring in a £250k reduction in management fee each year for the 4 years to 2014/15. To offset the decrease in funding, the ALMO is aiming to cut costs and achieve greater efficiencies in its operations, hence, the budgeted figures continue to show moderate surpluses despite reductions in income.	We reviewed the financial budgets and forecasts for 2012/2013 and considered the period after this. Our review consisted of assessing the reasonableness of the assumptions upon which the forecasts were based. We have also taken into account the current 10 year service level agreement in place with Derby City Council. The Council also indemnify the ALMOs pension liability. We are satisfied that the Council will provide continuing support to Derby Homes and that it is appropriate for the financial statements to be prepared on a going concern basis.
Housing SORP and General Determination 2006	Derby Homes Limited became a Registered Provider of Social Housing (RP) in April 2011 and is now regulated by the Homes and Communities Agency (HCA)). As a result, the company's financial statements are now required to comply with the Statement of Recommended Practice – Accounting by Registered Social Housing Providers (Housing SORP) and the regulator's Accounting requirements for Registered Social Landlords: General Determination 2006. These regulations include more onerous requirements regarding the format of the financial statements and the number and level of detail of the disclosures therein.	Our audit procedures were designed to focus on the formatting of the financial statements and the disclosures therein and their compliance with the Housing SORP and the General Determination 2006. Our audit procedures resulted in minor revisions to the financial statements. We are satisfied that the disclosures contained within the financial statements are complete and accurate and are in compliance with the Housing SORP and the General Determination 2006. Some of the most significant additions to the financial statements are discussed further within section 4.

Key Issue	Issue identified	How we have dealt with this in our audit approach
DLO Systems	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. This therefore was the first full year in which the repairs teams (DLO) operations and results had been fully incorporated within financial statements of the ALMO. A new financial "Open Contractor" system was implemented at year end in order to capture and record transactions related to the repairs team. We also noted the requirement to commitment account following FRS12 for the provision for committed costs.	The repair teams operations continued to be an area of specific audit focus. We obtained a detailed understanding of the repair's system of internal control. We assessed the adequacy of the design of specific controls and carried out procedures to test the operating effectiveness of those. We performed detailed transaction testing on repairs costs and performed cut off procedures to ensure that income and expenditure was not materially misstated in the financial statements. We have also tested and obtained evidence to support the reasonableness of the provision for committed costs. Management believe that the provision is adequate and reasonable and we concur with this assertion. A management point has been raised in relation to the costing of the commitment s at year end (see section 5).
Revenue recognition	Turnover for the year ended 31 March 2011 was approximately £28m. It was anticipated that this would increase in the year to 31 March 2012. In addition our auditing standards required us to presume that there are risks of fraud in revenue recognition within the financial statements of all entities we audit and we were therefore required to design our work to ensure that income is recognised appropriately.	We undertook detailed testing in relation to the management fee received and reviewed the systems and controls in place surrounding the recognition of management charges and performed audit testing in respect of the contract. We also designed testing to include items classified as other income within the financial statements where material. The cut off testing which was designed and carried out has provided us with assurance that revenue has been recognised in the correct accounting period. 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.

Key Issue	Issue identified	How we have dealt with this in our audit approach
Pension	Derby Homes Limited is a member of the Derbyshire County Council Local Government Pension Scheme (LGPS). In 2011 there was a net pension liability within the financial statements of £9.3m on the scheme. The costs of the scheme must be managed closely by the Company and the accounting treatment and disclosures of the transactions, assets and liabilities must be in line with the requirements set out in Financial Reporting Standard 17 (FRS 17).	Upon reviewing the pension disclosures we evaluated the assumptions used by the actuary (Mercer Limited) and benchmarked these assumptions to similar schemes across the sector. At year end there was a net pension liability of £11.5m which is indemnified by the Council and we consider the year end position to be accurately presented in the financial statements. We have ensured that the accounting treatment and disclosure within the financial statements meets the requirements of FRS 17.
Management override	As with revenue recognition our auditing standards require us to presume that the risk of management override of controls is present and significant in all entities. We were required to respond to this risk by testing the appropriateness of journal entries recorded in the general ledger, unusual transactions, any estimations included in the accounts and other adjustments made in the preparation of the financial statements.	A comprehensive understanding of the business rationale of significant transactions was obtained at the audit planning visit, with a review of significant accounting estimates and journals posted (both throughout the year and as part of the close-down procedures) undertaken as part of final assurance procedures. None of the work performed highlighted unusual items or bias. We are therefore satisfied that undue management override has not occurred in the period under review.

4. Accounting and Disclosure Issues

We bring to your attention below the key findings from our work in respect of accounting and disclosure issues:

- **Operating and Financial Review** - This statement sets out an analysis of the Registered Providers operations in order to provide stakeholders with a historical and prospective analysis of the registered provider 'through the eyes of the board'. We are satisfied that it includes discussion and interpretation of the performance of Derby Homes' operations and the structure of its financing in the context of the environment in which it operates. The statement is fully compliant with the Statement of Recommended Practice (SORP) Accounting by Registered Social Landlords 2008.

- **Component Accounting** – This is a requirement of the SORP and is applicable to all Registered Providers where major tangible fixed asset components can be identified. We have performed detailed testing on the assumptions adopted by management in the calculation and disclosure of tangible fixed assets within the financial statements. We are satisfied that the treatment of component costs, allocation of social housing grants and calculation of component depreciation is correct and that the disclosure within the financial statements in respect of this is complete, accurate and complies with the requirements of the Housing SORP.

- **Turnover, operating costs and operating surplus** – The particulars of turnover, operating costs and operating surplus is a specific requirement of the Accounting Requirements for Registered Social Landlords General Determination 2006. This is currently disclosed within note 2 in the financial statements. We are satisfied that the disclosure is complete and accurate and is compliant.

- **FRS 17 Pension Disclosure** – 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 Mercer Limited. The impact of this is that the balance sheet disclosed a significant net liability of £11.48m. This has increased from £9.32m in 2011. The key element to the increase in the liability was a £1.7m actuarial loss due to a regression in investment returns.

  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.

- **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 social housing properties held for letting 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.

5. Management Letter Points

Current year audit issues

OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT RESPONSE
1. Bad Debt Provision			
The bad debt provision of £280k has been slowly building up over the years and includes numerous balances dating back as far as 2006. These balances are almost certainly irrecoverable and thought should be given to removing them from the debtors ledger permanently and releasing a corresponding portion of the bad debt provision.	Although there is no financial statement risk this would more accurately reflect the true state of affairs as regards the recoverability of debtor balances and would enable staff reviewing the debtors' ledger and provision to more easily identify balances which are still relevant and may still be chased for payment.	It is understood that the decision to make permanent write-offs has previously been made by Derby City Council debt collection services department, but that under the terms of a new SLA, Derby Homes is expected to obtain the autonomy to write off balances as appropriate. Therefore it is recommended that when the SLA has been put in place, the bad debt provision is reviewed and these old historic balances be permanently removed as appropriate.	Agreed. We will undertake a formal review of the outstanding debt position. During 2012/13, we plan to transfer debts relating to rechargeable works onto the individuals rent account where possible and directly chase these debts through our internal rental arrears team (all future rechargeable works will be managed this way). All other remaining debts will be reviewed, where practical debts will be chased with the balance formerly written off as bad debts.
2. Supplier Statement Reconciliations			
During our testing of trade creditor balances it was noted that the supplier statement reconciliations performed by the Derby Homes team serve to reconcile the supplier statement balances to supplier invoices received, regardless of whether these invoices have been posted to the trade creditors ledger or whether these invoices have been accrued for.	There is a risk that genuine liabilities of the company may not be captured within the ledgers at year end. Indeed the testing identified invoices totalling £97k which had been reconciled to the supplier statement however, given that they related to 2011/2012 work, they had not been posted to the trade creditors ledger or accrued for elsewhere.	It is recommended that the supplier statement reconciliation process is amended so that supplier balances are compared directly with the creditors ledger at year end. Secondly it may be useful for the finance team to run post year end invoice review process above a particular threshold to ensure that larger value invoices are reviewed to ensure that they have been booked into the correct accounting period.	We agree and will implement the recommendations suggested.

OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT RESPONSE
3. Provision for Committed Costs			
The testing on the provision for committed costs identified a general trend of actual completion costs of jobs post year end per the Open Contractor system as being recorded lower than the original estimate. We understand that this is principally caused by the provision being originally placed through use of the National Schedule of Rates.	There is a risk of inadequate monitoring for budgetary and forecasting purposes.	To ensure that the company obtains more meaningful budgetary information it is recommended that the accuracy of the job costing system is improved to better reflect the actual overall cost of completing works to take into account fixed administrative and overhead costs of delivering the service which would also include management/supervisory labour elements.	We agree that this area requires further development. The Open Contractor system is planned to be further established in 2012/13. We plan to extend the implementation team through to June 2013 to achieve this. This will include implementing a more detailed individual job recording process to more accurately reflect the overall cost of a job. This will lead to a more accurate estimation of the value of committed costs.

4. VAT Assessment			
During the course of the audit we have reviewed the results of the VAT inspection which occurred between March and November 2011. A suspended penalty had been levied against Derby Homes as a result of certain inaccuracies in the treatment of VAT. The suspension period elapsed in May 2012 and the penalty subsequently cancelled.	There is a risk that insufficient oversight regarding the VAT treatment of future transactions may result in potential penalties being levied against the company by HMRC.	To mitigate the risk of breaches occurring in the future we recommend that the terms of the suspension are adopted as best practice going forward and that appropriate technical advice is sought where necessary.	Agreed. The recommendations relating to improved controls and procedures arising from the VAT inspection have already been incorporate into monthly and quarterly procedures.

Prior year issues

OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT RESPONSE AND FURTHER ACTIONS
1. New Build 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.	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. **2012 Update** A formal loan agreement is held by Derby Homes and has been inspected during the audit. No further action is required.

6. Audit Adjustments

Unadjusted within the financial statements

There are no unadjusted misstatements within the financial statements.

Adjusted for within the financial statements

				£	£
Adjusting					
1	Dr		Operating costs – repairs	96,305	
		Cr	Trade creditors		96,305

Being to adjust for after date Bell Decorating Group invoices relating to pre year end painting work but not accrued for

Reclassifying					
2	Dr		Trade creditors	275,334	
		Cr	PAYE/NI control		275,334

Being to reclassify Inland Revenue creditor out of trade creditors and into other taxation and social security

3	Dr		Trade creditors	150,077	
		Cr	Other creditors		150,077

Being to reclassify pension contribution creditor out of trade creditors and into other creditors

7. Future Issues

To be finalised.

8. Points Outstanding

1) Post year end management accounts April/May 2012

2) Accounts quality review by PKF

Your ref	
Our ref	RK
Contact	Peter Shillcock
email	peter.shillcock@derby.gov.uk
Tel	01332 642787
Fax	
Minicom	01332 256666
Date	10 May 2012

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 2012 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 2012 and of its profit and cash flow for the period 1 April 2011 to 31 March 2012 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 £9.667M for the period 1 April 2011 to 31 March 2012 and the fees paid to Derby Homes Limited in respect of the Repairs and Investment operations amount to £22.056M for the period 1 April 2011 to 31 March 2012.

Inter-organisation balances

Derby Homes' gross inter-organisation debtor is £6.690M and the gross inter-organisation creditor is £1.322M. The net inter-organisation debtor is £5.368M.

All material amounts due to and payable by Derby City Council as at 31 March 2012 in respect of services exchanged between Derby Homes Limited and the Council have been identified and are accurate to within the Derby Homes' level of triviality of £18,000.

cont'd/

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 2012 amounts to £0.650M cleared funds per the bank statement. The reconciled balance within Derby Homes' balance sheet is £0.514M.

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 2012 there was a net deficit of £11.480M in respect of the company's pension liabilities. The company does not have sufficient reserves to offset this deficit and therefore the parent organisation, Derby City Council, undertakes to provide continuing financial support to enable the financial statements of Derby Homes to be prepared on a going concern basis.

Yours faithfully

Roger Kershaw
Strategic Director of Resources

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

01332 711000

www.derbyhomes.org

enquirycentre@derbyhomes.org

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

Our Reference
DE/JM
Date
26/07/2012
Contact
David Enticott
Telephone
01332 888523
E-mail
David.enticott@derbyhomes.org

Dear Sirs

FINANCIAL STATEMENTS OF DERBY HOMES LIMITED FOR THE YEAR ENDED 31 MARCH 2012

This representation letter is provided in connection with your audit of the financial statements of Derby Homes for the year ended 31 March 2012 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 14 February 2012, 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 not brought any uncorrected misstatements to our attention.

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 significant 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 have disclosed to you our knowledge of fraud or suspected fraud affecting the company, and of any allegations of fraud or suspected fraud affecting the financial statements communicated to us by employees, former employees, analysts, regulators or others, involving management, employees who have significant roles in internal control, 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 company is controlled by Derby City Council and that the ultimate controlling party 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

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 ....
Dennis Rees OBE, Vice Chair of the Board

.... Date ....
David Enticott, Director and Company Secretary

Key reasons for the 2011/12 surplus **Appendix 1**

Reason	**Impact £'000**
Management fee	
Incentive fee for 11/12 received	150
Other income above forecasts - inc tenancy sustainment, cleaning service charges etc	164
Overspend on furniture scheme - mainly carpets	-89
Business Transformation Operational costs- Savings in management fee staffing budgets through re-structures, vacant posts and drop in employers pension contribution	268
Business Transformation Operational costs - Other cost savings - inc Phones, C Tax on voids, Prof fees	210
Business transformation implementation costs - below forecasted levels, inc contingency for exit costs not required	368
Business transformation implementation costs - additional IT costs to advance business transformation projects	-160
	911
Maintenance	
Overspend on voids & gas breakdowns / testing	-353
The contingency budget was held to offset part of the overspend on voids & gas	145
Actual costs on specialist works lower than originally forecasted	212
Planned repairs - works brought forward mainly on external painting	-130
The day to day repairs budget underspent as a result of increases in staff productivity following Business transformation changes and benefits from revised procurement contracts	347
Additional costs within Facilities Management due to anticipated apprentice support not arising plus extra contractor costs	-80
Other minor variances	16
	157
Underlying operating surplus for 2011/12	**1,068**

DERBY HOMES LIMITED **Appendix 2**

Explanation of movement in 2011/12 Forecast Out-turn

	Management Fee Operations	
	£'000	**£'000**
Forecast Operating Surplus as at Period 11		390
Changes in Income variances:		
Incentive scheme payment from the Council not forcast	150	
Reduction in fee for Furniture packs transferred back to DCC	(235)	
Increase in External rents and management fees	60	
Minor variances	3	
		(22)
Changes in expenditure variances:		
Business Transformation underspend	374	
Employee costs	(21)	
Furniture packs, due to recharge to the Council	219	
Telephones	21	
Mobile phones, due to data charges in dispute but now accrued	(52)	
Professional and legal fees	(11)	
IT revenue and depreciation	(67)	
Other variances	80	
		543
Operating surplus		**911**

	Maintenance & Repair Operations	
	£'000	**£'000**
Forecast Operating Surplus as at Period 11		(56)
Day to Day Repairs		
Rechargeable repairs not budgeted	109	
Repairs undertaken for managed properties, not forecast	51	
Bad debt provision for rechargeable repairs, not forecast	(145)	
Adjustment to provision for commitments	50	
Materials and other variances	63	
		128
Voids - adjustment to provision for commitments		
Adjustment to provision for commitments		27
Gas breakdowns and seervices - van stocks capitalised		
Van stocks capitalised, not forecast		38
Specialist works and planned repairs		
Additional underspend not forecast due to works being delayed		41
Other variances		(21)
Operating surplus		**157**