DERBY HOMES LIMITED

(A Company limited by guarantee)

Company No. 4380984

Report and Financial Statements

Year ended 31 March 2019

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Board Members, Executive Officers, Advisors and Bankers

Directors

I M MacDonald	appointed 28.02.02
R M Webb	resigned 23.05.18
M Ainsley (Chair)	appointed 29.09.11
R G H MacDonald	appointed 27.11.14
J M Shepherd	appointed 27.11.14
F Hussain	resigned 22.05.19
I Veitch	resigned 15.06.18
J P Bayliss	resigned 23.05.18
L H Care	appointed 23.05.18
R A Cooper	appointed 23.05.18 ; resigned 22.05.19
D J Rees	appointed 09.07.18
S Gutsa	appointed 29.11.18
S Russell	appointed 22.05.19
J Pearce	appointed 22.05.19

Executive officers
M J Murphy
D Enticott
S Bennett
C Mehrbani – appointed 01.04.19

Secretary
D Enticott

Registered Office
839 London Road
Derby
DE24 8UZ

Auditor
BDO LLP
2 Snowhill
Birmingham
B4 6GA

Bankers
Lloyds Bank
43 Irongate
Derby
DE1 3FT

Date of Incorporation
The company was incorporated in England on 25 February 2002 with trading commencing on 10 April 2002, and is a company limited by guarantee.

Legislative provisions under which Derby Homes is established
The Company is limited by guarantee and registered under the Companies Act 2006. It is a non-profit registered provider of social housing under the provisions of the Housing & Regeneration Act 2008.

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(A Company limited by guarantee)

Chair's Statement for the year ended 31 March 2019

The last year has seen significant progress at both national and local levels. Nationally, policy shifts have taken place that should make social – and particularly Council – housing more sustainable. In particular, the government's lifting of the debt cap on Councils' housing programmes is hugely welcome in removing one of the barriers to replacing homes lost to the Right to Buy. I am hopeful that further reforms to the Right to Buy to make it more sustainable than it is at present will also be forthcoming and when they do, the combination should allow all Councils to invest further in their own local provision alongside local housing associations.

Derby Homes has been saving up to invest in affordable housing and will be ready to support the Council in whatever it decides to do to improve availability of homes for new tenants. This will be discussed with the Council and we have said that we are prepared to invest in new homes when that is appropriate.

This year has also seen the Homelessness Reduction Act 2017 come into force, with significant new and expanded duties for Councils to provide support to those who are homeless or at risk of becoming homeless.

Customer demand for these new and enhanced duties has been considerable and we have been hugely helped by both the government allocating substantial (although never enough!) funding to the Council to assist with the new pressures, and the Council in passing the additional funding to Derby Homes along with the responsibility for helping them to discharge the new duties under the Act. Derby has been particularly successful in bidding for new resources and we have partnered with the Police and Crime Commissioner to open a new 'Safe Space' for the homeless. Derby Homes has supported the Council's homelessness efforts by using over £1m a year of our own resources to support the delivery of the new services as well as maintaining Milestone House.

We have also been delighted to partner with the Derby War Memorial Village and the Council to arrange to build 9 new bungalows for them which will be constructed over the next year. This builds on our successful partnership over the last few years where Derby Homes has managed and maintained their homes.

Looking forward to next year, we are going to celebrate 100 years of Council Housing. The Addison Act was passed in 1919 and the first Council housing in Derby was completed in 1920, so the 2019/20 year should be a year long celebration of everything positive about Council Housing.

I would like to thank all our Board members, staff, contractors and partners for their continued efforts over the last year and hope to see further improvements over the next one.

M. Ainsley

Mike Ainsley
Chair of Derby Homes
Date: 25/7/19

Report of the Board of Management

Year ended 31 March 2019

The Board present their annual report and the audited financial statements for the year ended 31 March 2019.

Mission

Derby City Council and Derby Homes will continue to fulfil our mission to 'deliver a high quality housing service for Derby' with the support of our partners and our tenants.

Principal Activities

The core business of Derby Homes is the management of and investment in, Derby City Council's social housing stock, comprising of 12,874 properties of which 66 are shared ownership and 12,808 are for rent, as delegated by the Council in an agreement under s27 of the Housing Act 1985.

Derby Homes also directly provides services to 622 leaseholders of the Council and has agreements with external landlords to manage and maintain properties. These landlords include Guinness Northern Counties Housing Association and the War Memorial Village (Derby). Derby Homes also provides other services to the Council, including housing options, homelessness and Derby Advice.

Derby Homes is a Registered Provider (RP) and Investment Partner (IP) with the Regulator of Social Housing (RSH) and has 92 properties for rent which it owns in its own right. Additionally, Derby Homes operates 5 flats in a Victorian building which it partly owns and manages in partnership with Revive Healthy Living. Derby Homes has an option to purchase these 5 flats outright in 2037, but is considering an earlier settlement with Revive and the Council.

Review of Business

2018/19 was another successful year for Derby Homes.

Financial performance 2018/19

In financial terms, the balance sheet of the company has weakened as a result of pension fund assumptions. The overall headline is a comprehensive loss for the year of £9.7m (2018 – gain of £0.7m). The loss is due to the operational surplus on a management accounting basis of £2.5m offset by the impact of changes to the pension fund. The overall pension fund deficit increased from £21m to just under £33m. This remains repayable on a sustainable planned basis over the longer term: the latest actuarial assessment of the fund in 2016 (undertaken on a different basis to accounting) indicated a 97% funding level for Derby Homes.

The underlying operational surplus (excluding pension fund impacts) of £2.5m demonstrates that the company can continue to operate effectively within its income, although the amount of that surplus is expected to reduce significantly next year in line with plans approved by the Board. The company will have the main management fee with the Council reduced in line with the reducing numbers of properties to manage and invest in staffing resources plus wider neighbourhood services.

Report of the Board of Management for the year ended 31 March 2019 cont.

The operational deficit reported in the accounts is £0.5m (2018 – loss of £1.5m) and is due to employer pension charges to the statement of comprehensive income (SOCI) being set much higher in the accounts (based on a one day snapshot) than the day to day employer pension fund contribution level of 20.9% used in the management accounts - resulting in additional costs of £2.4m in the SOCI's operational surplus not included in the management accounts during the year. Additionally the impact of the McCloud case has added another £0.6m as a past service cost.

The Council continues to support Derby Homes through underwriting our pension fund deficit, enabling us to continue as a 'going concern'. We expect to be able to continue to deliver services and sustain our financial future with the Council's continued support.

Effects of material estimates and judgements upon performance
The overall net worth of Derby Homes is now - £15m compared to - £5.2m a year ago. This net worth is highly volatile – a 0.5% increase in the pension fund discount rate (mostly linked to future increases in interest rates) would reduce the pension fund deficit – and hence increase the net worth of Derby Homes by over £15m. The 3 yearly actuarial assessment in 2016 used a discount rate of 4% which if it were to prove correct in the longer term would reduce the pension fund deficit by over £45m. The overall assessment therefore needs to consider this huge volatility in the balance sheet position. The key issue is to sustain a balanced or positive management account surplus which enables the underlying asset base of the company to continue to strengthen. If this approach is taken, the key balance sheet figure becomes the 'net assets before pension liability' which has increased from £15.6m to almost £18m.

Qualifying third party indemnity provisions
The company has no qualifying third party indemnity provisions in place for the directors of Derby Homes Limited.

Value for Money (VfM) self-assessment
The Council and Derby Homes pride ourselves on delivering good overall value for money. Rents remain good VfM and provide a significant direct social benefit, plus considerable additional 'social value' generated by the overall operation of Council housing in Derby. The rent charge is seen as value for money by 90.1% of tenants (2017/18: 89%)

The Regulator of Social Housing (RSH) requires RPs to report key financial indicators as part of their VfM framework. These are set out in a later section.

Report of the Board of Management for the year ended 31 March 2019 cont.

Compliance with RSH Governance and Financial Viability Standard
Derby Homes considered its compliance with the RSH's Governance and Viability standard at its meeting in May 2019, and passed the following resolution to say that "In its view, the Derby Homes Board complies with the RSH Governance & Viability standard". The Board also stated that "in its view, Derby Homes Board complies with the NHF Code of Governance 2015. The Board recognises one declared non-compliance, related to Board Membership, as a result of our constitution.

Going Concern
At its meeting on 25 July 2019, the Board of Derby Homes Limited approved the statement that, in their opinion, Derby Homes Limited has adequate resources to continue in operational existence for the foreseeable future. The Company has a 10 year contract (3 years still to run) in place with Derby City Council to pay management fees in return for delivery of housing management and maintenance services, as prescribed in the Services Agreement.

The Council recognises that, following the formal accounting standards applicable, the Company does not currently have sufficient reserves to offset the resultant pension fund deficit. The Council as shareholder, however, has consistently undertaken to provide continuing support to enable the financial statements of Derby Homes to be prepared on a going concern basis. This support is expressed through a letter of representation received from the Council's Section 151 officer each year.

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

Assessment of the effectiveness of internal control
The Board acknowledges responsibility for ensuring that an effective system of internal control is maintained and operated throughout the Company.

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. It 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 – reviewed and updated in 2017
- 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 information and reporting.

Report of the Board of Management - year to 31 March 2019 cont.

Derby Homes is a partner in the Central Midlands Audit Partnership (CMAP) which provides internal audit to several public sector bodies. Their work is based on their independent risk assessment combined with our own risk register.

The Head of Audit and Risk Management reports the results of internal audit work to the Audit Committee. CMAP also provides an independent opinion on the adequacy and effectiveness of the system of internal financial control, which is informed by the work of Derby Homes' managers, CMAP and external auditors.

The Audit Committee has received the Managing Director of Derby Homes' 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.

Employment of Disabled Employees

- **Recruitment & Training**

Derby Homes operates a scheme where candidates with disabilities can request an automatic interview if they meet the essential criteria for the post. In addition, candidates with disabilities are invited to tell us what adjustments they may need to ensure that they can fully participate in the selection process. Derby Homes offers a wide range of job related training to all employees. We work with employees with disabilities to identify what adjustment and support they require to enable them to undertake their job role.

- **Employees becoming disabled during employment**

There is a comprehensive support process in place for any employee who may enter a period of ill health or develop a condition which may be covered by the Equalities Act 2010. We ensure that employees have access to proper medical advice from Occupational Health and that as the employer we have a proper understanding of what support is necessary to help an employee sustain their employment.

Employee Involvement

- **Communication with employees**

Derby Homes Limited 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. Communication with all employees continues through the intranet, team meetings and employee briefings.

- **Consultation with employees**

We have a formal system of collective bargaining and recognise three trade unions for consultation and negotiation. Formal meetings are held and minutes of these meetings are made available to all employees

Report of the Board of Management - year to 31 March 2019 cont.

- **Employee Volunteering Scheme**

We have launched an employee volunteering scheme as part of our commitment to corporate social responsibility and in recognition of the benefits to our employees, our organisation and local voluntary, charity and faith sectors. All employees are encouraged to participate in a day's volunteering each year, without affecting annual leave entitlements.

- **Equalities**

In addition Derby Homes operates an Equalities Forum. This group consists of a number of employees, volunteers from teams across the organisation who have shown an interest in equalities, their brief is to provide feedback to the Executive Team on key issues. They can also propose new initiatives and events to encourage awareness and employee involvement. The company is committed to the creation of a happy and productive work environment that values and encourages all employee contributions.

- **Employee awareness on the financial and economic factors affecting the performance of Derby Homes**

Over the year there are usually two or three full company briefings that staff attend. We include an annual update on the current financial position of Derby Homes, its main objectives, its relationship with Derby City Council and wider sector issues like Welfare Reform which naturally dictate future service delivery plans and budgets.

Board members' responsibilities

The board members are the Directors of the company and are responsible for preparing the strategic report and report of the board and the financial statements in accordance with applicable law and regulations.

Company law and social housing legislation require the board members to prepare financial statements for each financial year 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 surplus or deficit of the company for that period.

In preparing these financial statements, the board members are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers 2014 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.

Report of the Board of Management - year to 31 March 2019 cont.

The board members 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, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. 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 board members are responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2014.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements. The maintenance and integrity of the company's website is the responsibility of the board members. The board members' responsibility also extends to the on-going integrity of the financial statements contained therein.

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 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)).

BDO LLP has expressed their willingness to continue as external auditors, and was recently reappointed on new terms by the Board. A resolution for the re-appointment of BDO LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Chair

Date 25 July 2019

Strategic Report for the year ended 31 March 2019

Objectives and strategies to achieve objectives

We have this year updated our mission and strategic values.

Derby Homes' mission statement is:
High quality services for people, homes and communities

Derby Homes' strategic objectives are:

Strategic Objective 1	Service that puts our customers first
Strategic Objective 2	Quality homes and contributing to sustainable communities
Strategic Objective 3	Reducing homelessness and enabling access to affordable housing
Strategic Objective 4	Value for money is a consideration in everything we do

Our detailed approach to meeting these are set out in our Delivery Plan. The latest plan can be found at www.derbyhomes.org

Business model

One of our key objectives is to deliver additional homes available at affordable rents in Derby as part of the Council's drive to support affordable housing development in Derby. To do that, we work with the Council to deliver new homes directly for the Council, but also on our own balance sheet. There is, therefore, a need to plan for the long term, especially when analysing individual proposals for investment in homes. The current strategy of delivering as many homes as possible towards the Council's targets has to be balanced against retaining a prudent overall financial position for the longer term.

The current level of surplus (even after excluding the impact of the pension fund deficit) is unlikely to be sustained into the future (see page 5). The operational surplus (excluding pension fund impacts) has been:

Derby Homes Key figures	Actual £'000 16/17	Actual £'000 17/18	Actual £'000 18/19	Budget £'000 19/20
Turnover £m	38.3	38.8	42.3	41.1
Operational Surplus £m	2.0	1.9	2.5	0.2
Surplus % Turnover	5.3	4.9	5.9	0.5
Council Homes managed	13,149	13,002	12,874	12,700
Derby Homes properties owned	90	90	97	102
Reserves £m exc LGPS	14.0	15.6	17.9	14.2
Reserves £m inc LGPS	-5.9	-5.2	-15.0	-5.5

Strategic Report for the year ended 31 March 2019 cont.

Reserves excluding pension fund should continue to increase marginally over time, although there will be a gradual shift from cash backed reserves to reserves held in bricks and mortar. Cash flow is likely to be the key constraint on Derby Homes' activities in future, but the cash flow position remains positive for the moment, and able to withstand reasonable stress testing.

As a result of reductions to target rents, new homes – for both Derby Homes and the Council - are now usually let at 80% of market rent as 'Affordable Rent'.

The Council has allowed the full transfer of funds relating to homelessness grants. Further grant funding has been provided through MHCLG and the Council to Derby Homes to take on further service(s) relating to homelessness, and Derby Homes uses over £1m a year of its own income to add to these sources of funds to ensure as far as possible that provision for homeless people is maintained and improved in line with the Homelessness Reduction Act 2017 which came into full effect this financial year.

Development and performance during the financial year and financial position at the year end

The statement of comprehensive income for the year is set out on page 30. Following the processing of pension fund transactions the business returned a deficit after taxation for the year of £1.281m. This was after a charge of £3.583m which arose from accounting adjustments for pensions, as disclosed in Note 8 to the financial statements plus £0.162m relating to interest payable on loans from the Council.

	£'000	£'000
Management account operating surplus		**2,501**
FRS 102 adjustments:		
Add back of employer pension contributions paid in year	2,722	
Less current service costs	(5,079)	
Past service costs – McCloud case	(624)	
		(2,981)
Operating deficit		(480)
Less net interest on pensions		(602)
Less other interest payable		(162)
Less taxation		(37)
Deficit for the year		**(1,281)**
Actuarial loss on defined benefit obligations – pension scheme		(8,448)
Total comprehensive loss for the year		**(9,729)**

Strategic Report for the year ended 31 March 2019 cont.

Financial performance – after pension factors are removed – continues to be positive. Further savings have continued to have been delivered against the core management and maintenance fee income and this has been or will be reinvested into both growing the housing stock of the Company as set out in the Board's plans, and also in delivering housing services for the Council.

The number of directly owned properties has now increased to 97 (increase of 7) following the completion of 6 new homes at Wood Road, Chaddesden supported by HCA funding. At the start of HRA reform in 2012, the Company had under £0.7m fixed assets and £3.6m of reserves excluding pension fund deficit. The equivalent figures are now £7.4m and £17.9m and this should increase further as the stock gradually grows. The debt associated with this strategy remains affordable.

Operational Performance

The monthly Chair's Briefing meeting reviews the organisation's performance indicators and the implementation of any necessary action plans.

The table below is a sample of some key performance indicators comparing performance for 2018/19 with the previous two years.

Indicator	Description	2016/17 Achieved	2017/18 Achieved	2018/19 Achieved
DH Local 24	Energy Efficiency - average SAP (Standard Assessment Procedure) rating of dwellings.	73.9	73.7	75.2
DH Local 43	Rent collected by the local authority as a proportion of rents owed on Housing Revenue Account (HRA) dwellings	100.2%	99.0%	99.7%
DH Local 1	Rent arrears of current tenants as a % of rent roll.	1.87%	2.15%	2.29%
DH Local 27	Tenant Satisfaction with Landlord (All)	89.9%	91.3%	94.4%
DH Local 29	Tenant Satisfaction with views taken into account	84.2%	79.0%	83.3%
DH Local 21	Non-Decent Local Authority Dwellings (percentage)	0%	0%	0%
DH Local 32	Average time taken to re-let local authority housing.	25.3 days	24.5 days	23.7days

Strategic Report for the year ended 31 March 2019 cont.

Performance Highlights 2018/19
Performance is excellent, with most key indicators meeting or exceeding targets set by the Council.

While spending has been restrained, this has not been at the expense of performance. Derby Homes has met the majority of its targets and has seen overall tenant satisfaction increase still further to 94.4% (2017/18 91.3%).

Tenant satisfaction with views taken into account also rose again to 83.3% (2017/18 79.9%), and the rent charge is seen as value for money by 90.1% of tenants (2017/18 89%).

We continue to meet 100% targets for electrical and gas safety testing and expect to continue to do so. Repairs consistently meets response times (over 99%) and high satisfaction levels (over 99% positive when surveyed via text on last repair) while costs remain low.

Additional demand for Homelessness Services, as a result of the implementation of the Homeless Reduction Act 2017, has proven higher than anticipated, with a 100% increase on the previous year. This has placed additional pressures on the use of temporary accommodation including the increased use of bed and breakfast placements, where the targets for use have been exceeded.

We have responded positively to the increased demand for services during the year with a number of initiatives:

With the support of the Ministry of Housing, Communities and Local Government, we supported the opening of the Churches' Winter Nightshelter earlier, from 1st October instead of the usual 1st December. In addition we launched a rough sleeping outreach and inreach service, which has been effective in contributing to a reduction in the numbers sleeping rough in the City, bringing the annual estimate of rough sleepers down from 37 in 2017 to 26 in November 2018. The spotlight count in March 2019 was only 7.

We collaborated with the Police and Crime Commissioner and Public Health to open a 'Safe Space' in Derby, providing rapid assessment and basic shelter to those with multiple and entrenched complex needs and behaviours, rough sleeping or at risk of rough sleeping in the City. The Ministry of Housing, Communities and Local Government have also provided financial support for this initiative. This innovative partnership has received recognition from the Secretary of State, James Brokenshire MP, who visited Derby in January to learn more about the successful partnership approach being taken to reduce homelessness in the City.

We have also enhanced, through grant funded partnerships, the availability of housing pathways for a number of priority groups such as young people and those at risk of re-offending.

Strategic Report for the year ended 31 March 2019 cont.

In other areas, Derby Homes continues to support community initiatives including a twelfth year of helping to repair & improve the Skegness Derbyshire Children's Holiday centre. This year we have helped with preparation and works in fitting a new, commercial kitchen, supported with funding from Buildbase for building materials and a generous benefactor to the Centre purchasing the fixtures, fittings and appliances. Our team match the contribution of labour time from Derby Homes with their own, spending the whole week away from home working long days to complete the work.

Staff and partners have again excelled themselves this year, raising over £8,000 for our charity of the year: Motor Neurone Disease Association (MNDA)

We also continued to support preventative and diversionary activities for young people and many other initiatives which focus on improving life for tenants and residents within our communities.

In addition to the key indicators above, we are particularly proud of the following outcomes:

- Overall tenant satisfaction at 94.4% - higher than any previous year
- Percentage of rent loss through voids - 0.74%: below a tough target
- Rent seen as value for money by over 90% of tenants
- Customer satisfaction with repairs and delivery times - all above 99%
- No non decent homes
- Of 480 initial complaints, 98% were resolved at the first stage
- No complaints found against us by the Housing Ombudsman.
- Over 4,700 (>36%) tenants have signed up for online services

Since January 2016, some new claimants are now on Universal Credit. The roll out of UC full service from July 2018 has started to impact on results and is creating additional pressure on household incomes. In December 2016 the benefit cap was reduced significantly from £26,000 a year to £20,000, and this has exacerbated the effect. Further pressure is likely as further welfare reforms are rolled out locally. Despite these welfare reforms, current Derby City Council tenant arrears have increased by only £50,000 this year. This represents excellent performance from the relevant teams and is well ahead of target.

Derby Homes was elected by its regional peers to serve on the National Federation of ALMOs (NFA) Board for a four year term in March 2017 to represent Midlands ALMOs along with Nottingham City Homes. Maria Murphy is now the Chair of the NFA's Executive Steering Group which advises their Board.

Strategic Report for the year ended 31 March 2019 cont.

Awards

ROSPA President's Award
Derby Homes has now received the ROSPA Gold for Health and Safety for thirteen consecutive years and this year was awarded our fourth ROSPA President's Award for Occupational Safety.

ROSPA Sector Award
We are especially pleased to have been officially 'Commended' in the Public Sector ROSPA awards for our submission this year.

CIPFA Innovations Award
In 2017, our Annual Report and Accounts 2015/16 won this national award in the category 'Achievement in Financial Reporting and Accountability'.
Our Annual Reports for both 2016/17 and 2017/18 were also shortlisted for the same award, meaning that we have been shortlisted three times in a row for the same category– which we believe to be unique.

Building Communities in the East Midlands Awards (EEM)
Derby Homes was named Social Housing Provider of the year 2018
Holly Osborn was the Runner Up in the Apprentice of the Year award 2018
Derby Homes was also Runner Up in the Health and Safety Category 2018

Top 50 Landlord
Derby Homes were included in 24 Housing's 'Top 50 Landlords' in 2018

Derby Telegraph Business Awards
Derby Homes was a finalist in the Apprentice Employer of the Year 2018.

TPAS Awards 2019
Excellence in Engagement in Support and Care - Finalist (Parkland View)

Derbyshire Dignity Awards
Derby Adult Safeguarding Board/National Dignity Council
Bronze Dignity Award (Parkland View)

National Housing for Older People Awards 2019
Elderly Accommodation Counsel (EAC)
Gold Award (Parkland View) – East Midlands Housing-with-care 56 units and over

Resolve ASB Awards
Team of the Year (Winner) – Proactive Engagement and Enforcement Programme (with Derby City Council Public Health, and City Centre Policing)

Accreditations
Our ASB service is Housemark accredited.
Derby Advice is regulated by the Financial Conduct Authority

Strategic Report for the year ended 31 March 2019 cont.

Volunteering

Derby Homes works alongside partner organisations to promote the benefit and impact of volunteers. Roles include volunteering as part of our Customer Voice Tenant Panel (Scrutiny) to people volunteering in their community rooms running sessions from Bingo to Arm Chair Exercise classes, Coffee Mornings, Lunch Clubs and Day Trips to running the Milestone House Outlet venue. Volunteering delivery is always aimed at benefitting our customers, the community of Derby including those living on the estates that Derby Homes manage.

Each year we celebrate the contribution of our volunteers through an annual Volunteering celebration and Awards event. The ceremony took place in St Martins Church, Allenton, which officially re-opened its doors in February 2019. The refurbishment of the church and community space was a major community-led project that Derby Homes supported over a number of years in terms of development resource, work, grant funding and contributions from many of our contractors.

In addition this year we have provided grant funding to Community Action Derby, who are the central co-ordinating body for Volunteering in the City, enabling tenants and those living on council owned estates to access wider volunteering training and opportunities. We have also continued our programme of refurbishing and upgrading our community rooms, ensuring they are vibrant and accessible spaces for community led activities.

Future prospects

There have been several positive changes to the future arrangements for Council housing finance over the reporting period:

Rents from 2020 onwards

The government – while including local authority rents within the Regulator of Social Housing's (RSH) Rent Standard from 2020 onwards – has made it clear that its policy is to allow rents to increase by CPI plus 1% for the next five years. While this needs to be accompanied by increases in benefit arrangements (for instance inflating the overall benefit cap at least in line with inflation), this clearly makes the financial outlook for the Council's Housing Revenue Account (HRA) and therefore Derby Homes better than it might be with a lower increase. The policy is in line with the report that Capital Economics did for the Local Government Association (LGA) in 2018 that suggested that an increase of CPI plus 1% provided the optimum balance for the government in terms of long term impacts on benefit costs.

Strategic Report for the year ended 31 March 2019 cont.

Removal of previous policies that would have had a detrimental financial impact

The voluntary Right to Buy (RTB) for Registered Providers (RPs) has been clarified – and while it applies to the Midlands, it does not apply to smaller RPs under 1,000 owned homes including Derby Homes. This means that Derby Homes' properties will not be subject to the RTB as now and will continue to offer an option for the Council to protect investments that are particularly at risk of sales and/or losses.

Similarly, the government has also dropped plans to charge a levy on all 'higher value' properties owned by Councils which would have had a severe impact on Council stocks particularly in higher value areas. Instead it is directing significant resources to those very areas to allow some social (as opposed to affordable) rented properties to be built. These are positive changes but unfortunately do not help the situation in Derby as we are not included in that particular policy.

Removal of the HRA Debt Cap

In October, the government also removed the HRA debt cap which artificially restrained investment in Council housing by means of a fixed cash sum of debt that was an absolute limit on borrowing for Council housing. While the cap has been removed, it remains the case that any borrowing by Councils needs to be sustainable and able to be financed from rental income. In Derby's case there is clearly an increase to the capacity that could be borrowed sustainably but this will require careful planning by the Council and Derby Homes together. The change to the rules, however, signals that the government is attempting to enable further investment not to be restrained by arbitrary regulation and that it will be left to local judgement.

Less positive issues remaining

The Welfare Reform Act and resultant changes to the Housing Benefit system – in particular the rolling out of Universal Credit full service from July 2018 and eventual migration of most existing Housing Benefit claimants. Departments particularly affected are those handling arrears and direct debit processing. In the longer term this is expected to increase bad debt provisions in the HRA.

The welfare cap of £20,000 a year impacts on some tenants' ability to pay their rent. The numbers of tenants affected by the cap has risen from 38 in December 2015 (before the change) to 91 in March 2019 and is expected to increase further. The benefit cap needs to increase in line with at least inflation and preferably rents as otherwise it will become the new main constraint on rents for many providers and lead to increased homelessness if as might be expected the arrears levels of affected tenants increases.

The continued high level of Right to Buy discounts means that the Council – despite the lifting of the HRA debt cap – remains unable to replace all homes being lost, let alone increase the overall number of Council homes available to rent. Lobbying will continue on this issue to attempt to at least give some element of local discretion on discounts in line with local markets and needs.

Strategic Report for the year ended 31 March 2019 cont.

The Company's financial position remains robust and has significantly strengthened over the last year in both operating and overall terms. The current level of operating surplus excluding pension fund adjustments means that sufficient funding is available to sustain the existing operations of the Company and fund the development of up to at least 150 homes in our ownership should that still be desired – despite the risks outlined above, and potentially more if a positive environment for new homes supports ALMOs as well as Council delivery.

Investment and improvement for the future

If the pension fund deficit of £33m is excluded – as it should eventually be eliminated through the contributions being made - the Company has reserves of £17.9m and it still intends to invest funds in supporting the creation of more affordable housing for Derby or other objectives and issues that arise from time to time.

The Board has agreed that reserves can be invested in supporting new homes and this level of reserves should be sufficient to support the Company's stock increasing to around 150, depending on the level of additional resources – for instance grants – that can be obtained, as well as any restrictions on borrowing available.

Derby Homes as an ALMO is currently unable to access Right to Buy replacement grants from the Council at present, but this is being reconsidered by the government. Should this be allowed in future (and there appears to be no real reason not to allow this in future given the removal of the HRA debt cap), then the Council's strategy to deliver new homes may be changed with a greater proportion being delivered through Derby Homes in future. This is not currently planned but may need to be considered over the next year if that policy does indeed change.

Principal risks and uncertainties

Derby Homes has a successful track record of managing risk as an integral part of its governance and management systems. The Board (following prior consultation with the Audit Committee) approves a written risk management policy, strategy and framework which defines risk, sets out a statement of intent and allocates responsibility and monitoring roles within the organisation. 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 is reviewed regularly and was reassessed with scores updated in March 2019, scrutinised by the Audit Committee and approved by the Board. The one new strategic risk this year relates to Brexit. In general the other risks have either been steady or have reduced over the year.

Financial and non-financial key performance indicators

Derby Homes has had another successful year. Not only have the majority of performance targets been met, this has been done cost effectively and the efficiencies generated in day to day operations will continue to be reinvested in expanding the housing stock from 97 towards 150.

Strategic Report for the year ended 31 March 2019 cont.

Wherever practical, our own new homes are fitted with sprinkler systems as standard. The in house new build team continues to deliver homes mostly directly for the Council rather than for Derby Homes' own stock to reflect the need to utilise higher Right to Buy receipts and to deliver homes as part of the grant agreement with the HCA. The Council's stock has been enhanced by 45 further homes; of which 16 are new build homes, including 2 homes built by Derby Homes' new build team. The others were purchased by the Council on the open market. The additions to the stock were however, yet again hugely outweighed by the continuing loss through the Right to Buy – this year of 173 homes.

There continues to be a huge shortage of 4+ bed homes for affordable rent – but also 1 and 2 bed homes. There is also a need to try and deliver more accessible and specialist homes, which tend to be more expensive to deliver and therefore more difficult to fund. Derby Homes and the Council are converting a number of 3 bedroom homes into larger ones to rebalance the supply and demand to a small extent, and concentrating new delivery on smaller or specialist properties.

New homes investment is good for the public purse in the very long term (debt should be repaid within about 50 years – ideally this should be much shorter at around 30 years: to do this would require higher grant and/or RTB recycling rates) and helps to sustain lower rents and lower spending on benefits. The value of such homes should increase over time and generate long term gains in overall value.

Land to build on remains an issue, along with the extent of the Right to Buy receipts needing to be used directly by the Council. Numbers of Right to Buys has fallen slightly from 1.4% to 1.3% of overall housing stock (173 this year of which 24 were flats). It was interesting to note that two sales were of new homes protected by the 'cost floor' with a 22% discount – giving the Council a more reasonable receipt than would have been the case otherwise and showing that sales would continue with lower levels of discount than are currently applied. It was also interesting to note that of the 24 flats sold, 11 of them (46%) were sold at the minimum discount of 50% - in other words where the tenant had only been renting for between 3 and 5 years. Such sales (ranging from £24,500 to £42,500) effectively give the tenant the other half of the value of the flat after only three years which in each case will be greater than the rent received over that period.

The reduction in the number of homes being managed will reduce our income from fees for management and maintenance next year (2020/21) by around 1% in real terms under the Council's agreed formula to fund Derby Homes' core activity.

Strategic Report for the year ended 31 March 2019 cont.

Governance

The Board of Derby Homes Limited consists of 9 voluntary members. There are 3 tenant, 3 Councillor and 3 independent members. The makeup of the Board and their term of office are determined by Derby Homes Limited's 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. 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 Managing Director of Derby Homes 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
- Partnership agreement between the Council and Derby Homes.
- standing orders for conduct of Board and General meetings
- Operational Board constitution
- delegation of responsibilities
- financial regulations
- procurement 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

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. The public is welcome to attend the meetings and, at the discretion of the Chair, may be invited to speak although only Board members have the right to speak and vote at Board meetings. Any confidential items will be clearly marked on the agenda according to Standing Orders.

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

The Board delegates some decision making to the following Boards or Committees:

- Operational Board – with a majority of tenants
- Audit Committee
- Governance Committee

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

Strategic Report for the year ended 31 March 2019 cont.

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

Modern Slavery Act 2015
In line with this act, Derby Homes Board has adopted a policy on Modern Slavery. It states that we will not – nor expect our contractors to – tolerate any arrangements that involve any business practices that might be seen as modern slavery. Where we know about such activity we will take whatever action is necessary to eliminate it from any process in which we are involved. The full statement can be viewed at www.derbyhomes.org

Persons of Significant Control
From April 2016, companies have been obligated to disclose any persons of significant control (PSCs) who actually control the organisation or whose views are normally followed by the Board.

Derby City Council is clearly a PSC for Derby Homes.

Value for money (VfM)

The Regulator of Social Housing (RSH) has implemented a new set of requirements with regard to VfM reporting, commencing from 1st April 2018 and updated in June 2019. This means that as a Registered Provider we are required to include seven key financial metrics in this report. These are set out below. Derby Homes as an ALMO RP will look a little different in terms of results against 'standard' RPs as our business model is fundamentally different as we are mostly a manager (of Council housing) and not a standard RP landlord model. Comparison against last year's benchmarks is now possible and is included in brackets as follows:
Q1= upper quartile, Q4 = bottom quartile
m = median all RPs over 1,000 stock – RSH Global Accounts annex 2018.

Metric 1 – Reinvestment %
Good = higher

	£m
+ Development of new properties	0.332
+ Newly built properties acquired	0.000
+ Works to existing properties	0.000
+ Capitalised interest	0.000
+ Schemes completed	0.000
Total	**0.332**
Divided by	
+Tangible fixed assets : Housing properties at cost	6.791
+Tangible fixed assets : Housing properties at valuation	0.000
Total	**6.791**
Result	**4.9%**

This is a measure of capital investment in existing and new homes against the existing asset base value. The median of 6% (for 2018) would place Derby Homes in Q3. The current priority is for the majority of new homes to be owned by the Council in order to utilise right to buy receipt funds available.

Metric 2a: New Supply (Social Housing Units) %
Good = higher

	Units
+ Total social units developed or acquired in year	7
+ Social leasehold units acquired in year	0
Total	**7**
Divided by	
+ Total social housing units owned	92
+ Social leasehold units owned	0
Total	**92**
Result	7.6%

Value for money (VfM) cont

The completion of Wood Road and purchase of one other property along with our small base stock means that we have a very high return this year (2018 : nil) , compared to the median of 1.2%. Notionally this is Q1 performance. At present we are not planning large increases in new homes on our own account, so this measure is likely to fall next year

Metric 2b: New Supply (Non - Social Housing Units) %

	Units
+ Total non - social units owned (acquired in year)	0
+ Non – social leasehold units owned (acquired in year)	0
+ New outright sale units developed or acquired	0
Total	**0**
Divided by	
+ Total social housing units owned	92
+ Total non-social rental housing units owned	5
+ Social leasehold units owned	0
+ Non-social leasehold units owned	0
Total	**97**
Result	**0%**

The median result is also 0%. To date it has not been a priority of Derby Homes to provide non-social housing.

Metric 3 – Gearing % Good = lower

	£m
+ Short term loans	0.054
+ Long term loans	2.973
- Cash & cash equivalents	(14.480)
+ Amounts owed to group undertakings	0.907
+ Finance lease obligations	0.000
Total	**(10.546)**
Divided by	
+ Tangible fixed assets : Housing properties at cost	6.791
+ Tangible fixed assets : Housing properties at valuation	0.000
Total	**6.791**
Result	-155%

This is a measure that might look odd as we are currently cash rich and therefore have cash to invest in new homes should an opportunity arise that helps the Council more than direct investment in Council housing. At present these opportunities are limited but it is expected that there could be some opportunities in the near future. It does support the Board's strategy and shows that Derby Homes does have – as planned - the financial capacity to deliver more homes. The comparison against a sector median of 42.9% places Derby Homes in Quartile 1.

Value for money (VfM) cont

Metric 4 – Earnings before interest, tax, depreciation, amortisation, major repairs (EBITDA) Interest Cover % Good = higher

	£m	£m exc LGPS
+ Operating (deficit) / surplus	(0.480)	2.501
-Gain / loss on disposal of fixed assets	(0.000)	(0.000)
-Amortised grants	(0.030)	(0.030)
-Government grants taken to income	(0.000)	(0.000)
+ Interest receivable	0.000	0.000
-Capitalised major repairs expenditure for the period	(0.000)	(0.000)
+ Total depreciation charge for period	0.443	0.443
Total	**(0.067)**	**2.974**
Divided by		
+ Interest capitalised	0.000	0.000
+ Interest payable and financing costs	0.162	0.162
Total	**0.162**	**0.162**
Result	-41%	1836%

This result is one that looks very strange as it includes all operating surplus (derived mainly from management and maintenance of Council housing), plus pension adjustments against the interest payable on loans on a small number of homes. Excluding the volatile pension fund adjustments strengthens the ratio and is more representative of the underlying position. Any comparison against the sector median of 206% and quartile 1 ranking is therefore potentially misleading.

Metric 5 – headline social housing cost per unit
Good = lower
Management costs
+service charge costs
+routine maintenance costs
+planned maintenance costs
+major repairs expenditure
+capitalised major repairs expenditure
+other costs of social housing letting
+development services
+community /neighbourhood services
+ other social housing activities
+ other charges for support services
= all housing costs

For Derby Homes, this is calculated by deducting the "Activities other than Social Housing" costs of £4.687m, depreciation of £0.443m and interest costs £0.162m from total Operating Costs of £42.8m = £37.508m.
Divided by
Total social housing units owned or managed= 13,673

Result = £2.74k (Q1, m £3.40k)
It indicates that our overall costs are just over £50 a week although some costs are missing (e.g. some major works on Council housing where costs are directly incurred by the Council and not through Derby Homes).

Value for money (VfM) cont

Metric 6a – Operating Margin (social housing lettings) %
Good = higher

	£m
+ Operating surplus (social housing lettings)	0.111
Divided by	
+ Turnover from social housing lettings	0.437
Result	25.4%

Metric 6b : Operating Margin (Overall) %

	£m	**Exc LGPS £m**
+ Operating (deficit) / surplus (overall)	(0.480)	2.501
- Gain / (loss) on disposal of fixed assets (housing)	0.000	0.000
Total	(0.480)	2.501
Divided by		
Turnover (overall)	42.320	42.320
Result	-1.1%	5.9%

Measure A shows that the Board is now making a significant but normal level of operational surplus on its own properties – this is partly due to the nature of low repair costs in the early years but also because this measure excludes the cost of borrowing (£0.162m). If that is included the position is a small loss as expected and planned. Compared to median of 32.1% this represents quartile 4 performance.

Measure B shows the overall formal operational surplus inclusive of additional pension fund charges for the year – an alternative measure excluding those is also shown and indicates a more reasonable assessment of the current position. The comparator here does not work as Derby Homes is mainly a managing agent for the Council stock and works at a very low margin on that work rather than at a 'standard' 25% or so for 'normal' RP lettings.

Metric 7 : Return on Capital Employed

	£m	Exc LGPS £m
Operating (deficit) / surplus (overall)	(0.480)	2.501
Share of operating surplus / (deficit) in joint ventures or associates	0.000	0.000
Total	**(0.480)**	**2.501**
Divided by		
Total assets less current liabilities	23.107	23.107
Result	-2.1%	10.8%
Comparator Quartile (based on median of 4.1%)	4	1

Value for money (VfM) cont

The operational surplus excluding pensions remains healthy (although planned to fall in future years) and as a proportion of the asset base is very high – again this is because the overall surplus relates to all managed properties and the asset base to 97, making the result look much higher than it would if the Councils HRA housing stock was included. The formal result, on the other hand looks very low as it includes the nominal (non cash) cost of pension cost adjustments of just under £3m included in the operating costs for accounting purposes.

Summary

The Board is satisfied with the financial and operational performance of the Company during 2018/19. The initial comparisons enabled through the Regulator's publication of last year's results for other RPs helps to contextualise our own results and will help in setting our own targets for the future. A report on this will be considered this year in setting out a new VfM strategy.

Approval

This Strategic Report was approved by order of the Board

M Ainsley Chair	D Enticott Secretary
25 July 2019	25 July 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBY HOMES

Opinion

We have audited the financial statements of Derby Homes Limited for the year ended 31 March 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of the company's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the board members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The board are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information including the Chair's Statement, Report of the Board of Management and Strategic Report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the Board for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and Report of the Board have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Report of the Board.

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

- the company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of board member and or directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of the board

As explained more fully in the board members responsibilities statement, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Company, as a body, in accordance with in accordance with the Housing and Regeneration Act 2008 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP
Kyla Bellingall (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom

Date: 30 July 2019

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

Statement of Comprehensive Income
Year Ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Turnover	2	**42,320**	38,832
Operating costs	2	**(42,800)**	(40,339)
Operating (Deficit)	4	**(480)**	(1,507)
Interest payable and similar charges	6	**(162)**	(164)
Pension finance costs	6	**(602)**	(568)
(Deficit) before taxation		**(1,244)**	(2,239)
Taxation	7	**(37)**	(25)
(Deficit) for the year		**(1,281)**	(2,264)
Other comprehensive income for the year			
Actuarial (loss) / gain on defined benefit obligations – pension scheme	8	**(8,448)**	2,944
Total comprehensive (loss) / gain for the year		**(9,729)**	680

The notes on pages 34 – 56 form part of these financial statements.

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

Balance Sheet
At 31 March 2019

		2019	2018
		£'000	£'000
Fixed assets			
Housing Properties			
Cost less depreciation		**6,791**	6,586
Tangible Fixed Assets – Housing		**6,791**	6,586
Tangible fixed assets - Other		**629**	945
	9	**7,420**	7,531
Current assets			
Debtors	11	**5,150**	8,138
Stock and Work in Progress	12	**374**	345
Bank and cash		**14,480**	8,168
		20,004	16,651
Creditors: amounts falling due within one year	13	**(4,317)**	(3,373)
Net current assets		**15,687**	13,278
Creditors: amounts falling due after one year	14	**(5,183)**	(5,188)
Net assets before pension liability		**17,924**	15,621
Defined benefit pension liability	8	**(32,882)**	(20,851)
Net liabilities after pension liability		**(14,958)**	(5,230)
Reserves			
Defined benefit pension liability reserve		**(32,882)**	(20,851)
Designated reserves		**16,224**	13,921
Revenue reserves		**1,700**	1,700
Total funds		**(14,958)**	(5,230)

These financial statements were authorised and approved by the Board of Directors on 25 July 2019. Signed and dated on behalf of the Board of Directors:

M Ainsley
Chair

Date 25/7/19

D Enticott
Secretary

Date 25/7/19

The notes on pages 34 - 56 form part of these financial statements.

Statement of changes in equity at 31 March 2018

	Pension reserve £'000	Designated reserve £'000	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2017	**(19,869)**	**12,259**	**1,700**	**(5,910)**
Comprehensive Income for the year				
(Deficit) for the year			(2,264)	(2,264)
Actuarial gains on defined benefit pension scheme	2,944			2,944
Other comprehensive income for the year	2,944	-	(2,264)	680
Reserve transfers:		(2,264)	2,264	-
Total net current service costs of pension scheme	(3,358)	3,358		-
Total net interest cost on pension scheme	(568)	568		-
Total comprehensive income for the year	**(982)**	**1,662**	**-**	**680**
Balance at 31 March 2018	**(20,851)**	**13,921**	**1,700**	**(5,230)**

Statement of changes in equity at 31 March 2019

	Pension reserve £'000	Designated reserve	General Reserve £'000	Total Reserves £'000
Balance at 1 April 2018	**(20,851)**	**13,921**	**1,700**	**(5,230)**
Comprehensive Income for the year				
(Deficit) for the year			(1,281)	(1,281)
Actuarial (losses) on defined benefit pension scheme	(8,448)			(8,448)
Other comprehensive income for the year	(8,448)		(1,281)	(9,729)
Reserves transfers:		(1,281)	1,281	-
Total net current service costs of pension scheme	(2,357)	2,357		-
Total past service cost	(624)	624		
Total net interest cost on pension scheme	(602)	602		-
Total comprehensive income for the year	**(12,031)**	**2,302**	**-**	**(9,729)**
Rounding		1		1
Balance at 31 March 2019	**(32,882)**	**16,224**	**1,700**	**(14,958)**

Statement of Cash Flows
Year Ended 31 March 2019

	2019 £'000	2018 £'000
(Deficit) for the year	**(1,281)**	(2,264)
Interest payable and similar charges	**162**	164
Pension finance costs	**602**	568
Taxation	**37**	25
Cash flows from operating activities deficit for the financial year	**(480)**	(1,507)
Adjustments for:		
Depreciation of fixed assets - housing properties	**127**	113
Depreciation of fixed assets – other	**314**	339
Loss on disposal of fixed assets - other	**2**	-
Amortised grant (in year)	**(30)**	(29)
Difference between net pension expense and cash contribution	**2,981**	3,358
Taxation charge	**(37)**	(25)
(Increase) / Decrease in trade and other debtors	**2,988**	(1,014)
(Increase) in stocks & work in progress	**(29)**	(38)
Increase in trade creditors	**334**	213
Increase in accruals & provisions	**606**	477
Rounding	**1**	-
Net cash generated from operating activities	**6,777**	1,887
Cash flows from investing activities		
Purchase of fixed assets – housing properties	**(332)**	(559)
Purchases of fixed assets – other	**-**	(467)
Sale of fixed assets – other (van insurance)	**-**	-
Receipt of grant	**80**	55
Net cash from investing activities	**(252)**	(971)
Cash flows from financing activities		
Interest paid	**(162)**	(164)
Repayment of loans – Derby City Council	**(51)**	(49)
Net cash used in financing activities	**(213)**	(213)
Net increase cash and cash equivalents	**6,312**	703
Cash and cash equivalents at beginning of year	**8,168**	7,465
Cash and cash equivalents at end of year	**14,480**	8,168

Notes to the Financial Statements
Year Ended 31 March 2019

1. Principal accounting policies

The Company is incorporated under the Companies Act and is registered with the Regulator of Social Housing 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.

Legal Status

The Company is limited by guarantee and registered under the Companies Act 2006. It is a non-profit registered provider of social housing under the provisions of the Housing & Regeneration Act 2008.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Housing and Regeneration Act 2008, Financial Reporting Standard 102 “the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” the Statement of Recommended Practice (SORP), “Accounting by registered social housing providers” 2014, the Accounting Direction for Private Registered Providers of Social Housing 2015 and the Companies Act 2006.

Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Derby City Council as at 31 March 2019 and these financial statements may be obtained from the address in note 16.

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 FRS102. These do include assumptions around the investments returns which are based on the FRS102 requirement for this to be matched to the discount rate. This has had a material effect on the actuarial gain this year. The pension scheme continues to be underwritten by Derby City Council.

Notes to the Financial Statements
Year Ended 31 March 2019

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

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Properties

Housing properties are principally properties available for rent and are stated at cost less depreciation. Cost includes the cost of acquiring land and buildings, development costs and expenditure incurred in respect of improvements.

Improvements are works to existing properties, and component replacements which have been treated separately for depreciation purposes, which result in an increase in net rental income, a reduction in future maintenance costs, or result in a significant extension of the economic life of the property in the business. Only the direct overhead costs associated with new developments or improvements are capitalised. Direct overhead costs comprise the costs of staff time, including salary costs and other incremental direct costs incurred in the developments from the date it is reasonably likely that the development will go ahead, to the date of practical completion.

Depreciation

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

Notes to the Financial Statements
Year Ended 31 March 2019

Asset Type	Depreciation	de minimis values 2018/19	de minimis values – 2017/18
Housing Properties:			
Kitchens	Over 20 years	Nil	Nil
Bathrooms	Over 25 years	Nil	Nil
Boilers	Over 13 years	Nil	Nil
Heating system	Over 26 years	Nil	Nil
Roof	Over 60 years	Nil	Nil
Wiring	Over 40 years	Nil	Nil
Doors	Over 30 years	Nil	Nil
Windows	Over 30 years	Nil	Nil
Non-componentised	Over 80 years	Nil	Nil
Land	Not depreciated		-
Computer equipment	Over 3 years	£5,000	£100,000
Motor vehicles	Over 7 years	£5,000	Nil
Plant & machinery	Over 5 years	£5,000	£10,000
Office equipment	Over 10 years	£5,000	£10,000

Where individual items are purchased at less than the above de Minimis values they will be written off to revenue. Any individual item above the de Minimis value will be capitalised and written off over the economic life on a straight line basis with no residual income assumed. The changes to de minimums levels introduced in 2018/19 bring consistency and clarity on the treatment of such assets.

Impairment
The Company's housing portfolio is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit the asset concerned. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use. In the case of the Company's housing portfolio, the value in use is taken to be equal to the insurance reinstatement cost of the property concerned, which is management's assessment of the depreciated replacement cost of the asset.

Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to income and expenditure.

In the year ended 31 March 2019, no impairments were recognised.

Notes to the Financial Statements
Year Ended 31 March 2019

Taxation including deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the country (England) where the Company operates and generates income.

Pension costs

The Company operates a defined benefit plan. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the assessed present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets at the balance sheet date out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as Actuarial gain / (loss) on defined benefit obligations – pension scheme.

Notes to the Financial Statements
Year Ended 31 March 2019

Pension costs cont.
The cost of the defined benefit plan, recognised in the Statement of Comprehensive Income as employee costs except where included in the cost of an asset, comprises:

a) the increase in net pension benefit liability arising from employee service during the period; and
b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the Statement of Comprehensive Income as 'Pension finance 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 continues to use FRS102 – Section 28.

Debtors
Short term debtors are measured at transaction price, less any impairment.

Cash and cash equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Creditors
Short term creditors are measured at the transaction price. Other financial liabilities, including loans, are measured at fair value, net of transaction costs.

Value Added Tax (VAT)
Rental income received from housing properties is exempt from VAT and accordingly any expenditure incurred in relation to our own properties is inclusive of VAT. All other income and expenditure figures exclude VAT.

Notes to the Financial Statements
Year Ended 31 March 2019

Government grants

Grants received in relation to assets that are presented at deemed cost at the date of transition have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grant received since the transition date in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected (see table of useful economic lives).

Where social housing grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund (RCGF) until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account. Derby Homes has no RCGF at present as it has not sold any SHG funded properties.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Reserves

General Reserve of £1.7m. represents a small contingency.
Designated Reserve of £16.224m. This reserve holds the balance of funds available as approved by the Board. This is intended to subsidise investments in new build homes where Derby Homes are the substantive owner. The intention is to use these funds to meet any revenue shortfall in the initial years of any new investment above that budgeted for and / or cover any immediate impairment charge that may arise on the properties.

Contingent Liabilities

Derby Homes receives grant from the HCA – now Homes England, which is used to fund the acquisition and development of housing properties and their components. Grants of £2.5m (£1.8m from the HCA), received in respect of housing properties held at 31 March 2019 are credited to reserves in respect of adoption of 'deemed' cost. These grants are amortised in line with accounting policy and has an outstanding balance of £2.241m at March 2019. The HCA imposes a future obligation to recycle such grant if the properties are disposed of. The potential liability to the HCA, in the event of a repayment requirement at 31 March 2019, would be £1.663m plus interest.

Notes to the Financial Statements
Year Ended 31 March 2019

Key Judgments in applying accounting policies and key sources of estimation uncertainty

In the process of applying the company's accounting policies, the company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. The significant judgements relates to the following:

Useful lives of property, plant and equipment
Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the company's accounting policy. The selection of these estimated lives requires the exercise of management judgement. Useful lives are regularly reviewed and should management's assessment of useful lives shorten then depreciation charges in the financial statements would increase and carrying amounts of property, plant and equipment would reduce accordingly. The carrying amount of property, plant and equipment by each class is included in note 9.

Pensions
Estimates used in determining the pension liability as described in note 8 and detailed within the accounting policy are material to figures contained in the Balance Sheet and Statement of Comprehensive Income.

Social Housing Grants
These are amortised over 80 years. This estimate is based on matching the write off period with depreciation estimate for non-componentised items in properties. Should management's assessment of the amortised period shorten then the adjustments would be made through the Statement of Comprehensive Income as appropriate.

Impairment of social housing properties
If there are indicators of impairment, this triggers the performance of an impairment review of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The members have considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost.

Notes to the Financial Statements
Year Ended 31 March 2019

2. Particulars of turnover and operating costs

All works were undertaken within the United Kingdom.

2019	Turnover £'000	Operating Costs £'000	Operating Surplus / (deficit) £'000
Social housing lettings (Note 3)	437	326	111
Other Social Housing Activities			
Management & maintenance of Derby City Council housing stock	29,058	28,612	446
Capital works to Derby City Council housing stock	9,054	8,717	337
Development work on Derby Homes and Derby City Council properties	55	291	(236)
Social Housing Grant recognised (Note 3)	30	-	30
Housing management and / or maintenance to other Landlords properties	179	167	12
Activities other than Social Housing Activities			
Maintenance of DCC public buildings and management of homeless hostel and other activities	3,507	4,687	(1,180)
	42,320	**42,800**	**(480)**

2018	Turnover £'000	Operating Costs £'000	Operating Surplus / (deficit) £'000
Social housing lettings (Note 3)	431	269	162
Other Social Housing Activities			
Management & maintenance of Derby City Council housing stock	28,026	28,991	(965)
Capital works to Derby City Council housing stock	7,381	7,318	63
Development work on Derby Homes and Derby City Council properties	59	263	(204)
Social Housing Grant recognised	29	-	29
Housing management and / or maintenance to other Landlords properties	229	192	37
Activities other than Social Housing Activities			
Maintenance of DCC public buildings and management of homeless hostel.	2,677	3,306	(629)
	38,832	**40,339**	**(1,507)**

Notes to the Financial Statements
Year Ended 31 March 2019

3. Social Housing Lettings – General Needs properties

	2019	2018
	£'000	£'000
Rents (net of void loss)	**388**	382
Service charge income	**40**	39
Other income	**9**	10
	437	431
Amortised government grant	**30**	29
Turnover from social housing lettings	**467**	460
Expenditure		
Housing Management	**57**	56
Service Charge related costs	**41**	39
Routine Maintenance	**71**	56
Property insurance	**11**	5
Other supplies & services	**20**	-
Depreciation	**126**	113
Operating Expenditure on social housing lettings	**326**	269
Operating surplus on Social Housing lettings pre interest charges	**141**	191
Void losses	**3**	3

Interest paid on property loans in 2018/19 was £162,000 (2017-18 : £165,000). Any subsidy on social housing, in the early years of new properties, is consistent with the long term business plan.

4. Operating deficit

	2019	2018
	£'000	£'000
The operating deficit is stated after charging:		
Depreciation - annual charge housing properties	**127**	113
Depreciation - other tangible fixed assets	**316**	339
Auditor's remuneration:		
- audit services	**21**	20
- tax services	**2**	2
- other non-audit services	**1**	1
Defined benefit pension cost (per note 8)	**5,703**	5,991

Notes to the Financial Statements
Year Ended 31 March 2019

5. Information regarding directors and employees

Directors and executive officers' emoluments are as shown below.

	2019	2018
	£	£
Directors' emoluments		
Chair of Derby Homes – M Ainsley	**8,782**	8,775
Chair of Governance Committee – J Shepherd	**1,370**	-
Vice Chair of Derby Homes – RGH MacDonald	**4,022**	4,049
Audit Committee Chair – IM MacDonald	**3,217**	3,373
	17,391	16,197

Executive Officers' emoluments

During the period there were three permanent executive officers.

These executive officers are listed on page 2.

	2019	2018
	£'000	£'000
Aggregate emoluments	**295**	270
Pension contributions	**62**	56
	357	326
Emoluments paid to the highest paid executive officer	**119**	111
Pension contributions – highest paid executive officer	**25**	23
	144	134

The highest paid Executive Officer is a member of the Derbyshire County Council defined benefit superannuation fund, with ordinary member status with no enhanced or special terms applying. No contributions were payable to any personal pension scheme the Executive Officer may have.

Notes to the Financial Statements
Year Ended 31 March 2019

Average number of persons employed (full time equivalents)	**2019 Number**	2018 Number
Housing management	**269**	240
Central services and regeneration	**14**	12
Maintenance and repairs	**248**	243
	531	495

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

Staff costs during the year (including directors and executive officers)	**2019 £'000**	2018 £'000
Wages and salaries	13,838	13,127
Social security costs	1,310	1,244
Pension	6,305	6,567
	21,453	20,938

Salary bandings for all employees earning over £60,000	**2019 Number**	2018 Number
£60,000 to £70,000	-	-
£70,001 to £80,000	-	**2**
£80,001 to £90,000	**2**	-
£90,001 to £100,000	-	-
£100,001 to £110,000	-	-
£110,001 to £120,000	**1**	**1**
	3	**3**

6. Interest payable and similar charges

	2019 £'000	2018 £'000
Loans from Derby City Council	**162**	165
Net interest on net defined benefit liability	**602**	568

Notes to the Financial Statements
Year Ended 31 March 2019

7. Taxation

	2019	2018
	£'000	£'000
Current tax for the year	**37**	25
	37	25

Factors affecting tax charge for year	**2019**	2018
	£'000	£'000
The tax assessed for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018 : 19%). The differences are explained below:		
(Loss) on ordinary activities before tax	**(612)**	(2,239)
(Loss) on ordinary activities multiplied by standa rate of corporation tax in the UK of 19% (2018 : 19%)	**(116)**	(425)
Effects of:		
Non-taxable income and deductions	**153**	450
Total tax charge for the year	**37**	25

The Company is a wholly owned subsidiary of Derby City Council and the majority of income is derived from services provided to the Council. HM Revenue and Customs has confirmed that transactions between ALMOs and their Councils do not amount to trading and, accordingly, any surplus or deficit arising thereon is outside the scope of corporation tax. As a result of this, the effective rate of tax is 0% on these transactions (2018: 0%).

Notes to the Financial Statements
Year Ended 31 March 2019

8. Pensions

The company is a scheduled member of the Local Government Pension scheme. This is a funded defined benefit scheme administered by Derbyshire County Council (DCC). Employees are eligible to join the Local Government Pension scheme subject to certain criteria. The pension costs charged to the Company in respect of those employees are equal to contributions paid to the fully funded pension scheme.

During the year, the Company paid employer contributions of £2,722,000 (2017/18 - £2,633,000). The minimum contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. This was set at 13.4% for 2017/20. Derby Homes contributed this year at a higher rate of 20.9% reflecting the estimated underlying cost.

The Actuary has stated that in order to assess the value of the Employer's liabilities in the Fund as at 31 March 2019 they have rolled forward the value of the Employer's liabilities calculated at the latest formal valuation date, allowing for the different financial assumptions required under the Accounting Standard at the reporting date. In calculating the current service cost they have allowed for changes in the Employer's pensionable payroll as estimated from contribution information provided by Derby Homes. In calculating the asset share, they have rolled forward the Employer's share of the assets calculated at the latest formal valuation date, allowing for investment returns (estimated where necessary), the effect of contributions paid into (estimated where necessary), and estimated benefits paid from, the Fund by the Employer and its employees.

The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation are those such as rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.

The Company expects to contribute over £2.6m to its defined benefit pension scheme in 2019/20. The employer contribution rate planned for 2019/20 is 20.9% (2018/19 – 20.9%). The Company – with the support of Derby City Council – has increased employer contributions over the past few years, from 15% in 2014/15, to 20% from 2015/16 and to 20.9% from 2017/18 to try and reduce the scale of pension fund deficits and improve funding levels over time. Employee contribution rates for 2018/19 ranged from 3.25% to 11.4% (2017/18 – 3.25% to 11.4%). At the year end there was an outstanding employer and employee contribution payment of £306,955 (2017/18 - nil) included within Accruals and Deferred Income figure in Note 13. This was paid in early April 2019.

Notes to the Financial Statements
Year Ended 31 March 2019

The most recent valuation of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2019 by registered actuaries, Hymans Robertson Limited. The present values of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The last tri-annual actuarial valuation was carried out on 31/03/16.

	Valuation at	
Key assumptions used:	**2019**	**2018**
	%	**%**
Discount rate	2.4	2.7
Expected rate of salary increases	3.0	2.9
Future pension increases	2.5	2.4

Mortality rate assumptions are based on publicly available data in the UK. The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	2019	**2018**
	Years	**Years**
Male	21.9	21.9
Female	24.4	24.4

The average life expectancy for a pensioner retiring at 65, aged 45 at the reporting date:

Male	23.9	23.9
Female	26.5	26.5

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	**Overall impact on Employers liability**	**Approx. monetary amount £m**
Discount rate	Decrease by 0.5%	Increase by 13%	15.1
Salary Increase Rate	Increase by 0.5%	Increase by 3%	2.9
Pension Increase Rate	Increase by 0.5%	Increase by 10%	11.8

Notes to the Financial Statements
Year Ended 31 March 2019

Reconciliation of present value of plan liabilities	**2019 £'000**	**2018 £'000**
At the beginning of the year	(96,432)	(86,696)
Current service costs	(5,079)	(4,958)
Past service costs	(624)	(62)
Interest costs	(2,675)	(2,425)
Plan participants contributions	(841)	(798)
Benefits paid	1,053	1,067
Effects of business combinations	-	(4,917)
Changes in financial assumptions	(10,736)	2,357
Changes in demographic assumptions	-	-
Other experience	-	-
At the end of the year	(115,334)	(96,432)

Reconciliation of fair value of plan assets	**2019 £'000**	**2018 £'000**
At the beginning of the year	75,581	66,827
Interest income on plan assets	2,073	1,857
Plan participants contributions	841	798
Contributions made	2,722	2,633
Benefits paid	(1,053)	(1,067)
Effects of business combinations	-	3,946
Return on assets excluding amounts included in net interest	2,288	587
At the end of the year	82,452	75,581

	2019 £'000	**2018 £'000**
Fair value of plan assets	82,452	75,581
Present value of plan liabilities	(115,334)	(96,432)
Net pension scheme liability	**(32,882)**	**(20,851)**

Notes to the Financial Statements
Year Ended 31 March 2019

Amounts recognised in other comprehensive income are as follows:	**2019 £'000**	**2018 £'000**
Included in administrative expenses:		
Current service costs	5,079	4,958
Past service costs – impact of McCloud	624	-
Past service costs – early retirement	-	62
Effects of business combinations	-	971
	5,703	5,991

Amounts recognised in other finance costs		
Net interest costs	602	568

Analysis of actuarial profit / (loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	2,228	587
Changes in financial assumptions	(10,736)	2,357
Changes in demographic assumptions	-	-
Other experience	-	-
	(8,448)	2,944

Composition of plan assets	**2019**	**2018**
Equities	62%	68%
Bonds	22%	20%
Property	8%	7%
Cash	8%	5%
	100%	100%

	2019 £'000	**2018 £'000**
Actual return on plan assets	4,361	2,444

Notes to the Financial Statements
Year Ended 31 March 2019

Impact of McCloud case

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. LGPS benefits accrued from 2014 may therefore need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. There will therefore be a retrospective increase to members' benefits, which in turn will give rise to a past service cost for the Fund employers.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The Fund's actuary has adjusted GAD's estimate to better reflect the Derbyshire Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to the Derby Homes Pension Fund is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be around 0.5% higher as at 31 March 2019, an increase of approximately £0.6m.

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. However, if the judgement is upheld then there will be unavoidable upward pressure on contributions in future years.

9. Tangible fixed assets

	Social Housing Properties Held for letting	Social Housing Properties Under Development	Social Housing Total	Computer Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 April 2018	6,532	606	7,138	24	2,381	9,543
Additions	332	-	332	-	-	332
Disposals	-	-	-	(2)	(17)	(19)
Completions	606	(606)	0	-	-	-
At 31 March 2019	**7,470**	**-**	**7,470**	**22**	**2,364**	**9,856**
Depreciation						
At 1 April 2018	552	-	552	24	1,436	2,012
Disposals	-	-	-	(2)	(15)	(17)
Charge for the year	127	-	127	-	314	441
At 31 March 2019	**679**	**-**	**679**	**22**	**1,735**	**2,436**
Net book value						
At 31 March 2018	5,980	606	6,586	-	945	7,531
At 31 March 2019	**6,791**	**-**	**6,791**	**-**	**629**	**7,420**

The loans are secured by way of a legal charge held by Derby City Council over land and buildings.

The Social Housing Properties Held for Letting are Freehold. No interest has been capitalised.

The five flats held at 119 Green Lane, Derby are jointly held between Derby Homes and Revive, with an option for Derby Homes to buy at a discount in 2037.

Notes to the Financial Statements
Year Ended 31 March 2019

10. Expenditure on works to existing properties

	2019	2018
	£'000	£'000
Amount capitalised	**-**	-
Amount charged to income and expenditure account	**70**	56
	70	56

11. Debtors: amounts falling due within one year

	2019	2018
	£'000	£'000
Rent and service charge arrears	**15**	15
Less : Provision for doubtful debts	**(11)**	(11)
	4	4
Amounts due from parent Company	**4,597**	6,982
Trade debtors	**89**	172
Other taxation	**239**	951
Prepayments and accrued income	**221**	29
	5,150	8,138

12. Stocks and Work in Progress

	2019	2018
	£'000	£'000
Raw materials and consumables	**374**	345
Work in Progress	**-**	-
	374	345

Notes to the Financial Statements
Year Ended 31 March 2019

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

	2019 £'000	2018 £'000
Amounts owing to parent Company	**907**	919
Loans due to parent	**54**	51
	961	970
Deferred capital grant – note 15	**31**	30
Trade creditors	**1,225**	891
Corporation tax	**25**	16
Other taxation and social security	**390**	345
Sinking Fund balances	**78**	71
Accruals and deferred income	**1,607**	1,050
	4,317	3,373

Included within the Amounts owing to parent Company is £53,708 (2017/18 £51,441) relating to property loans.

14. **Creditors:** amounts falling due after one year

	2019 £'000	2018 £'000
Deferred Capital grant – note 15	**2,210**	2,161
Amounts owing to parent Company – New Build Loan	**2,973**	3,027
	5,183	5,188
Loan Repayments are due as follows:		
Between 1 and 2 years	**56**	54
Between 2 and 5 year	**184**	176
In more than 5 years	**2,733**	2,797

Included within the creditors falling due after more than 1 year is a loan of £1.058m (2017/18 - £1.065m) charged at 5.06% interest rate and a loan of £0.112m (2017/18 - £0.12m) charged at 6% interest rate. Other loans relating to the development at Chesapeake (at 4.05%) have £0.192m (2017/18 - £0.199m) outstanding over one year and £1.611m (2017/18 - £1.643m) on the loan for Elton Road (at 5.5%).

The loans are secured by way of a legal charge held by Derby City Council over land and buildings.

Notes to the Financial Statements
Year Ended 31 March 2019

15. Deferred Capital Grant

	2019	2018
	£'000	£'000
At 1st April 2018	**2,191**	2,165
Grants received in year	**80**	55
Released to income in year	**(30)**	(29)
At 31st March 2019	**2,241**	2,191

16. Parent Undertaking

The Company is a local authority controlled Company within the meaning of Part V of the Local Government and Housing Act 1989, being a Company under the control of Derby City Council. Copies of the financial statements for Derby Homes Limited can be obtained from the Secretary, Derby Homes Limited, 839 London Road, Derby DE24 8UZ.

Consolidated accounts are prepared by Derby City Council, where consolidated accounts are available from the Section 151 Officer, Derby City Council, The Council House, Corporation Street, Derby, DE1 2FT.

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

17. Capital Commitments

	2019	2018
	£'000	£'000
Commitments contracted but not provided for		
Construction (Wood Road)	-	36
Vehicles	**47**	-
Commitments approved by the Board but not contracted for		
Construction (Wood Road)	-	25

Capital commitments for vehicles will be funded through the use of cash reserves.

Notes to the Financial Statements
Year Ended 31 March 2019

18. Related Party Undertaking

The Company's ultimate parent and controlling party is Derby City Council.

Derby Homes Limited is an Arm's Length Management Organisation from Derby City Council to run the management and maintenance function of the Council's homes and other buildings.

The Company Board includes members who are tenants of Derby Homes and also members who are elected representatives of Derby City Council. The Company undertakes transactions with the Council at arm's length in the normal course of business. Three 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. There are no significant rental arrears to report in relation to these tenants as at year end.

During the year a grant payment of £105,625 (2017/18: £116,875) was paid to Enthusiasm Trust Ltd, a charity which works alongside partner agencies provides support, mentoring and advice to children and young people. Maria Murphy, Managing Director of Derby Homes, was a Trustee and Director with Enthusiasm until 4 March 2019. The payment is supported by a service specification - to deliver support packages and mentoring to those young people who are not in Education, Employment or Training (NEET) or those young people who are in trouble with the Police. The project is overseen with an annual report through to the Operational Board.

During the year Derby Homes paid a £9,164 grant (2017/18: £7,000) to DACP Ltd, a voluntary organisation for tenants, community groups and other partner agencies. Robert MacDonald, a Director of Derby Homes is also a Board Member and current Chair of the DACP.

Maria Murphy is also a Board Member with Social Landlords Crime & Nuisance Group – trading as Resolve Antisocial Behaviour. During the year services totalling £1,490 (2017/18 : £3,401) were procured at arm's length and on commercial terms.

Derby Homes supplied at arm's length and on commercial terms £10,476 (2017/18 : £11,236) minor building repair works to Lees Brook Community School, Derby. Mike Ainsley, Chair of Derby Homes is also a governor at the school.

Derby Homes supplied at arm's length and on commercial terms £882 (2017/18 : £nil) minor building repair works to Chaddesden Park Primary School, Derby. Shaun Bennett, Executive Officer, is also a governor at the school.

During the year Derby Homes provided gas servicing and associated repairs to 189 properties owned by Liversage Trust, an organisation that provide alms-house accommodation in Derby. Additionally an employee was seconded for part of 2018/19. Roy Webb, a Director of Derby Homes during the year, is also a Trustee with the Liversage Trust. All transactions were at arm's length, on commercial terms and totalled £28,669 in 2018/19 (2017/18 : £13,756).

Notes to the Financial Statements
Year Ended 31 March 2019

19. Accommodation in Management and Development

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

	2019	2018
General Needs Housing		
- Social Rent	**33**	33
- Affordable Rent	**59**	52
- Market Rent	**5**	5
Total owned	**97**	90
Accommodation managed for others	**12,954**	13,095
	13,051	13,185
Leaseholders managed	**622**	601
Total owned and managed accommodation	**13,673**	13,786
Homes under construction	**0**	6

Properties managed on behalf of other organisations were:

	2019	2018
Derby City Council	**12,874**	13,002
Parkview Properties Derby Ltd	**0**	9
The Guinness Trust	**33**	33
War Memorial Village (Derby) Ltd	**47**	51
	12,954	13,095

20. Operating Leases

At the end of the year amounts due under operating leases were as follows:

	2019 £'000	2018 £'000
Amounts due less than 1 year	**77**	81
Between 2 and 5 years	**140**	217
Over 5 years	**0**	0
	217	298