Homes & Communities Agency

HOMES AND COMMUNITIES AGENCY

ANNUAL REPORT AND FINANCIAL STATEMENTS 2012/13

Homes and Communities Agency

Annual Report and Financial Statements 2012/13

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 national housing, land and regeneration agency; and the regulator of social housing providers in 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. Our vision is for successful places with homes and jobs.

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
- 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.

The Localism Act 2011 set out the HCA's 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
- the consumer regulation objective.

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

MANAGEMENT COMMENTARY
HOW WE ARE MANAGED

We are governed by a Board of, currently, ten members appointed by the Secretary of State for Communities and Local Government, which is responsible for ensuring the HCA carries out its functions effectively. The HCA's regulatory responsibilities are directed by an independent Regulation Committee of seven members currently. Members of both the Board and the Regulation Committee 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 and remuneration. 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

HCA Board Members

Members who served throughout the year, and those who serve currently, are as follows:

Robert Napier, CBE, Chairman
Andrew Rose, Chief Executive (from 15 April 2013)
Julian Ashby
Keith House
Richard Hyde (from 1 November 2012)
Bob Lane, OBE
Dr Ann Limb, OBE
Jane May (from 1 May 2013)
Shaukat Moledina, CBE (to 31 October 2012)
Anthony Preiskel (from 1 November 2012)
Professor Peter Roberts, OBE (to 30 September 2012)
Ian Robertson
Ruth Thompson, OBE (from 1 November 2012)
Dru Vesty, MBE (to 30 September 2012)
Don Wood, CBE (to 30 June 2012)

HCA Regulation Committee Members

Members who served throughout the year, and those who serve currently, are as follows:

Julian Ashby (Chair)
Jane May
Richard Moriarty
Piers Williamson
Inge Kettner (from 1 December 2012)
Jim Coulter (to 31 March 2013)
Jonathan Adlington (from 1 April 2013)
Tariq Kazi (from 1 June 2013)

MANAGEMENT COMMENTARY
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

We are able to report that with the support of our partners, the Homes and Communities Agency has completed another strong year of performance in 2012/13. We continue to strive to meet our core objectives of delivering thriving communities and affordable homes through a number of critical programmes with which the Government has entrusted us. During the course of the year we met or exceeded our key targets.

A total of 21,482 new affordable homes were completed against a target of 19,910; while we laid the foundations for delivery in 2013/14 by starting on site with schemes that will deliver a further 25,960 new affordable homes. In addition we, along with our partners, delivered over 7,000 new homes through FirstBuy, completed more than 5,100 homes for market sale and started on site with a further 15,000 market sale homes.

And in further support of housing delivery and economic growth we brought 114ha of previously developed land back into productive use, against a target of 94ha, helping to remove blight and dereliction in communities; and gave a boost to local employment through creation of nearly 323,000 sqm of new employment floor space, exceeding the target of 185,658 sqm by over 70%. Our investment for the year was on budget at just under £1.4bn, while we attracted just under £1bn of private sector investment through our Property and Regeneration and Economic Assets Programmes alone. The sector's ability to continue to attract private finance is ever more crucial in the context of constrained public funding.

The Agency's achievement of successful delivery is all the more notable given the continued challenging economic conditions and highlights the Agency's ability to navigate through a significant period of change.

A good Budget for the sector

The year ended, as it began, with the Agency assuming significant additional responsibilities.

In his March 2013 Budget statement, the Chancellor announced a total of £4.7bn of additional investment programmes to be delivered by the HCA. In doing so, he highlighted the clear linkage of two of the Government's highest priorities, namely housing and economic recovery and growth.

Government is clear that investment in housing – creating jobs in the construction industry and the wider supply chain, and stimulating buying activity in local economies – has the power to drive growth nationally. It is an argument that the HCA has been making throughout the year, particularly in helping to inform DCLG's 2015/16 Spending Round submission to Treasury.

So it was timely that just 11 days after the Budget, we were able to report such a positive performance for the year.

Throughout the year we moved quickly to deliver against the additional investment allocated to the Agency, which recognises our capability and the success of our existing programmes. In September we welcomed an additional £225m funding for our Affordable Homes Guarantees Programme and £75m for Empty Homes; £280m for FirstBuy and an enhanced land role, to help speed up the release of surplus public land by Government departments and other public bodies and create a single 'shop window' for development opportunities. This land role, subsequently backed by over £500m additional funding through the Autumn Statement, acknowledges our expertise in managing large portfolios of land on a commercial basis, and our local knowledge. It is core business for the HCA.

As noted above, through the Budget, Government again turned to the HCA to deliver the new flagship Help to Buy scheme and allocated an additional £800m for our Build to Rent Programme and £225m for the Affordable Homes Guarantee Programme. The Help to Buy scheme, with £3.5bn available over three years, which has been extended to all new build homes up to a value of £600k, will play a significant role not only in meeting people's aspirations for home ownership, but also in stimulating movement in the housing market.

And with Build to Rent, Government has recognised the part played by high quality, purpose built and managed homes for private rent, in meeting the country's changing housing needs. Our initial bid round launched in December – for £200m of funding – was significantly oversubscribed, adding further weight to the argument that the time is now right for investment in this area. With £800m additional funding we were able to support many more of the quality bids we received, again moving quickly to publish a shortlist of developers to receive £700m investment. Subject to due diligence, this funding will deliver around 8,000 new homes. A second bidding round will be held in the year ahead, and our work in this area builds on the success of an early Private Rented Sector Initiative which saw a portfolio of over 500 homes built with HCA funding specifically for private rent, acquired by PRUPIM, the real estate investment management arm of M&G Investments, in late March.

Effective and appropriate regulation

On 1 April we took on responsibility for the regulation of social housing providers in England; a new HCA priority that underpins effective delivery of many of our key priorities not least delivery of the Affordable Homes Programme.

We have established a strong and independent Regulation Committee, which in turn has set a clear direction and tone for the HCA in its role as regulator. In achieving our primary objective to protect social housing assets our focus is firmly on economic regulation, while our approach has remained co-regulatory. Boards are responsible for the good governance and financial viability of their organisations and must have a firm grip on the opportunities, and risks, that they face.

We recognise that the risks are increasing, and accordingly in early June we published our Sector Risk Profile, making clear that providers need to have appropriate strategies in place to manage those risks. This has been a recurrent theme throughout the year. For profit providers are entering the sector and traditional providers are diversifying into non-social housing activity, while providers are increasingly turning to new sources of private finance.

Such risks were evident in the most challenging example of regulatory casework during the year. At Cosmopolitan Housing Group, debt incurred on the Group's student business but secured against social housing assets, could have caused a very significant failure. However, through the timely involvement of the HCA and the commitment of Sanctuary Housing Group in stepping up to take on Cosmopolitan's assets and liabilities, a successful merger was secured. We must note the significant contribution made by regulation staff at the HCA, including those who worked directly on the Cosmopolitan rescue, and also their colleagues who took on additional responsibilities in order to allow others to dedicate their time to this challenging case.

The Cosmopolitan case was a timely illustration of the degree to which the Regulator needs to keep pace with the rate of change in the sector and provided further evidence of the need for changes to the Regulatory Framework. In the year ahead we will complete our consultation on these changes to ensure that we are able to seek the assurance we need for effective regulation, protecting social housing assets while maintaining the right conditions for on-going investment in the sector.

However, despite the risks, as demonstrated by our Quarterly Surveys and our Global Accounts published in March, it remains the case that the sector is financially sound and continues to access the finance it requires at competitive rates. In the main, providers are well run and are managing exposures to the housing market effectively. They are well placed to help meet Government's aspirations for new housing supply and we are clear that providers will be a crucial partner for the HCA in the year ahead, as they were in 2012/13.

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

A positive impact in communities

Our year end results, and the progress we have made in implementing new programmes, demonstrate another successful year of delivery for the Agency. We will continue to manage these programmes actively as it is how these statistics translate into delivery on the ground that is the true measure of our impact in communities and neighbourhoods across the country. The impact has been significant.

Our local delivery teams have led on a number of significant successes throughout the year, in our five operating areas. For example, good progress has been made on the Northstowe development outside of Cambridge, where the next 25-30 years will see provision of up to 10,000 new homes, seven primary schools, a secondary school, 135,000 sqm of employment floorspace and three sports hubs; bringing forward 289ha of brownfield land. Planning consent was secured during the year for phase 1 of development, meaning a start on site with major infrastructure is anticipated in 2014, on a project that has already attracted substantial private sector investment.

Also in our East and South East operating area, as part of our Accelerated Land Disposal Programme, we brought four large sites to the market in 2012/13 – Runwell in Chelmsford, Upper Tuesley in Surrey, Nethermayne in Basildon and Spencers Park in Hemel Hempstead – to ensure delivery of over 1,700 homes. While it is our policy not to hold onto land any longer than necessary, we have nevertheless worked to secure outline planning prior to marketing sites to reduce risk and maximise value, creating growth opportunities for local communities, in support of the Government's Housing Strategy.

A full range of activities

Our progress in the Midlands neatly encapsulates the full range of our activities, from making the best use of land, contributing to economic growth, and housing delivery alongside community infrastructure. At Oakgrove in Milton Keynes – a large residential site capable of delivering 1,100 homes – we started on site in early 2013, with the first phase due to deliver 295 homes and a neighbourhood centre. In Stoke's Central Business District, the disposal of four sites for city council office accommodation, through our Economic Assets Programme, will act as a significant catalyst for development in the city.

Indeed we continue to make good progress in promoting economic growth nationwide through the assets we inherited from the RDAs in late 2011. Under the guidance of the 17 local stewardship arrangements we have established to date, we have invested heavily in the creation of employment floorspace and the disposal of sites for much-needed development. This enhanced economic delivery role for the HCA has enabled us to link our physical economic assets with our existing housing and regeneration programmes, boosting local economic growth and ensuring best value for public money. The stewardship arrangements help ensure the best future for the economic assets, with benefits that are felt locally and aligned with other delivery priorities and initiatives.

Our continued commitment to localism is also evidenced in Milton Keynes with the majority of the Agency's historic land holdings transferring to the council in January along with planning powers and responsibility for attracting inward investment.

And throughout the year we also continued to work with LEPs across the country, as they continued to progress their plans for economic growth; and with the eight core cities and others preparing City Deals. As a national Agency that works locally, we share these local objectives. The HCA has a strong working relationship with each LEP and the cities, and they have made clear that our support in developing their proposals was much valued. Looking forward, the Chancellor is due to outline plans for a single pot, as recommended by Lord Heseltine in his report, *No Stone Unturned*, as part of the Spending Round outcome in late June. We will continue to support cities and LEPs in achieving our mutual objectives.

Major regeneration success

Scotswood in Newcastle is the focus of a major regeneration programme to deliver 1,800 new homes in the west end of the city through a new joint venture between the city council and a consortium of house builders. We have used a recoverable equity investment of £2.8m through our Get Britain Building Programme, as an alternative to the fledgling company having to acquire significant debt, in order to deliver phase 1 of the scheme including 100 market sale homes.

Scotswood featured in Regeneration and Renewal magazine's Top 100 Regeneration Projects 2013, which again included strong representation of HCA schemes. Nearly 75% of the largest regeneration schemes in England are HCA led and/or funded, showing that we are continuing to deliver complex, long-term regeneration programmes despite constrained public funding and prevailing economic conditions.

At another project in our North East, Yorkshire and The Humber operating area, the Cyrenians homeless charity successfully bid for £1.8m under our Homelessness Change Programme to build 45 new homes of temporary accommodation in Chester le Street, Durham; replacing accommodation originally converted from a WW2 prisoner of war camp. Operating area teams worked closely with our regulation directorate to enable Cyrenians to become a registered provider with investment partner status and, critically, to bring forward the scheme. Cyrenians gained planning permission in February 2013 and started on site just one month later.

At one of the North West's most important employment sites, Omega in Warrington, the Agency has supported deals this year to secure the first major household name occupiers of commercial space; Brakes, Travis Perkins and Hermes. Commercial interest in this prime location continues to grow, and to date in excess of £38m private sector investment has been secured through the occupiers who have made firm commitments. We expect this figure to quadruple in 2013/14 creating over 2,000 new jobs in the process.

Moving from the region's newest commercial development to a site of particular historic significance, one of our most significant agreements this year delivered through our Accelerated Land Disposal Programme, has seen work start on the Grade II listed Lancaster Moor Hospital. The long vacant, landmark building will be transformed through residential conversion, delivering 390 new homes. And in the core city of Manchester, recoverable loan funding through Get Britain Building has seen work re-start on the high profile Sarah Point Nuovo scheme at Ancoats. Having been mothballed since 2008, the 166 home scheme will now make a significant contribution to the ongoing renaissance of the exciting Ancoats area.

Crucial infrastructure

Through our Local Infrastructure Fund (LIF), a £32m recoverable loan will bring forward delivery at the Sherford new community development, east of Plymouth, ensuring that a major development project which has been 15 years progressing through strategic planning will now start on site in the summer of 2013. The project will deliver over 5,000 homes, retail and employment floorspace and vital community infrastructure, including four new schools, a library, theatre, children's centre, leisure centre and a 200 hectare community park. With the capacity to support in the region of 5,000 jobs the overall development is expected to lever in over £1bn of private sector investment.

Also through LIF, vital infrastructure investment of £25m is accelerating the creation of hundreds of new jobs and the building of around 2,500 new homes in Berkshire, representing a significant contribution to Wokingham Borough Council's efforts to build 13,500 new homes by 2026. A new relief road will be provided, as a key constituent of the infrastructure to underpin development of good-quality housing in the borough while alleviating congestion. The investment will also support Reading University's proposed 18,580sqm Science and Innovation Park south of the M4. Around 780 new jobs will be created through this investment by unlocking the wider housing and science park developments.

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

Also in the South & South West, the Agency's grant and recoverable investment were combined during the year to deliver significant progress at Centenary Quay, a 31 acre former shipyard in Southampton, which is owned by HCA. Phase 2 of the scheme, to deliver 168 new homes, a nursery and a library is now underway; while the success of sales to date under Phase 1 has seen the developer commit to delivery of a further 329 homes, including 72 affordable and 103 for private rent. Phase 3 of the development also provides 78,000 square feet of retail floorspace and will generate up to 250 jobs, while also opening the riverside to the public for the first time in 100 years.

That we have continued momentum on these schemes large and small is a testament to the commitment and skill of our delivery partners – housing associations, house builders, local authorities, community groups and LEPs – and to the dedication and hard work of our staff. Our thanks must go to them all, for nowhere is our vision to create successful places with homes and jobs better demonstrated than in these individual projects, and the thousands more like them across the country.

And as these important schemes clearly demonstrate, market housing – to which delivery of affordable housing remains intrinsically linked – is an increasing area of focus for our activity; while market interventions such as equity investment and commercial loans are increasingly used alongside grant funding. Indeed, the Agency is now at the point where its loan and equity portfolio is in excess of £1bn; a figure likely to increase in the future.

New priorities

As such we reviewed our core priorities during the year, to ensure a continued corporate focus on delivery against Government aspirations, identifying five areas of specific activity: delivery of the Affordable Homes Programme; bringing surplus public land to the market to drive housing growth; supporting local economic growth through the development of assets; increasing private sector housing starts through equity, loans and other market interventions; and maintaining investor confidence in the sector through effective regulation.

Alongside these corporate priorities, we have also maintained our focus on the Agency's role in addressing the very real equality issues facing our neighbourhoods and communities today; as well as ensuring a responsible approach to health and safety, in our role as an employer, and major owner of development sites.

An ageing population means a growing demand for accessible and adaptable housing for disabled and older people; while a society that is more ethnically diverse than ever before means that there is an increasing need to provide tailored accommodation, not least for Travellers who remain one of the most disadvantaged groups in the country.

In November we published our revised Equality and Diversity Strategy, and in March we re-appointed our Vulnerable and Older People's Advisory Group, one of four specialist advisory groups supporting the HCA's objectives and values and providing focus and challenge to our work.

With nine clear objectives to ensure that our investment meets the needs of older people, traveller and black and ethnic minority communities, and that we foster a fair and inclusive working environment for our staff, the Equality & Diversity Strategy was welcomed by stakeholders as a transparent and common sense approach. It goes well beyond requirements set out by law, and underlines our ongoing commitment to drive measurable equality outcomes, through our regulation and investment activities and in relation to our role as an employer of around 850 staff.

While our approach to diversity permeates throughout our work, it is clearly evidenced in our Care and Support Specialised Housing Fund, managed on behalf of the Department of Health and launched in October. The £240m of capital funding aims to widen the housing options for older people and adults with disabilities, by delivering thousands of new affordable and market sale homes. It builds on the good practice identified by the HCA in the 2009 HAPPI Report.

It is notable that the Department of Health has looked to the HCA to deliver such an important funding programme; one which enables us to apply the principles of linking good specialist housing design with health and quality of life while developing innovative ways of delivering good quality housing that addresses local need and demand. We anticipate reporting strong demand for the fund in the forthcoming year.

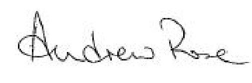
We have also continued to supplement our focus on value for money in allocating investment, by helping to further reduce the costs of our partners. In March we announced membership of our revised Delivery Partner Panel, comprising a range of national and local house builders and providers. Since the first panel was established in 2010 it has been used by 110 partners to procure around 29,000 new homes across 150 sites. We anticipate further success for the new panel, helping partners to cut procurement costs and speed up delivery. Elsewhere our partnership with Government on promoting construction efficiency has also progressed, and we have projected cost reductions of 12% by 2014/15, which will further increase the impact of our available investment.

Foundations for future delivery

Overall our starts on site in 2012/13 and the swift progress we have made in allocating new and additional investment set the foundation for delivery in the year ahead. Indeed, Help to Buy, Build to Rent and the AHP Guarantees funding all extend into the next spending period, bringing a welcome degree of certainty to our partners as they establish their delivery pipelines.

Finally, the Board wishes to record its thanks to Pat Ritchie, who departed the Agency in January, for her strong leadership during a period that saw great change for the HCA, but during which delivery was maintained year on year.

We are confident that our delivery of successful places with homes and jobs will be as strong in the year ahead as it has been in 2012/13.



Robert Napier Chairman **Andrew Rose** Chief Executive

MANAGEMENT COMMENTARY

TARGETS AND RESULTS

HCA outputs 2012/13 (Unaudited)

	Housing Completions[1]		Housing Starts[2]	
	Target[3]	Outturn[4]	Target[3]	Outturn[4]
Total (including FirstBuy[5] and Short Form Agreements[6])	..	**33,711**	..	**41,142**
Total (excluding FirstBuy[5] and Short Form Agreements[6])	**23,381**	**26,635**	..	**40,988**
Affordable housing *of which:*	**19,910**	**21,482**	..	**25,960**
Larger Homes	..	6,373	..	..
Homes in rural settlements (pop. less than 3,000)	..	1,910	..	..
Housing for older and vulnerable people	..	2,010	..	..
(a) Rent *of which:*	..	**16,123**	..	**21,298**
■ Accelerated Land Disposal	..	..	Incl. with market	66
■ Affordable Homes Programme	..	7,395	..	18,939
■ Empty Homes	..	375	..	425
■ Get Britain Building[7]	..	3	Incl. with market	471
■ Homelessness Change	..	22	..	523
■ Kickstart	..	383	..	..
■ National Affordable Housing Programme	..	7,703	..	560
■ Property and Regeneration	..	238	..	202
■ Traveller Pitch Funding	..	4	..	112
(b) Affordable Home Ownership *of which:*	..	**5,359**	..	**4,662**
■ Affordable Homes Programme	..	1,378	..	3,990
■ Get Britain Building[7]	..	..	Incl. with market	266
■ Kickstart	..	223	..	..
■ Mortgage Rescue	..	1,010	..	..
■ National Affordable Housing Programme	..	2,629	..	295
■ Property and Regeneration	..	119	..	111
Market housing *of which:*	**3,471**	**5,153**	..	**15,028**
■ Accelerated Land Disposal	..	..	344	646
■ Economic Assets	..	325	..	246
■ Get Britain Building[7]	..	42	10,000	9,946
■ Kickstart	..	1,001	..	..
■ Property and Regeneration	..	3,785	..	4,190
FirstBuy[5]	**6,340**	**7,043**	..	..

Housing capacity of land disposed[8]	**3,370**	**4,704**
Dwellings made decent[9]	**13,000**	**18,193**
Previously developed land reclaimed (ha)	**94**	**114**
Employment floorspace created (sq m)[10]	**185,658**	**322,833**

".." not applicable

1 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.

2 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.

3 With the exception of housing starts delivered under the Accelerated Land Disposal programme and the Get Britain Building programme, the targets, as set out in our Corporate Plan 2012-15, were not allocated to individual programmes.

4 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.

5 FirstBuy is reported separately and is not included in the housing completions target.

6 33 affordable rent completions and 154 affordable rent starts were delivered through Short Form Agreements (SFA) which do not count towards delivery of the housing completions target. An SFA is used to contract with providers who wish to deliver affordable rent units without HCA funding.

7 The starts on site exclude 522 units which will count towards the overall target to unlock delivery of up to 12,000 homes across the lifetime of the Get Britain Building programme but are also in receipt of funding from an affordable housing programme and are reported under that programme.

8 Housing capacity of land disposed is captured at the point of disposal of HCA land and reflects the site unit capacity.

9 The target for Dwellings made decent was exceeded by bringing forward some of the budget from 2014/15 to 2012/13.

10 The target for Employment floorspace created was exceeded due to delivery which was considered to be high risk and excluded from the target.

In addition to monitoring performance against output measures for which targets were set, we agreed in the Corporate Plan 2012-15 to monitor and report on a number of other impact indicators. These include housing starts on site, as a lead indicator of housing completions, delivered through programmes other than Accelerated Land Disposal and Get Britain Building, for which targets were set, and for the Property and Regeneration and Economic Assets programmes we have measured private sector investment levered and jobs potential created.

	Outturn
Private sector investment levered (£m)	**960**
Jobs potential created[11]	**11,973**

[11] Jobs potential indicates the number of jobs that can be supported by employment floorspace funded and/or contracted by the HCA.

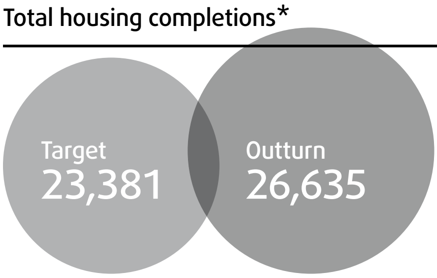
HCA spend against programme

	Spend (£m)
Decent Homes	364
Affordable Homes Programme	318
National Affordable Housing Programme	247
Get Britain Building	161
FirstBuy	114
Property and Regeneration	86
Economic Assets	65
Accelerated Land Disposal	23
Kickstart Housing Delivery	14
Total Programme Spend	**1,392**

Total housing completions*

13.9%

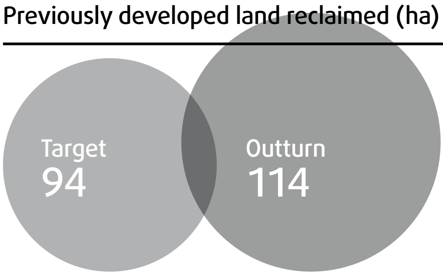
Above target



Previously developed land reclaimed (ha)

21.3%

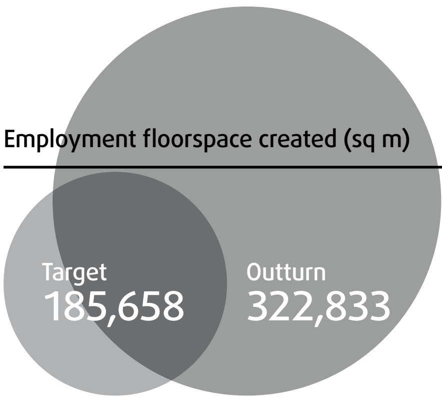
Above target



Employment floorspace created (sq m)

73.9%

Above target



*Excludes FirstBuy and Short Form Agreements.

HOMES AND COMMUNITIES AGENCY

REPORT ON THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

BOARD MEMBERS' REPORT YEAR ENDED 31 MARCH 2013

The Board Members present the Annual Report and Financial Statements for the year ended 31 March 2013.

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. The Tenant Services Authority (TSA) was abolished on 31 March 2012 by the *Localism Act 2011*. This legislation transferred the responsibility for social housing regulation to the HCA from 1 April 2012 and it exercises this function through the independent Regulation Committee.

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
- contribute to the achievement of sustainable development and good design in England, with a view to meeting the needs of people living in England
- facilitate the exercise through its Regulation Committee of the functions conferred on the HCA as the Regulator of Social Housing.

The corporate priorities for the HCA are as follows:

- deliver the affordable homes programme targets and spend
- increase private sector housing starts through equity, loans and other market interventions
- bring surplus public land to the market to drive housing growth
- support local economic growth through the development of assets
- maintain investor confidence in the affordable housing sector through effective regulation
- work with our local and national partners to ensure effective alignment of resources and activity
- further develop the HCA, our innovative, flexible and commercial approach and our people so that we continue to deliver public value and can respond to future challenges.

Format of the Financial Statements

The HCA's Financial Statements for the year to 31 March 2013 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*.

BOARD MEMBERS' REPORT (CONTINUED) YEAR ENDED 31 MARCH 2013

Results for the year

The results for the year ended 31 March 2013 are set out in the Financial Statements on pages 50 to 114.

Net expenditure for the year was £1.4bn (2012: £2.3bn) and total comprehensive expenditure was £1.4bn (2012: £2.2bn).

The Group Statement of Financial Position shows net assets of £1.6bn (2012: £1.8bn).

Going concern

Net assets of £1.6bn 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 2014, 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.

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 25.

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 33. 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
- 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 2013 the HCA paid 95% (2012: 96%) 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 92% (2012: 93%).

As at 31 March 2013, trade payables were equivalent to 49 days of purchases in the year then ended. This figure is largely driven by an unusually high trade payables balance at the year end. Of the trade payables figure of £201m at 31 March, £102m was paid by 5 April and a further £81m by 24 April.

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:

	2012/13 £'000	2011/12 £'000
Audit fee	195	215

The reduction in the audit fee reflects the additional work performed during 2011/12 around the transfer of assets and liabilities from Regional Development Agencies.

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.

BOARD MEMBERS' REPORT (CONTINUED)
YEAR ENDED
31 MARCH 2013

Employees

The Agency's employees are fundamental to its success. The Agency is implementing new programmes, developing different ways of working with an increasing emphasis on recovering investment, focusing on land and moving to a more risk-based regulatory approach.

On 1 April 2012 we took responsibility for the regulation of social housing providers in England, and we welcomed staff who transferred to the Agency from the Tenant Services Authority. At the same time staff working in the London operating area transferred to the Greater London Authority. Note 6 to the accounts gives detailed information about staff costs, and it is worth noting that the staff costs to 2011/12 do not include regulation staff, but did include London operating area staff. The Agency's underlying staff costs have decreased by £2.5m as described further in Note 6 to the accounts.

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. The Agency has developed a programme of development for its staff, based on the ideas and enthusiasm of people right across the organisation. This work will be implemented during 2013/14 to develop our people and ensure we continue to have skilled and knowledgeable staff, promoting employee engagement and developing further ways of working which reward staff and promote innovation.

Learning and Development plans are produced as part of the Agency's objective setting and appraisal process 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 where detailed briefings and podcasts after Directors' Group are available. HCA's intranet allows for the sharing of information, access to key documents or educational materials. In addition a business networking tool has been implemented to create more effective links between staff.

Employee sickness absence rate for 2012/13 was 1.6% of working days (1.5% in 2011/12).

The HCA has published nine *Equality and Diversity objectives*, two of which address specific actions aimed at addressing disability issues internally and externally (our *Equality and Diversity objectives* are detailed below). The HCA does not, therefore, have a specific disabled policy but as an equal opportunities employer the Agency positively encourages applications from suitably qualified and eligible candidates regardless of disability. The Agency complies with its statutory obligations and ensures that suitably qualified and competent external and internal disabled applicants are automatically shortlisted for roles, and disabled staff have the same access to employment, training, career development and promotion as all other staff. Further the Agency undertakes Equality Impact Assessments of restructuring, policy changes or implementations and any other significant interventions that may potentially impact on staff. The Agency has publicly set out its commitments to disabled people in a fact sheet in the recruitment section of the HCA website.

Equality and diversity

The HCA recognises that through our role as an investor, enabler and regulator we can work with our delivery partners to address the disadvantage some communities face. This includes an on-going commitment to proactively address the needs of disabled people.

As a public authority, listed in the *Equality Act 2010* we are legally required to meet general statutory equality duties. These require us to:

- work towards the elimination of unlawful discrimination
- promote equality of opportunity and promote good relations
- promote positive relations.

In addition, the Act requires us to meet Specific Duties which require us to:

- publish equality objectives which we will work towards achieving over the next four years
- publish annual equality information – to demonstrate that we are delivering our equality duties.

On 6 April 2012, we published nine equality objectives which were shaped through a public consultation exercise. In recognition of the need to work towards disability equality, two of our equality objectives address specific actions aimed at addressing disability issues internally and externally. The objectives are set out below:

- 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
- 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. For example, our staff surveys include the analysis of responses by various equality strands. Our statistics show that the experiences of disabled staff do not differ greatly from non-disabled staff.

In March 2013, we recruited new members to our Equality and Diversity Advisory Group who will support us to translate our vision into practice. The activities of the Advisory Group will assist us to take an innovative approach to how we work and maintain an on-going 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 continue to publish equality information annually that demonstrates our performance across all of our functions.

BOARD MEMBERS' REPORT (CONTINUED) YEAR ENDED 31 MARCH 2013

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 responsible for the Agency's progress towards meeting these targets and actively monitors this progress and other health and safety developments through quarterly update reports.

Key health and safety highlights for 2012/13 are as follows:

- the Agency's health and safety policy received its annual review
- four national health and safety committee meetings were held
- all new employees joining the Agency completed an online safety induction course and attended face to face training
- departmental health and safety risk assessments for working practices were reviewed
- health promotion activities focussing on mental health, men's health, women's health and diet and exercise, were delivered
- 39 employees who drive regularly on business completed a driver risk assessment and attended further training where necessary
- the Agency's accident incident rate (AIR) of 122 injuries per 100,000 employees is below the national average of employees working in comparable occupations. Only one injury to an employee had to be reported to the Health and Safety Executive (HSE).
- 25 health and safety audits of HCA property and 22 joint inspections of HCA operational bases were undertaken
- in support of the Agency's policy on work related stress, 18 courses on work related stress for managers were delivered.

Social and community issues

Community engagement

In response to the Government's agenda on localism in neighbourhoods we have revised our previous strategy on community engagement along with a community engagement toolkit to provide staff, partners and other interested parties a practical guide to work with.

The enabling framework sets out actions we will take in identifying opportunities for engagement and in supporting community led solutions to housing and economic growth through our integrated investment, land and enabling role.

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. We do this by working with local authorities to support them to achieve their objectives for housing and regeneration by:

- investing in new housing and economic growth by linking the supply of housing and regeneration of communities which include the improvement of the quality of existing homes
- contributing to and boosting economic growth by linking the supply of housing and regeneration
- providing expertise and technical support
- utilising our own and other public sector land and sharing best practice.

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
- institutional investors
- the voluntary and community sectors
- professional and industry bodies
- 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.

The Agency is required to prepare a sustainability report for inclusion in the Annual Report and Financial Statements. The report is set out below.

Sustainability report

This report has been prepared in accordance with guidelines laid down by HM Treasury in *Public Sector Sustainability Reporting* published at www.financial-reporting.gov.uk. Sustainability data and delivery plans are also reported more frequently to the Cabinet Office, with our operational estates carbon emission data reported into DCLG on a quarterly basis.

BOARD MEMBERS' REPORT (CONTINUED) YEAR ENDED 31 MARCH 2013

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
- water usage.

Sustainability performance

Greenhouse gas emissions

Targets for greenhouse gas emissions are to:

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

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

CO_2 (tonnes)	2009/10	2010/11	2011/12	2012/13
Electricity Consumption	1,599.58	1,471.89	1,128.17	1,080.24
Gas Consumption	587.87	443.21	247.73	177.69
Official Travel – Road	409.82	357.80	402.15	631.70
Official Travel – Air	0.40	0.13	0.31	3.48
Official Travel – Rail	398.62	288.38	198.15	226.47
Other	38.00	26.79	15.29	3.61
Total CO_2 (tonnes)	**3,034.29**	**2,588.20**	**1,991.80**	**2,123.19**
Total (£'000):				
Energy (£'000)	336	245	151	193
Travel and other (£'000)	2,043	1,779	1,550	1,965

Rail CO_2 figures for 2009/10, 2010/11 and 2011/12 have been restated in order to capture data not previously included. In prior years only costs recharged via staff expenses were included. The introduction of a new online staff expenses system in 2011/12 and an online booking system for rail travel in 2012/13 has significantly improved the quality and accuracy of travel data.

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

Overall, CO_2 emissions are broadly similar to last year although there has been an increase in road and rail travel in respect of both CO_2 emissions and cost. This is a result of a combination of factors, including this being the first full year of inclusion of staff who transferred from the RDAs, in September 2011 whose roles involve travelling to key stakeholders, the inclusion of regulation staff, following the transfer of the TSA's regulation function to the HCA and a more accurate data collection technique following the implementation of our on-line expenses system.

During the year, the Agency has undertaken the following in order to reduce greenhouse gas emissions:

- continuing to use smart technology to reduce electricity usage such as LED lighting coupled with infrared sensors and the installation of automatic meter reading technology
- the continued roll-out of 'at-desk' virtual conferencing
- increased focus on raising staff awareness of environmental issues and the need to change behaviour
- the set-up of the Green Champions Network, a network of employees across the Agency who share ideas about saving energy and help spread the message
- continuing to work with the Carbon Trust on our 5 year carbon management plan which gives the Agency a target of exceeding government targets.

The Agency has exceeded its target of reducing greenhouse gas emissions by 2014/15 by 25% from 2009/10 levels. By 2012/13, greenhouse gas emissions have reduced by 911 CO_2 tonnes, equivalent to 30%. The Agency will need to ensure that it maintains its performance up to 2014/15.

We continue to look for other opportunities to support greater reductions in energy consumption and associated carbon emissions.

Waste

Targets for waste are:

- to reduce the amount of waste the Agency generates by 25% by 2015 (from a 2009/10 baseline)
- to ensure that redundant ICT equipment is re-used or responsibly recycled.

A summary of our waste disposal performance is as follows:

		2009/10 (tonnes)	2010/11 (tonnes)	2011/12 (tonnes)	2012/13 (tonnes)
Total waste disposal		254.23	214.81	259.39	177.41
Hazardous waste	Total	0.00	0.00	0.00	0.00
Non-hazardous waste	Landfill	108.09	82.21	122.45	50.41
	Reused/Recycled	146.14	132.60	122.44	127.00
	Incinerated/energy from waste	0.00	0.00	8.21	0.00
	Total ICT Waste (of which)	0.00	0.00	6.29	0.00
	ICT Waste Reused/Recycled	0.00	0.00	6.29	0.00

BOARD MEMBERS' REPORT (CONTINUED) YEAR ENDED 31 MARCH 2013

The reduction in total waste disposal is a result of increased staff awareness of recycling, increased visibility of recycling points, and benefits derived from the Agency's estate rationalisation last year.

The Agency has exceeded its target of reducing waste by 25% by 2014/15. By 2012/13, the waste generated was 77 tonnes less than that generated in 2009/10, equivalent to 30%. The Agency will need to ensure that it maintains its performance up to 2014/15.

A summary of our paper use performance is as follows:

	2009/10	2010/11	2011/12	2012/13
A4 ream equivalent	16,800	12,450	9,050	9,020

The Agency continues to look at ways of improving our recycling rates whilst at the same time mitigating the amount of waste we send to landfill.

Finite resource consumption – water

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

		2009/10	2010/11	2011/12	2012/13
Water Consumption (m^3)	Supplied	13,125.39	8,679.00	9,138.40	6,477.00
	Abstracted	0.00	0.00	0.00	0.00
Water Consumption (£'000)		17	30	21	17

The reduction in water usage reflects:

- more accurate data reporting by building managers and landlords
- the continued benefit derived from low flow-rate taps, flush sensors and water displacement equipment
- greater prevalence of staff awareness campaigns such as the Green Champions Network.

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 2013

Unaudited information

Constitution of the Remuneration Committee

The Remuneration Committee consists of the following HCA Board Members:

- Robert Napier, CBE (Chair)
- Julian Ashby
- Dr Ann Limb, OBE
- Shaukat Moledina, CBE (to 31 October 2012)
- Anthony Preiskel (from 1 November 2012)
- Ian Robertson

Functions and responsibilities

The Remuneration Committee is required to:

- advise the Chairman, the Board, and the Chief Executive in his 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
- 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.

REMUNERATION REPORT (CONTINUED) YEAR ENDED 31 MARCH 2013

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.

Audited Information

The following information provides details of the remuneration and pension interests of Board Members, Regulation Committee Members and Key Managers in their capacity as employees of the HCA for the year to 31 March 2013.

Board Members' emoluments

	2012/13 £'000	2011/12 £'000
Chairman		
Robert Napier, CBE	87	88
Board Members		
Julian Ashby (from 1 November 2011) [1]	65	5
Candy Atherton (to 30 September 2011)	-	7
Keith House (from 1 November 2011)	12	5
Richard Hyde (from 1 November 2012) [2]	5	-
Dr Ann Limb, OBE (from 1 November 2011)[3]	12	5
Bob Lane, OBE	13	13
Jane May (from 1 May 2013) [4]	-	-
Shaukat Moledina, CBE (to 31 October 2012)[5]	8	13
Anthony Preiskel (from 1 November 2012) [2]	5	-
Professor Peter Roberts, OBE (to 30 September 2012) [5]	7	13
Ian Robertson[6]	24	18
Ruth Thompson, OBE (from 1 November 2012) [2]	5	-
Dru Vesty, MBE (to 30 September 2012)[2]	7	13
Don Wood, CBE (to 30 June 2012) [2]	3	13

Regulation Committee emoluments

The Regulation Committee was established on 1 April 2012 under the provisions of the Localism Act 2011. Its members and their emoluments were as follows:

	2012/13 £'000	2011/12 £'000
Julian Ashby (Chair) (from 1 April 2012) [1]	-	-
Jane May (from 1 April 2012) [4]	11	-
Richard Moriarty (from 1 April 2012)[7]	11	-
Piers Williamson (from 1 April 2012)[7]	11	-
Inge Kettner (from 1 December 2012)[8]	4	-
Jim Coulter (from 1 April 2012 to 31 March 2013)[7]	11	-
Jonathan Adlington (from 1 April 2013)	-	-
Tariq Kazi (from 1 June 2013)	-	-

1 In addition to being a Board Member, Julian Ashby was appointed Chair of the Regulation Committee from 1 April 2012. His emoluments for 2012/13 cover both membership of the Board and Regulation Committee. Emoluments disclosed for 2011/12 relate to Board membership only and full year equivalent emoluments were £13,000.
2 Full year equivalent emoluments are £12,000.
3 Dr Ann Limb was also paid £7,000 in her capacity as Chair of the Milton Keynes Partnership Planning Committee.
4 Jane May was appointed to the Board on 1 May 2013. During 2012/13, she was also a member of the Regulation Committee for which she received £11,000. She also received £1,375 for regulation related work before the committee was established.
5 Full year equivalent emoluments are £13,000.
6 From 1 April 2012 Ian Robertson has committed an additional 20 days per annum, in addition to the current 24 days to reflect his role as a Board Member and Chair of the Audit and Risk Committee. On this basis remuneration is £24,000 per annum.
7 In addition to receiving £11,000 in their capacity as a regulation committee member, £1,375 was also received for regulation related work before the committee was established.
8 Full year equivalent emoluments were £11,000.

Chief Executive's emoluments

Andrew Rose was appointed as Chief Executive on 15 April 2013 and did not receive remuneration from HCA for the periods covered in this report.

	Salary £'000	Bonus £'000	Taxable benefits Nearest £100	Employer's contribution to pension fund £'000	Total 2012-13 £'000	Total 2011-12 £'000
Richard Hill (interim Chief Executive from 5 February 2013) [1]	20-25	-	-	0-5	20-25	-
Pat Ritchie (to 4 February 2013)	115-120	-	3,900	30-35	155-160	180-185

1 Richard Hill was appointed interim Chief Executive from 5 February to 14 April 2013. His emoluments for 2012/13 include earnings in his capacity as interim Chief Executive only. Prior to 5 February he was Executive Director of Programmes and Deputy Chief Executive. His emoluments in relation to this post are disclosed in Key Manager's emoluments below. The full time equivalent salary in his capacity as interim Chief Executive is £143,000.

REMUNERATION REPORT (CONTINUED) YEAR ENDED 31 MARCH 2013

Key Managers' emoluments

	Salary £'000	Bonus[1] £'000	Taxable benefits Nearest £100	Employer's contribution to pension fund £'000	Total 2012-13 £'000	Total 2011-12 £'000
Margaret Allen Director of HCA Change Programmes to 31 December 2011; Executive Director Midlands (from 1 Jan 2012): Executive Director of Midlands and Programmes (from 5 February 2013)	125-130	0-5	3,900	10-15	140-145	150-155
Matthew Bailes Executive Director Regulation (from 1 April 2012)[2]	95-100	0-5	0	20-25	115-120	0-5
David Curtis Executive Director North East, Yorkshire and The Humber	120- 125	0-5	3,700	35-40	160-165	160-165
Richard Ennis Executive Director of Finance and Corporate Services	160-165	0-5	5,800	45-50	210-215	210-215
Terry Fuller Executive Director East and South East	145-150	0-5	5,200	40-45	190-195	190-195
Richard Hill Deputy Chief Executive and Director of Programmes (to 4 February 2013)[3]	120-125	0-5	0	10-15	135-140	155-160
David Lunts Executive Director London (to 23 May 2011)[4]	0-5	0-5	0	0-5	0-5	115-120
Deborah McLaughlin Executive Director North West	120-125	0-5	6,300	35-40	160-165	170-175
Colin Molton Executive Director South West	130-135	0-5	6,500	35-40	175-180	185-190
Paul Spooner Executive Director Midlands (to 31 Dec 2011)[5]	0-5	0-5	0	0-5	0-5	370-375

1 Bonuses disclosed relate to performance for the year ended 31 March 2012. All directors waived their entitlement to a bonus for this period so actual bonuses paid to directors were Nil.
2 Matthew Bailes is seconded from DCLG. The salary disclosed represents the invoiced cost from DCLG under the terms of an agreement between the Agency and DCLG. He is not eligible for a bonus under the HCA performance management scheme.
3 Richard Hill was appointed interim Chief Executive on 5 February 2013. His emoluments in that capacity are shown within Chief Executive's emoluments. The emoluments shown here relate to him in his capacity as Deputy Chief Executive and Director of Programmes only. The full year equivalent salary is £143,000.
4 David Lunts was the London Executive Director until 23 May 2011. From this date until 31 March 2012 his duties and salary were split equally between HCA and the Greater London Authority. The total remuneration for 2011/12 above therefore includes his full time salary to 23 May 2011, and from then on 50% paid by the Agency. His total remuneration from HCA in 2012/13 was Nil.
5 Paul Spooner was Midlands Executive Director until 31 December 2011. His total remuneration from HCA in 2012/13 was Nil. His total remuneration for 2011/12 includes 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. These figures were disclosed in full in the 2011/12 remuneration report.

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, Executive Director of Finance and Corporate Services.

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 and for the performance years ended 31 March 2012 and 31 March 2013, they all agreed not to receive a bonus in spite of delivering the Agency's targets.

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

The Chief Executive has an entitlement to an annual performance related bonus based upon the achievement of targets agreed by the Remuneration Committee. The Committee reviews performance against targets and recommends a performance related bonus for the approval by the Secretary of State.

Andrew Rose was appointed on 15 April 2013 and is not eligible for a performance related bonus for the year ended for 31 March 2013.

Pat Ritchie did not receive a bonus for the performance year ended 31 March 2012 nor will she receive a bonus for the performance year ended 31 March 2013.

Richard Hill, acting in his capacity as interim Chief Executive, will not receive a bonus for the performance year ended 31 March 2013.

For all other employees, the HCA complies with the direction from the Secretary of State that no more than 25% of its staff are eligible for a performance related bonus up to a maximum value of £950.

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

Termination payments in 2012/13 were nil (2011/12 £241,000).

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 4.1 times the median remuneration of the workforce, which was £41,040. Remuneration ranged from £6,240 to £166,635 on the basis of total remuneration inclusive of severance pay. The starting range salary

REMUNERATION REPORT (CONTINUED) YEAR ENDED 31 MARCH 2013

represents the paid remuneration of the Agency's apprentices. Once apprentices are excluded, remuneration ranged from £15,725 to £166,635.

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 2013 £'000	Accrued pension at 31 March 2012 (as adjusted by inflation) £'000	Real increase in accrued pension £'000	CETV 31 March 2013 £'000	CETV 31 March 2012 Restated* £'000	Real increase/ (decrease) in CETV £'000
Chief Executive and Accounting Officer						
Andrew Rose (from 15 April 2013)	–	–	–	–	–	–
Pat Ritchie (to 4 February 2013)[1]	46	46	–	1,074	1,064	3
Richard Hill (interim Chief Executive from 5 February 2013 to 14 April 2013)	29	27	2	378	354	13

[1] Pat Ritchie left the scheme on 4 February 2013. This has been reflected in the calculations at 31 March 2013.

Key Managers

	Accrued pension at 31 March 2013 £'000	Accrued pension at 31 March 2012 (as adjusted by inflation) £'000	Real increase in accrued pension £'000	CETV 31 March 2013 £'000	CETV 31 March 2012 Restated* £'000	Real increase/ (decrease) in CETV £'000
Margaret Allen	36	36	-	665	660	(5)
Matthew Bailes[2]	-	-	-	-	-	-
David Curtis	60	60	-	1,737	1,718	12
Richard Ennis	39	38	1	726	699	17
Terry Fuller	8	6	2	204	159	36
Deborah McLaughlin	37	36	1	758	738	13
Colin Molton	52	50	2	1,173	1,152	13

[2] Matthew Bailes is seconded from DCLG and is not eligible to participate in any of the Agency's pension schemes.
* Restated using 31 March 2013 pension factors.

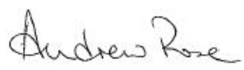
The Chief Executive and Key Managers are eligible to participate in the Homes and Communities Agency Pension Scheme, which is a multi-employer defined benefit scheme. The Chairman, Robert Napier is not entitled to be a member of any of the Agency's pension schemes. With the exception of Margaret Allen 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 2013

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2013.

Cash Equivalent Transfer Value (CETV) 31 March 2013

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

Andrew Rose
Chief Executive and Accounting Officer

20 June 2013

RESPONSIBILITIES OF THE ACCOUNTING OFFICER YEAR ENDED 31 MARCH 2013

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
- 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 2013

Introduction

This Governance Statement provides a reader of the accounts with an overview of the dynamics and control structure of the HCA. It explains the stewardship of the organisation and how the HCA has responded to the risks and challenges it has met over the past year as well as looking forward to challenges it faces going forward.

During the year the HCA continued to help deliver the Government's priorities in the areas of housing, regeneration and economic growth. We achieved our corporate targets for outputs after making substantial efficiency savings while integrating the function of the Social Housing Regulator into the HCA.

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 from 15 April 2013. During the financial year the role of Accounting Officer was undertaken by Pat Ritchie, from 1 April 2012 to 25 January 2013, and Richard Hill, who was the HCA's Interim Chief Executive from 25 January 2012 until 15 April 2013. I am grateful for the work they have undertaken during the period and have received assurances from them which have enabled me to complete and sign this statement.

The Accounting Officer responsibility covers all aspects of HCA operations with a small number of exceptions, where the HCA is responsible for programme management but ultimate responsibility for budgets rests with another body, these programmes/assets are:

- Voluntary Transfers on behalf of DCLG
- Housing PFI on behalf of DCLG
- Care and Support Specialised Housing Fund on behalf of the Department of Health
- BIS Innovation and Technology Assets on behalf of the Department for Business Innovation and Skills.

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, assets, liabilities and staff were transferred to the HCA. From 1 April 2012 the Accounting Officer of the HCA has 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.

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2013

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 HCA in London. All of the HCA's assets, liabilities and investment functions were transferred, together with 44 staff operating our programmes in London. The HCA remains the Regulator of Social Housing for the whole of England including London and in limited areas of activity the Mayor has delegated functions back to the HCA on the grounds of business continuity and efficiency. These include legacy programmes such as the Private Finance Initiative and the Armed Forces Home Ownership Scheme and two new programmes, Help to Buy and Build to Rent.

A comprehensive scheme of internal delegations is in place that enables the day to day management of the HCA to be shared with the Executive Directors of the HCA and their staff. The scheme of delegations is kept under review throughout the year and has been updated and amended, following finalisation of a revised financial framework with DCLG, and was approved by the Board and the Accounting Officer in November 2012.

Relationships between HCA and DCLG

The relationship between the 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 2012/15 Corporate Plan which was approved by Ministers and published in June 2012.

During the period, the HCA and DCLG have worked closely together to develop plans to respond to the Government's announcement on Housing and Growth in September 2012, the Autumn Statement of December 2012 and the Budget of March 2013 and we were pleased to see the HCA's ongoing role of supporting local communities further strengthened in all these announcements.

The HCA has been working with DCLG to improve the clarity and robustness of performance reporting during 2012/13.

The HCA sponsorship function is now located in a team within the DCLG'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. Significant issues are discussed at the monthly Policy and Performance Group which is attended by senior officers from both the HCA and DCLG.

Peter Schofield, Director General, Neighbourhoods at DCLG has been invited to attend the HCA Board on a quarterly basis and Ian Robertson, Chair of the HCA's Audit and Risk Committee, also sits on the DCLG Audit and Risk Committee, both of which help to strengthen understanding between the two organisations.

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

The Board, its committees and advisory groups

During the year the HCA had in place a Board of nine non-executive members. Three Board members were appointed in November 2012 to replace those whose appointments had ended. In addition I was appointed to the HCA Board in April 2013 as Chief Executive.

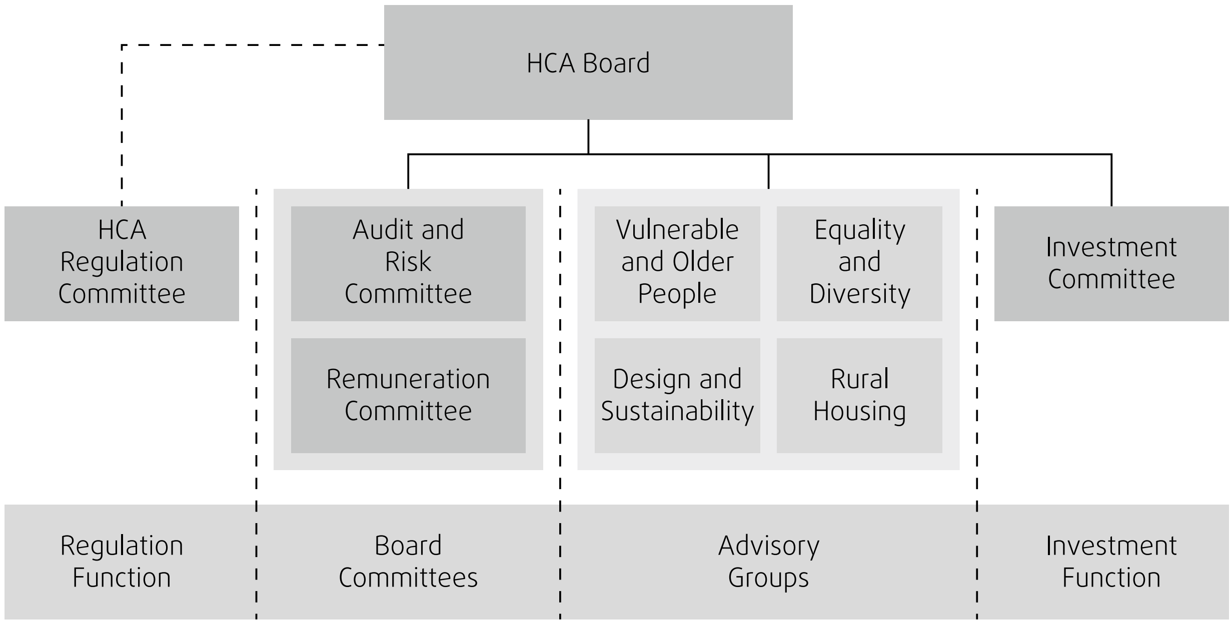
The Board is responsible for the following activities in consultation with DCLG:

- establishing the HCA's overall strategic direction
- corporate planning
- setting the budget
- financial and human resource planning

- investment decisions not delegated to the Investment Committee
- ensuring the HCA's affairs are conducted with probity
- setting standards and values for the HCA
- ensuring health and safety effectiveness
- ensuring the HCA'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 and advisory boards which it considers necessary for the effective conduct of its business.



- Audit & Risk 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 HCA's major investment proposals and monitoring performance of our investment programmes
- Regulation Committee – the HCA operates the regulatory function through this independent committee which was established by the Localism Act 2011.

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2013

In addition to these 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
- Equality and Diversity
- Design and Sustainability
- Rural Housing.

Two committees ceased during the year:

- Milton Keynes Planning Sub Committee – this was wound up after planning powers were transferred to Milton Keynes Council on 14 January 2013 and held its last meeting in November 2012
- Leeds City Region HCA Board – in October 2012 this became an advisory group to the Leeds City Region Leaders Board and is no longer a committee of the HCA.

Board and committee attendance

Attendance at HCA Board and committee meetings during the year is as follows. For each committee, attendance by the member is shown followed by the number of times each committee met during that member's tenure in brackets.

Name	Board	Investment	Audit and Risk	Remuneration
Robert Napier Chair	10 (10)	12 (12)	-	2 (2)
Ian Robertson	10 (10)	9 (12)	7 (7)	2 (2)
Julian Ashby	10 (10)	-	-	2 (2)
Keith House	9 (10)	8 (12)	-	-
Bob Lane	9 (10)	9 (12)	-	-
Dr Ann Limb	10 (10)	6 (12)	4 (7)	2 (2)
Richard Hyde	4 (4)	6 (6)	1 (2)	-
Anthony Preiskel	4 (4)	6 (6)	-	1 (1)
Ruth Thompson	4 (4)	6 (6)	1 (2)	-
Shaukat Moledina	5 (6)	6 (6)	-	1 (1)
Dru Vesty	4 (5)	5 (5)	4 (5)	-
Peter Roberts	4 (5)	2 (5)	5 (5)	-
Don Wood	3 (3)	1 (3)	2 (4)	-

Name	Regulation Committee
Julian Ashby – Chair	13 (13)
Jane May	12 (13)
Jim Coulter	13 (13)
Richard Moriarty	13 (13)
Piers Williamson	12 (13)
Inge Kettner	3 (4)

HCA 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 this point, the HCA has complied in all material aspects with the Corporate Governance Code of Good Practice.

The HCA Board carried out a self-assessment exercise in February 2013 and while considering current practice as very good, discussed areas of improvement including changes to performance reporting and greater visibility of Regulation Committee activity. Peter Schofield, Director General, Neighbourhoods at DCLG has been invited to attend the HCA Board on a quarterly basis to help improve communications with the Department.

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 such as 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 three core systems used by the HCA 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.

The Executive recognise that the quality of forecasting information, both financial and non-financial, within core systems could be improved to avoid significant time reworking data prior to it being reported.

Investment Committee

The Committee oversees the delivery of the HCA's programmes and projects for housing and regeneration and in particular:

- considers and approves, or refuses, property and regeneration proposals which are above the level delegated to the executive, subject to consideration of advice from officials arising from full appraisal of proposals
- where appropriate, considers and advises the Board on proposals which are novel or contentious, or which involve a compulsory purchase order
- considers and advises the Board on strategic policies for the HCA's investment programmes
- oversees the planning and implementation of the HCA's capital and revenue investment programmes
- monitors the performance of the HCA's investment programmes.

Examples of the work of the Committee during the year include:

- approval of the strategy to deliver accelerated delivery at Northstowe
- reviewing proposals for a dedicated investment recovery team within the agency
- approval of the allocations for the second round of FirstBuy funding
- monitoring of HCA investment in associates and joint ventures including a detailed review and challenge of the HCA's future strategy in this area
- approval of the disposal of the Berkeley Group private rented fund to Prudential.

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2013

Audit and Risk Committee

The Committee supports the HCA Board and the HCA Regulation Committee in their responsibilities for risk control, governance, financial stewardship and financial and statutory reporting. It reviews the comprehensiveness of assurances and reporting processes, consistent with the Accounting Officer's assurance needs.

During the year it has considered:

- strategic policies and processes for risk, control and governance
- regular review of, and input to, the HCA's various risk registers
- accounting policies, Annual Report and Financial Statements, including the process for review of the accounts prior to submission for audit, and levels of error identified
- National Audit Office (NAO) Audit Completion Report and Management Letter
- management's letter of representation to external auditors
- anti-fraud policies, the HCA's procedures for handling allegations from 'whistleblowers' and arrangements for special investigations
- the internal audit charter and the risk based annual internal audit plan
- internal audit findings, the internal audit annual report and the breadth and depth of internal audit reports
- management implementation of internal audit recommendations.

The Audit and Risk Committee formally assessed its own performance in September 2012. Suggestions were made regarding training for new members and how the Committee could better assist the HCA in assessing and managing risk. The HCA has begun to formally record risk appetite levels in many of its risk registers during the year.

Jim Coulter, a member of the Regulation Committee attended Audit and Risk Committee meetings during the year to provide specialist advice where necessary. As Jim has now stepped down from the Regulation Committee, Inge Kettner has agreed to take this role forward.

Remuneration Committee

The Committee met during the year to consider and approve the bonus payment for the Chief Executive and other senior officers for the period April 2011 to March 2012, subject to DCLG approval.

It also considered the pay remit for the organisation as a whole and the limitations on staff bonuses expected by the Secretary of State, as well as the arrangements for discretionary redundancy terms.

The remuneration terms and other terms and conditions of employment for the new Chief Executive appointed in April 2013 were agreed by the Remuneration Committee and then the Secretary of State of DCLG and were approved by both Cabinet Office and Treasury in line with other key public sector positions.

The terms of reference need to be updated to reflect the fact that there are further agreements to the Chief Executive's salary post the Remuneration Committee.

Regulation

The HCA is the Regulator of Social Housing in England but it may only exercise its functions through the Regulation Committee, an independent committee which was established by the Localism Act 2011.

The key activities of the Regulator are to:

- maintain a register of providers of social housing
- set and apply the economic regulation objective to private providers and ensure that these providers meet standards in relation to governance and viability
- set standards in relation to consumer regulation, although the Regulator does not proactively monitor these standards.

The Regulator must exercise its functions in a way that minimises interference, and (so far as is possible) is proportionate, consistent, transparent and accountable.

The Regulator is committed to robust, independent and transparent regulation that focuses on governance, financial viability and value for money.

Regulation Committee

The Regulation Committee members are appointed by the Secretary of State and the committee operates within its terms of reference, code of conduct and appeal procedures. The HCA has also agreed a protocol setting out how the statutory functions and duties of the Regulation Committee will be exercised within the HCA.

During the year the committee has had to deal with a number of contentious issues, including the following cases:

- Cosmopolitan Housing Group
- Swan Housing Group.

The details of all the regulatory judgements issued during the year are available on the HCA's website.

Regulatory Framework

The Regulation Committee has recently published a discussion document about proposals to change the Regulatory Framework.

It includes proposals to help insulate social housing assets from commercial risks, a proposition on 'living wills' that the Committee thinks will support risk management and help mitigate the impact of financial distress, and some ideas about how the consents regime might change to enable transactions between not-for-profit and for-profit providers in a way that protects the taxpayer.

In a rapidly changing sector the Regulation Committee is determined to:

- ensure that social housing assets are not put at risk
- protect the public value in the assets
- help to ensure that the social housing sector can continue to attract necessary finance to build new homes.

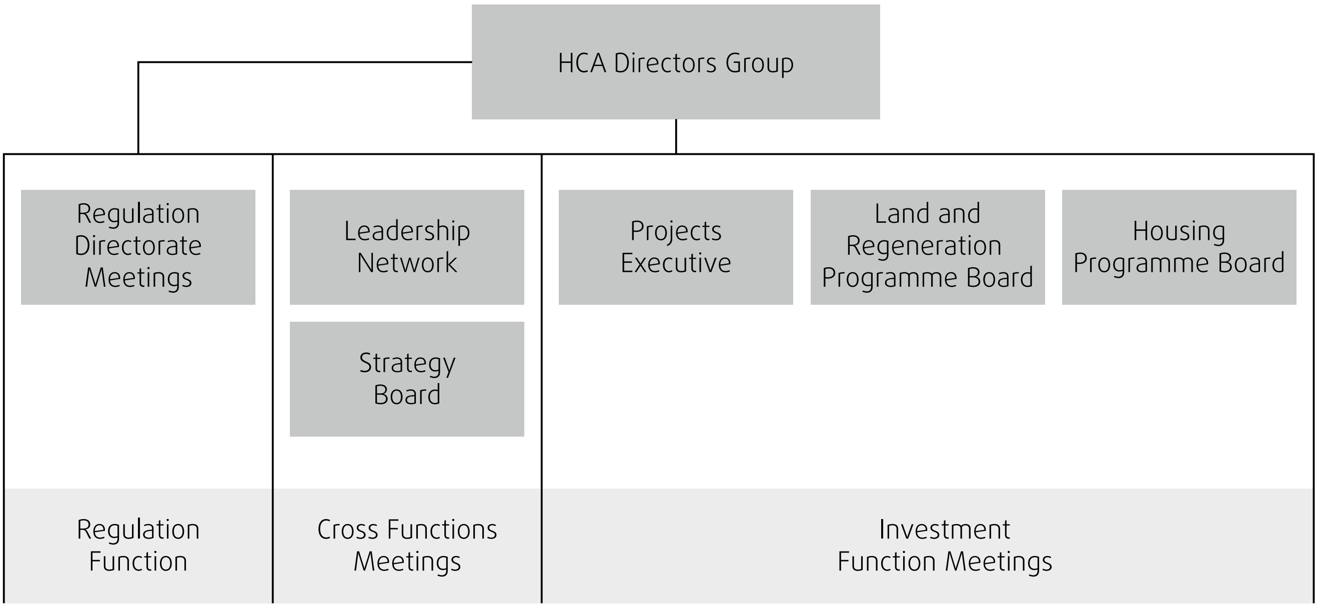
GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2013

Independence

As Accounting Officer for the HCA, including both its regulation and investment functions, it is important to ensure that controls are in place to ensure that the decisions of the Regulation Committee are taken independently of the HCA's investment function. In this respect, I have asked all HCA Directors to provide assurance to me that they recognise this independence requirement and whether they perceive that there has been any risk of breach of this independence.

Some functions within the HCA provide services to both the investment and regulation directorates including legal services, HR, finance and internal audit. Staff within these functions do not take direct decisions related to either investment or regulation.

Executive decision making groups and sub groups



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

- The Directors' Group

The principal management Group of the HCA, comprising all Directors meets at least every two weeks. The Directors' Group review strategic risks on a quarterly basis in advance of consideration by the Audit and Risk Committee and the Board.

- Programme Boards – two programme boards have met throughout the year
  - Housing
  - 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.

The Economic Assets 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 (RDAs) 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 took considerably longer than originally anticipated due to gaps in information made available to HCA by the RDAs up to and beyond the point of transfer.

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 HCA, additional meetings were held to specifically discuss investments related to the Economic Assets Programme.

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 HCA 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. The 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.

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 aims to ensure that information security is aligned with mainstream business.

The means by which risk appetite is 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. The HCA has started the process of clearly articulating its risk appetite at an individual risk level.

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

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2013

- research and analysis of the property and housing market to help inform strategy development and investment decisions
- regular risk management reporting to senior management, the Audit and Risk Committee and the Board.

Strategic risks

The strategic risk register is reviewed quarterly by Directors and periodically by the Board. In the intervening months the Board receives an update on key risk exposures as part of the Chief Executive's report.

The key strategic risks facing the HCA relating to its investment function fall under the following areas:

- ineffective programme delivery
- ineffective relationship management
- ineffective response to market and economic conditions.

The key strategic risks facing the HCA relating to regulation relate to:

- a failure to properly resource the regulatory function
- reputational damage to the HCA if the Regulation Committee failed to ensure effective regulation
- possible lack of visibility of the Accounting Officer from the regulation function.

Programme delivery risks

Programme risks are identified at an individual programme level and are subject to continuous review and management through the relevant programme boards and the management teams operating throughout the HCA. 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 HCA 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.

Information security risk

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

Improvements which have been made during the period include a new approach to ensure all HCA staff complete the mandatory annual information risk training and improved disaster recovery arrangements.

During 2012/13, the HCA continues to hold ISO 27001 certification for all functions located within its Gateshead office including office facilities, data centre and IT services and has successfully extended the scope of certification to include the disaster recovery site at Warrington.

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 period.

Key control systems

The HCA 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 HCA'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, Local Enterprise Partnerships 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 and in some cases will be prepared at Local Enterprise Partnership level.
- IT Systems embed many of the HCA'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 HCA 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.

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2013

Challenges facing the HCA during the year have included:

- extension of existing programmes including additional investment in FirstBuy and the Affordable Homes Programme
- development of new programmes in support of Government policy including Help to Buy, Build to Rent and the Affordable Homes Guarantee Programme
- structural changes including the integration of the regulation function into the HCA and the transfer of staff and assets to Milton Keynes Council.

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

Significant control issues

In the 2011/12 Governance Statement the following improvements were drawn to the readers' attention:

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

Work on these areas progresses and while improvements have been made during the year, a number of recommendations have been made to improve controls further in 2013/14.

The following matters represent weaknesses in the control environment which have been addressed during the year.

In December 2012, the HCA transferred £500,000 from the company pension fund bank account to the HCA's bank account to allow an urgent payment to be made. The same amount was transferred back to the pension account the following day. The transfer was made without the approval of the Pension Trustees, who subsequently reported the matter to the Pension Regulator. The transaction did not breach any specific internal regulations regarding arrangements for the pension account. However the transaction should not have been carried out and actions have been taken to prevent the matter reoccurring. There was no loss, or risk of loss suffered by the pension fund as the transfer back to the fund was approved simultaneously.

In January 2013, an offer of voluntary redundancy was made to a member of staff prior to the meeting of the redundancy panel which was to consider the matter. A review of the controls around redundancies was carried out and recommended a number of improvements which have now been implemented.

In February 2013, the HCA was advised by an agent acting on its behalf in relation to a property disposal, that they had been approached with a view to influencing the outcome of the disposal process. In line with the HCA policy on bribery, the matter was reported to the police and is now under investigation. Once the investigation has been completed the HCA will consider whether internal controls around bribery need to be strengthened.

In June 2013, an internal review identified that Baseline Personnel Security Standard controls for new HCA staff were not completed pre-employment per Cabinet Office requirements. Identity checks have routinely been completed within a short period after employment has started. Work is currently underway to amend the recruitment processes to ensure the HCA complies with these controls.

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

Independent assurance arrangements

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

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 Internal Audit, the assurances provided by the Executive Directors of the HCA who collectively and individually have responsibility for the development and maintenance of the internal control framework through their Management Assurance Statements and 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 Internal Audit, 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. The outcome of their work has been regularly reported to me, the Audit and Risk Committee, the 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 have 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 where existing requirements are not being complied with. Limited Assurance has been provided in relation to the arrangements in place concerned with the transfer of assets from the former RDAs and implementing improvements considered necessary to strengthen the areas of overage and clawback and financial forecasting performance. As part of the standard follow up process, work will be undertaken to verify actions taken by management to reduce the risk exposure in these areas.

The NAO has provided regular updates on their work as external auditors for the HCA. In particular the NAO issued their audit completion report for 2012/13 confirming an unqualified opinion on the HCA accounts.

GOVERNANCE STATEMENT (CONTINUED) YEAR ENDED 31 MARCH 2013

I am also informed by NAO value for money studies. In July 2012 the NAO published 'Financial viability of the social housing sector: introducing the Affordable Homes Programme' which included the following comments on the work of the HCA:

- the HCA's final decision-making process took account of a range of factors but not in any set weighting. Benchmarking against previous programmes would have increased the HCA's ability to test the value for money of the proposals, which might have reduced the grant per home offered.
- risks to meeting Programme aims remain.

The Public Accounts Committee also raised concerns over the back loading of programme delivery to the final two years of the programme and questioned whether funds had been allocated to the greatest areas of need.

The HCA felt that a more formulaic approach was not appropriate for the Affordable Homes Programme given the programme based funding arrangements with providers. Some of the programme delivery risks have reduced since the time of the NAO review as all delivery partners have now signed contracts with the HCA. Further action we have taken in 2012/13 includes the introduction of tranche payments to incentivise partners to bring forward housing starts.

Future challenges

The Agency has worked during 2012/13 to establish a more focused set of corporate priorities that reflect its current delivery role. These have been agreed by its Board and shaped business planning within the organisation. The five delivery priorities are:

1. Delivering the Affordable Homes Programme targets and spend
2. Increasing private sector housing starts through equity, loans and other market interventions
3. Bring surplus public land to the market to drive housing growth
4. Supporting local economic growth through the development of assets
5. Maintain investor confidence in the affordable housing sector and protect public investment through effective regulation.

In delivering these priorities, it will be vital that the agency continues to manage its strong relationships with stakeholders and develops the organisation to remain effective and capable of responding to further changes. These requirements lead to two further corporate priorities that underpin our ability to deliver:

6. Work with our local and national partners to ensure effective alignment of resources and activity
7. Further develop our innovative, flexible and commercial approach and our people so that we continue to deliver public value and can respond to future challenges.

The HCA does not operate in isolation, we continue to operate in a rapidly changing environment with challenging market conditions in a time of rapidly evolving policy. This has led to significant changes in the way the HCA works and engages with its partners and the HCA has had to work flexibly and creatively to develop, implement and deliver new programmes and initiatives. The immediate backdrop of continued limits on public and private sector funding has meant:

- reduced public investment
- alternative sources of private finance – restrictions on traditional lending mean providers for example are increasingly turning to bond markets to raise development finance
- institutional change – LEPs, core cities, and second wave of city deals allow local authority and private sector organisations to work together more closely
- sector change – diversification has seen registered providers moving in a more commercial direction and new 'for-profit' entrants to the social housing sector.

The HCA has demonstrated it can deliver in times of change and against significant challenges but there remain a number of key strategic risks facing the agency including:

- difficult market conditions with relatively high house prices, high rents, relatively low levels of lending and low levels of development and house building, especially outside London
- the institutional landscape is changing significantly with localism and devolution and local authorities, LEPs and cities taking on more powers and responsibility for decisions will test the capacity of bodies to adapt and deliver within tight financial constraints.
- the HCA has had to deliver significant efficiency savings, implement revised structures to incorporate the regulation function and new investment programmes while ensuring delivery is maintained on existing programmes. This has been achieved but has produced resource pressures within the agency that mean that we have to prioritise the assistance that we can provide to partners
- the various changes on the affordable housing sector through the new programme, welfare reform and economic conditions have led to increased challenges on the sector and a different approach to regulation where a different skill mix is required.

Conclusion

Based on the content of this report, assurances I have received from senior management, from the Board and Audit and Risk Committee and the reports from internal and external auditors, I am satisfied that appropriate governance arrangements were in place during 2012/13.

Andrew Rose

Andrew Rose
Chief Executive and Accounting Officer

20 June 2013

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT YEAR ENDED 31 MARCH 2013

I certify that I have audited the financial statements of the Homes and Communities Agency for the year ended 31 March 2013 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 Group and of the Agency's affairs as at 31 March 2013 and of the Group and Agency's 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.

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

26 June 2013

GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE YEAR ENDED 31 MARCH 2013

	Note	2012/13 £'000	Restated 2011/12 £'000
Expenditure			
Grant payments	2	988,946	2,036,174
Capital grants in kind	19	12,700	-
Cost of property disposals	3	109,922	60,340
Programme costs	4	11,241	18,053
Estate management costs		24,257	28,169
Staff costs, excluding pensions	6	42,129	39,950
Pension costs	6	(12,057)	5,833
Other administration costs	7	18,014	18,277
Restructuring costs	8	523	12,435
Loss/(profit) on disposal of available for sale financial assets	5	215	(792)
Depreciation and amortisation	21, 22	3,102	2,402
Increase in provision for impairments	9	17,426	161,953
Increase in provisions	10	983	8,523
		1,217,401	2,391,317
Income			
Proceeds from disposal of property assets	3	101,539	41,627
Clawback of grants and contributions	13	23,356	33,439
Other operating income	14	35,944	41,698
		160,839	116,764
Net operating expenditure	12	1,056,562	2,274,553
Interest receivable	16	(24,400)	(25,754)
Interest payable	17	6,120	2,015
Pension fund finance costs	38(d)	(5,128)	(230)
Share of losses of associates and joint ventures	18	14,294	26,916
Losses on statutory transfers	48	411,102	-
Net expenditure before tax		1,458,550	2,277,500
Income tax credit	20	(11,133)	(16,854)
Net expenditure for the year		1,447,417	2,260,646
Other comprehensive expenditure			
Reclassification of previous years	24, 28	(57,562)	-
Funds transferred from RPs		(60)	-
Actuarial loss/(gain) from pension fund	38(e)	8,043	(1,936)
Net gain on revaluation of property/development assets	31	(37,110)	(71,749)
Fair value (gain)/loss on available for sale assets	24	(3,226)	17,108
Realised gains on disposal of available for sale assets recognised in net expenditure	5	876	3,330
Income tax on items in other comprehensive expenditure	20(b)	10,854	16,854
		(78,185)	(36,393)
Total comprehensive expenditure for the year		1,369,232	2,224,253

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 2013

	Note	2013 £'000	2012 £'000
Non-current assets			
Intangible assets	21	2,031	1,250
Property, plant and equipment	22	4,816	5,223
Investments in associates and joint ventures	23(b),(c)	11,483	12,779
Available for sale financial assets	24	666,905	550,208
Finance lease receivables	25	-	1,857
Pension assets	38	26,832	12,551
Loans	26	327,809	312,011
Trade and other receivables	32	133,156	139,744
		1,173,032	1,035,623
Current assets			
Property/development assets	31	726,055	1,015,443
Loans	26	73,768	33,715
Trade and other receivables	32	95,727	157,979
Cash and cash equivalents	33	7,630	13,206
		903,180	1,220,343
Total assets		2,076,212	2,255,966
Current liabilities			
Trade and other payables	34	(325,629)	(261,704)
Finance lease payables	35	(972)	(754)
Provisions	36	(55,349)	(25,689)
		(381,950)	(288,147)
Non-current assets plus net current assets		1,694,262	1,967,819
Non-current liabilities			
Finance lease payables	35	(955)	(1,396)
Provisions	36	(110,223)	(152,792)
Deferred tax liabilities	37	-	-
Pension liabilities	38	(25,349)	(17,799)
		(136,527)	(171,987)
Assets less liabilities		1,557,735	1,795,832
Reserves			
Income and expenditure reserve		1,377,303	1,575,638
Revaluation reserve		173,828	197,725
Fair value reserve		4,656	22,469
Regulation reserve		1,948	-
Taxpayers' equity		1,557,735	1,795,832

The accompanying Notes are an integral part of these Financial Statements.
Approved by the Board on 20 June 2013 and signed on their behalf by:

Robert Napier Chairman

Andrew Rose Chief Executive and Accounting Officer

AGENCY STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2013

	Note	2013 £'000	2012 £'000
Non-current assets			
Intangible assets	21	2,031	1,250
Property, plant and equipment	22	4,816	5,223
Investments in subsidiaries	23(a)	12,968	15,184
Investments in associates and joint ventures	23(c)	-	-
Available for sale financial assets	24	666,905	550,208
Finance lease receivables	25	-	1,857
Pension assets	38	26,832	12,551
Loans	26	327,809	312,011
Trade and other receivables	32	133,156	139,744
		1,174,517	1,038,028
Current assets			
Property/development assets	31	726,055	1,015,443
Loans	26	73,768	33,715
Trade and other receivables	32	95,727	157,979
Cash and cash equivalents	33	7,630	13,206
		903,180	1,220,343
Total assets		2,077,697	2,258,371
Current liabilities			
Trade and other payables	34	(325,629)	(261,704)
Finance lease payables	35	(972)	(754)
Provisions	36	(55,349)	(25,689)
		(381,950)	(288,147)
Non-current assets plus net current assets		1,695,747	1,970,224
Non-current liabilities			
Finance lease payables	35	(955)	(1,396)
Provisions	36	(110,223)	(152,792)
Deferred tax liabilities	37	-	-
Pension liabilities	38	(25,349)	(17,799)
		(136,527)	(171,987)
Assets less liabilities		1,559,220	1,798,237
Reserves			
Income and expenditure reserve		1,378,788	1,578,043
Revaluation reserve		173,828	197,725
Fair value reserve		4,656	22,469
Regulation reserve		1,948	-
Taxpayers' equity		1,559,220	1,798,237

The accompanying Notes are an integral part of these Financial Statements.
Approved by the Board on 20 June 2013 and signed on their behalf by:

Robert Napier Chairman

Andrew Rose Chief Executive and Accounting Officer

STATEMENT OF CASH FLOWS YEAR ENDED 31 MARCH 2013

Group and Agency	Note	2012/13 £'000	Restated 2011/12 £'000
Net cash outflow from operating activities	(a)	(838,479)	(2,359,091)
Cash flows from investing activities			
Loans advanced by Agency	27, 28, 30	(122,238)	(7,137)
Loans repaid to Agency		18,636	34,367
Finance lease repayments to Agency		-	74
Purchase of property, plant and equipment	22	(578)	(1,099)
Purchase of intangible assets	21	(1,312)	(854)
Additions to available for sale financial assets	24	(170,351)	(117,880)
Proceeds from disposal of available for sale financial assets	5	40,868	31,990
Cash received on transfer of TSA	48a	2,265	-
Interest received		12,669	13,363
Net cash outflow from investing activities		(220,041)	(47,176)
Cash flows from financing activities			
Grant in Aid from sponsor department		1,131,135	2,193,993
Funds transferred from RPs		60	-
Interest paid	17	(125)	(262)
Capital element of repayment of finance leases		(1,204)	(897)
Net cash inflow from financing activities		1,129,866	2,192,834
Inecrease/(decrease) in cash and cash equivalents in the period		71,346	(213,433)
Cash and cash equivalents at 1 April	(b)	(133,720)	79,713
Cash and cash equivalents at 31 March	(b)	(62,374)	(133,720)

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

	Note	2012/13 £'000	Restated 2011/12 £'000
Net operating expenditure		(1,056,562)	(2,274,553)
Additions to property/development assets	31	(47,908)	(49,114)
Cost of property/development assets disposed	3, 31	98,717	38,767
Increase in impairments	9	17,426	161,953
Depreciation and amortisation	21, 22	3,102	2,402
Profit on disposal of available for sale financial assets	5	215	(792)
Pension costs		(26,261)	(60,939)
		(1,011,271)	(2,182,276)
Decrease in receivables		48,995	72,182
Increase/(decrease) in payables		142,422	(231,351)
Decrease in provisions		(18,904)	(14,084)
Income tax repaid/(paid)		279	(3,562)
Net cash outflow from operating activities		(838,479)	(2,359,091)

(b) Analysis of cash and cash equivalents

	Note	2013 £'000	2012 £'000
Cash and cash equivalents as shown in Statement of Financial Position	33	7,630	13,206
Bank overdraft	34	(70,004)	(146,926)
Cash and cash equivalents as shown in Statement of Cash Flows		(62,374)	(133,720)

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY YEAR ENDED 31 MARCH 2013

	Note	Income and expenditure reserve £'000	Revaluation reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total £'000
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 gain on available for sale assets	24	-	-	(17,108)	-	(17,108)
Realised gains on disposal of available for sale assets recognised in net expenditure	5	-	-	(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
Changes in taxpayers' equity 2012/13						
Net expenditure for the year		(1,447,417)	-	-	-	(1,447,417)
Reclassification of previous years	24, 28	57,562	-	-	-	57,562
Fund transferred from RPs		-	-	-	60	60
Reclassification of reserves following transfer in from TSA		(1,888)	-	-	1,888	-
Reclassification of reserves prior to transfer out to GLA		56,439	(38,095)	(18,344)	-	-
Actuarial loss from pension fund	38(e)	(8,043)	-	-	-	(8,043)
Net gain on revaluation of property/ development assets	31	-	37,110	-	-	37,110
Revaluation gains transferred on disposal		17,647	(17,647)	-	-	-
Fair value gain on available for sale assets	24	-	-	3,226	-	3,226
Realised gains on disposal of available for sale assets recognised in net expenditure	5	-	-	(876)	-	(876)
Income tax on items in other comprehensive expenditure	20	(3,770)	(5,265)	(1,819)	-	(10,854)
Total comprehensive expenditure for the year		(1,329,470)	(23,897)	(17,813)	1,948	(1,369,232)
Grant in Aid from sponsor department	1(h)	1,131,135	-	-	-	1,131,135
Balance at 31 March 2013		1,377,303	173,828	4,656	1,948	1,557,735

AGENCY STATEMENT OF CHANGES IN TAXPAYERS' EQUITY YEAR ENDED 31 MARCH 2013

	Note	Income and expenditure reserve £'000	Revaluation reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total £'000
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 gain on available for sale assets	24	-	-	(17,108)	-	(17,108)
Realised gains on disposal of available for sale assets recognised in net expenditure	5	-	-	(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
Changes in taxpayers' equity 2012/13						
Net expenditure for the year		(1,448,337)	-	-	-	(1,448,337)
Reclassification of previous years	24, 28	57,562	-	-	-	57,562
Fund transferred from RPs		-	-	-	60	60
Reclassification of reserves following transfer in from TSA		(1,888)	-	-	1,888	-
Reclassification of reserves prior to transfer out to GLA		56,439	(38,095)	(18,344)	-	-
Actuarial loss from pension fund	38(e)	(8,043)	-	-	-	(8,043)
Net gain on revaluation of property/ development assets	31	-	37,110	-	-	37,110
Revaluation gains transferred on disposal		17,647	(17,647)	-	-	-
Fair value gain on available for sale assets	24	-	-	3,226	-	3,226
Realised gains on disposal of available for sale assets recognised in net expenditure	5	-	-	(876)	-	(876)
Income tax on items in other comprehensive expenditure	20	(3,770)	(5,265)	(1,819)	-	(10,854)
Total comprehensive expenditure for the year		(1,330,390)	(23,897)	(17,813)	1,948	(1,370,152)
Grant in Aid from sponsor department	1(h)	1,131,135	-	-	-	1,131,135
Balance at 31 March 2013		1,378,788	173,828	4,656	1,948	1,559,220

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2013

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 2012/13 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 1 April 2012 the functions, assets, liabilites and staff of the Agency in London transferred to the Greater London Authority (GLA) under the provisions of the Localism Act 2011. On the same date, the Agency took over responsibility for the regulation of social housing providers in England from the Tenant Services Authority (TSA), and all assets, liabilities and staff of the TSA transferred to the Agency on that date.

The FReM directs that these transfers should be accounted for using absorption accounting. Under this method, the results and cashflows of the transferring functions are reported by the transferee from the date of transfer. No adjustment is made for transactions before the date of transfer, and assets are transferred at their carrying values, adjusted only to achieve uniformity of accounting policies. The net assets or liabilities transferred are recognised within Losses on Statutory Transfers in the Statement of Comprehensive Net Expenditure, while reserve balances are maintained by reclassification at the point of transfer to the income and expenditure reserve. Note 48 explains the impact of these transfers on the Agency in 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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 2013 except for English Cities Fund. For this associate, Financial Statements to 31 December 2012 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 payments 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. The valuation methodology reflects the Agency's objectives and conditions for each asset. A valuation of the whole portfolio is carried out as at each reporting date by both internal and external qualified valuers, with independent external valuers appointed for the majority of the portfolio's value

1. Statement of accounting policies (continued)

and also to value complex properties. In all cases valuations are in accordance with *RICS Valuation – Professional Standards* (8th 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 a rate prescribed by HM Treasury 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.

Under paragraph 15 of schedule 1 to the Housing Act 1996, any property that remains in ownership of a RP, after meeting the claims of creditors and any other liabilities following its dissolution or winding up, is transferable to the Agency. Use of such funds held under this paragraph is restricted to either managing the controlled dissolution and transfer of engagements of an individual RP in financial difficulty, or ensuring its continued existence, provided that adequate financial controls have been put in place. Amounts received or utilised in this way are credited or charged directly to the Regulation 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 Affordable Housing Grant are paid in two instalments, a Start on Site tranche and a completion tranche. However, grants to unregistered providers are generally paid in one tranche on completion. Start on Site tranches for Registered Providers were as follows:

National Affordable Housing Programme:	50% throughout 2011/12 and 2012/13
Affordable Homes Programme:	75% before 31 March 2012
	nil from 1 April 2012 to 22 July 2012
	50% from 23 July 2012

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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.

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 asset or obligation is recognised within pension assets or liabilities, respectively, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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 70% of the full purchase price of the property. In return the Agency will assist with up to 15% of the full property price with a contribution of up to 15% also being made by the developer. Historically, the Agency has assisted with up to 50% of the purchase price. The Agency's 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 also 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, or non-current assets depending on their expected maturity. Trade and other receivables are measured at amortised cost less a provision for impairments. The net of these balances are classified as 'trade and other receivables' in the Statement of Financial Position.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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 sites. 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 assets and liabilities have been assessed by qualified independent actuaries. In making these assessments, it is necessary for actuarial assumptions to be used 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
IFRS 3 Business Combinations under Common Control
During 2012/13 the FReM adopted revised requirements on accounting for business combinations within government. Under the new requirements, merger accounting is required for transfers of function between departmental groups within central government (excluding the devolved administrations). Absorption accounting is required for all other public sector business combinations. The FReM guidance also directs that this change should be applied prospectively. Therefore the merger accounting treatment of the transfers from Regional Development Agencies which was applied in 2011/12 has not been restated. Note 1(c) describes the transfers which occured in 2012/13 and the principles of absorption accounting which have been applied to them.

IFRS 7 Financial Instruments (Disclosures)
The revised version of IFRS 7 is effective from the 2012/13 reporting period. It requires increased disclosure for transfers of financial assets. This amendment has no 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 relevant to the Agency are listed below.

IAS 1 Presentation of Financial Statements
An amendment to IAS 1 requires items of other comprehensive expenditure to be grouped on the basis of whether they might at some point be reclassified into net expenditure, or whether they will not. This amendment will be effective for the Agency's 2013/14 reporting period.

IAS 19 Post-Employment Benefits (Pensions)
An amendment to IAS 19 introduces further disclosure requirements to better show the characteristics and risks arising from defined benefit plans. This amendment will be effective for the Agency's 2013/14 reporting period.

1. Statement of accounting policies (continued)

IFRS 9 Financial Instruments

IFRS 9 will be effective no earlier than the Agency's 2015/16 reporting period. The new standard simplifies the classification and measurement of financial assets as well as addressing how impairments should be calculated and recorded. IFRS 9 has yet to be endorsed by the EU, is subject to change arising from exposure drafts currently in issue, and its application in the public sector context has yet to be interpreted by the FReM. There is therefore significant uncertainty about how the standard may affect the Agency.

IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures

These new or amended standards will be effective no earlier than the Agency's 2014/15 reporting period. The standards affect the consolidation and reporting of subsidiaries, associates and joint ventures. They re-define control by looking at investor power and the ability to direct activities, provide a principles based definition of joint arrangements based on rights and obligations, and require greater disclosure of the financial effects and risks on the consolidating entity. The application of these standards in the public sector context has yet to be interpreted by the FReM, and there is therefore significant uncertainty about how they may affect the Agency.

IFRS 13 Fair Value Measurement

IFRS 13 will be effective no earlier than the Agency's 2013/14 reporting period. The new standard aims to provide consistent guidance on fair value measurement for all relevant balances and transactions covered by other IFRSs. The application of IFRS 13 in the public sector context has yet to be interpreted by the FReM, and there is therefore significant uncertainty about how the standard may affect the Agency.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

2. Grant payments

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

	2012/13 £'000	Restated 2011/12 £'000
Affordable Housing Grant (Note 2(b))	512,449	1,470,406
Decent Homes	364,364	194,247
Mortgage Rescue	60,602	96,044
Property and Regeneration	22,705	132,418
Economic Assets	8,819	74,842
Kickstart Housing Delivery - gap funding to developers	2,280	20,218
Armed Forces Home Ownership Scheme	5,048	4,906
Homelessness Change Programme	6,123	3,021
Traveller Pitch Funding	1,482	2,839
Bringing Empty Homes Back into Use	5,074	1,747
Housing Market Renewal	-	35,486
	988,946	2,036,174

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. The comparative amount has been restated since 2011/12 as described in Note 4.

(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	2012/13 Net total £'000	Payments £'000	Recoveries £'000	Restated 2011/12 Net total £'000
National Affordable Housing Programme	246,912	(2,829)	244,083	1,169,571	(16,991)	1,152,580
Affordable Homes Programme	250,396	(418)	249,978	242,884	(114)	242,770
Kickstart Housing Delivery	15,141	-	15,141	27,060	(991)	26,069
Local Authority New Build	-	-	-	30,891	(368)	30,523
	512,449	(3,247)	509,202	1,470,406	(18,464)	1,451,942

3. Disposal of property assets

	Note	2012/13 £'000	2011/12 £'000
Proceeds from disposals		101,539	41,627
Cost of property disposals:			
Book value of property disposals	31	98,717	38,767
Direct sales expenses		840	1,884
Increase in provision for additional consideration payable for development assets	36	10,365	19,689
		109,922	60,340
Deficit on disposal		(8,383)	(18,713)

4. Programme costs

	2012/13 £'000	Restated 2011/12 £'000
Property and Regeneration	4,081	10,738
Economic Assets	2,425	4,874
Get Britain Building	2,939	-
Kickstart Housing Delivery	827	1,425
Affordable Homes Programme Agents Fees	966	1,007
Other initiatives	3	9
	11,241	18,053

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

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

The categories within Programme costs have changed since 2011/12, as detailed below, in order to more correctly reflect the nature of the transactions included. Comparatives have been restated accordingly, and there is no effect on taxpayers' equity at any date:

- HomeBuy agent fees in relation to the Affordable Homes Programme have been reclassified to Grants, where they are funding a new capital investment under that programme
- HomeBuy agent fees in relation to FirstBuy have been reclassified to additions to available for sale financial assets as they are directly attributable to the Agency's asset
- taxation not recoverable has been allocated directly to each programme category to correctly reflect the programme under which it was incurred
- loss/(profit) on disposal of available for sale financial assets is now separately identified in the Statement of Comprehensive Net Expenditure (Note 5).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2013

5. Loss/(profit) on disposal of available for sale financial assets

	Note	2012/13 £'000	Restated 2011/12 £'000
Proceeds from disposals		40,868	31,990
Cost of disposals:			
Book value of assets disposed	24	41,959	34,528
Fair value gains recognised in net expenditure on disposal		(876)	(3,330)
		41,083	31,198
(Loss)/profit on disposal	4	(215)	792

6. Staff costs

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

(a) Total staff costs

	2012/13 £'000	2011/12 £'000
Total staff costs charged to net expenditure comprise:		
Staff costs, excluding pensions	42,129	39,950
Pension costs	(12,057)	5,833
Total staff costs	30,072	45,783

The costs above can be further analysed as follows:	2012/13 £'000	2011/12 £'000
Salaries and wages	37,332	36,005
Social security costs	3,564	3,469
Pension costs – current service cost*	6,409	4,984
Pension costs – past service cost	11	-
Pension costs – losses on curtailments and settlements	955	849
Pension costs – gain on settlement**	(19,432)	-
	28,839	45,307
Temporary staff	611	335
Seconded staff	622	141
	30,072	45,783
Non-Executive Board Member expenses	23	31

There were no staff costs capitalised in 2012/13 (2011/12: £nil).
The amounts shown above have not been restated for the transfer in from TSA and the transfer out to GLA referred to in Notes 1c and 48, in accordance with the principles of absorption accounting. If they were restated, the costs shown above for staff costs, excluding pensions for 2011/12, would be £44,672,000, representing a decrease of £2,543,000 from 2011/12 to 2012/13.

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

**The gain on settlement is in relation to the closure of the Regional Development Agencies (RDAs) and is described more fully in Note 38. It is noted as an exceptional item in Note 11 because of its size and unique nature.

6. Staff costs (continued)

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

	2012/13 Number	2011/12 Number
Permanent UK staff	809	834
Fixed term UK staff	35	16
Temporary staff	11	7
Seconded staff	7	2
	862	859

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

	2012/13 Number	2011/12 Number
£0 – £25,000	141	150
£25,001 – £50,000	453	453
£50,001 – £75,000	215	211
£75,001 – £100,000	42	33
£100,001 – £125,000	5	5
£125,001 – £150,000	5	6
£150,001 – £175,000	1	1
	862	859

(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 the year. Payments accruing during the year totalled £184,000 (2011/12: £339,000). The Secretary of State has determined that bonuses cannot be awarded to more than 25% of staff, and that a cap of £950 per person applies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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 been approved and terms agreed. Exit costs accounted for in the year can be analysed as follows:

Exit package cost band	Departures agreed Number	2012/13 Departures revoked Number	Net total Number	Departures agreed Number	2011/12 Departures revoked Number	Net total Number
£0 – £10,000	-	-	-	26	-	26
£10,001 – £25,000	3	(1)	2	68	-	68
£25,001 – £50,000	1	(1)	-	81	-	81
£50,001 – £100,000	6	-	6	62	-	62
£100,001 – £150,000	2	(1)	1	17	-	17
£150,001 – £200,000	-	-	-	10	-	10
More than £200,000	-	(1)	(1)	-	-	-
Total number of exit packages	12	(4)	8	264	-	264
Total cost of exit packages (£'000)	940	(417)	523	12,435	-	12,435

None of the exit packages above arose from compulsory redundancies in either period shown.

Revocations of departures occured because the Agency was tasked with delivering additional programmes since the departures were approved and agreed, resulting in the need to retain staff for whom an exit package had previously been disclosed.

7. Other administration costs

	Note	2012/13 £'000	2011/12 £'000
Board Members' remuneration (including employers' national insurance)		278	221
Indirect staff costs		909	611
Travel and subsistence		3,556	2,963
Accommodation costs		5,161	6,078
Office running costs		3,242	3,888
Professional fees		1,882	1,490
Communications		85	287
Auditor's remuneration	12	195	215
Taxation not recoverable		2,532	2,310
Other		174	214
		18,014	18,277

Included within administration costs is £14,000 (2011/12: £11,000) in relation to non-staff hospitality and entertaining.

8. Restructuring costs

	2012/13	Restated 2011/12
	£'000	£'000
Redundancy and restructuring	420	9,483
Early retirement pension costs	103	2,952
	523	12,435

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

9. Movement in provision for impairments

	Note	2012/13 £'000	Restated 2011/12 £'000
Impairment of development assets	31	12,318	74,040
(Impairment reversal)/impairment of available for sale financial assets	24	(9,791)	72,592
Impairment of other financial assets	28	14,436	14,017
Impairment of property, plant and equipment	22	463	1,304
		17,426	161,953

Impairments of available for sale financial assets in 2011/12 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. The comparative amount has been restated since 2011/12 as described in Note 4.

10. Movement in provisions

	Note	2012/13 £'000	2011/12 £'000
Movement in bad debt provision	12	352	3,722
Movement in other provisions	36	631	4,801
		983	8,523

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 2013

11. Exceptional costs

Impairment of development assets
The impairment of development assets in 2011/12 of £74.0m 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 in 2011/12 is a £56.9m charge 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 ONS regional house price index, or from the reduction in forecast cashflows in the case of the Agency's investments in private sector developments.

Pensions gain on settlement
The gain on settlement of pension liabilities in relation to the Regional Development Agencies (RDAs), described more fully in Note 38, is noted as an exceptional item because of its size and unique nature.

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

12. Net operating expenditure

	Note	2012/13 £'000	2011/12 £'000
Net operating expenditure has been arrived at after charging the following:			
Auditor's remuneration		195	215
Contingent rents payable under finance leases		176	124
Operating lease rentals – land and buildings		2,727	3,273
Operating lease rentals – other		1,130	885
Redundancy and restructuring	8	420	9,483
Early retirement pension costs	8	103	2,952
Movement in bad debt provision	10	352	3,722

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

13. Clawback of grants and contributions

	2012/13 £'000	2011/12 £'000
Affordable Housing Grant (Note 2(b)(ii))	3,247	18,464
Kickstart Housing Delivery – clawback of gap funding to developers	4,197	1,958
Property and Regeneration Grants	3,303	5,284
Economic Assets Grants	12,609	7,733
	23,356	33,439

14. Other operating income

	2012/13 £'000	2011/12 £'000
Rent and other property income	17,210	19,258
Release of restrictive covenants and other windfall income	3,980	5,213
Contributions from partners towards specific programme expenditure	1,477	7,088
Milton Keynes Tariff	7,782	3,864
Housing Action Trusts	389	765
Homeowner fees	2,850	1,421
Miscellaneous	2,256	4,089
	35,944	41,698

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. On 14 January 2013 Milton Keynes Council took over the running of the Tariff (see Note 48c).

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

15. Operating segments (continued)

	2012/13 £m	2011/12 £m
Programme expenditure:		
National Affordable Housing Programme	247	1,161
Affordable Homes Programme	245	236
Property and Regeneration	86	246
Economic Assets	65	140
Accelerated Disposal Programme	23	10
Decent Homes Backlog	210	-
Decent Homes Gap Funding	154	194
Mortgage Rescue	61	96
Kickstart Housing Delivery	14	70
FirstBuy	114	57
Get Britain Building	161	-
Bringing Empty Homes Back into Use	5	2
Homelessness Change	6	3
Housing Market Renewal	-	35
Local Authority New Build	-	31
Other programmes	1	3
Total programme expenditure	**1,392**	**2,284**
Staff and administration	76	69
Depreciation	3	2
Restructuring costs	1	14
Pension costs – deficit payments (Note 38(f))	-	57
Irrecoverable VAT	-	1
Total gross expenditure	**1,472**	**2,427**
Receipts:		
Property and Regeneration receipts	(134)	(108)
Economic Assets receipts	(83)	(60)
Accelerated Disposal receipts	(4)	-
Kickstart receipts	(36)	(41)
Other receipts	(10)	(16)
Total receipts	**(267)**	**(225)**
Total DEL expenditure reported to the Board	**1,205**	**2,202**

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, depreciation and income tax. It also includes items of expenditure which, for statutory reporting purposes, are capitalised in the Statement of Financial Position. Such items include additions to and disposals of 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. Examples include pension costs and a 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. These rules are prescribed by HM Treasury.

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

	2012/13 £m	Restated 2011/12 £m
Total DEL expenditure reported to the Board	**1,205**	**2,202**
Reconciling items:		
Increase in provision for impairments	17	162
Less impairments included in DEL expenditure	-	(16)
Increase in provisions	1	8
Utilisation of provisions (net of reimbursements)	(10)	(40)
Share of losses of associates and joint ventures	14	27
Losses on statutory transfers	411	-
Book value of development asset disposals	99	39
Book value of available for sale assets disposed	42	31
Loan repayments	17	34
Capital items recorded as programme expenditure	(341)	(131)
Timing differences	4	(38)
Net expenditure before tax as stated in the Statement of Comprehensive Net Expenditure	**1,459**	**2,278**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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:

	2012/13 £m	2011/12 £m
Property and Regeneration receipts	134	108
Economic Assets receipts	83	60
Accelerated Disposal receipts	4	-
Kickstart receipts	36	41
Other receipts	10	16
Programme receipts reported to the Board	**267**	**225**
Reconciling items:		
Interest receivable	(24)	(26)
Clawback of grants shown as income in the Statement of Comprehensive Net Expenditure but netted off Programme Expenditure in the Board Report	3	18
Timing differences	(26)	(45)
Receipts from disposal of capital items recorded as programme income	(59)	(55)
Income as stated in the Statement of Comprehensive Net Expenditure	**161**	**117**

(c) Major customers

Income as shown in the Statement of Comprehensive Net Expenditure includes a total of £58.9m (2011/12: nil) arising from entities which individually account for more than 10% of the Agency's total income. All of this is reported in the Property and Regeneration segment. Income from the largest single entity contributing to income amounted to £30.9m from a local authority (2011/12: £7.1m from a private sector developer), also included within the Property and Regeneration segment.

16. Interest receivable

	2012/13 £'000	2011/12 £'000
Unwinding of discount on financial assets	6,534	7,401
Loan interest	17,390	17,728
Finance lease interest	-	149
Interest on grant recoveries from RPs	149	101
Miscellaneous interest	327	375
	24,400	25,754

17. Interest payable

	2012/13 £'000	2011/12 £'000
Unwinding of discount on financial liabilities	5,995	1,753
Finance lease interest	109	143
Other interest	16	119
	6,120	2,015

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	2012/13 £'000	2011/12 £'000
Share of revenue of associates		44,640	40,253
Share of revenue of joint ventures		11,907	13,029
		56,547	53,282
Share of losses of associates		827	(21,309)
Share of losses of joint ventures		(15,121)	(5,607)
		(14,294)	(26,916)
Share of losses of associates and joint ventures:			
Shown as movement in investment in associates and JVs	23(b)	(1,296)	(9,899)
Shown as movement of loans to associates and JVs	27	(12,998)	(17,017)
Share of losses of associates and joint ventures		(14,294)	(26,916)

19. Capital grants in kind

During 2012/13 the Agency signed a memorandum of understanding (MoU) with the Department for Business, Innovation and Skills (BIS). The MoU assigned from HCA to BIS the key benefits and responsibilities of ownership of three science parks, valued at £12.7m, because they are central to BIS policy objectives for innovation and economic development in relation to high value manufacturing centres.

Operational management of the assets continues to rest with the Agency, but this is now under the strategic direction of BIS. The Agency retains freehold title, but any costs which the Agency incurs, and income it receives, is now recharged to or from BIS on a regular basis. The Agency therefore no longer bears any significant risk or reward in relation to the assets.

These assets were therefore effectively disposed of by the Agency, and proceeds from disposal of property therefore includes notional income of £12.7m for the value of these assets, with a capital grant in kind also being recognised for the same amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED
31 MARCH 2013

20. Income tax

(a) Tax credit in net expenditure comprises:

	Note	2012/13 £'000	2011/12 £'000
Corporation tax on the results for the year at 24/26%		-	-
Adjustment to current tax of prior years		(279)	-
Deferred tax relating to the origination and reversal of temporary differences	37	(10,854)	(16,854)
		(11,133)	(16,854)

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

	2012/13 £'000	2011/12 £'000
Deferred tax relating to:		
Actuarial gain from pension fund	465	484
Revaluation of development assets	(9,500)	(22,719)
Revaluation of available for sale assets	(1,819)	5,381
	(10,854)	(16,854)

(c) Reconciliation of tax charge

	2012/13 £'000	2011/12 £'000
Net expenditure before tax	(1,458,550)	(2,277,500)
Income tax on net expenditure at 24/26%	(350,052)	(592,150)
Effects of:		
Non-taxable grant income	(7,473)	(12,167)
Expenditure not deductible for tax, including grant payments	334,666	582,428
Depreciation and amortisation	744	625
Capital allowances on property, plant and equipment	(215)	(110)
Losses used in period	-	-
Losses carried forward	11,476	4,520
Over provision of current tax in previous years	(279)	-
Tax credit for period (Note 20(a))	(11,133)	(16,854)

21. Intangible assets

Group and Agency

	Software £'000	Information technology £'000	Total £'000
Cost			
At 1 April 2011	1,394	5,946	7,340
Additions	275	579	854
Disposals	-	-	-
At 31 March 2012	1,669	6,525	8,194
Transfer in from TSA	895	2,190	3,085
Additions	601	711	1,312
Disposals	-	-	-
At 31 March 2013	3,165	9,426	12,591
Amortisation			
At 1 April 2011	975	4,903	5,878
Charge in year	395	671	1,066
Disposals	-	-	-
At 31 March 2012	1,370	5,574	6,944
Transfer in from TSA	813	1,367	2,180
Charge in year	358	1,078	1,436
Disposals	-	-	-
At 31 March 2013	2,541	8,019	10,560
Net book value			
At 1 April 2011	419	1,043	1,462
At 31 March 2012	299	951	1,250
At 31 March 2013	624	1,407	2,031

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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 2011	1,329	3,256	1,061	5,336	2,873	13,855
Additions	-	-	-	499	600	1,099
Disposals	-	-	-	-	-	-
Impairment	(253)	(1,137)	(350)	-	-	(1,740)
At 31 March 2012	1,076	2,119	711	5,835	3,473	13,214
Transfer in from TSA	-	-	981	530	471	1,982
Additions	-	-	-	234	344	578
Disposals	-	-	-	-	-	-
Impairments	(225)	(295)	(715)	-	-	(1,235)
At 31 March 2013	851	1,824	977	6,599	4,288	14,539
Depreciation						
At 1 April 2011	-	-	-	4,674	2,417	7,091
Charge in year	-	87	349	317	583	1,336
Disposals	-	-	-	-	-	-
Released on impairment	-	(87)	(349)	-	-	(436)
At 31 March 2012	-	-	-	4,991	3,000	7,991
Transfer in from TSA	-	-	-	440	398	838
Charge in year	-	57	715	440	454	1,666
Disposals	-	-	-	-	-	-
Released on impairment	-	(57)	(715)	-	-	(772)
At 31 March 2013	-	-	-	5,871	3,852	9,723
Net book value						
At 1 April 2011	1,329	3,256	1,061	662	456	6,764
At 31 March 2012	1,076	2,119	711	844	473	5,223
At 31 March 2013	851	1,824	977	728	436	4,816

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 and CBRE, which showed the values to be £1.2m and £1.475m, respectively as at 31 March 2013. 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 two 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.

23. Investments

(a) Subsidiary undertakings

Agency

Cost or valuation	2013 £'000	2012 £'000
At 1 April	15,184	15,184
Additions in year	-	-
Impairments	(2,216)	-
At 31 March	12,968	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 £12.97m 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	2012/13 £'000	2011/12 £'000
Cost or valuation			
At 1 April		12,779	22,678
Share of losses of associates and joint ventures	18	(1,296)	(9,899)
At 31 March		11,483	12,779

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

23. Investments (continued)

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

	2013 £'000	2012 £'000
Associates		
Assets	32,535	99,676
Liabilities	(28,422)	(109,100)
Total group share of net assets/(liabilities) of associates	4,113	(9,424)
Joint ventures		
Non-current assets	100,305	113,498
Current assets	26,475	27,650
Current liabilities	(53,462)	(9,638)
Non-current liabilities	(127,803)	(170,877)
Total group share of net liabilities of joint ventures	(54,485)	(39,367)
Total group share of net liabilities of associates and joint ventures	(50,372)	(48,791)
Shown as follows:		
Share of net assets of associates and joint ventures	11,483	12,779
Cumulative impairments of loans to associates	(61,855)	(61,570)
Total group share of net liabilities of associates and joint ventures	(50,372)	(48,791)

(c) Associated undertakings and joint ventures	Associates £'000	Joint ventures £'000	Total £'000
Cost or valuation			
At 1 April 2011	2,849	-	2,849
Impairments	(2,849)	-	(2,849)
At 31 March 2012	-	-	-
Impairments	-	-	-
At 31 March 2013	-	-	-

23. Investments (continued)

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
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
Aylesbury Vale Advantage*	20%	Regeneration of Aylesbury
Wolverhampton Development Company*	50%	Regeneration of Wolverhampton
Pride in Camp Hill	33%	Regeneration of Camp Hill area of Nuneaton

^ Joint venture

* As at 31 March 2013 this entity was no longer an associated undertaking, as the Agency's interest was disposed of during the year

** The results and share of net assets for these entities are based on unaudited management information to 31 March 2013, but this information included property valuations as at 31 March 2012. The potential differences between the net assets used and those which would otherwise be presented are not considered to be material.

The Agency's interest in Barking Riverside Ltd was transferred to GLA in the year (see Note 48b).

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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 and Get Britain Building Initiatives
- investments in infrastructure projects under which the Agency benefits from variable returns on its investments based on income generated by the infrastructure funded
- 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 all other available for sale financial assets are categorised as level 3. There are no assets categorised as Level 1. 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).

The 2011/12 amounts for FirstBuy, included in the level 2 disclosures below, have been restated as described in Note 4. However there is no effect on the carrying value at any reporting date.

Group and Agency

	Note	Restated Level 2 £'000	Level 3 £'000	Restated Total £'000
At 1 April 2011		453,113	103,443	556,556
Additions		87,019	30,861	117,880
Disposals	5	(16,958)	(17,570)	(34,528)
Fair value adjustment		(17,424)	316	(17,108)
Impairment		(67,915)	(4,677)	(72,592)
At 31 March 2012		437,835	112,373	550,208
Reclassification of previous years		-	24,395	24,395
Additions		116,440	53,911	170,351
Transfer out to GLA	48b	(47,663)	(1,444)	(49,107)
Disposals	5	(18,844)	(23,115)	(41,959)
Fair value adjustment		3,223	3	3,226
Impairment reversal/(impairment)		16,282	(6,491)	9,791
At 31 March 2013		507,273	159,632	666,905

The reclassification of previous years relates to a change in treatment of specific investments which were previously expensed. These amounts are more correctly treated as available for sale financial assets, where the Agency has a contractual right to a share of the proceeds of a scheme.

25. Finance lease receivables

Group and Agency

The Agency leased certain of its development assets as lessor under finance lease arrangements. These leases have now been transferred out to GLA or terminated.

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

	2013 Total receipts £'000	2013 Present value £'000	2012 Total receipts £'000	2012 Present value £'000
Within one year	-	-	223	80
Between one and five years	-	-	892	391
In more than five years	-	-	2,329	1,386
	-	-	3,444	1,857
Future finance income	-	-	-	1,587
Future minimum receipts	-	-	3,444	3,444

26. Loans

Group and Agency

	Note	2013 £'000	2012 £'000
Loans to associates and joint ventures	27	204,653	252,991
Infrastructure loans	28	160,808	60,773
Water company loans	29	29,840	30,126
Other loans and mortgages	30	6,276	1,836
		401,577	345,726

Amounts above are disclosed as follows:	2013 £'000	2012 £'000
Non-current assets	327,809	312,011
Current assets	73,768	33,715
	401,577	345,726

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

27. Loans to associates and joint ventures

Group and Agency

	Note	2012/13 £'000	2011/12 £'000
At 1 April		252,991	281,054
Transfer out to GLA	48b	(29,022)	-
Loans advanced		496	205
Loans repaid		(8,164)	(12,799)
Discount Unwinding		1,350	1,548
Impairments	18	(12,998)	(17,017)
At 31 March		204,653	252,991

28. Infrastructure loans

Loans have been made to private sector developers and local authorities in order to fund infrastructure on stalled sites, or to unlock potential development sites. These loans are repayable during fixed periods ranging up to March 2018.

Group and Agency

	Note	2012/13 £'000	2011/12 £'000
At 1 April		60,773	84,071
Reclassification of previous years		23,916	-
Transfer out to GLA	48b	(21,758)	-
Loans advanced		117,178	6,932
Loans repaid		(10,062)	(21,203)
Interest added to loans		5,197	4,990
Impairments	9	(14,436)	(14,017)
At 31 March		160,808	60,773

The reclassification of previous years relates to a change in treatment of specific investments which were previously expensed. These amounts are more correctly treated as loans, where the Agency has an unconditional contractual right to receive repayments.

29. 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

	2012/13	2011/12
	£'000	£'000
At 1 April	30,126	30,385
Loans repaid	(286)	(259)
At 31 March	29,840	30,126

30. Other loans and mortgages

Group and Agency

	2012/13	2011/12
	£'000	£'000
Local authority loans at 1 April	1,601	1,667
Loans advanced	4,564	-
Loans repaid	(70)	(66)
	6,095	1,601
Mortgages on housing property at 1 April	235	275
Repayment of mortgages	(54)	(40)
	181	235
At 31 March	6,276	1,836

Local authority loans are in respect of assets transferred by the Agency to local authorities and have final redemption dates between March 2017 and March 2033.

The number of outstanding mortgages on housing property at 31 March 2013 was 14 (2012: 24).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

31. Property/development assets

Group and Agency

	Note	2012/13 £'000	2011/12 £'000
Market value at 1 April		1,015,443	1,007,387
Movement in year:			
Transfer out to GLA	48b	(263,371)	-
Capital expenditure		47,908	49,114
Disposals	3	(98,717)	(38,767)
Movement in provision for impairment	9	(12,318)	(74,040)
Revaluation adjustment		37,110	71,749
Market value at 31 March		726,055	1,015,443

Included above are development assets expected to be realised in more than one year of £686.8m (2012: £989.2m).

Assets valued at £15.4m 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 £98.7m (2011/12: £38.8m) 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.

32. Trade and other receivables

Group and Agency

(a) Amounts falling due after more than one year	Note	2013 £'000	2012 £'000
Due from disposal of property/development assets		76,581	81,402
Reimbursement in respect of provisions	36c	22,433	42,862
Other receivables		34,142	15,480
		133,156	139,744
(b) Amounts falling due within one year			
Due from disposal of property/development assets		29,799	71,145
Amounts held by developers		1,026	9,119
Trade receivables		12,992	11,226
VAT		2,447	4,526
Prepayments		1,461	1,492
Reimbursement in respect of provisions	36c	15,793	15,585
Other receivables		32,209	44,886
		95,727	157,979
Total trade and other receivables		228,883	297,723

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.

(c) Intra-government balances	2013 £'000	2012 £'000
Balances with other central government bodies	3,815	37,632
Balances with local authorities	17,104	13,447
Balances with NHS bodies	240	-
Intra-government balances	21,159	51,079
Balances with bodies external to government	207,724	246,644
	228,883	297,723

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

33. Cash and cash equivalents

Group and Agency

	2013	2012
	£'000	£'000
Cash held with Government Banking Service	1,948	-
Cash held with commercial banks	5,682	13,206
	7,630	13,206

There were no cash equivalents at any of the reporting dates shown. In addition to the amounts above, the Agency held £656,000 on behalf of third parties.

34. Trade and other payables

Group and Agency

	2013	2012
	£'000	£'000
(a) Amounts falling due within one year		
Trade payables	200,520	35,781
Accruals	7,710	7,520
Deferred Income	44,048	67,920
Bank overdraft	70,004	146,926
Other taxes and social security	1,429	1,092
Other payables	1,918	2,465
	325,629	261,704

The amounts shown as a bank overdraft at 31 March 2013 and 2012 relate only to payments which were in transit at that date, and the Agency's bank accounts remained in credit throughout the period.

	2013	2012
	£'000	£'000
(b) Intra-government balances		
Balances with other central government bodies	2,777	2,602
Balances with local authorities	70,809	1,543
Balances with NHS bodies	118	-
Intra-government balances	73,704	4,145
Balances with bodies external to government	251,925	257,559
	325,629	261,704

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	2013 £'000	2012 £'000
Property, plant and equipment	22	977	711
Property/development assets	31	-	67
		977	778

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:

	2013 Total payments £'000	2013 Present value £'000	2012 Total payments £'000	2012 Present value £'000
Within one year	1,037	972	848	754
Between one and five years	986	955	1,372	1,265
In more than five years	-	-	337	131
	2,023	1,927	2,557	2,150
Future finance charges	-	96	-	407
Future minimum payments	2,023	2,023	2,557	2,557

The Agency receives no sub-let income from any of the properties held under finance leases, except for £81k per annum received under a sub-lease for one office which ends in September 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2013

36. Provisions

Group and Agency

	CRA transfers	Property interests with negative value	Environmental liability	Other liabilities	Additional consideration on development land	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 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
Charge to net expenditure	712	500	-	893	10,365*	12,470
Unused provisions credited to net expenditure	(17)	(1,276)	-	(181)	-	(1,474)
Unwinding of Discount	-	-	5,995	-	-	5,995
Expenditure against provisions	(676)	(1,578)	(26,485)	(1,161)	-	(29,900)
Balance at 31 March 2013	3,669	4,336	51,971	2,841	102,755	165,572

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

	2013	2012
Amounts above are disclosed as follows:	£'000	£'000
Current liabilities	55,349	25,689
Non-current liabilities	110,223	152,792
	165,572	178,481

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) 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).

During 2012/13 HM Treasury changed the prescribed discount rate which is applied to this provision from 2.2% to a negative 1.8%, and this resulted in an increase in the provision of £4.1m, which is included within unwinding of discount.

(d) Other liabilities

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

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

37. Deferred tax

Group and Agency

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

	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	-

	At 31 March 2012 £'000	Charged to net expenditure £'000	Charged to other comprehensive expenditure £'000	At 31 March 2013 £'000
Revaluation of development assets	62,441	(16,265)	9,500	55,676
Fair value gains/losses on available for sale assets	7,096	(5,793)	1,819	3,122
Unused tax losses	(47,615)	2,924	-	(44,691)
Provisions	(20,662)	6,214	-	(14,448)
Pensions	(1,260)	2,066	(465)	341
Deferred tax liability	-	(10,854)	10,854	-

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 £826m (2012: £1,147m) 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.

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 2013 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.

(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
2013					
Homes and Communities Agency Pension Scheme	(245,119)	-	**(245,119)**	271,951	**26,832**
City of Westminster Pension Fund	(232,137)	-	**(232,137)**	218,555	**(13,582)**
West Sussex County Council Pension Fund	(57,629)	(8,793)	**(66,422)**	54,655	**(11,767)**
Total	(534,885)	(8,793)	**(543,678)**	545,161	**1,483**
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)**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

38. Pension arrangements and liabilities (continued)

(b) Actuarial assumptions

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

i) Financial assumptions

	2013	2012
Inflation increases rate	2.7%	2.6%
Salary increases	4.6%	4.6%
Pension increases	2.7%	2.6%
Expected return on assets	5.6%	5.8%
Discount rate	4.4%	5.0%

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.

ii) Mortality assumptions

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

	2013 Years	2012 Years
Male – current pensioners	22.9	22.7
Male – future pensioners	24.6	24.2
Female – current pensioners	25.1	24.7
Female – future pensioners	27.1	26.5

(c) Fair value of employer assets

	2013 £'000	2012 £'000
Equities	338,674	195,264
Bonds	182,997	103,556
Property	13,114	8,655
Other assets	10,376	6,409
Total	**545,161**	**313,884**
Actual return on employer assets	**63,724**	**15,821**

38. Pension arrangements and liabilities (continued)

(d) Charge to net expenditure

	2012/13 £'000	2011/12 £'000
Amounts charged to net operating expenditure		
Current service costs	6,512	7,936
Past service costs	11	-
Losses on curtailments and settlements	955	849
Gain on settlement*	(19,432)	-
	(11,954)	**8,785**
Amounts charged to finance costs		
Interest charged	23,350	16,724
Expected return on assets	(28,478)	(16,954)
	(5,128)	**(230)**
Total recognised in Statement of Comprehensive Net expenditure	**(17,082)**	**8,555**

The total expected employer contributions to these schemes in the year ending 31 March 2014 are £12.8m.

* The gain on settlement relates to the agreement reached by the Agency to absorb the pension liabilities of those former employees of Regional Development Agencies who were members of the HCA Pension Scheme, following the RDAs' closure in 2011/12. The liability for these former employees otherwise rested with the Department for Business, Innovation and Skills (BIS) under Section 75 of the Pensions Act 1995 (s75). Under the agreement reached, BIS made a cash contribution to the scheme based on the value of its obligations under s75, which was assessed using assumptions that approximate those an insurer would use to price annuity policies, and which therefore place a significantly higher value on liabilities than those adopted under IAS 19. As a result, the Agency has recognised a gain of £19.4m, being the difference between the assets and liabilities newly apportioned to the Agency from those of the scheme overall, and which includes the effect of the cash contribution from BIS.

(e) Amounts recognised in income and expenditure reserve

	2012/13 £'000	2011/12 £'000
Actuarial (losses)/gains	**(8,043)**	**1,936**

The cumulative amount of actuarial gains and losses recognised in other comprehensive expenditure since the adoption of *IAS 19* is £76 .7m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

38. Pension arrangements and liabilities (continued)

(f) Reconciliation of fair value of employer assets

	2012/13 £'000	2011/12 £'000
Opening fair value of employer assets	**313,884**	**242,086**
Expected return on assets	28,478	16,954
Contributions by members	2,268	2,003
Contributions by the employer	14,882	69,175
Contributions in respect of unfunded benefits	561	549
Actuarial gains/(losses)	35,246	(1,133)
Settlements	-	(5,200)
Transfer in from TSA	99,215	-
Settlement with BIS	63,978	-
Other net transfers	1,374	-
Unfunded benefits paid	(561)	(549)
Benefits paid	(14,164)	(10,001)
Closing fair value of employer assets	**545,161**	**313,884**

On 1 April 2012 the Agency took over responsibility for the regulation of social housing providers in England from the Tenant Services Authority (TSA), and all assets, liabilities and staff of the TSA transferred to the Agency on that date. This transfer included all pension assets and liabilities of the TSA, which were in relation to the City of Westminster Pension Fund. The amounts of pension assets and liabilities transferred are shown in the tables at (f) and (g), respectively.

The transfer in from RDAs is as described in (d) above.

Contributions by the employer in 2011/12 include £56.9m 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. These are above the normal level of contributions payable, which already include an element to recover deficits in the schemes over the longer term.

38. Pension arrangements and liabilities (continued)

(g) Reconciliation of defined benefit obligation

	2012/13	2011/12
	£'000	£'000
Opening defined benefit obligation	**319,132**	**310,439**
Current service cost	7,648	7,936
Interest cost	23,350	16,724
Contributions by members	2,268	2,003
Past service costs	11	-
Actuarial losses/(gains)	43,289	(3,069)
Losses on curtailments	955	(441)
Settlements	-	(3,910)
Transfer in from TSA	115,830	-
Settlement with BIS	44,546	-
Other net transfers	1,374	-
Unfunded benefits paid	(561)	(549)
Benefits paid	(14,164)	(10,001)
Closing defined benefit obligation	**543,678**	**319,132**

The current service cost shown in this table is not the same as the amount shown in Note 38d because the movement in accruals for early retirement pension costs are contained within Trade and other payables, not the defined benefit obligation above.

(h) Five-year history

	2013	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Present value of defined benefit obligations	(543,678)	(319,132)	(310,439)	(336,463)	(232,463)
Fair value of employer assets	545,161	313,884	242,086	212,258	145,823
Surplus/(deficit) in the scheme	**1,483**	**(5,248)**	**(68,353)**	**(124,205)**	**(86,640)**
Experience gains/(losses) on scheme liabilities	(3,194)	(2,574)	8,283	4,670	1,725
Experience gains/(losses) on employer assets	35,246	(1,133)	(10,487)	44,857	(58,679)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

39. Financial assets and financial liabilities

Group and Agency

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

	Note	2013 Original cost £'000	2013 Carrying value £'000	2012 Original cost £'000	2012 Carrying value £'000
Loans and receivables					
Cash and cash equivalents	33	7,630	7,630	13,206	13,206
Trade and other receivables		195,008	186,749	246,749	233,258
Loans	26	496,899	401,577	430,236	345,726
Finance lease receivables	25	-	-	1,857	1,857
Available for sale					
Available for sale financial assets	24	751,617	666,905	626,476	550,208
Total financial assets		**1,451,154**	**1,262,861**	**1,318,524**	**1,144,255**

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

Prepayments, tax, social security and reimbursements in respect of provisions 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:

	Note	2013 £'000	2012 £'000
Other financial liabilities			
Trade and other payables		280,152	192,692
Finance lease payables	35	1,927	2,150
Provisions		107,091	92,390
Total financial liabilities		**389,170**	**287,232**

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 with reference to 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 and infrastructure projects are calculated using cashflow forecasts for the projects 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 gains/(losses) yet to be recognised in net expenditure are as follows:

Group and Agency	2012/13	2011/12
	£'000	£'000
At 1 April	603	1,972
Loss arising on initial recognition	(174)	-
Released to net expenditure	(556)	(1,369)
At 31 March	(127)	603

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
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

41 Financial risk management (continued)

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
- development agreements resulting in the sale of property are normally 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 nature of the credit risk arising from the Agency's most significant financial assets can be summarised as follows:

- the Agency's cash is generally held with the Government Banking Service, except where commercial reasons necessitate otherwise, for example when cash is held by solicitors around completion of property sales or purchases. The amount shown as a bank overdraft at 31 March 2012 and 2013 relates only to payments which were in transit at those dates, 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, or amounts receivable from various private sector developers, 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
- loans to associates and joint ventures are mainly concentrated amongst five counterparties. Loans to water companies relate to only one major public utility company. Infrastructure loans are dispersed amongst various 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 2013 was £94.5m, and the five largest counterparties accounted for 26% of the total balance.

41 Financial risk management (continued)

(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 any cash surpluses with the Government Banking Service.

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	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Other financial liabilities						
Trade and other payables	280,152	280,152	280,152	-	-	-
Finance lease payables	1,927	2,023	1,036	722	265	-
Provisions	107,091	107,091	27,992	15,950	63,149	-
Total	**389,170**	**389,266**	**309,180**	**16,672**	**63,414**	**-**

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

£102.8m of 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.

If interest rates on the Agency's variable rate loans and receivables had been 1% higher/lower throughout the year ended 31 March 2013, the Agency's net expenditure for the year, before the effect of tax, would have been £1.2m higher/lower.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

41 Financial risk management (continued)

(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 2013, 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 £71.5m/£111.3m from that stated.

At 31 March 2013, 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 £7.1m/£7.1m 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 2013 the Agency had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2013 Land and Buildings £'000	2013 Others £'000	2012 Land and Buildings £'000	2012 Others £'000
Within one year	2,413	745	2,204	658
Between one and five years	5,490	1,470	3,596	157
In more than five years	613	-	303	-
	8,516	2,215	6,103	815

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 2013 the Agency had granted leases for land and buildings with future minimum sub-lease payments expected to be received which fall due as follows:

	2013 £'000	2012 £'000
Within one year	3,961	4,728
Between one and five years	11,301	11,649
In more than five years	136,052	122,768
	151,314	139,145

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 2013

43. Contingent assets and liabilities

Contingent assets

The Agency has in certain instances disposed of land or made grant payments with certain conditions attached, which if no longer fulfilled will result in a payment to the Agency. Examples include where there is a subsequent change in use of land sold which materially increases the return to the purchaser, or if the conditions of a grant payment are no longer met. 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. Financial commitments

	2013 £'000	2012 £'000
Expenditure that has been authorised by the Agency at 31 March	47,390	-

The amounts above relate either to loan commitments which had become unconditional at the reporting date, but which had yet to be drawn down by that date, or to equity and loan investments recovered which are committed to be re-invested in similar schemes.

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 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:

2012/13	Grants paid £m	Loan stock invested/ (repaid) £m	Loan interest received £m
Priority Sites Ltd	-	-	0.4
Blueprint Limited Partnership	-	(2.2)	0.1
North East Property Partnership	-	-	5.1
Norwepp Limited Partnership	0.2	(6.0)	2.2
PxP West Midlands Limited Partnership	0.2	-	0.8
Onsite North East Limited Partnership	-	0.5	0.6

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	-	-

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

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.

47. Events after the reporting period

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 2013.

48. Transfers in to and out of the Agency

During the year the Agency was involved in three separate transfers with other public bodies. Each transfer differed in nature and involved different packages of assets and liabilities, as described below.

Losses on Statutory Transfers		2012/13	2011/12
	Note	£'000	£'000
Net liabilities transferred from Tenant Services Authority	48a	47,297	-
Net assets transferred to Greater London Authority	48b	363,805	-
		411,102	-

(a) Transfer from the Tenant Services Authority

On 1 April 2012 the Agency took over responsibility for the regulation of social housing providers in England from the Tenant Services Authority (TSA), and all assets, liabilities and staff of the TSA transferred to the Agency on that date. This transfer of function is accounted for using absorption accounting as directed by the FReM and as described in Note 1(c).

The net liabilities transferred from TSA were £47.3m and comprised the following, after restating to align accounting policies:

	Note	£'000
Property, plant and equipment	21, 22	2,049
Trade and other receivables		620
Cash		2,265
Trade and other payables *		(35,616)
Pension liabilities	38f, 38g	(16,615)
Net liability		(47,297)

* Includes £32.4m due to HCA in relation to a pension contribution made by HCA on behalf of TSA.

48. Transfers in to and out of the Agency (continued)

The net liabilities transferred of £47.3m are recognised in the Statement of Comprehensive Net Expenditure within Losses on statutory transfers.

The effect of the transferred function on the net expenditure for the year is mainly due to staff costs and pension costs, as below. These costs are compared against 2011/12 costs as disclosed in TSA's annual accounts insofar as they relate to regulation staff only.

	2012/13	2011/12
	£'000	£'000
Staff costs, excluding pensions	6,503	7,211
Pension costs	614	1,050
	7,117	8,261

In addition, the transferred function has incurred £1.1m of administration costs in the current year.

(b) Transfer to the Greater London Authority

On 1 April 2012 the functions, assets, liabilities and staff of the Agency in London transferred to the Greater London Authority (GLA) under the provisions of the Localism Act 2011. The transferred function included many of the Agency's programmes, but only to the extent that they related to the Greater London area. This transfer of function is accounted for using absorption accounting as directed by the FReM, as described in Note 1(c).

The net assets transferred to GLA were £363.8m and comprised the following:

	Note	£'000
Available for sale financial assets	24	49,107
Finance lease receivables		1,688
Loans (including amounts disclosed within trade and other receivables)	27, 28	50,780
Property/development assets	31	263,371
Trade and other receivables (excluding loans)		2,668
Trade and other payables		(3,809)
		363,805

The net assets transferred of £363.8m are recognised in the Statement of Comprehensive Net Expenditure within Losses on statutory transfers.

As the transfer to GLA occurred on 1 April 2012, there is no impact on the 2012/13 Statement of Comprehensive Net Expenditure other than the Losses on statutory transfer described above. The total contribution of the London function to the net expenditure of the Agency in 2011/12, and which has not recurred in 2012/13, was £711.1m. The most significant elements are shown below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2013

48. Transfers in to and out of the Agency (continued)

	2011/12
	£'000
Grant payments	747,245
Estate management	3,459
Staff costs, excluding pensions	2,489
Pension costs	367
Movement in impairment charge	(38,199)
Proceeds from disposal of assets and other operating income	(4,924)
Other net expenditure	650
Net expenditure	711,087

(c) Transfer to Milton Keynes Council

On 14 January 2013 the Agency sold most of its land assets in Milton Keynes to Milton Keynes Council (MKC). On the same date the Agency's planning powers also transferred to MKC, as did responsibility for the Milton Keynes Tariff. This was not a statutory transfer, and therefore gains and losses arising are included in income or expenditure as described below.

Proceeds from disposal of property assets include £30.2m from MKC in respect of the transferred assets. The cost of those assets transferred was £30.2m and is therefore included in cost of property disposals. The Agency has retained a small number of sites in Milton Keynes which were already in the process of being developed.

The agreement for transfer of responsibility for the Milton Keynes Tariff included an obligation for the Agency to provide a loan to MKC to cover the up-front costs likely to be incurred by MKC in completing infrastructure under the Tariff. It also included provision for the Agency to recover all expenditure historically incurred under the Tariff from MKC over the course of development of the sites retained by the Agency. As a result, additional loans of £4.6m are included in local authority loans (Note 30), and £5.6m of income is included within Other operating income, representing the present value of the additional historic costs now expected to be recovered.

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

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

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)

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:-
  - (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;

(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.

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)

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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