

ANNUAL REPORT AND FINANCIAL STATEMENTS 2009/10

Report of the Director & Company Secretary

1. SUMMARY OF REPORT

- 1.1 This report accompanies the draft annual report and financial statements for Derby Homes for the year ended 31 March 2010.
- 1.2 The report also explains the changes made to the accounts since the period 11 forecast out-turn was sent to Resources & Remuneration Committee members on 26 March 2010.

2. RECOMMENDATION

- 2.1 To accept the draft annual report and financial statements as a true and fair view of the Company's financial affairs as at 31 March 2010 as a going concern.
- 2.2 To note the explanation of the changes made to the accounts since the forecast out-turn was sent to Resources & Remuneration Committee members on 26 March 2010
- 2.3 To authorise the Vice-Chair and Company Secretary sign the accounts at the Board meeting on 29 July 2010.
- 2.4 To authorise the Vice-Chair, Chief Executive and Director and Company Secretary to sign a letter of representation requested by PKF (UK) LLP at the Board meeting on 29 July 2010.
- 2.5 To authorise the Vice-Chair to sign the Statement on Control Self Certification and Internal Reporting at the Board meeting on 29 July 2010.

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 2010. Please 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 The accounts show an operating deficit before tax of £213,000 as at 31 March 2010. This follows processing of accounting entries associated with FRS17. The underlying operating surplus for the year is £44,000. The movement between the operating profit and the final accounts is made up as follows:

	£'000	£'000
Operating Profit 2009/10		44
Add back Employer's Pension Contributions		871
Less FRS17 restated Pension Contributions:		
Current service costs	(599)	
Past service gain/(loss)	-	
Net interest/return on assets	<u>(529)</u>	
Net Pension cost for year		<u>(1,128)</u>
Restated deficit for 2009/10		(213)

3.4 Board Members will also find attached to this report copies of:

- a representation letter from Derby City Council to PKF (UK) LLP, signed by Don McLure, the 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 2010
- a management representation letter from Derby Homes to PKF (UK) LLP, to be signed following Board approval of the accounts by the Vice-Chair, the Chief Executive and the Director and Company Secretary.

3.5 Appendix 1 is a copy of the operating statement as at 31 March 2010.

3.6 Appendix 2 is a copy of the forecast out-turn as at end of February 2010 sent to Resources & Remuneration Committee members on 26 March 2010.

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

3.8 No changes emerged during the audit process. Certain items of income and expenditure have been re-classified following the audit process.

3.9 The draft accounts and an external audit management letter were discussed and formally accepted by Audit Committee at a meeting held on Monday 5 July 2010. A copy of the minutes of that meeting is included on the Board's agenda. The Chair of Audit Committee or an Audit Committee member will be invited to comment to the Board on this discussion.

3.10 The draft accounts and an external audit management letter were discussed and accepted by Resources, Remuneration & Regeneration Committee at a meeting held on Thursday 8 July 2010. A copy of the minutes, including their recommendation, is included on the Board agenda.

3.11 At the request of the external auditors, a number of minor wording changes have been made to the draft accounts since they were approved by the Audit Committee and the Resources and Remuneration Committee. None of these changes affected the figures or data contained in the draft accounts and the meaning of the reports and notes to the accounts was not affected.

- 3.12 The auditors also requested a change to the draft representation letter that was approved by the Audit Committee and the Resources, Remuneration & Regeneration Committee. The change is to the paragraph dealing with potential misstatements and confirms that the reclassifications referred to in the Audit Feedback Report have all been adjusted for and that there are no other potential misstatements above the level of triviality.
- 3.13 Appendix 4 is an analysis of Derby Homes' reserves held either in ring-fenced holding accounts in the Housing Revenue Account on behalf of the Company or in the Company's retained profit and loss account.
- 3.14 Appendix 5 shows the current operating reserve balance of £2,334,000. It also shows how the reserves will be used during 2010/11.
- 3.15 The depreciation reserve balance of £357,000 is required to offset future depreciation charges on assets in the balance sheet as at 31 March 2010.

4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

The accounts will be filed at Companies House.

5. LEGAL AND CONFIDENTIALITY IMPLICATIONS

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

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

- Consultation
- Personnel
- Environmental
- Equalities Impact Assessment
- Health & Safety
- Risk

If Board members or others would like to discuss this report ahead of the meeting please contact the author, or the Chief Executive, phil.davies@derbyhomes.org - Tel 01332 711010

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Background Information: None.

Supporting Information: None.

DERBY HOMES LIMITED

(A company limited by guarantee)

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

DERBY HOMES LIMITED
Company No 4380984
(A company limited by guarantee)

ANNUAL REPORT
YEAR ENDED 31 MARCH 2010

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REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J P Bayliss	(appointed 25.02.02: resigned 09.05.06: re-appointed 25.05.07)
D J Rees	(appointed 28.02.02)
A G S Osler (Chair)	(appointed 28.02.02 : re-appointed 28.10.04: re-appointed 25.10.07)
I M MacDonald	(appointed 28.02.02 : re-appointed 28.10.04: re-appointed 25.10.07)
R Troup	(appointed 29.05.03: re-appointed 27.05.08: re-appointed 07.06.10)
T Ndlovu	(appointed 07.05.04 : re-appointed 26.10.06: re-appointed 29.10.09)
R M Webb	(appointed 27.07.04: re-appointed 25.05.06)
M Redfern	(appointed 26.07.05)
K Whitehead	(appointed 24.10.07)
M Rowland	(appointed 25.10.07)
A Nath	(appointed 30.05.08: resigned 20.05.09)
D R Batey	(appointed 18.07.08: resigned 26.05.10)
A Brown	(appointed 25.09.08: re-appointed 29.10.09)
J Bloxsom	(appointed 29.01.09)
A Holme	(appointed 17.02.09)
S B Perry	(appointed 17.02.09)
P Hickson	(appointed 21.05.09: resigned 19.10.09)
S Davis	(appointed 19.10.09: resigned 26.05.10)
M Barker	(appointed 07.06.10)

SECRETARY

L C Watson

EXECUTIVE OFFICERS

P J Davies
L C Watson
S Bennett
M J Murphy

REGISTERED OFFICE

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

AUDITORS

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

SOLICITORS

Anthony Collins Solicitors LLP
134 Edmund Street
Birmingham
B3 2ES

BANKERS

The Co-Operative Bank
East Street
Derby
DE1 2AL

DERBY HOMES LIMITED
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DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2010

The Directors present their annual report and the audited financial statements for the year ended 31 March 2010.

A list of the Directors who have served during the year is included on page 1.

DATE OF INCORPORATION

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as the managing agent of the stock of public sector properties owned by Derby City Council. Derby Homes Limited is an Arms Length Management Organisation or ALMO. This means that, while the Council established the company, it operates independently from it on day-to-day matters. Derby Homes Limited manages 35 units of temporary accommodation for homeless people, and provides short-term accommodation for people who are assessed as statutorily homeless. These services are provided on behalf of Derby City Council to fulfil its statutory homelessness responsibilities. The Company also provides services to vulnerable tenants funded by the Supporting People Commissioning Board. Derby Homes has been commissioned by the Community Safety Partnership to run a Family Intervention Project which offers a last chance opportunity for dysfunctional families to address their behaviour and avoid eviction. It also receives other grants for time-limited specific activities.

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

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

On 26 April 2009 a contract was signed with a private developer to manage and maintain a block of 9 flats on Leytonstone Drive.

CORPORATE GOVERNANCE

The Board of Derby Homes Limited consists of 15 voluntary members (4 tenant, 1 leaseholder, 5 Councillor and 5 independent members). The make up of the Board and their term of office is determined by Derby Homes Limited Memorandum and Articles of Association, which govern the Company.

The Board is responsible for the strategic direction of the Company. Board members are registered as the Company Directors with Companies House. They have been selected to collectively provide the skills and competencies to successfully steer the Company in accordance with its Mission and Aims.

The Company Governance Arrangements includes:

- the Memorandum and Articles of Association
- standing orders for conduct of Board and General meetings
- Local Housing Board constitution
- delegation of responsibilities
- financial regulations
- contract procedure rules
- appointment and recruitment of Board members
- code of conduct for Board members

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DIRECTORS' REPORT (CONTINUED)
YEAR ENDED 31 MARCH 2010

- standing orders for Appointment of Staff
- protocol on Board member, Executive team and staff relations
- services agreement.

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 Order 20.

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:

- Local Housing Board (North)
- Local Housing Board (South)
- Resources & Remuneration Committee
- Performance Management Committee

Membership of these groups consists of Board members and, in the case of Local Housing Boards, tenant and leaseholder representatives nominated from the tenant Housing Focus Groups.

RISK MANAGEMENT

Derby Homes has a successful track record of managing risk as an integral part of its governance and management systems.

Our risk management process has been developed and strengthened during the past year. Performance Management Committee and Resources & Remuneration Committee approved 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. This will introduce increased transparency and improve audit trails of the risk management process. Risk management means identifying the risks facing the Company and deciding how to minimise them through implementing risk management action plans. Risks can have both adverse and positive consequences for the organisation. The risk management process helps to assess what these are likely to be and allows the organisation to make an informed decision about how to deal with the identified risk. Risk can never be eliminated completely, so risk management is used to ensure risks are identified and their consequences understood. Based on this information, action can be taken to ensure appropriate resources are directed at controlling the risk or minimising the effect of potential loss.

Risks are separated between strategic and operational and assessed for likelihood and impact and designated, red, amber and green. There is 1 strategic red risk and no operational red risks. The strategic red risk is:

- Risk 13 (high likelihood and critical impact) – options appraisal/HRA review fails to deliver on time.

Each risk has a Risk Management Action Plan. Progress on these plans was reviewed and reassessed and scores updated in March 2010. Performance Management Committee approved the revised scores in May 2010.

AUDIT COMMITTEE

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

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DIRECTORS' REPORT (CONTINUED)
YEAR ENDED 31 MARCH 2010

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.

REVIEW OF DEVELOPMENTS

The income and expenditure account for the period is set out on page 10. Following the processing of FRS17 transactions the business returned a (deficit) after taxation for the period of £(218k). An underlying operating surplus of £39k before FRS17 transactions was achieved and the Board is satisfied with the performance of the company. An additional charge of £257k arose from the application of FRS17 on accounting for pensions, as disclosed in Note 8.

On 2 June 2010 a deed of variation, a transfer agreement and a Service Level Agreement was signed with Derby City Council transferring the Housing Repairs Team, Capital Contracts team and Public Buildings Repair and Maintenance team to Derby Homes Limited. This includes the TUPE transfer of approximately 160 people and increases the turnover of the business to £30 million in a full year. An intensive programme of work has commenced to integrate this workforce into Derby Homes and achieve significant efficiency savings in procurement and the removal of duplication of posts.

KEY PERFORMANCE INDICATORS

The Performance Management Committee reviews the organisation's performance indicators and the implementation of action plans arising from this. The table below is a sample of key performance indicators comparing performance for 2008/9 with 2009/10.

Indicator	Description	2008/09 Achieved	2009/10 Target	2009/10 Achieved
Key Performance Indicators				
BVPI 63	Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings.	70%	71%	70.95%
BVPI 66a	Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account (HRA) dwellings.	98.04%	98.04%	98.26%
BVPI 66b	No. of tenants with more than seven weeks of (gross) rent arrears as a % of the total number of tenants.	6.59%	6.59%	6.58%
BVPI 66c	% of tenants in arrears who have had NSP served.	16.25%	16%	14.69%
BVPI 66d	% of tenants evicted as a result of rent arrears.	0.19%	0.28%	0.16%
National Indicator 160	Tenant Satisfaction with Landlord (All)	73%	85%	86%
BVPI 75a/b/c	Tenant Satisfaction with Participation (All)	55%	72%	87%
BVPI 164	Does the authority follow the Commission for Racial Equality's Code of Practice in rented Housing and the Good Practice Standards for Social Landlords on tackling Harassment?	Yes	Yes	Yes
National Indicator 158	Non-Decent Local Authority Dwellings (percentage)	0.00%	1%	0.00%
BVPI 212	Average time taken to re-let local authority housing.	28.09 days	24 days	29.2 days
DH Local 30 Old BVPI 72	% of urgent repairs carried out within Government time limits	93.8%	97%	92.00%

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DIRECTORS' REPORT (CONTINUED)
YEAR ENDED 31 MARCH 2010

FUTURE PROSPECTS

Derby Homes' services agreement concludes on 31 March 2012. Derby City Council is currently reviewing options available to deliver Housing Management & Maintenance Services from April 2012. This decision will have a significant impact on the future of the organisation. Derby Homes' would like to continue to take an active role contributing to the Council's Housing and wider objectives. It also wishes to maintain its position at the forefront of developments in the ALMO movement particularly in areas associated with new build and creating ALMO enterprises that are sustainable beyond the delivery of the "Decent Homes" programme.

GOING CONCERN

At its meeting on 29 July 2010, the Board of Derby Homes Ltd approved the statement that, in their opinion, Derby Homes Ltd has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the financial statements. This is based on the contract in place with Derby City Council to pay management fees in return for delivery of housing management and maintenance services, as prescribed in the Services Agreement. In addition, the Council recognises that, following the processing of FRS17 accounting transactions, the Company does not have sufficient reserves to offset the resultant deficit. It therefore undertakes to provide continuing support to enable the financial statements of Derby Homes to be prepared on a going concern basis.

TRAINING EMPLOYEES AND THE BOARD

The Board is committed to training and developing Board members and employees. The organisation is recognised as an Investor-In-People. Performance reviews or job chats are carried out with every employee and a personal training plan developed. The Company operates an annual Qualification Training Scheme open to all employees. This scheme enables employees to apply for financial assistance and paid leave to attend academic courses. An in-house training programme is operated. The Company introduced an E-Induction training package during 2008. The Board has a training and development programme which includes an individual appraisal scheme which identifies personal areas for development. An annual training programme is carried out for Board members of compulsory and optional courses, both internally and externally run.

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, briefings, team meetings and the employee conference.

It is recognised by the Directors that Derby Homes has undergone a significant change programme since 2002 and this is likely to continue for the foreseeable future. It is understood that change of this type can affect staff morale. Derby Homes is committed to addressing staff morale through the implementation of a variety of initiatives branded under the Derby Homes "Big Thank You" scheme. A staff survey recently completed pleasingly reported improvements across a number of areas in respect of staff assessment of morale. The Company is committed to the creation of a happy and productive work environment that values and encourages all employee contributions. The Company has a policy of no compulsory redundancy. New employment opportunities will be found for those people who want to remain working at Derby Homes.

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DIRECTORS' REPORT (CONTINUED)
YEAR ENDED 31 MARCH 2010

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 others 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.

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

Job applications received from disabled people are always positively encouraged. Selection is based on their skills and experience matched against a person specification. Reasonable adjustments will be considered in accordance with the Disability Discrimination Act 1995.

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

INFORMATION GIVEN TO AUDITORS

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

There is no relevant audit information of which the company's auditors are 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

P Bayliss
Vice-Chair
29 July 2010

L C Watson
Secretary
29 July 2010

DERBY HOMES LIMITED
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STATEMENT ON CONTROL SELF CERTIFICATION AND INTERNAL REPORTING
YEAR ENDED 31 MARCH 2010

This statement is given in respect of the financial accounts for Derby Homes Limited. We acknowledge our responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned.

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

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

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

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

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

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

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

A weakness has been identified in the systems in place and corrective action will be undertaken to further develop systems in relation to:

- The delayed and protracted implementation of internal audit recommendations

(Signed)

(on behalf of the Board)

(Dated) 29 July 2010

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STATEMENT OF DIRECTORS' RESPONSIBILITIES
YEAR ENDED 31 MARCH 2010

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DERBY HOMES LIMITED

We have audited the financial statements of Derby Homes Limited for the year ended 31 March 2010 which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its deficit 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

DERBY HOMES LIMITED
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INCOME AND EXPENDITURE ACCOUNT
YEAR ENDED 31 MARCH 2010

	Notes	2010 £'000	2009 £'000
Turnover	2	15,333	15,013
Operating costs	3	<u>(15,017)</u>	<u>(14,525)</u>
Operating Surplus	5	316	488
Interest receivable and similar income		-	-
Other finance costs	6	(529)	(395)
(Deficit)/Surplus on ordinary activities before taxation		<u>(213)</u>	<u>93</u>
Tax on (deficit)/surplus on ordinary activities	7	<u>(5)</u>	<u>(5)</u>
Deficit/Surplus on ordinary activities after taxation	12	<u>(218)</u>	<u>88</u>
Retained (deficit)/surplus for the year		<u><u>(218)</u></u>	<u><u>88</u></u>

All amounts relate to continuing activities.

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

Statement of Total Recognised Gains and Losses for the year ended 31 March 2010.

	2010 £'000	2009 £'000
(Deficit)/Surplus for the financial year	(218)	88
Actuarial (losses) and gains relating to pensions	<u>(5,437)</u>	<u>2,659</u>
Total recognised (losses) and gains since last annual report	<u><u>(5,655)</u></u>	<u><u>2,747</u></u>

DERBY HOMES LIMITED
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BALANCE SHEET
AT 31 MARCH 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	9	401	483
		<hr/>	<hr/>
Current assets			
Debtors	10	3,940	4,318
Cash in hand		4	3
		<hr/>	<hr/>
		3,944	4,321
Creditors: amounts falling due within one year	11	(2,332)	(2,830)
Net current assets		<hr/>	<hr/>
		1,612	1,491
		<hr/>	<hr/>
Total net assets excluding pension liability		2,013	1,974
		<hr/>	<hr/>
Defined benefit pension liability	8	(11,351)	(5,657)
		<hr/>	<hr/>
Total net liabilities including pension liability		(9,338)	(3,683)
		<hr/>	<hr/>
Reserves			
Revenue reserve	12	(9,338)	(3,683)
Total funds	12	<hr/>	<hr/>
		(9,338)	(3,683)
		<hr/>	<hr/>

These financial statements were authorised and approved by the Board of Directors on 29 July 2010

Signed on behalf of the Board of Directors

P Bayliss
Vice-Chair

L C Watson
Secretary

DERBY HOMES LIMITED
Company No 4380984
(A company limited by guarantee)

CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2010

	2010 £'000	2009 £'000
Reconciliation of operating surplus to net cash		
Inflow/(outflow) from operating activities		
Operating surplus	316	488
Depreciation	253	239
Decrease in debtors	378	723
Decrease in creditors	(498)	(1,181)
Movement in FRS17 adjustment	(272)	103
Net cash inflow from operating activities	177	372
 Cash flow statement		
Net cash inflow from operating activities	177	372
Return on investments and servicing of finance	-	-
Capital Expenditure:		
Fixed Asset additions	(273)	(1,023)
Less Capital Grant Received	102	669
Net Capital expenditure	(171)	(354)
Taxation	(5)	(18)
Increase in cash	1	-
 Reconciliation of net cash flow to		
movement in net funds		
Net funds at beginning of year	3	3
Increase in the period	1	-
 Net funds at 31 March 2010	4	3

DERBY HOMES LIMITED
Company No 4380984
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

1. Principal accounting policies

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

Basis of accounting

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

Going Concern

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

Turnover

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

Tangible fixed assets and depreciation

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

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

Land and Buildings

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

Plant and machinery

No de-minimus applies. Assets will be depreciated over 4 years.

Office equipment

A de minimi value of £5,000 applies to individual items. Assets will be depreciated over 4 years.

IT equipment

No de minimus applies. Assets will be depreciated over 2 years.

IT systems development

No de minimus applies. Assets will be depreciated over the proposed life of the system up to a maximum of 5 years.

DERBY HOMES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

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.

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 2007.

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

The interest cost and the expected return on assets are included as other finance costs. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Debtors and creditors

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

All income and expenditure figures exclude VAT.

Accounting for grants

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

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

True and Fair Override

Capital grant income received as a contribution towards capital cost of fixed assets is deducted from the fixed asset cost in accordance with the statement of Standard Accounting Practice (SSAP4). This treatment is contrary to the Companies Act 2006 which states fixed assets should be stated at purchase price, or valuation, less any provision for depreciation or diminution in value. The purpose of the capital grants is to subsidise the cost of the social housing and the income from properties is a function of net cost. Accordingly the Board considers it necessary to adopt the treatment set out in SSAP4 in order to give a true and fair view of the financial position of the company.

DERBY HOMES LIMITED
Company No 4380984
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

2	Turnover	2010 £'000	2009 £'000
	Supervision and management charge fee	11,734	11,618
	Charges outside the supervision and management charge fee	1,323	1,186
	Grants received	1,443	1,476
	Other fee income	833	733
	Total income for year	15,333	15,013
3	Net operating expenses	2010 £'000	2009 £'000
	Employees	7,750	7,632
	Other employee costs	301	318
	Property	1,379	1,112
	Travel	281	281
	Supplies and services	3,632	3,613
	Recharges from Derby City Council	1,674	1,569
		15,017	14,525
4	Information regarding directors and employees		
	Directors are unpaid volunteers. No pension contributions were made for directors		
	Executive Officers' emoluments	2010 £'000	2009 £'000
	Aggregate emoluments	332	334
	Pension contributions	50	49
		382	383
	Average number of persons employed		
	Operations	246	233
	Administration	36	34
		282	267
	Staff costs during the year (including executive officers)	2010 £'000	2009 £'000
	Wages and salaries	6,684	6,261
	Social security costs	483	451
	Pension costs	583	920
		7,750	7,632

DERBY HOMES LIMITED
Company No 4380984
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

5	Operating surplus	2010	2009
		£'000	£'000
	The operating surplus is after charging:		
	Depreciation	253	238
	Auditors' remuneration - audit	14	18
		<hr/>	<hr/>
6	Other finance costs	2010	2009
		£'000	£'000
	Interest cost on pension obligation	1,419	1,493
	Expected return on assets	(890)	(1,098)
		<hr/>	<hr/>
		529	395
		<hr/>	<hr/>
7	Tax on surplus on ordinary activities	2010	2009
		£'000	£'000
	United Kingdom corporation tax @ 21%	5	5
	Adjustments in respect of prior periods	-	-
		<hr/>	<hr/>
		5	5
		<hr/>	<hr/>
	Factors affecting tax charge for year	2010	2009
		£'000	£'000
	(Deficit)/surplus on ordinary activities before tax	(213)	93
		<hr/>	<hr/>
	(Deficit)/surplus on ordinary activities multiplied by rate of corporation tax @ 21%	(45)	19
		<hr/>	<hr/>
	Effects of:		
	Non taxable income and deductions	50	(14)
	Adjustment to tax in respect of prior periods	-	-
		<hr/>	<hr/>
		5	5
		<hr/>	<hr/>

DERBY HOMES LIMITED
Company No 4380984
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

8 Pensions

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

The most recent valuation was carried out as at 31 March 2007, and has been updated by independent actuaries to the Derby County Council Pension Fund to take account of the requirements of FRS 17 in order to assess the liabilities of the fund as at 31 March 2010.

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

The amounts recognised in the balance sheet are as follows:

	2010 £'000	2009 £'000
Present value of funded obligations	(31,169)	(19,752)
Fair value of scheme assets	19,818	14,095
Deficit	<u>(11,351)</u>	<u>(5,657)</u>

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

	2010 £'000	2009 £'000
Interest on obligation	1,419	1,493
Expected return on scheme assets	<u>(890)</u>	<u>(1,098)</u>
Finance costs	529	395
Current service cost	599	961
Past service cost	-	-
Total	<u>1,128</u>	<u>1,356</u>

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

	2010 £'000	2009 £'000
Actuarial (losses) and gains relating to pensions	<u>(5,437)</u>	<u>2,659</u>

DERBY HOMES LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

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

	2010	2009
	£'000	£'000
Opening defined benefit obligation	19,752	23,988
Interest cost	1,419	1,493
Actuarial losses/(gains)	9,531	(6,711)
Benefits paid	(501)	(340)
Current service cost	599	961
Past service cost	-	-
Members contributions	369	361
	<hr/>	<hr/>
Closing defined benefit obligation	31,169	19,752
	<hr/>	<hr/>
Changes in the fair value of scheme assets are as follows:	2010	2009
	£'000	£'000
Opening fair value of scheme assets	14,095	16,170
Expected return	890	1,098
Actuarial gains/losses	4,094	(4,052)
Contributions by employer	871	858
Benefits paid	(501)	(340)
Members contributions	369	361
	<hr/>	<hr/>
Closing fair value of scheme assets	19,818	14,095
	<hr/>	<hr/>

The actual gain on scheme assets in the period was £4,984,000 (2008/9 - £(2,923,000) loss).

During the year, the Company paid employer contributions of £871,000. The contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. The company expects to contribute £844,000 to its defined benefit pension scheme in 2010/11.

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

	2010	2009
	%	%
Equities	68.0	63.5
Property	5.1	7.1
Government bonds	14.6	20.9
Other bonds	5.8	3.5
Cash/liquidity	5.8	4.7
Other	0.7	0.3
	<hr/>	<hr/>
Total assets	100	100
	<hr/>	<hr/>

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 2010 and 31 March 2009.

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

DERBY HOMES LIMITED
Company No 4380984
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

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

	2010	2009
	%	%
Inflation rate	3.5	3.3
Discount rate	5.7	7.1
Rate of increase in salaries	5.0	4.8
Rate of increase in pensions	3.5	3.3
Expected rate of return on assets	6.32	6.67

Life expectancy at 31 March 2010:

Of a male/(female) future pensioner aged 65 in 20 years time	22.2 (25.0) years
Of a male/(female) current pensioner aged 65	21.2 (24.1) 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

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Defined benefit obligation	(31,169)	(19,752)	(23,988)	(20,648)	(20,310)
Scheme assets	19,818	14,095	16,170	15,976	14,784
	<u>(11,351)</u>	<u>(5,657)</u>	<u>(7,818)</u>	<u>(4,672)</u>	<u>(5,526)</u>
Experience adjustments on scheme liabilities	-	-	(631)	-	(809)
Experience adjustments on scheme assets	<u>4,094</u>	<u>(4,024)</u>	<u>(1,413)</u>	<u>(47)</u>	<u>2,066</u>

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.

DERBY HOMES LIMITED
Company No 4380984
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

9 Tangible fixed assets

	Land & Buildings	Computer Equipment	IT Systems Development & Implementation	Plant & Machinery & Office Equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2009	669	722	886	13	2,290
Disposals	-	(89)	-	-	(89)
Additions	142	49	82	-	273
At 31 March 2010	811	682	968	13	2,474
Depreciation					
At 1 April 2009	-	653	472	13	1,138
Disposals	-	(89)	-	-	(89)
Charge for the year	-	93	160	-	253
At 31 March 2010	-	657	632	13	1,302
Capital Grant					
At 1 April 2009	(669)	-	-	-	(669)
Receipts in year	(102)	-	-	-	(102)
At 31 March 2010	(771)	-	-	-	(771)
Net book value					
At 31 March 2009	-	69	414	-	483
At 31 March 2010	40	25	336	-	401

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

The additions to land and buildings during the year represent work in progress in relation to the construction of 10 properties which will be retained as rentable social housing units. This work in progress is stated at cost less attributable grant received in the year.

DERBY HOMES LIMITED
Company No 4380984
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

10 Debtors	2010	2009
	£'000	£'000
Amounts due from parent company	3,375	4,057
Trade debtors	135	136
Prepayments and accrued income	430	125
	3,940	4,318

Included in amounts due from the parent company is £1,557,000, (2009 £2,650,000), being a bank account held on the company's behalf by Derby City Council.

11 Creditors: amounts falling due within one year	2010	2009
	£'000	£'000
Amounts owing to parent company	989	1,709
Trade creditors	243	184
Corporation tax	5	5
Other taxation and social security	335	134
Accruals and deferred income	760	798
	2,332	2,830

12 Reserves	Revenue reserve
	£'000
Balance at 1 April 2009	(3,683)
Deficit for the year	(218)
Actuarial loss in year	(5,437)
Balance at 31 March 2010	(9,338)

13 Capital Commitments

At 31 March 2010 there was a contracted capital commitment in respect of the new build development in an amount of £388,000 and this will be offset by further grants in an amount of £278,000. The balance of £110,000 will be funded by Prudential borrowing. All capital commitments are contracted.

14 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.

DERBY HOMES LIMITED
Company No 4380984
(A company limited by guarantee)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2010

15 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.



Accountants &
business advisers

Derby Homes Limited

Year Ended 31 March 2010

Audit Feedback Report

July 2010

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1 Introduction

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

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

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

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

Scope and use of our report

Our work was carried out on the basis set out in our engagement letter dated 17 March 2010. The procedures that we carry out are designed to provide us with reasonable assurance that the financial statements, taken as a whole, are free of material misstatement. They are not designed to disclose all errors or weaknesses in controls that exist, and we report only on those that we have discovered during the course of our work.

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

2 Final ISA Letter

DERBY HOMES LIMITED

AUDIT FOR THE YEAR ENDED 31 MARCH 2010

We are required to report any matters arising from our audit that we believe to be both important and relevant to you in your responsibility for overseeing the company's financial reporting process. We summarise the areas of our report below:

1 Expected modifications to the audit report

A standard unqualified audit report has been proposed.

2 Unadjusted misstatements

Misstatements identified by the auditors but not adjusted by the entity's management, other than those which are clearly trifling, must be communicated to those charged with governance. There were no such adjustments.

During the audit errors that were significantly less than material and that arose from isolated errors have been regarded as trivial. Such errors have not been reported to you. Any errors above triviality have been adjusted for (see section 4). Triviality level was set at £14,000.

3 Material weaknesses in the accounting and internal control systems identified during the audit

A material weakness in the accounting and internal control systems is a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

There were no such material weaknesses noted. Any minor weaknesses have been communicated to the executive team.

4 Our views about the qualitative aspects of the entity's accounting practices and financial reporting

The appropriateness of the accounting policies, accounting estimates and judgments.

We have no issues to report in this area.

5 Matters specifically required by other Auditing Standards to be communicated to those charged with governance

No such matters have been noted.

6 Any other relevant matters relating to the audit

There are no other matters to be communicated.

Relevant matters relating to the audit include only those items that have come to the attention of the auditors as a result of the performance of the audit. Auditors are not required to design procedures for the specific purpose of identifying matters of relevance to those charged with governance. The audit 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. It is the responsibility of the directors to ensure, as far as possible, that accurate and reliable accounting records are maintained and to safeguard the assets of the company by the adoption of appropriate systems and controls.

Our audit tests 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 audit.

This letter has been prepared for your information only and is not intended to include every matter which 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.

Yours faithfully

PKF (UK) LLP

3 Audit and Accounting issues

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

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

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

3.2 Significant Risks

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

- Property development during the year – accounting recognition and disclosure;
- Management over-ride.

We are satisfied through the testing undertaken that there are no matters to raise with regard to the significant risks identified.

3.3 FRS 17

There is a pension liability of £11.35m in the 2010 financial statements which is an increase of £5.7m from the previous year. Based on our review, the actuary's work appears to have been appropriately carried out. The figures provided have been incorporated and disclosed correctly within the financial statements.

3.4 DLO

Post year end the maintenance work on housing (known as DLO) is being brought into Derby Homes Limited. Disclosure of the event has been made within the Directors' report and outlines the position at the time of signing the accounts and refers to the ongoing work on this project.

We understand that Internal Audit time will be spent on the new DLO systems and procedures within the year to ensure key controls are in place and risks are mitigated.

3.5 True and Fair Override

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

This is required, because whilst the disclosure in the financial statements meets Accounting Standards and normal accounting practice for Housing Associations, it is not allowed 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.

Weaknesses of internal controls identified

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

3.6 Prior Year Issues

There were no issues raised in the 2009 client report which required to be followed up.

3.7 Taxation

A tax review has been completed and the relevant disclosures are included in the financial statements.

4 Audit Adjustments

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

Reclassification of Balances

	DR	CR
1. Creditors - accruals	334,820	
VAT control		334,820

Being the reclassification of VAT and payroll creditors from 'Accruals and deferred income' to 'Social Security and other taxes'.

	DR	CR
2. Trade creditors	80,400	
Creditors - accruals		80,400

Being the reclassification of the capital grant balances in trade creditors to accruals and deferred income.

	DR	CR
3. Wages and Salaries		302,000
Other Employment costs	302,000	

Being the reclassification of Other Employment costs from the specific Wages and Salary costs with in disclosure note 3.

All the balances above relate to reclassification of balances and none of the adjustments had any impact on reserves.

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

5 Independence and Materiality

Independence

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

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

Materiality

The PKF approach to materiality is as follows.

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

In the context of an audit, materiality has significance:

- (i) At the planning stage, when our assessment of materiality is used in determining the nature and extent of assurance procedures to be carried out; and
- (ii) At the completion stage when we evaluate potential misstatements identified by our work for the purposes of communication to management and those charged with governance and for the purposes of formulating our audit opinion.

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

- (i) The magnitude of the misstatement, both in terms of the reported performance and financial position of the entity for the current period and its effect on trends and key performance indicators; and
- (ii) The nature of the omission or misstatement and its potential significance to users of the financial statements.

6 Reporting

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

- (i) Any expected changes to the auditors report;
- (ii) Any unadjusted misstatements;
- (iii) Any material weaknesses in the accounting and internal control systems identified during the audit;
- (iv) Our views about the qualitative aspects of the entity's accounting practices and financial reporting;
- (v) Matters specifically required by other Auditing Standards to be communicated to those charged with governance;
- (vi) Any other relevant matters relating to the audit.

7 Emerging Issues

7.1 New Regulatory Regime

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

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

As from 1 April 2010 the HCA has imposed a condition that when housing is made available for letting the landlord has to be a registered provider with the Tenant Services Authority. So where ALMO's own or develop the housing, it is required to be a registered provider. An ALMO who becomes a registered provider will have to meet the TSA's governance and viability standard and statutory accounting requirements. This will impact on Derby Homes for the year ended 31 March 2011.

7.2 Impact of IFRS (International Financial Reporting Standards)

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

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

7.3 HRA Reform

At present there is a consultation period on the review of the national subsidy system. Derby Homes have reviewed the impact on them of HRA freedoms and are in favour of the recommendation in the consultation document. However, enactment of the recommendations following consultation is by no means certain due to the change in government and the tightening of public finances.

8 Points Outstanding/For Discussions

There are no points outstanding.



Don McLure
Strategic Director
Resources Directorate

DERBY CITY COUNCIL

PO Box 6291 Council House, Corporation Street, Derby DE1 2YL

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

Your ref:
Our ref: DMc/DE/djs
Date: 16 June 2010
Contact: Don McLure
E-mail: don.mclure@derby.gov.uk
Telephone: 01332 256263
Minicom: 01332 256666
Fax: 01332 256149

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 2010 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 2010 and of its profit and cash flow for the period 1 April 2009 to 31 March 2010 in accordance with Companies Act 1985.

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

Management fee

The management fee payable to Derby Homes Limited, in respect of services provided to Derby City Council, amounts to £11.734m for the period 1 April 2009 to 31 March 2010.

Inter-organisation balances

Derby Homes' gross inter-organisation debtor is £1.818m and gross inter-organisation creditor is £0.989m. The net inter-organisation debtor is £0.829m.

All material amounts within the Derby Homes' level of triviality (£14,000) due to and payable by Derby City Council as at 31 March 2010 in respect of services exchanged between Derby Homes Limited and the Council have been identified and notified to Derby Homes Limited so that accounting entries in relation to these can be considered complete.



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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 2010 amounts to £1.859m cleared funds per the bank statement. The reconciled balance within Derby Homes' balance sheet is £1.557m.

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 2010 there was a net deficit of £11.35m 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



Don McLure
Strategic Director of Resources



Payroll Services
ISO9001

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

Your reference

Our reference

LW/JM

Date

29 July 2010

Contact

Lorraine Watson

Telephone

01332 711014

Email address

lorraine.watson@derbyhomes.org

Dear Sirs

Financial statements of Derby Homes Limited for the year ended 31 March 2010

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

Responsibility for the financial statements

We acknowledge as directors our responsibility for the financial statements.

Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders' meetings (held during the year and up to the date of this letter) have been made available to you.

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/she ought to have taken as a director in order to make himself/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 relevant to the preparation and presentation of financial statements that are free from misstatement, whether arising from fraud or error.

Cont'd

Fraud

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

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

Compliance with laws and regulations

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

Transactions with directors and other related parties

We confirm that we have disclosed to you all material related party transactions as listed in note 15 of the financial statements.

In addition, the company has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for directors or connected persons nor to guarantee or provide security for such matters.

We are satisfied that the disclosure in the financial statements of related party transactions is appropriate and adequate and contains all the elements necessary for an understanding of the financial statements.

Control

We confirm that the company is controlled by Derby City Council (DCC).

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 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.

Potential misstatements

You have brought to our attention potential misstatements as disclosed in the Audit Feedback Report. We confirm that all material misstatements have been adjusted for and that there are no remaining misstatements above triviality.

Derby CC Creditor balance

We confirm that we are satisfied that it is appropriate for the financial statements to disclose amounts owed to DCC as included in note 10.

As a result, all amounts within the Derby Homes' level of triviality (£14,000) due to and payable by Derby City Council as at 31 March 2010 in respect of services exchanged between Derby Homes Limited and the Council have been identified. Therefore the accounting entries in relation to these can be considered complete.

Pension

We confirm that any FRS17 pension liability is underwritten by Derby City Council.

Title to property

We confirm that the company has title to all property included within the accounts.

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.

Yours faithfully

.....
Paul Bayliss, Vice-Chair of the Board

Date

.....
Phil Davies, Chief Executive

Date

.....
Lorraine Watson, Director & Company Secretary

Date

Signed on behalf of the Board of Directors

Operating Statement: March 10

Period: 12 2009/10



	<i>Budget Year to Date</i>	<i>Actual Year to Date</i>	<i>Variance Year to Date</i>	<i>Variance</i>	<i>Last Year Equivalent</i>
	£	£	£	%	£
Fee Income	11,786,000	11,733,893	(52,107)	1	11,617,667
Misc Income:					
Council Tax Collection	25,000	31,981	6,981	0	30,534
Capital Programme/Estates Pride	833,600	833,600	0	0	700,000
Supporting People Grant - Tenancy Support	270,272	270,272	0	0	263,680
Supporting People Grant - Sheltered Housing	730,618	730,619	1	0	712,799
External Management - Rents	249,254	294,727	45,473	12	245,224
External Management & Consultancy fees	80,475	115,204	34,729	18	155,377
Other Council Services	114,749	207,049	92,300	59	133,114
Other Income	667,969	1,115,553	447,584	31	1,174,249
Total Income	<u>14,757,937</u>	<u>15,332,898</u>	<u>574,961</u>	<u>3</u>	<u>15,032,644</u>
Employee Costs	8,182,449	8,323,381	(140,932)	(1)	8,344,887
Travel Expenses	293,661	281,384	12,277	7	280,864
Office Costs	1,106,326	1,378,153	(271,827)	(2)	1,121,512
Supplies & Services	3,356,128	3,582,597	(226,469)	(8)	3,586,201
Support Services	1,819,067	1,723,284	95,783	7	1,606,140
Total Expenses	<u>14,757,631</u>	<u>15,288,799</u>	<u>(531,168)</u>	<u>(2)</u>	<u>14,939,604</u>
Net Operating Surplus / (Deficit)	<u>306</u>	<u>44,099</u>	<u>43,793</u>	<u>N/A</u>	<u>93,040</u>

PLEASE NOTE: Our convention for presenting financial information is:

- Income will be shown without brackets
- Under achieved income variances will be shown with brackets
- Expenditure will be shown without brackets
- Overspent expenditure variances will be shown with brackets
- Surpluses will be shown without brackets
- Deficits will be shown with brackets

Forecast vs Actual comparison 2009/10

	Actual Operating Statement 31 March 2010	Forecast Full Year 2009/10	Variance
	£'000	£'000	£'000
INCOME	15,333	15,050	283
EXPENDITURE			
Employee Costs	8,323	8,302	(21)
Travel Expenses	282	294	12
Office Costs	1,378	1,106	(272)
Supplies & Services	3,583	3,674	91
Support Services	1,723	1,967	244
Total Expenditure	15,289	15,343	54
OPERATING SURPLUS/(DEFICIT)	44	(293)	337

Out-turn for Year 2009/10

Explanation of movement in Forecast Out-turn	Changes to Out-turn
	£'000
Forecast Operating Surplus as at Period 11	(293)
Incentive scheme payment from Derby City Council	150
Additional payment to cover lease termination payments - timing difference	164
Other income variances	(31)
Total income variance	283
Lease termination payments - timing difference to be spent in 2010/11	(164)
Contribution to repair costs	(125)
De-commissioning of piper units	(103)
Release of bad debt provision	48
Transfer of furniture packs back to DCC	115
IT underspend - timing difference to be spent in 2010/11	92
Professional fees provision not required	58
Reduction in costs in Supported Living and Homefinder fees	53
Negotiated reduction in Council service level agreements	84
Other minor variances	(4)
Total expenditure variance	54
Operating surplus before pensions adjustment as at 31 March 2010	44
Eliminate employer pension contributions in accordance with FRS17	871
Restated net pension cost per actuarial report	(1,128)
Operating deficit as at 31 March 2010	(213)

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- Overspent expenditure variances will be shown with brackets
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RESERVES AT 31 MARCH 2010

	Balance at 01/04/2009 £000	Used in 2009/10 £000	Transfers 2009/10 £000	Total Reserves at 31/03/2010 £000
At Derby City Council				
Contingency budget	<u>321</u>	<u>-</u>	<u>-</u>	<u>321</u>
At Derby Homes Ltd				
Retained earnings account	<u>1974</u>	<u>(714)</u>	<u>753</u>	<u>2013</u>
	<u>2,295</u>	<u>(714)</u>	<u>753</u>	<u>2,334</u>
Note : The Derby Homes reserves are stated prior to FRS 17 adjustments				
Depreciation Reserve				
At Derby City Council	480	(253)	130	357
Total Depreciation reserve	<u>480</u>	<u>(253)</u>	<u>130</u>	<u>357</u>

The depreciation reserve is to offset of future depreciation cost of assets acquired.

ALLOCATION OF RESERVES AT 31 MARCH 2010

	Balance at 01/04/2009 £000	Used in 2009/10 £000	Transfers 2009/10 £000	Total Reserves at 31/03/2010 £000
Proposed Allocation of Reserves				
Housing Management & Maintenance system	267	(22)		245
Electronic Document Management project	61	(16)	10	55
Meridio/Academy project contingency	140	(85)		55
Further ICT modernisation	13	(13)		0
Web site development	9	(9)		0
IT Project SMS texting	50	(10)	42	82
Voip Project			22	22
Additional front line staffing	58	(58)		0
New build development contingency	100	(100)		0
Contribution to DCC Capital Programme	85	(85)		0
Conversion of old Austin LHO	35			35
Family Intervention Project underspends in prior years	60			60
Brook Street Office	25	(20)		5
Mackworth co-location at library	25			25
Energy/fuel poverty campaign 2008-09	25	(17)		8
Stock condition survey/stock options appraisal	29	(29)		0
2 year Burglary reduction scheme	80	(30)		50
2 year Midland Community Finance funding	34	(17)		17
Apprenticeships	36	(9)		27
QSH Private leasing scheme	125			125
Contribution to Community Fire Safety Officer	10	(3)		7
Temp.systems co-ordinator posts	60	(36)	37	61
New Tenants Support Service start up	30			30
Finance/New Business Support	30	(30)		0
Contribution to Kestrel House repairs			31	31
Development Officer	78			78
Repairs Team pump priming investment			325	325
Energy initiatives support			28	28
Various IT developments			302	302
Credit Union seconded post			29	29
Schools citizenship project			7	7
Mobile IT/DECATS			95	95
To be allocated by the Executive Team	300	(125)	(175)	0
Contingency	530			530
Total	<u>2295</u>	<u>(714)</u>	<u>753</u>	<u>2,334</u>