Homes & Communities Agency

HOMES & COMMUNITIES AGENCY

ANNUAL REPORT & FINANCIAL STATEMENTS 2017-18

HC 1135

Homes & Communities Agency

Annual Report & Financial Statements 2017-18

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CONTENTS

This report aims to give a snapshot of our work, which is covered in more detail on our website at www.gov.uk/homes-england

CHAIRMAN'S FOREWORD

This report marks the final chapter in the story of the Home and Communities Agency (the Agency). We are now building a new, expanded housing delivery agency in Homes England that will build on its predecessor's achievements.

I am extremely proud of the achievements of the Homes and Communities Agency. Over the past decade, the Agency has made a significant contribution to housing and regeneration in England by supporting the building of new homes, freeing up land for housing development and supporting households to buy a home of their own.

Nothing epitomises the work of the Agency in regenerating and improving the quality of places more than the Avenue Project, located in Wingerworth near Chesterfield. It is thought to have been the UK's biggest and most complex remediation project. The 98-hectare site was heavily contaminated by a coking works that closed in 1992 after nearly 40 years of operation, leaving leaking infrastructure and several substandard hazardous waste disposal facilities, which posed a significant risk to human health and the nearby River Rother.

Earlier this year, the Agency and its partners completed the 19-year project. This involved on-site remediation of contaminated soil; a major clean up and re-alignment of the River Rother to allow it to follow a more natural course; and the building of a flood alleviation dam to protect properties downstream. This remediation has unlocked the development of 489 new homes, a primary school, community facilities and employment sites, with a 70-hectare country park due to open later this year.

I am proud that the project was recently awarded the CEEQUAL Excellent Whole Project Final Award, which recognises the significant long-term social and environmental benefits The Avenue Project has delivered.

As we reflect on the past 12 months, it is important to recognise the wider social context behind each target that we have successfully delivered. As we become Homes England and work towards the ambition of Government to build 300,000 new homes per annum, we also provide the front door key to families and an environmentally and economically sustainable community for them to call home.

Homes England will have more resources than ever before with an additional budget, including guarantees, of £15 billion. Looking forward, if we are to play our full part in delivering the Government's ambition for 300,000 homes per annum, we cannot do what we and the industry have always done. Instead, we must look to new methods of delivery. We have started this rethinking by becoming a cornerstone investor in the award-winning Sigma Capital REIT, expanding our joint fund with Lloyds bank for SME builders and investing in sizeable land holdings and showing we are prepared to use our powers. We recently announced a 10-year partnership with Kier to expand housebuilding in areas of high demand and we will be making many more exciting announcements in the year ahead.

The new, expanded Homes England will build on its predecessor's achievements and create its own legacy of building many more homes and improving communities around the country.

Sir Edward Lister
Chairman

THE PERFORMANCE REPORT
OVERVIEW

The Performance Report provides information on the Agency, its main objectives and strategies and the principal risks it faces.

Overview

This section is designed to give the reader sufficient information to understand the Agency, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

THE PERFORMANCE REPORT
WHO WE ARE

The Homes & Communities Agency (the Agency) is the Government's housing, land and regeneration agency for England, excluding London. We are also the Regulator of Social Housing providers for all of England. In London, responsibility for housing is devolved to the Greater London Authority (GLA).

We are a non-departmental public body sponsored by the Ministry of Housing, Communities and Local Government (MHCLG). We work closely with colleagues in MHCLG to ensure delivery of ministerial policy objectives.

We are subject to Government Spending Controls and we work with MHCLG to establish a transparent and robust annual budget within the context of an applicable multi-year Spending Review.

Our statutory objectives as defined by the Housing and Regeneration Act 2008 are to:

- Improve the supply and quality of housing
- Secure the regeneration or development of land or infrastructure
- Support in other ways the creation, regeneration or development of communities or their continued wellbeing
- Contribute to the achievement of sustainable development and good design, with a view to meeting the needs of people
- Facilitate the exercise through its Regulation Committee of the functions conferred on the Agency as the Regulator of Social Housing.

The Housing and Regeneration Act 2008 (as amended by the Localism Act 2011) sets out the Agency's statutory objectives in respect of regulation of social housing providers. As a regulator we promote a viable, efficient and well-governed social housing sector able to deliver homes that meet a wide range of needs.

Since January 2018, the investment, affordable housing, land and Help to Buy functions of the Agency have been operating as Homes England. The regulatory function has been operating as The Regulator of Social Housing (the Regulator).

In 2016 MHCLG announced plans to establish the Regulator of Social Housing as a standalone body. The Legislative Reform Order was approved by Parliament in May 2018. It is anticipated that the Regulator will become standalone in late 2018.

Delivery role

In order to deliver the Government's housing ambitions, the Agency undertakes a series of activities. These include:

- Investing in new housing through grant and financial investments, to support both market and affordable housing
- Acquiring land (including from other government departments) to prepare it for housing delivery
- Supporting households purchase a home of their own through the Help to Buy scheme.

The Agency's targets over the current Spending Review period are to:

- Deliver 67,500 new homes for Affordable Rent, Rent to Buy and Shared Ownership
- Deliver 33,500 homes for Affordable Rent through the existing Affordable Homes Programme 2015-18
- Release enough public sector land for 36,000 new homes
- Support new types of house building through the Home Building Fund. The long-term loan fund supports the delivery of larger sites, infrastructure and site preparation. The short-term loan fund provides support to small and medium sized enterprises, custom builders and innovators to build housing now. The fund as a whole will deliver up to 200,000 new homes
- Directly commission up to 4,000 homes across four pilot sites.

Following the announcement at the Autumn Budget 2017 of a £15.3bn funding package for housing, these targets will be revised.

THE PERFORMANCE REPORT
HOW WE ARE MANAGED

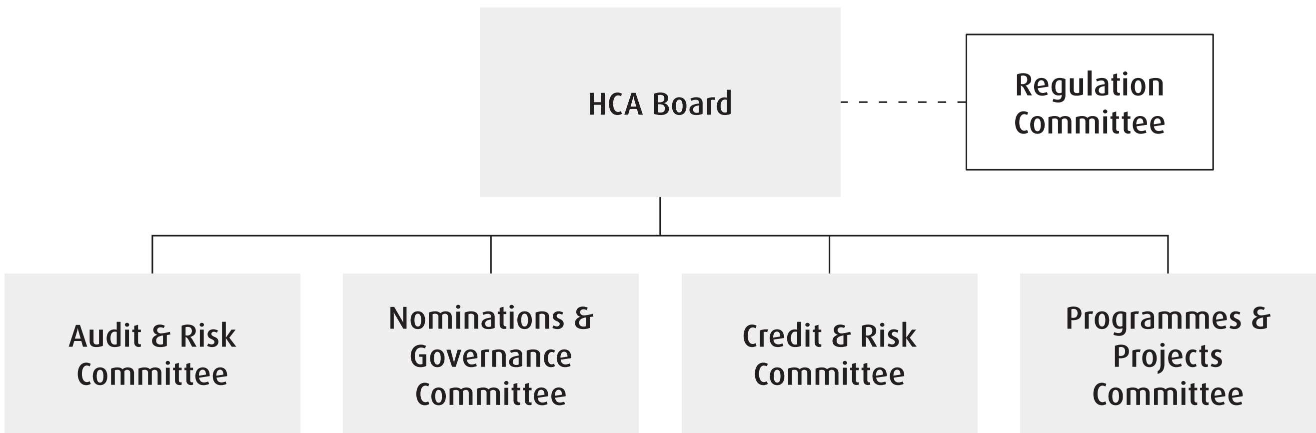
How we are Managed

The Agency is governed by a board. Its members are appointed by the Secretary of State for Housing, Communities and Local Government. The Agency's regulatory responsibilities are exercised through an independent Regulation Committee.

The Board, in accordance with good practices of governance, has established a number of committees to which it delegates appropriate responsibilities. This includes the Audit and Risk Committee, Programmes and Projects Committee and the Credit and Risk Committee.

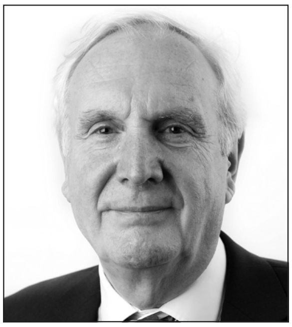
Members of both the Board and the Regulation Committee are required to act in accordance with the Agency's code of practice as part of its commitment to transparency with regards to the management of public money. Additionally, a register of members' interests can be found on the Agency's website.

The Board, Committees and Executive Team



THE PERFORMANCE REPORT
THE BOARD, COMMITTEES AND EXECUTIVE TEAM

Chairman, Sir Edward Lister



The Board is led by the Chairman, Sir Edward Lister. Sir Edward joined the HCA Board in June 2016, bringing considerable experience of house building, development finance, infrastructure and regeneration. From 2011-16, he was London's Deputy Mayor for Policy and Planning and Chief of Staff at the Greater London Authority.

Previously, as Conservative Leader of Wandsworth Borough Council from 1992-2011, Sir Edward made Wandsworth the most successful value-for-money local authority in the country. In 2016, Sir Edward was appointed as an advisor to UK Trade and Investment, now the Department for International Trade.

Current members of the Board are:

- Stephen Bell
- Richard Blakeway
- Simon Dow
- Simon Dudley
- Keith House
- Teresa O'Neill
- Nick Walkley (Chief Executive Officer).

A list of all Board members who served throughout the year is contained in the Board members report on page 25.

Audit and Risk Committee

The Audit and Risk committee works with the Board on risk control, governance, financial control and statutory reporting. The committee is authorised by the Board and Regulation Committee to investigate any activity within these areas.

Programmes and Projects Committee

The Programmes and Projects Committee oversees the Agency's investment and land programmes and projects, and certain corporate issues.

Credit and Risk Committee

The Credit and Risk Committee supports the Board in their responsibilities for financial risk control with regards to the Agency's financial investment programmes.

Executive Team

Nick Walkley, Chief Executive

Nick became Chief Executive of the Agency in March 2017.

Nick is leading the work to create the new organisation, Homes England, focused on disrupting the land and residential funding market to increase and accelerate the supply of new homes. Recent highlights include the launch of the first Private Rental Sector (PRS) Real Estate Investment Trust and the Agency winning Residential Investor of the Year at the RESI Awards.

Nick has had a senior career in Local Government, including Chief Executive roles at two London Boroughs as well as a range of sector roles at national level. He was rated 4th most influential in the Local Government Chronicle (LGC 100) and is an Inside Housing IH50 influencer.

Executive Team

- Tom Walker, Deputy Chief Executive
- Amy Casterton, Chief of Staff
- Bayo Dosunmu, Executive Director – Homes England Development
- Richard Ennis, Executive Director – Finance & Corporate Services
- Chantal Geall, Chief Risk Officer
- Stephen Kinsella, Executive Director - Land
- Fiona MacGregor, Executive Director – Regulator of Social Housing
- Gordon More, Chief Investment Officer.

THE PERFORMANCE REPORT
CHIEF EXECUTIVE'S STATEMENT

Performance Review

The supply of good quality housing continues to be one of the biggest challenges facing the country. The Housing White paper, published in February 2017, set out how the Government would: build more homes faster; reform planning; and diversify the house building sector. Over the past 12 months, we have played a significant part in supporting these ambitions.

A strong year for performance

As an Agency we have continued to focus on our core activities: investing in infrastructure and housing supply, delivering the Affordable Homes Programme, bringing surplus public land to the market to drive housing growth, supporting people's aspirations to own their own homes, and maintaining investor confidence in the Registered Provider sector through effective regulation. With the support of our partners we have met or exceeded all of our key targets. Our achievements include:

- Helping increase capacity and supporting diversification in the house building sector by providing 73 small and medium sized enterprises (SMEs) with over £300m of funding to build over 14,000 homes
- Unlocking land with the capacity for 30,246 new homes by investing in infrastructure
- Supporting the delivery of 25,722 affordable homes
- Disposing of enough public sector land to provide capacity for a further 9,075 homes
- Helping 47,587 households to own their own home through the Help to Buy: Equity Loan scheme
- Helping to create 335,582 square metres of employment floor space.

Investing in infrastructure and housing supply

Through the Home Building Fund, the Agency has continued to provide both short-term development finance and long-term infrastructure finance that are not available in the market.

Through the provision of development finance, we are supporting the diversification of the increasingly concentrated house building sector; supporting SMEs and promoting underutilised approaches that are proven in other comparable countries, including Custom Build and Modern Methods of Construction. We do this by direct lending to SMEs, more than doubling the number of deals with the sector over the last 12 months. For example, we funded Skye Homes, a new SME, to build five family homes in Chester using off site manufactured panels purchased from a family run SME business. We have doubled our investment with the Housing Growth Partnership, our joint initiative with Lloyds Bank that supports the sustainable growth of small developers and residential developers. The Agency is continuing to look at other innovative funding mechanisms that will leverage further private sector investment into building more homes, more quickly.

Our funding of enabling infrastructure allows homes to be built quicker. By working with the borrowers, this form of recoverable investment also allows the Agency to achieve other policy aims, such as tenure diversification through the introduction of PRS homes leading to faster build-out rates.

Over the last 12 months, further investment has been made across the country, albeit focused on areas with an infrastructure deficit, including London and the South East. For example, a recoverable loan was provided to accelerate delivery of 4,500 homes and associated commercial development at the Eastern Quarry Site in Ebbsfleet, Kent. The site forms part of the nationally important Ebbsfleet Garden City delivering approximately 30% of the total housing provision. The Agency also provided a recoverable loan to support the construction of substantial infrastructure and accelerate the development of 6,819 residential units, predominantly PRS, and mixed commercial space at Wembley Park, North West London.

A further £2.7bn was allocated to the Housing Infrastructure Fund at Autumn Budget 2017. This will be allocated to local government on a competitive basis to provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest.

Bringing more land to market to drive housing growth

Increasing the availability of land is crucial to driving housing growth. The Agency has taken the first steps towards becoming a more activist master developer in the land market, both public and private, to drive housing delivery. We have focused on driving the best deal for the public purse through the development of a standard building lease

THE PERFORMANCE REPORT
CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

for disposals, ensuring a consistent approach across the country incorporating clear approaches to the pace of build out, Modern Methods of Construction, design and quality of place and tenure mix. We have also continued to build on the current land transfer arrangements with Government to create partnerships and other delivery solutions to release more land for housing development and to unlock stalled strategic sites with the capacity to drive housing delivery.

In Plymouth, for example, we have supported the acquisition of one of the largest brownfield sites in the South West of England, bringing landholdings together to enable the delivery of potentially 600 homes. The site had been stalled for over 5 years and it can now come forward through our intervention in remediating the site ahead of securing a broad range of developers including SMEs, custom build and specialist housing (extra-care) in order to diversify and accelerate delivery.

The Agency also played a crucial role in unlocking the 176 hectare site at Burgess Hill which has the capacity for 3,080 new homes. The site is a strategic priority due for adoption in the Mid Sussex Local Plan in early 2018. The site had been stalled for over 10 years due to complex land ownership patterns, and the need to deliver significant strategic infrastructure works. The Agency negotiated the acquisition of the complex land holdings that were stalling housing development on the site and will now deliver the strategic infrastructure required to unlock the whole site. Once completed, alongside the housing, the area will include 2 new primary schools, a secondary school, and a range of leisure facilities.

Affordable homes of all tenures

The Shared Ownership Affordable Homes Programme (SOAHP) has continued to deliver much needed homes for households unable to access open market housing. The programme has seen the delivery of 25,722 homes in 2017/18.

Recognising that open market rent and sale are not achievable or appropriate for all households, SOAHP supports a diversified tenure regime. Affordable Home Ownership products have been widened out to attract people who are at the beginning of their careers to create more diverse and stable communities in areas of acute affordability pressures. Demand for the Agency funded Rent to Buy and Shared Ownership properties has seen buoyant sales, with Stockport Homes selling a Shared Ownership property every 3 minutes on release of new phases at their Charles Street development in Stockport. This trail blazing development has transformed this area of the town, bringing other open market developers to the area as a result.

Shared Ownership Affordable Homes Programme funding has been utilised in areas where the market is unbalanced to improve the quality of housing and bring stability to areas where the market is vulnerable to fiscal shifts and new development is deemed high risk. By grant funding a range of tenures in areas where viability is marginal, we make developers and housing associations able to develop in areas where previously they would have been reluctant to do so. Tenure flexibility across ownership and rental products allows the needs of communities to be met and create a quality place to live with vibrant mixed communities. The residents of Parkside in Tees Valley had for many years lived with the legacy of selective demolition of their properties. This year the Agency grant funded the first 110 homes, rebuilding the community.

The Agency has played a key role in delivering the Department of Health and Social Care's Care and Supported housing programme distributing £29.5 million to create 1,299 new homes for vulnerable adults with a further 548 already on site for completion in 2018-19. Alongside Department of Health and Social Care funding the Agency has used SOAHP to provide complementary schemes. The 45 new households of Low Farm Drive, Redcar are benefiting from the collaborative work of occupational therapists, Redcar and Cleveland District Council and the Agency where £1million of gap funding has supported the development of a mix of bungalows, apartments and general needs homes. The scheme links into The Dunes Extra Care scheme so residents can easily access the existing facilities allowing people to remain in their own homes, while reducing their care costs.

The Agency has been actively supporting communities to create the housing their community wants and needs that are not provided by open market developers. In Lyme Regis, an area with affordability ratios greater than those found in London, the local community came together to develop 17 family homes that respected the Jurassic Coast World Heritage status and overcame the unpromising Site of Special Scientific Interest designated steep slopes site. Community building has not just been in rural areas. YMCA Downslink in Brighton have used the Agency's

Platform For Life funding to tackle homelessness in their local area for 18 – 25 year olds, turning around the lives of young adults who have no other support.

Supporting people's home ownership ambitions

Demand for our equity loan product remains strong with product outputs (equity loans) rising almost 20% year-on-year. The number of homes purchased demonstrates widespread acceptance and awareness of the Help to Buy product among consumers as a solution to their home ownership aspirations. Over 80% of Help to Buy equity loans were to first time buyers and this continues the strong trend since programme start in 2013. Receipts from Help to Buy loan redemptions have been growing for some time and again demonstrate the product's effectiveness as borrowers move into full ownership by repaying their loans to Government. The programme's success led the Government to provide further certainty to the market in 2017 by committing a further £10bn to the programme.

Help to Buy is the Agency's largest programme with its consequent balance sheet impact. This has put a premium on expenditure forecasting, a rigorous approach to administration of the resulting loans and the responsibility to treat our borrowers fairly, whilst having due regard for the efficient administration of the tax payer investment in these homes. Given this, and its scale and critical importance to supporting wider housing delivery, a full "end-to-end" review of all Help to Buy programme policies and procedures was initiated in 2017. The review underlined the basic soundness of the Agency's approach and gave clear direction to where additional support was required to further strengthen our programme delivery.

Effective regulation of social housing

The regulatory responsibilities of the Agency are discharged independently to other functions by the Regulation Committee, established through the Localism Act 2011. This function is undertaken within the parameters of legislation and the regulatory framework.

The sector has seen a number of policy developments and regulatory changes over the past year. In October 2017, the Government announced the end to the four year rent reduction period in 2020 with a return to CPI +1% annual rent increases for the period to 2025. Alongside this development, the Government announced £2bn of additional investment to boost new supply. The Regulator has begun work with MHCLG on a future rent direction to the Regulator which would deliver the CPI+1% rent increases.

The regulations that apply the Housing Administration provisions in the Housing and Planning Act 2016 to registered providers (that are registered societies and Charitable Incorporated Organisations) were approved by Parliament in March 2018. Implementation will follow once the housing administration rules have been laid and approved in Parliament. This will be an important change in the powers of the Regulator following the recommendations of the lessons learned review of the Cosmopolitan Housing Group case in 2014.

Following the regulatory reforms introduced in the Housing and Planning Act 2016, the ONS reclassified housing associations back to the private sector in November 2017. These are important developments that support a stable investment environment to allow the sector to build more homes.

More broadly the economic environment for registered providers has generally remained benign throughout the year. The sector continued to raise substantial amounts of debt at reasonable prices. Competition in the bank market increased during the year, with several new lenders entering, and established lenders seeking to expand their activities. Pricing of new bond issues has increased slightly and credit ratings have reduced following the downgrading of the UK sovereign, though almost all ratings remain a strong investment grade. Throughout the year the Regulator has maintained its contact with stakeholders including lenders, sector representatives and Government to ensure that key risks to the sector are identified and impact on the regulated sector monitored.

Following the consultation on introducing fees, from October 2017 the Regulator became part funded by fees. As part of the commitment to be open and transparent with the sector, a Fees Statement was published in October 2017 which set out the Regulator's priorities for the year, how they would be delivered and a breakdown of the budget. The first meeting of the Fees and Resources Advisory Panel was also held with positive engagement with stakeholders on the Regulator's priorities and budget. Significant work was done throughout the year to ready the organisation to collect fee income. This work was a success with 99.98% of anticipated income received.

THE PERFORMANCE REPORT
CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

As the sector continues to grow and becomes more complex the Regulator has ensured that its approach to regulation adapts accordingly, continuing to build on the changes to the Regulatory Framework started last year. In September the Regulator consulted on changes to its Value for Money Standard which included a Code of Practice. The standard consulted upon set out a clear expectation that value for money should be a strategic consideration for boards. It also outlined expectations on reporting, including reporting on a suite of metrics defined by the Regulator. The response to the consultation was very positive and the revised standard came into effect on 1 April 2018.

The Regulator produced a number of publications which gave external stakeholders an understanding of the risks facing the sector as well as key trends and performance. In July, the Regulator published its annual Sector Risk Profile which set out the main risks facing the social housing sector and some of the actions registered providers should be taking to manage those risks.

In addition the annual Consumer Regulation Review was published in October and set out information about cases where the Regulator found a breach of the consumer standards where tenants suffered, or were at risk of suffering serious harm, and the action the Regulator then took in particular cases. The publication also set out cases where a breach was not found in order to illustrate for stakeholders our approach to consumer regulation and lessons learned for the sector.

In December the Regulator published its annual Global Accounts publication which sets out registered providers' income and costs and the level of borrowing they have at a global level. This analysis provides key information about how the sector is operating and performing. During the year, the Regulator registered 18 providers and de-registered 13 providers.

The Regulator continued to build on its operational model introduced in 2015, applying the three key strands of quarterly surveys, annual stability checks and periodic In Depth Assessments. The Regulator continues to collect and analyse regulatory data to inform our intelligence on key risks within the sector. These are published in the Quarterly Survey Reports. The quality of data returns is important to the Regulator and any issues of data quality in returns were picked up through the Regulator's reactive engagement with registered providers.

The Regulator carries out annual stability checks on providers which may impact their published grading. This year, reflecting changes in the economic environment the Regulator carried out a process of re-grading a number of registered providers to reflect the risks in the external environment and the impact this has on business plans. The Regulator undertook this work principally through the annual stability check process to allow calibration of the range of providers and the Regulator's judgement of their capacity to absorb a range of risks. This on-going monitoring work is an important source of assurance to ensure that the Regulator continues to meet its fundamental objectives and is able to identify and where appropriate respond to any significant risks arising.

The Regulator continued with its planned programme of In Depth Assessments (IDAs) which assess a provider's compliance with the economic standards. The Regulator's risk based programme of IDAs covered 59 providers. The IDAs explored the keys risks for each individual provider and sought assurance on the organisations governance and financial viability resulting in a published judgement of that provider. A strong focus of the Regulator's IDA work is a consideration of a provider's approach to stress testing. In its communication with the sector, the Regulator has re-enforced the importance of robust stress testing which should be appropriate to the size and nature of the business. There have been examples of boards that have done this well; those who have challenged themselves as to what might occur in the external environment, how they might react and what this means for their business plan. Where there are organisations that do this less well, the Regulator will reflect that in its regulatory judgement. The Regulator's message remains that well governed boards should challenge and assure themselves that they understand how their business would react in a range of different scenarios.

The IDA work and other reactive engagement carried out by the Regulator identified potential issues within a number of registered providers. The Regulator has published 6 grading under review notices and 9 regulatory notices. The Regulator continues to work quickly and effectively with those registered providers to prevent risks crystallising, using its powers where necessary, whilst maintaining the confidence of stakeholders including lenders.

Alongside the Regulator's work on governance and financial viability the Regulator also carried out its role in relation to consumer regulation. During the year, the Regulator received

540 referrals, all of which were considered at stage 1. 205 were taken forward to our Consumer Regulation Panel (stage 2) and further investigations were carried out on 69 cases (stage 3). This led to 5 findings of Serious Detriment.

Where a provider is considered not to be in compliance with the Regulator's standards, whether this is identified through planned or reactive engagement, the Investigation and Enforcement team will work with the provider to seek to ensure that it is able to achieve compliance again. The approach taken to do so will vary on the presenting circumstances which lead the provider to be non-compliant. In 2017/18, a number of providers were identified as non-compliant, with a range of solutions adopted to bring various providers back into compliance over the course of the year.

The Regulator has commenced work internally to review and ensure that its approach to regulating providers of different sizes and risks continues to be forward looking and keeps pace with developments in the sector. The Regulator is clear that the IDA tool is fit for purpose and does not intend to change that. The Regulator is, however, looking at how it can make even better use of the data that it has about risk in the sector to target regulatory engagement. This work will continue in the year ahead and build on the current IDA approach to ensure resources are aligned most effectively to where the risks and potential impact are greatest.

The Regulator is undergoing a considerable IT upgrade project from its existing CRM programme to Dynamics 365. Work has been on-going throughout the year to specify and develop a system, building bespoke elements where appropriate, to ensure that the Regulator has a record management system that is fit for purpose going forward.

Responding to the Grenfell fire tragedy

Following the tragic fire at Grenfell, the Agency worked as part of the Government's wider response to support those both directly and indirectly affected. In the immediate aftermath of the fire, the Agency worked closely with MHCLG and the Royal Borough of Kensington and Chelsea (RBK&C) to provide support whilst they looked at rehousing options.

In addition we have worked closely with two local authorities with multi-storey housing PFI schemes: Salford and Camden. Identified unsafe Aluminium Composite Material (ACM) cladding on five high rise blocks on the Chalcots estate in Camden and nine high rise blocks on the Pendleton Estate in Salford was tested. The Agency has been working closely with both local authorities as they develop options to enable replacement of systems whilst working through complex contractual provisions and funding requirements.

The Government has established a Public Inquiry into the fire and the immediate response to it, as well as making a commitment to publish a Green Paper to cover the wider issues facing social housing and the tenants who live within them. The regulatory arm of the Agency, the Regulator of Social Housing, awaits the outcome of these pieces of work and will respond to any recommendations that might follow. Whilst this work is on-going, the Regulator has been considering the implications for the sector and individual providers as well as the regulatory landscape. The Regulator continues to gain assurance of board oversight of health and safety compliance through In Depth Assessments, taking account of the risks facing the provider.

Since the year end, the Government has committed to fully fund the removal and replacement of unsafe cladding by councils and housing associations. We understand the financial cost of this is estimated at £400 million and is to be funded via the Agency's Affordable Homes Programme. This has been disclosed in Note 39 of the Financial Statements.

Our position in Whitehall and with local partners

The Agency has a wide range of relationships and on-going engagement with Whitehall departments and their associated agencies. This engagement is critical to enable the delivery of our objectives and the Government's broader economic growth agenda. For example we have a key position on the Oxford-MK-Cambridge cross-Whitehall working group alongside No10, HM Treasury, Department for Transport, MHCLG and other Whitehall Departments.

The Agency also engages with the wider public sector using our expertise to help local partners across England to develop their priorities. Balanced alongside our strong commercial expertise and experience of working with the private sector to open up development and investment opportunities, we are creating opportunities for housing growth. A prime example is our work with the West Midlands Combined Authority where we are supporting the Mayor and his team

THE PERFORMANCE REPORT
CHIEF EXECUTIVE'S STATEMENT (CONTINUED)

to develop a Housing Delivery Plan to deliver 215,000 homes by 2031. At the heart of this collaboration is the ambition to marshal resources to achieve increased pace, quantum and quality of housing development.

Protecting public funding – managing risk

In delivering housing for communities, the Agency provides a range of activities which need effective management. In particular the organisation's investment and land programmes are focussed on higher-risk borrowers and/or areas of market failure. As a result the Agency is carrying, on behalf of Government, a large credit and land portfolio that is confined to a single sector. In addition to this, the Agency is managing the Help to Buy portfolio. This is a portfolio of equity investments where our exposure is secured by second legal charges which sit behind the security provided to the respective mortgage providers. This means that we have an elevated level of market risk compared to a typical portfolio of residential mortgages.

In order to minimise the risk of these programmes to the public purse, the Agency utilises a robust risk management framework which sets out the organisation's strategy and approach to risk management and assurance. The framework is owned by the Chief Risk Officer and approved by the Board. The framework provides a disciplined and structured process to enable the identification, assessment and management of risks and opportunities facing the organisation.

The framework also sets out the strategy and methodology used in the organisation and is supported by policies which provide detailed risk management processes including the use of Key Risk Indicators. Central to the framework is the Agency's Risk Appetite Statement which establishes the quantum and type of risk that the organisation is willing to take in order to meet its objectives. The framework also identifies how decision makers at every level across the organisation can understand and operate within the agreed Risk Appetite.

The Principal Risks which impact the delivery of our strategic objectives are outlined on page 37 of this report. As a business which operates within a single area of economic activity and which is required to engage with counterparts deemed higher risk by the commercial market, we continue to face a range of external and internal risks to our activities. Delivery of the housing units which underpin our strategic objectives is dependent on a range of third parties including developers, contractors and senior investors. Macro-economic and market events which negatively impact our counterparties have an impact on our delivery and are monitored closely by us to ensure that we mitigate this impact wherever possible.

Looking to the future

Tackling the housing crisis facing this country continues to be a major priority for the Government; with strong demand for all tenures of housing. In line with the Chancellor's headline announcement at the Autumn Budget, we are creating a new organisation that adopts a more commercial approach to respond to the long-term housing challenges facing this country. The new, expanded Agency will play a far bigger role in investing in supply and intervening in the market to help deliver 300,000 homes a year by the middle of the next decade.

Homes England will act differently from its predecessor, bringing together money, land, expertise and planning and compulsory purchase powers to accelerate the supply of new homes and address affordability issues in areas of highest demand. Building on the Homes & Communities Agency's strong track record in managing affordable housing and land programmes, we will offer a bespoke mix of direct capital grant and financial transactions to move supply; develop a new commercial approach to acquiring and developing land in areas of high demand; and explore opportunities to form lending alliances in order to leverage more commercial finance into housing.

This is the last time we will report on the Agency in its current form as the Regulator of Social Housing is expected to transfer to a separate body during 2018-19.

The main future challenges facing the Agency as we transform to Homes England are considered to be:

- Recruitment at pace of the right people to increase capacity and capability
- Securing capital allocation to deliver the necessary new digital systems and
- Balancing the delivery of targets/business as usual against the delivery of change.

THE PERFORMANCE REPORT

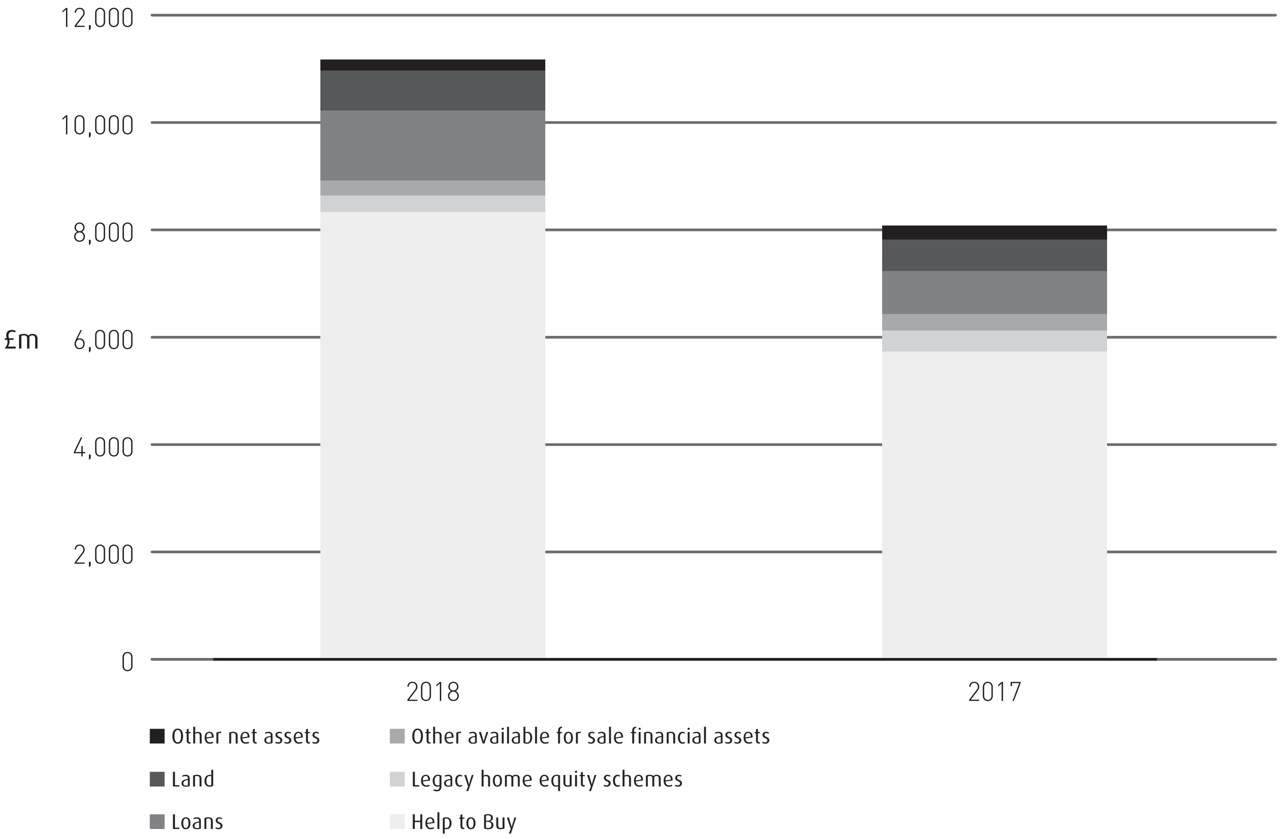
PERFORMANCE SUMMARY

Our financial performance

The results for the year ended 31 March 2018 are set out in the Financial Statements on pages 62 to 118.

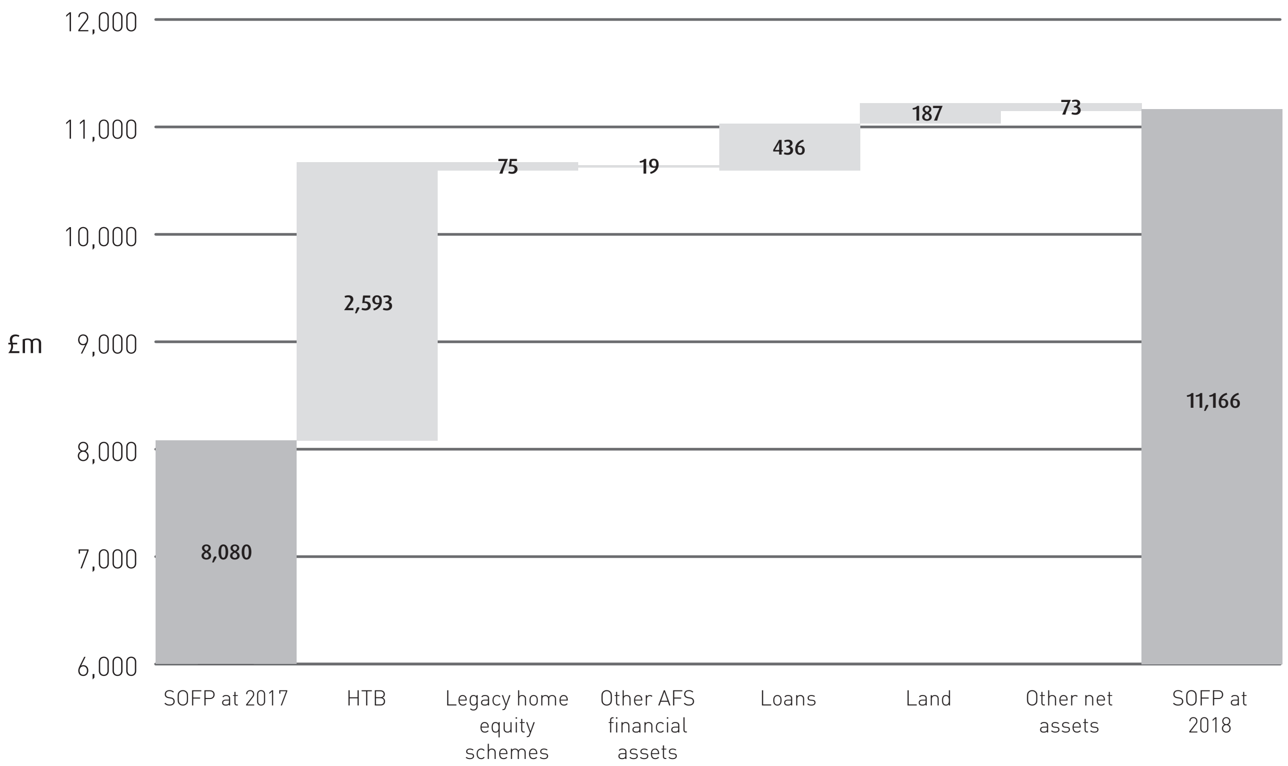
Key highlights are as follows:

- Net Expenditure for the year was £629m (2016/17: £364m)
- Group Statement of Financial Position shows net assets of £11.17bn (2017: £8.08bn)
- The increase in net assets reflects increased investments with the Help to Buy scheme and loans associated with housing and related development
- The key components of the Statement of Financial Position are illustrated below:



THE PERFORMANCE REPORT
PERFORMANCE SUMMARY (CONTINUED)

- The key movements in the Statement of Financial Position from 2017 are illustrated below:



- As at the reporting date, the Agency had entered into the following financial commitments:
  - £1.06bn outline approvals to investments under the Help to Buy scheme
  - £1.07bn of unconditional but undrawn loan and equity investments

Output and financial measures

The Agency's performance is managed by reference to financial and non-financial targets, within the constraints of programme and operational expenditure limits set by MHCLG. Non-financial measures of the Agency are the number of housing starts and completions, the housing capacity of land disposed, the area of previously developed land reclaimed and the area of employment floor space created.

The Board review and hold management to account for the Agency's performance through the in-year performance report. The report provides the Board with detailed performance information, both financial and non-financial information such as budgets, expenditure and receipts, actuals, forecasts and variances and progress towards the achievement of output targets agreed with MHCLG, including housing starts and housing capacity of public land sold.

Outputs are shown below and compare results against targets.

Homes England outputs 2017/18 (Unaudited)

	Housing Starts[1]		Housing Completions[2]	
	Target[3]	Outturn[4]	Target[3]	Outturn[4]
TOTAL (all programmes excluding Help to Buy)[5, 6]	**-**	**42,652**	**-**	**33,741**
Help to Buy[7]	**-**	**-**	**48,500**	**47,587**
Total affordable housing (all programmes) *of which:*	**-**	**27,905**	**-**	**25,841**
Homes in rural settlements (pop. less than 3,000)[8]	-	-	-	*2,951*
Housing for older and vulnerable people[8]	-	-	-	*2,681*
Affordable housing[9]	**24,000**	**27,340**	**19,000**	**25,722**
Housing from Investment programmes[10] *of which:*	**7,500**	**8,548**	**1,000**	**3,014**
Direct	-	6,830	-	2,509
■ Affordable	-	565	-	119
■ Market	-	6,265	-	2,390
Indirect[11]	-	*1,718*	-	*505*
Market housing	**6,697**	**8,482**	**4,811**	**5,510**

	Target	Outturn
Housing capacity unlocked through infrastructure investment (indirect)[12]	**29,752**	**30,246**
Housing capacity of land disposed[13]	**4,833**	**9,075**
Employment floorspace created (sq m)	**301,023**	**335,582**

– not applicable

1. 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. Starts on site are not applicable for Help to Buy.
2. Housing completions are reported when the units are fit for occupation or, in the case of equity loan products delivered under Help to Buy, at the point of completion of the purchase.
3. The targets were approved by the Ministry of Housing, Communities and Local Government.
4. The figures in the table reflect Homes England's activity and exclude any outputs which have been attributed to our partners through joint working arrangements, except where stated.
5. All programmes are funded by the Ministry of Housing, Communities and Local Government with the exception of Care and Support Specialised Housing, Homelessness Change 2015-18 and Platform for Life which are funded by the Department of Health and Social Care. A detailed programme breakdown for housing starts and completions is available from our Housing statistics webpage at: https://www.gov.uk/government/collections/housing-statistics.
6. The Total excludes the Indirect units reported through our Investment programmes because these are either in receipt of funding from an affordable housing programme and are reported under that programme on approval of the grant claim or are part of the wider project and have been unlocked as a result of Homes England funding.
7. Help to Buy is reported separately because some of the homes sold under the Help to Buy scheme may have also benefitted from funding through other programmes supporting delivery of market homes.
8. Figure excludes delivery through Investment and Single Land programmes.
9. Affordable housing includes the following programmes for starts and completions: Affordable Homes Guarantees, Affordable Homes Programme 2015-18, Care and Support Specialised Housing, Homelessness Change Programme 2015-18, Platform for Life, Right To Buy Replacement, Shared Ownership and Affordable Homes Programme, Short Form Agreements and Single Land Programme. For completions only, Affordable housing also includes Affordable Homes Programme and National Affordable Housing Programme.
10. Investment programmes delivering housing include Build to Rent, Get Britain Building and The Home Building Fund - Short Term Fund.
11. Indirect units contribute to the target and are either in receipt of funding from an affordable housing programme and are reported under that programme on approval of the grant claim or are part of the wider project and have been unlocked as a result of Homes England funding.
12. Housing capacity unlocked through infrastructure investment is captured when infrastructure works funded have started on site and reflects the site unit capacity. The output is 'Indirect' because there is no contractual relationship between the funding for infrastructure and the provision of the units.
13. Housing capacity of land disposed is captured at the point of disposal of Homes England land and reflects the site unit capacity.

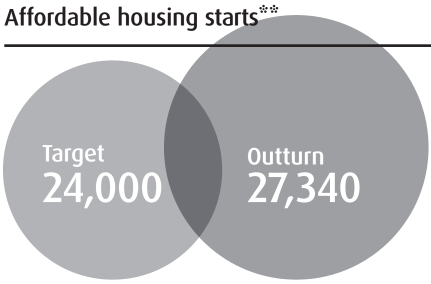
THE PERFORMANCE REPORT

PERFORMANCE SUMMARY (CONTINUED)

Affordable housing starts**

13.9%

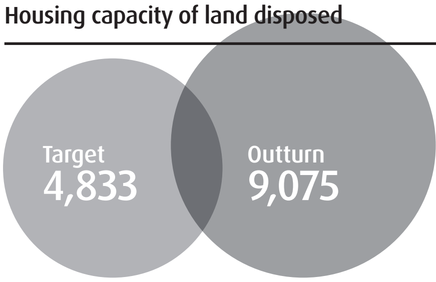
Above target



Housing capacity of land disposed

87.8%

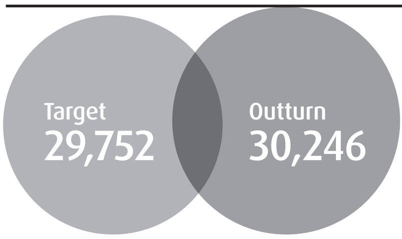
Above target



Housing capacity unlocked

1.7%

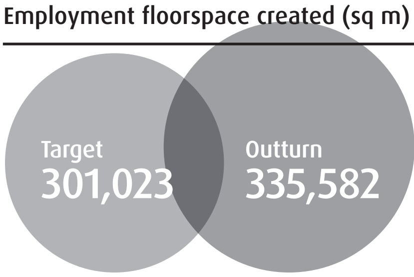
Above target



Employment floorspace created (sq m)

11.5%

Above target



** Excludes Affordable Homes Guarantees Programme, Care and Support Specialised Housing, Empty Homes Round Two and Right to Buy Replacement.

The key financial measure used by the Board to assess the Agency's operating performance and in turn by MHCLG to monitor the Agency, is programme and administrative expenditure and receipts against Departmental Expenditure Limits (DEL). DEL is categorised into Capital DEL and Resource DEL, reflecting the nature of the transaction. A summary of these performance measures are as follows:

	2017/18			2016/17		
	Capital £m	Resource £m	Total £m	Capital £m	Resource £m	Total £m
Gross expenditure	4,705.6	112.9	**4,818.5**	3,364.4	129.8	**3,494.2**
Receipts	(421.3)	(132.3)	**(553.6)**	(515.8)	(151.1)	**(666.9)**
Net DEL expenditure	4,284.3	(19.4)	**4,264.9**	2,848.6	(21.3)	**2,827.3**
Net DEL working budget	4,512.0	7.4	**4,519.4**	2,798.9	(16.2)	**2,782.7**
Variance	(227.7)	(26.8)	**(254.5)**	49.7	(5.1)	**44.6**

The main reason for the variance in Capital DEL relates to the underspend in the Help to Buy Programme as demand was slightly lower than expectations. The variance in Resource DEL is due to the non-utilisation of the Land resource impairments budget due to changes to the programme in year.

THE PERFORMANCE REPORT
OTHER INFORMATION

Note 15 to the Financial Statements provides further detail about the Agency's performance with regard to DEL. The Chairman and Chief Executive's report also includes further detail about the Agency's performance during the year in relation to particular programmes and schemes.

The Agency's funding and interventions are targeted at supporting housebuilding in England. There is therefore an inherent risk in achieving the Agency's financial and non-financial KPIs as we operate within a single sector which is vulnerable to economic shocks.

Other Information

Going concern

The Agency's net assets reflect the inclusion of liabilities falling due in future years which, to the extent that they are not met from the Agency's other sources of income, may only be met by future grants or grant in aid from the Agency's sponsoring department, the Ministry of Housing, Communities and Local Government. Such grants may not be issued in advance of need and grant in aid for the year ending 31 March 2019, taking into account the amounts required by the Agency's liabilities falling due in that year, has already been approved by Parliament. There is no reason to believe that MHCLG'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.

Anti-corruption, anti-bribery and modern day slavery and human trafficking

The Agency is committed to the effective management and application of public funds in accordance with Managing Public Money carried out in the spirit of, as well as to the letter of, the law, namely in the public interest, to high ethical standards and achieving value for money. The Agency also endorses the 7 Principles of Public Life – the Nolan Principles – of Selflessness, Integrity, Objectivity, Accountability; Openness; Honesty and Leadership. The Agency supports the Government's key objectives to mitigate the risk of financial crime, including fraud, bribery and corruption. We report progress in meeting the Government's counter-fraud functional standards to MHCLG and the Cabinet Office.

The Agency fully supports the Government's objectives to eradicate modern slavery and human trafficking. Each year we publish an annual statement setting out the steps we have taken to assess risk and mitigate modern slavery across our activities and supply chains.

THE PERFORMANCE REPORT
OTHER INFORMATION – SUSTAINABILITY

Sustainability Report

This report sets out the Agency's sustainability performance in respect of its operational office estate and official business travel. It covers greenhouse gas emissions, energy use, finite resource use (water and paper), waste and recycling, procurement, biodiversity and pollution prevention. The information has been prepared in accordance with the current public sector sustainability reporting guidance produced by HM Treasury.

Sustainable development is an integral aspect of the Agency's wider work and is one of its statutory objectives. In response to the Government's Housing White Paper, published in February 2017, the Agency has taken on an increased role in championing and delivering high quality development through good design. The Agency is a member of MHCLG's Design Quality Steering Group, which aims to ensure that government programmes contribute to an attractive and well designed built environment. The Agency also signed a Memorandum of Understanding with the Design Council on 25 April, which will see both organisations jointly expand and enhance efforts to raise design quality.

Greening Government Commitment

As part of the GGC the Agency has commitment to:

- reduce greenhouse gas emissions by 60% from a 2009-10 baseline
- send less than 10% of waste to landfill and reduce the overall amount of waste we produce
- reduce water consumption.

The Agency is also committed to:

- continuing to buy more sustainable and efficient products and services with the aim of achieving the best long-term, overall value for money for society, and
- reporting transparently on key sustainability issues.

Sustainability Performance Data

Greenhouse Gas (GHG) Emissions		2014/15	2015/16	2016/17	2017/18
Non-financial indicators (tonnes CO_2e)	Total Scope 1 (direct) GHG emissions	469.1	408.2	378.2	386.8
	Total Scope 2 (indirect) GHG emissions	590.7	427.8	377.4	303.3
	Total Scope 3 (official business travel) GHG emissions	472.0	359.4	390.8	352.7
	Total GHG emissions: Scopes 1, 2 and 3	1,532	1,196	1,146	1,043
Related energy consumption (MWh)	Gas use	645	490	467	550
	Electricity use	1,099	855	840	789
Related energy consumption ('000s km)	Business travel distance total	7,392	6,683	6,655	6,572
	Distance per full time equivalent (FTE) staff	8	7	8	8
Related energy consumption (number)	Domestic business flights	117	118	94	95
Financial indicators (£'000)	Energy consumption	141	138	127	132
	Expenditure on accredited offsets	0	0	0	0
	CRC Allowances	102	105	1	74
	Official business travel	1,961	1,747	1,585	1,772

Resources, Waste and Recycling		2014/15	2015/16	2016/17	2017/18
Non-financial indicators (tonnes)	Total waste generated	80.62	30.45	23.03	26.70
	Hazardous waste: landfill	0.05	0.05	0.05	0.03
	Non-hazardous waste: landfill	4.75	0.12	1.72	1.11
	Non-hazardous waste: incineration with energy recovery	0.00	3.34	2.59	2.74
	Non-hazardous waste: recycled	73.00	24.77	17.34	16.49
	Non-hazardous waste: ICT reused/recycled	2.82	2.17	1.33	6.34
Recycling rate (%)		94	88	81	85
Landfill rate (%)		6	1	8	4
Paper consumed (A4 reams equivalent)	Number	8,548	7,526	6,039	5,542
	Reams per FTE staff	9.3	8.3	7.3	7.1
Financial indicators (£'000)	Landfill/incineration	15	8	12	15
	Recycling	22	11	12	9
	Paper procurement	20	14	8	19

Water Consumption		2014/15	2015/16	2016/17	2017/18
Non-financial indicators (m^3)	Water consumption - supplied (none abstracted)	3,614	1,572	1,543	1,553
	Consumption per FTE staff (Homes England owned offices)	7.5	4.7	4.5	4.2
Financial indicators (£'000)	Water supply and sewerage costs	18	18	19	19

THE PERFORMANCE REPORT
OTHER INFORMATION – SUSTAINABILITY (CONTINUED)

Notes on sustainability performance data

Utilities and waste data are presented for the operational offices we directly controlled in each year. From April 2015 onwards these are Gateshead and Warrington. The GGC baseline year referenced in the commentary includes the fourteen offices we were responsible for reporting in 2009/10. The majority of staff have since moved from privately leased offices to shared Government properties which are outside the scope of this report for utilities and waste, except for ad hoc directly commissioned waste collections. Utilities and waste volumes apportioned to non-Government tenants are excluded. Travel and paper use data is for the whole organisation.

Greenhouse gas emissions

We have reduced greenhouse gas emissions by 62% since 2009/10 against the departmental GGC target of 60%. This reduction reflects fewer staff, more staff working in shared government space and energy efficiency improvements in both our Gateshead and Warrington offices. Official business travel distance has also reduced, although the average distance travelled by a full time equivalent (FTE) staff member has increased by 4%.

Waste management

The volume of office waste has increased by 16% against the previous year. This has been driven by ICT waste resulting from server upgrades and the upgrading of desktop units, as we modernise and make more efficient use of our office estate. We have also used this opportunity to recycle and dispose of surplus paperwork and other items through directly commissioned services. In spite of the volume increase, our recycling rate has increased to 85% and we have continued to meet the GGC target of less than 10% of waste going to landfill.

Finite resource consumption: Paper

Paper use continues to decline, with a reduction of 8% in 2017/18 compared to 2016/17, down to an average of 7.1 A4 reams equivalent per FTE staff. Total use of paper has declined by 67% against the GGC baseline year, against a target of 50%. This trend reflects a reduction in the need for staff to print or photocopy, as we increasingly use digital systems for activities such as invoicing, legal instructions and pensions administration. The widespread use of Lync technology for virtual meetings and an internal paper reduction campaign has also helped to drive a cultural change in which printed documents are no longer the norm for most business activities.

Finite resource consumption: Water

Water use has increased by less than 1% between 2016/17 and 2017/18. Overall water use has declined by 88% since the GGC baseline year, reflecting the move of staff out of Agency-controlled offices to shared space, as well as water efficiency measures in the offices we control.

Climate change adaptation

The Agency's two owned offices lie in fluvial (river) flood zone 1, i.e. low risk of flooding and in each case are more than 100 meters from zone 2 (medium risk). Therefore, the current operational estate does not require action to reduce flood risk. We will continue to consider the implications of a changing climate if buildings are upgrade or offices are relocated.

Biodiversity and the natural environment

The Agency's directly controlled operational office estate incorporates very limited green space, although we maintain a green roof on our Gateshead office. The Agency's wider estate and safety, health and environmental (SHE) policy statement commits the Agency to preventing pollution and where possible, avoiding adverse impacts on soil, water, air and biodiversity. In respect of sites that are designated for their wildlife interest, we work with the relevant statutory Agency to achieve appropriate management where practicable.

Sustainable procurement

The Agency's procurement policy follows the Crown Commercial Service principles and the Government's mandatory Buying Standards when procuring goods and services. For example, during the procurement process for our Delivery Partner Panel 3 (DPP3), bidders were asked to confirm whether they had an ISO 14001 certificate or an EU EMAS registration for their environmental management system (EMS). Bidders without ISO accreditation or EU MAS registration were asked to confirm that key EMS components were in place, such as an environmental policy statement, documented procedures and arrangements for reviewing environmental performance.

Environmental risk management on our estate

In 2017/18, the Agency adopted a combined SHE policy. This demonstrates the commitment to maintaining and improving SHE performance and the expectation that others working on behalf of the Agency will do the same. The Agency has developed a full suite of internal procedures covering key areas of environmental risk, providing employees with clear information on how they should manage issues such as environmental permitting, fly-tipping, discharges to water courses and oil storage. Employees that manage the wider estate receive tailored training and support from the in-house SHE team to ensure that environmental site risks are appropriately managed. In 2017/18, training has been extended to operating area teams, to ensure that employees who regularly visit the Agency's sites have a basic understanding of environmental compliance and the steps to be taken in an emergency.

The Performance Report is signed on 10 July 2018.

Sir Edward Lister
Chairman

Nick Walkley
Chief Executive and Accounting Officer

THE ACCOUNTABILITY REPORT

The accountability report is included to meet key accountability requirements to Parliament. It is structured as follows:

Corporate Governance Report

Explains the composition and organisation of the Agency's governance structures and how they support the achievement of the Agency's objectives

Board members' report page 25

Details the members of the Agency's Board, auditors and personnel data issues.

Statement of Accounting Officer's responsibilities page 26

Explains the responsibilities of the Chief Executive as the Agency's Accounting Officer.

Governance Statement page 27

The Accounting Officer'sstatement and conclusions on the system of internal controls and governance framework in place at Agency, and strategic risks the Department is managing.

Remuneration and Staff Report

Provides detail on remuneration and staff that Parliament and other users see as key to accountability.

Remuneration and staff report page 44

Details the remuneration and pension interests of the Agency's board members, key managers and the cost and composition of the Agency's workforce.

Parliamentary Accountability and Audit Report

Brings together the key Parliamentary accountability documents.

Parliamentary Accountability Disclosures page 56

Reports information as required by 'Managing Public Money' such as losses and special payments, fees and charges and remote contingent liabilities. Also reports information required by Public Expenditure Statement Papers as directed by the FReM.

THE ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT AND BOARD MEMBERS' REPORT

Corporate Governance Report

This report explains the composition and organisation of the Agency's governance structures and how they support the achievement of the Agency's objectives. The report comprises individual sections including The Board Members' Report, The Statement of Accounting Officer's Responsibilities, and The Governance Statement.

Board Members' Report

Board membership

Current members of the Board are:

- Stephen Bell
- Richard Blakeway
- Simon Dow
- Simon Dudley
- Keith House
- Teresa O'Neill
- Nick Walkley (Chief Executive Officer).

Former members of the Board who served during the year are:

- Julian Ashby (to 31 January 2018)
- Dr Ann Limb (to 31 October 2017)
- Niall Mills (to 30 June 2017)
- Anthony Preiskel (to 31 October 2017).

Register of members' interests

The register of members' interests is open for public inspection and can be found at www.gov.uk with a search for 'Homes England register of interests'.

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:

	2017/18 £'000	2016/17 £'000
Audit fee	220	210

Personal data related incidents

One personal data related incident was reported to the Information Commissioner (ICO) during the year. The ICO judged that the processes followed and the minor nature of the loss meant that no on-going issues or measures were required. The incident involved the accidental sharing of the registered company email addresses of 500 Social Housing Providers, but no other personal data. Following this incident business processes have now been changed to prevent recurrence.

THE ACCOUNTABILITY REPORT
STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Statement of Accounting Officer's Responsibilities

Under the *Housing and Regeneration Act 2008*, the Secretary of State has directed the Homes & Communities Agency (the Agency) 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 Agency 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 Agency. 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 the Agency'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.

So far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware. The Accounting Officer has taken all steps he ought to have taken to make himself aware of any relevant audit information and to establish that auditors are aware of that information.

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

THE ACCOUNTABILITY REPORT
GOVERNANCE STATEMENT

Introduction

My Governance Statement provides an overview of the operation of the Homes & Communities Agency, comprising both Homes England and the Agency's regulatory arm, The Regulator of Social Housing (the Regulator). It explains significant change over the past year and moving forward, the stewardship of the organisation, how the Agency has responded to the risks and challenges it has faced over the year and looks ahead to those it faces going forward.

The Agency has faced a number of key challenges over the past 12 months including:

- Growing the Agency and developing the new organisation, Homes England
- Securing a comprehensive settlement at Autumn Budget to support the Government's housing ambition
- Preparing for the separation of the regulatory function to a stand-alone body
- A growing balance sheet focussed on a single sector susceptible to economic shocks
- Improving the effectiveness and efficiency of the Help to Buy programme
- Working towards implementation of the IFRS 9 Financial Instruments accounting standard
- Responding to the tragedy that unfolded at Grenfell Tower in June 2017.

The delivery arm of the Agency was rebranded as Homes England in January 2018 with a strengthened remit to:

- intervene more actively in the land market
- act as the Government's housing delivery agent
- support more active market engagement with existing partners, new entrants, innovators and SMEs.

This strengthened remit was supported by a comprehensive funding package of £15.3bn, announced at Autumn Budget 2017, with the aim of increasing the pace of home delivery, encouraging more competition in the market and ensuring that we are able to play a major role in delivering the Government's housing and growth agenda.

To ensure the organisation is able to effectively deliver its new remit, I have put in place a Development Programme to transform Homes England into a new dynamic entity that is ambitious, commercially focused and fit for purpose. Ensuring both now and in the future it is capable of delivering the Government's long-term housing vision. The overall aim of the Development Programme is to build capability within the organisation to deliver and play a more proactive role in the housing market, whilst bringing about significant cultural change to reflect and harness our new values.

I have introduced changes to my Executive Team, the composition of which is set out later in this Governance Statement, to support delivery of the Development Programme and our existing organisational activity. I have also initiated a programme of recruitment to bring in new skills, with a focus so far on addressing staff shortages in business critical functions.

Close partnership work has also begun with MHCLG and a number of other Government departments on setting our new mission, objectives and strategic direction. This will in turn define new and effective governance arrangements that will allow us to better evidence progress and provide clear accountability for both Homes England and our stakeholders. While new arrangements are being implemented, the Agency operates under the structure and approach to governance as set out in this Governance Statement.

In 2016, MHCLG announced plans to establish the Regulator of Social Housing as a standalone body. The Legislative Reform Order has been approved by Parliament and I anticipate that the Regulator will become standalone by late 2018.

The Agency's balance sheet continues to grow and is £11.17bn at 31st March 2018, £8.31bn of which is Help to Buy equity based loans. The vast majority of the balance sheet is focused in a single sector and susceptible to economic shocks. It is an immature portfolio of financial investments which is usually outside the risk appetite of other market investors and lenders. A downturn in house price or other economic conditions could place the balance sheet under considerable pressure.

THE ACCOUNTABILITY REPORT
GOVERNANCE STATEMENT (CONTINUED)

There has been rapid growth in the balance sheet, an increase of 315% in net assets since 2013-14 from £2.7 billion to £11.2 billion. This trend is expected to continue and the net assets are expected to exceed £20 billion by 2020-21. There is a risk posed by the lag between the growth in the Agency's net assets and responsibilities and the growth in capability, resources and systems within the Agency. As part of the Homes England Development Programme, I am leading work on a new Operating Model and have started the process of recruiting at pace to ensure the growth in net assets and the funding and interventions we deliver are underpinned by a fit for purpose Operating Model.

Help to Buy is the Agency's largest programme with its consequent balance sheet impact. This has put a premium on expenditure forecasting, rigorous approach to administration of resulting loans, responsibility to treat our borrowers fairly and having due regard for the efficient administration of the tax payer investment in these homes. Given this, and the scale and critical importance of the programme to supporting wider housing delivery, I commissioned, in partnership with the Director-General, Housing Planning at MHCLG, a full "end-to-end" review of all Help to Buy programme policies and procedures. The review underlined the basic soundness of the Agency's approach and gave clear direction to where additional support was required to further strengthen our programme delivery. To oversee this work, I have appointed a new General Manager for the Help to Buy Programme with a wealth of experience in retail mortgage lending and administration from HSBC, TSB and most recently Capita.

Grenfell Tower was a tragedy of personal, local and national significance and I have ensured that the Agency is fully committed to supporting the Government and local authorities both in the immediate aftermath and the longer term. This has encompassed a range of activities across the Agency as set out in the Performance Report, including identification of rehousing options for those immediately affected; identification of other high rise blocks with unsafe ACM cladding and working with local authorities to consider options for replacement; consideration of the extent to which properties constructed with the same ACM cladding may have been acquired with the support of the Help to Buy programme; and on-going assurance by the Regulator of Social Housing of board oversight of health and safety compliance. The Regulator continues to give consideration to the implications for the sector, providers and the regulatory landscape in advance of the conclusion of the on-going Public Inquiry and the forthcoming Green Paper on Social Housing and I will ensure that this continues until its separation as a distinct legal entity later this year.

Following the announcement of a comprehensive funding package of £15.3bn at Autumn Budget 2017, I expect a further revision to our targets to 2021. Until these have formally been agreed our targets remain as set out in the Performance Report (page 6).

Governance framework

The Agency is an arm's length body that is sponsored by the MHCLG. Our statutory objectives, as defined by the Housing and Regeneration Act 2008, are to:

- improve the supply and quality of housing
- secure the regeneration or development of land or infrastructure
- support in other ways the creation, regeneration or development of communities or their continued wellbeing
- contribute to the achievement of sustainable development and good design, with a view to meeting the needs of people
- facilitate the exercise through its Regulation Committee of the functions conferred on the Agency as the Regulator of Social Housing.

To ensure the delivery of these statutory objectives, a Framework Document is agreed between the Agency and MHCLG that formally governs the relationship between both organisations, the manner in which they will interact with each other, the parameters within which the Agency operates and the obligations it is expected to comply with. Specifically, the Framework Document:

- Recognises the functional and day-to-day operational independence of the Agency
- Sets out the governance and decision making arrangements of the Agency
- Sets out the financial and management processes that govern the operation of the Agency.

The Framework Document specifically lays down requirements and makes provision for The Regulator as enacted through the Regulation Committee, providing governance to ensure that the function of the Regulator is exercised independently of Government, subject to certain specific powers of direction held by the Secretary of State.

To reflect the new mission and objectives of Homes England, a new Framework Document will be adopted to align with the emerging mission and objectives for the organisation. A separate Framework Document will be progressed to govern the requirements of the Regulator once it formally operates as a distinct corporate entity.

Role and responsibility of the Accounting Officer

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also ensure that the Agency operates to a high standard of probity and uses its resources efficiently, economically and effectively, in accordance with the responsibilities assigned by the Principal Accounting Officer of MHCLG and as defined in *Managing Public Money*.

I have been responsible for ensuring:

- Regularity and propriety
- Affordability and sustainability
- Value for money
- Accurate accounting of the organisation's financial position and transactions.

My Accounting Officer's responsibility covers all aspects of the Agency's operations with a small number of exceptions, where the Agency is responsible for programme management, but ultimate responsibility for budgets rests with another body.

These programmes/assets are:

- Affordable Housing Guarantees and the Private Rental Sector, all on behalf of MHCLG
- Care and Support Specialised Housing, Homelessness Change 2015-18 and Platform for Life on behalf of the Department of Health and Social Care
- BEIS Innovation and Technology Assets, on behalf of the Department for Business, Energy & Industrial Strategy
- Joint delivery of the Housing Infrastructure Fund with MHCLG.

In London, the Mayor remains responsible for the majority of housing and regeneration activities, though has no responsibilities with respect to the regulation of social housing providers. In a number of areas the Mayor has delegated his powers to allow the Agency to support delivery of the GLA's housing investment programmes and affordable home ownership programmes, within London.

THE ACCOUNTABILITY REPORT
GOVERNANCE STATEMENT (CONTINUED)

Role and responsibility of the Regulator of Social Housing

The regulatory responsibilities of the Agency in its role as The Regulator of Social Housing are discharged independently to other functions of the Homes & Communities Agency through the Regulation Committee, established through the Localism Act 2011. This function is undertaken within the parameters of legislation and the regulatory framework.

The key activities of the Regulator are to:

- Maintain a register of providers of social housing
- Perform its functions with a view to achieving the legislative economic and consumer regulation objectives
- Set economic standards and seek assurance that these are being met and take appropriate action when not – with the principal focus being on financial viability and sound governance of registered providers
- Set standards in relation to consumer regulation and take appropriate action when not met, subject to the serious detriment test.

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

As Accounting Officer for the Agency I recognise the importance of controls being in place to ensure that the decisions of the Regulation Committee continue to be taken independently of the Agency's Investment function. Consequently, all of the Agency's Chief Officers and Executive Directors have provided assurance to me as Accounting Officer, that they recognise this independence requirement and confirm that there has not been any breach of this. Some functions within the Agency provide services to both the Investment and Regulation Directorates including Legal Services, Human Resources, Finance, Digital Services and Internal Audit. However, colleagues within these functions do not take direct decisions related to either investment or regulation.

Delegations

A comprehensive scheme of internal delegations is in place that enables the day-to-day management of the Agency to be shared with the Chief Officers and Executive Directors of the Agency and their staff. The scheme of delegations is kept under review throughout the year, and key amendments are approved by the Board, the Accounting Officer, and the Regulation Committee in respect of our regulation functions.

There are currently no delegated powers from MHCLG or HM Treasury in relation to decision making for distressed investments. In order to be more responsive and effective at dealing with distressed investments, we are working collaboratively with the Department to review this position.

Relationship with MHCLG

The Agency's sponsorship function is located in a team within MHCLG's Finance, Information, Records, Shared Services and Technology Division. Significant issues are discussed at the Housing Supply and Ownership Board, which is chaired by the Director General for Housing and Planning, MHCLG and attended by senior officers from both the Agency and MHCLG.

During the year, the Agency and MHCLG have worked closely together to continue to support the Government's commitment to housing and economic growth. As Accounting Officer I have regularly met with the MHCLG Accounting Officer, the Housing Minister and the Secretary of State and there remains a robust working relationship fostered across both organisations.

There is, however, recognition of the need for improvement to support the enhanced role and remit of the Agency. Both MHCLG and the Agency commissioned a joint relationship review and, based on the findings, a series of actions will be implemented through the Development Programme that will collectively seek to improve the effectiveness of this relationship from its current baseline.

Role and responsibility of the Board

The Agency is governed by the Board and members have a collective corporate responsibility for ensuring that (i) the Agency discharges its functions effectively and efficiently in accordance with the Framework Document; (ii) fulfils the overall aims, objectives and the priorities approved by the Secretary of State in the Agency's Corporate Plan; (iii) follows all guidance and directions issued by the Secretary of State and HM Treasury; and (iv) ensures that the Agency complies with all statutory or administrative requirements relating to the use of public funds.

Members of the Board are also responsible for:

- Monitoring and reviewing the risk management and internal control strategy
- Promoting equality and diversity throughout the Agency
- Ensuring that a whistleblowing policy is in place
- Promoting and supporting the Agency's zero tolerance approach to bribery and corruption
- Ensuring that the Agency operates sound environmental policies.

With specific regard to regulation, the role of the Board is to:

- Provide resources sufficient to enable the Regulation Committee to carry out its regulation functions on behalf of the Agency's Board
- Ensure a process is in place for receiving regular updates from the Regulation Committee on the regulation function which reflects its accountability for exercising the regulatory function through the Regulation Committee.

Board and committee composition

The Board is composed of Non-Executive members and myself as Chief Executive and Accounting Officer. The Board is led by the Chair, Sir Edward Lister who joined the Board in June 2016. Membership of the Board has changed throughout the year as is confirmed in the Board and Committee Attendance section later in the report. A full list of current Board members and members who served throughout the year is detailed in our Board Members report on page 25.

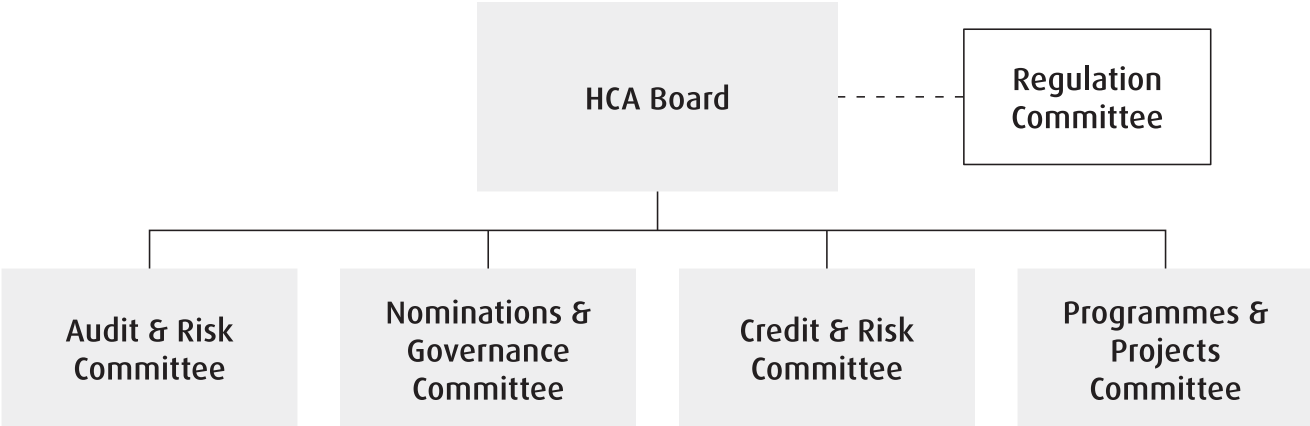
The interim Chair of the Regulation Committee, Simon Dow, is a non-Executive Board member and advises the Board on key decisions taken by the committee each month. This requirement will cease once the Regulator of Social Housing becomes an independent organisation.

The Board, in accordance with good practices of governance, has established a number of committees to which it delegates appropriate responsibilities.

THE ACCOUNTABILITY REPORT

GOVERNANCE STATEMENT (CONTINUED)

This is reflected in the structure chart below.



Further details of the work of the board sub-committees can be found at:
https://www.gov.uk/government/organisations/homes-england/about/our-governance

Programmes & Projects Committee (PPC)

This committee oversees the delivery of the Agency's programmes and projects for investments, the land programmes and affordable home ownership programmes, as well as other corporate issues. Members of the committee as at 31 March 2018 are:

- Sir Edward Lister (Chair)
- Richard Blakeway
- Keith House
- Simon Dudley
- Nick Walkley (Chief Executive Officer or nominated deputy)
- Chantal Geall (Chief Risk Officer or nominated deputy).

Credit & Risk Committee (CRC)

This committee monitors the Agency's risk profile in respect of its portfolio of recoverable investments, considers guarantees on behalf of MHCLG and provides oversight and advice to the Board on current financial risk exposures and the future risk strategy for the Agency's recoverable investment programmes. Members of the committee as at 31 March 2018 are:

- Simon Dudley (Chair)
- Richard Blakeway
- Sir Edward Lister
- Chantal Geall (Chief Risk Officer or nominated deputy)
- Nick Walkley (Chief Executive Officer or nominated deputy).

Audit & Risk Committee (ARC)

This committee supports the Accounting Officer, Board and the Regulation Committee in their responsibilities for risk control, governance, financial stewardship and financial and statutory reporting. It reviews the comprehensiveness of assurance and reporting processes, consistent with the Accounting Officer's assurance needs. Members of the committee as at 31 March 2018 are:

- Stephen Bell (Chair)
- Simon Dow
- Teresa O'Neill.

Elizabeth Butler of the Regulation Committee also attends the meeting as an observer. Meetings are also attended by representatives of the NAO and MHCLG.

The Audit and Risk Committee carried out its annual self-assessment in June and the committee has been working with officers to improve the format of risk reporting within the Agency. In particular the investment that has been made in the risk team under the direction of the Chief Risk Officer will focus on improving the risk arrangements across the Agency.

Nominations & Governance Committee (NGC)

This committee is responsible for advising on overall pay and rewards, the remuneration, contractual and pension arrangements of staff at Director level and above and setting and agreeing the annual performance objectives, remuneration terms and other terms and conditions of employment of the Chief Executive and other Chief Officers, subject to MHCLG and HM Treasury spending team approval. The committee also considers and advises the Board on wider staffing issues such as recruitment and retention and terms and conditions of service. It also scrutinises governance arrangements within the Agency at least once a year. Members of the committee as at 31 March are:

- Sir Edward Lister
- Stephen Bell
- Simon Dudley.

Regulation Nominations and Remuneration Sub-Committee (RNRSC)

In October 2017 the Board established a Regulation Nominations and Remuneration Committee to make remuneration decisions for the Regulation Directorate, within the overall Regulation budget. Members of the committee as at 31 March 2018 are:

- Simon Dow
- Nick Walkley (Chief Executive)
- Fiona McGregor (Director of Regulation).

Regulation Committee (RC)

This committee exercises the Agency's responsibilities as the Regulator of Social Housing in England. Members of the committee as at 31 March 2018 are:

- Simon Dow (Interim Chair)
- Elizabeth Butler
- Ceri Richards
- Richard Moriarty.

THE ACCOUNTABILITY REPORT
GOVERNANCE STATEMENT (CONTINUED)

Members are appointed by the Secretary of State and the committee operates within its terms of reference, code of conduct and appeal procedures. A protocol has been agreed setting out how the statutory functions and duties of the Regulation Committee will be exercised within the Agency.

The committee has ensured that operational regulation is focused on its statutory objectives ensuring providers are financially viable and well governed as well as delivering value for money, thereby retaining the confidence of key stakeholders, particularly lenders and the capital markets.

In a rapidly changing operating environment and within available resources, the committee is determined to (i) ensure that providers are financially viable and well governed, as well as delivering value for money; and (ii) helping to ensure that the social housing sector can continue to attract necessary finance to fulfil their objectives, including to develop new supply, through ensuring the good governance and viability of the sector.

The details of all current Regulatory Judgements and Notices are available at:
https://www.gov.uk/government/publications/regulatory-judgements-and-regulatory-notices.

Publications explaining how the Regulator undertakes its role are also published at:
https://www.gov.uk/topic/housing/social-housing-regulation-england.

The Equality & Diversity Advisory Group

This advisory group comprises independent members and one Board member. The advisory group serves two roles:

- Support the development of the Agency's strategy for equality and diversity by providing a sounding board for ideas and giving independent advice and assistance
- Act as an independent voice tasked with maintaining the Agency's focus on meeting its statutory equality duties.

Board work and performance

The Board is presented with detailed performance information at each meeting. The information provided includes financial information such as budgets, expenditure and receipts, actuals, forecasts and variances. Non-financial information includes progress towards the achievement of output targets agreed with MHCLG, including housing starts and housing capacity of public land sold. The Agency's housing starts and completions are published as Official Statistics and as such are subject to robust data and disclosure requirements.

The Board review and hold management to account for the Agency's performance through the in-year performance report. Whilst the performance report is an effective tool in managing in-year performance the Agency is developing a strategic five year plan to forecast and manage performance over a longer timeframe than the current year. During the year an enhanced current and future data driven model was developed for Help to Buy and this allowed for more accurate forecasting on this demand led scheme. The model will continue to be refined over the coming year. The performance report also gave Board early sight of issues with potential underspends within the Affordable Homes programme and high demand within the Home Building – Short Term Fund. Both risks were managed and mitigated during the year.

The Board has also considered a number of key projects and developments over the year. Highlights include:

- Approval of the full business case for Northstowe new town in Cambridgeshire, which is projected to deliver 10,000 homes
- Acquisition of significant land holdings at Burgess Hill in West Sussex to deliver 3,000 homes.

The Board has also made site visits to meet key stakeholders and gain an understanding of the different delivery challenges facing the Agency across the country. In 2017/18 the Board visited:

- York Central in May 2017
- Ebbsfleet in July 2017
- Northstowe and Waterbeach in September 2017
- Bristol Temple Meads in February 2018
- Stratford, East London in March 2018.

Finally the Board has overseen the Homes England Development Programme, working to determine the organisation's new culture and values and providing input into its proposed new objectives, activities and governance.

The Board has not appointed a Lead Non-Executive Board Member, as it 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 technical point, the Agency has complied in all material aspects with the *'Corporate governance in central government departments: Code of Good Practice'* as it applies to arm's length bodies.

The Board carried out a self-assessment exercise, which welcomed an increase in strategic focus and an increasingly business driven approach over the past year. Governance challenges included balancing strategy and risk appetite, and increasing the diversity and skills mix on the Board. However, members had no significant reservations on the overall effectiveness of the Board.

Board and committee attendance

The table below sets out the attendance at Board and committees for the year, followed in brackets by the number of times each the Board or committee met during that member's tenure. This includes those members who have left or been appointed to the Board or its committees through 2017/18, with details of their date of appointment or departure detailed in the footnotes.

Member	Board	PPC	CRC	ARC	NGC
Edward Lister	9 (9)	13 (13)	3 (4)	N/A	3 (3)
Anthony Preiskel[1]	4 (4)	8 (8)	3 (3)	4 (4)	N/A
Niall Mills[2]	0 (2)	1 (3)	0 (2)	0 (2)	N/A
Keith House	7 (9)	11 (13)	N/A	N/A	N/A
Ann Limb[3]	4 (5)	N/A	N/A	N/A	2 (2)
Julian Ashby[4]	6 (6)	N/A	N/A	5 (5)	2 (2)
Simon Dudley[5]	9 (9)	13 (13)	4 (4)	1 (1)	1 (1)
Richard Blakeway[5]	9 (9)	12 (13)	3 (4)	1 (1)	N/A
Stephen Bell	9 (9)	N/A	N/A	6 (6)	3 (3)
Teresa O'Neill	7 (9)	N/A	N/A	4 (6)	N/A
Simon Dow[6]	1 (1)	N/A	N/A	N/A	N/A
Nick Walkley	8 (9)	9 (13)	3 (4)	N/A	N/A

[1] Anthony Preiskel left the Board on 16 October 2017.
[2] Niall Mills left the Board on 30 June 2017.
[3] Ann Limb left the Board on 31 October 2017.
[4] Julian Ashby left the Board on 18 January 2018, having resigned as Regulation Committee Chair.
[5] Simon Dudley and Richard Blakeway were both appointed to Audit and Risk Committee for the meeting in January, to assure a quorum.
[6] Simon Dow joined the Board on 1 March 2018, having been appointed Regulation Interim Chair.

THE ACCOUNTABILITY REPORT
GOVERNANCE STATEMENT (CONTINUED)

Member	Regulation	RNRSC
Julian Ashby[1]	8 (8)	1 (1)
Ceri Richards	10 (11)	N/A
Simon Dow[2]	11 (11)	1 (1)
Sarah Wall[3]	2 (4)	N/A
Richard Moriarty	10 (11)	N/A
Elizabeth Butler[4]	7 (7)	N/A

[1] Julian Ashby was Regulation Committee Chair until 18 January 2018.
[2] Simon Dow was appointed Regulation Committee Interim Chair on 1 March 2018.
[3] Sarah Wall left Regulation Committee on 31 July 2017.
[4] Elizabeth Butler joined Regulation Committee on 1 September 2017.

Executive decision making groups

The Directors Group is the principal group for the Agency, below Board level, for implementing strategies, operational policies and procedures. In my role as Chief Executive and Accounting Officer, I am supported by an Executive Team that comprises the following:

- Tom Walker, Deputy Chief Executive
- Amy Casterton, Chief of Staff
- Bayo Dosunmu, Executive Director - Homes England Development
- Richard Ennis, Executive Director - Finance & Corporate Services
- Chantal Geall, Chief Risk Officer
- Stephen Kinsella, Executive Director - Land
- Fiona MacGregor, Executive Director - Regulator of Social Housing
- Gordon More, Chief Investment Officer.

Directors Group works to ensure that the deployment of resources is sufficient across the Agency to maintain delivery and that the Agency's corporate services provide effective service support to land, investment and regulatory functions. It will input into the development of future corporate plans and monitor their delivery.

Directors Group is supported by a number of standing groups/boards, which monitor the Agency's programmes, help provide strategic direction or deliver standalone projects.

The Regulation Executive consists of the Executive Director of Regulation and the Deputy Directors (Regulation). It is accountable for the performance of the directorate at an operational level and works to ensure that the deployment of resources is sufficient to maintain delivery of the Regulator's fundamental objectives. Working with, and reporting to, the Regulation Committee and via the Director of Regulation to the Accounting Officer, it is the principal strategy setting group for the directorate, as well as the senior structure for setting operational policies and procedures. Regulation Executive is supported by the Regulation Senior Leadership Team.

Risk management and internal control

The Executive Team is responsible for managing risk in the organisation overseen by the Agency's Board and specialist Audit & Risk and Credit & Risk Committees. The Governance, Resources and Risk Committee provide risk oversight for the Executive team.

The Agency operates a number of interventions all of which are targeted at supporting housebuilding in England. In particular the organisation's lending and land businesses are principally focused on higher-risk borrowers and/or areas of market failure. As a result the Agency is carrying, on behalf of the Government, a large credit and land portfolio confined to a single sector and as such this is vulnerable to economic shocks. In addition to this, the Agency is managing the Help to Buy portfolio. This is a portfolio of equity investments where our exposure is secured by second legal charges which sit behind the security provided to the respective mortgage providers. This means that we have an elevated level of market risk compared to a typical portfolio of residential mortgages.

Our principal risks

Our Principal Risks categories are defined in our Risk Management Framework and are shown below.

Risk Category	Definition
Strategic	Risks that impinge on the effective and timely delivery of the Agency's strategic objectives
Land Asset	The risk of non-recovery of land value, the lost opportunity to reinvest asset receipts, and the risk of not achieving the optimal financial and housing outputs from a land asset
Credit	The risk of financial loss due to the failure of a borrower or the special purpose vehicle (SPV) to meet its obligations in accordance with the agreed terms
Operational	The risk to achieving objectives as a result of inadequate or failed internal processes, people and systems
Political & Economic	The risk that changes in the political and/or macro-economic environment might impact the achievement of business objectives
Regulatory, Compliance & Legal	The risk of a breach of laws, regulations, and/or codes of practice, or changes in regulation and/or law which might adversely impact business
Performance & Programme Delivery	The risk that annual financial and operating results may not meet management and stakeholder expectations
Reputational & conduct risk	Risk arising from an adverse perception of the Agency and its activities by our partners, stakeholders and the general public

Within these Risk Categories there are a number of specific risks to which we have greater exposure than other organisations. These risks result from the nature of our strategic objectives, which require us to take exposure to areas of the residential development market which are not yet ready to be supported by more traditional sources of finance and development expertise.

Corporate Credit Risk: The nature of our objectives means that we incur substantial credit exposure to sectors of the house builder market which are unable to obtain finance from other commercial sources. Hence they are an intrinsically higher credit risk than a similar portfolio of exposures in a normal commercial bank. This is mitigated by a dedicated credit risk team whose purpose is to ensure that the risks have been appropriately identified and controlled within any proposed lend, as well as ensuring that they are managed appropriately on an ongoing basis.

THE ACCOUNTABILITY REPORT
GOVERNANCE STATEMENT (CONTINUED)

Concentration Risk: Our lending activities are focussed on a single geography, England, and a single economic sector, Residential Development. We therefore have far higher concentration risks when compared to a balanced lending portfolio within a commercial lending organisation. Given our objectives within the residential development sector this is an unavoidable consequence of our lending activity and one that we are required to monitor closely. This is mitigated by us spreading our exposure across a range of micro economies and areas within England and articulating the level of risk we are comfortable incurring within our risk appetite statements. We further mitigate this by developing clear contingency plans to trigger proactive portfolio management when required in the event of a market downturn.

Equity Market Risk: The Help to Buy scheme results in a significant portfolio of equity exposure for the organisation. This is a portfolio where our security is in the form of 2nd charges which rank behind the security provided to the mortgage provider and our repayment is a percentage of the sales value of the underlying property. The inherent value of this security is therefore impacted by changes in the market value of the underlying properties – this is the nature of the scheme. The Agency's role is to collect fees it is entitled to and the Agency has a system of controls in place to ensure these fees and redemption proceeds are collected.

Land Management Risk: Accomplishing our strategic objectives requires us to have considerable exposure to difficult and challenging land sites. Our sites typically require higher levels of remediation and preparation to make them commercially viable. This results in the organisation having a higher level of land management risk compared to a normal commercial housebuilder. This is mitigated by having a robust and hands-on land management strategy which drills down to an individual site level to ensure that appropriate actions are taken for each exposure.

Risk Monitoring and Escalation

The organisation's approach to risk monitoring and escalation is embedded in a number of specific policies including the Risk Management Framework, Information Security Policy, Fraud Response Plan and Anti Money Laundering Policy, as well as being embedded in day to day risk management activities. One of the key management tools used to ensure appropriate escalation is a Risk and Control Assessment Tool (RACA) which provides the organisation with an industry standard method of assessing, controlling and monitoring risks within the business.

Risk and assurance governance

The Agency is embedding a 'three lines of defence' model to manage and assess risk within the organisation, ensuring clear roles and accountabilities for risk management. This model is in the process of being embedded across the organisation and the diagram below outlines how the model operates.

The Board

Credit Risk Committee/ Audit and Risk Committee

Executive Group

1st Line – Management

Programme delivery and corporate staff own and manage risk within the business

- Identify, assess and own the risks which exist in the business
- Ensure appropriate controls are in place to mitigate risk
- Produce operational policies and procedures, and ensure compliance
- Identify and record key risks using a Risk and Control Assessment tool
- Promote a risk culture that supports balanced risks decisions.

2nd Line – Oversight, Control and Assurance

The Risk Directorate develops and owns the risk management frameworks, provides 2nd line credit approval, and assures 1st line risk controls

- Establish policy, process and tool kits for risk management
- Provide guidance and work with 1st line to embed feedback loops in control processes
- Advise on structuring of transactions and risk management
- Analyse and assess risk both at a transactional and portfolio level to report on overarching risk positions
- Generate risk awareness and provide training in risk-related activities to support this.

3rd Line – Internal Audit

Internal Audit is an independent, objective assurance and consulting activity

- Enhance and protect organisational value by providing risk-based and objective assurance, advice and insight
- Performs investigations, management consultancy and independent reviews in areas such as fraud, risk management and security or any other areas determined by the Accounting Officer or the Audit and Risk Committee
- Advises on risks and controls in developing systems.

THE ACCOUNTABILITY REPORT
GOVERNANCE STATEMENT (CONTINUED)

First line of defence – management

The business manages risk and provides assurance to the Accounting Officer through compliance with the organisation's established policies, procedures and governance processes. This includes the provision of Management Information to the Accounting Officer on Key Performance Indicators. Responsible directors also provide an annual Management Assurance Statement to the Accounting Officer which confirms that the areas of the business for which they are accountable have complied with the Agency's internal policies, the framework agreement with MHCLG and the Commissioning Template provided by MHCLG for our delegated programmes.

Second line of defence – oversight, control and assurance

The Risk Directorate has developed a Business Partner approach to the first line business complemented by specialist Financial Crime Compliance and Operational Risk teams. As the Agency continues to grow, the strength, depth and breadth of the organisation's risk management and culture will develop, including new risk management approaches for its lending, grant, homes ownership and land businesses. Support will also be provided on major projects or initiatives and emerging strategy including working with first line teams to develop policies and procedures which support the Agency's objectives and meet its risk appetite.

The Risk Management Framework sets out the Agency's strategy and approach to risk management and assurance. The framework is owned by the Chief Risk Officer and approved by the Agency's Board. The framework provides a disciplined and structured process to enable the identification, assessment and management of risks and opportunities facing the organisation and acts as an umbrella document bringing together the various strands of risk management within the organisation.

The framework sets out the strategy and methodology used in the organisation and is supported by policies which provide detailed risk management processes including the use of Key Risk Indicators. Central to the framework is the Agency's Risk Appetite Statement which establishes the quantum and type of risk that the organisation is willing to take in order to meet its objectives. The framework identifies how decision makers at every level across the organisation can understand and operate within the agreed risk appetite.

Third line of defence – internal audit

The Agency has an Internal Audit team which provides independent assurance across all of the Agency's governance, risk and control arrangements, and operates in accordance with the Public Sector Internal Audit Standards. Although the Internal Audit team is currently positioned within the Homes England Development Programme directorate, the independence of the team is facilitated through the Head of Internal Audit's direct operational reporting line to the Accounting Officer.

The outcomes of these reports, alongside those from other lines of defence, are captured in the Internal Audit section below.

Information security risk

The Senior Information Risk Owner has confirmed that the profile of information risk compliance with HM Government's Security Policy Framework and other regulatory requirements continues to improve. No incidents for lost/stolen hardware were reportable to MHCLG.

Improvements previously made include a zero tolerance approach taken towards failure to complete Information Security training, with the use of Civil Service Learning and NETConsent which help ensure staff comply with Information Security Policies and Procedures. The project delivery framework now implemented ensures risks have been identified and pragmatic security controls are in place ahead of system delivery and two new IT systems have been released in this manner in the past year.

To ensure system security and provide assurance to Board Members the Agency has introduced monthly vulnerability scans and regular maintenance windows.

System of internal control

The system of internal control is designed to manage risk to an acceptable level rather than eliminate all risk of failure in order 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 on-going 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 Agency for the year.

Significant control issues

Significant control issues can be identified through Internal Audit formal reviews, in year observations, investigations, risk events/reported significant 'near misses' or identified by management through completion of their annual Management Assurance Statements. Significant issues arising through formal Internal Audit reviews are captured in the Internal Audit section below.

Investigations

As Accounting Officer I am made aware of all incidents and investigations as and when they occur and a formal report in relation to Fraud and Error is prepared by the Head of Internal Audit and submitted to the Audit and Risk Committee on an annual basis. In the assurance year 2017-18 no losses due to fraud have been identified.

Risk events/near misses

Personal data related incident – as disclosed in the Board Member's report on page 25, one personal data related incident was reported to the Information Commissioner (ICO) during the year. The ICO judged that the processes followed and the minor nature of the loss meant that no on-going issues or measures were required. The incident involved the accidental sharing of the registered company email addresses of 500 Social Housing Providers, but no other personal data. Following this incident business processes have now been changed to prevent recurrence.

There were no other Risk Events or Near Misses which were considered material to our operations, or which were required to be externally reported, during the course of the financial year.

THE ACCOUNTABILITY REPORT
GOVERNANCE STATEMENT (CONTINUED)

Whistleblowing

In the past year, the Agency's Whistleblowing Policy has been reviewed, enhanced and strengthened and is the core component of a strong open and transparent culture within the organisation. The policy includes contact details for Agency staff, the nominated Board Champion and external bodies (such as the NAO) who can be contacted by an employee to make a disclosure under the whistleblowing policy. As staff are encouraged to raise matters informally to their line managers first (if they wish), the lack of more formal reports is not considered to be a weakness of the policy.

GDPR readiness

The Agency established a project group to oversee the implementation of the General Data Protection Regulation compliance prior to the 25 May 2018 deadline. This project developed an action plan to identify what personal data we hold and the lawful grounds of processing the data. We carried out an extensive training programme for staff on the principles of data protection set out in our revised Data Protection Policy and procedures covering data security breach and data subject rights. The Agency has also established a suite of privacy notices to ensure individuals are informed of how their data is processed, how it will be used and stored and explaining the new individual rights. A Data Protection Officer (DPO) has been appointed to take oversight of the implications of the regulation and the new Data Protection Act. The DPO will continue to review and ensure compliance throughout the organisation.

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, and the assurances provided by the Chief Officers and Executive Directors of the Agency who collectively and individually have responsibility for the development and maintenance of the internal control framework through their Management.

I have also received feedback from the National Audit Office acting as external auditors in their management letter and other reports.

Both Homes England and the NAO have noted the risk exposure to the business arising from the weighting of transactions very close to the year end, particularly for self-certification schemes such as the affordable homes programme. Further work will be taking place to evaluate controls in this area and the actions Homes England could take to phase activity to better match the needs of the parties being funded.

The system of internal control is subject to on-going review, and this process is coordinated and managed through the Audit and Risk Committee, 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 Public Sector Internal Audit Standards and other work to provide assurance on risk management, governance and the system of internal control. Internal Audit have a risk based approach to the preparation of their plan of work for the year, utilising the Agency's own risk information, other sources of assurance, results of previous work, data in relation to future activity, as well as detailed consultation with the Accounting Officer, Chief Officers and Executive Directors, Audit and Risk Committee members and key stakeholders such as MHCLG and the National Audit Office. The programme of work is kept under continual review and is revised in-year as appropriate to ensure that this remains aligned with the Agency's risk profile and assurance requirements. The outcome of Internal Audit work is regularly reported to me, the Audit and Risk Committee, the National Audit Office and MHCLG. There is a rigorous process in place to follow up the implementation of actions agreed as part of their work.

Internal Audit

The Internal Audit team have issued 34 reports to date, relating to the work plan period April 2017 to March 2018, on which they have expressed an opinion. These have provided an overall Moderate opinion for the year.

Internal Audit has highlighted within the reports issued to date, areas within the overall control framework which are considered insufficient to manage the associated risks. The issues are summarised below:

- Maintaining appropriate governance, oversight and assurance in relation to the Agency's key equity loan product, Help to Buy
- Ensuring robust operational practices operate through third party partners and service providers
- Ensuring the appropriate security of information
- Ensuring that we have adequate and effective delegations that enable us to effectively manage our risks through the lifecycle of our activities
- Ensuring that there are appropriate arrangements within our organisation that ensures that we continue to comply with key regulatory requirements
- Ensuring that we are effectively supported by digital solutions and that these are used effectively to ensure that we have accurate and complete data to effectively invest, manage and recover public money in the pursuit of our housing ambitions
- Ensuring that we have effective arrangements for the stewardship of public land assets through to their effective disposal.

Conclusion

Based on the content of this report, assurances received from senior management and the reports from internal and external auditors, the Accounting Officer is satisfied that the appropriate governance arrangements were in place during 2017-18.

Nick Walkley
Accounting Officer
Homes & Communities Agency
10 July 2018

THE ACCOUNTABILITY REPORT
REMUNERATION AND STAFF REPORT

Constitution of the Nominations and Governance Committee

The Nominations and Governance Committee consists of the following Agency Board members:

- Sir Edward Lister (Chairman)
- Stephen Bell
- Simon Dudley.

Functions and responsibilities

The Nominations and Governance Committee is required to:

- Advise the Chairman, the Board, and the Accounting Officer on overall pay and rewards, the remuneration, contractual and pension arrangements of staff at Director level and above, and any related matters
- Recommend the appointment or dismissal of the Chief Executive to the Board
- Set and agree annual performance objectives, remuneration terms and other terms and conditions of employment of the Chief Executive, subject to MHCLG approval
- Consider and approve the incentive structure, including any bonus payment, for the Chief Executive and other Senior Officers on an annual basis, subject to MHCLG approval
- Consider and advise the Board on broader staffing issues, such as recruitment and retention, ensuring there are satisfactory systems for succession planning for the Board and senior leadership and for identifying and developing leadership and high potential
- 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 MHCLG
- Review terms and conditions of service and to determine any issues in relation to terms and conditions, overall pay levels and performance awards that are referred to the committee by the Executive
- Scrutinise governance arrangements within the Agency at least once a year.

Regulation Nominations and Remuneration Sub-Committee

The Regulation Nominations and Remuneration Sub-Committee was established by the Board in October 2017, with membership comprising the Chair of the Regulation Committee, the Chief Executive and the Director of Regulation.

The Regulation Nominations and Remuneration Sub-Committee has the following responsibilities specific to the Regulator of Social Housing:

- To set and agree annual performance objectives, remuneration terms and other terms and conditions of employment of the Director of Regulation, subject to MHCLG approval (where necessary)
- To decide on the overall pay and rewards, the remuneration, contractual and pension arrangements of Regulation staff above Assistant Director level, and any related matters, within the overall regulation budget funded by fees and grant in aid
- To consider and approve the incentive structure, including any bonus payment, for Regulation staff above the level of Assistant Director on an annual basis, subject to MHCLG approval (where necessary)

The Director of Regulation and any other senior officers present shall withdraw from any part of a meeting which considers their own remuneration or conditions of service.

Remuneration policy

The Agency determines remuneration levels to attract and retain key management personnel with appropriate experience and skills to meet the Agency's objectives.

The performance of the Agency's Executive Team is measured through both financial and non-financial indicators. In line with the Agency's performance policy, employees agree annual performance objectives which are reviewed mid-year and provide the basis for a formal annual appraisal which is linked to the payment of performance bonuses.

Key managers are entitled to a contribution by the Agency to a defined benefit pension scheme.

The Agency implements an annual pay remit which is approved by the Secretary of State. In 2017/18 the maximum pay increase for key management was 1%.

Service contracts

The Accounting Officer and Key Managers have open-ended service contracts with three-month notice periods that do not contain any pre-determined compensation on termination of office. The exception to this is for Tom Walker and Amy Casterton who are on secondment to the agency on a fixed-term contract, in addition to Chantal Geall who is on a fixed-term contract, all of whom have one month notice periods.

Appointment of Board Members

Board members are appointed by the Secretary of State, normally for fixed terms of three years. Terms may be extended at the discretion of the Secretary of State.

Audited remuneration 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 Agency for the year to 31 March 2018. Sections that are subject to audit are listed as such.

Board Members' emoluments (subject to audit)

	2017/18 £'000	2016/17 £'000
Chairman		
Sir Edward Lister (from 27 June 2016)[1]	68	52
Kevin Parry (Interim Chair)[2]	-	13
Board Members		
Keith House	12	12
Stephen Bell (from 1 February 2017)[3]	22	4
Simon Dudley (from 1 February 2017)[4]	14	2
Teresa O'Neill (from 1 February 2017)[5]	12	2
Richard Blakeway (from 1 February 2017)[5]	12	2
Julian Ashby (to 31 January 2018)[6]	54	65
Anthony Preiskel (to 31 October 2017)[7]	10	13
Dr Ann Limb (to 31 October 2017)[8]	7	12
Niall Mills (to 30 June 2017)[8]	3	12
Kevin Parry (to 31 January 2017)[2]	-	7
Ian Robertson (to 30 September 2016)[9]	-	12

THE ACCOUNTABILITY REPORT
REMUNERATION AND STAFF REPORT (CONTINUED)

Regulation Committee emoluments (subject to audit)

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:

	2017/18 £'000	2016/17 £'000
Simon Dow (Chair) (from 1 March 2018)[10]	16	11
Julian Ashby (Chair) (to 31 January 2018)[6]	-	-
Richard Moriarty	11	11
Ceri Richards	11	11
Elizabeth Butler (from 1 September 2017)[11]	6	-
Sarah Wall (to 31 July 2017)[11]	4	11

1 Full year equivalent emoluments in 2016/17 were £68,000.
2 Kevin Parry was appointed Interim Chair with effect from 1 January 2016 until 26 June 2016. From 1 July 2016 he resumed his role as Board member until 31 January 2017. Full year equivalent emoluments in 2016/17 in his capacity as a Board member were £12,000, whilst full year equivalent emoluments in his role as Interim Chair were £52,000.
3 In addition to being a Board member, Stephen Bell is the Chair of the Audit and Risk Committee. He is also the Agency's representative on MHCLG's Audit and Risk Committee. Full year equivalent emoluments in 2016/17 were £22,000.
4 In addition to being a Board member, Simon Dudley was appointed the Chair of the Credit and Risk Committee with effect from 1 November 2017. Full year equivalent emoluments in 2017/18 were £17,000 and in 2016/17 were £12,000.
5 Full year equivalent emoluments in 2016/17 were £12,000.
6 In addition to being a Board member, Julian Ashby was the Chair of the Regulation Committee until his departure on the 31 January 2018. His emoluments as disclosed under Board members cover both membership of the Board and Regulation Committee. Full year equivalent emoluments in 2017/18 were £65,000.
7 In addition to being a Board member, Anthony Preiskel was appointed the Chair of the Credit and Risk Committee with effect from 1 February 2017, until his departure on 31 October 2017. Full year equivalent emoluments in 2016/17 and 2017/18 were £17,000.
8 Full year equivalent emoluments in 2017/18 were £12,000.
9 Ian Robertson's remuneration included an additional 20 days per annum to reflect his role as Chair of the Audit and Risk Committee in addition to being a Board member, until his departure on the 30 September 2016. Full year equivalent emoluments in 2016/17 were £24,000.
10 Simon Dow was appointed Chair of the Regulation Committee with effect on 1 March 2018. Full year equivalent emoluments in 2017/18 were £65,000.
11 Full year equivalent emoluments in 2017/18 were £11,000.

Chief Executive's emoluments (subject to audit)

Single total figure of remuneration

	Salary received in year (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (£'000)		Total (£'000)	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Nick Walkley[1] (Chief Executive)	210-215	15-20	nil	nil	nil	nil	48	4	255-260	20-25
Mark Hodgkinson[2] (Interim Chief Executive)	n/a	155-160	n/a	nil	n/a	nil	n/a	n/a	n/a	155-160
Colin Molton[3] (acting Chief Executive)	n/a	nil	n/a	nil	n/a	nil	n/a	nil	n/a	nil

1 Nick Walkley was appointed on 1 March 2017 as a permanent Chief Executive. Full year equivalent emoluments for 2016/17 were £210,000.
2 Mark Hodgkinson was appointed on 11 April 2016 as Interim Chief Executive until 31 March 2017. Full year equivalent emoluments for 2016/17 were £160,000.
3 Colin Molton was appointed acting Chief Executive, following the resignation of Andrew Rose, with effect from 23 March 2016 until the appointment of Mark Hodgkinson as interim Chief Executive on 11 April 2016. Prior to this he was the Deputy Chief Executive. For the time spent as acting Chief Executive he did not receive any additional remuneration above his substantive salary. Disclosure of his remuneration in his substantive role is included in the Key Managers section.

Key Managers' emoluments (subject to audit)

Single total figure of remuneration

	Salary received in year (£'000)		Bonus payments (£'000)[1]		Benefits in kind (to nearest £100)		Pension benefits (£'000)*		Total (£'000)	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Tom Walker Deputy Chief Executive and Executive Director of Strategy (from 2 October 2017)[2]	55-60	n/a	nil	n/a	nil	n/a	nil	n/a	55-60	n/a
Stephen Kinsella Executive Director, Land (from 26 June 2017)[3]	105-110	n/a	nil	n/a	5,100	n/a	24	n/a	135-140	n/a
Gordon More Chief Investments Officer[4]	210-215	255-260	nil	nil	nil	nil	nil	nil	210-215	255-260
Fiona MacGregor Executive Director, Regulator of Social Housing	130-135	125-130	nil	nil	nil	nil	90	49	220-225	175-180
Richard Ennis Executive Director, Finance and Corporate Services	165-170	165-170	nil	nil	8,600	9,000	26	59	200-205	235-240
Bayo Dosunmu Executive Director, Homes England Development (from 1 January 2017)[5]	120-125	25-30	nil	nil	8,600	1,500	25	7	155-160	35-40
Chantal Geall Chief Risk Officer (from 23 January 2017)[6]	210-215	40-45	nil	nil	nil	nil	40	7	250-255	45-50
Amy Casterton Chief of Staff (from 16 October 2017)[7]	35-40	n/a	nil	n/a	nil	n/a	nil	n/a	35-40	n/a
Colin Molton Chief Operating Officer (to 30 September 2017)[8]	75-80	150-155	nil	nil	1,800	5,500	1	58	75-80	210-215
Terry Fuller Executive Director, East and South East (to 31 December 2016)[9]	n/a	110-115	n/a	nil	n/a	3,000	n/a	30	n/a	145-150

THE ACCOUNTABILITY REPORT

REMUNERATION AND STAFF REPORT (CONTINUED)

	Salary received in year (£'000)		Bonus payments (£'000)[1]		Benefits in kind (to nearest £100)		Pension benefits (£'000)*		Total (£'000)	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Deborah McLaughlin Executive Director, North West (to 9 November 2016)[10]	n/a	75-80	n/a	nil	n/a	3,200	n/a	35	n/a	115-120
Naz Parkar Executive Director, North East, Yorkshire and The Humber (to 31 December 2016)[11]	n/a	90-95	n/a	nil	n/a	4,100	n/a	32	n/a	125-130
Dominic Gorton Chief Risk Officer (from 1 January 2017 to 22 January 2017)[12]	n/a	10-15	n/a	nil	n/a	nil	n/a	nil	n/a	10-15
Christine Addison Interim Executive Director, Corporate (to 31 December 2016)[13]	n/a	90-95	n/a	nil	n/a	nil	n/a	22	n/a	110-115
Karl Tupling Interim Executive Director, Midlands (to 31 December 2016)[14]	n/a	75-80	n/a	nil	n/a	3,800	n/a	25	n/a	105-110
Jackie Jacob Interim Executive Director, Programmes (to 31 December 2016)[15]	n/a	75-80	n/a	nil	n/a	nil	n/a	23	n/a	100-105

*The pension benefits figure is an actuarially assessed calculation. It attempts to reflect the benefits earned by the employee during the year from the scheme and is impacted by salary fluctuations and length of service.

1 Bonuses disclosed relate to performance for the year ended 31 March 2018.

2 Tom Walker is on secondment from the Ministry of Housing, Communities and Local Government (MHCLG) from 2 October 2017 to 1 October 2019. Full year equivalent emoluments for 2017/18 were £120,000.

3 Full year equivalent emoluments for 2017/18 were £140,000.

4 Gordon More was engaged on an on-going secondment to the Agency from his employer, Lloyds Banking Group plc, until 31 March 2017 at an annual cost of £213,000 plus VAT. The costs disclosed for 2016/17 in the salary column above are the total invoiced costs including VAT of secondment to the Agency under the terms of the agreement in place with his employer, and accordingly include allowance for costs such as VAT, pensions and social security which are not included for other, directly-employed, Key Managers. He was subsequently recruited into a permanent position, effective from 1 April 2017.

5 Full year equivalent emoluments for 2016/17 whilst as a Key Manager were £115,000.

6 Full year equivalent emoluments for 2016/17 were £210,000.

7 Amy Casterton is on secondment from the Ministry of Housing, Communities and Local Government (MHCLG) from 16 October 2017 to 15 October 2019. Full year equivalent emoluments for 2017/18 were £80,000.

8 Colin Molton was Chief Operating Officer until he left the Agency on 30 September 2017. Full year equivalent emoluments for 2017/18 were £140,000.

9 Terry Fuller was Executive Director for the East and South East until the Agency's restructure in 2016/17 and then became a General Manager for Large & Priority Projects, effective from the 1 January 2017. From this point he is no longer considered to be a Key Manager. Full year equivalent emoluments for 2016/17 whilst as a Key Manager were £149,000.

10 Deborah McLaughlin left the Agency on 9 November 2016. Full year equivalent emoluments for 2016/17 were £128,000.

11 Naz Parkar was the Executive Director for the North East, Yorkshire and The Humber until the Agency's restructure, effective from 1 January 2017. From this point, and for the purpose of this disclosure note, he was no longer considered to be a Key Manager. He subsequently left the Agency on 20 January 2017. Full year equivalent emoluments for 2016/17 were £124,000.

12 Dominic Gorton was engaged on an on-going secondment to the Agency from his employer, HSBC, until 22 January 2017 at an annual cost of £200,000 plus VAT. The costs disclosed in the salary column above are the total invoiced costs including VAT of secondment to the Agency under the terms of the agreement in place with his employer, and accordingly include allowance for costs such as VAT, pensions and social security which are not included for other, directly-employed, Key Managers. Prior to the restructure he was not considered a Key Manager. However, following the restructure his role had been reclassified as a Key Manager.

13 Christine Addison was an Interim Executive Director in a corporate role, tasked with implementing the Spending Review outcomes and responding to the Tailored Review, until the restructure from which point, and for the purpose of this disclosure note, she was no longer considered a Key Manager. She subsequently left the Agency on 31 March 2017. Full year equivalent emoluments for 2016/17 were £122,000.

14 Karl Tupling was Interim Executive Director for the Midlands until the Agency's restructure which took effect from 1 January 2017. From this point, and for the purpose of this disclosure note, he is no longer considered to be a Key Manager. Full year equivalent emoluments for 2016/17 whilst as a Key Manager were £103,000.

15 Jackie Jacob was the Interim Executive Director for Programmes until the Agency's restructure which took effect from 1 January 2017. From this point, and for the purpose of this disclosure note, she is no longer considered to be a Key Manager. Full year equivalent emoluments for 2016/17 were £105,000.

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.

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.

For all other employees, the Agency complies with the direction from the Secretary of State on eligibility of a performance related bonus.

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 Nominations and Governance Committee. The committee reviews performance against targets and recommends a performance related bonus for approval by the Secretary of State.

For the performance years ended 31 March 2017 and 2018 the Directors all agreed not to receive a bonus.

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.

Pension Benefits (subject to audit)

Chief Executive and Accounting Officer
Nick Walkley was appointed as the permanent Chief Executive on 1 March 2017. He is a member of the Homes & Communities Agency Pension Scheme.

THE ACCOUNTABILITY REPORT
REMUNERATION AND STAFF REPORT (CONTINUED)

Key Managers

	Accrued annual pension at 31 March 2018 £'000	Real increase in accrued annual pension £'000	Accrued lump sum at 31 March 2018 £'000	Real increase/ (decrease) in accrued lump sum £'000	CETV 31 March 2018 £'000	CETV 31 March 2017 Restated* £'000	Real increase/ (decrease) in CETV £'000
Nick Walkley	3	3	9	8	74	6	55
Stephen Kinsella[1]	1	1	4	4	35	0	29
Fiona MacGregor	42	5	126	15	712	638	58
Richard Ennis	51	2	154	5	1,374	1,358	6
Bayo Dosunmu	8	4	23	13	184	154	23
Chantal Geall	3	2	8	7	69	12	47
Colin Molton[2]	62	0	186	1	1,749	1,741	0

[1] Stephen Kinsella was appointed to the role of Key Manager during the year. As he commenced employment with the Agency in the year, his CETV for last year is £nil.
[2] Colin Molton left the Agency and pension scheme on 30 September 2017. His pension benefits have been calculated to the date of departure.
*Restated using 31 March 2018 pension factors.

The Chief Executive and Key Managers are eligible to participate in the Homes & Communities Agency Pension Scheme, which is a multi-employer defined benefit scheme. The Chairman is not entitled to be a member of any of the agency's pension schemes. With the exception of Fiona MacGregor, who is an active member of the City of Westminster Pension Fund, Gordon More, who is not an active member of a pension scheme, and Amy Casterton and Tom Walker who are on secondment to the agency, all remaining Key Managers in post at 31 March 2018 are active members of the Homes & Communities Agency Pension Scheme.

Accrued pension at 31 March 2018

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2018.

Cash Equivalent Transfer Value (CETV) 31 March 2018

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.

Termination payments (subject to audit)

Termination payments to Key Managers in 2017/18 were £nil (2016/17: £nil). However, Colin Molton left the Agency on 30 September 2017 and received a redundancy payment of £95,000.

Staff composition (subject to audit)

The average number of staff employed by the Agency (full time equivalents) over the course of the year is as follows:

	2017/18 Number	2016/17 Number
Permanent UK staff	743	779
Fixed term UK staff	27	35
Temporary staff	12	10
Seconded staff	3	5
	785	829

The number of staff (full time equivalents) by salary pay band, using an average for the year, is as follows:

	2017/18 Number	2016/17 Number
£0 – £25,000	81	97
£25,001 – £50,000	391	404
£50,001 – £75,000	231	260
£75,001 – £100,000	54	44
£100,001 – £125,000	16	15
£125,001 – £150,000	8	7
£150,001 – £175,000	1	2
£175,001 – £200,000	0	0
£200,001 – £225,000	3	0
	785	829

Gender analysis

The gender of current Key Managers and employees can be analysed as follows:

	2017/18 Number	2016/17 Number
Key Managers – Male	5	5
Key Managers – Female	3	2
Key Managers	8	7
Other employees – Male	393	415
Other employees – Female	384	407
Other employees	777	822
Total	785	829

THE ACCOUNTABILITY REPORT
REMUNERATION AND STAFF REPORT (CONTINUED)

In March 2018, the Agency published its first annual Gender Pay Gap Report, which is available on the following webpage: https://www.gov.uk/government/publications/gender-pay-gap-report-201718. As an organisation that promotes equality of opportunity and values diversity, our gender pay gap is simply not acceptable. We are committed to understanding and removing the gap as quickly as possible and have therefore produced an ambitious action plan to tackle it.

Median salary (subject to audit)

The Agency is also 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, using a position as at the end of March 2018. The banded remuneration of the highest-paid directors, Nick Walkley, Chantal Geall and Gordon More, was £210,000 - £215,000 (2016/17: £210,000-£215,000 for Nick Walkley and Chantal Geall). The mid-point of this band was 4.3 times (2016/17: 4.4) the median remuneration of the workforce, which was £50,000 (2016/17: £47,848). Remuneration ranged from £7,800 to £212,100 (2016/17: £12,649 to £210,000) on the basis of total remuneration including benefits in kind. The starting range salary represents the paid remuneration of an apprentice. Once apprentices are excluded, remuneration ranged from £16,445 to £212,100 (2016/17: £16,120 to £210,000).

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

Exit packages (subject to audit)

Redundancy and other departure costs have been determined in accordance with a voluntary redundancy scheme approved by MHCLG, the Agency's sponsor department. Exit costs are accounted for in full when the departure has been approved and terms agreed.

Voluntary exit costs accounted for in the year can be analysed as follows:

	2017/18 Departures agreed Number	2016/17 Departures agreed Number
£0 – £10,000	-	6
£10,001 – £25,000	3	8
£25,001 – £50,000	5	27
£50,001 – £100,000	3	58
£100,001 – £150,000	-	-
Total number of exit packages	11	99
Total cost of exit packages (£'000)	487	5,969

Expenditure on consultancy

During the year the Agency incurred expenditure of £84,950 on consultancy as defined by the Cabinet Office (2016/17: £11,500).

Apprenticeship Levy

During the year the Agency incurred expenditure of £219,000 on contributions to the apprenticeship levy to support apprenticeship training and assessment for apprentices (2016/17: £nil).

Off-payroll arrangements

In accordance with the requirements of the FReM, the Agency is required to publish details of their highly paid and senior off-payroll engagements.

The Agency uses off-payroll arrangements for specialist or technical contractors and consultants to address urgent scarce skills gaps.

Off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months.

No. of existing engagements as of 31 March 2018	**11**
of which have existed for:	
less than one year at time of reporting	8
between one and two years at time of reporting	3
between two and three years at time of reporting	–
between three and four years at time of reporting	–
four years or more at time of reporting	–

New off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and

No. of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	**38**
of which:	
No. assessed as caught by IR35	38
No. assessed as not caught by IR35	–
No. engaged directly (via Personal Service Company contracted to the Agency) and are on the Agency paytroll	–
No. of engagements reassessed for consistency/assurance purposes during the year	–
No. of engagements that saw a change to IR35 status following the consistency review	–

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018

No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility, during the financial year	2
Total no. of individuals both on and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year	16

THE ACCOUNTABILITY REPORT
REMUNERATION AND STAFF REPORT (CONTINUED)

EMPLOYEE MATTERS

Staff policy regarding disabled persons

The Agency is committed to ensuring equality of opportunity for all disabled people who work or apply to work for us. The Agency participates in the Two Ticks scheme run by Jobcentre Plus. The scheme requires employers to meet five commitments regarding the employment, retention, training and career development of disabled employees. It is represented by the two ticks disability symbol that participating organisations are authorised to display. As we make clear in our job application process, we offer disabled people who apply for a post a guaranteed interview provided they meet the minimum criteria for the post. The Agency attained Disability Confident Level 2 in 2017 and we aim to achieve Level 3 in 2018.

In 2017 a Disability and Carer's network was established to support, develop and challenge the organisation to increase the number of disabled people employed and address the wider workplace challenges facing disabled employees.

In the event that any employee becomes disabled whilst employed by the Agency, the Health and Safety and Facilities teams, supported by the Agency's Occupational Health provider, will make all reasonable and appropriate changes and adjustments to the workplace and working arrangements.

Equality and diversity in employment & occupation

The Agency has an Equality and Diversity Board Advisory Group (EDBAG) that works with the Agency Board to support the delivery of our corporate policy commitment to equality, diversity and community cohesion. The Agency also supports a number of staff networks which support and address a wide range of equality and diversity issues including disability.

The Agency was shortlisted for 5 national Equality, Diversity and Inclusion awards in 2017 and won the Excellence in Diversity "Diversity Champion Award for Housing Sector." The Excellence in Diversity Awards is an exclusive national awards ceremony that honours the work of inclusive employers and diversity champions in the public and private sectors. The Build Together Network (the Agency's Lesbian, Gay, Bi-sexual and Transgender network) was shortlisted in the Outstanding Diversity Network Award category whilst Amelia Lawson was shortlisted in and won the Diversity Champion for Housing category.

Sickness absence

The Agency's sickness absence has improved in 2017/18 with the average working days lost continuing to be low. Staff with no Sickness Absence has increased to 65% from 53.17% in 2016-17. The average working days lost has fallen from 4.17 in 2016-17 to 2.81 in 2017-18.

Health and Safety

The Agency's safety performance has remained strong through 2017-18. Two incidents were reported to the Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 in 2017-18. One included a specified injury to an employee which didn't result in any time off work and a dangerous occurrence which involved a contractor hitting a gas pipe on one of our development sites. The Reportable Accident Incident Rate was calculated as 110 per 100,000 employees in 2017-18 and the Accident Frequency Rate (AFR) was calculated as 7.99 compared to the Labour Force Survey AFR rate of 12.5 of all injuries per 1,000,000 hours worked.

Employee Engagement

In 2017-18, the Agency launched the 'Big Conversation', a series of workshops, events and activities led by a network of informal leaders to engage all employees in designing and shaping the new core values for the new organisation. A further series of seven Big Conversation Workshops were held in all offices focused on engaging employees with the emerging priorities for the Digital and People elements of the Homes England Development Programme.

Trade Union relationships

The Agency formally recognises three trade unions – Unite, PCS and Unison – with whom it consults over pay, policies and procedures, working conditions, etc. Regular meetings take place between management and elected union representatives, called Joint Negotiation and Consultation Committee meetings, on a cycle of approximately six weeks.

As a public sector body with more than 49 FTE employees, the Agency is required to make a number of disclosures regarding Trade Union Facility Time. This information is set out in the following tables:

Relevant union officials

Number of employees who were relevant union officials during the relevant period	13
Full-time equivalent employee number	12.72

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	0
1 – 50%	13
51% –99%	0
100%	0

Percentage of pay bill spent on facility time

Total cost of facility time	£67,718
Total pay bill	£45,267,000
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.15%

Paid trade union activities

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: 0%

THE ACCOUNTABILITY REPORT
PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Regularity of expenditure (subject to audit)

In accordance with the provisions of the Accounts Direction, the Agency has summarised all losses and special payments requiring disclosure, recognised during the course of the financial year, as follows:

		2017/18		2016/17
	Cases	£'000	Cases	£'000
Total of all losses and special payments	82	1,563	248	18,610
Cases over £300,000:				
Loans written off	1	1,476	2	16,464
Receivables written off	-	-	1	2,018
		1,476		18,482

Losses on loans – loan written off

The Agency has incurred a loss of £1.476m on a loan provided under the Custom Build programme to fund the development of a 23 unit residential site. As a result of development delays and cost overruns, a shortfall on the scheme was identified in 2016. In addition, there have been delays in the timing of unit sales against expectations. The Agency reviewed all available options and decided that additional funding would both secure site delivery and ensure that the Agency received the optimum return from future unit sales. The additional funding was provided by the Agency in 2017/18. This funding has enabled the Agency to limit the expected loss to £1.476m

FEES AND CHARGES (subject to audit)

Regulator of Social Housing

The Regulator of Social Housing introduced fees from 1 October 2017 following a statutory consultation in 2016. Fee income was charged from 1 October 2017 to 31 March 2018, comprising annual fees for all registered providers and a one-off initial registration fee for newly registered providers.

There are five fees principles which, following consultation, were approved by the Secretary of State:

1) A one-off fixed fee should apply to all successful applications for initial registration.
2) The annual fee payable by a registered provider should be set by reference to the number of social housing units owned by that provider.
3) A fixed annual fee should apply to all providers owning fewer than 1,000 units.
4) For groups owning 1,000 social housing units or more where the parent is registered, the annual fee should be set at group level rather than for each individual entity on the register.
5) Providers should pay the full cost of the annual fee for the year that they are on the register when they register or de-register.

The annual fee level and initial registration fees are set out below. Registered providers were charged 50% of the annual fee for 2017/18, for the six-month period from the introduction of fees to the year end.

- Registered providers with less than 1,000 units £300 flat fee per annum. (£150 fee for part year 1 October 2017 – 31 March 2018).
- Registered providers with 1,000 units or greater £4.72 per social housing unit. (£2.36 per unit for part year 1 October 2017 – 31 March 2018).
- Initial registration fee of £2,500 charged to those who successfully register on or after 1 October 2017.

Fees fund those costs related to regulating all providers. The cost of non-routine regulation including consumer regulation and any registration costs not covered by initial registration fees is covered by Grant in Aid and amounted to £1.098m. Should there be any underspend on fee-funded costs there would be a proportionate refund of the per unit annual fee to larger providers (those with over 1,000 social housing units). Total fees received for 2017/18 were £6.251m. As fee-funded costs for the six month period to 31 March 2018 were £5.117m, £1.134m of fees are repayable to larger providers, as illustrated in the table below:

	£'000
Costs incurred in relation to non-fee charging activities	£1,099
Costs incurred in relation to fee charging activities	£5,117
Total costs incurred by Regulator of Social Housing	**£6,216**
Amounts invoiced to Registered Providers	£6,251
Fee rebate due to Registered Providers	**£1,134**

The maximum fee income for 2018/19 will be £12.625m, based on a commitment not to increase total annual fees by more than 1% per annum over the Spending Review period, which runs to the end of the 2019/20 financial year.

In 2017 the Regulator introduced a Fees and Resources Advisory Panel alongside existing stakeholder engagement arrangements, as an advisory body to the Regulator.

In addition, the annual Fees Statement sets out the Regulator's business priorities and budget.

Other fees

Additionally, the Agency may, from time to time, charge a fee for services provided. Where applicable, services are charged at full cost and therefore result in no attributable surplus or deficit. During the year, the Agency provided legal services to other parties. The amounts included in Other Operating Income for the year are £16,000.

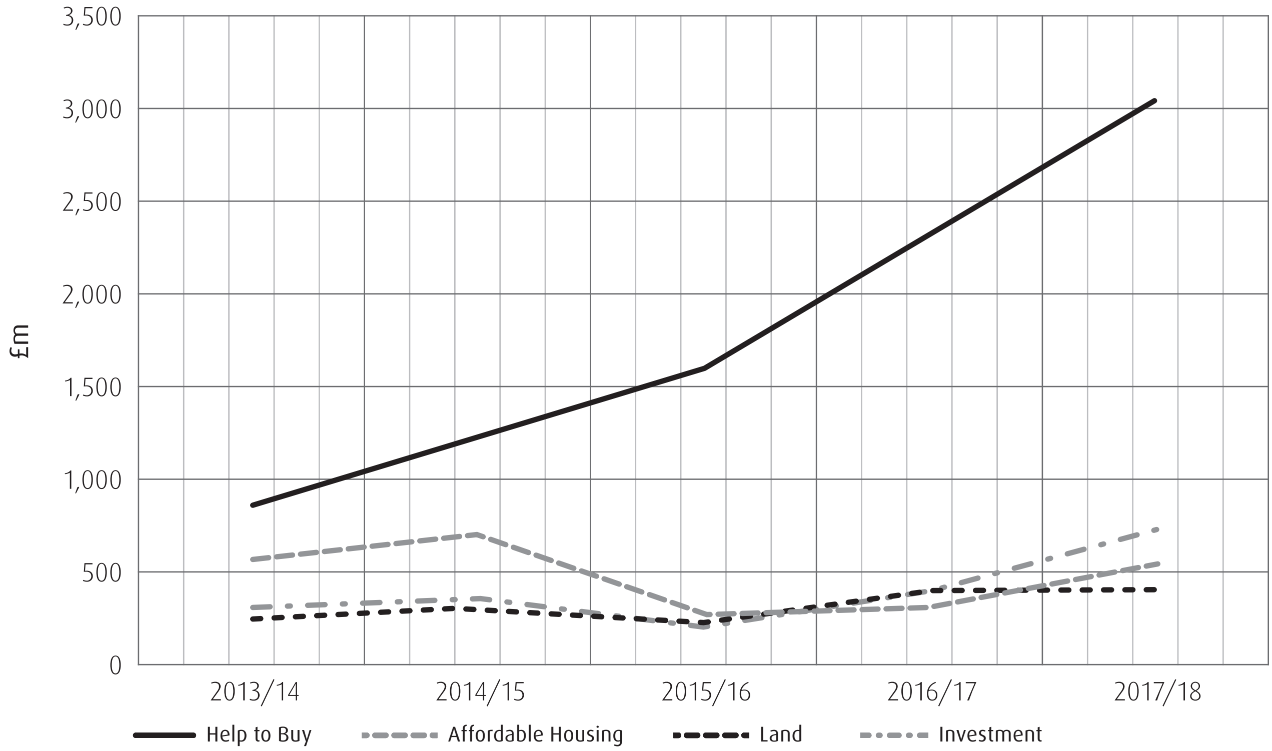
Remote contingent liabilities (subject to audit)

The Agency is required to disclose each of its material remote contingent liabilities, and where practical, estimate the financial effect. The Agency does not have any material contingent liabilities other than those disclosed in the Financial Statements.

THE ACCOUNTABILITY REPORT
PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT (CONTINUED)

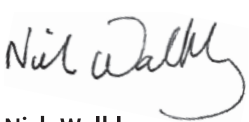
Long term expenditure trends

The Agency is required to disclose spending patterns on key programme and major policy areas. The information below shows expenditure, on a DEL basis, across the Agency's key programmes for 2017/18 and the previous 4 years.



The Accountability Report is signed on 10 July 2018.

Sir Edward Lister
Chairman



Nick Walkley
Chief Executive and Accounting Officer

THE ACCOUNTABILITY REPORT
THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the Homes & Communities Agency for the year ended 31 March 2018 under the Housing and Regeneration Act 2008. The financial statements comprise: the Group and Parent Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the Homes & Communities Agency's affairs as at 31 March 2018 and of the group's and the parent'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 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Homes & Communities Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board and Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

THE ACCOUNTABILITY REPORT
THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Housing and Regeneration Act 2008.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Homes & Communities Agency's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the Homes & Communities Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, 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.

Other Information

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Housing and Regeneration Act 2008;
- in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability 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 parts of the Accountability 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.

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

16 July 2018

GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE
YEAR ENDED 31 MARCH 2018

	Note	2017/18 £'000	2016/17 £'000
Expenditure			
Grant payments	2	568,684	372,505
Capital grant in kind	19	35,692	64,013
Cost of property disposals	3	72,574	120,337
Programme costs	4	22,178	21,365
Estate management costs		12,428	12,593
Staff costs, excluding pensions	6	45,267	45,250
Pension costs	6	16,347	11,315
Other administration costs	7	16,675	14,706
Restructuring costs	8	493	6,026
Depreciation and amortisation		3,195	2,321
Impairments	9	153,874	100,387
Movement in provisions	10	(1,404)	6,081
		946,003	776,899
Income			
Proceeds from disposal of property assets	3	131,914	220,507
Clawback of grants and contributions	12	4,254	6,704
Regulator of Social Housing - Income from fees	13	5,117	-
Other operating income	14	25,561	29,552
Gain on disposal of available for sale financial assets	5	79,774	64,445
Capital grants in kind	19	9,786	39,040
		256,406	360,248
Net operating expenditure	11	689,597	416,651
Interest receivable	16	(44,998)	(31,357)
Pension fund finance costs	30(d)	(1,238)	(2,247)
Share of losses/(profits) of associates and joint ventures	17	390	(10,055)
Net expenditure before tax		643,751	372,992
Income tax credit	20(a)	(14,533)	(8,873)
Net expenditure for the year		629,218	364,119
Other comprehensive expenditure			
Actuarial (gain)/loss from pension fund	30(e)	(25,016)	12,008
Fair value gain on available for sale financial assets*	22	(143,320)	(148,199)
Realised gains on disposal of available for sale financial assets recognised in net expenditure	5	82,849	68,012
Income tax on items in other comprehensive expenditure*	20(b)	14,533	8,873
		(70,954)	(59,306)
Total comprehensive expenditure for the year		558,264	304,813

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

* Net fair value movements on available for sale financial assets are reclassified into net expenditure when the related available for sale financial assets are disposed. Income tax includes a £10.0m charge in relation to fair value movements in 2017/18 (2016/17: £11.0m). No other items of Other Comprehensive Expenditure shown above will be reclassified into net expenditure.

GROUP STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Intangible assets		4,907	3,470
Property, plant and equipment		4,395	3,558
Investments in associates and joint ventures	21(b)	17,856	16,165
Available for sale financial assets	22	8,953,946	6,417,932
Pension assets	30(a)	71,209	47,231
Loans	23	844,573	643,103
Trade and other receivables	25	126,170	151,275
		10,023,056	7,282,734
Current assets			
Land and property assets	24	776,239	589,536
Loans	23	424,440	189,810
Trade and other receivables	25	139,826	149,090
Cash and cash equivalents	26	242,590	185,058
		1,583,095	1,113,494
Total assets		11,606,151	8,396,228
Current liabilities			
Trade and other payables	27	(391,716)	(266,193)
Provisions	28	(10,693)	(17,592)
		(402,409)	(283,785)
Non-current assets plus net current assets		11,203,742	8,112,443
Non-current liabilities			
Trade and other payables	27	(12,907)	(14,340)
Provisions	28	(15,893)	(13,709)
Pension liabilities	30(a)	(8,673)	(4,041)
		(37,473)	(32,090)
Assets less liabilities		11,166,269	8,080,353
Reserves			
Income and expenditure reserve		10,813,196	7,777,475
Fair value reserve		351,103	300,912
Regulation reserve		1,970	1,966
Taxpayers' equity		11,166,269	8,080,353

The accompanying Notes are an integral part of these Financial Statements.
Approved by the Board on 10 July 2018 and signed on their behalf by:

Sir Edward Lister
Chairman

Nick Walkley
Chief Executive and Accounting Officer

AGENCY STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Intangible assets		4,907	3,470
Property, plant and equipment		4,395	3,558
Investments in subsidiaries	21(a)	25,000	25,000
Available for sale financial assets	22	8,953,946	6,417,932
Pension assets	30(a)	71,209	47,231
Loans	23	844,573	643,103
Trade and other receivables	25	126,170	151,275
		10,030,200	7,291,569
Current assets			
Land and property assets	24	776,239	589,536
Loans	23	424,440	189,810
Trade and other receivables	25	139,826	149,090
Cash and cash equivalents	26	242,590	185,058
		1,583,095	1,113,494
Total assets		11,613,295	8,405,063
Current liabilities			
Trade and other payables	27	(399,875)	(276,193)
Provisions	28	(10,693)	(17,592)
		(410,568)	(293,785)
Non-current assets plus net current assets		11,202,727	8,111,278
Non-current liabilities			
Trade and other payables	27	(12,907)	(14,340)
Provisions	28	(15,893)	(13,709)
Pension liabilities	30(a)	(8,673)	(4,041)
		(37,473)	(32,090)
Assets less liabilities		11,165,254	8,079,188
Reserves			
Income and expenditure reserve		10,812,181	7,776,310
Fair value reserve		351,103	300,912
Regulation reserve		1,970	1,966
Taxpayers' equity		11,165,254	8,079,188

The accompanying Notes are an integral part of these Financial Statements.
Approved by the Board on 10 July 2018 and signed on their behalf by:

Sir Edward Lister
Chairman

Nick Walkley
Chief Executive and Accounting Officer

STATEMENT OF CASH FLOWS
YEAR ENDED 31 MARCH 2018

Group and Agency

	Note	2017/18 £'000	2016/17 £'000
Net cash outflow from operating activities	(a)	(3,586,346)	(2,495,459)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,494)	(126)
Purchase of intangible assets		(3,947)	(3,084)
Investment in joint venture	21(b)	(2,081)	(905)
Interest received		7,220	6,439
Net cash outflow from investing activities		(302)	2,324
Cash flows from financing activities			
Grant in Aid from sponsor department		3,644,180	2,542,953
Net cash inflow from financing activities		3,644,180	2,542,953
Increase in cash and cash equivalents in the period		57,532	49,818
Cash and cash equivalents at 1 April	26	185,058	135,240
Cash and cash equivalents at 31 March	26	242,590	185,058

Movements on loans and available for sale finanical assets have been reallocated from investing activities to operating activities to more apropriately reflect the cash flow movements.

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

	Note	2017/18 £'000	2016/17 £'000
Net operating expenditure		(689,597)	(416,651)
Loans advanced by Agency	23	(652,252)	(364,632)
Loans repaid to Agency	23	225,836	177,221
Additions to available for sale financial assets	22	(3,099,409)	(2,332,723)
Proceeds from disposal of available for sale financial assets*	5	592,703	386,992
Additions to land and property assets	24	(315,830)	(213,056)
Cost of land and property assets disposed	3, 24	70,858	118,527
Capital grant in kind included in operating expenditure	19	35,692	64,013
Increase in impairments	9	153,874	100,387
Depreciation and amortisation		3,195	2,321
Gain on disposal of available for sale financial assets	5	(79,774)	(64,445)
Pension costs		6,908	2,302
		(3,747,796)	(2,539,744)
Decrease/(increase) in receivables		42,056	(26,904)
Increase in payables		124,089	74,292
Decrease in provisions		(4,695)	(3,103)
Net cash outflow from operating activities		(3,586,346)	(2,495,459)

* Proceeds from disposal of available for sale financial assets shown in note 5 include £35.7m in relation to the transfer of part of the JESSICA fund within government which did not result in a cash receipt (see note 19)

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
YEAR ENDED 31 MARCH 2018

	Note	Income and expenditure reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total £'000
Balance at 31 March 2016		5,608,491	231,759	1,963	5,842,213
Changes in taxpayers' equity 2016/17					
Net expenditure for the year		(364,122)	-	3	(364,119)
Actuarial loss from pension fund	30(e)	(12,008)	-	-	(12,008)
Fair value gain on available for sale financial assets	22	-	148,199	-	148,199
Realised gains on disposal of available for sale financial assets recognised in net expenditure	5	-	(68,012)	-	(68,012)
Income tax on items in other comprehensive expenditure	20(b)	2,161	(11,034)	-	(8,873)
Total comprehensive expenditure for the year		(373,969)	69,153	3	(304,813)
Grant in Aid from sponsor department	1(g)	2,542,953	-	-	2,542,953
Balance at 31 March 2017		7,777,475	300,912	1,966	8,080,353
Changes in taxpayers' equity 2017/18					
Net expenditure for the year		(629,222)	-	4	(629,218)
Actuarial gain from pension fund	30(e)	25,016	-	-	25,016
Fair value gain on available for sale financial assets	22	-	143,320	-	143,320
Realised gains on disposal of available for sale financial assets recognised in net expenditure	5	-	(82,849)	-	(82,849)
Income tax on items in other comprehensive expenditure	20(b)	(4,253)	(10,280)	-	(14,533)
Total comprehensive expenditure for the year		(608,459)	50,191	4	(558,264)
Grant in Aid from sponsor department	1(g)	3,644,180	-	-	3,644,180
Balance at 31 March 2018		10,813,196	351,103	1,970	11,166,269

AGENCY STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

YEAR ENDED 31 MARCH 2018

	Note	Income and expenditure reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total £'000
Balance at 31 March 2016		5,613,439	231,759	1,963	5,847,161
Changes in taxpayers' equity 2016/17					
Net expenditure for the year		(370,235)	-	3	(370,232)
Actuarial loss from pension fund	30(e)	(12,008)	-	-	(12,008)
Fair value gain on available for sale financial assets	22	-	148,199	-	148,199
Realised gains on disposal of available for sale financial assets recognised in net expenditure	5	-	(68,012)	-	(68,012)
Income tax on items in other comprehensive expenditure	20(b)	2,161	(11,034)	-	(8,873)
Total comprehensive expenditure for the year		(380,082)	69,153	3	(310,926)
Grant in Aid from sponsor department	1(g)	2,542,953	-	-	2,542,953
Balance at 31 March 2017		7,776,310	300,912	1,966	8,079,188
Changes in taxpayers' equity 2017/18					
Net expenditure for the year		(629,072)	-	4	(629,068)
Actuarial gain from pension fund	30(e)	25,016	-	-	25,016
Fair value gain on available for sale financial assets	22	-	143,320	-	143,320
Realised gains on disposal of available for sale financial assets recognised in net expenditure	5	-	(82,849)	-	(82,849)
Income tax on items in other comprehensive expenditure	20(b)	(4,253)	(10,280)	-	(14,533)
Total comprehensive expenditure for the year		(608,309)	50,191	4	(558,114)
Grant in Aid from sponsor department	1(g)	3,644,180	-	-	3,644,180
Balance at 31 March 2018		10,812,181	351,103	1,970	11,165,254

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED
31 MARCH 2018

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 8 December 2014 reflects government policy that the Financial Statements should, insofar as appropriate, conform to the accounting and disclosure requirements contained in Managing Public Money, Government Financial Reporting Manual (FReM) and in HM Treasury's Fees and Charges Guide. The Financial Statements have been prepared in accordance with the 2017/18 FReM issued by HM Treasury.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) 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 property, plant and equipment and available for sale financial assets.

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

No significant judgements or assumptions have been made relating to the determination of investee status, joint control or significant influence.

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.

The share of net assets and profit information is based on unaudited financial statements or management information to 31 March 2018 for most associates. Where this information is not available, financial statements with a different reporting date have been used, where this reporting date is within three months of that of the Agency and where this does not produce significantly different results. Adjustments have been made on consolidation for significant transactions following the reporting date of the information used.

Countryside Maritime Limited prepares its annual financial statements up to 30 September which is the reporting date of the joint venture partner. English Cities Fund Limited Partnership prepares its annual financial statements up to 31 December, the same reporting date as its investee partner.

d) Intangible assets

Intangible assets comprise:

- software - licenses to use software developed by third parties
- information technology - the costs of developing the core systems of the Agency.

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 and are amortised over four years.

e) Property, plant and equipment

Property, plant and equipment, excluding property, is stated at historical cost less accumulated depreciation and any impairment in value, as a proxy for fair value. Land and buildings are recognised initially at cost and thereafter measured at fair value, less depreciation on buildings. Land is not depreciated.

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

f) Land and property assets

i) Valuation

Land and property assets, consisting of land and buildings, are shown in the Statement of Financial Position at the lower of cost and net realisable value. Net realisable value is determined by deducting expected disposal costs from the valuation of each asset. 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 and also to value complex properties. In all cases valuations are in accordance with the current edition of *RICS Valuation - Professional Standards* 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 losses are shown in the Statement of Comprehensive Net Expenditure as an impairment charge. A reversal of an impairment charge may occur if the net realisable value of an asset increases up to a maximum of its historical cost.

ii) Disposal of land and property assets

The Agency recognises income from the disposal of land and property 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 difference between actual cash receipts and the net present value of the receipts is credited to interest receivable over the life of the debt.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

1. Statement of accounting policies (continued)

g) 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 Ministry of Housing Communities and Local Government (MHCLG) for specified types of expenditure.

Grant in Aid received to finance activities and expenditure which support the statutory and other objectives of the Agency is treated as financing and credited to the income and expenditure reserve in full, because it is regarded as a contribution 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 Registered Provider (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.

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

Payments of Affordable Housing Grant may be paid in one, two or three instalments depending on scheme and provider eligibility: an acquisition tranche, a start on site tranche and a completion tranche. In the two years disclosed the tranches for schemes were as follows:

In 2016/17:	50% on start on site (where eligible), 50% on completion
In 2017/18:	Apr – Jun: 50% on start on site (where eligible), 50% on completion
	Jul – Nov: 75% on start on site (where eligible), 25% on completion
	Nov – Mar: 40% on acquisition (where eligible), 35% on start on site (where eligible), 25% on completion

i) 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.

j) Regulator of Social Housing - Income from fees
Income derived from RPs is accounted for over the period to which it relates. Any amounts invoiced which relate to future periods are deferred and then released as appropriate. Income is designed to fund costs relating to the regulation of all RPs and is proportionate to those costs.

k) Other income
Contributions from partners towards specific revenue or capital expenditure are initially recognised in income but are deferred if the funder imposes a condition that the future economic benefits embodied in the grant are consumed as specified by the grantor. Deferred contributions are subsequently recognised in income when the conditions are met.

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 recorded in the Agency's own Statement of Financial Position, are accounted for at cost less 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 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.

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 environmental liabilities

Provisions are made for environmental liabilities where the Agency is under a statutory, contractual or constructive obligation to remediate land to relevant standards. The amounts provided are the best estimate of the expenditure required to settle the obligation, based on circumstances existing at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

1. Statement of accounting policies (continued)

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.

Financial assets
The Agency's financial assets fall into either the 'available for sale' or 'loans and receivables' classifications under *IAS 39 Financial Instruments: Recognition and Measurement*. The classification depends upon the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables
These are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables held by the Agency comprise loans, trade and other receivables and cash and cash equivalents. These are included within current assets or non-current assets depending on their expected maturity.

Loans
Loans are initially recognised when cash is advanced to the borrower and are measured at fair value inclusive of transaction costs. They are subsequently carried at amortised cost using the effective interest rate.

Trade and other receivables
Trade and other receivables are measured at amortised cost less impairments. The net of these balances are classified as 'trade and other receivables' in the Statement of Financial Position.

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'.

Available for sale financial assets
These are non-derivative financial assets not held for trading and either designated as such or for which payments are neither fixed nor determinable.

The Agency provides financial assistance to home buyers to buy a share in a new build home. The buyer must take out a mortgage which, along with any deposit, must make up a minimum of 80% of the full purchase price of the property (60% for properties in London from April 2016). In return the Agency assists by providing finance of up to 20% of the full property price (40% for properties in London from April 2016). In similar schemes historically, the Agency assisted by providing finance of 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' under IAS 39.

The Agency also makes investments in development and infrastructure projects under which the Agency benefits from variable returns based on a share of profitability, including projects with both the private sector and local authorities. These investments are also classified as available for sale and are stated at fair value.

In 2017-18, the Agency made an investment in the PRS REIT plc, supporting the launch of the first quoted Real Estate Investment Trust to focus purely on the private rented sector. Shares in the company are traded on the London Stock Exchange. The investment is classified as available for sale and is stated at a value which reflects the share price on the reporting date.

Available for sale financial assets are initially recognised when the Agency becomes a party to the contractual provisions of the instrument and are measured at fair value inclusive of transaction costs. They are subsequently carried at fair value. More information about the measurement techniques used to determine fair value is provided in Note 32.

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 32) 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. 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.

Impairment of financial assets

IFRS require entities to carry out impairment testing on assets which show indications of impairment. In carrying out this assessment, management exercise judgement in considering future cashflows as well as other information to determine the fair value of an asset.

'Loans and receivables' are assessed for indications of impairment throughout the year and, following review and challenge by the Agency's Credit Risk Committee, are impaired where there is objective evidence that recovery of the full amount 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED
31 MARCH 2018

1. Statement of accounting policies (continued)

r) Critical accounting judgements and key sources of estimation uncertainty
In the process of applying the accounting policies above, management has made the following judgements which have a significant impact on the Financial Statements:

Available for sale financial assets
The majority of Available for sale financial assets are investments in housing units, such as those under the Help to Buy scheme, as analysed in Note 22. These assets are valued with reference to regional house price indices, supplemented by adjustments for the Agency's 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.

The valuation of investments in housing units is highly sensitive to changes in assumptions about market prices. Investments in housing units are also the Agency's most significant asset category so the judgement exercised by management, both in the application of indexation to the home equity portfolio and in the experience adjustments applied to this indexation, is a key source of estimation uncertainty in the Agency's financial statements. Analysis showing the sensitivity of the valuation of these assets to changes in market prices, and therefore to management's judgement in estimating this valuation, is shown in Note 33. In addition, Note 38 outlines the Agency's analysis of the sensitivity of the valuation of the Help to Buy portfolio to key modelling assumptions.

Other Available for sale financial assets are generally valued with reference to cashflow forecasts, which are by their nature based on estimates, with the exception of the Agency's investment in the PRS REIT plc, which is valued with reference to quoted unit prices on the London Stock Exchange.

Market value of land and property assets
The determination of the market value of land and property assets involves a significant amount of judgement and estimation uncertainty, particularly given the complexity of some of the Agency's properties and the range of anticipated routes to disposal. 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. However, the judgement and estimation uncertainty involved in property valuations only affects carrying value when the valuation is below an asset's cost.

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, discount rates and mortality rates. Differences between those estimates used and the actual outcomes will be reflected in taxpayers' equity in future years.

s) 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 could have a significant impact on the Agency are listed below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments which replaces IAS 39 *Financial Instruments: Recognition and Measurement* is effective for periods beginning on or after 1 January 2018 and was endorsed by the EU in November 2016. IFRS 9, in particular the impairment requirements, will lead to significant changes in the accounting for financial instruments.

Classification and measurement

IFRS 9 requires financial assets to be classified on the basis of two criteria:

- the business model within which financial assets are managed, and
- their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

For the majority of our financial assets, business models are determined in relation to specific Agency programmes. Information that is considered in determining the business model includes:

- policies and objectives for the relevant Agency programme, and
- how the performance and risks of the programme are managed, evaluated and reported to management.

Where investments are not within a defined programme (for example, historic assets from predecessor bodies or assets arising from complex land transactions) the business model is determined using the same methodology but with reference to individual agreement terms.

In assessing whether contractual cash flows are solely payments of principal and interest, terms that could change the contractual cash flows so that it would not meet the condition for solely payments of principal and interest must be considered. These may include non-recourse arrangements, additional performance-related payments or features that could modify the time value of money. Due to the Agency's role in enabling residential development, these considerations are particularly relevant and will require detailed consideration at an individual agreement level.

Financial assets not measured at amortised cost are held at fair value through profit and loss. The measurement of these assets does not change under IFRS 9 as IFRS 13 is still applied to determine fair value. However, movements in asset values above cost are now required to pass through the Statement of Consolidated Net Expenditure rather than being recognised in a Fair Value Reserve and released through the Statement of Consolidated Net Expenditure on disposal. This has a material impact on presentation as the majority of assets on the Agency's Statement of Financial Position are classified to this category of financial asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

1. Statement of accounting policies (continued)

Changes to impairments for assets measured at amortised cost – expected credit losses
IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information. This replaces the existing IAS 39 incurred loss model, which only recognises impairment if there is objective evidence that a loss has already been incurred and would measure the loss at the most probable outcome. For the Agency, the IFRS 9 expected credit loss impairment model will be applicable to all financial assets at amortised cost. However, for short-term (billed) receivables, the Agency will apply the simplified approach outlined under IFRS 9, based on very low levels of historic impairment observed across varying economic conditions from 2008 to 2018.

The measurement of expected credit loss will involve increased complexity and judgement including estimation of probabilities of default, loss given default, variation in possible future economic scenarios, estimation of expected lives and estimation of exposures at default as well as assessing significant increases in credit risk. Increased impairment charges recognised under the new standard are not anticipated to be material to the Agency's accounts, but will tend to be more volatile. Impairment will also be recognised earlier and the amounts may be higher. The Agency's infrastructure loans (with longer expected lives) are expected to be most impacted.

The impairment requirements are complex and require management judgements, estimates and assumptions. Key concepts and management judgements include:

Determining a significant increase in credit risk since initial recognition
IFRS 9 requires the recognition of 12 month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are currently considered to be credit impaired (stage 3).

Because the Agency makes a relatively small number of high value investments which will be subject to the expected credit loss calculation requirements, in most cases individual assessments rather than portfolio assumptions can be applied. The Agency will assess when a significant increase in credit risk has occurred based on quantitative and qualitative assessments with reference to changes in the Agency's credit rating scores for individual investment counterparties. Where changes in these ratings indicate that a significant increase may have occurred since initial recognition, the investment will be reviewed individually by senior risk professionals and a definitive judgement made to confirm whether the stage 2 categorisation is appropriate.

Exposures will move back to stage 1 once they no longer meet the criteria for recognising a significant increase in credit risk.

Determining an assessment of the credit risk at initial recognition is expected to require management estimates, in particular for exposures issued significantly before the effective date of IFRS 9 (some of which pre-date the formation of the Agency). Where this is not possible, the Agency will apply a stage 2 categorisation, except where an investment can reasonably be assessed as low credit risk at the reporting date. In this case, stage 1 will be applied.

Expected life
Lifetime expected credit losses must be measured over the expected life of the financial asset. All of the Agency's financial assets which meet the criteria to be measured at amortised cost have a contractually defined long-stop date. This is used to inform the modelling approach for expected credit losses under IFRS 9.

Forward-looking information
Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Stress testing methodologies already employed by the Agency to model the effect of scenarios advised by the Bank of England are being utilised to support this IFRS 9 requirement.

Discounting
Expected credit losses will be discounted at the effective interest rate at initial recognition or an approximation thereof and consistent with income recognition. For loan commitments, the effective interest rate is that rate that is expected to apply when the loan is drawn down and a financial asset is recognised. For variable/floating rate financial assets, the spot rate at the reporting date is used and projections of changes in the variable rate over the expected life are not made to estimate future interest cash flows or for discounting.

Modelling techniques
Expected credit losses are normally calculated by multiplying three main components, being the exposure at default, the probability of default (%) and the loss given default (%), discounted at the original effective interest rate. Expected credit loss is measured at the individual financial instrument level. However, for balances where the simplified approach is applied to short-term financial instruments with similar risk characteristics, a collective approach is used where effects can only be assessed reasonably at a collective level.

Exposure at default is calculated with reference to expected future drawdown and repayment profiles, which are managed by portfolio managers for each individual investment.

The probability of default is determined by the Agency's Risk directorate with reference to a defined range of credit risk categories, with each investment having a credit risk rating applied on issue and at regular intervals thereafter. For stage 2 calculations the probability of default employs a lifetime probability of default table, which estimates the likelihood of default for each credit risk rating category over time.

Loss on default is driven by the value of security held in relation to the exposure at default. Security values are recorded at investment level, updated by individual portfolio managers and subject to assumptions determined by the Agency's Risk directorate for their likely recoverability in a default scenario. The inherent variability of security values over time makes this a key source of estimation uncertainty in the Agency's credit loss calculations.

Models for expected credit losses in relation to assets held at amortised cost continue to undergo development and validation, particularly in relation to the accuracy and completeness of security data. The implementation of a comprehensive end-state control environment for expected credit losses will be enabled by the introduction of business as usual controls throughout 2018-19.

Oversight
Reported results and key messages are communicated to the Agency's Audit & Risk Committee, which has an oversight role and provides challenge.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

1. Statement of accounting policies (continued)

Expected impact of applying IFRS 9

IFRS 9 will be applied retrospectively on adoption on 1 April 2018. In accordance with direction from HM Treasury, Homes England will not restate comparatives on initial application of IFRS 9 on 1 April 2018 but will provide relevant disclosures to make the effect of applying the new standard clear to users of the accounts.

The requirements in IFRS 9 to consider the substance of arrangements to determine whether contractual payments are solely payments of principal and interest are complex. The Agency has determined that a review of individual contracts is needed due to the level of judgment required in making this determination and the need to take account of evolving practice in applying this aspect of the standard. This is due to the potential for exposure to development risk, which may cause some agreements to be reclassified to the fair value through profit and loss category. As a result the Agency has not estimated the impact of applying the standard at this time.

IFRS 16 Leases

IFRS 16 will be effective for the Agency's 2019/20 reporting period. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Agency expects to reclassify many of its leases, particularly for property, as finance leases as a result. Principally, this will reduce administrative accommodation costs and increase depreciation charges, as well as increasing gross assets and liabilities.

2. Grant payments

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

	2017/18 £'000	2016/17 £'000
Affordable Housing Grant	543,496	317,469
Land programme	9,415	12,340
Garden Villages Capacity Funding	5,565	4,100
City Deals	10,208	22,087
Local Authority Capacity Funding	-	16,509
	568,684	372,505

3. Disposal of property assets

	Note	2017/18 £'000	2016/17 £'000
Proceeds from disposals		131,914	220,507
Cost of property disposals:			
Book value of property disposals	24	70,858	118,527
Direct sales expenses		1,716	1,810
		72,574	120,337
Gain on disposal		59,340	100,170

4. Programme costs

	2017/18 £'000	Restated 2016/17 £'000
Land programme	14,369	10,515
Financial Investment programmes	3,776	2,966
Housing Infrastructure Fund	1,945	-
Mortgage administrator	1,858	2,653
Affordable Homes programme	230	226
ERDF grant repaid	-	5,005
	22,178	21,365

Costs within the Land programme include project specific costs, such as due diligence, legal fees, professional fees and other land related expenditure, typically incurred before land is acquired by the Agency or where the criteria for capitalisation as land is not met. Costs may relate to numerous separate workstreams within the wider land programme, including the public sector land transfer programme, City Deals programme and the Accelerated Construction programme.

Costs within other programmes include legal and due diligence fees, financial investigation fees, property services fees and other non-grant, non-equity fees in relation to the operation of these initiatives.

Affordable Homes programme costs in 2016/17 have been reanalysed to better reflect the nature of the transactions.

5. Gain on disposal of available for sale financial assets

2017/18	Note	Help to Buy £'000	Other legacy home equity schemes £'000	Other assets £'000	Total £'000
Proceeds from disposals		490,177	79,661	58,557	628,395
Fair value of assets disposed	22	492,394	80,519	58,557	631,470
Loss on disposal against fair value		(2,217)	(858)	-	(3,075)
Fair value gains recognised in net expenditure on disposal		56,559	13,641	12,649	82,849
Gain on disposal against historic cost		54,342	12,783	12,649	79,774

2016/17	Note	Help to Buy £'000	Other legacy home equity schemes £'000	Other assets £'000	Total £'000
Proceeds from disposals		262,438	81,984	106,583	451,005
Fair value of assets disposed	22	264,614	83,375	106,583	454,572
Loss on disposal against fair value		(2,176)	(1,391)	-	(3,567)
Fair value gains recognised in net expenditure on disposal		33,054	13,854	21,104	68,012
Gain on disposal against historic cost		30,878	12,463	21,104	64,445

Fair value gains on available for sale financial assets are recognised in the fair value reserve, rather than in net expenditure, reflecting that they are unrealised. On disposal of the related assets, these gains become realised and so are then recognised in net expenditure.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

6. Staff costs

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

(a) Total staff costs

	2017/18 £'000	2016/17 £'000
Total staff costs charged to net expenditure comprise:		
Staff costs, excluding pensions	45,267	45,250
Pension costs	16,347	11,315
Total staff costs	61,614	56,565

The costs above can be further analysed as follows:

	2017/18 £'000	2016/17 £'000
Salaries and wages	39,348	39,581
Social security costs	4,779	4,629
Pension costs - current service cost*	14,377	9,244
Pension costs - past service cost and losses on curtailments and settlements	967	1,137
Pension costs - expenses	1,003	934
	60,474	55,525
Temporary staff	1,157	393
Seconded staff	385	647
	62,016	56,565
Less: Staff costs capitalised	(402)	-
	61,614	56,565
Non-Executive Board Member expenses	27	12

Staff secondments are generally posts where specialist skills are required from government departments or from the property or banking sectors, and are generally for a duration of no more than two years.

During the year, £402,000 of staff costs were capitalised (2016/17: £nil). The costs relate to work undertaken on systems development.

* The current service pension cost does not include costs relating to early retirements, which are included within restructuring costs in Note 8.

(b) 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 £186,000 (2016/17: £200,000).

For the performance year ended 31 March 2018, Directors did not receive a bonus (2016/2017: £nil).

The Accountability section of the Annual Report includes further details of bonuses, the average number of staff employed by the Agency, staff numbers by pay band and exit packages.

7. Other administration costs

	Note	2017/18 £'000	2016/17 £'000
Board Members' remuneration (including employers' national insurance)		289	272
Travel and subsistence		3,107	3,064
Accommodation and office running costs		8,545	7,950
Professional fees		516	851
Homes England Development Programme		1,079	-
Auditor's remuneration	11	220	210
Taxation not recoverable		1,569	1,455
Other		1,350	904
		16,675	14,706

Included within administration costs is £4,000 (2016/17: £2,000) in relation to non-staff hospitality and entertaining.

8. Restructuring costs

	2017/18 £'000	2016/17 £'000
Redundancy and restructuring	392	5,126
Early retirement pension costs	101	900
	493	6,026

The restructuring costs shown above include adjustments to accruals made in previous years, and are therefore different to the exit package costs shown in the Accountability section of the Annual Report, which relate only to new departures agreed in the year.

9. Impairments

	Note	2017/18 £'000	2016/17 £'000
Impairments/(impairment reversals) arise on assets as follows:			
Land and property assets	24	58,269	49,908
Available for sale financial assets	22	88,096	50,751
Loans	23	7,536	62
Property, plant and equipment		(27)	(334)
		153,874	100,387

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

10. Movement in provisions

	Note	2017/18 £'000	2016/17 £'000
Movement in bad debt provision	11	(689)	(99)
Movement in other provisions	28	(715)	6,180
		(1,404)	6,081

11. Net operating expenditure

	Note	2017/18 £'000	2016/17 £'000
Net operating expenditure has been arrived at after charging the following:			
Auditor's remuneration		220	210
Operating lease rentals - land and buildings		4,855	4,418
Operating lease rentals - other		868	1,078
Redundancy and restructuring	8	392	5,126
Early retirement pension costs	8	101	900
Movement in bad debt provision	10	(689)	(99)

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

12. Clawback of grants and contributions

	2017/18 £'000	2016/17 £'000
Affordable Housing Grant	3,364	3,625
Kickstart Housing Delivery - clawback of gap funding to developers	287	1,461
Land programme	603	1,618
	4,254	6,704

13. Regulator of Social Housing – income from fees

Homes England, in its capacity as the regulator of social housing in England, introduced fee charging for its activities in regulating Registered Providers. Fee income was charged from 1 October 2017 and comprises annual fees and initial registration fees. The total income for the year was £5,117,000. This is a statutory fee and is disclosed in greater detail in the Fees and Charges section of the Accountability Report.

14. Other operating income

	2017/18 £'000	2016/17 £'000
Rent and other property income	7,457	8,880
Homeowner fees	6,841	7,691
European Regional Development Fund (ERDF) grant received	293	6,388
Miscellaneous operating income	10,970	6,593
	25,561	29,552

The ERDF grant received in 2017/18 and 2016/17 relates to capital works on a land asset.

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 MHCLG. 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 2018

15. Operating segments (continued)

	2017/18			2016/17		
	Capital £m	Resource £m	Total £m	Capital £m	Resource £m	Total £m
Programme expenditure:						
Help to Buy	3,048.0	0.1	3,048.1	2,301.7	-	2,301.7
Private market investment:						
Home Building Fund - Short Term	298.5	2.3	300.8	118.7	1.6	120.3
Home Building Fund - Long Term	276.2	1.2	277.4	177.2	1.1	178.3
Legacy schemes	9.1	0.2	9.3	10.8	0.2	11.0
Housing Infrastructure Fund	-	1.9	1.9	-	-	-
Estate Regeneration	15.0	0.1	15.1	-	-	-
Build to Rent	125.8	-	125.8	86.9	-	86.9
	724.6	5.7	730.3	393.6	2.9	396.5
Affordable Housing	543.4	2.2	545.6	315.0	3.0	318.0
Land:						
Public Sector Land	182.2	17.7	199.9	240.0	40.0	280.0
Starter Homes	161.5	3.1	164.6	82.8	7.3	90.1
Direct Commissioning	23.7	-	23.7	-	-	-
Accelerated Construction	-	3.9	3.9	-	-	-
Garden Towns and Villages	-	5.6	5.6	-	-	-
City Deals	16.8	0.1	16.9	28.1	-	28.1
	384.2	30.4	414.6	350.9	47.3	398.2
Total programme expenditure	**4,700.2**	**38.4**	**4,738.6**	**3,361.2**	**53.2**	**3,414.4**
Administration:						
Staff and administration	5.4	71.3	76.7	3.2	74.3	77.5
Depreciation	-	3.2	3.2	-	2.3	2.3
	5.4	74.5	79.9	3.2	76.6	79.8
Total gross expenditure	**4,705.6**	**112.9**	**4,818.5**	**3,364.4**	**129.8**	**3,494.2**

15. Operating segments (continued)

	2017/18			2016/17		
	Capital £m	Resource £m	Total £m	Capital £m	Resource £m	Total £m
Programme receipts:						
Private market investment:						
Home Building Fund - Short Term	(85.8)	(9.4)	(95.2)	(24.7)	(2.8)	(27.5)
Home Building Fund - Long Term	(6.5)	(13.8)	(20.3)	(0.1)	(4.5)	(4.6)
Legacy schemes	(42.3)	(8.9)	(51.2)	(74.3)	(10.4)	(84.7)
Build to Rent	(85.7)	(4.3)	(90.0)	(73.0)	(4.2)	(77.2)
	(220.3)	(36.4)	(256.7)	(172.1)	(21.9)	(194.0)
Affordable Housing	(26.7)	(1.9)	(28.6)	(32.0)	(2.3)	(34.3)
Land:						
Public Sector Land	(160.7)	(86.9)	(247.6)	(296.2)	(108.2)	(404.4)
Starter Homes	-	(0.6)	(0.6)	(0.1)	-	(0.1)
City Deals	(13.6)	(1.4)	(15.0)	(15.4)	(18.7)	(34.1)
	(174.3)	(88.9)	(263.2)	(311.7)	(126.9)	(438.6)
Total programme receipts	**(421.3)**	**(127.2)**	**(548.5)**	**(515.8)**	**(151.1)**	**(666.9)**
Regulation provider fees	-	(5.1)	(5.1)	0.0	0.0	0.0
Total gross receipts	**(421.3)**	**(132.3)**	**(553.6)**	**(515.8)**	**(151.1)**	**(666.9)**
Total net DEL expenditure reported to Board	**4,284.3**	**(19.4)**	**4,264.9**	**2,848.6**	**(21.3)**	**2,827.3**

(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 land and property 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

15. Operating segments (continued)

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

	Note	2017/18 £m	2016/17 £m
Total net DEL expenditure reported to the Board		**4,264.9**	**2,827.3**
Reconciling items:			
Increase in impairments	9	153.9	100.4
Impairments captured within DEL expenditure		-	(5.5)
(Decrease)/Increase in provisions	28	(0.7)	7.2
Utilisation of provisions (net of reimbursements)		(1.5)	(5.8)
Share of losses/(profits) of associates and joint ventures	17	0.4	(10.1)
Investment in joint venture	21(b)	(2.1)	(0.9)
Realised gains on disposal of available for sale financial assets	5	(82.8)	(68.0)
Pension movements		5.7	0.1
Book value of land and property asset disposals	3	70.9	118.5
Book value of available for sale financial assets disposed	5	631.5	454.6
Help to Buy available for sale financial assets disposed (budget held by HMT)		(526.0)	(294.1)
Loan repayments	23	225.8	177.2
Capital items recorded as programme expenditure:			
Additions to available for sale financial assets	22	(3,099.4)	(2,332.7)
Additions to land and property assets	24	(315.8)	(213.1)
Loans advanced including interest added to loans	23	(682.3)	(383.8)
Other		(5.6)	(3.2)
Recovery of long term receivables recorded as programme income		6.9	4.9
Net expenditure before tax as stated in the Statement of Comprehensive Net Expenditure		**643.8**	**373.0**

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:

	Note	2017/18 £m	2016/17 £m
Total receipts reported to the Board		**553.6**	**666.9**
Reconciling items:			
Interest receivable	16	(45.0)	(31.4)
Clawback of grants recorded as income but shown net within expenditure in Board reporting	12	3.4	3.6
Other income shown net within expenditure in Board reporting		0.6	-
Expenditure shown net within income in Board reporting		1.7	-
Utilisation of reimbursement in respect of provisions		(2.5)	(3.6)
Realised gains on disposal of available for sale financial assets recognised in net expenditure	5	82.8	68.0
Timing differences		(6.9)	(5.6)
Receipts from disposal of capital items recorded as programme income:			
Proceeds from disposal of available for sale financial assets	22	(631.5)	(454.6)
Loan repayments	23	(225.8)	(177.2)
Help to Buy and FirstBuy receipts not included within DEL receipts		526.0	294.1
Income as stated in the Statement of Comprehensive Net Expenditure		**256.4**	**360.2**

(c) Major customers

Income as shown in the Statement of Comprehensive Net Expenditure includes a total of £nil (2016/17: £38.8m within the Land segment) arising from entities which individually account for more than 10% of the Agency's total income. Income from the largest single entity contributing to income amounted to £nil (2016/17: £38.8m from a private sector developer within the Land segment).

16. Interest receivable

	2017/18 £'000	2016/17 £'000
Unwinding of discount on financial assets and liabilities	7,384	5,181
Loan interest	37,510	25,879
Miscellaneous interest	104	297
	44,998	31,357

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

17. Share of profits of associates and joint ventures

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

	2017/18 £'000	2016/17 £'000
Share of results of associates	(397)	10,579
Share of results of joint ventures	7	(524)
Share of (losses)/profits of associates and joint ventures	(390)	10,055

The aggregate share of results is the net profit or loss from continuing operations. There was no profit or loss from discontinued operations and no other comprehensive income recognised in the year.

18. Principal/agent relationships

The Agency manages three science parks on behalf of the Department for Business, Energy and Industrial Strategy (BEIS). During the year the Agency incurred expenditure of £2.4m (2016/17: £2.3m) and collected income of £13.6m (2016/17: £3.3m) as a result of its day to day management of the sites. The net income is payable to BEIS.

The Agency also has an agreement with the Department of Health and Social Care (DHSC) in respect of the Care and Support Specialised Housing Fund. Under this programme, DHSC funds specialist housing for older people and adults with disabilities. The programme is delivered and managed by the Agency on behalf of the DHSC. During the year, grants totalling £29.5m (2016/17: £42.3m) were paid out by the Agency and reimbursed by DHSC.

In both of these relationships, the Agency is acting as an agent on behalf of the principal, BEIS and DHSC respectively. It would therefore be inappropriate to show income or expenditure gross in respect of these transactions, and so income received and expenditure incurred are shown net of reimbursements receivable.

19. Capital grants in kind

Income includes £9.8m (2016/17: £39.0m) in relation to the transfer of assets to the Agency from a number of government departments and agencies under statutory transfers. The intention is that the Agency will invest in these sites to improve their value and marketability, before disposing of them in the market.

Expenditure includes £35.7m (2016/17: £64.0m expenditure in relation to the transfer to the Greater Manchester Combined Authority) in relation to the transfer of the remaining part of the JESSICA fund (see note 22) to the Liverpool City Region Combined Authority. This is intended to allow greater alignment and coordination of the fund's resources with other government economic development funding, which is generally managed at city region level.

In all cases, as transfers were made within government without the payment of cash, a capital grant in kind is recorded for their valuation at the time of transfer.

20. Income tax

(a) Tax credit in net expenditure comprises:

	Note	2017/18 £'000	2016/17 £'000
Deferred tax relating to the origination and reversal of temporary differences	29	(14,533)	(8,873)
		(14,533)	(8,873)

The Agency is subject to Corporation Tax on all its activities except those related to grant payments.

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

	2017/18 £'000	2016/17 £'000
Deferred tax relating to:		
Actuarial gain/(loss) from pension fund	4,253	(2,161)
Revaluation of available for sale financial assets	10,280	11,034
	14,533	8,873

(c) Reconciliation of tax charge

	2017/18 £'000	2016/17 £'000
Net expenditure before tax	(643,751)	(372,992)
Income tax on net expenditure at 19%/20%	(122,313)	(74,598)
Effects of:		
Non-taxable income	(3,692)	(10,971)
Expenditure not deductible for tax	125,052	84,262
Depreciation and amortisation	607	464
Capital allowances on property, plant and equipment	(322)	(220)
Losses utilised	(14,370)	(9,124)
Losses carried forward	505	1,314
Tax credit for period (Note 20(a))	(14,533)	(8,873)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

21. Investments

(a) Subsidiary undertakings

Agency

Cost or valuation	2017/18 £'000	2016/17 £'000
At 1 April	25,000	20,542
Impairment reversal	-	4,458
At 31 March	25,000	25,000

During the year, the Agency held 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
Bristol & Bath Science Park Estate Management Co Ltd	£200	Property management company
Norwepp (NWDA subsidiary) Ltd *	£500	Investment holding company
AWM (Subsidiary) Ltd *	£1	Investment holding company
ONE NorthEast General Partner Ltd *	£100	Investment holding company

* Entities in the process of being wound-up

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 is not fully impaired as it has aggregate capital and reserves of £25.0m (2017: £25.0m) as shown in the table above, against an initial investment of £25.0m, representing the value of its investment in English Cities Fund (less redemptions) as covered in Notes 21(b) and 21(c).

21. Investments (continued)

(b) Associated undertakings and joint ventures

Group

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

Cost or valuation	Note	Group 2017/18 £'000	Group 2016/17 £'000	Agency 2017/18 £'000	Agency 2016/17 £'000
At 1 April		16,165	7,528	-	1,934
Investments in the year		2,081	905	-	905
Redemptions		-	-	-	-
Impairments		-	-	-	(516)
Reclassification to available for sale financial assets		-	(2,323)	-	(2,323)
Share of profits of associates and joint ventures	17	(390)	10,055	-	-
At 31 March		17,856	16,165	-	-

In 2016/17, Homes England's investment in the Housing Growth Partnership Limited was restructured, following which the investment ceased to be a joint venture and was reclassified as an available for sale financial asset (see note 22).

In 2017/18 £2.081m was re-invested by the Group into English Cities Fund. The Group is committed to invest a further £7.9m from amounts previously repaid to the Group in 2015. In 2017/18, the Group committed to invest a further £25.0m into English Cities Fund. During 2017/18, there have been no amounts drawn down from this additional commitment. There have been no repayments of funds made during 2017/18.

Impairments charged to the Agency's net expenditure is included within the Share of profits of associates and joint ventures in the Group's net expenditure (see Note 17).

The aggregated amounts of the Group's share of net assets and liabilities of associates and joint ventures are as follows:

	2018 £'000	2017 £'000
Group share of net assets of associates	17,529	15,845
Group share of net assets of joint ventures	327	320
Group share of net assets of associates and joint ventures	17,856	16,165

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

21. 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
English Cities Fund Limited Partnership	33%	Property development
Norwepp Limited Partnership ^ *	50%	Property rental and development
Onsite North East Limited Partnership ^ *	50%	Development of land
PxP West Midlands Limited Partnership ^ *	50%	Property rental and development
Countryside Maritime Limited ^	50%	Development of land
Temple Quay Management Limited	24%	Property management company
Bristol and Bath Science Park Estate Management Company Limited **	50%	Property management company
Kings Waterfront (Estates) Limited	50%	Property management company
Pride in Camp Hill	33%	Regeneration of Camp Hill area of Nuneaton

^ Joint venture
* Entities in the process of being wound-up
** No longer an associated undertaking or joint venture at 31 March 2018

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

(c) Commitments for associated undertakings and joint ventures

Group and Agency
The Agency has made a £5.0m (2016/17: £5.0m) working capital facility available to Countryside Maritime Limited, of which £nil (2016/17: £1.3m) was drawn at 31 March 2018.

22. 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 majority of which arises from the Help to Buy scheme;
- investments in development and infrastructure projects under which the Agency benefits from variable returns based on income generated by the project funding, including projects with both the private sector and local authorities, some of which have arisen under City Deals entered into to support the government's aim of promoting localism;
- overage due from the disposal of land to third parties, where the Agency includes contractual provisions in line with *Managing Public Money* to protect the public interest by requiring additional payments to be made where developments are more profitable than envisaged when the initial disposal consideration was agreed;
- an investment in shares issued by the PRS REIT plc, supporting the launch of the first quoted Real Estate Investment Trust to focus purely on the private rented sector;
- managed funds, including investments in Housing Growth Partnership, operated by Lloyds Banking Group, and the North West England JESSICA fund (Joint European Support for Sustainable Investment in City Areas). The JESSICA fund was operated by the European Investment Bank on the Agency's behalf and is partly funded by the European Regional Development Fund (ERDF). The remainder of the fund was transferred to Liverpool City Region Combined Authority during the year, as described in Note 19.

IFRS 13 Fair Value Measurement 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. The Agency's assets relating to housing units are categorised as level 2, while all other available for sale financial assets are categorised as level 3 with the exception of shares held in The PRS REIT plc, which are categorised as level 1.

Available for sale financial assets are carried at fair value, using the valuation methods described in Note 32. Impairments of available for sale financial assets are recognised in net expenditure, shown within impairments (Note 9). All other fair value adjustments, being gains or losses arising from changes in fair value, are recognised directly in the fair value reserve, reflecting that they are unrealised. On disposal of the related assets, these gains become realised and so are then recognised in net expenditure.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

22. Available for sale financial assets (continued)

Group and Agency

	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 1 April 2016		-	4,090,595	349,415	4,440,010
Additions		-	2,301,707	31,016	2,332,723
Reclassifications *		-	-	2,323	2,323
Disposals	5	-	(347,989)	(106,583)	(454,572)
Fair value adjustment		-	135,809	12,390	148,199
Impairments		-	(48,222)	(2,529)	(50,751)
At 31 March 2017		-	6,131,900	286,032	6,417,932
Additions		30,000	3,048,679	20,730	3,099,409
Reclassifications **		-	-	12,851	12,851
Disposals	5	-	(572,913)	(58,557)	(631,470)
Fair value adjustment		27	121,487	21,806	143,320
Impairments		-	(79,910)	(8,186)	(88,096)
At 31 March 2018		30,027	8,649,243	274,676	8,953,946

	2018 £'000	2017 £'000
Level 1 comprises:		
- Shares held in The PRS REIT plc	30,027	-
	30,027	-

	2018 £'000	2017 £'000
Level 2 comprises investments under the following programmes:		
- Help to Buy	8,314,304	5,721,718
- Other legacy home equity schemes	334,939	410,182
	8,649,243	6,131,900

22. Available for sale financial assets (continued)

	2018 £'000	2017 £'000
Level 3 comprises investments in the following categories:		
- Development equity	158,490	155,098
- Managed funds	28,769	53,061
- Infrastructure equity	32,387	35,040
- Overage	23,492	14,921
- City Deals	21,469	14,831
- Other	10,069	13,081
	274,676	286,032
Total available for sale financial assets	8,953,946	6,417,932

The valuation of investments in housing units is highly sensitive to changes in assumptions, in particular about market prices. Analysis showing the sensitivity of the valuation of these assets to market prices is shown in Note 33. In addition, the sensitivity of the Help to Buy valuation to the Agency's modelling assumptions is analysed in Note 38.

In June 2017, the Agency disposed of its final interest in the North West JESSICA Fund, when the remaining investment (valued at £35.7m) was transferred to Liverpool City Region Combined Authority. Because no payment was made for the asset, a *Capital Grant in Kind* of this amount has been recognised to reflect the transfer of value, as reflected in Note 19.

* During 2016/17, the Agency's investment in Housing Growth Partnership Limited was restructured with the result that it was reclassified from joint ventures to available for sale financial assets (see note 21(b)).

** During 2017/18, a historic investment which provided finance to a commercial partner was reviewed and reclassified from Loans to the Available for Sale financial assets category. The reclassification was made based on the original investment amount provided (£12.9m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

23. Loans

Group and Agency

	Development loans	Infra-structure loans	Other loans	Total
	£'000	£'000	£'000	£'000
At 1 April 2016	263,383	297,332	65,706	626,421
Loans advanced	187,287	173,239	4,106	364,632
Loans repaid	(138,169)	(27,943)	(11,109)	(177,221)
Interest added to loans	8,895	9,553	695	19,143
Impairments	(62)	-	-	(62)
At 31 March 2017	321,334	452,181	59,398	832,913
Loans advanced	372,706	277,535	2,011	652,252
Loans repaid	(181,671)	(41,662)	(2,503)	(225,836)
Reclassifications	-	-	(12,851)	(12,851)
Interest added to loans	12,536	17,982	(447)	30,071
Impairments	(7,620)	-	84	(7,536)
At 31 March 2018	517,285	706,036	45,692	1,269,013
Amounts at 31 March 2018 are disclosed as follows:				
Non-Current assets	215,467	588,571	40,535	844,573
Current assets	301,818	117,465	5,157	424,440
	517,285	706,036	45,692	1,269,013
Amounts at 31 March 2017 are disclosed as follows:				
Non-Current assets	174,071	413,451	55,581	643,103
Current assets	147,263	38,730	3,817	189,810
	321,334	452,181	59,398	832,913

Development Loans
Loans have been made to private sector developers in order to bring forward the development of housing under the Agency's programmes, including the Home Building Fund, Get Britain Building, Builder's Finance Fund and Build to Rent. These loans are repayable during periods ranging up to 2024.

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 periods ranging up to 2031.

Other loans
Other loans include £27.9m of loans made to utility companies (2016/17: £28.4m) in respect of water infrastructure for new town developments (due for redemption by 2053) and £17.6m loans made to Local Authorities (2016/17: £16.8m) which are repayable during periods ranging up to 2034. The Agency also holds £nil loans with private sector developers (2016/17: £14.1m).

24. Land and property assets

Group and Agency

	Note	2017/18 £'000	2016/17 £'000
Net book value at 1 April		589,536	544,915
Movement in year:			
Capital expenditure		315,830	213,056
Disposals	3	(70,858)	(118,527)
Impairments	9	(58,269)	(49,908)
Net book value at 31 March		776,239	589,536

Included above are land and property assets expected to be realised in more than one year of £709.2m (2016/17: £519.1m).

a) Impairment of land and property assets

Where the net realisable value of a land and property asset is lower than costs incurred on that asset, an impairment is made to write the asset down to net realisable value. This impairment is reviewed annually and any adjustment is taken to net expenditure. Impairments charged in the year were £83.2m (2016/17: £66.2m) and the reversal of impairments were £24.9m (2016/17: £16.3m).

b) Valuation

Land and property assets are carried at the lower of cost and net realisable value. In order to determine the net realisable value, a market value is established for all assets in the portfolio individually. The total of these valuations as at 31 March 2018 is £1,155m (2017: £910.2m).

25. Trade and other receivables

Group and Agency

	Note	2018 £'000	2017 £'000
a) Amounts falling due after more than one year			
Due from disposal of land and property assets		106,644	133,506
Other receivables		19,526	17,769
		126,170	151,275
b) Amounts falling due within one year			
Due from disposal of land and property assets		81,924	84,301
Trade receivables		4,707	2,809
Regulator of Social Housing – income due		5,767	-
VAT		4,033	-
Prepayments		28,056	33,774
Reimbursement in respect of provisions	28a	-	2,471
Other receivables		15,339	25,735
		139,826	149,090
Total trade and other receivables		265,996	300,365

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

26. Cash and cash equivalents

Group and Agency

	2018 £'000	2017 £'000
Cash held with Government Banking Service	218,539	147,498
Cash held with commercial banks	24,051	37,560
	242,590	185,058

The Agency draws Grant in Aid from MHCLG on a monthly basis, being received towards the middle of each month. At 31 March the Agency therefore held cash balances as shown above, to enable it to meet its short term cash requirements until receipt of the next instalment of Grant in Aid.

There were no cash equivalents at either of the reporting dates shown. In addition to the amounts above, at 31 March 2018 the Agency held £467,000 (2017: £822,000) on behalf of third parties.

27. Trade and other payables

Group and Agency

a) Amounts falling due after more than one year

	Group 2018 £'000	Group 2017 £'000	Agency 2018 £'000	Agency 2017 £'000
Deferred income	5,463	2,355	5,463	2,355
Other payables	7,444	11,985	7,444	11,985
	12,907	14,340	12,907	14,340

b) Amounts falling due within one year

	Group 2018 £'000	Group 2017 £'000	Agency 2018 £'000	Agency 2017 £'000
Trade payables	352,787	225,062	352,787	225,062
Accruals	5,403	10,208	5,403	10,208
Deferred income	17,201	8,203	17,201	8,203
VAT	-	5,456	-	5,456
Amounts due to subsidiary undertaking	-	-	8,159	10,000
Other taxes and social security	1,316	1,418	1,316	1,418
Other payables	15,009	15,846	15,009	15,846
	391,716	266,193	399,875	276,193
Total trade and other payables	404,623	280,533	412,782	290,533

Trade payables arise mainly from grants and other amounts in relation to the Agency's operations which have been claimed or invoiced but not yet paid.

28. Provisions

Group and Agency

	Environmental liability £'000	Restated Other liabilities £'000	Total £'000
Balance at 1 April 2016	23,913	9,503	33,416
Charge to net expenditure	2,898	4,010	6,908
Unused provisions credited to net expenditure	-	(728)	(728)
Unwinding of Discount	988	-	988
Expenditure against provisions	(4,592)	(4,691)	(9,283)
Balance at 31 March 2017	23,207	8,094	31,301
Charge to net expenditure	1,200	1,084	2,284
Unused provisions credited to net expenditure	(91)	(2,908)	(2,999)
Unwinding of Discount	(20)	-	(20)
Expenditure against provisions	(3,289)	(691)	(3,980)
Balance at 31 March 2018	21,007	5,579	26,586

Amounts above are disclosed as follows:

	2018 £'000	2017 £'000
Current liabilities	10,693	17,592
Non-current liabilities	15,893	13,709
	26,586	31,301

a) Environmental liability

The environmental liability covers two liabilities. The first 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, £7.7m at 31 March 2018 (2017: £11.1m).

The Agency previously had a right to partial reimbursement from BEIS in respect of this liability. During the year, the reimbursement has been fully settled with no balance due (Balance due at 31 March 2017: £2.5m, note 25 (b)).

The second environmental provision covers the Agency's liability for water supply contamination at a site in the West Midlands. The cost of the minimum works required is £13.3m (2017: £12.1m).

b) Other liabilities

Other liabilities primarily comprise specific provisions for property transactions and legal actions. Other liabilities has been restated to include movements previously disclosed separately as community related asset transfers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

29. Deferred tax

Group and Agency

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

	At 31 March 2016	Charged to net expenditure	Charged to other comprehensive expenditure	At 31 March 2017
	£'000	£'000	£'000	£'000
Fair value gains on available for sale financial assets	50,599	-	11,034	61,633
Unused tax losses	(54,530)	(9,124)	-	(63,654)
Provisions	(6,015)	694	-	(5,321)
Pensions	9,946	(443)	(2,161)	7,342
Deferred tax liability	**-**	**(8,873)**	**8,873**	**-**

	At 31 March 2017	Charged to net expenditure	Charged to other comprehensive expenditure	At 31 March 2018
	£'000	£'000	£'000	£'000
Fair value gains on available for sale financial assets	61,633	-	10,280	71,913
Unused tax losses	(63,654)	(14,370)	-	(78,024)
Provisions	(5,321)	801	-	(4,520)
Pensions	7,342	(964)	4,253	10,631
Deferred tax liability	**-**	**(14,533)**	**14,533**	**-**

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 £117m (2017: £200m) 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.

30. 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*. The Homes and Communities Agency Pension Scheme is a final salary scheme and is the only one which remains open to new employees. The other schemes are Local Government schemes which changed from a final salary to career average basis for benefits accruing from 1 April 2014. Further information on the funding arrangements for the schemes is contained within Note (l) below.

Valuations of the Agency's assets and liabilities in each scheme as at 31 March 2018 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, weighted according to each scheme's liabilities. Other information below is shown on a consolidated basis for all three schemes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

30. Pension arrangements and liabilities (continued)

a) Pension assets/(liabilities)

	HCA pension scheme £'000	Westminster £'000	West Sussex £'000	Total £'000
2018				
Fair value of employer assets	401,775	368,591	73,975	**844,341**
Present value of funded liabilities	(368,050)	(305,022)	(71,053)	**(744,125)**
Net funded scheme assets	**33,725**	**63,569**	**2,922**	**100,216**
Impact of asset ceiling	-	(29,007)	-	(29,007)
Adjusted net funded scheme assets	**33,725**	**34,562**	**2,922**	**71,209**
Present value of unfunded liabilities	(1,150)	(4,144)	(3,379)	**(8,673)**
Adjusted net scheme assets/(liabilities)	**32,575**	**30,418**	**(457)**	**62,536**
Total of net pension assets				71,209
Total of net pension liabilities				(8,673)
2017				
Fair value of employer assets	398,069	357,602	73,216	**828,887**
Present value of funded liabilities	(387,103)	(314,831)	(73,287)	**(775,221)**
Net funded scheme assets/(liabilities)	**10,966**	**42,771**	**(71)**	**53,666**
Impact of asset ceiling	-	(6,506)	-	(6,506)
Adjusted net funded scheme assets/(liabilities)	**10,966**	**36,265**	**(71)**	**47,160**
Present value of unfunded liabilities	-	-	(3,970)	**(3,970)**
Adjusted net scheme assets/(liabilities)	**10,966**	**36,265**	**(4,041)**	**43,190**
Total of net pension assets				47,231
Total of net pension liabilities				(4,041)

The impact of the asset ceiling on the recognition of assets is directed by paragraph 64 of *IAS 19*. The asset ceiling is the limit above which further increases in net pension assets cease to be recognised for accounting purposes. The limit is determined by the benefit which could be obtained by a refund of, or reduction in, employer contributions to a scheme. Movements on the asset ceiling are set out in note 30(h). Only the Westminster Scheme has reported an asset ceiling restriction as this is based on the rules specific to that Scheme governing the treatment of surpluses.

Funded schemes with net assets as shown above are disclosed within non-current assets in the Statement of Financial Position.

During the year, the Agency has recognised unfunded liabilities in the HCA and Westminster Pension Schemes. The HCA Pension Scheme represents unfunded liabilities in respect of former employees of the agency and its predecessor organisations who are receiving long-term compensation payments until their 65th birthday, or who are being paid retirement compensation payments under the Housing Trust Order. Within the Westminster Pension Scheme, the liabilities recognised reflect compensatory added years benefits paid direct to former employees. Although these liabilities existed in previous years they had not been quantified or reported.

As principal employer of the HCA Pension Scheme, the Agency continues to monitor the scheme and has a good working relationship with the Trustees. The Trustees review the Scheme's investment portfolio on a regular basis. At present, 50% of the Scheme's investments are held within matching products that protect the Scheme against rises in inflation and interest rates.

30. 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

	2018	2017
Inflation and pension increases rate (CPI)	2.2%	2.4%
Salary increases	3.6%	3.8%
Discount rate	2.6%	2.6%

ii) Mortality assumptions

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

	2018 Years	2017 Years
Male – current pensioners	23.6	23.7
Male – future pensioners	25.5	25.7
Female – current pensioners	25.3	25.5
Female – future pensioners	27.4	27.7

(c) Fair value of employer assets

	2018 £'000	2017 £'000
Equities – quoted	432,767	440,429
Bonds – quoted	259,583	257,286
Property	39,126	38,214
Other assets – quoted	112,773	92,856
Other assets – unquoted	92	102
Total	**844,341**	**828,887**
Actual return on employer assets	**28,997**	**151,833**

Some of the funds in which the Agency's pension assets are invested permit the use of derivatives for the purposes of achieving their investment aims. In all cases, funds are managed by professional investment managers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED 31 MARCH 2018

30. Pension arrangements and liabilities (continued)

d) Charge to net expenditure

	2017/18 £'000	2016/17 £'000
Amounts charged to net operating expenditure		
Current service costs	14,393	9,943
Past service costs and losses on curtailments and settlements	967	1,137
Expenses	1,003	934
	16,363	**12,014**
Amounts charged to finance costs		
Interest charged on liabilities	20,246	21,848
Expected return on assets	(21,660)	(24,660)
Interest on asset ceiling	176	565
	(1,238)	**(2,247)**
Total recognised in Statement of Comprehensive Net expenditure	**15,125**	**9,767**

The total expected employer contributions to these schemes in the year ending 31 March 2019 are £9.0m.

e) Amounts recognised in income and expenditure reserve

	2017/18 £'000	2016/17 £'000
Actuarial gains/(losses)	25,016	(12,008)

The cumulative amount of actuarial gains recognised in other comprehensive expenditure since the adoption of *IAS 19* is £106.9m

f) Reconciliation of fair value of employer assets

	2017/18 £'000	2016/17 £'000
Opening fair value of employer assets	**828,887**	**683,714**
Expected return on assets	21,660	24,660
Contributions by members	2,565	2,644
Contributions by the employer	8,818	9,548
Contributions in respect of unfunded benefits	637	164
Actuarial gains	7,337	127,173
Net transfers	(1,900)	708
Expenses	(1,082)	(1,012)
Unfunded benefits paid	(637)	(164)
Benefits paid	(21,944)	(18,548)
Closing fair value of employer assets	**844,341**	**828,887**

30. Pension arrangements and liabilities (continued)

g) Reconciliation of defined benefit obligation

	2017/18 £'000	2016/17 £'000
Opening defined benefit obligation	**779,191**	**611,911**
Current service cost	14,393	9,943
Past service cost and losses on curtailments and settlements	967	1,137
Interest cost	20,246	21,848
Contributions by members	2,565	2,644
Actuarial losses/(gains) – demographic	(8,096)	3,755
Actuarial losses/(gains) – financial	(19,588)	152,750
Actuarial gains – other	(12,320)	(6,715)
Net transfers	(1,900)	708
Expenses	(79)	(78)
Unfunded benefits paid	(637)	(164)
Benefits paid	(21,944)	(18,548)
Closing defined benefit obligation	**752,798**	**779,191**

h) Reconciliation of asset ceiling

	2017/18 £'000	2016/17 £'000
Opening asset ceiling	**6,506**	**16,550**
Interest cost	176	565
Actuarial movements	22,325	(10,609)
Closing asset ceiling	**29,007**	**6,506**

i) Five-year history

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Present value of defined benefit obligations	(752,798)	(779,191)	(611,911)	(645,732)	(540,226)
Fair value of employer assets	844,341	828,887	683,714	691,436	619,489
Impact of asset ceiling	(29,007)	(6,506)	(16,550)	-	-
Surplus in the schemes	**62,536**	**43,190**	**55,253**	**45,704**	**79,263**
Experience gains/(losses) on scheme liabilities	12,320	6,715	2,009	(5,312)	12,464
Experience gains/(losses) on employer assets	7,337	127,173	(28,201)	50,600	16,239

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED
31 MARCH 2018

30. Pension arrangements and liabilities (continued)

j) Sensitivity Analysis
Pension liabilities are calculated using actuarial estimates as shown in Note 30(b) above. If the major assumptions were to change, the impact on the defined benefit obligation would be as follows:

Adjustment to discount rate	**+0.25%**	**current**	**-0.25%**
Present value of total obligation	718,869	752,798	788,348
Movement	(33,929)	-	35,550

Adjustment to inflation	**+0.25%**	**current**	**-0.25%**
Present value of total obligation	782,526	752,798	724,516
Movement	29,728	-	(28,282)

Adjustment to life expectancy	**+1 year**	**current**	**-1 year**
Present value of total obligation	778,136	752,798	727,818
Movement	25,338	-	(24,980)

k) Maturity profile of the defined benefit obligation
The weighted average duration of the defined benefit obligation of the pension schemes is 20 years.

Pension benefits, including insurance premiums, are expected to be paid over time as follows:

	£'000
Within 5 years	142,916
5-10 years	161,475
After 10 years	448,407
Total defined benefit obligation	**752,798**

l) Funding arrangements
Contribution rates for each of the three schemes are reviewed at least every three years following a full actuarial valuation. The funding strategy in each case is set to target a fully funded position, except for those liabilities which are intentionally unfunded. Any underfunding is restored to a fully funded position via additional contributions over an appropriate period of time.

The HCA scheme is a multi-employer scheme that does not operate on a segregated basis. Therefore the assets and liabilities are not separately identified for individual participating employers. Benefit obligations are estimated using the Projected Unit Credit Method. The Agency is the only significant contributing employer, and accounts for over 99% of the HCA scheme's liabilities.

There are no formal arrangements in place for the allocation of a deficit or surplus on the wind-up of the plan or the Agency's withdrawal from the plan. Under both scenarios, exit debts would become payable under Section 75 of the Pensions Act 1995.

The Westminster and West Sussex schemes are members of the Local Government Pension Scheme (LGPS). Assets and liabilities for all employers in LGPS funds are identifiable on an individual employer basis. There are no minimum funding requirements or winding up provisions in the LGPS. Any deficit on withdrawal is required to be paid by the withdrawing employer and any surplus is retained by the fund.

31. 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	2018 Original cost £'000	2018 Carrying value £'000	2017 Original cost £'000	2017 Carrying value £'000
Loans and receivables					
Cash and cash equivalents	26	242,590	242,590	185,058	185,058
Trade and other receivables	25	237,339	233,907	270,324	264,120
Loans	23	1,293,140	1,269,013	851,829	832,913
Available for sale					
Available for sale financial assets	22	8,766,300	8,953,946	6,217,128	6,417,932
Total financial assets		**10,539,369**	**10,699,456**	**7,524,339**	**7,700,023**

There are no significant differences between the carrying value and fair value of the assets above, except for those described in note 32.

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 the financial assets above are determined as described in Note 32.

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

	2018 £'000	2017 £'000
Other financial liabilities		
Trade and other payables	380,643	263,101
Provisions	-	-
Total financial liabilities	**380,643**	**263,101**

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 32.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

32. Fair value of financial assets and financial liabilities

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

- The fair value of the agency's shareholding in the PRS REIT plc is calculated with reference to prices quoted on the London Stock Exchange and is therefore categorised as level 1 in the fair value hierarchy as defined by *IFRS 13*.
- The fair values of available for sale financial assets relating to housing units are calculated with reference to movements in the ONS house price index (UK HPI) 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, also at a regional level. Therefore these fair values are categorised as level 2 in the fair value hierarchy as defined by *IFRS 13*.
- The fair values of available for sale financial assets relating to equity investments in development / infrastructure projects and overage 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 13*.
- The fair value of managed funds are equal to the net assets of those funds at the reporting date, and are therefore categorised as level 3 in the fair value hierarchy as defined by *IFRS 13*.

Where 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 considered to be significant they are either:

- recognised as grant expenditure where fair value is considered to be below cost, in accordance with *IAS 20 Government Grants*; or
- deferred and released over the expected life of the instrument in accordance with *IAS 39 Financial Instruments: Recognition and Measurement*.

Changes in the aggregate gains yet to be recognised in net expenditure are as follows:

Group and Agency

	2017/2018 £'000	2016/2017 £'000
At 1 April	-	336
Gain arising on initial recognition	-	-
Released	-	(336)
At 31 March	-	-

33. Financial risk management

The Group and Agency's financial assets and liabilities are detailed in Note 31. The statements in this note apply to both the Agency itself and the Group, except where indicated.

The exposure to financial risk arising from loans, receivables and available for sale financial assets is a key focus for management. In order to mitigate this risk, the Agency adopts the following approach to transactions with developers:

- potential exposure to credit risk is subject to a level of analysis which would be seen in UK financial institutions, which includes the consideration of aggregated exposures where applicable;
- for existing recoverable investments, cash flows are managed monthly based on client's agreed cash flows for drawdowns and reported to Central Finance;
- when selling property the Agency is normally secured by use of a Building Lease giving the right to retake possession of the disposed property in the event of a default by the buyer;
- loan and equity agreements are generally backed by a charge on land, parent company guarantees or other available security as appropriate to the individual circumstances. These are subject to individual review and structuring.

a) Market price risk

The Agency's results and equity are dependent upon the prevailing conditions of the UK economy, especially UK house prices, which significantly affect the valuation of the Agency's assets.

In particular, the Agency is exposed to significant market price risk in its shared-equity mortgage portfolio and land portfolio. Any market price movements are reflected in net expenditure for the period when an impairment is reported, or otherwise as changes in equity.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

33. Financial risk management (continued)

Home Equity Portfolio
At 31 March 2018, 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 these portfolios, before the effects of tax, would have been an increase/decrease of £867m/£1,102m from that stated. This illustrates the impact of the mortgage providers' first charge, which disproportionately increases the estimated level of impairments when house prices reduce, for example in the cases of modelled reductions in house prices shown in the table below:

Modelled change in house prices	Estimated portfolio value (£m)	Incremental change in fair value (£m)	Incremental change in fair value	Incremental impairment (charge)/ reversal made to net expenditure (£m)
-25%	5,101.0	(3,548.2)	-41.0%	(3,194.0)
-10%	7,546.9	(1,102.3)	-12.7%	(852.8)
-5%	8,154.9	(494.3)	-5.7%	(341.4)
-1%	8,557.4	(91.8)	-1.1%	(55.3)
0%	8,649.2	-	0.0%	-
+1%	8,738.9	89.7	1.0%	48.1
+5%	9,085.2	436.0	5.0%	161.9
+10%	9,515.7	866.5	10.0%	203.0

Private sector developments, overage and infrastructure
At 31 March 2018, 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 and infrastructure projects, before the effects of tax, would have been an increase/decrease of £26.8m/£26.8m from that stated.

b) Credit risk
Credit Policies are developed which set the context of the appetite for risk, requirements for risk assessment (both at the outset and through the cycle of facilities provided) and the operational aspects of managing the overall risk profile.

Loans are subject to ongoing review with established procedures to use, and react to, early warning signs. This enables the Agency to consider the need for more intensive management to protect the exposure or if needed undertake a structure review to consider whether specific impairments are required. Forbearance is considered as part of any assessment and review of the customer risk rating during the term of facilities.

All assessments and approvals are operated within a structured approval delegation matrix from HM Treasury and MHCLG.

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 31.

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

- Available for sale financial assets relate mainly to amounts receivable individually from the shared equity mortgage portfolio properties units when 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.
- Four private sector developers account for 29% of £517m development loans (2017: 33% of £321m), and four private sector developers account for 41% of £706m infrastructure loans (2017: 37% of £452m).

33. Financial risk management (continued)

- Ten private sector developers accounted for 52% of development loans (2017: 52%) and ten private sector developers account for 72% of infrastructure loans (2017: 65%). Of the total £1,269m loans exposure, ten private sector developers account for 46% of the balance (2017: 46% of £833m).
- Loans to a single private sector developer account for 9% of development loans (2017: 14%) and loans to a single private sector developer account for 13% of infrastructure loans (2017: 13%).
- 61% of £46m other loans relate to a major public utility company (2017: 48% of £59m).
- Receivables arise largely from disposals of land and property 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. Ten counterparties account for 72% of the Agency's £204m receivables balances due from disposal of land and property assets (2017: 78% of £235m).
- 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.

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 2018 was £106.2m (2017: £90.3m), and the five largest counterparties accounted for 3.7% of the total balance (2017: 4.5%).

c) Interest rate risk

The Agency's income is exposed to interest rate risk on its financial assets classified as loans and receivables, where these pay interest at a variable rate. For the majority of the Agency's loan portfolio, the variable element is the EC Reference Rate (0.73% as at 31 March 2018). Consequently, the downside risk to the Agency is limited to this rate.

If interest rates on the Agency's variable rate loans and receivables had been 1% higher/lower throughout the year ended 31 March 2018, the Agency's net expenditure for the year, before the effect of tax, would have been £9.3m/£6.8m higher/lower.

d) Liquidity risk

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

To the extent that the Agency's liabilities cannot be met from its own sources of income, they may be met by future grants or grant in aid from the Agency's sponsoring department, MHCLG. Such grants are paid on a monthly basis to fund net liabilities as they are expected to fall due. Short term liquidity is managed through the investment of any cash surpluses with the Government Banking Service.

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

Substantially all of the Agency's financial liabilities (as described in Note 31) are contractually due within one year of the reporting date.

e) Currency risk

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2018

34. Operating leases

As at 31 March 2018 the Agency had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 Land and Buildings £'000	2018 Others £'000	2017 Land and Buildings £'000	2017 Others £'000
Within one year	1,592	697	2,284	511
Between one and five years	2,787	1,232	4,857	482
	4,379	1,929	7,141	993

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 operated from a London office at 2 Marsham Street for a number of years. On 1 January 2018, the Agency entered into a rental agreement for a new London office at Windsor House which it occupied from 3 April 2018 when its staff relocated, with the exception of Regulation staff who remained at 2 Marsham Street.

For both 2 Marsham Street and Windsor House, formal leases do not exist so it is not possible to arrive at a minimum lease commitment. During the year, the agency paid £2.1m rent in respect of 2 Marsham Street and £0.45m in respect of Windsor House. The ongoing annual commitments are expected to be £0.4m for 2 Marsham Street and £1.8m for Windsor House. In addition, the agency does not have a formal lease in place for its Manchester office, the previous lease having expired during the year. A new lease is expected to be agreed soon. Rent paid during the year was £0.4m.

The above commitment figures do not therefore include future rentals in respect of these buildings.

As at 31 March 2018 the Agency had granted leases for land and buildings with future minimum sub-lease payments expected to be received which fall due as shown below. As required by *IAS 17 Leases*, the figures shown are not discounted to reflect the time value of money. Comparatives have been restated to better reflect the substance of sub-leases and to improve comparability with this year's disclosure.

	2018 £'000	Restated 2017 £'000
Within one year	4,259	4,762
Between one and five years	9,922	10,439
In more than five years	8,912	10,002
	23,093	25,203

The Agency leases a number of its land and property assets as lessor. 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 unlikely that the Agency will ultimately receive the full amounts shown above as sub-lease income.

35. 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) 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 MHCLG. The extent of the potential liability will only be known once any defects are identified. No claims have yet been notified under this indemnity.

b) 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 that payment is considered probable.

36. Financial commitments

The Agency has made financial commitments for loans and equity investments which had become unconditional at the reporting date, but which had yet to be drawn down by that date. The value of these commitments, excluding those disclosed in Note 21 (a) and (c), was £1,073m at 31 March 2018 (2017: £1,149m).

In addition to the above, the Agency has given outline approval to investments under the Help to Buy scheme which, while still conditional, are likely to result in the drawdown of investments in the coming year. The value of these outstanding approvals at 31 March 2018 was £1,056m (2017: £1,385m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED
31 MARCH 2018

37. Related party transactions

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

The Agency has had a number of material transactions with other government departments and other government bodies, including various local authorities, the Department for Business, Energy & Industrial Strategy, the Department of Health and Social Care and the Ministry of Justice. The Agency has also had a number of material transactions with its associated undertakings, joint ventures and other related parties as follows:

2017/18	Capital invested in/ (redeemed from) entity	Grants and other payments	Loans/ equity advanced/ (repaid)	Loan interest/ dividends received
	£m	£m	£m	£m
Payments out				
English Cities Fund Limited Partnership	2.1	0.5	-	-
Dolphin Square Foundation	-	-	5.2	-
Receipts in				
Countryside Maritime Limited	-	-	(1.3)	-
English Cities Fund Limited Partnership	-	-	-	(0.2)

2016/17	Capital invested in/ (redeemed from) entity	Grants and other payments	Loans/ equity advanced/ (repaid)	Loan interest/ dividends received
	£m	£m	£m	£m
Payments out				
Housing Growth Partnership Limited	0.9	-	-	-
Countryside Maritime Limited	-	-	0.3	-
English Cities Fund Limited Partnership	-	2.0	-	-

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.

One Agency Board Member is also a board member of a major utility company, with which the Agency incurred costs of £500 and engaged in contract works of £1.3m. The Agency necessarily has many property related transactions with utility companies due to its significant property portfolio, and the Board Member concerned had no influence on the procurement process or the terms of the transactions, which were the same commercial terms as those available to other customers.

One member of the Agency's Key Management team was previously employed by a major construction company and held an insignificant number of shares for a small period of the year in which they were appointed. This member of the Key Management team has worked with our internal legal team to implement a protocol to eliminate any perceived conflict of interest. This protocol has included stepping aside from all decisions involving this construction company.

37. Related party transactions (continued)

The related party relationship with Dolphin Square Foundation is due to one Agency Board Member also being a board member of Dolphin Square during the reporting period. This Board Member held both posts for the month of March 2018 only and has since left their position on Dolphin Square's Board. During March 2018 a loan payment was advanced to the Foundation under a Build to Rent loan facility agreement which was contracted in April 2015. The outstanding loan balance is £16.2m, of which £11m has been advanced in previous years and £5.2m in the current year. A further £10m is expected to be drawn down in February 2019. However, a related party relationship will not exist after 31 March 2018.

There were no other transactions in which Board Members and related parties had a direct or indirect financial interest. None of the senior managers or related parties has undertaken any material transactions with the Agency during the year.

38. Sensitivity of significant Help to Buy valuation modelling assumptions

Homes England models the fair value of its Help to Buy portfolio based on its best estimate of the return which would be achieved were all homeowners to redeem their equity loans on the reporting date. This is considered to be a significant accounting estimate, not least because the fair value of the portfolio is highly sensitive to market price risk as set out in Note 33. In addition, the estimate made by the Agency to determine fair value is significantly affected by the assumptions made by the Agency in the modelling process.

Market adjustments

Office of National Statistics House Price Indices (HPI) – which are used by the Agency to estimate the effect of house price inflation over time – are based on all market activity. Help to Buy is only available on new-build properties purchased with a mortgage, and redemptions can occur via staircasing as well as by sale. This means that the market price of the property on redemption may differ from that estimated by HPI alone. The Agency therefore makes regional market adjustments using its accumulated experience of gains and losses on disposals across different redemption transaction types to allow for these differences. These assumptions affect the fair value because they modify the expected market price of properties from which the Agency's percentage share is calculated.

The table considers how the portfolio valuation would vary with 1% changes in the adjustments applied:	Fair value (£m)	Movement from base assumption (£m/%)	
2% increase in market adjustment	8,125	(189)	-2.3%
1% increase in market adjustment	8,221	(93)	-1.1%
Base assumption	8,314	-	0.0%
1% decrease in market adjustment	8,405	91	1.1%
2% decrease in market adjustment	8,493	179	2.2%

Assumptions for the expected proportions of transaction types

Help to Buy financial assets are redeemed at the earlier of the sale of the property, or when the homeowner staircases the equity loan with a payment equivalent to the Agency's share of the current estimated value of the property (as determined by a Chartered Surveyor). The Agency applies regional assumptions based on its accumulated experience to estimate the proportion of its portfolio that will be redeemed by each of these two redemption types. These assumptions have a significant effect on the estimated fair value because the proceeds recovered via a sale may be reduced by amounts due to the first charge mortgage lender and because different transaction types are observed to generate differing returns (as reflected in the regional market adjustments applied).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED
31 MARCH 2018

38. Sensitivity of significant Help to Buy valuation modelling assumptions (continued)

The table considers how the portfolio valuation would vary with changes in the expected proportions of transaction types	Fair value (£m)	Movement from base assumption (£m/%)	
All redemptions are staircasing transactions	8,217	(97)	-1.2%
10% increase in the rate of staircasing	8,293	(21)	-0.3%
Base assumption (a blend of sales and staircasing)	8,314	-	0.0%
10% increase in the rate of sales	8,336	22	0.3%
All redemptions are sales	8,431	117	1.4%

Estimation of the effect of assumed rates of first charge mortgage arrears
The Help to Buy financial assets are redeemed on the sale of the property from the proceeds after the first charge mortgage lender has been fully repaid. The Agency makes an assumption using publically available information to estimate the proportion of the Help to Buy portfolio where repayment to the first charge mortgage lender is in arrears. This assumption affects the fair value because an increase in the amount due to the first charge mortgage lender may reduce the available proceeds from sale below the amount which would otherwise be due based on the Agency's percentage share.

It should be noted that arrears rates are currently at historic lows and so the effect on the portfolio valuation of modelling current reported rates of arrears is very low (£1m impairment).

The table considers how the portfolio valuation would vary with changes in the expected rates of first charge mortgage arrears	Fair value (£m)	Movement from base assumption (£m/%)	
7.5% increase in accounts in arrears (inc. 1.5% increase in repossession)	8,286	(28)	-0.3%
5% increase in accounts in arrears (inc. 1% increase in repossession)	8,296	(18)	-0.2%
2.5% increase in accounts in arrears (inc. 0.5% increase in repossession)	8,305	(9)	-0.1%
Base assumption	8,314	-	0.0%
No accounts in arrears	8,316	2	0.0%

Assumed discount to sale prices applied on repossession
Repossessed properties may be sold at a discount. The Agency makes an adjustment based on its accumulated experience to estimate the average discount applied to repossessed properties. This assumption affects the amount returned to settle the investment, because an increase in the discount on sale will reduce the proceeds available to the Agency once the first charge mortgage lender has been fully repaid. This assumption does not currently have a significant effect on the Agency's portfolio valuation because repossesion rates are at historic lows and where properties have been held long enough to be subject to the risk of repossession, they have also benefitted from increases in house prices which offset the discount sufficiently to insulate the Agency's investment. Clearly this would not be the case in a market downturn, where increased expected rates of repossession and lower house prices (before discount) would produce more significant effects.

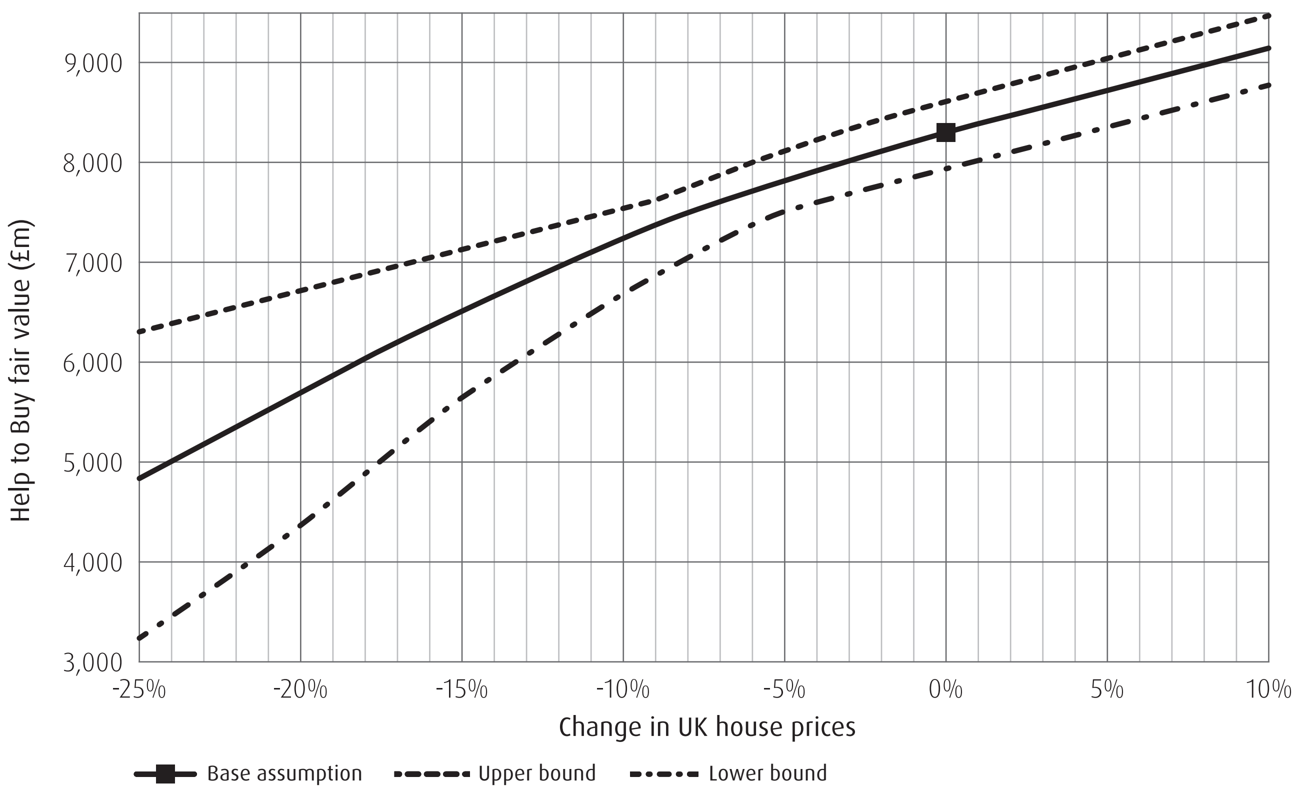
The table considers how the portfolio valuation would vary with changes in the discount to sale price applied on repossession	Fair value (£m)	Movement from base assumption (£m/%)	
15% increase in discount	8,312	(2)	0.0%
10% increase in discount	8,313	(1)	0.0%
Base assumption	8,314	-	0.0%
10% decrease in discount	8,315	1	0.0%
15% decrease in discount	8,316	2	0.0%

38. Sensitivity of significant Help to Buy valuation modelling assumptions (continued)

Combined impact of adjustments in different economic scenarios
The Agency's adjustments from accumulated experience will interact with each other and with changes in economic scenarios. For example, a 15% fall in house prices might lead to both a 10% increase in staircasing transactions (relative to sales) and a 7.5% increase in accounts in arrears. In this situation the Agency would model a fair value of £6,505m: a reduction of £1,809m or 22% on the base assumption.

The combined impact of applying different assumptions and the spread of outcomes which results with changes in market price, is set out in the below graph. The upper and lower bounds relate to the movements from the base assumption set out in the above tables (i.e. the lower bound corresponds with a 2% increase in market adjustment, 7.5% increase in accounts in arrears, and 15% increase in repossession discount on sale prices at various market prices). The upper and lower bounds are also based on the higher and lower values respectively for each end of the range of the expected proportion of transaction types.

The spread of potential fair values produced by varying the assumptions applied as set out above is approximately £660m (based on current house prices). In a falling market the spread increases, reaching approximately £3,050m should market prices fall by 25%. The increase in spread as prices fall is primarily due to the increased probability that the amount due to the first charge mortgage lender will affect the proceeds available to the Agency should the associated property be sold at that price. Here, the upper bound decreases on a linear gradient because it is entirely comprised of staircasing transactions.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED
31 MARCH 2018

39. Events after the reporting period

The Agency's Financial Statements are laid before the Houses of Parliament by the Secretary of State for Housing, 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 the Ministry of Housing, Communities and Local Government.

The certified accounts were authorised for issue by the Chairman and the Chief Executive and Accounting Officer on the same date as the Certificate and Report of the Comptroller and Auditor General.

In June 2018 the Agency entered into a new joint venture company with Kier Living Limited and CKH Developments Limited to develop and sell residential housing schemes. The Agency holds a 26% partnership interest in Kier Community Living Topco 1 LLP and a 26% partnership interest in Kier Community Living Topco 2 LLP, with the partnership interests determining the right to the profits or losses of the development company, Kier Community Living LLP. The Agency has committed to invest £42.1m into the joint venture through a combination of capital investment and loan funding.

Following approval of legislation by Parliament, the Regulation Function will transfer out of the Homes and Communities Agency to become a standalone organisation known as the Regulator of Social Housing with effect from 1 October 2018.

Since the year end the Government has committed to fully fund the removal and replacement of unsafe cladding by councils and housing associations. We understand the financial cost of this is estimated at £400 million and is to be funded via the Agency's Affordable Homes Programme.

GETTING IN TOUCH

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