Thriving communities,
affordable homes

Homes & Communities Agency

ANNUAL REPORT AND FINANCIAL STATEMENTS 2011/12

Homes and Communities Agency

Annual Report and Financial Statements 2011/12

Presented to Parliament pursuant to paragraphs 11 and 12 of Schedule 1 to the *Housing and Regeneration Act 2008*

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This report aims to give a snapshot of our work, which is covered in more detail on our website at homesandcommunities.co.uk

MANAGEMENT COMMENTARY

WHO WE ARE AND WHAT WE DO

The Homes and Communities Agency (HCA) is the housing and regeneration agency for England.

As a national Agency that works locally our purpose is to contribute to economic growth by helping communities to realise their aspirations for prosperity and to deliver quality housing that people can afford.

The statutory objectives of the HCA as defined by the *Housing and Regeneration Act 2008* are to:

- improve the supply and quality of housing in England;
- secure the regeneration or development of land or infrastructure in England;
- support in other ways the creation, regeneration or development of communities in England or their continued wellbeing; and
- contribute to the achievement of sustainable development and good design in England, with a view to meeting the needs of people living in England.

These can be summarised as promoting economic growth, affordability, renewal and sustainability.

In total, in 2011/12 we managed some 13 different Programmes to achieve these objectives.

As of 1 April 2012, the HCA became the regulator of social housing providers in England. The Localism Act 2011 set out statutory objectives in respect of Regulation, that the regulator must perform its functions with a view to achieving (so far as possible):

- the economic regulation objective; and
- the consumer regulation objective.

The statutory objectives of the Localism Act are available from the legislation.gov website at www.legislation.gov.uk

MANAGEMENT COMMENTARY
HOW WE ARE MANAGED

We are governed by a Board of, currently, 10 members appointed by the Secretary of State for Communities and Local Government, which is responsible for ensuring the HCA carries out its functions effectively. Members are obliged to act in accordance with the Agency's Code of Practice and a register of Members' interests is available for inspection on the Agency website.

Our Board has established a number of committees and sub-committees to help conduct business on a range of important issues such as audit and risk, investment, remuneration and the HCA London Board. The full list of committees is available from homesandcommunities.co.uk/board-committees

To support our strategic objectives and values, four advisory boards have been established to provide focus and challenge to the HCA's work in the areas of design and sustainability, equality and diversity, rural housing and vulnerable and older people. Each group includes membership from our Board to champion its issues.

For more detail on how we are managed and governed and for profiles of our Board Members please visit homesandcommunities.co.uk/aboutus

Current HCA Board

Robert Napier, CBE, Chairman
Julian Ashby (from 1 November 2011)
Candy Atherton (Member until 30 September 2011)
Keith House (from 1 November 2011)
Bob Lane, OBE
Ann Limb, OBE (from 1 November 2011)
Shaukat Moledina, CBE
Professor Peter Roberts, OBE
Ian Robertson
Dru Vesty, MBE
Don Wood, CBE

MANAGEMENT COMMENTARY

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

We are pleased to be able to report another strong year of delivery for the Homes and Communities Agency and its local partners. Our activities contributed to the increasing recognition of the role housing and development plays in driving economic growth, and the importance placed on housing by Ministers as highlighted by publication of the Housing Strategy in November.

We launched several key new Programmes including the Affordable Homes Programme and Get Britain Building; took on the land and property assets of eight of the nine English Regional Development Agencies; launched our land disposal and development plan to bring forward enough land for 16,000 new homes; devolved responsibility for our activities in London to the GLA; and, as of April 1, assumed responsibility for the regulation of social housing providers in England.

This has been achieved against the backdrop of continued volatility in the financial markets and correspondingly constrained access to public and private funding; and a significant period of change for the HCA, including a major Agency-wide restructure.

We also met or exceeded all of our key targets, completing 56,457 new homes against a target of 41,000; creating 261,191 sqm of employment floorspace against a target of 87,000 sqm; and bringing 212 ha of previously developed land back into productive use against a target of 160 ha. The outturn figures include 29 ha of previously developed land reclaimed and 112,082 sqm of employment floorspace delivered under the Economic Assets Programme on sites that were transferred from the former Regional Development Agencies during the year but were not restated in the targets.

And while it was not a formal target, we are nevertheless able to report that the Agency started on site with a further 19,967 new homes; a solid foundation from which we will see completions in the coming year. Our investment for the year was on budget at £2.3bn.

Of the new homes completed, 51,665 were for affordable sale or rent, bringing much-needed assistance to those aspiring to make the first step onto the property ladder, or on council waiting lists in local communities across the country. The creation of employment floorspace, including start up options for small businesses, helps boost local economic activity; while quality new housing helps local employers to attract and retain their workers. In bringing previously developed land back into use we have helped to reduce the blight of dereliction.

Economic Growth

In October, we took responsibility for the land and property assets of eight of England's nine Regional Development Agencies, ahead of their operational closure in March this year. Responsibility for this portfolio utilises our expertise in land and property management. The result is our new Economic Assets Programme (EAP), where the land and property will be linked to housing and regeneration activities to deliver benefits to the local communities in which they are situated. The EAP is a core part of the Agency's offer on growth.

At Ansty Park in Coventry, for example, one of the nationally important sites in our EAP, we secured a major deal with Sainsbury's taking a 136,000 sqft lease for new offices; while work to deliver thousands of new jobs in the Solent Enterprise Zone at Daedalus, in South Hampshire, has made significant progress with HCA securing resolution to grant outline planning consent for more than 1m sqft of new business space on the 200 ha site.

We have developed a stewardship approach to ensure development of these assets is aligned with the interests of local partners. This approach offers influence to Local Authorities, Local Enterprise Partnerships (LEPs), and private businesses that are not in a position to pay market value for assets, maximises value for money and, by allowing longer-term projects to reach full maturity, gives opportunity to link development to new Government programmes for economic growth.

This commitment to taking a local approach to delivering economic growth – by helping communities to realise their aspirations for prosperity and delivering quality housing that people can afford – continued throughout the year through close working with the emerging LEPs and Core Cities. Both are central to economic recovery and growth. In particular by recognising the unique role that housing plays in driving the wider economy, we have worked closely with LEPs through our local teams in addressing key questions around the lack of housing as a barrier to growth, and conversely, housing's role in creating the right environment for business, helping local employers to attract and retain staff.

We have been advising the New Anglia LEP, for example, on bid assessment and managing allocations, as well as the rolling fund finance model being used in Norwich; while we have worked to promote Bristol's Temple Quarter Enterprise Zone as a new hub for creative businesses which will deliver thousands of new jobs; and invested £3.8m in acquiring the adjacent Brunel's Old Station building, which could be used to support the delivery of a new transport hub within the Zone.

Throughout the year we have also built on our strong working relationships with the eight Core Cities, actively supporting them to shape their City Deal proposals to Government. We share ambitions for local economic growth and they are clear that the HCA's investment and enabling expertise is greatly valued. In Greater Manchester, for example, the joint decision making arrangement we have established is already delivering innovative local solutions such as the joint venture with the Greater Manchester Pension Fund (GMPF) on a pilot scheme to develop around 250 new homes for sale and market rent. Four sites owned by the council and one site owned by the HCA have been identified in the city, where the pension fund will pay for construction costs. Plans for a Manchester mortgage would see the council team up with a high street lender and underwrite up to a fifth of any mortgage loans for a fixed period of five years.

While in Liverpool, the Agency will be an active part of joint investment planning through a Mayoral Investment Board. This builds on our previous work with the Council to target growth in six areas of the City that will become Mayoral Development Zones, supporting the City's ambitions within these zones through investment and the use of assets.

Land

New homes and economic growth are intrinsically linked to the use of land, and maximising the use of the land assets of the HCA and other public bodies – by increasing the amount available for development and speeding up the rate at which it is brought forward – remained a key activity throughout the year. In June we published our first ever Development and Land Disposal Strategy, summarising the HCA's landholdings, and setting out an indicative pipeline of sites identified for disposal and development over the next two years, to deliver 16,000 new homes.

MANAGEMENT COMMENTARY
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT (CONTINUED)

We have committed to not hold onto land longer than necessary; transferring it to end users as quickly as possible in support of local plans and ambitions. Through the innovative use of the Build Now Pay Later deferred receipts model, we are helping to speed up development by helping developers with upfront cashflow and making marginal sites viable.

Our Developer Partner Panel (DPP), which we are currently re-procuring, continued to be a strong route for the development of land, with over 100 local authorities and other partners using the Panel to procure around 24,000 new homes on 100 sites. The DPP is just one example of how the HCA's enabling expertise adds value to our investment. At Severalls Hospital site in Colchester we marketed the £5.7m first phase of development through the DPP which saw Crest Nicholson and Sanctuary Housing appointed; while we have also used our land effectively to create growth opportunities for local communities, at the former Manor Kingsway Hospital in Derby, also marketed through the DPP, with Kier due to begin work on a 700-home mixed use scheme in the coming year.

We have also played a key role in Government plans to release enough public land to build up to 100,000 new homes by 2015, in particular helping Government departments to develop strategies for their land assets, with the first four departments to publish strategies with significant HCA input – Health, Defence, DEFRA and Transport – being announced by the Housing Minister in October and identifying enough land to deliver over half of the Government's ambition. We will continue to work with central Government departments, challenging them to release as much land as possible.

Laying the Foundations – A Housing Strategy for England

In November, Government published *Laying the Foundations: A Housing Strategy for England,* setting a clear direction to tackle supply and demand issues by unlocking stalled sites, bringing empty homes back into use, and helping those who aspire to home ownership or need flexibility and choice. The HCA has an important delivery role. Using our commercial expertise and working strategically with local partners, the HCA has a vital role in making Government's housing aspirations a reality, including through the reinvigorated Right to Buy where any sales receipts not reinvested by local authorities outside London, will be returned to the HCA for allocation in support of new affordable housing delivery.

As well as signalling support for private rent developments, and funding to take forward self-build projects and pilot Land Auctions, the Strategy also announced another of the HCA's major new Programmes, with £420m to Get Britain Building. Intended to address the difficulties in accessing development finance faced by some house builders and to help bring forward sites where viability is marginal, the Programme – which was subsequently boosted by an additional £150m in the March Budget – operates by making loans available to projects on commercial rates, or taking equity stakes to share risk.

Speed was vital in order to maximise the impact of our investment and the Agency began the bidding process in December, with a shortlist of schemes to be supported announced in March. Schemes are now going through a robust due diligence process – looking in detail at value for money, deliverability and fit with local priorities – with the first stalled sites already re-started, in advance of the June 2012 target date. Through Get Britain Building, HCA investment will create and protect jobs in the construction industry, ultimately unlocking more than 15,500 new homes by December 2014.

Recognising the key role that Local Authorities have to play in delivering Government's ambitions for housing delivery, and in keeping with our approach as a national Agency working locally – delivering what local communities want, where they want it – we worked closely with the Local Government Association to develop a joint response to delivering the Housing Strategy. Published in January and aimed in particular at elected councillors in recognition of their unique position in delivering on behalf of the communities they live in and represent, *Meeting Housing Demand* sets out the options available to councils, including HCA investment and enabling support, in delivering new homes, improving existing ones and making housing central to local areas.

This has been apparent in Manchester for example, where the first council homes built for more than 20 years were completed in March, following £11.5m of HCA investment. The mix of houses, bungalows and apartments are all built to extremely high standards with excellent levels of energy-efficiency. The scheme has been shortlisted for the RIBA Housing Design Awards 2012. In our South and South West operating area, we have made progress on some important community led housing projects including 26 homes at High Bickington in Devon which saw the first residents move in January; and at Cashes Green in Gloucestershire, where work began on 78 new homes, as part of the first Community Land Trust to be delivered on HCA owned land.

Affordable Homes

With 2011-12 marking the first year of a new spending period, it also saw a major change in the way in which we carry out our affordable housing activity, through the start of a number of new investment Programmes. Following a successful bidding round, we announced in July that almost 150 housing associations, local authorities and house builders will deliver up to 80,000 new affordable homes up to March 2015, under the new Affordable Homes Programme (AHP). Replacing the existing National Affordable Housing Programme – which will also see up to 72,000 new homes built using £2.4bn of existing funding – the AHP includes the Affordable Rent product, allowing providers to charge up to 80% of market rent on new homes, increasing revenues and reducing the level of public investment required. As part of the new funding offer – which will also attract around £10bn of private investment – providers also have the option to convert a proportion of their existing rented homes to Affordable Rent, with the additional capacity generated being used to deliver more new affordable homes; while being able to offer fixed term tenancies. This gives landlords the flexibility to support tenants in the immediate short term when need is greatest.

Significantly, the way in which we allocate funding also changed during the year. Unlike the previous funding model of continuous market engagement, providers were invited to submit proposals for delivery of affordable housing for the entire four year spending period, giving greater certainty over income streams.

Such was the success of our locally focused allocations process – we made it a requirement that bids submitted should have the support of local authorities – that the AHP will deliver around 20,000 more homes than originally anticipated, leading to a corresponding increase in Government's aspiration for delivery over the following four years, to 170,000 new homes.

MANAGEMENT COMMENTARY
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT (CONTINUED)

Also under the AHP we announced £42.5m investment through our Homelessness Change Programme in 1,200 new or refurbished hostel bed spaces to support rough sleepers into more stable independent living; £70m to create 5,600 new affordable homes by bringing empty properties back into productive use; and £47m to create 600 new or refurbished pitches for travellers, helping local authorities to meet the housing needs of all in their communities. A further £13m of Traveller Pitch Funding will be allocated by the HCA and GLA through a process of continuous market engagement.

The £210m FirstBuy scheme was launched in April, specifically to help first time buyers struggling with the need for a large deposit, while simultaneously supporting economic growth by giving house builders an additional source of sales. We moved quickly to announce allocations just two months later in order to maximise the impact of funding as a boost to the house building industry. As a result, over 100 house builders and housing associations are now offering additional support to 10,500 first time buyers through an equity loan funded jointly by the HCA and the house builder, ensuring the taxpayer's contribution is matched by the private sector. Through a robust bidding process we were able to exceed the target number of homes. FirstBuy has proven popular, with nearly 3,000 sales by the end of the year.

Continued Efficiency

In October we completed the major part of an Agency-wide restructure, ensuring that we remain fit for purpose in our new role as an investment, enabling and regulation Agency, while meeting our commitment to reduce operating costs by half in the current spending period. That staff at all levels of the Agency continued to deliver throughout this period of uncertainty and change is to their huge credit.

Other significant changes to the Agency's structure and responsibilities saw our investment, assets and staff in London transfer to the GLA as of 1 April 2012. We handed our responsibilities to the Mayor in good shape, having exceeded his target to deliver 50,000 new affordable homes by April 2012, while taking forward several major schemes in the Capital including an agreement to kick start housing delivery on the Greenwich Peninsula that will create 4,000 jobs in the construction of 1,350 new homes.

At the same time we welcomed staff from the Tenant Services Authority, bringing continuity and stability to our new role as the regulator of social housing providers in England. Staff worked hard to ensure a seamless transfer to the Agency, including the establishment of the independent Regulation Committee chaired by Julian Ashby, and the launch of the revised Regulatory Framework which sets out the standards against which we will regulate. As registered providers respond to a challenging operating environment by diversifying and becoming more complex, our focus will be on robust economic regulation that maintains lender confidence and protects taxpayers' investment.

The Year Ahead

Looking forward 2012/13 promises to be another demanding year. In July we will publish our Corporate Plan, setting out the Agency's delivery priorities for the year, including a flexible approach to programme management to ensure we remain on track to deliver up to 170,000 new affordable homes by 2015. It will also set out our approach to bringing forward more, and maximising the use of, publicly owned land in support of local development priorities; while our support for LEPs and the Core Cities will continue.

And alongside navigating new areas of Government policy and other changes to an increasingly complex operating environment that will remain challenging for housing associations in particular, we will also need to ensure that our approach to robust economic regulation helps ensure that Boards have a firm grip on the risks facing the sector, and have put in place appropriate management strategies.

But we are confident that the Agency is well placed to deliver. So for now we must take time to reflect on what has been another successful year for the Agency, for which we owe thanks to our partners and staff, on whom we depend. As ever, it is the impact we make on the ground in cities, towns and villages that is important. From the wider benefits of significant affordable housing investment, such as in Loughborough where completion of the Eastern Gateway project also enabled the renovation and extension of the town's railway station, to the Easington Road scheme in Hartlepool where an innovative construction method reduced on site build times and significantly reduced the amount of grant necessary to build a CSH Code Level 4 home, to the major redevelopment of Liverpool's historic waterfront; it is these schemes and thousands like them that tell the real story of delivery.

Robert Napier Chairman **Pat Ritchie** Chief Executive

MANAGEMENT COMMENTARY
TARGETS AND RESULTS

HCA outputs 2011/12 (Unaudited)

	Target[1]	Outturn[2]
TOTAL HOUSING COMPLETIONS[3]		**59,451**
Total housing completions (excluding FirstBuy)[4, 5]	**41,000**	**56,457**
Affordable housing completions *of which:*	**35,000**	**48,671**
Larger Homes		14,307
Homes in rural settlements (pop. less than 3,000)		3,258
(a) Rent *of which:*		**34,912**
■ National Affordable Housing Programme		30,993
■ Affordable Homes Programme		1,650
■ Local Authority New Build		1,293
■ Kickstart		866
■ Property and Regeneration		75
■ Empty Homes		35
(b) Low Cost Home Ownership *of which:*		**13,759**
■ National Affordable Housing Programme		10,233
■ Kickstart		1,584
■ Mortgage Rescue		1,328
■ Affordable Homes Programme		547
■ Property and Regeneration		67
Market housing completions[4] *of which:*	**6,000**	**7,786**
■ Economic assets		47
■ Kickstart		4,450
■ Property and Regeneration		3,289
FirstBuy[5]		**2,994**
Previously developed land reclaimed (ha)[4]	160	212
Employment floorspace created (sq m)[4]	87,000	261,191

1 The targets, as set out in our Corporate Plan 2011-15, were not allocated to individual programmes.

2 The figures in the table reflect HCA's activity and exclude any outputs which have been attributed to our partners through joint working arrangements, except where stated.

3 Housing completions are reported when the units are fit for occupation or, in the case of Mortgage Rescue and shared equity products delivered under FirstBuy, Kickstart and the National Affordable Housing Programme (NAHP), at the point of completion of the purchase.

4 The outturn figures include 47 market housing completions, 29 hectares of previously developed land reclaimed and 112,082 sq m of employment floorspace delivered under the Economic Assets Programme on sites that were transferred from the former Regional Development Agencies during the year but were not reflected in the targets.

5 FirstBuy is reported separately and is not included in the housing completions target. It was introduced in 2011 with the expectation of delivering 10,000 completions by March 2013.

In addition to monitoring performance against output measures for which targets were set, we agreed in the Corporate Plan 2011-15 to monitor and report on a number of other impact indicators. These include housing starts on site, as a lead indicator of housing completions, and for the Property and Regeneration and Economic Assets Programmes we have measured private sector investment levered, land brought into beneficial use and jobs potential created.

	Outturn
TOTAL HOUSING STARTS[6]	**19,967**
Affordable housing starts *of which:*	**15,698**
(a) Rent *of which:*	**12,178**
■ Accelerated Land Disposal	45
■ Affordable Homes Programme	10,877
■ Empty Homes	91
■ Homelessness Change	91
■ National Affordable Housing Programme	543
■ Property and Regeneration	460
■ Traveller Pitch Funding	71
(b) Low Cost Home Ownership *of which:*	**3,520**
■ Affordable Homes Programme	2,923
■ National Affordable Housing Programme	250
■ Property and Regeneration	347
Market housing starts *of which:*	**4,269**
■ Economic Assets	24
■ Property and Regeneration	4,245
Private sector investment levered (£m)	**792**
Land brought into beneficial use (ha)[7]	**162**
Jobs potential created[8]	**7,537**

6 Housing starts on site are reported when the provider/developer and builder have entered into the house building contract, the building contractor has taken possession of the site and the start on site works have commenced.

7 Land is brought into beneficial use when the land has been developed, re-developed or works have been undertaken to bring the land into use for purposes which are beneficial to the stakeholders of the land.

8 Jobs potential indicates the number of jobs that can be supported by employment floorspace funded and/or contracted by the Homes and Communities Agency.

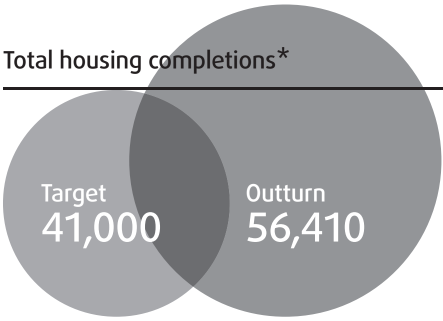
HCA spend against programme

	Spend (£m)
National Affordable Housing Programme	1,161
Affordable Homes Programme	236
Property and Regeneration	256
Economic Assets	140
Decent Homes	194
Mortgage Rescue	96
Kickstart Housing Delivery	70
FirstBuy	57
Housing Market Renewal	35
Local Authority New Build	31
Other	8
Total Programme Spend	**2,284**

Total housing completions*

37.6%

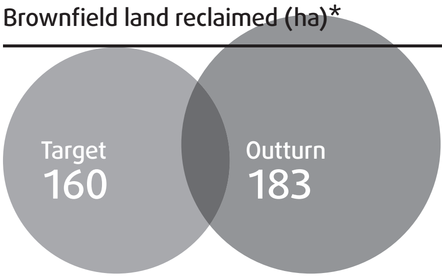
Above target



Brownfield land reclaimed (ha)*

14.4%

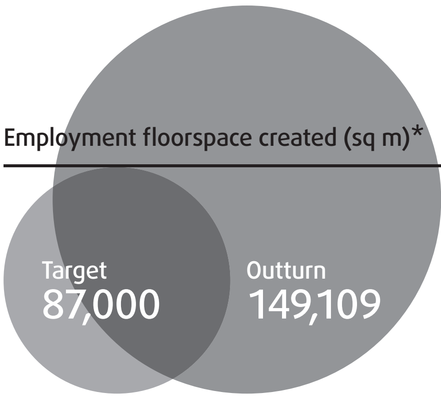
Above target



Employment floorspace created (sq m)*

71.4%

Above target



*Excludes delivery under the Economic Assets Programme.

HOMES AND COMMUNITIES AGENCY REPORT ON THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2012

BOARD MEMBERS' REPORT YEAR ENDED 31 MARCH 2012

The Board Members present the Annual Report and Financial Statements for the year ended 31 March 2012.

Statutory background

The Homes and Communities Agency (HCA) was established by Parliament under the *Housing and Regeneration Act 2008* and is the national housing and regeneration agency for England.

Principal activities

The statutory objectives of the HCA, as listed in the *Housing and Regeneration Act 2008,* are to:

- improve the supply and quality of housing in England;
- secure the regeneration or development of land or infrastructure in England;
- support in other ways the creation, regeneration or development of communities in England or their continued well-being; and
- contribute to the achievement of sustainable development and good design in England, with a view to meeting the needs of people living in England.

Format of the Financial Statements

The HCA's Financial Statements for the year to 31 March 2012 have been prepared in accordance with the Accounts Direction issued on 24 November 2008 by the Secretary of State with the consent of HM Treasury and in accordance with Paragraph 12(3) of Schedule 1 to the *Housing and Regeneration Act 2008*.

Results for the Year

The results for the year ended 31 March 2012 are set out in the Financial Statements on pages 43 to 107.

Net expenditure for the year was £2.3bn (2011: £4.2bn) and total comprehensive expenditure was £2.2bn (2011: £4.2bn).

The Group Statement of Financial Position shows net assets of £1.8bn (2011: £1.8bn).

Going concern

Net assets of £1.8bn reflect the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the HCA's other sources of income, may only be met by future grants or grant in aid from the HCA's sponsoring department, the Department for Communities and Local Government (DCLG). Such grants may not be issued in advance of need and grant in aid for the year ending 31 March 2013, taking into account the amounts required by the HCA's liabilities falling due in that year, has already been approved by Parliament. There is no reason to believe that DCLG's future sponsorship and future parliamentary approval will not be forthcoming. The Board therefore considers it appropriate to adopt a going concern basis for the preparation of these Financial Statements.

Board Membership

A list of all Board Members during the year is disclosed in the Management Commentary on page 5.

BOARD MEMBERS' REPORT (CONTINUED) YEAR ENDED 31 MARCH 2012

Register of members' interests

The register of members' interests is open for public inspection and is included on our website: www.homesandcommunities.co.uk/our-board.

Pension arrangements

The accounting policy for pensions is disclosed in Note 1 to the Financial Statements. Information on Board Members' and Key Managers' pension entitlements is disclosed in the Remuneration Report which starts on page 23.

Principal risks and uncertainties

A review of the HCA's principal risks and its capacity to handle risk, which sets out the HCA's objectives in respect of risk management plus the strategy to be employed in putting the policy into effect, has been prepared as set out in the Governance Statement which starts on page 29. Note 41 of the Financial Statements sets out the HCA's financial risk management procedures.

Better payment practice code

In accordance with *Managing Public Money,* the HCA complied with the British Standard for Achieving Good Payment Performance in Commercial Transactions and with the *Late Payment of Commercial Debts (Interest) Act 1998*, as amended. We aim to pay all undisputed invoices within 30 days of receipt and at least 90 per cent of invoices, whether disputed or not, within this timescale. It is the policy to:

- settle the terms of payments with suppliers when agreeing the terms of each transaction and pay bills in accordance with the contract;
- ensure that the suppliers were made aware of the terms of payment;
- abide by the payment terms of individual suppliers; and
- deal reasonably with complaints and disputes and advise suppliers without delay when invoices or parts of invoices, are contested.

In the year ended 31 March 2012 the HCA paid 96% (2011: 97%) of all invoices within 30 days of receipt and was committed to maintaining this high standard of performance. This included the payment of grants for social housing to Registered Providers (RPs) and other bodies. If these payments were excluded, the percentage was 93% (2011: 95%).

As at 31 March 2012, trade payables were equivalent to 5 days of purchases in the year then ended.

Cash flow and liquidity

The Agency relies upon grant in aid receipts from DCLG to maintain general liquidity. Grant in aid is drawn-down weekly from DCLG to fund the Agency's daily grant payments and monthly to fund its administration and capital costs. The amounts drawn-down are based upon estimates of need.

Any balance remaining at the end of each business day is transferred to the Government Banking Service, the banking services shared service provider to the public sector which encourages public sector bodies to maximise the value of funds available to the Exchequer.

Auditors

The Comptroller and Auditor General is the statutorily appointed auditor under the provisions of the *Housing and Regeneration Act 2008*.

The cost of work performed by the auditors for the Agency is as follows:

	2011/12 £’000	2010/11 £’000
Audit fee	215	180

The audit fee has increased due to the extra work involved in auditing the transfer of functions from the Regional Development Agencies in the year.

So far as we are aware, there is no relevant audit information of which the auditors are unaware, and we have taken all steps to make ourselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Employees

The Agency’s employees are fundamental to its success, especially as it progresses through the process of reform and implementation of new ways of working.

The Agency recognises the importance of developing the skills and competencies of its employees to enable them to deliver our new approach to business and the new programmes and initiatives. For this reason Learning and Development plans are produced for each employee and the Agency invests in training tailored to develop specific skills and competencies of its employees.

The Agency keeps employees informed of key developments and matters of interest via team meetings, weekly newsletters and regular letters from the Chief Executive. Employees also have access to the HCA’s intranet which allows the sharing of information, access to key documents or educational materials.

As part of its priority to reduce the deficit, the Government and the Agency jointly announced plans in 2010 to transform the Agency into a smaller enabling and investment body working for local communities on their priorities. During this restructuring process the Agency has formally consulted with employees and provided regular updates on the Change Plan and restructuring process via meetings, letters and the HCA’s intranet.

Employee sickness absence rate for 2011/12 was 1.5% of working days (1.9% in 2010/11).

Health and Safety

The Agency recognises and fully accepts its statutory and moral responsibilities to provide the highest standard of health and safety to protect its employees and other people affected by its activities. It is committed to the prevention of injury and ill health and the continual improvement of its health and safety management system and health and safety performance. The Agency has responsibility for the development and regeneration of substantial public assets and regards health and safety as an integral part of the proper management of all the undertakings over which it has control.

In demonstrating its commitment towards health and safety, the Agency sets national targets for improving its health and safety performance which are agreed annually by the Board. The Board is kept abreast of the Agency’s progress towards meeting these targets and other health and safety developments through quarterly update reports.

BOARD MEMBERS REPORT (CONTINUED) YEAR ENDED 31 MARCH 2012

2011/12 has been a challenging year for the Agency from health and safety perspective as a result of extensive restructuring and the 'transfer in' of 386 economic assets and 97 former RDA employees to the Agency. Despite these challenges, the Agency continued to meet its statutory obligations under health and safety law and worked towards meeting its national targets.

Key health and safety highlights for 2011/12 are as follows:

- the Agency's health and safety policy received an annual review;
- four national health and safety committee meetings were held during 2011/12;
- 386 former RDA assets which transferred to the Agency in September 2011 were assessed for health and safety risks and successfully integrated into the Agency's estate management regime;
- 100% of all new employees joining the Agency completed an online safety induction course and 92% attended formal face to face training within their first six months of joining the Agency;
- departmental health and safety risk assessments for working practices were reviewed;
- the Agency's Accident Incident Rate (AIR) of 143 injuries per 100,000 employees was below the 2010/11 national average of 183 injuries per 100,000 employees working in comparable occupations. Only one injury to an employee had to be reported to the Health and Safety Executive; and
- 156 employees who drive regularly on business completed a driver risk assessment and attended further training where necessary.

In support of the Agency's policy on work related stress, 19 stress awareness sessions were delivered to staff across the Agency during the restructuring exercise.

Disability equality and diversity

We recognise that our roles as an investor, enabler and regulator can positively address inequalities and disadvantages, some communities face.

As a public authority, listed in the Equality Act 2010 we are required to meet statutory equality duties. These require us to work towards the elimination of unlawful discrimination, promote equality of opportunity and promote good relations. In addition, the law requires us to publish equality objectives which we will work towards achieving over the next four years. On 6 April 2012, we published nine equality objectives which were shaped through a public consultation exercise. These objectives would see us work towards:

- promoting recognition of the value of accessible housing through our investment and enabling role;
- promoting investment that meets the needs of older people;
- promoting investment that meets the needs of Traveller communities;
- promoting investment that meets the needs of BME and faith communities;
- encouraging the participation of community / specialist providers in investment;
- ensuring that the way in which the serious detriment test is implemented considers the impact on equality and diversity;
- achieving a positive and fair working environment where diversity is led at all levels;

- demonstrating effective diversity practice through the HCA Board, Regulation Committee and Advisory Groups; and
- improving the representation and visibility of disabled and lesbian, gay, bi-sexual and transgender (LGBT) people in our workforce.

Our Board and leadership team will continue to ensure that the way we go about our business is fair, transparent and makes us accountable to the public.

We have established a Board Advisory Group for equality and diversity who will support us to translate our vision into practice. The activities of the Advisory Group will also support us to take an innovative approach to how we work and maintain an ongoing dialogue with our stakeholders.

We recognise that our transparency plays an important role in giving our people, partners and public confidence that our commitment to equality and diversity goes beyond rhetoric. Therefore, we will publish equality information annually that demonstrates our performance across all of our functions.

Social and community issues

The purpose of the Agency is to contribute to economic growth by helping communities to realise their aspirations for prosperity and to deliver quality housing that people can afford.

The Localism Bill, which received Royal Assent on 15 November 2011, introduced new community rights. In conjunction with its local partners the Agency will play an active role in supporting community-led housing and development proposals through the Community Right to Build route.

Relationships

Sponsor bodies, partners and suppliers

The Agency has good working relationships with its sponsor department and other bodies such as:

- central and local government;
- local authorities;
- Local Enterprise Partnerships;
- Registered Providers;
- private sector builders and developers;
- the voluntary and community sectors;
- professional and industry bodies; and
- local delivery vehicles.

This allows the sharing of expertise and best practice across the regeneration and development sector.

Adapting to climate change

Our sustainability aim is to reduce the impact of our business on the environment.

From 2011/12 the Agency is required to prepare a sustainability report for inclusion in the Annual Report and Accounts. The report is set out below.

BOARD MEMBERS REPORT (CONTINUED)
YEAR ENDED
31 MARCH 2012

Sustainability report

This report has been prepared in accordance with guidelines laid down by HM Treasury in *Public Sector Sustainability Reporting* (www.financial-reporting.gov.uk). Sustainability data and delivery plans are also reported more frequently to the Cabinet Office.

Targets

The Agency has aligned its Sustainable Operations delivery plan to the Greening Government Commitments framework (http://sd.defra.gov.uk/gov/green-government/commitments).

The Greening Government Commitments framework commits Government to reduce its greenhouse gas emissions by 25% by 2015 (from 2009/10 levels) and includes challenging targets on waste reduction and recovery, more efficient use of water, promotion, protection and enhancement of biodiversity, and positive engagement with the community on climate change mitigation and adaptation.

Scope

The HCA Sustainable Operations programme addresses a number of key sustainability targets covering our administrative estate, specifically in relation to:

- greenhouse gas emissions, including those derived from direct and indirect energy use in our offices, from business and administrative travel, such as rail, underground and via our road vehicle fleet;
- waste minimisation and management; and
- water usage.

Sustainability Performance

Greenhouse Gas Emissions

Targets for Greenhouse Gas emissions are to:

- reduce emissions by 25% from 2009/10 levels from the whole estate and business-related transport, and
- to cut domestic business travel flights by 20% by 2015, from 2009/10 levels.

A summary of CO_2 (tonnes) emissions performance and expenditure is as follows:

	2008/09	2009/10	2010/11	2011/12
Electricity Consumption	1,522.52	1,599.58	1,471.89	1,128.17
Gas Consumption	584.11	587.87	443.21	247.73
Official Travel – Road	436.17	409.82	357.80	402.15
Official Travel – Air	0.07	0.40	0.13	0.31
Official Travel – Rail	112.92	37.24	32.60	43.79
Other	0.00	38.00	26.79	15.29
Total CO_2 (tonnes)	**2,655.80**	**2,672.90**	**2,332.42**	**1,837.44**
Total (£'000)				
Energy (£'000)	587	592	433	272
Travel and other (£'000)	639	767	776	599

CO_2 emissions are categorised as falling within Scope 1 (direct emissions from sources owned or controlled by the Agency), 2 (indirect emissions where energy is consumed by the Agency but supplied by another party) or 3 (official business travel). Electricity and gas consumption falls within Scope 1 and 2 and official business travel falls within Scope 3.

The key reasons for the above reductions in total CO_2 emissions are:

- introduction of LED lighting coupled with passive infrared sensors;
- use of automatic Meter Reading and removal of estimated billing;
- reductions in plant operating hours;
- rationalisation of the Agency's office estate in conjunction with the restructuring process; and
- introduction of 'at desk' virtual conferencing.

The table above does not incorporate the CO_2 emissions performance of the RDA's before transfer of the relevant functions to the Agency.

The increase in road and rail travel in the last year is due to the rationalisation of the Agency's operational estate, and the increase in homeworking, both of which have led to an increase in business travel for some staff members.

During the year, the Agency worked in collaboration with the Carbon Trust to develop a five year carbon management plan. This will put us on a track to exceed the targets set out under government policy, helping us to reduce our contribution to climate change whilst ensuring leadership in sustainability in the public sector.

The plan, which is endorsed by the Carbon Trust, sets out the technical projects and the change management processes required to achieve our target of a 40% reduction of carbon emissions based on 2010 levels by 2015.

Waste

Targets for waste are:

- to reduce the amount of waste the Agency generates by 25% by 2015 (from a 2009/10 baseline);
- to cut paper usage by 10% in 2011/12 (from the 2009/10 baseline), moving towards a "closed loop" paper system in 2012; and
- to ensure that redundant ICT equipment is re-used or responsibly recycled.

A summary of our waste disposal performance is as follows:

		2008/09 (tonnes)	2009/10 (tonnes)	2010/11 (tonnes)	2011/12 (tonnes)
Total waste disposal [Min Requirement]		203.57	254.23	214.81	259.39
Hazardous waste	Total	0.00	0.00	0.00	0.00
Non hazardous waste*	Landfill	96.30	108.09	82.21	122.45
	Reused/Recycled	107.27	146.14	132.60	122.44
	Incinerated/energy from waste	0.00	0.00	0.00	8.21
	Total ICT Waste (of which)	0.00	0.00	0.00	6.29
	ICT Waste Reused/Recycled	0.00	0.00	0.00	6.29

BOARD MEMBERS REPORT (CONTINUED)
YEAR ENDED 31 MARCH 2012

*The Agency has undergone a period of rationalisation of its estate over 2011/12 which has led to an increase in the amount of waste being sent to landfill in this period. However, the Agency has implemented a new ICT waste strategy and as a result is currently recycling or reusing 100% of its ICT waste, either through extending lifetimes, redeployment or being recycled by specialist recycling companies, rather than going to landfill.

The apparent increase in incinerated and ICT waste is a result of data for previous periods not being available.

Finite Resource Consumption – Water

The target is to use water more efficiently and to reduce consumption from a 2009/10 baseline inline with the Greening Government Commitment. The results are as follows:

		2008-09	2009-10	2010-11	2011-12
Water Consumption (m^3)	Supplied	13,084.23	13,125.39	8,679.00	9,138.40
	Abstracted	0.00	0.00	0.00	0.00
Water Consumption (£'000)		27	27	19	20

The Agency has reduced water consumption generally across its office estate against our baseline as a result of maturing water reduction technologies and as a result of estate rationalisation. Although there was a small increase in consumption in 2011-12, the Agency will continue to look at ways of further reducing usage.

The Agency's main water consumption is derived from tea points and toilets, as well as from cooling plant. Reductions have been achieved through the installation of low flow rate taps and flush sensors as well as water displacement equipment and through staff awareness campaigns.

Procurement

The Agency's sustainable procurement policy follows the principles set out under the *Government Buying Standards* and we seek to procure goods and services through the Office for Government Commerce procurement framework.

Sustainable Development

One of the Agency's statutory objectives is to contribute to the achievement of sustainable development and good design in England, with a view to meeting the needs of people living in England. Many of the Agency's programmes help us to achieve our ambitions in sustainable development. From driving innovation in sustainability in our design and quality standards and our land remediation services, through to our modern methods of construction programmes, the Agency is working in close collaboration with industry to support and further develop sustainability within the built environment.

REMUNERATION REPORT YEAR ENDED 31 MARCH 2012

Unaudited Information

Constitution of the Remuneration Committee

The Remuneration Committee consists of the following HCA Board Members:

- Robert Napier (Chair)
- Julian Ashby (from 1 November 2011)
- Shaukat Moledina
- Ian Robertson
- Ann Limb (from 1 November 2011)

Functions and responsibilities

The Remuneration Committee is required to:

- advise the Chairman, the Board, and the Chief Executive in her role as the HCA's Accounting Officer, on overall pay and rewards, the remuneration, contractual and pension arrangements of staff at Director level and above, and any related matters;
- set and agree annual performance objectives, remuneration terms and other terms and conditions of employment for the Chief Executive, subject to DCLG approval;
- consider and approve the bonus payment for the Chief Executive and other senior officers on an annual basis, subject to DCLG approval;
- consider and advise the Board on broader staffing issues, such as recruitment and retention;
- monitor and approve the Agency's staffing situation against the organisational structure and revenue budget agreed by the Board, and in relation to any directions laid down by DCLG;
- review terms and conditions of service and determine any issues in relation to terms and conditions, overall pay levels and performance awards that are referred to the Committee by the Executive; and
- ensure that there are appropriate legal, financial and administrative arrangements covering the provision of the HCA's pension schemes in respect of benefits and contributions, the administration of the schemes and the safeguarding and management of the pension funds' assets.

Service contracts

The Accounting Officer, Directors and other senior managers have open-ended service contracts with three month notice periods that do not contain any pre-determined compensation on termination of office.

Appointment of Board Members

Board Members are appointed by the Secretary of State for fixed terms of no more than five years.

REMUNERATION REPORT (CONTINUED) YEAR ENDED 31 MARCH 2012

Audited information

The following information provides details of the remuneration and pension interests of Board Members and Key Managers in their capacity as employees of the HCA for the year to 31 March 2012.

Board Members' emoluments

	2011/12 £'000	2010/11 £'000
Chairman		
Robert Napier	88	91
Board Members		
Candy Atherton (to 30 September 2011) [1]	7	13
Kate Barker (to 1 April 2011)	-	13
Bob Lane	13	13
Shaukat Moledina	13	13
Professor Peter Roberts	13	13
Ian Robertson [2]	18	13
Dru Vesty	13	13
Don Wood	13	13
Julian Ashby (from 1 November 2011) [1]	5	-
Keith House (from 1 November 2011) [1]	5	-
Ann Limb (from 1 November 2011)[1]	5	-

Chief Executive's emoluments

	Salary £'000	Bonus £'000	Taxable benefits Nearest £100	Employer's contribution to pension fund £'000	Total 2011-12 £'000	Total 2010-11 £'000
Pat Ritchie[3]	140-145	-	5,600	35-40	180-185	75-80

[1] Full year equivalent emoluments are £13,000

[2] Full year equivalent emoluments are £24,000

[3] Pat Ritchie's emoluments for 2010/11 include her emoluments in her capacity as Chief Executive only from 1 November 2010. Before this date she was Executive Director for the North East. Her full time equivalent salary in her capacity as Chief Executive for 2010/11 was £134,000.

Key Managers' emoluments

	Salary £'000	Bonus[3] £'000	Taxable benefits Nearest £100	Employer's contribution to pension fund £'000	Termination payments £'000	Total 2011-12 £'000	Total 2010-11 £'000
Margaret Allen Director of HCA Change Programmes to 31 December 2011; Executive Director Midlands (from 1 Jan 2012)	130-135	0-5	5,900	10-15	-	150-155	150-155
David Curtis Executive Director North East, Yorkshire and The Humber	120-125	0-5	5,500	35-40	-	160-165	160-165
Richard Ennis Director of Finance and Corporate Services	155-160	0-5	8,000	45-50	-	210-215	210-215
Terry Fuller Executive Director East and South East	140-145	0-5	8,900	40-45	-	190-195	190-195
Richard Hill Deputy Chief Executive and Director of Programmes	140-145	0-5	0	10-15	-	155-160	160-165
David Lunts Executive Director London (to 23 May 2011)[1]	90-95	0-5	0	25-30	-	115-120	205-210
Deborah McLaughlin Executive Director North West	120-125	0-5	11,900	35-40	-	170-175	165-170
Colin Molton Executive Director South and South West	135-140	0-5	11,200	35-40	-	185-190	180-185
Paul Spooner Executive Director Midlands (to 31 Dec 2011)[2]	95-100	0-5	2,200	155-160	110-115	370-375	180-185

[1] David Lunts was the London Director until 23 May 2011. From this date his duties and salary were split equally between HCA and the Greater London Authority. The salary above therefore includes his full time salary to 23 May 2011, and from then on 50% paid by the Agency

[2] Full year equivalent salary is £132,000

[3] Bonuses paid relate to performance for the year ended 31 March 2011. Performance related bonuses for the year ended 31 March 2012 are not yet determined.

REMUNERATION REPORT (CONTINUED) YEAR ENDED 31 MARCH 2012

Salary

Basic salaries are determined by taking into account each individual's responsibilities, performance against agreed objectives and experience together with market trends.

The Secretary of State determines the Board Members' emoluments.

The highest paid employee, as disclosed in the Key Managers' emoluments note above, was Richard Ennis. However, once the termination payment paid to Paul Spooner (noted below) is added to the salary he earned to 31 December, he is the employee with the highest financial package in the year.

Performance related pay

The Chief Executive and key managers benefit from a Performance Related Pay scheme whereby any bonuses are determined with reference to performance against agreed objectives during a performance year running from April to March. The bonus cannot exceed 10% of salary, and is the only element of pay that is performance related. The Directors have decided to impose a maximum cap on their own bonuses of 2% of salary.

The Chairman is not eligible for performance related payments or other taxable benefits as a result of his appointment.

Pat Ritchie in her capacity as Chief Executive has an entitlement to an annual performance related bonus based upon the achievement of targets agreed by the Remuneration Committee. The committee has reviewed performance against these targets and accordingly has awarded a performance related bonus of £5,576 in relation to the year to 31 March 2011.

The Committee has reviewed performance against targets for the year ended 31 March 2012 and recommended a performance related bonus for approval by the Secretary of State. The amount of bonus will be disclosed once Secretary of State approval is obtained.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. They are in respect of lease cars.

Termination payments

Paul Spooner left the Agency on 31 December 2011 and received a redundancy payment of £78,684. He also received £32,962 as compensation in lieu of notice and entitlement to an annual pension for which the Agency paid £129,502 into the pension fund.

Median Salary

The Agency is required to disclose the relationship between the mid-point of the banded remuneration of the highest-paid director and the median remuneration of the Agency's workforce for the year. The banded remuneration of the highest-paid director, Richard Ennis, was £165,000 - £170,000. The mid-point of this band was 4.0 times the median remuneration of the workforce, which was £41,412.

However, although Richard Ennis was the highest paid Director in office at the year end, in terms of total package received, inclusive of severance pay and compensation in lieu of notice, Paul Spooner was the highest earner with a package of £214,057. This is 5.2 times the median remuneration of the workforce.

No employee received remuneration in excess of these Directors.

Remuneration ranged from £16,125 to £214,057 on the basis of total remuneration inclusive of severance pay.

Total remuneration includes salary, non-consolidated performance related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

Pension benefits

	Accrued pension at 31 March 2012 £'000	Accrued pension at 31 March 2011 (as adjusted by inflation) £'000	Real increase in accrued pension £'000	CETV 31 March 2012 £'000	CETV 31 March 2011 Restated* £'000	Real increase/ (decrease) in CETV £'000
Chief Executive and Accounting Officer						
Pat Ritchie	45	46	(1)	1,006	1,017	(19)
Key Managers						
Margaret Allen	36	34	2	646	582	54
David Curtis	58	59	(1)	1,692	1,726	(41)
Richard Ennis	37	37	-	648	646	(7)
Terry Fuller	6	4	2	148	108	31
Richard Hill	26	25	1	347	283	53
David Lunts	21	20	1	502	480	13
Deborah McLaughlin	36	36	-	685	690	(12)
Colin Molton	50	50	-	1,072	1,088	(24)

*Restated using 31 March 2012 pension factors.

The Chief Executive and key managers are eligible to participate in the Homes and Communities Agency Pension Scheme, which is a multi-employer defined benefit scheme. Robert Napier is not entitled to be a member of any of the Agency's pension schemes. With the exception of Margaret Allen and Richard Hill who are active members of the City of Westminster Pension Fund, all key managers are active members of the Homes and Communities Agency Pension Scheme.

Accrued pension at 31 March 2012

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2012.

Cash Equivalent Transfer Value (CETV) 31 March 2012

The transfer values are the actuarially assessed capitalised value of pension scheme benefits. It is an amount payable by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The figures shown relate to benefits that the individual has accrued as a consequence of their total membership of the pension scheme and not just the service in a senior capacity to which disclosure applies.

Robert Napier Chairman
21 June 2012

Pat Ritchie Chief Executive and Accounting Officer
21 June 2012

RESPONSIBILITIES OF THE ACCOUNTING OFFICER YEAR ENDED 31 MARCH 2012

Under the *Housing and Regeneration Act 2008*, the Secretary of State has directed the Homes and Communities Agency (HCA) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the HCA and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Secretary of State including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the Financial Statements; and
- prepare the Financial Statements on a going concern basis, unless it is inappropriate to do so.

The Secretary of State has appointed the Chief Executive as Accounting Officer of the HCA. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances, for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HCA's assets are set out in the Framework Document published by the Secretary of State and with the instructions and guidance laid down in *Managing Public Money* issued by HM Treasury.

GOVERNANCE STATEMENT YEAR ENDED 31 MARCH 2012

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Homes and Communities Agency's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Principal Accounting Officer of the Department for Communities and Local Government (DCLG) and as defined in *Managing Public Money*.

Accountability Arrangements

I have undertaken the Accounting Officer responsibilities for the whole accounting period 1 April 2011 to 31 March 2012. The Accounting Officer responsibility covers all aspects of HCA operations with the exception of the following; overhanging debt payments and levy payments for Voluntary Transfers, and Housing Private Finance Initiative (PFI) payments.

The HCA has overall delivery responsibility for and plays a lead role in these programmes by supporting Local Authorities and ALMOs in the delivery of their programmes and projects, assessing bids for funding and ultimately making recommendations to DCLG to provide funding. However as the technical arrangements for making funding payments remains with DCLG, the formal Accounting Officer role remains with the DCLG Principal Accounting Officer.

On 1 April 2012, the HCA took responsibility for the regulation of social housing providers in England. The Tenant Services Authority was abolished by the Localism Act 2011 and its powers, responsibilities and staff were transferred to the HCA. From 1 April 2012 I have also therefore had Accounting Officer responsibilities for the Regulation function of the HCA. Our regulatory responsibilities are discharged through a new independent Regulation Committee, and within the parameters of the new Regulatory Framework.

Following the commencement of the Localism Act, from April 2012 the London Mayor became responsible for London's share of national housing budgets and the inherited land holdings of the Agency in London. All of the Agency's assets were transferred, as did 44 staff operating our programmes in London. The Agency will remain the Regulator of Social Housing within London and has reached agreement with the GLA that limited areas of activity transferring to the Mayor will be delegated back to the HCA on the grounds of business continuity and efficiency. These are mainly legacy programmes such as the Private Finance Initiative and the Armed Forces Home Ownership Scheme.

I have provided assurance to the Mayor regarding the Governance arrangements in place within the HCA in the period from 1 April 2011 to 31 March 2012 which are relevant to this transfer.

A comprehensive scheme of delegations is in place that enables the day to day management of the Agency to be shared with the Executive Directors of the Agency and their staff. The scheme of delegations is kept under review throughout the year and has been updated and amended with the approval of the Board and myself.

GOVERNANCE STATEMENT (CONTINUED)
YEAR ENDED
31 MARCH 2012

Relationships between HCA and DCLG

The relationship between HCA and DCLG is formally governed by a detailed financial framework and a supporting sponsorship infrastructure. Detailed plans and priorities for the HCA are set out in the 2011/15 Corporate Plan which was approved by the HCA Board in May 2011 and DCLG and HM Treasury Ministers in June 2011.

During the period, the HCA and DCLG have worked closely together to develop plans to respond to the Chancellor's announcements on spending in the Budget of March 2011 and the Autumn Statement of November 2011.

Ongoing dialogue regarding policy and performance issues has been undertaken throughout the period and we were pleased to see the HCA's ongoing role of supporting local communities clearly articulated in "Laying the Foundations: A Housing Strategy for England" published in November 2011.

The Agency is working with the Department to improve the clarity and robustness of performance reporting during 2012/13.

Following restructuring within both DCLG and HCA, DCLG 's sponsorship arrangements were reorganised at the end of March 2012. The stand-alone Division that had previously been responsible for core sponsorship from HCA set-up in 2008 was disbanded and the sponsorship function is now located in a team within the Department's Affordable Housing, Regulation and Investment Division. This enables a number of important synergies between sponsorship and policy to be exploited, including the links with affordable housing policy and delivery. DCLG and HCA have also been reviewing how sponsorship should work going forward, and a number of important workstrands around engagement and policy are being taken forward. The review is expected to conclude in the summer of 2012.

During the year Ian Robertson, Chair of the HCA's Audit and Risk Committee, was also appointed to the DCLG Audit and Risk Committee.

The **key governance arrangements** within the HCA are:

The Board, its Committees and Advisory Groups

The HCA had in place a Board of 9 Non Executive members. From November 2011, the Board has been increased to 10 members with the inclusion of the Chair of the independent Regulation Committee.

The Board is responsible for the following activities in consultation with DCLG: establishing the Agency's overall strategic direction, corporate planning, setting the budget, financial and human resource planning, investment decisions not delegated to the Investment Committee, ensuring the Agency's affairs are conducted with probity, setting standards and values for the Agency, ensuring health and safety effectiveness, ensuring the Agency's objectives and obligations are understood internally and externally, reviewing performance and directing executives regarding any required performance improvements.

The Board also takes overall responsibility for the effective operation of risk management and ensuring a sound system of internal control. It reviews the strategic risk register formally on a periodic basis and receives monthly updates in the intervening months.

The HCA Board has also established a number of committees, boards and sub-committees which it considers necessary for the effective conduct of its business.

- Audit & Risk Committee – this Committee supports the Board in its responsibilities for risk control, governance, financial stewardship and financial and statutory reporting;
- Remuneration Committee – advises the Board, Chair and Accounting Officer on overall pay and rewards, the remuneration, contractual and pension arrangements of staff at Director level and above, and any related matters;
- Investment Committee – this is the key non executive business decision making committee considering all of the Agency's major investment proposals and monitoring performance of our investment programmes;
- HCA London Board – operated until the transfer to the Mayor on 1 April 2012;
- Milton Keynes Planning Sub Committee; and
- Leeds City Region HCA Board.

In addition to the Committees, the Board has established a range of Advisory Groups. These Groups provide focus and challenge to the HCA's work in these key, cross-cutting areas:

- Vulnerable and Older People;
- Design and Sustainability;
- Equality and Diversity; and
- Affordable Rural Housing.

Changes to the Board, its Committees and Advisory Groups are as follows.

- The London Board met for the last time on 20 February 2012; and
- Candy Atherton left the Board on 30 September 2011. The following Board members were appointed on 1 November 2011: Keith House, Ann Limb, and Julian Ashby (as Chair of the new Regulation committee). Shaukat Moledina was reappointed to the Board on 1 November 2011.

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2012

Board Attendance

Attendance of Board Members at the main Board and Board Committees from 1 April 2011 to 31 March 2012 was as follows:

HCA Board	Apr 11	May 11	Jun 11	Jul 11	Sep 11	Oct 11	Nov 11	Jan 12	Feb 12	Mar 12
Robert Napier (Chair)	1	1	1	1	1	1	1	x	1	1
Bob Lane	1	1	1	1	1	1	1	1	1	1
Ian Robertson	1	1	1	x	1	1	1	1	1	1
Dru Vesty	1	1	1	1	1	1	1	1	1	1
Peter Roberts	1	x	1	1	1	x	1	1	x	1
Don Wood	1	1	x	1	1	1	x	1	1	1
Shaukat Moledina*	1	1	x	1	1		1	1	1	1
Candy Atherton	1	1	1	x	1					
Julian Ashby							x	1	1	1
Keith House							1	1	x	1
Ann Limb							1	1	1	x

*Shaukat Moledina's appointment lapsed on 30 September and he was reappointed on 1 November.

Audit and Risk Committee	Apr 11	15 Jun 11	30 Jun 11	Oct 11	Nov 11	Jan 12
Ian Robertson	1	1	1	1	1	1
Dru Vesty	1	1	1	1	1	1
Don Wood	1	1	x	1	x	1
Peter Roberts			1	1	1	x

Remuneration Committee	Apr 11	Jun 11
Robert Napier	1	1
Ian Robertson	1	1
Dru Vesty	1	1
Bob Lane	1	1
Shaukat Moledina	1	x

Investment Committee	Apr 11	May 11	Jun 11	7 Jul 11	13 Jul 11	27 Jul 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Mar 12
Robert Napier	1	1	1	1	1	1	1	1	1	1	x	1
Bob Lane	1	1	1	1	1	1	1	1	1	1	1	1
Ian Robertson	1	1	1	1	1	x	1	1	1	1	1	1
Dru Vesty	1	x	1	1	x	1	1	x	1	1	1	1
Peter Roberts												1
Don Wood	1	x	1	x	1	1	1	1	x	1	1	1
Shaukat Moledina	1	1	1	1	1	1	1		1	1	1	1
Keith House									1	1	1	x

1 Attended

x Non attendance with apologies

Blanks show the member was not appointed for that meeting

Board Effectiveness

Given the major structural change which the Agency has gone through in 2011/12, the Board has not carried out a self assessment of effectiveness in 2011/12. As the Agency has been in operation for over 3 years it is best practice to assess Board effectiveness with independent input and this is planned for autumn 2012. Individual Board Members have had an annual performance appraisal with the Chair of the Board.

The Board have not appointed a Lead Non-Executive Board Member, as the HCA Board is chaired by a Non Executive Director. This is in contrast to Central Government Department Boards which are chaired by the Secretary of State.

Other than these two points, the HCA has complied with the Corporate Governance Code of Good Practice.

The Audit and Risk Committee formally assessed its own performance in June 2011; performance was seen as improving and discussions were held regarding the impact of the transfer of regulation to the Agency. Members of the Committee attended the TSA Audit and Risk Committee on a rolling basis during 2011/12 to help prepare for transfer and improve understanding of Regulation issues and risks.

Jim Coulter, a member of the Regulation Committee has been invited to attend Audit and Risk Committee meetings from April 2012 to provide specialist advice where necessary.

Data Quality

The Board is presented with detailed performance information at each meeting. Information is presented in a narrative report, in a high level visual dashboard and in a more detailed performance dashboard.

The information provided includes financial information including budgets, expenditure and receipts, actuals and forecasts and variances. Non financial information includes progress towards the achievement of output targets set by DCLG including Housing Completions and Employment Floorspace Created.

The information is extracted from 3 core systems used by the Agency and brought together in a bespoke system called PaDD which allows quality control checks to be carried out by the Operating Areas and the Programmes Directorate before reports are extracted.

From April 2011 Performance Reporting has been brought under a single team within the Agency which has improved efficiency, although the Executive recognise that the quality of forecasting information, both financial and non-financial, could still improve.

During the year, the Agency's control procedures identified inaccurate grant claims made by a Registered Provider which suggested potentially significant control weaknesses within that organisation. The matter was referred to the Tenant Services Authority and an investigation is ongoing. Steps are being taken to reclaim affordable housing grant where appropriate to do so.

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2012

Regulation Committee

The Regulatory function of the HCA is exercised through an independent Regulation Committee which was established by the Localism Act 2011. The Committee members are appointed by the Secretary of State and in March 2012 the Committee agreed its Terms of Reference, Code of Conduct and Appeal Procedures. The Agency has also agreed a protocol setting out how the statutory functions and duties of the Regulation Committee will be exercised within the Agency.

The members of the Committee are Julian Ashby, Chair, who was appointed on 1 November 2011 and Jim Coulter, Jane May, Richard Moriarty and Piers Williamson who were appointed on 20 February 2012.

Executive Decision Making Groups and Sub Groups

The management structure and remit of the Agency has continued to change throughout 2011/12. The principal changes are:

- an Agency wide restructuring exercise has now been completed as part of delivering an overall reduction in administrative expenses of 50% over the spending review period. As part of this exercise, the number of Directors reduced by one during the year. On 1 April 2012, one Executive Director post was transferred to the GLA and one Executive Director post, the Director of Regulation was transferred into the Agency from the TSA;
- the Agency has inherited the land and property assets and liabilities of the Regional Development Agencies along with over 90 staff who were transferred under TUPE; and
- discussions are ongoing on proposals to transfer development control powers in the expansion areas of Milton Keynes from the Agency to the Council, as well as on proposals to transfer a number of the Agency's land assets. This is dependent both on ensuring the proposals deliver value for money for the taxpayer and support private sector led growth. The transfer of planning powers would be by statutory instrument and will be the subject of a formal consultation process.

All of these changes have had an impact on the executive governance structures of the Agency which are highlighted in this report.

The executive governance / decision making arrangements that have operated throughout the year briefly comprise:

- The Directors' Group

The principal management Group of the Agency, comprising all Directors meets every two weeks. The Directors' Group review strategic risks on a quarterly basis in advance of consideration by the ARC and the Board.

- Programme Boards – two programme boards have met throughout the year:
  - Housing; and
  - Land and Regeneration.

Programme Boards review and update the risk registers for the programmes within their oversight and ensure that actions are being taken to mitigate the risks identified.

Following the transfer of RDA assets to the Agency on 19 September 2011, our work to bring these developments forward to stimulate economic growth was brought together under a separate programme called the Economic Assets Programme or EAP. This Programme is monitored by the Land and Regeneration Programme Board and also reports to the DCLG Land and Property Oversight Board on which BIS are also represented.

Project management practices varied across the Regional Development Agencies and the HCA has been working hard with DCLG to ensure that all inherited projects are covered by an appropriate approval. Inherited projects approvals have not always been consistent with HCA practice, where an approval covers all types of expenditure on a project and is based upon a comprehensive approval for related projects. Due diligence of the contingent assets and liabilities inherited from the RDAs continues and has taken longer than originally anticipated due to gaps in information made available to HCA by the RDAs up to and beyond the point of transfer. Sufficient work has been completed to ensure that the accounts are not materially misstated.

- *Projects Executive* has continued to meet monthly to consider and approve investments within the Chief Executive's delegated authority. Following the transfer of RDA assets to the Agency, additional meetings were held to specifically discuss investments related to the Economic Assets Programme.
- *Operations Group* was charged with ensuring that the Agency's systems and procedures are fit for purpose and to align procedures, processes and structures. In September 2011 it was decided that the work of this group should be mainstreamed into the ongoing management of the organisation by the Directors Group. The Agency's Operational Risk Register and Fraud Risk Register are now reviewed by Directors Group on a regular basis.
- A *Change Plan Programme Board* was established to manage the transition of the Agency to a smaller investment and enabling body as set out in the outcome of the spending review, and the various transfers of functions. This Board managed and coordinated the work of ten specific workstreams, for example a group considering the arrangements to transfer the London operations out of the HCA to the GLA, and one considering the transfer of the economic regulation of social housing providers into the HCA from the TSA. As the activities were successfully concluded, the workstreams were no longer required and the Change Plan Programme Board was wound up during the year, with Directors taking a direct oversight role during the last quarter of the year.
- The *Organisational Integration Plan Steering Group* was established as a joint group with the TSA to oversee the process of integration of regulation into HCA; including the transfer of TSA functions, associated staff and support functions into HCA, the creation of an effective new Regulation Committee and sight of the preparatory work for the orderly closure of TSA. The Group reported to the Directors Group of the Agency and was wound up on the successful transfer, its last meeting being the 30 April 2012.
- The *Business Information Security Group* which has been in existence since vesting also reports to Directors Group and Audit and Risk Committee on all information security matters, and supports the Senior Information Risk Owner in preparing his annual statement of information risk.
- Each *Directorate* has its own local governance / decision making arrangements in place and monitors its own risks in accordance with the Agency framework.

The Risk Management Process

The risk management process is integrated and multi layered within the HCA. It operates from both a top down perspective, through the identification of strategic risks and a bottom up process, through the identification of risks associated with individual projects, programmes and activities. A risk reporting regime aims to ensure that responses to risks are effective and that emerging risks are escalated in a timely fashion. The process is coordinated through a Senior Risk Sponsor (the Executive Director of Finance and Corporate Services) assisted by the Head of Risk and Assurance Services.

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2012

Specific arrangements are also in place to ensure that Information Risk is appropriately dealt with. The Senior Information Risk Officer is the Executive Director of Finance and Corporate Services. He is supported by an Information Security Officer and a Business Information Security Group, who collectively monitor compliance with the Security Policy Framework issued by the Cabinet Office including the mandatory Data Handling Guidelines and aim to ensure that information security is aligned with mainstream business.

The means by which risk appetite can be determined is specified in the risk management framework, and this is supplemented by scrutiny to both challenge the assessments made and to take decisions on whether risks should be accepted at a higher or lower level than the norm.

Key methods of embedding risk management in the activity of the business include:

- risk identification, assessment and mitigation plans included in Corporate and Business Plans;
- routine consideration of risk in all investment decision making processes;
- regular review of risk registers for programmes, operating areas, corporate directorates and projects;
- research and analysis of the property and housing market to help inform strategy development and investment decisions; and
- regular risk reporting to senior management, the Audit and Risk Committee and the Board.

Improvements have continued to be made to risk management arrangements throughout the year, with particular emphasis having been given to simplifying the presentation of the Strategic Risk Register and improving the presentation of risks to allow greater scrutiny and challenge.

Strategic Risks

The strategic risk register is reviewed quarterly by Directors and periodically by the Board, and in the intervening months the Board receives an update on key risk exposures embedded within the Chief Executive's report.

During a comprehensive review by Directors in November 2011, it was agreed to simplify the register by drawing key risks together under 4 key themes:

- Programme and enabling role delivery strategy;
- Relationship management strategy;
- Strategic response to market and economic conditions; and
- Regulation strategy.

The revised register was subsequently approved by the Board and has been critically challenged by the Audit and Risk Committee.

During the change process additional work was carried out by the Internal Audit function to test operational controls during the period of change. The results of these tests were reported both to management and the Audit and Risk Committee and no serious weaknesses were identified.

Value for Money

Inherent in all of the risks that the Agency needs to successfully manage is the duty to ensure Value for Money. This is achieved in the context of an overall approach comprising three principal components: Planning and Allocation of Resources; Investment Appraisal; and Delivery, Reporting and Monitoring. The Audit and Risk Committee give a specific focus to this area.

- Planning and Allocation of Resources

The allocation of resources between the Agency's programmes is designed to meet both policy objectives and deliver value for money by ensuring that the outputs and outcomes generated are optimised. The means of achieving this are through the Corporate and Business Planning process and the Local Investment Plans.

In particular during the year the Agency successfully restructured and efficiency savings and the voluntary redundancy programme enabled the Agency, with DCLG consent, to utilise savings to make payments to the Agency's pension schemes in order to reduce unfunded liabilities and potentially reduce future employer contributions.

- Appraisal

Each investment made is subject to an individual appraisal to test a range of factors including policy fit, deliverability, quality, affordability and value for money. The extent of the appraisal varies between programmes to recognise the different risks inherent in each programme.

- Delivery, Reporting and Monitoring

All programmes, projects and operating costs are subject to active monitoring and reporting throughout the year.

- Spending Controls

All procurement activity is supported by a procurement policy and detailed procedures designed to ensure fair competition, legal compliance, and the achievement of value for money. The Agency's default position on procurement is to undertake full competitive tendering in compliance with European Public Procurement Regulations where applicable. Any deviation from this approach requires additional approval and is covered within our scheme of delegations. The Agency continues to operate in accordance with the Government's spending controls.

Programme Delivery Risks

Programme risks are identified at an individual programme level and are subject to on going review and management through the relevant Programme Boards and the management teams operating throughout the Agency. These risks are also subject to joint review between HCA and DCLG on a periodic basis.

Operational Risks

Risks associated with the on going, day to day management of the Agency are captured in an operational risk register, and this is supported by three sub registers related to fraud risk, compliance risk and information risk. Each of these is reviewed by the Directors' Group on a periodic basis.

GOVERNANCE STATEMENT (CONTINUED)
YEAR ENDED
31 MARCH 2012

Information Security Risk

The Senior Information Risk Officer has confirmed that since the annual assessment for 2010/11, the profile of information risk compliance with HM Government's Security Policy Framework and other regulatory requirements continues to improve. Two incidents of lost hardware were reported to DCLG and no incidents were reported to the Information Commissioner during 2011/12 as no personal data was lost.

Improvements which have been made during 2011/12 include the mandatory requirement for vetting of non staff workforce and improved disaster recovery arrangements including the introduction of virtual servers.

During 2011, the HCA made the significant achievement of gaining ISO 27001 certification for all functions located within its Gateshead office including office facilities, data centre and IT services. It is proposed to extend the scope of certification to its Disaster Recovery site at Warrington during 2012.

We also received authorisation to upgrade HCA's connection from the Government Secure Extranet (GSX) to the Government Secure Intranet (GSI) on 28th December 2011

A clear set of priorities to work on over the next 12 months has been established to continue to raise the standard of information security at HCA.

The System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives, to ensure the safeguarding of assets, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the HCA for the year ended 31 March 2012 and up to the date of approval of the Annual Report and Financial Statements, and accords with Treasury guidance.

Key Control Systems

The Agency operates a range of key controls covering policies and procedures, resource allocation, appraisal methodologies, IT systems, reporting routines, delegations of authority and many others to mitigate risks to within acceptable levels. The most significant of these are:

- The Corporate and Business Planning processes which set out the Agency's objectives and resource allocation, and establish budgets and targets against which performance is ultimately judged.
- The Local Investment Planning process is the basis on which priorities are established at a local level in partnership with Local Authorities and other partners and the output from this supports the Corporate and Business Planning process. Local Investment Plans will be produced if supported by Local Authorities.
- IT Systems embed many of the Agency's key controls. The three major systems are the Investment Management System (IMS) which controls the operation of the National Affordable Housing Programme and the Affordable Homes Programme 2011-15, the Project Control System (PCS) which controls the operation of all project related programmes and E-Financials which is the overarching Finance system dealing with all accounting records, payments to suppliers and partners and the billing and collection of income. There are other systems covering assets, personnel and pay, spatial information, records, management of consultants and many others dealing with specific aspects of Agency business.

- Reporting and Monitoring routines are established for all investment programmes, projects and operating costs. These enable progress to be tracked, forecasts to be made and corrective action to be taken where this is deemed necessary.

Key changes impacting on the internal control environment during the year have been:

- completion of a fundamental restructuring exercise leading to substantial numbers of staff leaving under voluntary redundancy;
- development of the Affordable Homes Programme 2011-15 delivering a new form of social housing, 'Affordable Rent';
- development of further programmes to support the Government's Housing Strategy including Get Britain Building; and
- major structural change including the integration of the Tenants Services Authority, the transfer of staff and assets to London and the transfer of staff and assets from the Regional Development Agencies.

In all cases procedures have been established to help ensure that the internal control environment remains effective.

Significant Control Issues

Follow up of 2010-11 Issues

In the 2010-11 Statement of Internal Control the following significant control issues were highlighted:

- Project Handover Arrangements

Project handover arrangements were put in place to prevent the poor handover of information and knowledge from one project manager to the next, and these arrangements were monitored during the restructuring and downsizing exercise.

- End of Year Transaction Processing Issue

Additional controls were implemented to prevent any data loss from the interface of IMS with e-financials. This issue has not reoccurred.

2011/12 Issues

Based on sources of assurance available to me I am satisfied that appropriate Governance and Risk Management arrangements have been in place and operating within the HCA this year, and that there are no areas of significant control weakness to report in relation to the overall system of internal control.

Notwithstanding this, Internal Audit reports during 2011/12 have identified some areas where controls need to be developed further to manage risk or where further measures are required to ensure compliance with existing systems. This will be the focus of management attention in 2012/13 and relate to areas such as:

- implementation of system improvements to facilitate more effective capture of overage and clawback;
- review and revision of the delegations framework; and
- improving forecasting of financial commitments and the timely update of information systems.

Independent Assurance Arrangements

The HCA has an Internal Audit team who provide independent controls assurance across all of the Agency's governance, risk and control arrangements, and who operate in accordance with Government Internal Audit Standards. The HCA is subject to external audit by the National Audit Office.

GOVERNANCE STATEMENT (CONTINUED)
YEAR ENDED
31 MARCH 2012

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control has been informed by the work of Corporate Assurance, the assurances provided by the Directors of the Agency through their Management Assurance Statements (who collectively and individually have responsibility for the development and maintenance of the internal control framework), comments made by the NAO acting as external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The system of internal control is subject to on going review, and this process is coordinated and managed through the Audit and Risk Committee (the membership of which is composed of relevant Non Executive Board members), who in turn provide both regular feedback to the main Board and an annual report and overall opinion on the system of internal control.

The Audit and Risk Committee bases its judgment on the reports and opinions of Corporate Assurance, updates provided by the National Audit Office, internal risk reports, externally commissioned reviews, reports on the preparation of the Financial Statements and reports from the Senior Information Risk Officer.

Internal Audit has performed a programme of independent and objective reviews, in accordance with Government Internal Audit Standards and other work to provide assurance on the system of internal control. Internal Audit update their programme of work during the year to reflect changes in the risk profile and assurance requirements. These changes are discussed and appropriately approved. Internal Audit's work in 2011/12 has focused on risks associated with the Agency's Change Programme and with the delivery of continuing business at both programme and project levels. Work was also focused on providing assurance in relation to the operation of core elements of the internal control system during the change period. The outcome of their work has been regularly reported to me, the Audit and Risk Committee, the National Audit Office (NAO) and DCLG. There is a rigorous process in place to follow up the implementation of actions agreed as part of their work.

Internal Audit's opinion supports strong assurance for the Agency's governance and risk management arrangements in 2011/12, particularly in relation to Change Programme activities. Internal Audit have, however, highlighted areas within the overall control framework which are considered insufficient to manage the associated risks. These are areas where either the existing controls are not considered sufficient or more frequently where existing requirements are not being complied with. These issues are not however considered to have seriously undermined the overall control framework during 2011/12.

The National Audit Office (NAO) has provided regular updates on their work as external auditors for the HCA. In particular the NAO issued their final management letter for 2010/11 confirming an unqualified opinion on the HCA accounts. Work in relation to the 2011/12 accounts has resulted in an unqualified opinion, with no significant internal control issues having being highlighted.

I am also informed by NAO value for money studies. During the year the NAO have not published any reports, but understand that 'Financial Viability of the Social Housing Sector: Introducing the Affordable Homes Programme' will be published shortly.

Pat Ritchie Chief Executive and Accounting Officer

21 June 2012

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT YEAR ENDED 31 MARCH 2012

I certify that I have audited the financial statements of the Homes and Communities Agency for the year ended 31 March 2012 under the Housing and Regeneration Act 2008. The financial statements comprise: the Group Statement of Comprehensive Net Expenditure, the Group and Agency Statements of Financial Position, the Group and Agency Statements of Cash Flow, the Group and Agency Statements of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective Responsibilities of the Board, Accounting Officer and Auditor

As explained more fully in the Responsibilities of the Accounting Officer, the Board and Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Housing and Regeneration Act 2008. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

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

In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Homes and Communities Agency's affairs as at 31 March 2012 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Housing and Regeneration Act 2008 and Secretary of State directions issued thereunder.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT (CONTINUED)
YEAR ENDED 31 MARCH 2012

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions issued under the Housing and Regeneration Act 2008; and
- the information given within the Management Commentary and the Board Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office,
157-197 Buckingham Palace Road,
Victoria,
London,
SW1W 9SP

Date

26 June 2012

GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE YEAR ENDED 31 MARCH 2012

	Note	2011/12 £'000	Restated 2010/11 £'000
Expenditure			
Grant payments	2	2,029,101	4,000,514
Cost of property disposals	3	60,340	94,915
Programme costs	4	27,680	42,987
Estate management costs		28,169	28,509
Staff costs, excluding pensions	6	39,950	53,099
Pension costs	6	5,833	(16,402)
Other administration costs	7	18,277	26,565
Restructuring costs	8	12,435	3,149
Depreciation and amortisation	21, 22	2,402	3,071
Increase in provision for impairments	9	158,607	160,756
Increase in provisions	10	8,523	12,029
		2,391,317	4,409,192
Income			
Proceeds from disposal of property assets	3	41,627	83,384
Clawback of grants and contributions	13	33,439	61,416
Other operating income	14	41,698	46,184
		116,764	190,984
Net operating expenditure	12	2,274,553	4,218,208
Interest receivable	16	(25,754)	(27,538)
Interest payable	17	2,015	2,318
Pension fund finance costs	38(d)	(230)	2,536
Share of losses of associates and joint ventures	18	26,916	8,870
Gains on disposal of investments in associates	19	-	(1,009)
Net expenditure before tax		2,277,500	4,203,385
Income tax (credit)/charge	20	(16,854)	11,838
Net expenditure for the year		2,260,646	4,215,223
Other comprehensive expenditure			
Actuarial gain from pension fund	38(e)	(1,936)	(16,662)
Net (gain)/loss on revaluation of property/development assets	31	(71,749)	43,786
Fair value loss/(gain) on available for sale assets	24	17,108	(14,366)
Realised gains on disposal of available for sale assets recognised in net expenditure	5	3,330	1,024
Income tax on items in other comprehensive expenditure	20(b)	16,854	(7,597)
		(36,393)	6,185
Total comprehensive expenditure for the year		2,224,253	4,221,408

All activities above derive from continuing operations. Net expenditure is financed by Grant in Aid as explained in accounting policy Note 1(h), with the exception of non-cash expenditure, for example depreciation, amortisation, provisions and impairments.

GROUP STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

	Note	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Non-current assets				
Intangible assets	21	1,250	1,462	2,023
Property, plant and equipment	22	5,223	6,764	7,607
Investments in associates and joint ventures	23(b),(c)	12,779	22,678	25,028
Available for sale financial assets	24	550,208	556,556	454,049
Finance lease receivables	25	1,857	1,931	1,999
Pension assets	38	12,551	-	-
Loans	26	312,011	363,325	340,955
		895,879	952,716	831,661
Current assets				
Property/development assets	31	1,015,443	1,007,387	1,195,808
Trade and other receivables	32	331,438	398,179	423,929
Current tax assets		-	-	141
Cash and cash equivalents	33	13,206	79,713	52,418
		1,360,087	1,485,279	1,672,296
Total assets		2,255,966	2,437,995	2,503,957
Current liabilities				
Trade and other payables	34	(261,704)	(344,376)	(373,809)
Finance lease payables	35	(754)	(897)	(843)
Current tax liabilities		-	(3,562)	-
Provisions	36	(25,689)	(22,995)	(26,743)
		(288,147)	(371,830)	(401,395)
Non-current assets plus net current assets		1,967,819	2,066,165	2,102,562
Non-current liabilities				
Finance lease payables	35	(1,396)	(2,150)	(3,048)
Provisions	36	(152,792)	(169,570)	(174,900)
Deferred tax liabilities	37	-	-	-
Pension liabilities	38	(17,799)	(68,353)	(124,205)
		(171,987)	(240,073)	(302,153)
Assets less liabilities		1,795,832	1,826,092	1,800,409
Reserves				
Income and expenditure reserve		1,575,638	1,630,717	1,589,503
Revaluation reserve		197,725	157,849	184,510
Fair value reserve		22,469	37,526	26,396
Taxpayers' equity		1,795,832	1,826,092	1,800,409

The accompanying Notes are an integral part of these Financial Statements.
Approved by the Board on 21 June 2012 and signed on their behalf by:

Robert Napier Chairman

Pat Ritchie Chief Executive and Accounting Officer

AGENCY STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

	Note	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Non-current assets				
Intangible assets	21	1,250	1,462	2,023
Property, plant and equipment	22	5,223	6,764	7,607
Investments in subsidiaries	23(a)	15,184	15,184	25,000
Investments in associates and joint ventures	23(c)	-	2,849	2,849
Available for sale financial assets	24	550,208	556,556	454,049
Finance lease receivables	25	1,857	1,931	1,999
Pension assets	38	12,551	-	-
Loans	26	312,011	363,325	340,955
		898,284	948,071	834,482
Current assets				
Property/development assets	31	1,015,443	1,007,387	1,195,808
Trade and other receivables	32	331,438	398,179	423,929
Current tax assets		-	-	141
Cash and cash equivalents	33	13,206	79,713	52,418
		1,360,087	1,485,279	1,672,296
Total assets		2,258,371	2,433,350	2,506,778
Current liabilities				
Trade and other payables	34	(261,704)	(344,376)	(373,809)
Finance lease payables	35	(754)	(897)	(843)
Current tax liabilities		-	(3,562)	-
Provisions	36	(25,689)	(22,995)	(26,743)
		(288,147)	(371,830)	(401,395)
Non-current assets plus net current assets		1,970,224	2,061,520	2,105,383
Non-current liabilities				
Finance lease payables	35	(1,396)	(2,150)	(3,048)
Provisions	36	(152,792)	(169,570)	(174,900)
Deferred tax liabilities	37	-	-	-
Pension liabilities	38	(17,799)	(68,353)	(124,205)
		(171,987)	(240,073)	(302,153)
Assets less liabilities		1,798,237	1,821,447	1,803,230
Reserves				
Income and expenditure reserve		1,578,043	1,626,072	1,592,324
Revaluation reserve		197,725	157,849	184,510
Fair value reserve		22,469	37,526	26,396
Taxpayers' equity		1,798,237	1,821,447	1,803,230

The accompanying Notes are an integral part of these Financial Statements.
Approved by the Board on 21 June 2012 and signed on their behalf by:

Robert Napier Chairman

Pat Ritchie Chief Executive and Accounting Officer

STATEMENT OF CASH FLOWS
YEAR ENDED 31 MARCH 2012

Group and Agency	Note	2011/12 £'000	Restated 2010/11 £'000
Net cash outflow from operating activities	(a)	(2,362,437)	(4,064,566)
Cash flows from investing activities			
Loans advanced by Agency	30	(6,932)	(50,031)
Loans repaid to Agency		34,367	15,859
Finance lease repayments to Agency		74	68
Purchase of property, plant and equipment	22	(1,099)	(673)
Purchase of intangible assets	21	(854)	(771)
Purchase of loan stock in associates and joint ventures	27	(205)	(7,351)
Additions to available for sale financial assets	24	(114,534)	(143,338)
Proceeds from disposal of available for sale financial assets	5	31,990	15,336
Interest received		13,363	16,740
Net cash outflow from investing activities		(43,830)	(154,161)
Cash flows from financing activities			
Grant in Aid from sponsor department		2,193,993	4,247,091
Interest paid	17	(262)	(225)
Capital element of repayment of finance leases		(897)	(844)
Net cash inflow from financing activities		2,192,834	4,246,022
(Decrease)/increase in cash and cash equivalents in the period		(213,433)	27,295
Cash and cash equivalents at 1 April	(b)	79,713	52,418
Cash and cash equivalents at 31 March	(b)	(133,720)	79,713

(a) Reconciliation of net operating expenditure to net cash flow from operating activities

	Note	2011/12 £'000	Restated 2010/11 £'000
Net operating expenditure		(2,274,553)	(4,218,208)
Additions to property/development assets	31	(49,114)	(63,191)
Cost of property/development assets disposed	3, 31	38,767	82,621
Increase/(decrease) in impairments	9	158,607	160,756
Depreciation and amortisation	21, 22	2,402	3,071
(Profit)/loss on disposal of available for sale financial assets	5	(792)	3,063
Pension costs		(60,939)	(41,726)
		(2,185,622)	(4,073,614)
Decrease in receivables		72,182	50,190
Decrease in payables		(231,351)	(31,526)
Decrease in provisions		(14,084)	(9,078)
Income tax paid		(3,562)	(538)
Net cash outflow from operating activities		(2,362,437)	(4,064,566)

(b) Analysis of cash and cash equivalents

	Note	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Cash and cash equivalents as shown in Statement of Financial Position	33	13,206	79,713	52,418
Bank overdraft	34	(146,926)	-	-
Cash and cash equivalents as shown in Statement of Cash Flows		(133,720)	79,713	52,418

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
YEAR ENDED 31 MARCH 2012

	Note	Income and expenditure reserve £'000	Revaluation reserve £'000	Fair value reserve £'000	Total £'000
Balance at 31 March 2010		947,375	143,745	26,396	1,117,516
Restatement under merger accounting		642,128	40,765	-	682,893
Restated balance at 31 March 2010		1,589,503	184,510	26,396	1,800,409
Changes in taxpayers' equity 2010/11					
Net expenditure for the year		(4,215,223)	-	-	(4,215,223)
Actuarial gain from pension fund	38(e)	16,662	-	-	16,662
Net loss on revaluation of property/ development assets	31	-	(43,786)	-	(43,786)
Revaluation gains transferred on disposal		5,212	(5,212)	-	-
Fair value gain on available for sale assets	24	-	-	14,366	14,366
Realised gains on disposal of available for sale assets recognised in net expenditure		-	-	(1,024)	(1,024)
Income tax on items in other comprehensive expenditure	20	(12,528)	22,337	(2,212)	7,597
Total comprehensive expenditure for the year		(4,205,877)	(26,661)	11,130	(4,221,408)
Grant in Aid from sponsor department	1(h)	4,247,091	-	-	4,247,091
Balance at 31 March 2011		1,630,717	157,849	37,526	1,826,092
Changes in taxpayers' equity 2011/12					
Net expenditure for the year		(2,260,646)	-	-	(2,260,646)
Actuarial gain from pension fund	38(e)	1,936	-	-	1,936
Net gain on revaluation of property/ development assets	31	-	71,749	-	71,749
Revaluation gains transferred on disposal		12,205	(12,205)	-	-
Fair value loss on available for sale assets	24	-	-	(17,108)	(17,108)
Realised gains on disposal of available for sale assets recognised in net expenditure		-	-	(3,330)	(3,330)
Income tax on items in other comprehensive expenditure	20	(2,567)	(19,668)	5,381	(16,854)
Total comprehensive expenditure for the year		(2,249,072)	39,876	(15,057)	(2,224,253)
Grant in Aid from sponsor department	1(h)	2,193,993	-	-	2,193,993
Balance at 31 March 2012		1,575,638	197,725	22,469	1,795,832

AGENCY STATEMENT OF CHANGES IN TAXPAYERS' EQUITY YEAR ENDED 31 MARCH 2012

	Note	Income and expenditure reserve £'000	Revaluation reserve £'000	Fair value reserve £'000	Total £'000
Balance at 31 March 2010		954,430	143,745	26,396	1,124,571
Restatement under merger accounting		637,894	40,765	-	678,659
Restated balance at 31 March 2010		1,592,324	184,510	26,396	1,803,230
Changes in taxpayers' equity 2010/11					
Net expenditure for the year		(4,222,689)	-	-	(4,222,689)
Actuarial gain from pension fund	38(e)	16,662	-	-	16,662
Net loss on revaluation of property/ development assets	31	-	(43,786)	-	(43,786)
Revaluation gains transferred on disposal		5,212	(5,212)	-	-
Fair value gain on available for sale assets	24	-	-	14,366	14,366
Realised gains on disposal of available for sale assets recognised in net expenditure		-	-	(1,024)	(1,024)
Income tax on items in other comprehensive expenditure	20	(12,528)	22,337	(2,212)	7,597
Total comprehensive expenditure for the year		(4,213,343)	(26,661)	11,130	(4,228,874)
Grant in Aid from sponsor department	1(h)	4,247,091	-	-	4,247,091
Balance at 31 March 2011		1,626,072	157,849	37,526	1,821,447
Changes in taxpayers' equity 2011/12					
Net expenditure for the year		(2,253,596)	-	-	(2,253,596)
Actuarial gain from pension fund	38(e)	1,936	-	-	1,936
Net gain on revaluation of property/ development assets	31	-	71,749	-	71,749
Revaluation gains transferred on disposal		12,205	(12,205)	-	-
Fair value loss on available for sale assets	24	-	-	(17,108)	(17,108)
Realised gains on disposal of available for sale assets recognised in net expenditure		-	-	(3,330)	(3,330)
Income tax on items in other comprehensive expenditure	20	(2,567)	(19,668)	5,381	(16,854)
Total comprehensive expenditure for the year		(2,242,022)	39,876	(15,057)	(2,217,203)
Grant in Aid from sponsor department	1(h)	2,193,993	-	-	2,193,993
Balance at 31 March 2012		1,578,043	197,725	22,469	1,798,237

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2012

1. Statement of accounting policies

a) Statutory basis
The Financial Statements of the Homes and Communities Agency (the Agency) are governed under the provisions of the *Housing and Regeneration Act 2008* and by the Accounts Direction given by the Secretary of State, with approval of HM Treasury under the Act. The Direction issued on 24 November 2008 reflects government policy that the Financial Statements should, insofar as appropriate, conform to the accounting and disclosure requirements contained in *Managing Public Money*, *Financial Reporting Manual* (FReM) and in HM Treasury's *Fees and Charges Guide*. The Financial Statements have been prepared in accordance with the 2011/12 Government *Financial Reporting Manual* (FReM) issued by HM Treasury.

The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

b) Accounting convention
The Financial Statements are prepared under the historical cost convention modified by the revaluation of non-current assets, stock of development assets and available for sale financial assets.

c) Machinery of Government changes
On the 19th September 2011, economic assets, liabilities and associated programme and administrative income and expenditure transferred from the Regional Development Agencies (RDAs) to the Agency under the provisions of the *Housing and Regeneration Act 2008*.

Similarly, the Coalfield assets, liabilities and associated programme and administrative income and expenditure transferred from the RDAs to the Agency under the same Act on 1 August 2011.

The FReM states that the transfer of functions from the responsibility of one part of the public sector to another, will be accounted for using merger accounting. The results and cashflows of the combining bodies/functions are therefore brought into the Agency's Financial Statements from the beginning of the 2011-12 financial year, adjusted to achieve uniformity of accounting policies.

Comparatives for the previous period are also restated to include the results for all combining bodies/functions, adjusted as necessary to achieve uniformity of accounting policies. Note 48 explains the impact of this change in more detail.

d) Basis of preparation and consolidation
The Group Financial Statements incorporate those of the Agency and its subsidiary undertakings. No Statement of Comprehensive Net Expenditure is presented for the Agency as permitted by section 408 of the *Companies Act 2006*.

The Group's associated undertakings are all undertakings in which the Group has a participating interest and over whose operating and financial policy it exercises significant influence. The Group's joint ventures are all undertakings in which the Group exercises joint control. In the Group Financial Statements, investments in associates and joint ventures are accounted for using the equity method. The consolidated Statement of Comprehensive Net Expenditure includes the Group's share of profits and losses of associates and joint ventures, while its share of net assets of associates and joint ventures is shown in the Group Statement of Financial Position.

1. Statement of accounting policies (continued)

The share of net assets and profit information is based on unaudited Financial Statements or management information to 31 March 2012 except for English Cities Fund. For this associate, Financial Statements to 31 December 2011 have been used because these do not generally produce significantly different results and are prepared to a reporting date within three months of that of the Agency. Significant transactions following this date have been adjusted for on consolidation.

e) Intangible assets

Intangible assets comprise:

- Software – licenses to use software developed by third parties;
- Information technology – the costs of developing the systems required to allow grants to be made to Registered Providers (RPs) and other entities and the development costs of core systems of the Agency.

Development costs are capitalised where the asset under construction is anticipated to have a life in excess of one year and therefore the costs of developing that asset are chargeable over the same life cycle as the asset.

Assets are capitalised where the cost of a single asset, or group of assets, exceeds £5,000.

Intangible assets are valued at amortised historical cost, which is not materially different from amortised replacement cost, and are amortised over four years.

f) Property, plant and equipment

Property, plant and equipment, excluding freehold and leasehold property, is stated at historical cost less accumulated depreciation and any impairment in value, as a proxy for fair value. These assets generally have short useful lives and low values, and therefore this basis is not considered to be materially different to fair value. Land, freehold buildings and leasehold buildings are recognised initially at cost and thereafter measured at fair value, less depreciation on buildings and any impairment subsequent to the date of valuation. Land is not depreciated.

For land and freehold buildings an assessment is carried out each year by a qualified valuer to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. A full valuation is performed every five years. For leasehold buildings, fair value is determined by reference to the present value of the minimum remaining lease payments, with an allowance made for any properties not fully utilised.

Assets are capitalised where the cost of a single asset, or group of assets, exceeds £5,000.

Depreciation is charged to net expenditure based on cost or fair value (in the case of revalued assets), less the estimated residual value of each asset, evenly over its expected useful life as follows:

Freehold and long leasehold property	50 years, or the remaining lease term if shorter
Information technology	three years
Furniture, fixtures and fittings	five years
Office equipment	five years

g) Property/development assets

i) Valuation

Property/development assets, consisting of land and buildings, are shown in the Statement of Financial Position at market value. A valuation of the whole portfolio was carried out as at 31 March 2012 by both internal and external qualified valuers, with independent external valuers appointed for the majority of the portfolio's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

1. Statement of accounting policies (continued)

value and also to value complex properties. In all cases the valuations were in accordance with *RICS Valuation Standards* (6th Edition) published by the Royal Institution of Chartered Surveyors.

Each asset is individually assessed in order to calculate the net gain or loss on each site following the revaluation.

Any increase above historical cost is taken to the revaluation reserve whilst losses are written off against the reserve up to the value of the credit balance in the reserve and are shown in the Statement of Comprehensive Net Expenditure thereafter as an impairment charge. A write back of an impairment charge may occur if the value of an asset increases up to a maximum of its historical cost. Upon disposal of a development asset, any revaluation reserve relating to that asset is transferred to the income and expenditure reserve.

ii) Disposal of property/development assets
The Agency recognises income from the disposal of property/development assets (net of VAT), when there is a legally binding sale agreement, which has become unconditional and irrevocable by the end of the reporting period, subject to any provisions necessary to cover residual commitments relating to the property.

Where proceeds are receivable over a period of more than 12 months after the end of the reporting period, the proceeds are discounted at 3.5% to reflect the net present value of the receipts.

The corresponding receivable is also discounted and the difference between actual cash receipts and the net present value of the receipts is credited to interest receivable over the life of the debt.

h) Funding
The Agency’s activities are funded in part by income generated from operations. However the majority of the Agency’s funding is by Grant in Aid provided by the Department for Communities and Local Government for specified types of expenditure.

Grant in Aid received to finance activities and expenditure which support the statutory and other objectives of the Agency are treated as financing and credited to the income and expenditure reserve in full, because they are regarded as contributions from a controlling party. The net expenditure for the period is transferred to this reserve.

i) Grants payable
Payments of capital and revenue grants to Registered Providers (RPs) and other bodies are accounted for on an accruals basis.

Payments of Capital Investment Grants under the National Affordable Housing Programme, are paid in two instalments, a start on site tranche and a completion tranche. The payments were 75% Start on Site and 25% on completion until 1 April 2010 when the tranche payments were varied to 50% on each of the two milestones. The only exception to this is that grants to private developers are paid in one tranche once the scheme is occupied.

Payments of Capital Investment Grants under the new Affordable Homes Programme are payable in one tranche when the practical completion/final cost milestone is achieved. However, for applicable schemes where Start on Site was achieved before 31 March 2012, a Start on Site tranche payment of 75% applies, with 25% payable when the practical completion/final cost milestone is achieved.

1. Statement of accounting policies (continued)

j) Grant recoveries from RPs
Recoveries of grants are accounted for when the amount due for repayment has been agreed with the RP and invoiced. RPs are able to retain any grant recoverable from sales within their own accounts for recycling, with the funds becoming due back to the Agency if unused within three years.

k) Other income
Contributions from partners towards specific revenue expenditure are initially deferred, and are then recognised as income when the related expenditure is incurred. Contributions towards specific capital expenditure are deferred until the related capital expenditure is charged to net expenditure, which is normally on disposal of the asset concerned. In both cases deferrals are limited to those situations in which the funder imposes a condition that the future economic benefits embodied in the grant are consumed as specified by the grantor or must be returned to them.

Rent and other property income is accounted for over the period to which it relates, except for income from leases, which is accounted for as described in n) below. Other operating income is recognised when the Agency has a contractual right to receive it.

l) Investments in subsidiaries, associates and joint ventures
Investments in subsidiaries, associates and joint ventures, as shown in the Agency's own Statement of Financial Position, are shown at cost less provision for impairment.

m) Income tax
The income tax charge represents the sum of current tax and deferred tax. Both current and deferred tax are recognised in the Statement of Comprehensive Net Expenditure except to the extent that they relate to items recognised directly in taxpayers' equity, in which case they are also recognised in taxpayers' equity.

Current tax is the expected tax payable on the taxable surplus for the year, based on tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated at the tax rates expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable surpluses will be available against which the temporary differences can be utilised.

n) Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Operating lease rentals receivable and payable are accounted for in the Statement of Comprehensive Net Expenditure on a straight line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

1. Statement of accounting policies (continued)

Assets held under finance leases are initially recognised at the lower of their fair value and the present value of the minimum lease payments, both determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges and contingent rents are recognised in the Statement of Comprehensive Net Expenditure as incurred.

Assets owned by the Agency which it leases under finance leases are recorded as disposals at the inception of the lease. Amounts due from lessees are included in the Statement of Financial Position as finance lease receivables at the amount of the net investment in the lease, equal to the present value of the minimum lease payments. Lease receipts are apportioned between finance income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable. Finance income is recognised in the Statement of Comprehensive Net Expenditure.

o) Pension costs

The Agency accounts for pension costs in accordance with *IAS 19 Employee Benefits*. During the year the Agency's employees were able to participate in one of the following contributory pension schemes:

- The Homes and Communities Agency Pension Scheme
- The City of Westminster Pension Fund
- The West Sussex County Council Pension Fund

All three schemes are multi-employer defined benefit schemes as described in paragraph 7 of *IAS 19*.

Plan assets are measured at fair value, and liabilities are measured on an actuarial basis and discounted to present value. The net obligation is recognised as a liability within pension liabilities in the Statement of Financial Position. The operating and financing costs of the schemes are recognised separately in the Statement of Comprehensive Net Expenditure. Service costs are spread over the working lives of employees and financing costs are recognised in the period in which they arise. Actuarial gains and losses are recognised in full in taxpayers' equity.

p) Provisions in respect of community related assets

Provisions are made in respect of the estimated future maintenance costs of community related assets. This is done on the basis that these assets have no value and are not income generating and because it is the Agency's policy to transfer such assets to local authorities and other appropriate organisations. On transfer the Agency is usually required to transfer other assets of value, including cash, which equate to the estimated future maintenance liability attaching to such assets.

q) Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Agency becomes a party to the contractual provisions of the instrument.

The Agency derecognises a financial asset only when the contractual rights to the cash flows for the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

The Agency derecognises a financial liability only when the Agency's obligations are discharged, cancelled or they expire.

1. Statement of accounting policies (continued)

Financial assets

Non-derivative financial assets are classified as either 'available for sale' or 'loans and receivables'. The classification depends upon the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available for sale financial assets

The Agency provides financial assistance to home buyers to buy a share in a new build home. The buyer must take out an affordable mortgage, which along with any deposit, must make up a minimum of 50% of the full purchase price of the property. In return the Agency will assist with up to 50% of the full property price. The assistance is paid to the participating housebuilder, not the buyer. However, as part of the sales agreement, the Agency has an entitlement to a share of the future sales proceeds which will be equal to the initial percentage contribution. This is secured by a second charge on the property.

The Agency's entitlement to the future sale proceeds on these properties is classified as being available for sale and is stated at fair value.

The Agency makes investments in some private sector developments, where the returns are based on a share of the profitability of the scheme. These investments are also classified as available for sale and are stated at fair value.

Gains and losses arising from changes in fair value are recognised directly in the fair value reserve with the exception of impairment losses which are recognised directly in the Statement of Comprehensive Net Expenditure. Where the financial asset is disposed of, the cumulative gain previously recognised in taxpayers' equity is included in net expenditure for that period.

Differences between the fair value at initial recognition as calculated using the Agency's valuation methods (described in Note 40) and the price paid by the Agency to acquire the instrument are released over the expected life of the instrument in accordance with *IAS 39 Financial Instruments: Recognition and Measurement*. Differences arising from the application of discounting are released using the effective interest rate method. Differences arising from cashflow forecasts on an undiscounted basis are released on a straight line basis over the expected life of the instrument, subject to this amount still being forecast at the reporting date.

Loans and receivables

Loans, finance lease receivables and trade and other receivables are classified as 'loans and receivables'.

Loans

Loans are shown at amortised cost using the effective interest rate and are included within non-current assets.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included within current assets, although those with maturities greater than 12 months after the end of the reporting period are separately disclosed. Trade and other receivables are measured at amortised cost less a provision for impairment. The net of these balances are classified as 'trade and other receivables' in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

1. Statement of accounting policies (continued)

Impairment of financial assets
'Loans and receivables' are assessed for indicators of impairment at the end of each reporting period and are impaired where there is objective evidence that the recovery of the receivable is in doubt.

Objective evidence of impairment could include significant financial difficulty of the customer, default on payment terms or the customer going into liquidation.

For financial assets classified as available for sale, a significant or prolonged decline in the value of the property underpinning the financial asset, or a significant reduction in expected cashflows, is considered to be objective evidence of impairment.

Cash and cash equivalents
Cash comprises cash on hand and demand deposits. Cash equivalents comprise amounts in bank accounts where there is an insignificant risk of changes in value, with less than three months' notice from inception.

Cash and cash equivalents are classified as 'loans and receivables'.

Financial liabilities
All non-derivative financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

Financial liabilities consist of trade and other payables, finance lease payables and certain provisions.

Financial liabilities are classified as current liabilities unless the Agency has an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

r) Critical accounting judgments and key sources of estimation uncertainty
In the process of applying the accounting policies above, management have made no individual judgements that have a significant impact on the Financial Statements, apart from those involving key estimations which are as follows:

Market value of property/development assets
The most significant judgement made in preparing the Financial Statements is the determination of the market value of property/development assets. By its nature, this process involves a significant amount of estimation uncertainty, particularly given the complexity of some of the Agency's properties, and the current market conditions. Valuations are performed by qualified valuers with independent external valuers appointed for the majority of the portfolio's value and also to value complex properties.

Available for sale financial assets
The majority of available for sale financial assets are valued with reference to either published regional house price indices (published in April following each year end) or cashflow forecasts, depending on the scheme. For equity interests in housing units regional house price indices are supplemented by adjustments for experience of actual disposals since the inception of the schemes. However these only provide an estimate of the fair value of these assets because house price indices cannot accurately predict the value of individual units and disposal proceeds to date, although a good indicator of market performance, may not occur at the same level in the future, as disposals to date represent only a small portion of the portfolio. Cash flow forecasts by their nature are based on estimates.

1. Statement of accounting policies (continued)

Provisions
The provision for additional consideration on development land is calculated by estimating the profits from, and timing of, future land disposals. These estimates are based on current market conditions and the Agency's current plans for utilisation of the site. The environmental liability is calculated by estimating the future remediation costs to be incurred, based on current site conditions and remediation processes.

Defined benefit pensions
The value of the Agency's defined benefit pension liability has been assessed by qualified independent actuaries. In calculating the liability, it is necessary for actuarial assumptions to be made which include future rates of inflation, salary growth, investment yield and mortality rates. Differences between those estimates used and the actual outcomes will be reflected in taxpayers' equity in future years.

Deferred tax
The recognition of deferred tax assets and liabilities is based on the timing of the reversal of various temporary differences, relating to disposals of property and utilisation of tax losses and provisions. Judgement is therefore involved in estimating when these reversals are likely to take place.

s) Changes in accounting policies
IAS 24 Related Party Transactions
The revised version of IAS 24 is effective from the 2011-12 reporting period. It simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This amendment has no significant impact on the Agency's Financial Statements.

IAS 20 Accounting for Government Grants and disclosure of government assistance
The FReM withdraws the option of offsetting a government grant against the cost of an asset. The option provided in IAS 20 to defer grant income related to an asset is restricted to income where the funder imposes a condition that the future economic benefits embodied in the grant are consumed as specified by the grantor or must be returned to them. This amendment has no significant impact on the Agency's Financial Statements.

t) Impact of standards and interpretations in issue but not yet effective
At the date of approval of these Financial Statements there are a number of standards, amendments and interpretations that have been published but which are not yet effective. Those which will be applicable to the Agency are listed below.

IFRS 9 Financial Instruments
IFRS 9 will be effective no later than the Agency's 2013-14 reporting period. IFRS 9 simplifies the classification and measurement of financial assets by reducing the number of categories of financial asset specified in IAS 39. Its principal impact on the Agency is that financial assets currently classified as available for sale will be accounted for at amortised cost. As a result, the fair value reserve will be eliminated, with a corresponding reduction in financial assets recorded in non-current assets. Gains or losses currently recorded in taxpayers' equity will no longer occur, and accordingly these will no longer be recorded in the Statement of Comprehensive Net Expenditure when the corresponding asset is disposed of. The application of IFRS 9 in the public sector context has yet to be interpreted by the FReM.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

2. Grant payments

(a) Grant payments were made to RPs, local authorities and other public and private sector partners under the following programmes:

	2011/12 £'000	Restated 2010/11 £'000
Affordable Housing Grant (Note 2(b))	1,463,333	2,509,414
Decent Homes	194,247	133,675
Housing Market Renewal	35,486	260,699
Property and Regeneration	132,418	156,722
Economic Assets	74,842	183,670
Mortgage Rescue	96,044	188,051
Kickstart Housing Delivery – gap funding to developers	20,218	57,911
Armed Forces Home Ownership Scheme	4,906	4,957
Homelessness Change Programme	3,021	-
Traveller Pitch Funding	2,839	-
Bringing Empty Homes Back into Use	1,747	-
Community Infrastructure Fund	-	183,858
Thames Gateway	-	70,101
Growth Funding and Eco Towns	-	170,587
Social Housing Energy Savings Programme	-	38,986
Places of Change	-	23,000
Gypsy and Traveller Site Grant	-	15,100
Low Carbon Infrastructure Fund	-	2,500
Procurement Efficiency in Social Housing	-	1,283
	2,029,101	4,000,514

Affordable Housing Grant comprises capital investment grants for affordable housing made to RPs and other bodies, and are analysed further in Note 2(b) according to the programme from which they were funded.

(b) Affordable Housing Grant

The Agency's powers to pay grants for affordable housing to RPs and other bodies are conferred by Section 19 of the *Housing and Regeneration Act 2008*, and in certain cases by Section 18 of the *Housing Act 1996*. The power to recover grant is conferred by Section 32 of the *Housing and Regeneration Act 2008*, Section 52 of the *Housing Act 1988* and Section 27 of the *Housing Act 1996*.

	Payments £'000	Recoveries £'000	2011/12 Net total £'000	Payments £'000	Recoveries £'000	Restated 2010/11 Net total £'000
National Affordable Housing Programme	1,169,571	(16,991)	1,152,580	2,360,600	(54,130)	2,306,470
Affordable Homes Programme	235,811	(114)	235,697	-	-	-
Kickstart Housing Delivery	27,060	(991)	26,069	82,969	-	82,969
Local Authority New Build	30,891	(368)	30,523	65,845	(88)	65,757
	1,463,333	(18,464)	1,444,869	2,509,414	(54,218)	2,455,196

3. Disposal of property assets

	Note	2011/12 £'000	Restated 2010/11 £'000
Proceeds from disposals		41,627	83,384
Cost of property disposals:			
Book value of property disposals	31	38,767	82,621
Direct sales expenses		1,884	627
Decrease in accrued costs relating to assets disposed of in prior years		-	(2,055)
Increase in provision for additional consideration payable for development assets	36	19,689	13,722
		60,340	94,915
(Deficit)/surplus on disposal		(18,713)	(11,531)

4. Programme costs

	Note	2011/12 £'000	Restated 2010/11 £'000
Property and Regeneration		9,820	9,198
Economic Assets		4,548	14,392
Kickstart Housing Delivery		1,425	2,610
Affordable Homes Programme Agents Fees		6,725	6,196
FirstBuy Agents Fees		3,424	-
Skills and Knowledge Directorate		-	2,894
Other initiatives		9	1,668
Taxation not recoverable		2,521	2,966
(Profit)/loss on disposal of available for sale financial assets	5	(792)	3,063
		27,680	42,987

The Property and Regeneration and Economic Assets programmes includes non-asset and related project specific costs.

Costs within Kickstart Housing Delivery include legal fees, financial investigation fees, property services fees and other non-grant, non-equity fees in relation to the operation of the Kickstart initiative.

Skills and Knowledge Directorate costs in 2010/11 include £1.7m of staff costs (Note 6).

Other initiatives comprise costs in relation to the set up and operation of programmes such as the Public Land Initiative, the Eco-Towns Programme and the Low Carbon Infrastructure Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

5. Disposal of available for sale financial assets

	Note	2011/12 £'000	Restated 2010/11 £'000
Proceeds from disposals		31,990	15,336
Cost of disposals:			
Book value of assets disposed	24	34,528	19,423
Fair value gains recognised in net expenditure on disposal		(3,330)	(1,024)
		31,198	18,399
Profit/(loss) on disposal	4	792	(3,063)

6. Staff costs

The costs of salaried staff for the year, excluding Board Members, were as follows:

(a) Total staff costs

	2011/12 £'000	Restated 2010/11 £'000
Total staff costs charged to net expenditure comprise:		
Staff costs, excluding pensions	39,950	53,099
Pension costs	5,833	(16,402)
Total staff costs	45,783	36,697

The costs above can be further analysed as follows:	2011/12 £'000	2010/11 £'000
Salaries and wages	36,005	47,904
Social security costs	3,469	4,218
Pension costs – current service cost*	4,984	10,583
Pension costs – past service cost	-	(28,232)
Pension costs – losses on curtailments and settlements	849	1,247
	45,307	35,720
Temporary staff	335	1,075
Seconded staff	141	1,637
	45,783	38,432
Less: Skills and Knowledge Directorate costs recharged to programme costs (Note 4)	-	(1,735)
	45,783	36,697
Non-Executive Board Member expenses	31	61

The figures above include costs for staff transferred from RDAs in full for both the current and prior year.

There were no staff costs capitalised in 2011/12 (2010/11: £nil). The credit to past service pension costs in 2010/11 is disclosed as an exceptional item due to its size and nature (Note 11).

*Current service pension costs above do not include costs relating to early retirements, which are included within restructuring costs in Note 8.

6. Staff costs (continued)

(b) Average number of staff employed by the Agency (full time equivalents)

	2011/12 Number	Restated 2010/11 Number
Permanent UK staff	834	1,108
Fixed term UK staff	16	36
Temporary staff	7	28
Seconded staff	2	23
	859	1,195

(c) Staff salaries by salary pay band and number of employees (full time equivalents)

	2011/12 Number	Restated 2010/11 Number
£0 – £25,000	150	304
£25,001 – £50,000	453	612
£50,001 – £75,000	211	223
£75,001 – £100,000	33	38
£100,001 – £125,000	5	6
£125,001 – £150,000	6	9
£150,001 – £175,000	1	2
£175,001 – £200,000	-	-
£200,001 – £225,000	-	1
	859	1,195

(d) Staff bonuses

Staff members who are direct employees of the Agency benefit from a Performance Related Pay scheme whereby any bonuses are determined with reference to performance against agreed objectives during a performance year. Payments accruing during the year totalled £339,000 (2010/11: £954,000). During 2010/11 the performance year changed from July-June to April-March. Therefore the amount for 2010/11 includes amounts paid relating to the previous July-June performance year of £518,000 and amounts accrued for the transitional performance period ended 31 March 2011 of £436,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

6. Staff costs (continued)

(e) Exit packages

Redundancy and other departure costs have been determined in accordance with a scheme agreed with DCLG, the Agency's sponsor department. Exit costs are accounted for in full when the departure has become certain and terms agreed. Exit costs accounted for in the year can be analysed as follows:

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages
£0 – £10,000	-	26	26
£10,001 – £25,000	-	68	68
£25,001 – £50,000	-	81	81
£50,001 – £100,000	-	62	62
£100,001 – £150,000	-	17	17
£150,001 – £200,000	-	10	10
More than £200,000	-	-	-
Total number of exit packages	-	264	264
Total cost of exit packages (£'000)	-	12,435	12,435

7. Other administration costs

	Note	2011/12 £'000	Restated 2010/11 £'000
Board Members' remuneration (including employers' national insurance)		221	217
Indirect staff costs		611	1,076
Travel and subsistence		2,963	3,608
Accommodation costs		6,078	9,078
Office running costs		3,888	4,016
Professional fees		1,490	1,910
Communications		287	558
Auditor's remuneration	12	215	180
Taxation not recoverable		2,310	5,706
Other		214	216
		18,277	26,565

Included within administration costs is £11,000 (2010/11: £67,000) in relation to non-staff hospitality and entertaining.

8. Restructuring costs

	2011/12 £'000	Restated 2010/11 £'000
Redundancy and restructuring	9,483	1,762
Early retirement pension costs	2,952	1,387
	12,435	3,149

The costs above arise from the restructuring which commenced in 2010/11 and was completed during 2011/12. These are classified as exceptional due to their size and nature (Note 11).

9. Movement in provision for impairments

	Note	2011/12 £'000	Restated 2010/11 £'000
Impairment of development assets	31	74,040	125,205
Impairment of available for sale financial assets	24	69,246	35,774
Impairment of other financial assets	30	14,017	-
Impairment of property, plant and equipment	22	1,304	(223)
		158,607	160,756

Impairments of available for sale financial assets are disclosed as exceptional items (Note 11) as they include the specific write-down of certain investments in housing units, not arising in the normal course of fair value adjustments described in Note 40.

10. Movement in provisions

	Note	2011/12 £'000	Restated 2010/11 £'000
Movement in bad debt provision	11	3,722	10,088
Movement in other provisions	36	4,801	1,941
		8,523	12,029

The movement in bad debt provision in 2010/11 is disclosed as an exceptional item due to its size (Note 11).

The movement in other provisions does not include the movement on the provision for additional consideration on development land which is charged to costs of property disposals, as described in Note 36.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

11. Exceptional costs

Impairment of development assets

The impairment of development assets of £74.0m (2010/11: £125.2m) is noted as an exceptional item because of its size.

Impairment of available for sale financial assets

Included in impairment of available for sale financial assets is a £56.9m charge (2010/11: £25.9m) arising on the write-down of some of the Agency's investments in housing units under HomeBuy Direct and the First Time Buyers' Initiative. This write-down is based on analysis of actual profits and losses experienced on unit sales since the inception of the schemes, and is in addition to fair value changes arising from the factors described below.

Other impairments of available for sale financial assets arise from market movements in property prices in some geographical areas during the year, which are measured with reference to movements in the DCLG regional house price index, or from the reduction in forecast cashflows in the case of the Agency's investments in private sector developments under the Kickstart Housing Initiative.

Impairments of other financial assets

The impairment of other financial assets relates to the write-down of infrastructure loans made to two private sector developers under the Kickstart initiative.

Restructuring

Note 8 shows the costs arising from the restructuring which commenced in 2010/11 and was completed during 2011/12. These are classified as exceptional due to their size and nature.

Share of losses of associates and joint ventures

Included within Share of losses of associates and joint ventures (Note 18) is £18.3m in relation to the derecognition of the Agency's interest in an associated company due to a deficiency in the net assets of that associate, reducing the recoverable value of the Agency's investment to £nil.

Movement in bad debt provision

The movement in bad debt provision in 2010/11 arises mainly from five debts totalling £10.2m. In two of these cases, the Agency has a first charge over land estimated to be valued at £3.7m.

Pensions past service credit

Past service costs within pensions show a credit of £28.2m in 2010/11. This arose mainly from the government's announcement in June 2010 that public sector pensions would in future be linked to the Consumer Prices Index and not the Retail Prices Index as used previously.

12. Net operating expenditure

	Note	2011/12 £'000	Restated 2010/11 £'000
Net operating expenditure has been arrived at after charging the following:			
Auditor's remuneration		215	180
Contingent rents payable under finance leases		124	124
Operating lease rentals – land and buildings		3,273	4,110
Operating lease rentals – other		885	1,407
Redundancy and restructuring	8	9,483	1,762
Early retirement pension costs	8	2,952	1,387
Movement in bad debt provision	10,11	3,722	10,088

Auditor's remuneration comprises fees only in relation to statutory audit.

13. Clawback of grants and contributions

	2011/12 £'000	Restated 2010/11 £'000
Affordable Housing Grant (Note 2(b)(ii))	18,464	54,218
Kickstart Housing Delivery – clawback of gap funding to developers	1,958	-
Property and Regeneration Grants	5,284	1,243
Economic Assets Grants	7,733	5,955
	33,439	61,416

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

14. Other operating income

	2011/12 £'000	Restated 2010/11 £'000
Rent and other property income	19,258	21,398
Release of restrictive covenants and other windfall income	5,213	7,785
Contributions from partners towards specific programme expenditure	7,088	15,007
Milton Keynes Tariff	3,864	84
Housing Action Trusts	765	256
Homeowner fees	1,421	354
Miscellaneous	4,089	1,300
	41,698	46,184

Milton Keynes Tariff income relates to developer contributions to strategic infrastructure in Milton Keynes. Under the Tariff, developers undertake to pay the Agency a fixed contribution per residential unit, or per hectare of commercial space, towards infrastructure development.

15. Operating segments

(a) Operating segment analysis

The Agency's operational performance is managed by reference to financial and non-financial targets, within the constraints of programme and operational expenditure limits set by DCLG. These programmes therefore form the basis of the Agency's operating segments as defined by *IFRS 8 Operating Segments*.

All of the Agency's activities, and therefore its income, expenditure, assets and liabilities, occur within the UK. An analysis of the various types of income which the Agency receives is shown in the Statement of Comprehensive Net Expenditure.

As many of the Agency's programmes do not generate their own revenue, and are financed by Grant-in-Aid, the financial measure used by the Board to assess the Agency's operating performance and manage its resources is programme and administrative expenditure and receipts against Departmental Expenditure Limits (DEL). The programme and administrative expenditure and receipts information below is presented on the basis of the information presented to the Board.

15. Operating segments (continued)

	2011/12 £m	2010/11 £m
Programme expenditure:		
National Affordable Housing Programme	1,161	2,408
Affordable Homes Programme	236	-
Property and Regeneration	256	260
Economic Assets*	140	-
Decent Homes	194	134
Mortgage Rescue	96	188
Kickstart Housing Delivery	70	224
FirstBuy	57	-
Housing Market Renewal	35	261
Local Authority New Build	31	66
Growth Funding	-	170
Community Infrastructure Fund	-	183
Thames Gateway	-	70
Social Housing Energy Savings Programme	-	39
Places of Change	-	23
Gypsy and Traveller Site Grant	-	15
Other programmes	8	11
Total programme expenditure	**2,284**	**4,052**
Staff and administration	71	93
Restructuring costs	14	-
Pension costs – deficit payments (Note 38(f))	57	-
Irrecoverable VAT	1	9
Total gross expenditure	**2,427**	**4,154**
Receipts:		
Property and Regeneration receipts	(108)	(107)
Economic Assets receipts*	(60)	-
Kickstart receipts	(41)	-
Other receipts	(16)	(17)
Total receipts	**(225)**	**(124)**
Total DEL expenditure reported to the Board	**2,202**	**4,030**

*Economic Assets net programme expenditure in 2010/11 has not been restated because the information was not reported to the Board. In contrast, figures above for 2011/12 include programme expenditure incurred by merged entities before the date of the merger, in line with merger accounting principles applied to the Financial Statements as a whole.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

15. Operating segments (continued)

(b) Reconciliations to net expenditure

Net DEL expenditure, the financial measure used to report the Agency's performance to the Board, excludes certain items which are disclosed separately in the Statement of Comprehensive Net Expenditure such as provisions for impairment, movements in other provisions and depreciation. Further, it includes items of expenditure which, for statutory reporting purposes, are capitalised in the Statement of Financial Position. Such items include additions to non-current assets, loans and development assets. In addition, there are instances where there are timing differences between income and expenditure recognised for statutory reporting purposes and for DEL reporting. These rules are prescribed by HM Treasury and include the restriction on recognising income on certain disposals until cash is received. For statutory reporting purposes income is recognised when the Agency is contractually entitled to receive the income.

A reconciliation of total DEL expenditure to net expenditure before tax as shown in the Statement of Comprehensive Net Expenditure is as follows:

	2011/12 £m	Restated 2010/11 £m
Total DEL expenditure reported to the Board	**2,202**	**4,030**
Reconciling items:		
Increase/(decrease) in provision for impairments	158	65
Less impairments included in DEL expenditure	(16)	-
Book value of development asset disposals	39	66
Increase/(decrease) in provisions	8	12
Utilisation of provisions	(40)	(2)
Cost of disposals of available for sale assets	31	8
Share of losses of associates and joint ventures	27	4
Gain on disposal of investments in associates	-	(1)
Capital items recorded as programme expenditure	(127)	(198)
Timing differences	(4)	(15)
Expenditure of merged entities not restated in board reporting in 2010/11	-	234
Net expenditure before tax as stated in the Statement of Comprehensive Net Expenditure	**2,278**	**4,203**

15. Operating segments (continued)

A reconciliation of programme receipts as shown above to income as stated in the Statement of Comprehensive Net Expenditure is as follows:

	2011/12 £m	Restated 2010/11 £m
Property and Regeneration receipts	108	107
Economic Assets receipts	60	-
Kickstart receipts	41	-
Other receipts	16	17
Programme receipts reported to the Board	**225**	**124**
Reconciling items:		
Interest receivable	(26)	(16)
Clawback of grants shown as income in the Statement of Comprehensive Net Expenditure but netted off Programme Expenditure in the Board Report	18	55
Timing differences	(45)	(17)
Receipts from disposal of capital items recorded as programme income	(55)	(6)
Income of merged entities not restated in board reporting	-	51
Income as stated in the Statement of Comprehensive Net Expenditure	**117**	**191**

(c) Major customers

Income as shown in the Statement of Comprehensive Net Expenditure includes £7.1m arising from one private sector developer (2010/11: £17.6m from one private sector developer), all of which is reported within the Property and Regeneration segment.

16. Interest receivable

	2011/12 £'000	Restated 2010/11 £'000
Unwinding of discount on financial assets	7,401	7,681
Loan interest	17,728	17,862
Finance lease interest	149	155
Interest on grant recoveries from RPs	101	1,434
Miscellaneous interest	375	406
	25,754	27,538

17. Interest payable

	2011/12 £'000	Restated 2010/11 £'000
Unwinding of discount on financial liabilities	1,753	2,093
Finance lease interest	143	200
Other interest	119	25
	2,015	2,318

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

18. Share of losses of associates and joint ventures

The aggregated amounts of the Group's share of results of associates and joint ventures (JVs) included in the Statement of Comprehensive Net Expenditure is as follows:

	Note	2011/12 £'000	Restated 2010/11 £'000
Share of revenue of associates		40,253	50,048
Share of revenue of joint ventures		13,029	14,347
		53,282	64,395
Share of losses of associates		(21,309)	(5,623)
Share of losses of joint ventures		(5,607)	(3,247)
		(26,916)	(8,870)
Share of losses of associates and joint ventures:			
Shown as movement in investment in associates and JVs	23(b)	(9,899)	(3,359)
Shown as movement of loans to associates and JVs	27	(17,017)	(5,511)
Share of losses of associates and joint ventures		(26,916)	(8,870)

19. Gain on disposal of investments in associates

	Note	2011/12 £'000	Restated 2010/11 £'000
Net liabilities disposed	23(b)	-	1,009
Gain on disposal of investments in associates		-	1,009

Disposals relate to the associates in which the Agency has reduced or withdrawn its membership during the year, as identified in Note 23(c).

20. Income tax

(a) Tax (credit)/charge in net expenditure comprises:

	Note	2011/12 £'000	Restated 2010/11 £'000
Corporation tax on the results for the year at 26/28%		-	4,067
Adjustment to current tax of prior years		-	174
Deferred tax relating to the origination and reversal of temporary differences	37	(16,854)	7,597
		(16,854)	11,838

(b) Tax (charge)/credit on items in other comprehensive expenditure comprises:

	2011/12 £'000	2010/11 £'000
Deferred tax relating to:		
Actuarial gain/(loss) from pension fund	484	(4,665)
Revaluation of development assets	(22,719)	14,474
Revaluation of available for sale assets	5,381	(2,212)
	(16,854)	7,597

(c) Reconciliation of tax charge

	2011/12 £'000	Restated 2010/11 £'000
Net expenditure before tax	(2,277,500)	(4,203,385)
Income tax on net expenditure at 26/28%	(592,150)	(1,176,948)
Effects of:		
Non-taxable grant income	(12,167)	(15,565)
Expenditure not deductible for tax, including grant payments	582,428	1,202,456
Depreciation and amortisation	625	860
Capital allowances on property, plant and equipment	(110)	(105)
Losses used in period	-	966
Losses carried forward	4,520	-
Over provision of current tax in previous years	-	174
Tax (credit)/charge for period (Note 20(a))	(16,854)	11,838

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

21. Intangible assets

Group and Agency

	Software £'000	Information technology £'000	Total £'000
Cost			
At 1 April 2010	1,207	5,362	6,569
Additions	187	584	771
Disposals	-	-	-
At 31 March 2011	1,394	5,946	7,340
Additions	275	579	854
Disposals	-	-	-
At 31 March 2012	1,669	6,525	8,194
Amortisation			
At 1 April 2010	674	3,872	4,546
Disposals	-	-	-
Charge in year	301	1,031	1,332
At 31 March 2011	975	4,903	5,878
Disposals	-	-	-
Charge in year	395	671	1,066
At 31 March 2012	1,370	5,574	6,944
Net book value			
At 1 April 2010	533	1,490	2,023
At 31 March 2011	419	1,043	1,462
At 31 March 2012	299	951	1,250

22. Property, plant and equipment

Group and Agency

	Land £'000	Freehold buildings £'000	Leasehold buildings £'000	Fixtures, fittings and office equipment £'000	Information technology £'000	Total £'000
Cost or valuation						
At 1 April 2010	1,064	3,036	1,802	4,862	2,674	13,438
Additions	-	-	-	474	199	673
Disposals	-	-	-	-	-	-
Impairment reversals/ (impairments)	265	220	(741)	-	-	(256)
At 31 March 2011	1,329	3,256	1,061	5,336	2,873	13,855
Additions	-	-	-	499	600	1,099
Disposals	-	-	-	-	-	-
Impairments	(253)	(1,137)	(350)	-	-	(1,740)
At 31 March 2012	1,076	2,119	711	5,835	3,473	13,214
Depreciation						
At 1 April 2010	-	-	-	3,963	1,868	5,831
Disposals	-	-	-	-	-	-
Charge in year	-	80	399	711	549	1,739
Released on impairment	-	(80)	(399)	-	-	(479)
At 31 March 2011	-	-	-	4,674	2,417	7,091
Disposals	-	-	-	-	-	-
Charge in year	-	87	349	317	583	1,336
Released on impairment	-	(87)	(349)	-	-	(436)
At 31 March 2012	-	-	-	4,991	3,000	7,991
Net book value						
At 1 April 2010	1,064	3,036	1,802	899	806	7,607
At 31 March 2011	1,329	3,256	1,061	662	456	6,764
At 31 March 2012	1,076	2,119	711	844	473	5,223

Land and freehold buildings comprise the Agency's offices at St George's House, Gateshead and Arpley House, Warrington. Independent professional valuations were carried out by GVA Lamb & Edge and CB Richard Ellis, which showed the values to be £1.56m and £1.635m, respectively as at 31 March 2012. An accounting adjustment has been made to reflect these values.

Leasehold buildings comprise three of the Agency's offices, all of which have less than three years of their original lease term remaining. These buildings have been valued on the basis of the present value of their remaining future rentals, being an approximation of their fair value.

There was no revaluation reserve relating to the above freehold and leasehold properties at any of the dates presented. Downward revaluations, net of adjustments to depreciation, are shown as movements in provision for impairments (Note 9). Note 35 shows the net book value of finance leased assets included above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

23. Investments

(a) Subsidiary undertakings

Agency

Cost or valuation	2012 £'000	2011 £'000
At 1 April	15,184	25,000
Additions in year	-	-
Impairments	-	(9,816)
At 31 March	15,184	15,184

The Agency has interests in the following subsidiaries, each of which are registered in England and Wales and are wholly-owned by the Agency:

Name of undertaking	Share capital	Nature of business
English Partnerships (LP) Ltd	£25,000,000	Investment holding company
The Estuary Management Company Ltd	£1	Property management company
Norwepp (NWDA subsidiary) Ltd	£500	Investment holding company
AWM (Subsidiary) Ltd	£1	Investment holding company
emEP Ltd	£1,000	Investment holding company
ONE NorthEast General Partner Ltd	£100	Investment holding company

Except for English Partnerships (LP) Ltd, the Agency's investment in each subsidiary is fully impaired, and the aggregate capital and reserves are equal to the share capital stated above.

English Partnerships (LP) Ltd has aggregate capital and reserves of £15.2m as shown in the table above.

(b) Associated undertakings and joint ventures

Group

The aggregated movements in the Group's share of net assets of associates and joint ventures (JVs) are as follows:

	Note	2011/12 £'000	Restated 2010/11 £'000
Cost or valuation			
At 1 April		22,678	25,028
Share of losses of associates and joint ventures	18	(9,899)	(3,359)
Net liabilities disposed	19	-	1,009
At 31 March		12,779	22,678

The aggregated amounts of the Group's share of total assets and liabilities of associates and JVs are as follows:

23. Investments (continued)

	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Associates			
Assets	109,515	133,295	118,225
Liabilities	(57,824)	(76,857)	(62,683)
Total group share of net assets of associates	51,691	56,438	55,542
Joint ventures			
Non-current assets	113,498	120,051	85,306
Current assets	26,534	29,516	67,911
Current liabilities	(8,066)	(17,900)	(15,692)
Non-current liabilities	(170,878)	(165,427)	(168,039)
Total group share of net assets/(liabilities) of joint ventures	(38,912)	(33,760)	(30,514)
Total group share of net assets of associates and joint ventures	12,779	22,678	25,028

(c) Associated undertakings and joint ventures	Associates £'000	Joint ventures £'000	Total £'000
Cost or valuation			
At 1 April 2010	2,849	-	2,849
Impairments	-	-	-
At 31 March 2011	2,849	-	2,849
Impairments	(2,849)	-	(2,849)
At 31 March 2012	-	-	-

The Agency has interests in the following associated undertakings and joint ventures, all of which are registered or resident in England and Wales:

Name of undertaking	Interest	Nature of business
Priority Sites Ltd	49%	Property rental and development
Network Space Ltd	49%	Development of workspace
English Cities Fund Limited Partnership	33%	Property development
Blueprint Limited Partnership	50%	Property rental and development
Barking Riverside Ltd	49%	Development of land
Norwepp Limited Partnership ^	50%	Property rental and development
Onsite North East Limited Partnership ^	50%	Development of land
North East Property Partnership ^	50%	Property rental and development
PxP West Midlands Limited Partnership ^	50%	Property rental and development
Countryside Maritime Ltd ^	50%	Development of land
English Environment Fund Ltd	50%	Promotion of environmental projects
Contaminated Land: Applications In Real Environments	20%	Research into contaminated land remediation
The Land Trust**	12%	Development of land

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

23. Investments (continued)

Name of undertaking	Interest	Nature of business
Temple Quay Management Ltd	24%	Property management company
Bristol and Bath Science Park Estate Management Company Ltd	50%	Property management company
Kings Waterfront (Estates) Ltd	50%	Property management company
Creative Sheffield**	33%	Regeneration of Sheffield
Liverpool Vision*	33%	Regeneration of Liverpool
New East Manchester**	33%	Regeneration of East Manchester
Tees Valley Regeneration*	33%	Regeneration of Tees Valley
Prospect Leicestershire**	33%	Regeneration of Leicester
Sunderland arc*	33%	Regeneration of Sunderland
Meden Valley Making Places*	25%	Regeneration of Meden Valley
Derby Cityscape*	33%	Regeneration of Derby
Gloucester Heritage**	25%	Regeneration of Gloucester
Regenco (Sandwell)**	33%	Regeneration of West Bromwich
Walsall Regeneration Company*	33%	Regeneration of Walsall
Aylesbury Vale Advantage	20%	Regeneration of Aylesbury
Central Salford URC*	33%	Regeneration of Central Salford
Opportunity Peterborough**	33%	Regeneration of Peterborough
CPR Regeneration*	25%	Regeneration of Camborne, Pool & Redruth
Renaissance Southend*	20%	Regeneration of Southend-on-Sea
Hull URC*	33%	Regeneration of Hull
The New Swindon Company**	33%	Regeneration of Swindon
North Northants Development Company**	14%	Regeneration of North Northamptonshire
Plymouth City Development Company**	33%	Regeneration of Plymouth
1st East*	17%	Regeneration of Great Yarmouth & Lowestoft
Wolverhampton Development Company	50%	Regeneration of Wolverhampton
Pride in Camp Hill	33%	Regeneration of Camp Hill area of Nuneaton

^ Joint venture

* From 31 March 2012 this entity was no longer an associated undertaking

** From 31 March 2011 this entity was no longer an associated undertaking

The return on the Agency's investment in English Cities Fund varies according to the level of profits achieved and its share of net assets is influenced proportionately.

24. Available for sale financial assets

Available for sale financial assets are stated at fair value and relate to the following:

- the Agency's entitlement to future income arising from financial assistance provided to homebuyers to enable them to buy housing units;
- the Agency's share in the profits of private sector developments under the Kickstart Housing Initiative; and
- an investment in the North West England Jessica fund (Joint European Support for Sustainable Investment in City Areas). The fund is operated by the European Investment Bank on the Agency's behalf and is partly funded by the European Regional Development Fund (ERDF).

IFRS 7 Financial Instruments: Disclosures requires entities to disclose financial assets carried at fair value in one of three levels in a hierarchy, based on the sources of information used to determine their fair value. Level 1 is reserved for those assets valued using quoted prices in an active market for identical assets, level 2 is for those using observable prices (eg indices), and level 3 for all other assets.

Assets are categorised below according to the hierarchies described above. Assets relating to housing units are categorised as level 2, while assets relating to private sector developments and the Jessica fund are categorised as level 3. Note 40 describes the valuation methods in more detail. Impairments of available for sale financial assets are shown within movements in provision for impairments (Note 9), and amounts relating to 2010/11 are disclosed as an exceptional item in Note 11.

Group and Agency

	Note	Level 2 £'000	Restated Level 3 £'000	Restated Total £'000
At 1 April 2010		345,336	108,713	454,049
Additions		135,129	8,209	143,338
Disposals	5	(9,423)	(10,000)	(19,423)
Fair value adjustment		12,228	2,138	14,366
Impairment		(30,157)	(5,617)	(35,774)
At 31 March 2011		453,113	103,443	556,556
Additions		83,673	30,861	114,534
Disposals	5	(16,958)	(17,570)	(34,528)
Fair value adjustment		(17,424)	316	(17,108)
Impairment		(64,569)	(4,677)	(69,246)
At 31 March 2012		437,835	112,373	550,208

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

25. Finance lease receivables

Group and Agency

The Agency leases certain of its development assets as lessor under finance lease arrangements. These leases are generally subject to rent review every five years, with rents being reset to the prevailing market rate at the time.

The total future minimum receipts expected under finance leases at the reporting date, and their present value, are as follows:

	2012 Total receipts £'000	2012 Present value £'000	2011 Total receipts £'000	2011 Present value £'000	2010 Total receipts £'000	2010 Present value £'000
Within one year	223	80	223	74	223	68
Between one and five years	892	391	892	361	892	333
In more than five years	2,329	1,386	2,552	1,496	2,775	1,598
	3,444	1,857	3,667	1,931	3,890	1,999
Future finance income	-	1,587	-	1,736	-	1,891
Future minimum receipts	3,444	3,444	3,667	3,667	3,890	3,890

26. Loans

Group and Agency

	Note	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Loans to associates and joint ventures	27	252,991	281,054	293,169
Water company loans	28	30,126	30,385	30,621
Other loans and mortgages	29	1,836	1,942	2,096
Infrastructure loans	30	60,773	84,071	30,923
		345,726	397,452	356,809

Amounts above are disclosed as follows:	Note	2012 £'000	2011 £'000	2010 £'000
Non-current assets		312,011	363,325	340,955
Current assets	32	33,715	34,127	15,854
		345,726	397,452	356,809

27. Loans to associates and joint ventures

Group and Agency

	Note	2011/12 £'000	Restated 2010/11 £'000
At 1 April		281,054	293,169
Additions		205	7,351
Repayments		(12,799)	(15,469)
Discount Unwinding		1,548	1,514
Impairments	18	(17,017)	(5,511)
At 31 March		252,991	281,054

28. Water company loans

This represents loans to water companies in respect of assets constructed by former development corporations for the provision of water and sewerage facilities to new town developments where ownership has been transferred to the relevant local water company under the *1973 Water Act*. The final redemption dates of the remaining water company loans will be between March 2030 and March 2053.

Group and Agency

	2011/12 £'000	2010/11 £'000
Loans outstanding at 1 April	30,385	30,621
Repayment of loans	(259)	(236)
Loans outstanding at 31 March	30,126	30,385

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

29. Other loans and mortgages

Group and Agency

	2011/12 £'000	Restated 2010/11 £'000
Local authority loans at 1 April	1,667	1,728
Repayment of loans	(66)	(61)
	1,601	1,667
Mortgages on housing property at 1 April	275	368
Repayment of mortgages	(40)	(93)
	235	275
Loans outstanding at 31 March	1,836	1,942

Local authority loans are in respect of assets transferred by the Agency's predecessor bodies and have final redemption dates between March 2017 and March 2033.

The number of outstanding mortgages on housing property at 31 March 2012 was 24 (2011: 31, 2010: 41).

30. Infrastructure loans

Loans have been made to private sector developers in order to fund infrastructure on stalled sites. These loans are repayable, with interest, during fixed periods ranging up to March 2015.

Group and Agency

	Note	2011/12 £'000	Restated 2010/11 £'000
At 1 April		84,071	30,923
Loans advanced		6,932	50,031
Loans repaid		(21,203)	-
Interest added to loans		4,990	3,117
Impairments	9	(14,017)	-
At 31 March		60,773	84,071

31. Property/development assets

Group and Agency

	Note	2011/12 £'000	Restated 2010/11 £'000
Market value at 1 April		1,007,387	1,195,808
Movement in year:			
Capital expenditure		49,114	63,191
Disposals	3	(38,767)	(82,621)
Movement in provision for impairment	9	(74,040)	(125,205)
Revaluation adjustment		71,749	(43,786)
Market value at 31 March		1,015,443	1,007,387

Included above are development assets expected to be realised in more than one year of £989.2m (2011: £968.6m, 2010: £1,113.2m).

Assets valued at £42.2m included above have a restriction on title which prevents them from being disposed of until equivalent grant funding is provided to the NW Jessica fund (see note 24).

(a) Movement in the year

(i) Costs of property assets disposed
The value of property/development assets, including community related assets, which were disposed of during the year amounted to £38.8m (2010/11: £82.6m) and this amount is offset against disposal proceeds received.

(ii) Provision for impairment of development assets
Where the market value of a property/development asset is lower than costs incurred on that asset, a provision is established to write the asset down to market value. This provision is reviewed annually and any adjustment is taken to net expenditure. Any provision against an asset is utilised against the cost of disposal when that asset is sold.

(iii) Revaluation adjustment
Where the market value of a property/development asset exceeds historical cost, the increase above historical cost is taken to the Revaluation Reserve. Any subsequent decrease in market value is written off against the reserve up to the value of the credit balance. If market value falls below cost a provision is established as in Note (ii), and charged to net expenditure.

(b) Property interests with negative value
The market valuation excludes property interests with a negative value. The future liabilities associated with these property interests are fully provided for in provisions (Note 36). Such provisions are made based on modified valuation data that takes into account any contractual, legal or constructive obligations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

32. Trade and other receivables

Group and Agency

(a) Amounts falling due after more than one year	Note	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Due from disposal of property/development assets		81,402	133,616	150,111
Reimbursement in respect of provisions		42,862	64,197	62,023
Other receivables		15,480	19,926	24,181
		139,744	217,739	236,315
(b) Amounts falling due within one year				
Due from disposal of property/ development assets		71,145	58,265	48,697
Loans	26	33,715	34,127	15,854
Amounts held by developers		9,119	32,623	66,899
Trade receivables		11,226	15,370	6,896
VAT		4,526	322	4,259
Other taxes and social security		-	528	528
Prepayments		1,492	2,294	4,037
Reimbursement in respect of provisions		15,585	16,842	18,057
Other receivables		44,886	20,069	22,387
		191,694	180,440	187,614
Total trade and other receivables		331,438	398,179	423,929

Amounts held by developers represent amounts paid to developers for the Agency's share of future proceeds of housing units for drawdown as units are completed.

Loans represents the current portion of loans shown in Note 26 which are due within one year.

(c) Intra-Government balances	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Balances with other central government bodies	37,632	27,267	63,875
Balances with local authorities	13,447	15,117	8,387
Balances with public corporations and trading funds	-	-	-
Intra-Government balances	51,079	42,384	72,262
Balances with bodies external to government	280,359	355,795	351,667
	331,438	398,179	423,929

33. Cash and cash equivalents

Group and Agency

	2012	Restated 2011	Restated 2010
	£'000	£'000	£'000
Cash held with Government Banking Service	-	69,364	4,334
Cash held with commercial banks	13,206	10,349	48,084
	13,206	79,713	52,418

There were no cash equivalents at any of the reporting dates shown.

34. Trade and other payables

Group and Agency

	2012	Restated 2011	Restated 2010
	£'000	£'000	£'000
(a) Amounts falling due within one year			
Trade payables	35,781	210,638	257,774
Accruals	7,520	46,521	60,591
Deferred Income	67,920	68,639	38,558
Bank overdraft	146,926	-	-
VAT	-	1,784	434
Other taxes and social security	1,092	2,041	2,879
Other payables	2,465	14,753	13,573
	261,704	344,376	373,809

The amount shown as a bank overdraft at 31 March 2012 relates only to payments which were in transit at that date, and the Agency's bank accounts remained in credit throughout the period.

	2012	Restated 2011	Restated 2010
	£'000	£'000	£'000
(b) Intra-Government balances			
Balances with other central government bodies	2,602	18,619	11,253
Balances with local authorities	1,543	114,244	190,943
Balances with public corporations	-	-	131
Intra-Government balances	4,145	132,863	202,327
Balances with bodies external to government	257,559	211,513	171,482
	261,704	344,376	373,809

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

35. Finance lease payables

Group and Agency

The Agency has acquired, or inherited from predecessor bodies, various properties held under finance leases. The carrying values of these assets are included within the following categories in the Statement of Financial Position:

	Note	2012 £'000	2011 £'000	2010 £'000
Property, plant and equipment	22	711	1,061	1,802
Property/development assets	31	67	67	205
		778	1,128	2,007

The Agency's finance leases are generally subject to rent review every five years, with rents being reset to the prevailing market rate at the time.

The total future minimum payments under finance leases at the reporting date, and their present value, are as follows:

	2012 Total payments £'000	2012 Present value £'000	2011 Total payments £'000	2011 Present value £'000	2010 Total payments £'000	2010 Present value £'000
Within one year	848	754	1,043	897	1,043	843
Between one and five years	1,372	1,265	2,127	1,937	3,049	2,726
In more than five years	337	131	429	213	550	322
	2,557	2,150	3,599	3,047	4,642	3,891
Future finance charges	-	407	-	552	-	751
Future minimum payments	2,557	2,557	3,599	3,599	4,642	4,642

At the reporting date the Agency expects to receive total future minimum payments under sub-leases of £nil (2011: £222,000, 2010: £322,000) from the finance leased assets above.

36. Provisions

Group and Agency

	CRA transfers £'000	Property interests with negative value £'000	Restated Environmental liability £'000	Restated Other liabilities £'000	Additional consideration on development land £'000	Restated Total £'000
Balance at 1 April 2010	18,035	2,823	114,611	7,195	58,979	201,643
Charge to net expenditure	1,627	275	-	118	13,722*	15,742
Unused provisions credited to net expenditure	(15)	(64)	-	-	-	(79)
Unwinding of Discount	-	-	2,001	-	-	2,001
Expenditure against provisions	-	-	(23,651)	(3,091)	-	(26,742)
Balance at 31 March 2011	19,647	3,034	92,961	4,222	72,701	192,565
Charge to net expenditure	2,024	4,557	-	12	19,689*	26,282
Unused provisions credited to net expenditure	(883)	(243)	-	(666)	-	(1,792)
Unwinding of Discount	-	-	1,560	-	-	1,560
Expenditure against provisions	(17,138)	(658)	(22,060)	(278)	-	(40,134)
Balance at 31 March 2012	3,650	6,690	72,461	3,290	92,390	178,481

*Charged/(credited) against cost of property disposals (Note 3).

Amounts above are disclosed as follows:	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Current liabilities	25,689	22,995	26,743
Non-current liabilities	152,792	169,570	174,900
	178,481	192,565	201,643

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

36. Provisions (continued)

(a) Community related asset (CRA) transfers

The Agency's policy is to transfer community related assets to local authorities and other appropriate organisations. To the extent that the activities of the Agency have raised a reasonable expectation with third parties that these transactions will proceed, a provision has been made in the Financial Statements.

These liabilities will be discharged by forming balancing packages of industrial and commercial assets and by cash endowment. Any asset transferred as part of a balancing package will not as a consequence realise disposal receipts.

Where community related assets are transferred, the provision that has been made is utilised in the cost of property disposals to offset the cost of the assets transferred.

(b) Property interests with negative value

Provision has been made for estimated liabilities arising in respect of disengagement from property interests with negative value. These relate to rental guarantees and assets where disengagement is dependent upon significant investment in sites by the Agency, the cost of which exceeds the value to be realised in future asset sales. Although the ultimate cost of disengagement from these interests is uncertain, the extent of the Agency's liability has been estimated in consultation with retained property agents. The estimates are based on costed investment requirements that take into account legal, contractual and constructive obligations, on rents payable and, where appropriate, both rents receivable and repair and maintenance obligations, in respect of each individual interest.

(c) Other liabilities

Other liabilities primarily comprise specific provisions for property transactions and legal actions.

(d) Additional consideration payable for the purchase of development assets

In 2005/06 the Agency entered into an agreement with a third party to acquire a portfolio of surplus public sector land. The development agreement was structured so that initial consideration payable would be supplemented by further consideration when milestones for income and profit were triggered. Based on sales completed to date and forecasts for remaining disposals it is almost certain that additional consideration will be payable.

In order to match income recognised in the Agency's accounts with the true cost of disposal, the Agency has established the above provision. The provision calculates the proportion of additional consideration that will become payable attributable to sales recognised to date. The movement in this provision has been charged/credited against cost of property disposals in net expenditure. This provision comes under the broad definition of a financial instrument.

(e) Environmental liability

The environmental liability represents the value of remediation work required, as a minimum, to return the Avenue Coking Works site to a saleable and safe condition. The provision represents the amount which the Agency would have to pay a third party to take on the site and associated environmental liabilities.

The Agency has a right to partial reimbursement from the Department of Energy and Climate Change in respect of this liability, the amounts of which are shown within receivables (Note 32).

37. Deferred tax

Group and Agency

The movements in deferred tax liabilities for each type of temporary difference are as follows:

	At 31 March 2010 £'000	Charged to net expenditure £'000	Charged to other comprehensive expenditure £'000	At 31 March 2011 £'000
Revaluation of development assets	58,706	(1,459)	(14,474)	42,773
Fair value gains/losses on available for sale assets	10,265	-	2,212	12,477
Unused tax losses	(27,690)	(4,685)	-	(32,375)
Provisions	(6,504)	717	-	(5,787)
Pensions	(34,777)	13,024	4,665	(17,088)
Deferred tax liability	-	7,597	(7,597)	-

	At 31 March 2011 £'000	Charged to net expenditure £'000	Charged to other comprehensive expenditure £'000	At 31 March 2012 £'000
Revaluation of development assets	42,773	(3,051)	22,719	62,441
Fair value gains/losses on available for sale assets	12,477	-	(5,381)	7,096
Unused tax losses	(32,375)	(15,240)	-	(47,615)
Provisions	(5,787)	(14,875)	-	(20,662)
Pensions	(17,088)	16,312	(484)	(1,260)
Deferred tax liability	-	(16,854)	16,854	-

All deferred tax is stated on a net basis as the Agency has a legally enforceable right to set off the recognised amounts.

In addition to the above, the Agency has tax losses to carry forward of £1,147m (2011: £994m) for which no deferred tax asset has been recognised because of the uncertainty over future trading profits, which would enable such losses to be utilised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

38. Pension arrangements and liabilities

Group and Agency

During the year the Agency's employees were able to participate in one of the following contributory pension schemes:

- The Homes and Communities Agency Pension Scheme
- The City of Westminster Pension Fund
- The West Sussex County Council Pension Fund

All three schemes are multi-employer defined benefit schemes as described in paragraph 7 of *IAS 19 Employee Benefits*. They are all final salary schemes and have broadly comparable benefits, but the Homes and Communities Agency Pension Scheme is the only one which remains open to new employees.

Valuations of the Agency's assets and liabilities in each scheme as at 31 March 2012 have been prepared in accordance with *IAS 19* and the results are disclosed in Note (a) below.

Note (b) below shows the weighted average of the key assumptions used by each of the scheme actuaries in preparing the valuations. The amounts shown have been weighted according to each scheme's liabilities, except for the expected return on assets assumption which has been weighted according to each scheme's assets. Other information below is shown on a consolidated basis for all three schemes.

In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension.

The change from RPI to CPI for the purposes of uprating index-linked features of post employment benefits has been recognised as a negative past service cost in 2010/11 in accordance with *IAS 19*. This accounting treatment has been adopted by all central Government reporting entities where RPI has been used for inflation indexing for many years.

38. Pension arrangements and liabilities (continued)

(a) Pension assets/(liabilities)

	Present value of funded liabilities £'000	Present value of unfunded liabilities £'000	Present value of scheme liabilities £'000	Fair value of employer assets £'000	Net pension assets/ (liabilities) £'000
2012					
Homes and Communities Agency Pension Scheme	(162,919)	-	**(162,919)**	175,470	**12,551**
City of Westminster Pension Fund	(94,390)	-	**(94,390)**	88,440	**(5,950)**
West Sussex County Council Pension Fund	(53,242)	(8,581)	**(61,823)**	49,974	**(11,849)**
Total	(310,551)	(8,581)	**(319,132)**	313,884	**(5,248)**
2011					
Homes and Communities Agency Pension Scheme	(161,521)	-	**(161,521)**	133,297	**(28,224)**
City of Westminster Pension Fund	(88,310)	-	**(88,310)**	57,750	**(30,560)**
West Sussex County Council Pension Fund	(52,176)	(8,432)	**(60,608)**	51,039	**(9,569)**
Total	(302,007)	(8,432)	**(310,439)**	242,086	**(68,353)**
2010					
Homes and Communities Agency Pension Scheme	(161,500)	-	**(161,500)**	114,300	**(47,200)**
City of Westminster Pension Fund	(100,260)	-	**(100,260)**	59,130	**(41,130)**
West Sussex County Council Pension Fund	(65,345)	(9,358)	**(74,703)**	38,828	**(35,875)**
Total	(327,105)	(9,358)	**(336,463)**	212,258	**(124,205)**

The HCA Pension Scheme has net assets as shown above, therefore this has been shown separately in the Statement of Financial Position.

(b) Actuarial assumptions

The weighted average of the key assumptions used by the actuaries of the pension schemes are as follows:

i) Financial assumptions

	2012	2011	2010
Inflation increases rate	2.6%	3.1%	3.8%
Salary increases	4.6%	4.9%	5.3%
Pension increases	2.6%	3.1%	3.8%
Expected return on assets	5.8%	6.9%	7.0%
Discount rate	5.0%	5.5%	5.5%

To develop the expected return on assets assumption, the Agency considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with other asset classes in which the portfolio is invested and expectations for future returns on each asset class. The expected return for each asset class was then weighted based on the asset allocation to develop the expected return on assets assumption for the portfolio.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

38. Pension arrangements and liabilities (continued)

ii) Mortality assumptions

Based on actuarial mortality tables, the average future life expectancies at age 65 are summarised below:

	2012 Years	2011 Years	2010 Years
Male – current pensioners	22.7	22.6	22.5
Male – future pensioners	24.2	24.3	24.6
Female – current pensioners	24.7	25.1	25.4
Female – future pensioners	26.5	27.1	27.5

(c) Fair value of employer assets

	2012 £'000	2011 £'000	2010 £'000
Equities	195,264	167,829	137,001
Bonds	103,556	65,918	70,848
Property	8,655	3,573	2,330
Other assets	6,409	4,766	2,079
Total	**313,884**	**242,086**	**212,258**
Actual return on employer assets	**15,821**	**5,054**	**54,089**

(d) Charge to net expenditure

	2011/12 £'000	2010/11 £'000
Amounts charged to net operating expenditure		
Current service costs	7,936	10,394
Past service costs	-	(28,232)
Losses on curtailments and settlements	849	1,247
	8,785	**(16,591)**
Amounts charged to finance costs		
Interest charged	16,724	18,077
Expected return on assets	(16,954)	(15,541)
	(230)	**2,536**
Total recognised in Statement of Comprehensive Net expenditure	**8,555**	**(14,055)**

The total expected employer contributions to these schemes in the year ending 31 March 2013 are £10.6m

(e) Amounts recognised in income and expenditure reserve

	2011/12 £'000	2010/11 £'000
Actuarial gains	**1,936**	**16,662**

The cumulative amount of actuarial gains and losses recognised in other comprehensive expenditure since the adoption of *IAS 19* is £84.7m.

38. Pension arrangements and liabilities (continued)

(f) Reconciliation of fair value of employer assets

	2011/12 £'000	2010/11 £'000
Opening fair value of employer assets	**242,086**	**212,258**
Expected return on assets	16,954	15,541
Contributions by members	2,003	2,347
Contributions by the employer	69,175	24,613
Contributions in respect of unfunded benefits	549	522
Actuarial losses	(1,133)	(10,487)
Settlements	(5,200)	-
Unfunded benefits paid	(549)	(522)
Benefits paid	(10,001)	(2,186)
Closing fair value of employer assets	**313,884**	**242,086**

Contributions by the employer in 2011/12 include £56.9m (2010/11: £12.0m) of lump sum payments made to reduce the deficits in the schemes: £24.1m to the Homes and Communities Agency Pension Scheme and £32.8m to the City of Westminster Pension Fund (2010/11: £12.0m to West Sussex County Council Pension Fund). These are above the normal level of contributions payable, which already include an element to recover deficits in the schemes over the longer term.

(g) Reconciliation of defined benefit obligation

	2011/12 £'000	2010/11 £'000
Opening defined benefit obligation	**310,439**	**336,463**
Current service cost	7,936	10,394
Interest cost	16,724	18,077
Contributions by members	2,003	2,347
Past service costs	-	(28,232)
Actuarial gains	(3,069)	(27,149)
Losses on curtailments	(441)	1,247
Settlements	(3,910)	-
Unfunded benefits paid	(549)	(522)
Benefits paid	(10,001)	(2,186)
Closing defined benefit obligation	**319,132**	**310,439**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

38. Pension arrangements and liabilities (continued)

(h) Five-year history

	2012 £'000	2011 £'000	2010 £'000	2008 £'000	2007* £'000
Present value of defined benefit obligations	(319,132)	(310,439)	(336,463)	(232,463)	(118,258)
Fair value of employer assets	313,884	242,086	212,258	145,823	88,584
Deficit in the scheme	**(5,248)**	**(68,353)**	**(124,205)**	**(86,640)**	**(29,674)**
Experience gains/(losses) on scheme liabilities	(2,574)	8,283	4,670	1,725	(1,729)
Experience gains/(losses) on employer assets	(1,133)	(10,487)	44,857	(58,679)	(8,514)

*Amounts stated do not include the Homes and Communities Agency Pension Scheme as no data is available at this date.

39. Financial assets and financial liabilities

Group and Agency

The carrying values of the Agency's financial assets, by classification, are as follows:

	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Loans and receivables			
Cash and cash equivalents	13,206	79,713	52,418
Trade and other receivables	266,973	313,996	335,025
Loans	345,726	397,452	356,809
Finance lease receivables	1,857	1,931	1,999
Available for sale			
Financial assets	550,208	556,556	454,049
Total financial assets	**1,177,970**	**1,349,648**	**1,200,300**

There are no differences between the carrying value and fair value of the assets above, except for those described in note 40.

Prepayments, tax and social security are excluded from the table above as these are non-financial assets. The fair values of financial assets above are determined as described in Note 40.

The carrying values and fair values of the Agency's financial liabilities, by classification, are as follows:

	2012 £'000	Restated 2011 £'000	Restated 2010 £'000
Other financial liabilities			
Trade and other payables	192,692	271,912	331,938
Finance lease payables	2,150	3,047	3,891
Provisions	92,390	72,701	58,979
Total financial liabilities	**287,232**	**347,660**	**394,808**

There are no differences between the carrying value and fair value of the liabilities above.

Deferred income, tax, social security and certain provisions are excluded from the table above as these are non-financial liabilities. The fair values of financial liabilities above are determined as described in Note 40.

40 Fair value of financial assets and financial liabilities

The fair values of financial assets and liabilities are determined as follows:

- The fair values of available for sale financial assets relating to housing units are calculated using movements in the DCLG house price index at a regional level, being the most relevant available observable market data. This is supplemented by adjustments for experience of actual disposals since the inception of the schemes. Therefore these fair values are categorised as level 2 in the fair value hierarchy as defined by *IFRS 7*.
- The fair values of available for sale financial assets relating to equity investments in private sector developments are calculated using cashflow forecasts for the developments concerned, discounted at rates set by HM Treasury. These fair values are therefore categorised as level 3 in the fair value hierarchy as defined by *IFRS 7*.
- The fair value of the Jessica fund is equal to the net assets of the fund at the reporting date, and is therefore categorised as level 3 in the fair value hierarchy as defined by *IFRS 7*.
- The fair values of other financial instruments are calculated by discounting their future cash flows using discount rates set by HM Treasury, or the rate intrinsic to the financial instrument if higher.

Differences between the fair value at initial recognition as calculated using the methods described above and the price paid by the Agency to acquire the instrument are released over the expected life of the instrument in accordance with *IAS 39 Financial Instruments: Recognition and Measurement*. Changes in the aggregate difference yet to be recognised in net expenditure are as follows:

Group and Agency	2011/12	2010/11
	£'000	£'000
At 1 April	1,972	3,640
Gain arising on initial recognition	-	29
Released to net expenditure	(1,369)	(1,697)
At 31 March	603	1,972

41 Financial risk management

The Group and Agency's financial assets and liabilities are detailed in Note 39. The statements in this Note apply to both the Agency itself and the Group, except where indicated.
The Group and Agency is exposed to operational risk in its activities, particularly as it generally becomes involved in developments at locations where the private sector is unwilling to proceed without intervention. Through transactions with developers, the Agency's intervention results in financial risks, most significantly credit risk and liquidity risk. The Agency also has exposure to market price risk arising from financial instruments as a result of its equity interests in housing units and private sector developments noted in Note 1(r). The Agency is exposed to interest rate risk as a result of financial instruments that bear interest at variable rates.

The Agency manages risk from a strategic and operational perspective, which includes the financial aspects of risk management. The Agency has a corporate risk management function whose role is to provide advice and assistance to managers on handling risk across the Agency including:

- providing a risk management framework for the Agency;
- facilitating risk assessment workshops for strategic, programme, operating area and project activities; and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

41 Financial risk management (continued)

- providing quarterly reports to senior management.

The Agency has approved a risk management framework including policy, strategy, processes and reporting responsibilities. A monthly review of risk takes place across the Agency, from which the Board and the Audit and Risk Committee are informed on a quarterly basis. The monthly reviews incorporate numerically scored assessments of both the likelihood and impact of specific risks arising, which are combined to direct management's attention to the areas requiring action. Quantitative data, for example on receivables, is provided by Central Finance as necessary.

The potential exposure to receivables is a key focus for management, particularly in the current economic climate. In order to mitigate this risk, the Agency adopts the following approach to transactions with developers:

- potential exposure to credit risk is monitored by the Agency's Business Appraisal function, including the accumulation of risk where the same developers are referred for financial vetting for geographically diverse projects;
- for existing credit risks, assessments are performed monthly by delivery teams and reported to Central Finance; and
- development agreements resulting in the sale of property are always secured by the Agency's right to retake possession of the disposed property in the event of a default by the buyer.

(a) Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations. The Agency's maximum exposure to credit risk, without taking into account any security held, is the same as the carrying amount of financial assets recorded in the Financial Statements, as disclosed in Note 39.

In addition, the Agency has guaranteed the payments under loan obligations of Home Group, as disclosed in Note 43. The total maximum exposure under this guarantee is £21.7m, and it is backed by the right of the Agency to take a first legal charge over Home Group's saleable assets.

The Agency's cash is held entirely with the Office of the Paymaster General. The amount shown as a bank overdraft at 31 March 2012 relates only to payments which were in transit at that date, and the Agency's bank accounts remained in credit throughout the period.

The nature of the credit risk arising from the Agency's most significant financial assets can be summarised as follows:

- The Agency's cash is held entirely with the Office of the Paymaster General. The amount shown as a bank overdraft at 31 March 2012 relates only to payments which were in transit at that date, and the Agency's bank accounts remained in credit throughout the period.
- Receivables arise largely from disposals of development assets, generally to major developers and housebuilders in the private sector. These receivables are always secured by the Agency's right to retake possession of the disposed property in the event of a default by the buyer, and in appropriate cases are backed by financial guarantees.
- Available for sale financial assets relate mainly to amounts receivable individually from the private owners of housing units when their properties are sold, resulting in a broad spread of credit risk for these assets. Amounts receivable from the owners of housing units are secured by a second charge over their property.

41 Financial risk management (continued)

- Loans to associates and joint ventures are mainly concentrated amongst seven counterparties. Loans to water companies relate to only one major public utility company. Infrastructure loans are dispersed amongst 16 major developers and housebuilders in the private sector.

There are no significant concentrations of credit risk in the Agency's other financial instruments.

For all financial assets excluding cash, the maximum exposure to a single counterparty at 31 March 2012 was £96.2m, and the five largest counterparties accounted for 29% of the total balance.

In the year ended 31 March 2011 the Agency suffered a bad debt expense of £10.4m (Note 10). The Agency held collateral for some of these debts by way of a contractual right to take possession of development land previously disposed of, with an estimated value of £3.7m. No such circumstances arose in the year ended 31 March 2012.

(b) Liquidity risk

Liquidity risk is the risk that the Agency will be unable to meet its liabilities as they fall due.

The criteria of accepted best practice were adhered to during the year, including compliance with all statutory and relevant regulatory codes. Sufficient liquidity was retained at all times to meet expected liabilities through the investment of cash surpluses with the Office of the Paymaster General.

The Agency does not engage in speculative activity and does not allow the use of more complex financial instruments, which could result in increased financial liabilities, such as derivatives.

The expected undiscounted cash flows of financial liabilities, based on the earliest date on which the Agency can be required to make payment, are as follows:

	Carrying value £'000	Contractual cash flows £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Other financial liabilities						
Trade and other payables	192,692	192,692	192,692	-	-	-
Finance lease payables	2,150	3,599	1,043	847	1,280	429
Provisions	92,390	92,390	965	18,467	31,857	41,101
Total	**287,232**	**288,681**	**194,700**	**19,314**	**33,137**	**41,530**

Deferred income, tax, social security and certain provisions are excluded from the table above as these are non-financial liabilities.

The provisions shown above are contractually payable only when cash has been realised from receivables arising from disposals of the relevant property. The contractual cash flows above reflect the estimated timing of cash receipts as used in the calculation of the carrying value of the related amount included in receivables.

The Agency's financial guarantee contracts (as disclosed in Note 43) can be called upon at any time.

(c) Interest rate risk

The Agency is exposed to interest rate risk on its financial assets classified as loans and receivables, where these pay interest at a variable rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

41 Financial risk management (continued)

If interest rates on the Agency's variable rate loans and receivables had been 1% higher/lower throughout the year ended 31 March 2012, the Agency's net expenditure for the year, before the effect of tax, would have been £1.3m higher/lower.

(d) Market price risk

The Agency's results and equity are dependent upon the prevailing conditions of the UK economy, in particular UK house prices. The UK housing market affects the valuation of the Agency's non-financial assets and liabilities, especially development assets.

The Agency is also exposed to market price risk in some of its available for sale financial assets. The financial assets include the Agency's interests in housing units and private sector developments located in geographically diverse areas within the UK. As these assets are classified as available for sale, any market price movements are normally reflected in changes in equity, and have no effect on the reported net expenditure for the period unless an impairment is reported.

The Agency has performed a sensitivity analysis that measures the change in fair value of the financial assets held for hypothetical changes in market prices. The sensitivity analysis is based on a proportional change to all prices applied to the relevant financial instrument balances existing at the year end.

At 31 March 2012, if UK house prices had been 10% higher/lower and all other variables were held constant, the effect on the Agency's reserves arising from movements in investments in housing units, before the effects of tax, would have been an increase/decrease of £75.0m/£120.6m from that stated.

At 31 March 2012, if development returns had been 10% higher/lower and all other variables were held constant, the effect on the Agency's reserves arising from movements in investments in private sector developments, before the effects of tax, would have been an increase/decrease of £10.0m/£11.0m from that stated.

(e) Currency risk

The Agency's dealings are almost entirely Sterling denominated, and therefore the Agency has no material exposure to currency risk.

42. Operating leases

As at 31 March 2012 the Agency had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 Land and Buildings £'000	2012 Others £'000	Restated 2011 Land and Buildings £'000	Restated 2011 Others £'000
Within one year	2,204	658	4,166	1,179
Between one and five years	3,596	157	8,642	846
In more than five years	303	-	9,872	-
	6,103	815	22,680	2,025

The Agency leases certain land and buildings for its own use, mainly as offices, normally with minimum lease terms of no more than 10 years and rent reviews every five years. The Agency has also inherited a small number of operating leases from predecessor bodies with terms of up to 25 years, most of which are now nearing expiry.

As at 31 March 2012 the Agency had granted leases for land and buildings with future minimum sub-lease payments expected to be received which fall due as follows:

	2012 £'000	Restated 2011 £'000
Within one year	4,728	4,506
Between one and five years	11,649	11,089
In more than five years	122,768	124,375
	139,145	139,970

The Agency leases certain of its development assets as lessor. As development assets, these properties are held for regeneration or ultimate disposal in the course of the Agency's ordinary activities. In many cases properties may be disposed of with their rental income stream, therefore it is not certain that the Agency will ultimately receive the full amounts shown above as sub-lease income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

43. Contingent assets and liabilities

Contingent assets

The Agency has in certain instances disposed of land on the basis that if there is a subsequent change in use of the land, which materially increases the return to the purchaser, the Agency has a right to participate in the returns achieved. The normal term during which this arrangement remains in force is 21 years. For affordable housing and other community related schemes the term is more usually 35 years. By its nature this income is variable and the timing of receipt is uncertain, therefore it is not possible to quantify the likely income which may ultimately be received by the Agency.

Contingent liabilities

(a) Home Group

On 6 May 1987, a predecessor body of the Agency together with 19 other public sector bodies jointly and severally guaranteed the payment of interest and capital in respect of up to £100m of 8.75% guaranteed loan stock of Home Group a Registered Provider. The Agency's currently assessed share of this contingent liability is 21.65%, and the repayment of capital is due in 2037. The guarantee was issued with the Secretary of State's consent.

In the event of Home Group failing to make good any default within two months, the Agency and other guarantors are entitled to take a first legal charge on sufficient of Home Group's saleable assets as represents adequate security for the debt.

(b) Sunderland City Council

The freeholds of several hundred properties on two estates in Washington were transferred to Sunderland City Council on 1 April 1997. The transfer was subject to an Agency indemnity valid for a period of 30 years against costs which may be incurred in remedying shale related defects. This indemnity was issued with the approval of DCLG. The extent of the potential liability will only be known once any defects are identified.

(c) Other contingent liabilities

The Agency is potentially liable for miscellaneous claims by developers, contractors and individuals in respect of costs and claims not allowed for in development agreements, construction contracts, grants and claims such as Compulsory Purchase Orders. Payment, if any, against these claims may depend on lengthy and complex litigation and potential final settlements cannot be determined with any certainty at this time. As claims reach a more advanced stage they are considered in detail and specific provisions are made in respect of those liabilities to the extent payment is considered probable.

44. Capital expenditure commitments

	2012 £'000	2011 £'000	2010 £'000
Expenditure that has been authorised by the Agency at 31 March	-	-	-

45. Related party transactions

The Agency is a non departmental public body sponsored by DCLG. Hence any other bodies sponsored by DCLG are considered to be related parties. During the year, the Agency has had a significant number of material transactions with DCLG.

The Agency has had a number of material transactions with other government departments and other government bodies, including various local authorities, Regional Development Agencies (RDAs) and the Department for Business, Innovation and Skills. The Agency has also had a number of material transactions with its associated undertakings and joint ventures as follows:

2011/12	Grants paid £m	Loan stock invested/ (repaid) £m	Loan interest received £m
Priority Sites Ltd	-	-	0.7
Barking Riverside Ltd	-	-	0.6
Blueprint Limited Partnership	-	(1.5)	0.1
North East Property Partnership	-	-	3.8
Norwepp Limited Partnership	-	(2.5)	1.2
PxP West Midlands Limited Partnership	-	-	0.9
Onsite North East Limited Partnership	-	(0.1)	-
Countryside Maritime Ltd	0.1	(0.2)	-
Urban regeneration companies (in total)	0.5	-	-

2010/11	Grants paid £m	Loan stock invested/ (repaid) £m	Loan interest received £m
Priority Sites Ltd	-	-	0.7
Barking Riverside Ltd	-	5.7	0.4
The Land Trust	4.2	-	-
Urban regeneration companies (in total)	3.3	-	-

The Agency's internal approval procedures are established so that members of staff nominated to act as Directors or Officers of associated undertakings and joint ventures do not have delegated authority with regard to the relevant undertaking.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2012

45. Related party transactions (continued)

There were no other transactions in which Board Members and related parties had a direct or indirect financial interest.

During the year none of the senior managers or related parties has undertaken any material transactions with the Agency.

46. Losses and special payments

In accordance with the provisions of the Accounts Direction, the Agency must summarise all losses and special payments made during the year, being transactions of a type, which Parliament cannot be supposed to have contemplated. During the course of the financial year the Agency made no losses or special payments requiring disclosure, except as described below.

During 2010/11 the Agency made an extra-contractual special payment of £1.1m to a contractor relating to a cost over-run on one project. This payment was approved by both DCLG and HM Treasury prior to payment.

47. Events after the reporting period

On 1 April 2012, the Agency took on certain regulatory functions from the Tenant Services Authority, and at the same time transferred its London functions to the Greater London Authority.

The Agency took on approximately £47m of net liabilities in the transfer from the Tenant Services Authority, of which £32m represented amounts owed to the Agency. In transferring its London functions to the Greater London Authority, the Agency transferred approximately £360m of net assets, including £260m of development assets.

The Agency's Financial Statements are laid before the Houses of Parliament by the Secretary of State for Communities and Local Government. *IAS10 Events After the Reporting Period* requires the Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Agency's management to the Secretary of State for Communities and Local Government.

The certified accounts were authorised for issue by the Chairman and the Chief Executive and Accounting Officer on 26 June 2012.

48. Merger

(a) Analysis of current year results

An analysis of the contribution to the results for the year ended 31 March 2012 made by the Agency and RDAs in the period prior to merger, together with the contribution from the combined entity in the period since merger, is as follows:

	HCA group pre-merger £'000	RDAs pre-merger £'000	HCA group post-merger £'000	Total £'000
Expenditure	570,983	46,910	1,773,424	2,391,317
Income	(38,692)	(17,640)	(60,432)	(116,764)
Net operating expenditure	532,291	29,270	1,712,992	2,274,553
Interest receivable	(7,324)	(1,983)	(16,447)	(25,754)
Interest payable	118	525	1,372	2,015
Pension fund finance costs	(108)	-	(122)	(230)
Share of losses of associates and joint ventures	914	-	26,002	26,916
Net expenditure before tax	525,891	27,812	1,723,797	2,277,500
Income tax credit	-	-	(16,854)	(16,854)
Net expenditure for the year	525,891	27,812	1,706,943	2,260,646
Other comprehensive expenditure				
Actuarial gain from pension fund	(907)	-	(1,029)	(1,936)
Net gain on revaluation of property/ development assets	(34,903)	1,289	(38,135)	(71,749)
Fair value loss on available for sale assets	8,015	-	9,093	17,108
Realised gains on disposal of available for sale assets recognised in net expenditure	1,560	-	1,770	3,330
Income tax on items in other comprehensive expenditure	7,896	-	8,958	16,854
	(18,339)	1,289	(19,343)	(36,393)
Total comprehensive expenditure for the year	507,552	29,101	1,687,600	2,224,253

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2012

48. Merger (continued)

(b) Analysis of prior year results

An equivalent analysis for the year ended 31 March 2011 is as follows:

	HCA pre-merger £'000	RDAs pre-merger £'000	Total £'000
Expenditure	4,119,253	289,939	4,409,192
Income	(139,677)	(51,307)	(190,984)
Net operating expenditure	3,979,576	238,632	4,218,208
Interest receivable	(16,110)	(11,428)	(27,538)
Interest payable	316	2,002	2,318
Pension fund finance costs	2,536	-	2,536
Share of losses of associates and joint ventures	3,719	5,151	8,870
Gains on disposal of investments in associates	(1,009)	-	(1,009)
Net expenditure before tax	3,969,028	234,357	4,203,385
Income tax charge	11,159	679	11,838
Net expenditure for the year	3,980,187	235,036	4,215,223
Other comprehensive expenditure			
Actuarial gain from pension fund	(16,662)	-	(16,662)
Net loss on revaluation of property/development assets	32,553	11,233	43,786
Fair value gain on available for sale assets	(14,366)	-	(14,366)
Realised gains on disposal of available for sale assets recognised in net expenditure	1,024	-	1,024
Income tax on items in other comprehensive expenditure	(7,597)	-	(7,597)
	(5,048)	11,233	6,185
Total comprehensive expenditure for the year	3,975,139	246,269	4,221,408

(c) Accounting policy alignments: effect on taxpayers' equity

Taxpayers' equity at the time of the merger, together with adjustments arising from alignment of accounting policies and eliminations within the new group, were as follows:

	HCA £'000	RDAs £'000	Total £'000
Taxpayers' equity at time of merger	1,219,752	599,067	1,818,819
Intra group eliminations	(11,364)	11,364	-
Accounting policy alignments	-	(3,240)	(3,240)
Restated taxpayers' equity at time of merger	1,208,388	607,191	1,815,579

48. Merger (continued)

The accounting policy alignments relate to the following:

- release to the Income and Expenditure reserve of government grant reserves held by RDAs in relation to assets which were grant-funded by HCA;
- release to the Income and Expenditure reserve of the revaluation reserve relating to some assets, reflecting different methods of allocating cost and accounting for revaluations in the combining entities;
- alignment of discount rates used to value financial assets across the combining entities; and
- alignment of methods used to quantify provisions across the combining entities.

Assets and liabilities transferred from RDAs after accounting policy alignments, included:

- £301m of development assets;
- £228m of loans to associates and joint ventures;
- £69m of investment in the NW Jessica fund;
- £106m of receivables;
- £91m of provisions; and
- £6m of other net liabilities.

(d) Accounting policy alignments: effect on consolidated reserves

The book value of consolidated taxpayers' equity at the time of the merger, together with adjustments arising from alignment of accounting policies and eliminations within the new group, were as follows:

	I&E reserve £'000	Revaluation reserve £'000	Fair value reserve £'000	Other reserves £'000	Total £'000
Taxpayers' equity at time of merger	1,544,706	194,141	28,283	51,689	1,818,819
Accounting policy alignments	57,484	(8,703)	(332)	(51,689)	(3,240)
Restated taxpayers' equity at time of merger	1,602,190	185,438	27,951	-	1,815,579

The accounting policy alignments are those described in (c) above.

ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE IN ACCORDANCE WITH PARAGRAPH 12(3) OF SCHEDULE 1 TO THE HOUSING AND REGENERATION ACT 2008

1. The annual accounts of The Homes and Communities Agency (hereafter in this accounts direction referred to as "the Agency") shall give a true and fair view of the income and expenditure and cash flows for the year and the state of affairs at the year end. Subject to this requirement, the annual accounts for 2008/09 and for subsequent years shall be prepared in accordance with:

   (a) the accounting and disclosure requirements given in Managing Public Money and in the Government Financial Reporting Manual issued by the Treasury ("the IFReM"), as amended or augmented from time to time;

   (b) any other relevant guidance that the Treasury may issue from time to time;

   (c) any other specific disclosure requirements of the Secretary of State;

insofar as these requirements are appropriate to the Agency and are in force for the year for which the accounts are prepared, and except where agreed otherwise with the Secretary of State and the Treasury, in which case the exception shall be described in the notes to the accounts.

2. Schedule 1 to this direction gives additional disclosure requirements of the Secretary of State.

Signed by authority of the Secretary of State

EHBond.

An officer in the Department for Communities and Local Government
Date 24 November 2008

Schedule 1

Additional Disclosure Requirements

The following information shall be disclosed in the annual accounts, as a minimum, and in addition to the information required to be disclosed by paragraph 1 of this direction.

The notes to the annual accounts shall disclose:

(a) an analysis of grants from:

  (i) government departments

  (ii) European Community funds

  (iii) other sources identified as to each source;

(b) an analysis of the total amount of grant from the Department for Communities and Local Government, showing how the grant was used;

(c) an analysis of grants included as expenditure in the income and expenditure account and a statement of the total value of grant commitments not yet included in the income and expenditure account;

(d) details of employees, other than board members, showing:-

  (i) the average number of persons employed during the year, including part-time employees, agency or temporary staff and those on secondment or loan to the Agency, but excluding those on secondment or loan to other organisations, analysed between appropriate categories (one of which is those whose costs of employment have been capitalised)

  (ii) the total amount of loans to employees

  (iii) employee costs during the year, showing separately:-

    (1) wages and salaries

    (2) early retirement costs

    (3) social security costs

    (4) contributions to pension schemes

    (5) payments for unfunded pensions

    (6) other pension costs

    (7) amounts recoverable for employees on secondment or loan to other organisations

  The above analysis shall be given separately for the following categories:

    I employed directly by the Agency

    II on secondment or loan to the Agency

    III agency or temporary staff

    IV employee costs that have been capitalised;

ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE IN ACCORDANCE WITH PARAGRAPH 12(3) OF SCHEDULE 1 TO THE HOUSING AND REGENERATION ACT 2008 (CONTINUED)

(e) in the note on debtors, prepayments and payments on account shall each be identified separately;

(f) a statement of debts written off and movements in provisions for bad and doubtful debts;

(g) a statement of losses and special payments during the year, being transactions of a type which Parliament cannot be supposed to have contemplated. Disclosure shall be made of the total of losses and special payments if this exceeds £250,000, with separate disclosure and particulars of any individual amounts in excess of £250,000. Disclosure shall also be made of any loss or special payment of £250,000 and below if it is considered material in the context of the Agency's operations.

*(h) particulars of material transactions during the year and outstanding balances at the year end (other than those arising from a contract of service or of employment with the Agency), between the Agency and a party that, at any time during the year, was a related party. For this purpose, notwithstanding anything in the accounting standard, the following assumptions shall be made:

(i) transactions and balances of £5,000 and below are not material

(ii) parties related to board members and key managers are as notified to the Agency by each individual board member or key manager

(iii) the following are related parties:

(1) subsidiary and associate companies of the Agency

(2) pensions funds for the benefit of employees of the Agency or any subsidiary companies (although there is no requirement to disclose details of contributions to such funds)

(3) board members and key managers of the Agency

(4) members of the close family of board members and key managers

(5) companies in which a board member or a key manager is a director

(6) partnerships and joint ventures in which a board member or a key manager is a partner or venturer

(7) trusts, friendly societies and industrial and provident societies in which a board member or a key manager is a trustee or committee member

(8) companies, and subsidiaries of companies, in which a board member or a key manager has a controlling interest

(9) settlements in which a board member or a key manager is a settlor or beneficiary

(10) companies, and subsidiaries of companies, in which a member of the close family of a board member or of a key manager has a controlling interest

(11) partnerships and joint ventures in which a member of the close family of a board member or of a key manager is a partner or venturer

(12) settlements in which a member of the close family of a board member or of a key manager is a settlor or beneficiary

(13) the Department for Communities and Local Government, as the sponsor department for the Agency.

For the purposes of this sub-paragraph:

(i) A key manager means a member of the Agency's management board.

(ii) The close family of an individual is the individual's spouse, the individual's relatives and their spouses, and relatives of the individual's spouse. For the purposes of this definition, "spouse" includes personal partners, and "relatives" means brothers, sisters, ancestors, lineal descendants and adopted children.

(iii) A controlling shareholder of a company is an individual (or an individual acting jointly with other persons by agreement) who is entitled to exercise (or control the exercise of) 30% or more of the rights to vote at general meetings of the company, or who is able to control the appointment of directors who are then able to exercise a majority of votes at board meetings of the company.

*Note to paragraph 1(h) of Schedule 1: under the Data Protection Act 1998 individuals need to give their consent for some of the information in these sub-paragraphs to be disclosed. If consent is withheld, this should be stated next to the name of the individual.

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