Homes & Communities Agency

HOMES AND COMMUNITIES AGENCY

ANNUAL REPORT AND FINANCIAL STATEMENTS 2013/14

Homes and Communities Agency

Annual Report and Financial Statements 2013/14

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

STRATEGIC REPORT
WHO WE ARE AND WHAT WE DO

The Homes and Communities Agency (HCA) is the Government's housing, land and regeneration agency; and the Regulator of social housing providers in England.

The HCA is a national body delivering locally, using its programmes, land assets and regulatory role to protect and sustain existing stock, to boost overall housing supply and economic growth, delivering at scale and at pace with a range of national, local, private and public sector partners.

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

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

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

The Localism Act 2011 set out the HCA's statutory objectives in respect of regulation; that the Regulator must perform its functions with a view to achieving (so far as possible):

- the economic regulation objective
- the consumer regulation objective.

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

STRATEGIC REPORT
HOW WE ARE MANAGED

We are governed by a Board of, currently, 10 members appointed by the Secretary of State for Communities and Local Government, which is responsible for ensuring the HCA carries out its functions effectively. The HCA's regulatory responsibilities are directed by an independent Regulation Committee, currently of 6 members. Members of both the Board and the Regulation Committee are obliged to act in accordance with the Agency's Code of Practice and a register of members' interests is available for inspection on the Agency website.

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

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

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

HCA Board Members

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

Robert Napier, CBE, Chairman
Andrew Rose, Chief Executive (from 15 April 2013)
Julian Ashby
Keith House
Richard Hyde
Bob Lane, OBE
Dr Ann Limb, OBE
Anthony Preiskel
Jane May (from 1 May 2013 to 30 June 2014)
Ian Robertson
Ruth Thompson, OBE (to 31 May 2014)

HCA Regulation Committee Members

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

Julian Ashby (Chair)
Jane May (to 30 June 2014)
Richard Moriarty
Piers Williamson
Inge Kettner
Jonathan Adlington (from 1 April 2013)
Tariq Kazi (1 June 2013 to 30 November 2013)

STRATEGIC REPORT
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

We are very pleased to report another strong delivery performance for the Homes and Communities Agency in 2013/14.

We continued to focus on our core priorities – delivery of the Affordable Homes Programme; bringing surplus public land to the market to drive housing growth; supporting local economic growth through the development of assets; increasing private sector housing starts through equity, loans and other market interventions; and maintaining investor confidence in the sector through effective regulation – and with the support of our partners we met or exceeded all of our key targets.

Our activities made a difference to the lives of thousands of people in communities across the country from a small scheme to address the causes of homelessness in Chester le Street in Durham, to the country's first Build to Rent scheme at Centenary Quay in Southampton. In doing so we continued to help meet Government aspirations for housing and local growth.

We completed a total of 33,143 new homes against a target of 30,990; and started on site with a further 38,845. Of the homes completed, 26,325 were for affordable rent or sale. As a result, we are currently well on track to deliver our contribution to Government's aspiration of 170,000 new affordable homes by 2015.

Following the Chancellor's announcement of the new Help to Buy equity loan scheme in the March 2013 Budget, the HCA successfully went from a standing start to launch of the scheme on 1 April; a period of just 2 weeks. This was a significant achievement and sales under Help to Buy, along with FirstBuy, helped 20,359 families into home ownership during the year. Over 1,000 house builders are registered to deliver the scheme, with all the major high street lenders offering mortgages. Government statistics published in May 2014, showed that 87% of Help to Buy sales up to the end of April 2014 were to first time buyers, with an average sale price of £205,424.

During the year, we also appointed a new network of Help to Buy agents, who undertake the crucial role of helping potential home-buyers access suitable homes. Our re-procurement will deliver significant cost savings in the provision of this service. All of these activities have laid strong foundations for Help to Buy in the year ahead.

In further support of housing and local economic growth, we also brought land to market to support delivery of over 5,940 new homes – 25% higher than target – while 114ha of previously developed land was brought back into productive use, helping to remove the blight of dereliction. The employment capacity of the land we disposed of was 263,182 sqm, exceeding our target by 36%; while we created over 320,000 sqm of new employment floorspace, supporting new and expanding business and jobs, and exceeding our target by 47%. This is core business for the HCA, recognised in the Spending Round settlement where Government announced that from 1 April 2015, the HCA would be the Government's land disposal agency. Government's decision builds on our experience of managing large portfolios of public land, our commercial expertise and our local market knowledge.

Our investment for the year was on budget at £2.4bn.

Our delivery activities were underpinned by continued effective regulation. In the second full year since the Agency assumed responsibility for the regulation of registered providers, our independent Regulation Committee continued to raise awareness of risk in a more complex and diverse sector, and take the necessary steps to strengthen our regulatory function. During the year, we published discussion documents on changes to the Regulatory Framework and on a fee charging regime; undertook a major assessment of registered providers compliance with the Value for Money Standard; reviewed our experience of consumer regulation, giving greater clarity on examples of serious detriment; and undertook significant work internally to strengthen our regulatory capacity. We published over 200 regulatory judgements, giving lenders to the sector the assurance they need that registered providers are well governed and financially viable.

New programmes, new approaches

As in previous years, our successes in 2013/14 were achieved alongside the HCA continuing to assume new responsibilities, moving quickly to launch new programmes in support of Government aspirations; while undergoing further change. In January we closed our corporate office in Milton Keynes, relocating staff to Government office space in Bedford, and began preparation for a similar move for office staff in London. As noted above, the Regulator undertook a substantial restructure, equipping it with the teams necessary to move to a more joined up system of risk based regulation. In February we began a programme of internal change to manage our increasing portfolio of loans and equity investments, and preparation for our role as the Government's land disposal agency from April 2015.

Our track record of successful delivery was recognised in each of the major fiscal events of 2013/14. The Spending Round settlement in June set out the Agency's enhanced land role from 2015, and signalled £3.3bn of new investment for affordable housing up to 2018 including £2.9bn for the Affordable Homes Programme (AHP), of which £1.7bn will be administered by the Agency outside of London. We moved quickly during the year to set out plans for the 2015-18 Programme so that our partners could make the best use of lead-in time once allocations are announced to ensure delivery starts from day one. We published an AHP bidding prospectus in January, with bids to be received by the end of April. Bids will be assessed rigorously, while at the same time in our capacity as Regulator, we will ensure that they are consistent with partners remaining viable and being able to deliver financially on their commitments. Initial allocations will be announced in July 2014.

The Spending Round settlement also gave long term certainty for the social housing rent regime of CPI+1%, bringing welcome stability to registered providers when managing their income streams and planning for development.

Overall the Spending Round settlement was welcomed by many in the sector as recognition of the importance of meeting affordable housing need and supporting the supply of housing overall, as well as the direct role it plays alongside other crucial infrastructure in driving economic growth. There are significant opportunities in the years ahead for house builders and registered providers to meet their development aspirations.

In his Autumn Statement, the Chancellor announced an additional £1bn investment which was subsequently made available through the HCA's Large Sites Infrastructure Programme. This is accelerating the delivery of locally supported, large scale housing schemes by investing in upfront works – such as installing utilities or linking to existing road networks – through commercial loans or equity investment. The investment – covering the period up to 2020 – is intended to bring forward around 250,000 new homes and builds on the Agency's existing major investment in schemes at Cranbrook, Sherford and Wokingham.

Finally, the March Budget saw housing policies to support over 200,000 new homes including a 4 year, £6bn extension of Help to Buy to 2020; a new Builder's Finance Fund to provide access to £525m of finance on smaller housing developments; and a £150m revolving loan fund to re-start regeneration of some of the country's most challenged housing estates. Government has confirmed that these programmes will be managed by the HCA, adding to our significant and rapidly growing portfolio of recoverable investment.

As these new programmes and responsibilities have been given to the Agency, we have sought additional capacity as required. However, the scale and scope of our increasing role – particularly around land and 'recoverable' investment where our complex portfolio may grow considerably within the next few years – means it is now timely to look at the operating model of the HCA in the longer term.

We have acknowledged that this is change and should be managed as such. As with any change programme, it is important that partners understand our ultimate objectives and recognise the benefits to them in using our programmes to meet their, and our, objectives. In February we began this internal change in earnest under the banner of 'Shaping Our Future'. Plans are

STRATEGIC REPORT
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT (CONTINUED)

progressing well with the establishment of a new business unit within the Agency HCA-Investments (HCA-I). HCA-I is intended to provide the Agency with additional technical expertise and discipline of the type that would be expected in an organisation undertaking significant recoverable investment, alongside Government expectations for social and policy outcomes.

While HCA-I has been identified as the means by which we will manage our large scale public sector financial transactions, a significant number of recoverable investment programmes are already underway. Our priority is therefore to increase our current capacity and to develop HCA-I alongside the launch and due diligence of live programmes. This work will continue in the year ahead as we move to the start of the new spending period in April 2015.

The Government's land disposal agency

In 2013/14 we again acted as a key delivery partner of Government in increasing the amount of public land for development. We are the third largest contributor of land supply in Government and our expertise includes master-planning with local partners, overseeing public investment into development sites, pioneering innovative finance methods such as deferred receipts, and accelerating disposals through our Developer Partner Panel, which since it was re-procured in March 2013 has been used by 70 partners to procure around 17,000 new homes.

Throughout the year we have shown that we can bring land forward more efficiently through making targeted investment to de-risk sites, working with developers, understanding the local market and engaging with the local planning authority. In doing so we add value to surplus public sites with development potential and speed up sales to help increase economic growth; while our development partners are clear about the value of having land coming through in order that they can meet growing demand.

In July we announced the first three sites to receive investment through the £190m Public Land Investment Fund. As a result, The Avenue in Chesterfield, Haltwhistle in Northumberland, and Maghull, a former hospital site in Sefton, will benefit from the upfront infrastructure works necessary to de-risk them in preparation for market sale, turning surplus public land into development opportunities. We also announced, in November, that four HCA-owned sites would be brought forward specifically for use under Custom Build, showing how the Agency can combine land opportunities with available funding to maximise impact.

Based on our performance during the year, and as set out in our refreshed Land Development and Disposal Plan published in December, we are on track to dispose of enough land by April 2015 to support delivery of more than 16,000 homes. This is a significant contribution to Government's commitment to support the construction of up to 100,000 new homes on public sector land.

In preparation for future delivery as the Government's land disposal agency from April 2015, we are already adding more surplus public land sites to our disposal pipeline, acquiring 20 surplus sites from Central Government during the year, including six Department of Health site transfers that took place on 1 April 2014, as a pilot for the future transfer model.

We worked closely with the Government Property Unit in its strategic land and property review, which confirmed scope in the March Budget for £5bn of land and property assets for disposal, with a commitment to quantify housing and growth ambitions for public land by the next Autumn Statement. Throughout the year we have also worked with Government departments to develop the transfer model and the principles of our new approach.

As with our investment portfolio, the difference in our enhanced land role is largely in the scale of our activity, and while we already dispose of land in a variety of ways, it is clear that the amount we handle will increase in the years ahead.

A strong housing offer

Government has stated that everyone needs the security of a decent affordable home, and that more people who aspire to own their own home should have the opportunity to do so.

The importance of housing and construction to economic growth is also well recognised, and driving local economic growth remained an important HCA priority. A strong housing offer supports jobs in the construction industry and its wider supply chain is critical in attracting firms to locate and invest, helps local employers to attract and retain staff, and stimulates new economic activity in local areas.

The Spending Round settlement placed housing alongside road, rail and energy as part of the vital infrastructure investment needed nationally to allow local places to grow and prosper.

Throughout the year we have moved quickly to deliver additional investment allocated to the Agency, while focusing on delivery of our existing programmes, such as the 2011-15 Affordable Homes Programme. Our starts on site in the previous year and the swift progress we made in allocating new and additional investment set the foundation for delivery, while we continued to seek ways of maximising the number of new affordable homes for the funding invested, and secure early delivery. Our partners are being encouraged to demonstrate how they can use good procurement practices such as driving supply chain efficiencies and innovative construction techniques, to maximise the delivery of new supply by reducing the initial and whole life costs of building homes.

Strong progress has also been made under the Get Britain Building programme. A total of 3,036 new homes were completed during the year, with nearly 1,000 more started on site. One such deal was particularly innovative, with Notting Hill Housing Group, the Greater London Authority and the HCA using a £45m loan under Get Britain Building to create a £90m private rented sector portfolio.

The sector's appetite to invest in purpose-built new homes for rent – bringing a rental and capital growth return – has been demonstrated by the Agency's £1bn Build to Rent Fund, with both Round 1 and Round 2 having been heavily over-subscribed. The programme is intended to deliver 10,000 new homes, and progress during 2013/14 has seen five contracts signed under Round 1, with a further 12 in the process of being signed; and an additional 36 shortlisted schemes under Round 2 progressing through due diligence. The quality of the bids received and our approach to due diligence will ensure that the fund is spent on deliverable bids that represent value for money for the taxpayer.

Throughout our housing activities, we have continued to pay close attention to the needs of all sections of the community. Our advisory groups on vulnerable and older people, and on equality and diversity have been instrumental in ensuring that the principles of good design to meet varied needs of those who will live in our homes, are applied across our programmes. For example, we anticipate that nearly 10% of our current Affordable Homes Programme will meet the needs of vulnerable and older people; while our Care and Support Specialised Housing Fund, managed on behalf of the Department of Health, seeks to widen the housing options of older people and adults with disabilities. In July we announced the 86 registered providers that will deliver more than 3,000 new affordable homes through this fund.

The Agency's Local Infrastructure Fund has provided support to deliver the infrastructure needed to boost Enterprise Zone schemes and accelerate locally-supported large scale housing developments. A total of 18 Enterprise Zones and large housing development sites are currently progressing towards contract, building on the deals made to date at Cranbrook, Wokingham and Sherford, which are set to speed up delivery of over 14,500 new homes.

Looking forward, Government reiterated its commitment to housing throughout the year with key programmes such as Help to Buy, Build to Rent, and the Affordable Homes Programme all having been extended into the next spending period, bringing a welcome degree of certainty to our partners and setting in place a solid foundation for delivery post 2015, that builds on the success of our current programmes.

STRATEGIC REPORT
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT (CONTINUED)

Protecting social housing assets

The HCA's effective regulation protects social housing assets and helps maintain the right conditions for new supply. A well regulated sector helps providers to access the finance they need at competitive rates, while tenants benefit from the reassurance that the Regulator brings. During the year the sector has retained its enviable record of financial security.

However the operating environment is becoming more challenging and the inherent risk of being a registered provider is increasing. Throughout the year our independent Regulation Committee has ensured that as regulator we have taken steps necessary to keep on top of developments in the sector.

We have strengthened our operational capacity, backed by a more risk-based approach to regulation. We have continued to highlight risk, making robust and transparent judgements on registered providers and we continued to set out how we expect registered providers to give us the greater assurance we need that they are dealing with the risks they are facing.

We have worked in a co-regulatory way with registered providers so that identified exposures are managed to ensure continued compliance with our economic standards.

In September, we published our second Sector Risk Profile, which again emphasised that effective governance and risk management are vital, making clear that our co-regulatory approach means registered providers need to have appropriate strategies in place to manage risks and boards need to understand the interaction between the various risks and their overall 'portfolio' impact. This will remain a theme in the year ahead.

We have also been clear that the Regulator and its approach also have to change in order to keep pace with developments in the sector. As well as strengthening our capacity through internal change, in April 2013 we published a discussion document on necessary changes to the HCA's Regulatory Framework, which achieved the aim of initiating debate within the sector.

As the diversity of organisations in the sector makes a 'one size fits all' approach to protecting social housing assets impractical, our formal consultation sets out different and proportionate arrangements to achieve comparable outcomes. For all registered providers we would expect to see effective risk management and boards undertaking multivariate analysis against a range of scenarios to understand what could cause their business significant financial distress and plan mitigating strategies to deal with any exposures. A thorough, documented understanding of their assets and liabilities will also be essential. Ring-fencing of social housing assets in a separate legal entity may be appropriate for 'for profit' registered providers and we have also set out our expectations on the role of unregistered parents in group structures.

This effectively equates to good governance and we remain clear that through the co-regulatory approach the onus is on boards to have the appropriate skills, capabilities and independence, to manage their business effectively.

Good governance is also central to registered providers success in meeting our consumer standards, and in October we identified our first case of serious detriment, the threshold at which we are mandated to intervene in consumer regulation issues. A revised regulatory judgement downgraded the registered provider's governance rating as a result of this and other issues; while two further cases of serious detriment, also, like the first, relating to gas safety, were identified later in the year. In November, we published a review of consumer regulation, detailing how the Agency has gone about implementing the new legislation, helping landlords and the local bodies that hold them to account to ensure that problems do not get to the stage where the Regulator has to get involved.

An assessment of compliance with the Regulator's Value for Money (VfM) Standard was also undertaken during the year. Following a review of the VfM statements of all registered providers with more than 1,000 homes, our findings showed a range of responses, with some good statements and some that did not provide us with the necessary assurance. As a result, a total of 15 registered providers received a revised regulatory judgement, published in February, with 14 receiving a downgraded governance rating. While 2013/14 was effectively the first year of this new standard, and our response was proportionate, the Regulatory Framework is clear that VfM is an important part of our economic standards and we anticipate registered providers will seek to give greater assurance in the year ahead.

While our regulatory activity this year has continued to demonstrate the need for registered providers to deal effectively with risk and has identified a number of instances where the Regulator has had serious cause for concern, our Quarterly Surveys and the Global Accounts published in March show that the sector remains financially sound and continues to access the finance it requires at competitive rates. In the main, registered providers are well run and are managing exposures to the housing market effectively.

With a well run, well organised and well regulated sector, we are strongly placed to continue our leading role in seeing the homes the country needs built, housing some of the most vulnerable in society.

Local priorities, local action

As a national agency that works locally, our activities throughout the year have continued to support locally identified priorities for land, housing and economic growth. Local authorities and other local bodies such as Local Enterprise Partnerships (LEPs) remain key partners for the HCA. While our programmes and approaches are changing with an increased use of loans and equity investment, the outcomes we are seeking remain the same: creating successful places with homes and jobs.

Throughout the year, we have remained integral to the work of the core cities, by supporting local partners in implementing their City Deals to meet their ambition for local economic growth. Our local teams are engaged in bespoke governance structures, such as Greater Manchester, Leeds City Region and the Bristol Property Board. We have continued to align our priorities and activity as far as possible with local growth priorities so that they are mutually supportive; to increase or accelerate delivery. The recently agreed Preston, South Ribble and Lancashire City Deal, for example, will accelerate and deliver over 17,000 new homes, and as a key element of this is unlocking surplus public land we are working closely with local partners providing a blend of investment, skills and expertise to support this ambition.

Following the City Deals, the 39 LEPs have finalised their strategic economic plans as part of the growth deal process. The final plans will be assessed, with decisions due to be made on allocations of local growth funding, alongside wider flexibilities, expected to be announced in July 2014. Throughout this process we have worked closely with LEP partners to identify ways in which the Agency can support local solutions for housing and economic growth that align with our strategic priorities and Government objectives. In addition, we continue to use our land and investment to support Enterprise Zones, creating new and innovative opportunities for businesses, linked to the wider community. We have also combined our economic assets with our other programmes, to boost local economic growth and ensure value for public money; and through our Economic Assets and Property and Regeneration programmes alone we attracted nearly £1.4bn of private investment to the sector in 2013/14.

As ever, it is in the impact we have made in local communities – in individual projects and initiatives – that the true test of our success lies.

In our East and South East operating area, further progress has been made at Northstowe; the biggest proposed new town since Milton Keynes and one of the HCA's top priorities. The development outside Cambridge will provide up to 10,000 new homes, three employment areas (135,000 sqm floorspace) and other community facilities. At Betteshanger, a former colliery site near Dover, we have worked with Hadlow College to bring forward the Betteshanger Sustainable Parks Development, which is expected to bring over 1,000 jobs to East Kent as well as providing a higher education campus along with a sustainable energy visitor centre.

During 2013/14, we also brought a number of significant sites to market for much needed homes

STRATEGIC REPORT
CHAIRMAN AND CHIEF EXECUTIVE'S REPORT (CONTINUED)

and non-residential space to support economic development. At Runwell, a former hospital site in Essex, we entered into contract with Countryside Properties, to deliver 575 homes and 2,800 sqm of non-residential space. Also in Essex, planning consent has been secured for the Nethermayne site in Basildon – the site is expected to deliver 684 homes, a new 800 sqm college and a new town centre market.

In August, our development partner started on site on the first phase at Tattenhoe Park, Milton Keynes, in our Midlands operating area. The first phase will deliver 154 homes, which will be a combination of affordable and market sale homes. As well as attracting new home owners to the area, their design means that those who live in them will be able to adapt their home to their future needs.

In Redditch, acquisition of land to the rear of the Alexandra Hospital site was finalised in March 2014. When combined with land the Agency had previously acquired, it brings together just over seven hectares of developable land under our Surplus Public Land acquisitions. The site will now be marketed through our Delivery Partner Panel to develop a mixed-use scheme with the potential for over 100 new homes.

And at a former mining community at Cotgrave in Nottinghamshire, our development partner received detailed planning consent and Building for Life accreditation during the year, reflecting good progress on this £100m development to provide 450 homes and over 200 jobs.

North East, Yorkshire and The Humber's Navigation Point development in Castleford is seeing the transformation of 40 acres of derelict former chemical works into a development of 1,300 much needed new homes. The development is now underway having been unlocked with £2.5m HCA loan investment through Get Britain Building with the homes built to date proving very popular with local buyers – 16 people had moved in by the end of the year, six using the Help to Buy scheme.

We have also developed the Darlington Business Growth Hub, a previously derelict site which is being developed to provide more than 26,000 sqm of employment floor space, 500 homes for local people, and new educational facilities for Teesside University and the local sixth form college.

During the year we also agreed the operating area's first loan through the Local Infrastructure Fund – of just under £11m – to support Harworth Estates with the continued delivery of the Waverley scheme in the Sheffield City Region Enterprise Zone. This is the largest brownfield regeneration in Yorkshire and will build on the success of the first phase to provide additional homes and commercial space alongside the existing advanced manufacturing park and the existing 250 homes. The investment will open up the rest of the 740 acre site to help provide homes, leisure and community facilities and shops alongside additional employment opportunities provided by employers such as Rolls Royce and Boeing.

We have been working collaboratively with partners in our North West operating area to establish the Preston, South Ribble and Lancashire City Deal, which was signed by Government in September. The deal is a 10 year initiative to deliver significant housing and economic growth through the provision of critical highway, transport and associated community infrastructure. Over ten years, the deal is intended to generate more than 20,000 new jobs, including 5,000 in the Lancashire Enterprise Zone; nearly £1bn growth in Gross Value Added (GVA); 17,420 new homes; and £2.3bn in leveraged commercial investment.

There has also been significant activity at the HCA's Omega North site alongside the M62 in Warrington (formerly RAF Burtonwood). Two projects completed during the year – the Brakes logistics centre and a Hermes Parcelnet distribution centre – securing 850 new jobs and £40m private sector investment. The site will be further boosted by a £35m (750,000 sq ft) logistics centre for Travis Perkins Group, which secured planning permission in May 2013 and has recently started on site.

And by positively engaging with a range of partners through the £1bn Build to Rent programme, we have successfully tackled the three perceived barriers to entry – yield, scale and development finance/risk. As a result Greater Manchester saw the strongest interest for the second round of Build to Rent outside of

London and the Three Towers project at Ancoats will help meet the demands of a strong private rental market in Manchester.

At the other end of the country, Centenary Quay in Southampton in our South & South West operating area saw the first national investment through Build to Rent, where phase three of the development, which started in June, is expected to create up to 300 new jobs through the delivery of 329 new homes, retail and office space. And at the former Quebec Barracks in Bordon, Hampshire, the first phase of an urban extension of 100 new homes – built to high standards of sustainability – employment floorspace and improved community facilities, represent the first step towards delivering the comprehensive regeneration of Whitehill and Bordon which will ultimately provide 4,000 new homes and 4,000 new jobs.

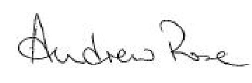
At Solent Enterprise Zone, 2013/14 brought a start to infrastructure works, as well as to Fareham College's new Centre for Engineering, 104 new homes, and a £5.3m state of the art business innovation centre. In Bristol, the HCA is investing more than £11m in the creation of a new bridge which will connect the derelict Diesel Depot site to the rest of the Enterprise Zone, unlocking long-term major development, including a 12,000-capacity arena.

A crucial year ahead

As noted above, meeting our targets on an annual basis means we enter the final, crucial year of delivery in the current spending period, well on track to deliver our commitments up to 1 April 2015 as well as those for the period beyond, as set out in the Spending Round settlement in June 2013. We will continue to need the support of our partners on the ground; but for now, they, and our staff, should receive thanks for the hard work and sustained efforts in helping the Agency to meet its targets in the year just past.

At the same time as finishing the job in this spending period, we are preparing to start delivery in the next. Again, we are in a strong position. Government has reiterated its commitment to the sector with programmes that extend well into the next spending period and will deliver a mix of new homes to meet the aspirations of those who seek home ownership and rental alike, and will help to drive local growth. And our plans for HCA-Investments and our enhanced land role are well on track.

So the year ahead will be challenging, and we will rightly be judged on our performance as of 1 April 2015. We are confident that in 12 months' time we will be reporting another strong year of delivery and, more importantly, demonstrating the positive impact our activities have had on local communities.



Robert Napier Chairman **Andrew Rose** Chief Executive

STRATEGIC REPORT
STRATEGY AND BUSINESS MODEL

The HCA's vision is to help create successful places with homes and jobs. As a national body delivering locally, with offices in every operating area in England, HCA uses its programmes, land assets and regulatory role to protect and sustain existing stock, and to boost overall housing supply and economic growth, delivering at scale and at pace with a range of national and local, private and public sector partners.

The HCA's Corporate Priorities, and the business models used and strategies employed to meet those priorities, are as follows:

Delivering and maintaining affordable housing

The Agency will continue to make a major contribution to the Government's target of delivering 170,000 new affordable homes by 31 March 2015, and contribute to the Government's target of 165,000 affordable homes, between 2015 and 2018. To meet this target HCA will:

- continue to deliver its existing Affordable Homes Programme (AHP) and allocate £1.7bn of funding through its new AHP over three years to 2018
- support the development of the Affordable Rent to Buy Programme with a £400m fund announced in 2013
- manage the delivery of the national Decent Homes Backlog programme, supporting the refurbishment of council owned homes to Decent Homes Standard.

Increasing private sector housing supply through market interventions

The Government continues to support a range of national initiatives to get Britain building again, improving housing supply and helping people get the home they want. The HCA will help achieve this by working nationally, at scale and at pace, to stimulate a broad range of housing supply and boost private investment in new homes. The Agency will do this by:

- continuing to support up to 74,000 homebuyers over 3 years to 2015/16 via the £3.7bn Help to Buy equity loan scheme (this has since been extended in the Budget 2014 to provide £6bn extra funding for up to 120,000 homes by 2020)
- unlocking the supply of 12,000 homes on stalled sites via the Get Britain Building programme
- unlocking 15,000 homes that have stalled due to difficulty in accessing finance, through a £525m recoverable Builders Finance Fund
- stimulating new private rented housing supply through a £1bn Build to Rent fund
- using the £470m Local Infrastructure Fund and £1bn Large Sites Infrastructure Fund, to deliver economic growth through targeted investments to accelerate the delivery of housing supply.

Bringing surplus public sector land and assets to market

Up to 31 March 2015, the Agency will continue to make a significant contribution to the Government's ambition for land with capacity for 100,000 homes to be released; and in the longer term up to 2020, play a growing role in the Government's drive to increase the amount of, and rate at which, public land is brought forward for housing supply.

For 2014/15, the HCA will continue to focus on disposal of its existing land and assets and has recently updated its Land Development and Disposal Plan in furtherance of this aim. The 2013 Spending Round set out Government plans for the HCA as its surplus land disposal agency, taking on additional responsibility for disposal of surplus land transferred from other government departments. The Budget 2014 confirmed that Government is seeking to dispose of land and property with a value of up to £5bn. From 2015 the HCA will have a responsibility to meet its own receipts target and to provide a return to government departments and DCLG to allow them to fund programmes and meet Ministerial objectives. It will also be important that the wider social and economic benefits from the release of surplus public sector land continue to be captured.

Supporting local economic growth

The Government has clearly articulated a strong and continued focus on economic growth, including cutting red tape for businesses and working with town centres, cities and local areas to attract new businesses and create jobs. The HCA has a clear role in supporting growth. The Agency is using its land and investment role to stimulate economic growth and catalyse private investment including through disposal of land for commercial uses, and is working with local partners to understand how to align public resources in a way that stimulates private sector investment.

Through its land-based programmes the HCA will aim to deliver the following in 2014/15:

- 228 hectares of previously developed land brought back into use
- 315,233 sqm of employment floorspace.

Through its land disposal role, the HCA continues to support delivery of new commercial, retail and industrial business premises in line with national and local objectives. There is also clear recognition of the wider role that the HCA plays in stimulating local growth through its housing programmes. The Agency will also see out remaining commitments under the Property and Regeneration programme to deliver its targets for development of employment floorspace, and the bringing back into use of previously developed land. The HCA will provide further support to Enterprise Zones, remain a partner in a number of companies and joint ventures involved in driving economic growth, and continue to be involved with the delivery of a number of City Deals.

Providing effective regulation

The Agency's regulatory powers are vested in the statutory Regulation Committee and discharged by the Regulation Directorate. Delivering effective regulation that protects the social housing assets, enables others to take confidence, such as lenders and the capital markets, and commands the respect of the regulated, remains the key focus of the Regulation Directorate. This will be done by continuing the risk-based approach to regulation, with HCA staff seeking assurance from registered providers that they are meeting the economic standards, and taking effective action where that assurance is not forthcoming.

In 2014/15 the HCA will complete the work started in the previous year to develop a Regulatory Framework that can better protect social housing assets in a sector where risks are becoming more complex and more diverse than ever before. To accompany the work underway to change the Regulatory Framework, a revised operational approach has been implemented that helps deliver the Committee's vision and supports the regulation of a diverse and complex sector. Select Committee recommendations will be completed in 2014/15 by reviewing the approach to financial viability regulation.

Working with our local and national partners

The HCA will continue to work with local and sub-regional partners such as local authorities, developers, LEPs and City Deal areas to ensure that the maximum economic impact is derived from its interventions, and that investment takes place in a way that wherever possible aligns with local ambitions and considers the spatial implications in a locality. It will include aligning resources, strategies and expertise across organisations, working with delivery partners, including registered providers, local authorities and private developers, engaging with DCLG, BIS and local partners on the evolving LEP, Growth Deal and City Deal agendas, exploring opportunities for aligning national and local objectives when disposing of and developing public sector assets, and supporting public and private delivery partners to overcome delivery obstacles.

Further developing the HCA

The HCA's role is growing in scale and scope as Government continues to show confidence in the Agency's experience and know-how. In particular, Government has asked the Agency to take on more investment programmes and a wider land role. These are exciting changes and a great opportunity to build on existing roles and expand the Agency's skills base. The HCA will undertake particular work to further strengthen its investment function and has seconded

STRATEGIC REPORT
STRATEGY AND BUSINESS MODEL (CONTINUED)

in three senior professionals with property lending expertise from the private sector to advise on the establishment of HCA-Investments, the business unit within the HCA, that will manage the Agency's growing portfolio of loans and equity instruments.

Another key area of focus for the HCA will be developing its land function to reflect the increased activity in these areas following previous Budget and Spending Round announcements. The identification, mitigation and management of risk will remain a vital function of the Agency in order that it can continue to deliver its role and programmes in an effective, prudent and appropriate manner.

In 2013/14 the Agency developed a programme of staff development which included new steps to promote employee engagement and ways of working which reward staff and promote innovation. The Agency will continue to monitor progress on this agenda through an annual staff survey and ongoing feedback through staff groups. Key areas of focus for 2014/15 will include management training, staff recognition, collaborative working and staff development and appraisal.

STRATEGIC REPORT
TARGETS AND RESULTS

HCA outputs 2013/14 (Unaudited)

	Housing Completions[1]		Housing Starts[2]	
	Target[3]	Outturn[4]	Target[3]	Outturn[4]
TOTAL (all programmes excluding Help to Buy)[5]	..	**34,461**	..	**38,845**
Help to Buy[6]	..	**19,401**	..	..
Total (all programmes excluding Help to Buy and those marked with an *)	**30,990**	**33,143**	..	**35,754**
Affordable housing *of which:*	..	**27,643**	..	**32,862**
1 and 2 bedroom homes[7, 8]	..	*15,809*	..	..
Homes in rural settlements (pop. less than 3,000)[8]	..	*2,488*	..	..
Housing for older and vulnerable people[8]	..	*3,704*	..	..
Programmes contributing to the affordable housing target and identified below with T	**25,000**	**26,325**	..	**29,771**
Programmes not contributing to the affordable housing target and identified below with an *	..	**1,318**	..	**3,091**
(a) Rent *of which:*	..	**21,581**	..	**28,124**
■ Accelerated Land Disposal T	..	45	Included with market	171
■ Affordable Homes Guarantees Programme *	..	205	..	1,727
■ Affordable Homes Programme T	..	17,350	..	22,625
■ Care and Support Specialised Housing *	..	10	..	813
■ Economic Assets Programme T	..	2	..	8
■ Empty Homes T	..	780	..	960
■ Empty Homes Round Two *	..	91	..	224
■ Get Britain Building T, 9	..	90	Included with market	43
■ Homelessness Change T	..	575	..	369
■ Kickstart Housing Delivery T	..	0	..	..
■ National Affordable Housing Programme T	..	1,894	..	104
■ Property and Regeneration T	..	212	..	270
■ Right to Buy Replacement T	..	0	..	145
■ Short Form Agreements T	..	288	..	425
■ Traveller Pitch Funding T	..	39	..	240
(b) Affordable Home Ownership *of which:*	..	**6,062**	..	**4,738**
■ Accelerated Land Disposal T	..	0	Included with market	35
■ Affordable Homes Guarantees Programme *	..	54	..	267
■ Affordable Homes Programme T	..	2,954	..	4,067
■ Care and Support Specialised Housing *	..	0	..	60
■ Economic Assets Programme T	..	0	..	70
■ FirstBuy *	..	958	..	..
■ Get Britain Building T, 9	..	107	Included with market	42
■ Kickstart Housing Delivery T	..	75	..	..
■ Mortgage Rescue T	..	865	..	..
■ National Affordable Housing Programme T	..	867	..	44
■ Property and Regeneration T	..	182	..	153

STRATEGIC REPORT
TARGETS AND RESULTS (CONTINUED)

HCA outputs 2013/14 (Unaudited) *continued*

	Housing Completions[1]		Housing Starts[2]	
	Target[3]	Outturn[4]	Target[3]	Outturn[4]
Market housing *of which:*	**5,990**	**6,818**	**..**	**5,983**
■ Accelerated Land Disposal	..	7	819	736
■ Build to Rent	..	0	..	102
■ Economic Assets	..	127	..	759
■ Get Britain Building	..	2,839	795	864
■ Kickstart Housing Delivery	..	159	..	..
■ Property and Regeneration	..	3,686	..	3,522

Housing capacity of land disposed[10]	**4,771**	**5,944**
Dwellings made decent	**24,000**	**24,492**
Previously developed land reclaimed (ha)	**98**	**114**
Employment capacity of land disposed (sq m)[11]	**194,028**	**263,182**
Employment floorspace created (sq m)[12]	**220,033**	**323,321**

".." not applicable

* Affordable Homes Guarantees Programme, Care and Support Specialised Housing, Empty Homes Round Two and FirstBuy do not contribute to the Government's target to deliver 170,000 affordable homes between 2011-15.

T Programmes contributing to the affordable housing target.

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

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

3 With the exception of housing starts delivered under the Accelerated Land Disposal programme and the Get Britain Building programme, the targets, as set out in our Corporate Plan 2013-15, were not allocated to individual programmes.

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

5 All programmes are funded by the Department for Communities and Local Government with the exception of Care and Support Specialised Housing which is funded by the Department of Health.

6 Help to Buy is reported separately and is not included in the housing completions target. 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.

7 Figure excludes Homelessness Change and Traveller Pitch Funding as they are purely specialist provision, and Mortgage Rescue.

8 Figures exclude Accelerated Land Disposal, Economic Assets, Get Britain Building and Property and Regeneration programmes.

9 The starts on site exclude 41 units (37 rent and 4 affordable home ownership) which count towards the overall target to unlock delivery of up to 12,000 homes across the lifetime of the Get Britain Building programme but are also in receipt of funding from an affordable housing programme and are reported under that programme.

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

11 Employment capacity of land disposed is captured at the point of disposal of HCA land and reflects the site floorspace capacity.

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

In addition to monitoring performance against output measures for which targets were set, we agreed in the Corporate Plan 2013-15 to monitor and report on a number of other impact indicators. These include housing starts on site, as a lead indicator of housing completions, delivered through programmes other than Accelerated Land Disposal and Get Britain Building, for which targets were set, and for the Property and Regeneration and Economic Assets programmes we have measured private sector investment levered and jobs potential created.

Private sector investment levered (£m)	..	1,382
Jobs potential created[13]	..	9,333

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

The spend against programmes is shown in detail in **Note 15** to the financial statements.

Total housing completions** — 6.9% Above target

Target 30,990 — Outturn 33,143

Housing capacity of land disposed — 24.6% Above target

Target 4,771 — Outturn 5,944

Employment capacity of land disposed (sq m) — 35.6% Above target

Target 194,028 — Outturn 263,182

Employment floorspace created (sq m) — 46.9% Above target

Target 220,033 — Outturn 323,321

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

STRATEGIC REPORT
SUSTAINABILITY REPORT

This report has been prepared in accordance with the 2013/14 public sector sustainability reporting guidance produced by HM Treasury. Sustainability data and delivery plans are also reported more frequently to the Cabinet Office, with our operational estate's carbon emission data reported into DCLG on a quarterly basis.

Targets

The Agency is working to improve its sustainability performance within the Greening Government Commitments framework (http://sd.defra.gov.uk/gov/green-government/commitments). The framework commits Government to reduce its greenhouse gas emissions by 25% by 2015 from 2009/10 levels. There are also challenging targets on waste reduction, water efficiency and the prudent use of natural resources.

Scope

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

- greenhouse gas emissions, including those derived from energy use in our offices and from all forms of business travel
- waste minimisation and management
- water usage.

Sustainability performance

Greenhouse gas emissions

Targets for greenhouse gas emissions are to:

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

Greenhouse gas emissions are categorised as falling within scope 1 (direct emissions from sources owned or controlled by the Agency), scope 2 (indirect emissions such as from electricity consumption purchased from a supplier) or scope 3 (official business travel by rail, air or employees' own road vehicles). They are measured in tonnes of CO_2 equivalent (tCO_2e). A summary of our performance and expenditure in relation to greenhouse gas emissions is as follows:

CO_2e (tonnes)	2009/10	2010/11	2011/12	2012/13	2013/14
Electricity Consumption	1,599.58	1,471.89	1,128.17	1,080.24	737.98
Gas Consumption	587.87	443.21	247.73	230.54	235.29
Official Travel – Road	409.82	357.80	402.15	631.70	582.46
Official Travel – Air	0.40	0.13	0.31	3.48	2.59
Official Travel – Rail	398.62	288.38	198.15	226.47	174.28
Other	38.00	26.79	15.29	3.61	2.16
Total CO_2e (tonnes)	**3,034.29**	**2,588.20**	**1,991.80**	**2,176.04**	**1,734.76**
Total (£'000):					
Energy (£'000)	336	245	151	193	173
Travel and other (£'000)	2,043	1,779	1,550	1,965	2,038

The 2012/13 figure for greenhouse gas emissions arising from gas consumption has been restated, from 177.69 CO_2e as disclosed last year to 230.54 CO_2e, due to an issue with the data for one of our major office sites. Overall, total greenhouse gas emissions have decreased in 2013/14 compared to last year, partly due to a decrease in electricity consumption from our offices. Energy efficiency improvements this year include a new building management system in our Warrington office which means the heating and cooling system is more precisely controlled and closely matched to business needs. Across our office estate, we have continued to install smart technology such as LED lighting coupled with motion sensors.

Emissions from road, air and rail travel have also decreased compared to 2012/13, although they remain higher than 2011/12 when our staff numbers were lower, prior to the transfer of former Regional Development Agency and Tenant Services Authority staff.

However, the overall expenditure on travel has increased as the price paid per kilometre of rail travel has increased from 2012/13, due to a combination of national fare rises and more frequent peak time travel. The Agency is working to reduce the need for business travel. The Business Driving Policy requires that staff consider whether a journey is necessary before making arrangements to travel and states that travel by car should be considered only after public transport options have been ruled out.

The roll-out of 'at-desk' virtual conferencing has continued this year, including the introduction of the Lync system for easy communication between offices, which helps to avoid unnecessary business travel.

The Agency has exceeded its target of reducing greenhouse gas emissions by 2014/15 by 25% from 2009/10 levels. Emissions in 2013/14 are 1,300 tonnes CO_2e lower than in 2009/10, equivalent to a 43% reduction. The Agency will need to ensure that it maintains its performance in 2014/15.

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

STRATEGIC REPORT
SUSTAINABILITY REPORT (CONTINUED)

Waste

Targets for waste are:

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

A summary of our waste disposal performance is as follows:

		2009/10 (tonnes)	2010/11 (tonnes)	2011/12 (tonnes)	2012/13 (tonnes)	2013/14 (tonnes)
Total waste disposal		254.23	214.81	259.39	177.41	134.35
Hazardous waste	Total	0.00	0.00	0.00	0.00	0.00
Non-hazardous waste	Landfill	108.09	82.21	122.45	50.41	47.08
	Reused/recycled	146.14	132.60	122.44	127.00	84.15
	Incinerated/energy from waste	0.00	0.00	8.21	0.00	0.00
	Total ICT waste (of which)	0.00	0.00	6.29	0.00	3.12
	ICT waste reused/ recycled	0.00	0.00	6.29	0.00	3.12
Waste disposal costs (£'000)		**19**	**22**	**15**	**13**	**13**
Waste recycling costs (£'000)		**29**	**34**	**23**	**23**	**24**

Recycling includes expenditure on confidential paper shredding services. We have only included direct expenditure with suppliers as this can be consistently identified; increasingly our office space is hosted by other public sector organisations where most waste and recycling service provision is incorporated into a single service charge. Recycling expenditure has remained relatively constant over the past three years, partly reflecting steady expenditure on services such as confidential paper shredding during re-structuring and office moves.

The reduction in total waste disposal is a result of increased staff awareness of recycling, increased visibility of recycling points and benefits derived from the Agency's on-going estates rationalisation. However, the overall recycling rate has decreased which can be attributed to fewer internal office moves during 2013/14. Such moves tend to generate large volumes of recyclable paper waste.

The Agency has exceeded its target of reducing waste by 25% by 2014/15. By 2013/14, the waste generated was 123 tonnes less than that generated in 2009/10, equivalent to a 48% reduction. The Agency will need to ensure that it maintains its performance in 2014/15.

A summary of our paper use performance is as follows:

	2009/10	2010/11	2011/12	2012/13	2013/14
A4 ream equivalent	16,800	12,450	9,050	9,020	9,450
Average staff (full time equivalent)	981	993	859	862	885
A4 ream equivalent consumption per full time equivalent staff	17.1	12.5	10.5	10.5	10.7
Total spend on A4 reams (£'000)	**53**	**42**	**27**	**27**	**30**

The amount of paper used has increased slightly compared to 2012/13, however the consumption per full time equivalent staff member has remained relatively constant over the past three years. The continued use of multi-functional devices, which offer a scanning function in addition to printing and photocopying, should help to minimise paper use per head of staff. We actively encourage the use of electronic records management in preference to paper records where possible. To assess opportunities to further reduce the need to print documents, we are currently piloting the use of tablets with a limited number of staff across the Agency.

Finite resource consumption – water

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

		2009/10	2010/11	2011/12	2012/13	2013/14
Water consumption (m3)	Supplied	13,125.39	8,679.00	9,138.40	6,477.00	6,925.00
	Abstracted	0.00	0.00	0.00	0.00	0.00
Water consumption (£'000)		17	30	21	17	19

The overall trend towards decreasing water usage reflects:

- the continued benefit derived from low flow-rate taps, flush sensors and water displacement equipment
- ongoing estates rationalisation.

The small increase in water consumption in 2013/14 is due mainly to an increase in staff numbers across the Agency.

Procurement

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

Biodiversity

The Agency is committed to meeting legal and regulatory obligations on biodiversity protection in all activities. For example, we carry out Phase 1 habitat surveys when we acquire sites, which identify key habitats including those that may support protected species. We then commission relevant protected species surveys and ensure that site management is carried out in accordance with any recommendations arising. Our offices include very limited external space suitable for wildlife, although we maintain a green roof on our Gateshead office to enhance biodiversity.

Sustainable development

One of the Agency's statutory objectives is to contribute to the achievement of sustainable development and good design in England, with a view to meeting the needs of people living in England. The Agency employs design and sustainability professionals who work with partners to achieve this objective. A Design and Sustainability Advisory Group, involving a small number of external experts, provides the HCA Board with an independent view of the Agency's performance. The Agency's wider programmes help us to achieve our objectives for sustainable development. From driving innovation in our land remediation services, listening to affordable housing residents, through to modern methods of construction, the Agency undertakes a wide range of work in close collaboration with industry to deliver sustainability within the built environment.

STRATEGIC REPORT
EMPLOYEES

The contribution from the Agency's employees remains core to the continuing successful performance of the Agency and the evolving and growing role around the delivery of new programmes, a focus on land, recoverable investment and an effective risk-based regulatory role.

The Agency continues to recognise the importance of investing in, and developing, the skills and competencies of its employees to enable them to effectively contribute to the Agency's role in successfully delivering Government policy and investment.

Given the challenge of a new approach to business, and the new programmes and initiatives, Directors launched a programme of development for staff with a particular focus on performance, development and retention.

In January 2013, HCA directors endorsed proposals for linking the five themes of employee engagement, recognition and reward, talent management, knowledge management and skilled staff, to wider organisational development initiatives. This approach was subsequently ratified by the HCA Board at its meeting in February 2013. The objectives are to:

- contribute to the Agency's role in delivering Government policy and investment
- define and prioritise work to develop our people
- prepare the Agency for the future in the context of its expanding and changing role.

Through 2013, various multi-disciplinary project teams with staff at all levels from across the Agency supported by corporate teams in communications, HR and Learning and Development successfully delivered the following:

- an enhanced and more robust performance management process to be implemented from 2014/15
- a challenging and ambitious five day modular HCA Management Development Programme for an initial pool of 140 line managers with seven cohorts being delivered through to 2015
- a review, refresh and refocus of the core HCA competencies to drive the four HCA key operating principles and performance
- a framework for Succession Planning and Talent Management to be implemented following the performance management review through April to June 2014.

Over the summer of 2013, ten lunchtime briefing sessions updated staff on the progress made to date on the delivery of these projects, and to promote forthcoming activities. The sessions were attended by over 50% of staff with £1,100 being raised for charities.

A new Mentoring Programme was also launched with workshops in July and September for the mentors and mentees. A Talent Management Strategy sets out a pathway for the Agency to identify, develop and utilise high potential and high performing talent within the organisation.

In the Autumn of 2013, the HCA Excellence Awards were successfully launched to recognise the dedication and hard work of HCA staff. The categories reflected the four HCA operating principles and 357 nominations were received for both individual and team awards across all national and area directorates.

Learning and Development plans are produced as part of the Agency's objective setting and appraisal process and the Agency invests in training tailored to develop specific skills and competencies of its employees. The Agency continues to actively support the professional development of staff and through 2013/14, the Civil Service Learning portal became the main channel for sourcing learning and development, giving both value for money and access to a wide range of opportunities from podcasts to workshops and from e-learning to flagship development programmes.

The Agency keeps employees informed of key developments and matters of interest via team meetings, weekly and monthly briefings, a weekly e-newsletter and regular letters from the Chief Executive. The Agency has increased the use of social media tools for work use, communicating, engaging and recruiting through Yammer, Twitter and LinkedIn.

Employees also have access to the HCA's intranet where detailed briefings and podcasts after Directors' Group meetings are available. HCA's intranet allows for the sharing of information, access to key documents or educational materials.

Employee turnover for 2013/14 slightly increased to 5.64% from 4.96% in 2012/13, but remains low. The employee sickness absence rate for 2013/14, was 2.0% of working days up from 1.6% in 2012/13, but again remains low.

At 31 March 2014, there were 911 staff in post, 471 women and 440 men. Of the total staff in post, 9 were Directors of the Agency; 2 women and 7 men.

The HCA has published nine *Equality and Diversity objectives*, two of which address specific actions aimed at addressing disability issues internally and externally (our *Equality and Diversity objectives* are detailed below). The HCA does not, therefore, have a specific disabled policy but as an equal opportunities employer the Agency positively encourages applications from suitably qualified and eligible candidates regardless of disability.

The Agency complies with its statutory obligations under the provisions of section 149 of the Equality Act 2010. We actively monitor the profile of our staff which shows that 3% of employees have stated that they are disabled. We have continued to address the potential barriers faced by disabled people through our participation in the Positive about Disabled People scheme, which ensures that suitably qualified and competent external and internal disabled applicants are automatically shortlisted for roles. Through the active management of diversity outcomes we ensure that disabled staff have the same access to employment, training, career development and promotion.

We are also committed to addressing data gaps and have undertaken work to raise the profile of disability issues – including the launch of a campaign to raise awareness about mental health issues. We believe that this will significantly reduce the proportion of staff (10%) who have failed to provide disability information.

As part of our responsibilities under the Public Sector Equality Duty (PSED) we publish annual equality information which ensures that we are open and transparent and accountable for the decisions we take. The 2014 publication is available on our website and includes profile information as well as qualitative feedback on our performance such as staff survey analysis. Through the evaluation of feedback, we are confident that disabled people have a positive experience working at the HCA and that satisfaction across a range of workforce areas is consistent with non-disabled staff and is higher than other Government bodies.

We take our PSED obligations seriously and continue to eliminate discrimination and advance equality of opportunity through the use of equality impact assessments where our decisions or policies have the potential to disadvantage some groups with protected characteristics. This scrutiny role, designed to proactively deliver positive outcomes, is also enhanced through a working partnership with our independent Equality and Diversity Board Advisory Group.

Further information on our approach to equality can be found in the equality section of our website.

STRATEGIC REPORT
SOCIAL AND COMMUNITY ISSUES

Equality and diversity

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

As a public authority, listed in the *Equality Act 2010* we are legally required to meet general statutory equality duties. These require us to pay due regard to the following principles when carrying out any functions that are relevant to equality:

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

In addition, the Act requires us to meet specific duties which require us to:

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

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

- promoting recognition of the value of accessible housing through our investment and enabling role
- promoting investment that meets the needs of older people
- promoting investment that meets the needs of Traveller communities
- promoting investment that meets the needs of BME and faith communities
- encouraging the participation of community / specialist providers in investment
- ensuring that the way in which the Regulator's serious detriment test is implemented considers the impact on equality and diversity
- achieving a positive and fair working environment where diversity is led at all levels
- demonstrating effective diversity practice through the HCA Board, Regulation Committee and Advisory Groups
- improving the representation and visibility of disabled and lesbian, gay, bi-sexual and transgender (LGBT) people in our workforce.

In addition to the publication of our equality objectives, we published our third annual equality information publication on 3 February 2014. This information set out our progress in delivering our equality objectives and aimed to ensure that we were transparent and accountable for the decisions we had taken over the past year.

The equality information publication is available to download from the HCA website.

Health and safety

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

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

Key health and safety highlights for 2013/14 are as follows:

- the Agency achieved a zero reportable accident / incident rate (AIR) as there were no employee work related injuries that required reporting to the Health and Safety Executive (HSE)
- 25 health and safety audits of HCA property and 12 joint inspections of HCA operational bases were undertaken
- new employees who drive regularly on business completed an online driver risk assessment and attended further training where necessary
- health promotion activities focusing on safety in the sun, national cycling week, stopping smoking and alcohol awareness were delivered
- departmental health and safety risk assessments for working practices were reviewed
- all new employees joining the Agency completed an online health and safety induction course and display screen assessment
- the Agency's health and safety policy received its annual review
- four national Health and Safety Committee meetings were held
- the Agency delivered a number of internal health and safety courses on manual handling, stress and personal safety.

STRATEGIC REPORT
GOING CONCERN

Net assets of £2.93bn reflect the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the HCA's other sources of income, may only be met by future grants or grant in aid from the HCA's sponsoring department, the Department for Communities and Local Government (DCLG). Such grants may not be issued in advance of need and grant in aid for the year ending 31 March 2015, taking into account the amounts required by the HCA's liabilities falling due in that year, has already been approved by Parliament. There is no reason to believe that DCLG's future sponsorship and future parliamentary approval will not be forthcoming. The Board therefore considers it appropriate to adopt a going concern basis for the preparation of these Financial Statements.

Robert Napier
Chairman

Andrew Rose
Chief Executive and Accounting Officer

19 June 2014

HOMES AND COMMUNITIES AGENCY
REPORT ON THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

BOARD MEMBERS' REPORT
YEAR ENDED 31 MARCH 2014

The Board Members present the Annual Report and Financial Statements for the year ended 31 March 2014.

Statutory background

The Homes and Communities Agency (HCA) was established by Parliament under the *Housing and Regeneration Act 2008* and is the national housing, land and regeneration agency for England. The Tenant Services Authority (TSA) was abolished on 31 March 2012 by the *Localism Act 2011*. This legislation transferred the responsibility for social housing regulation to the HCA from 1 April 2012 and it exercises this function through the independent Regulation Committee.

Principal activities

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

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

Further details regarding HCA's corporate priorities are contained in the Strategy and Business Model section of the Strategic Report.

Format of the Financial Statements

The HCA's Financial Statements for the year to 31 March 2014 have been prepared in accordance with the Accounts Direction issued on 24 November 2008 by the Secretary of State with the consent of HM Treasury and in accordance with Paragraph 12(3) of Schedule 1 to the *Housing and Regeneration Act 2008*.

Results for the year

The results for the year ended 31 March 2014 are set out in the Financial Statements on pages 59 to 120.

Net expenditure for the year was £1.07bn (2012/13: £1.45bn) and total comprehensive expenditure was £0.94bn (2012/13: £1.37bn).

The Group Statement of Financial Position shows net assets of £2.93bn (2013: £1.56bn).

Board membership

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

Register of members' interests

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

Pension arrangements

The accounting policy for pensions is disclosed in Note 1 to the Financial Statements. Information on Board Members' and Key Managers' pension entitlements is disclosed in the Remuneration Report which starts on page 33.

Principal risks and uncertainties

A review of the HCA's principal risks and its capacity to handle risk, which sets out the HCA's objectives in respect of risk management plus the strategy to be employed in putting the policy into effect, has been prepared as set out in the Governance Statement which starts on page 42. Note 35 of the Financial Statements sets out the HCA's financial risk management procedures.

Cash flow and liquidity

The Agency relies upon grant in aid receipts from the Department for Communities and Local Government (DCLG) to maintain general liquidity. Grant in aid is drawn-down monthly during the year from DCLG to fund the Agency's daily grant payments and monthly to fund its administration and capital costs. The amounts drawn-down are based upon estimates of need.

On a daily basis, any balance remaining in a commercial bank account, in excess of £250,000, is transferred to the Government Banking Service as directed by HM Treasury. The Government Banking Service is the shared services provider for banking to the public sector which encourages public sector bodies to maximise the value of funds available to the Exchequer.

Auditors

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

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

	2013/14 £'000	2012/13 £'000
Audit fee	197	195

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

BOARD MEMBERS' REPORT
YEAR ENDED 31 MARCH 2014 (CONTINUED)

Strategic report

Some of the commentary which was previously included in the Board Members' report has been moved to the Strategic Report, starting on page 4. Commentaries on employees, sustainability, equality and diversity, health and safety and social and community issues are now part of the Strategic Report.

The Accounting Officer's signature on the Remuneration Report also covers the content of the Board Members' Report.

REMUNERATION REPORT
YEAR ENDED 31 MARCH 2014

Constitution of the Remuneration Committee

The Remuneration Committee consists of the following HCA Board Members:

- Robert Napier, CBE (Chair)
- Julian Ashby
- Dr Ann Limb, OBE
- Anthony Preiskel
- Ian Robertson

Functions and responsibilities

The Remuneration Committee is required to:

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

Remuneration 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 key management 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 2013/14 the maximum pay increase for key management was 1%.

REMUNERATION REPORT (CONTINUED)

YEAR ENDED 31 MARCH 2014

Service contracts

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

Appointment of Board Members

Board Members are appointed by the Secretary of State, initially for fixed terms of no more than five years. Terms may be extended at the discretion of the Secretary of State.

Nominations and Governance Committee

On 24 April 2014, the Remuneration Committee became the Nominations and Governance Committee. Its functions and responsibilities remained the same as above, but in addition included a duty to scrutinise governance arrangements within the HCA at least once a year.

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 HCA for the year to 31 March 2014.

Board Members' emoluments

	2013/14 £'000	2012/13 £'000
Chairman		
Robert Napier, CBE	87	87
Board Members		
Julian Ashby [1]	65	65
Keith House	12	12
Richard Hyde (from 1 November 2012) [2]	12	5
Dr Ann Limb, OBE [3]	12	12
Bob Lane, OBE	13	13
Jane May (from 1 May 2013 to 30 June 2014) [4]	16	11
Shaukat Moledina, CBE (to 31 October 2012) [5]	-	8
Anthony Preiskel (from 1 November 2012) [2]	12	5
Professor Peter Roberts, OBE (to 30 September 2012) [5]	-	7
Ian Robertson [6]	24	24
Ruth Thompson, OBE (from 1 November 2012 to 31 May 2014) [2]	12	5
Dru Vesty, MBE (to 30 September 2012) [2]	-	7
Don Wood, CBE (to 30 June 2012) [2]	-	3

Regulation Committee emoluments

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

	2013/14 £'000	2012/13 £'000
Julian Ashby (Chair) [1]	-	-
Jane May (to 30 June 2014) [4]	-	-
Richard Moriarty [7]	11	11
Piers Williamson [7]	11	11
Inge Kettner (from 1 December 2012) [8]	11	4
Jim Coulter (to 31 March 2013) [7]	-	11
Jonathan Adlington (from 1 April 2013)	11	-
Tariq Kazi (from 1 June 2013 to 30 November 2013) [8]	6	-

1 In addition to being a Board Member, Julian Ashby was appointed Chair of the Regulation Committee from 1 April 2012. His emoluments cover both membership of the Board and Regulation Committee.
2 Full year equivalent emoluments for 2012/13 are £12,000.
3 During 2012/13, Dr Ann Limb was also paid £7,000 in her capacity as Chair of the Milton Keynes Partnership Planning Committee.
4 Jane May was appointed to the Board on 1 May 2013. She was also a member of the Regulation Committee throughout 2012/13 and 2013/14 for which the full year equivalent emoluments were £11,000. Full year equivalent emoluments for her role as Board member are £17,000. Her emoluments cover both membership of the Board and Regulation Committee. During 2012/13, she also received £1,375 for regulation related work before the Regulation Committee was established.
5 Full year equivalent emoluments for 2012/13 were £13,000.
6 Ian Robertson's remuneration includes an additional 20 days per annum to reflect his role as a Board Member and Chair of the Audit and Risk Committee.
7 In addition to receiving £11,000 in their capacity as a Regulation Committee member, £1,375 was also received during 2012/13 for regulation related work before the Regulation Committee was established.
8 Full year equivalent emoluments were £11,000.

Chief Executive's emoluments

Single total figure of remuneration

Chief Executives	Salary received in year (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (£'000)*		Total (£'000)	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13[3, 4]	2013/14	2012/13[3]
Andrew Rose (from 15 April 2013) [1]	150-155	n/a	nil	n/a	nil	n/a	n/a	n/a	150-155	n/a
Richard Hill (interim Chief Executive from 5 February 2013 to 14 April 2013) [2]	5-10	20-25	nil	nil	nil	nil	1	3	5-10	20-25
Pat Ritchie (to 4 February 2013)	n/a	115-120	n/a	nil	n/a	3,900	n/a	nil	n/a	120-125

* Pension benefits is a new reporting requirement within the disclosure of Chief Executive's and Key Managers' emoluments. In previous years, Chief Executive and Key Managers emoluments required disclosure of the employer cash contribution figure. Following new disclosure requirements, this figure has now been replaced by an actuarially assessed pension benefits figure. The figure is calculated as the movement in the capitalised value of accrued pension less contributions made by the employee. 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 Full year equivalent emoluments were £160,000, including a location allowance of £18,000.
2 Richard Hill was appointed interim Chief Executive from 5 February 2013 to 14 April 2013. His emoluments above include earnings in his capacity as interim Chief Executive only. Prior to 5 February 2013, and from 15 April 2013, he was Executive Director of Programmes and Deputy Chief Executive. His emoluments in relation to this post are disclosed in Key Manager's emoluments below. The full time equivalent salary in his capacity as interim Chief Executive was £143,000.
3 Prior year figures for pension and total are restated from employer's contribution to pension benefits arising from participation in schemes, to comply with Statutory Instrument 2013 No. 1981. This represents the actuarially assessed movements rather than the cash paid by the employer.
4 Many of the 2013 values appear as zero, as the impact of inflation over the year was greater than the value of the benefits accrued.

REMUNERATION REPORT (CONTINUED)
YEAR ENDED 31 MARCH 2014

Key Managers' emoluments

Single total figure of remuneration

Key Managers	Salary received in year (£'000)		Bonus payments (£'000)[1]		Benefits in kind (to nearest £100)		Pension benefits (£'000)*		Total (£'000)	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 [6, 7]	2013/14	2012/13[6]
Margaret Allen Interim Executive Director Programmes and Recoverable Investments [9]	125-130	125-130	nil	nil	3,900	3,900	12	nil	140-145	130-135
Matthew Bailes Executive Director Regulation [2]	105-110	95-100	nil	n/a	1,600	nil	11	n/a	115-120	95-100
David Curtis Executive Director North East, Yorkshire and The Humber (to 31 January 2014)	115-120	120-125	nil	nil	3,100	3,700	2	nil	120-125	125-130
Richard Ennis Executive Director of Finance and Corporate Services	160-165	160-165	nil	nil	5,300	5,800	19	nil	185-190	165-170
Terry Fuller Executive Director East and South East	145-150	145-150	nil	nil	2,800	5,200	29	27	175-180	175-180
Richard Hill Deputy Chief Executive and Director of Programmes (to 4 February 2013 and from 15 April 2013 to 8 September 2013) [3]	55-60	120-125	nil	nil	nil	nil	13	18	70-75	140-145
Deborah McLaughlin Executive Director North West	120-125	120-125	nil	nil	3,800	6,300	11	nil	135-140	125-130
Colin Molton Executive Director South West [4]	135-140	130-135	nil	nil	5,500	6,500	7	nil	145-150	140-145
Charles Amies Interim Executive Director Midlands (from 1 September 2013) [5]	50-55	n/a	nil	n/a	2,400	n/a	9	n/a	60-65	n/a

Key Managers	Salary received in year (£'000)		Bonus payments (£'000)[1]		Benefits in kind (to nearest £100)		Pension benefits (£'000)*		Total (£'000)	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 [6, 7]	2013/14	2012/13[6]
Naz Parkar Interim Executive Director North East, Yorkshire and the Humber (from 1 February 2014) [5]	10-15	n/a	nil	n/a	4,200	n/a	3	n/a	20-25	n/a
Fiona MacGregor Director of Programmes (from 1 June 2014) [8]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* Pension benefits is a new reporting requirement within the disclosure of Chief Executive's and Key Managers' emoluments. In previous years, Chief Executive and Key Managers emoluments required disclosure of the employer cash contribution figure. Following new disclosure requirements, this figure has now been replaced by an actuarially assessed pension benefits figure. The figure is calculated as the movement in the capitalised value of accrued pension less contributions made by the employee. 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 2014, accrued but not yet paid at 31 March 2014. All directors waived their entitlement to a bonus for this period so actual bonuses were nil.

2 Matthew Bailes was seconded from DCLG until 31 October 2013, and became an HCA employee on 1 November 2013. The salary disclosed represents the invoiced cost from DCLG under the terms of an agreement between the Agency and DCLG while on secondment, and salaried costs thereafter. While on secondment, he was not eligible for a bonus under the HCA performance management scheme. His full year equivalent emoluments were £120,000.

3 Richard Hill was appointed interim Chief Executive on 5 February 2013. His emoluments in that capacity are shown within Chief Executive's emoluments. The emoluments shown here relate to him in his capacity as Deputy Chief Executive and Director of Programmes only. The full year equivalent salary is £143,000.

4 A pay award of 1% was applied to directors during 2013/14. This increase led to a change in the pay band for Colin Molton.

5 Full year equivalent emoluments were £86,000.

6 Prior year figures for pension and total are restated from employer's contribution to pension benefits arising from participation in schemes, to comply with Statutory Instrument 2013 No. 1981.

7 Many of the 2012/13 values appear as zero, as the impact of inflation over the year was greater than the value of the benefits accrued.

8 Fiona MacGregor was appointed Executive Director of Programmes from 1 June 2014. Her emoluments during 2013/14 are therefore not shown in the above table.

9 Margaret Allen was the Executive Director of the Midlands until 31 August 2013. From 1 September 2013 she became the Interim Executive Director of Programmes and Recoverable Investment.

Salary

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

The Secretary of State determines the Board Members' emoluments.

The highest paid employee, as disclosed in the Key Managers' emoluments note above, was Richard Ennis, Executive Director of Finance and Corporate Services.

Performance related pay

The Chief Executive and Key Managers benefit from a performance related pay scheme whereby any bonuses are determined with reference to performance against agreed objectives during a performance year running from April to March. The bonus cannot exceed 10% of salary, and is the only element of pay that is performance related. For the performance years ended 31 March 2013 and 2014 the directors all agreed not to receive a bonus despite delivering the Agency's targets and despite maintaining a contractual right to a bonus determined by performance in this and future years.

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

REMUNERATION REPORT (CONTINUED)

YEAR ENDED 31 MARCH 2014

The Chief Executive has an entitlement to an annual performance related bonus based upon the achievement of targets agreed by the Remuneration Committee. The Committee reviews performance against targets and recommends a performance related bonus for the approval by the Secretary of State. The Chief Executive was awarded a bonus at the maximum permitted by the Remuneration Committee for the year ended 31 March 2014 but has elected to waive his right to receive it.

Pat Ritchie did not receive a bonus for the performance year ended 31 March 2013.

Richard Hill, acting in his capacity as interim Chief Executive, did not receive a bonus for the performance year ended 31 March 2013 or 31 March 2014.

The Agency complies with the direction from the Secretary of State that no more than 25% of its staff are eligible for a performance related bonus up to a maximum value of £950. The direction does not apply to Directors.

Benefits in kind

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

Termination payments

Termination payments to key managers in 2013/14 were £nil (2012/13: £nil).

Median salary

The Agency is required to disclose the relationship between the mid-point of the banded remuneration of the highest-paid director and the median remuneration of the Agency's workforce for the year. The banded remuneration of the highest-paid director, Richard Ennis, was £165,000-£170,000 (2012/13: £165,000-£170,000). The mid-point of this band was 4.0 times (2012/13: 4.1) the median remuneration of the workforce, which was £41,678 (2012/13: £41,040). Remuneration ranged from £7,800 to £165,783 (2012/13: £6,240 to £166,635) on the basis of total remuneration inclusive of severance pay. The starting range salary represents the paid remuneration of the Agency's apprentices. Once apprentices are excluded, remuneration ranged from £16,042 to £165,783 (2012/13: £15,725 to £166,635).

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

Pension benefits

	Accrued annual pension at 31 March 2014 £'000	Accrued annual pension at 31 March 2013‡ £'000	Real increase in accrued annual pension £'000	Accrued lump sum at 31 March 2014 £'000	Accrued lump sum at 31 March 2013‡ £'000	Real increase in accrued lump sum £'000	CETV 31 March 2014 £'000	CETV 31 March 2013 Restated* £'000	Real increase/ (decrease) in CETV £'000
Chief Executive and Accounting Officer									
Andrew Rose (from 15 April 2013)[1]	–	–	–	–	–	–	–	–	–
Richard Hill (interim Chief Executive from 5 February 2013 to 14 April 2013)	30	29	1	51	51	nil	410	389	16

1 Andrew Rose has elected not to be a member of any pension scheme as part of his employment with HCA.
* Restated using 31 March 2014 pension factors.
‡ As adjusted by inflation

Key Managers

	Accrued annual pension at 31 March 2014 £'000	Accrued annual pension at 31 March 2013‡ £'000	Real increase in accrued annual pension £'000	Accrued lump sum at 31 March 2014 £'000	Accrued lump sum at 31 March 2013‡ £'000	Real increase/ (decrease) in accrued lump sum £'000	CETV 31 March 2014 £'000	CETV 31 March 2013 Restated* £'000	Real increase/ (decrease) in CETV £'000
Margaret Allen	38	37	1	76	78	(2)	715	683	24
Matthew Bailes[3]	1	0	1	2	0	2	9	0	6
David Curtis	62	62	0	187	186	1	1,656	1,654	(5)
Richard Ennis	41	40	1	124	121	3	734	715	9
Terry Fuller	10	8	2	29	24	5	247	205	33
Deborah McLaughlin	39	38	1	117	115	2	764	752	5
Colin Molton	53	53	0	160	159	1	1,180	1,171	1
Charles Amies[4]	13	12	1	19	19	0	189	171	12
Naz Parkar[4]	6	5	1	0	0	0	75	61	9

3 Matthew Bailes was seconded from DCLG until 31 October 2013, and became an HCA employee on 1 November 2013.
4 Charles Amies and Naz Parkar were appointed as interim Executive Directors during 2013/14, but were HCA employees throughout 2012/13 and 2013/14. The pension figures disclosed above cover all employment with HCA.
* Restated using 31 March 2014 pension factors.
‡ As adjusted by inflation

REMUNERATION REPORT (CONTINUED)
YEAR ENDED 31 MARCH 2014

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

Accrued pension at 31 March 2014

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2014.

Cash Equivalent Transfer Value (CETV) 31 March 2014

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

Robert Napier
Chairman

Andrew Rose
Chief Executive and Accounting Officer

19 June 2014

RESPONSIBILITIES OF THE ACCOUNTING OFFICER

YEAR ENDED 31 MARCH 2014

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

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

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

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

GOVERNANCE STATEMENT
YEAR ENDED 31 MARCH 2014

Introduction

This Governance Statement provides an overview of the control structure of the HCA. It explains the stewardship of the organisation and how the HCA has responded to the risks and challenges it has met over the past year and looks forward to those it faces going forward.

During the year the HCA continued to help deliver the Government's priorities in the areas of housing, regeneration and economic growth. We achieved all the output targets contained within our Corporate Plan as well as helping almost 21,000 households purchase homes through the Help to Buy programme.

Scope of responsibility

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

Accountability arrangements

I have undertaken the Accounting Officer responsibilities from 15 April 2013. During the financial year the role of Accounting Officer was also undertaken by Richard Hill, who was the HCA's Interim Chief Executive from 5 February 2013 until 14 April 2013. I have received assurances from him which have enabled me to complete and sign this statement.

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

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

The HCA is responsible for the regulation of social housing providers in England. Our regulatory responsibilities are discharged through the independent Regulation Committee, and within the parameters of the Regulatory Framework it has established.

In London, the Mayor remains responsible for the majority of housing and regeneration activities. In a number of areas we have been granted delegated powers by the Mayor on the grounds of business continuity and efficiency, to operate programmes within London. These include legacy programmes such as the Private Finance Initiative as well as Help to Buy and the majority of our recoverable investment programmes.

A comprehensive scheme of internal delegations is in place that enables the day-to-day management of the HCA to be shared with the Executive Directors of the HCA and their staff. The scheme of delegations is kept under review throughout the year and has been updated and amended, and was last approved by the Board and the Accounting Officer in February 2014.

Relationships between HCA and DCLG

The relationship between the HCA and DCLG is formally governed by a detailed financial framework and a supporting sponsorship infrastructure. Detailed plans and priorities for the HCA are set out in the 2013-15 Corporate Plan which was approved by DCLG and published in June 2013.

During the period, the HCA and DCLG have worked closely together to continue to support the Government's commitment to housing and economic growth as outlined in the Spending Review announcement in June 2013, the Autumn Statement of December 2013 and the Budget of March 2014. We were pleased that HCA's ongoing role of supporting local communities was further strengthened in these announcements.

The HCA sponsorship function is located in a team within the DCLG's Affordable Housing, Regulation and Investment Division. Significant issues are discussed at the monthly Policy and Performance Group which is attended by senior officers from both the HCA and DCLG.

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

The key governance arrangements within the HCA are:

The Board, its Committees and Advisory Groups

Acting within the delegations set by the financial framework with DCLG, the Board has responsibility for:

- overall strategic direction and performance management of the HCA
- delivery of investment and wider objectives as determined by Government
- corporate governance issues
- production of Corporate Plan
- resources and budgeting
- adherence to HCA statutory objectives and other statutory requirements.

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

- provide resources sufficient to enable the Committee to carry out its regulation functions on behalf of the HCA Board
- ensure a process is in place for receiving regular updates from the Regulation Committee on the regulation function which reflects their accountability for exercising the regulatory function through the Regulation Committee.

The Board also takes overall responsibility, with the Accounting Officer, for the effective operation of risk management and ensuring a sound system of internal control. It reviews the strategic risk register formally on a biannual basis.

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

GOVERNANCE STATEMENT (CONTINUED)

YEAR ENDED 31 MARCH 2014

- Audit & Risk Committee – supports the Board in its responsibilities for risk control, governance, financial stewardship and financial and statutory reporting
- Remuneration Committee – advises the Board, Chair and Accounting Officer on overall pay and rewards, the remuneration, contractual and pension arrangements of staff at Director level, and any related matters
- Investment Committee – considers all of the HCA's major investment proposals and monitoring performance of our investment programmes.

In addition to these Committees, the Board has established a range of advisory groups comprising both Board and independent members. These groups provide focus and challenge to the HCA's work in these key, cross-cutting areas:

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

The Board is composed primarily of non-executive members. Nine members served during the whole of the year, with one additional member, Jane May, appointed on 1 May 2013. In addition, I was appointed to the HCA Board in April 2013 as Chief Executive. While not a member of any committee other than the main Board, I attend other meetings in my capacity as Chief Executive.

The HCA operates the regulatory function through an independent Regulation Committee which was established by the Localism Act 2011.

Board and committee attendance

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

Name	Board	Investment	Audit and Risk	Remuneration
Robert Napier – Chair	10 (10)	12 (12)	-	1 (1)
Ian Robertson	10 (10)	12 (12)	6 (6)	1 (1)
Julian Ashby	10 (10)	-	-	0 (1)
Keith House	8 (10)	10 (12)	-	-
Bob Lane	9 (10)	9 (12)	-	-
Ann Limb	7 (10)	6 (12)	3 (6)	1 (1)
Richard Hyde	9 (10)	11 (12)	6 (6)	-
Anthony Preiskel	10 (10)	11 (12)	-	0 (1)
Ruth Thompson	6 (10)	9 (12)	3 (6)	-
Jane May	7 (9)	-	-	-
Andrew Rose	10 (10)	-	-	-

Name	Regulation Committee
Julian Ashby – Chair	11 (11)
Jonathan Adlington	11 (11)
Jane May	10 (11)
Richard Moriarty	9 (11)
Piers Williamson	10 (11)
Inge Kettner	11 (11)
Tariq Kazi	4 (5)

Tariq Kazi joined the Regulation Committee in June and resigned in November 2013.

HCA Board

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

The information provided includes financial information such as budgets, expenditure and receipts, actuals and forecasts and variances. Non financial information includes progress towards the achievement of output targets agreed with DCLG including housing completions and employment floorspace created.

The information is extracted from three core systems used by the HCA and brought together in a bespoke system called PaDD which allows quality control checks to be carried out by the operating areas and the Programmes directorate before reports are extracted.

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

Other than this technical point, the HCA has complied in all material aspects with the corporate governance in Central Government departments: Code of Good Practice as it applies to arms length bodies.

The HCA Board carried out a self-assessment exercise in February 2014 and reported that overall the Board was operating effectively. However, it felt additional skills would be required as the HCA's land and investment role increased and welcomed the decision to recruit two new members. The Board also asked for a workshop to help improve its understanding of the increased challenges facing the regulation function.

Investment Committee

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

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

GOVERNANCE STATEMENT (CONTINUED)
YEAR ENDED 31 MARCH 2014

- oversees the planning and implementation of the HCA's capital and revenue investment programmes
- monitors the performance of the HCA's investment programmes including those involving financial transactions.

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

- approval of a significant number of large investments under programmes such as Local Infrastructure Fund and Build to Rent, subject to DCLG and Treasury approval where required
- reviewing and approving the acquisitions of surplus public sector land from other Government departments, such as the Department of Health
- considering the HCA's investment in a number of partnerships with the private sector
- monitoring the delivery of the HCA's increased recoverable investment role, including counterparty exposure, systems delivery and risk factors
- reviewing the prospectus for the Affordable Homes Programme 2015-18.

Audit and Risk Committee

The Committee supports the Accounting Officer, HCA Board and the HCA Regulation Committee in their responsibilities for risk control, governance, financial stewardship and financial and statutory reporting. It reviews the comprehensiveness of assurances and reporting processes, consistent with the Accounting Officer's assurance needs. Meetings are attended by representatives of the National Audit Office (NAO) and DCLG.

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

- strategic policies and processes for risk, control and governance
- regular review of, and input to, the HCA's various risk registers
- accounting policies, Annual Report and Financial Statements, including the process for review of the accounts prior to submission for audit, and levels of error identified
- the valuation of the HCA's home equity investment
- the NAO Audit Completion Report and Management Letter
- management's letter of representation to external auditors
- management's review of development assets valuations
- schedule of actual and potential litigation by or against the HCA
- the internal audit charter and the risk based annual internal audit plan
- internal audit findings, the internal audit annual report and the breadth and depth of internal audit reports
- the resources, capacity and skills of the internal audit function
- management implementation of internal audit recommendations.

The Audit and Risk Committee formally assessed its own performance in September 2013 and suggestions were made to improve the format of reports to help enhance scrutiny.

Inge Kettner, a member of the Regulation Committee, attended all the Audit and Risk Committee meetings held during the year to provide specialist advice relating to the regulation function of the HCA.

Remuneration Committee

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

- the objectives of the Chief Executive
- the senior management structure and senior management appointments
- future governance arrangements and new Non-Executive Director appointments
- revising its terms of reference.

The terms of reference of the Committee were amended in April 2014 and the Committee renamed the Nominations and Governance Committee, to ensure full compliance with the Corporate Governance in Central Government departments: Code of Good Practice.

Regulation

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

The key activities of the Regulator are to:

- maintain a register of registered providers of social housing
- set and apply the economic regulation objective to registered providers
- seek assurance that the economic standards are being met and take appropriate action when not
- set standards in relation to consumer regulation.

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

Regulation Committee

The Regulation Committee members are appointed by the Secretary of State and the Committee operates within its terms of reference, code of conduct and appeal procedures. A protocol has been agreed setting out how the statutory functions and duties of the Regulation Committee will be exercised within the HCA. A further protocol will be developed in 2014/15 to cover the working relationship with the GLA.

The Committee has ensured that operational regulation is focused on its statutory objectives which it articulates as being about the protection of social housing assets. Since the creation of the Regulation Committee in 2012, assessments have now been completed for all registered providers owning over 1,000 units and regulatory judgements have been published. Where registered providers have been found not to meet the standards, they have been downgraded.

This year saw the publication of the first regulatory notices for a breach of the consumer standards that had, or may have led to serious detriment to tenants. In addition to confirming the breach of the consumer standard

GOVERNANCE STATEMENT (CONTINUED)
YEAR ENDED 31 MARCH 2014

the Regulator has also considered the implications on its assessment of the governance of the registered providers.

At the end of 2012/13, the serious problems at Cosmopolitan Housing Group were resolved with a rescue by Sanctuary Housing Group. As this was the first near insolvency in a registered provider for almost a decade, a lessons learnt exercise was commissioned and a report was issued on 17 June 2014. The Regulator has continued to develop its preparedness to deal with any future major financial failure.

2013/14 was the first year the Regulator assessed registered providers against the value for money standard and found 15 organisations failed adequately to demonstrate that they were meeting the standard. This was reflected in their regulatory judgements.

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

In July 2013 the DCLG Select Committee carried out a review of the workings of the Regulation Committee and identified some areas where they believed improvements could be made. The Regulation Committee has welcomed the review and the findings corresponded with a number of changes made during the year. This includes revising the description of financial viability gradings and instituting a gradings under review system. This identifies registered providers where issues have arisen since the last published judgement that may impact adversely on the Regulator's view of compliance with the Governance and Viability standard and potentially lead to a non-compliant judgement. The Regulator is also considering how it carries out viability regulation and following some changes to the directorate structure will carry out a review of its capacity. The Select Committee will be updated on these in September 2014.

The Regulation Committee carried out an effectiveness review in 2013/14 to ensure that it has the appropriate skills and expertise and that the regulation directorate as a whole is appropriately equipped and led to deliver its statutory objectives.

Regulatory Framework

The Regulation Committee has recently published a statutory consultation about proposals to change the Regulatory Framework.

It includes changes to the Governance and Financial Viability standard including:

- a significant strengthening of the expectations on risk management including through requiring rigorous stress testing of the business plan and a thorough, documented understanding of assets and liabilities
- explicit requirements on boards having necessary skills, capabilities and independence
- strengthening requirements on accurate reporting and transparency
- the requirement for the social housing assets of a for-profit provider to be protected in a separate legal entity.

It is also proposed to introduce a Code of Practice for the first time to amplify the standards and, through the use of illustrative examples, assist registered providers in understanding how compliance with the standard might be achieved.

There are also proposals for changes to the disposals regime to enable transactions between not-for-profit and for-profit registered providers in a way that protects the considerable public investment in the social housing sector.

In a rapidly changing sector and within available resources the Regulation Committee is determined to:

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

Independence

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

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

Executive decision making groups and sub groups

The Directors Group comprises the Chief Executive and Directors of the HCA supported by senior officers. Working with, and reporting to, the Board, it is the principal strategy setting group for the HCA below Board-level, as well as the senior structure for agreeing strategies, operational policies and procedures. The Directors Group works to ensure that the deployment of resources is sufficient across the HCA to maintain delivery and that corporate services provide sufficient service support to both investment and regulatory functions. It also monitors the delivery of the HCA's delivery targets.

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

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

Projects Executive has continued to meet monthly to consider and approve investments within the Chief Executive's delegated authority, as well as scrutinising projects before they are presented to Investment Committee or DCLG. Revised management arrangements have been effected from April 2014 to reflect the increasing scope of the HCA's investment and land functions.

Each directorate has its own local governance/decision making arrangements in place and monitors its own risks in accordance with the HCA framework.

GOVERNANCE STATEMENT (CONTINUED)
YEAR ENDED 31 MARCH 2014

The risk management process

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

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

The means by which risk appetite is determined is specified in the risk management framework, and this is supplemented by scrutiny to both challenge the assessments made and to take decisions on whether risks should be accepted at a higher or lower level than the norm. The majority of risk registers across the agency have a risk appetite shown for each individual risk.

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

- risk identification, assessment and mitigation plans included in Corporate and Business Plans
- routine consideration of risk in all investment decision making processes
- regular review of risk registers for programmes, operating areas, corporate directorates and projects
- regular risk management reporting to senior management, with challenge and review at the Audit and Risk Committee and the Board.

Strategic risks

The strategic risk register is reviewed quarterly by Directors and periodically by the Board.

The key strategic risks facing the HCA have been revised during the year:

- failure to deliver current corporate plan investment and recovery objectives, delivery targets and strategic outcomes within timescales agreed with DCLG
- failure to effectively prepare the HCA to deliver new objectives and targets
- failure to adapt from a predominantly grant and land asset focused organisation to also become a leading recoverable investment based agency
- allocated resources are insufficient to effectively deliver existing and proposed Agency objectives
- failure to maintain a positive reputation.

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

- ensuring a sufficiently resourced regulatory function
- reputational damage to the HCA if the Regulation Committee fails to ensure effective regulation.

Programme delivery risks

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

The increase in the recoverable investment portfolio has exposed the HCA to substantial financial risk. As recommended by the Shareholder Executive, the HCA has enhanced its capacity in this area by a number of secondments and appointments with the HCA Investments (HCA-I) business units including a new Chief Risk Officer position. Primarily responsible for managing financial risk, they will be working closely with the Risk and Assurance function to improve risk management procedures within HCA-I and across the HCA.

Operational risks

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

Information security risk

The Senior Information Risk Owner has confirmed that since the annual assessment for 2012/13, the profile of information risk compliance with HM Government's Security Policy Framework and other regulatory requirements continues to improve. One incident for lost hardware was reported to DCLG and no incidents were reported to the Information Commissioner during the period as no personal data was lost.

The Business Information Security Group which has been in existence since vesting, reports to Directors Group and Audit and Risk Committee on all information security matters, and supports the Senior Information Risk Owner in preparing his annual statement of information risk.

Improvements which have been made during the period include thorough testing of our disaster recovery processes in Gateshead, and improved compliance with information security training. The HCA implemented the new Government Security Classifications in April 2014.

During 2013/14, the HCA continue to hold ISO 27001 certification for all functions located within its Gateshead office including office facilities, data centre and IT services as well as the disaster recovery site at Warrington.

The system of internal control

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

GOVERNANCE STATEMENT (CONTINUED)
YEAR ENDED 31 MARCH 2014

Key control systems

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

- the corporate and business planning processes which set out the HCA's objectives and resource allocation, and establish budgets and targets against which performance is ultimately judged
- IT systems embed many of the HCA's key controls. The two major investment systems are the Investment Management System (IMS) which controls the operation of the National Affordable Housing Programme and the Affordable Homes Programme 2011-15, and the Project Control System (PCS) which controls the operation of all project related programmes. Both of these interface with E-Financials which is the overarching Finance system dealing with all accounting records, payments to suppliers and partners and the billing and collection of income. There are other systems covering assets, personnel and pay, spatial information, records, management of consultants and many others dealing with specific aspects of HCA business
- many of the day-to-day operations of the Regulation function are supported by the Customer Relationship Management (CRM) system which helps staff manage our interactions with registered providers
- the HCA collects all financial and statistical data from registered providers through NROSH+. This is a single web-based portal for registered providers to submit the regulatory returns and supporting documentation required to enable regulation of the economic standards
- reporting and monitoring routines are established for all investment programmes, projects and operating costs. These enable progress to be tracked, forecasts to be made and corrective action to be taken where this is deemed necessary.

Challenges facing the HCA during the year have included:

- a step change in the level of recoverable investment that the HCA has made, through a number of programmes including Local Infrastructure Fund, Build to Rent and Help to Buy
- maintaining the delivery of existing programmes while accepting the opportunity to deliver new initiatives to support housing and economic growth
- preparing for transfers of surplus public sector land from other Government departments and ALBs.

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

In order to help prepare the HCA for the changes necessary to meet these challenges, the HCA has formed the Shaping Our Future programme. This programme includes multiple work streams, is led by senior officers and reports to a high level project board. Its prime objectives include:

- to put in place the increased skills and capacity necessary to manage the growing investment portfolio, as recommended by the Shareholder Executive
- to put in place a team that will prepare the Agency for its wider role in public sector land
- to revise the current operating model, reflecting a refocused agency, with Land, Programmes, Investment, Operating Area delivery and Regulation functions, supported by high quality corporate services
- to achieve this through targeted changes and within the constraints of the group wide resource budget.

Business critical models

The HCA has identified a number of critical models which it uses to help effective programme delivery and allow risk based and proportionate regulation. The Macpherson Report highlighted the need to have strong quality assurance processes in place for all business critical models.

The quality assurance process varies by model within the HCA, some have been externally audited, while others have been internally peer reviewed. In order to improve the assurance available to me within this area, I have asked that the internal audit workplan review these arrangements in more detail.

Significant control issues

In the 2012/13 Governance Statement the following matters were drawn to the reader's attention:

- weaknesses in the delegations relating to the company pension bank account
- weaknesses in the controls operating around redundancy offers
- the timing of personnel security checks
- an inappropriate attempt to influence an agent acting on behalf of the HCA.

The first three matters have seen the introduction of new controls, while the HCA continues to maintain a zero tolerance approach to bribery and has recently reviewed its risk exposure to bribery. The HCA launched an updated whistleblowing policy in April 2014 to help ensure staff felt able to raise matters of concern either internally or externally.

The following matter has come to my attention during the period which I wish to draw to your attention:

The HCA has been made aware of a police investigation into a potential fraud relating to a historic project funded by one of its legacy bodies. The HCA is fully co-operating with the police and no HCA staff are implicated. Once all criminal proceedings have been completed, the HCA will consider the possibility of recovering historic grant payments if appropriate.

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

Independent assurance arrangements

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

NAO report on Help to Buy scheme

The HCA was asked by Government to deliver the Help to Buy scheme, which was announced on 20 March 2013 and made available to the public on 1 April 2013. The NAO reviewed the scheme and published their report in March 2014.

The NAO's review focused on the value for money of the scheme which was designed by DCLG. The report concluded that DCLG and the HCA had got the scheme up and running quickly and it is, for the most part, running smoothly. The NAO's overarching conclusions on the scheme are set out in DCLG's Governance Statement.

GOVERNANCE STATEMENT (CONTINUED)

YEAR ENDED 31 MARCH 2014

In terms of operating the scheme, the NAO reported that the speed of the scheme launch had led to two issues that the Agency had to address during implementation:

- a very small number of purchasers had provided a deposit of less than 5% of the purchase price
- initial fees paid to Help to Buy agents was £400 per transaction higher than current fees.

The NAO's specific recommendation in relation to 5% deposits was:

- the Department should monitor the effectiveness of its actions to minimise the number of buyers accessing the scheme with a deposit of less than 5 per cent and take further action if required.

DCLG and the Agency have reviewed the issue of deposits and continue to monitor very closely the number of purchasers in this category each month, and the risk to the public purse (which is mitigated by a considerable number of purchasers with deposits in excess of 5%). The trend in the proportion of purchasers in this category compared to the total number of purchasers is down. DCLG confirmed in its response to the NAO report that: "We consider further action to enforce a 5% deposit would be disproportionate to the present risk, and would create an additional level of bureaucracy that would put scheme delivery at risk".

On fees, the Agency made clear at the launch of the Help to Buy scheme that transaction fees would be reduced from the then rate of £1,000 per transaction, and that a reduction would be agreed once evidence of transaction volumes and pace of completions started to become available. The transaction fee was reduced from 1 July to £600. Since then, the Help to Buy agent service has been re-tendered and the average transaction fee nationally now stands at £300, based on clear evidence of much higher volumes of transactions than under the previous scheme.

Review of effectiveness

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

The system of internal control is subject to on going review, and this process is co-ordinated 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 judgement on the reports and opinions of Internal Audit, updates provided by the National Audit Office, internal risk reports, externally commissioned reviews, reports on the preparation of the Financial Statements and reports from the Senior Information Risk Officer.

Internal Audit has performed a programme of independent and objective reviews, in accordance with Government Internal Audit Standards and other work to provide assurance on the system of internal control. Internal Audit update their programme of work during the year to reflect changes in the risk profile and assurance requirements. The outcome of their work has been regularly reported to me, the Audit and Risk Committee, the NAO and DCLG. There is a rigorous process in place to follow up the implementation of actions agreed as part of their work.

Internal Audit have highlighted areas within the overall control framework which are considered insufficient to manage the associated risks. These are areas where either the existing controls are not considered sufficient or where existing requirements are not being complied with. Limited assurance has been provided in relation to a number of these areas of work reviewed during the years:

- the registration of affordable housing providers
- the production of the quarterly data survey (QDS)
- HR processes covering recruitment, remuneration and management information.

As part of the standard follow up process, work is underway to verify actions taken by management to reduce the risk exposure in these areas to an acceptable level.

Future challenges

The Agency has worked during 2013/14 to maintain focus on the corporate priorities that reflect its current delivery role. These were agreed by its Board in 2012/13 and shaped business planning within the organisation. The five delivery priorities are:

1. delivering the affordable homes programme targets and spend
2. increasing private sector housing starts through equity, loans and other market interventions
3. bringing surplus public land to the market to drive housing growth
4. supporting local economic growth through the development of assets
5. maintaining investor confidence in the affordable housing sector and protecting public investment through effective regulation.

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

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

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

- alternative forms of public investment – increasing use of recoverable investment
- alternative sources of private finance – restrictions on traditional lending mean registered providers, for example, are increasingly turning to bond markets to raise development finance
- institutional change – LEPs, core cities, and the second wave of city deals enable local authority and private sector organisations to work together more closely

GOVERNANCE STATEMENT (CONTINUED)
YEAR ENDED 31 MARCH 2014

- sector change – diversification has seen registered providers moving in a more commercial direction and new 'for-profit' entrants to the social housing sector.

The HCA is highly cognisant of the constraints in public funding and continues to manage increasingly complex operational challenges including:

- a rapid increase in the portfolio of debt and equity recoverable investments
- a significantly enhanced role as a central public sector land disposal function
- regulating registered providers who operate within an increasingly complex market
- working alongside local partners such as local authorities, Local Enterprise Partnerships, and Enterprise Zones to help deliver economic growth.

The HCA continues to adapt successfully to deliver a wide range of investment programmes and activities for Government while operating within a tight fiscal envelope. This means that the HCA operational model faces new and complex risks.

Conclusion

Based on the content of this report, assurances I have received from senior management, from the Board and Audit and Risk Committee and the reports from internal and external auditors, I am satisfied that appropriate governance arrangements were in place during 2013/14.

Andrew Rose

Andrew Rose
Chief Executive and Accounting Officer

19 June 2014

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

YEAR ENDED 31 MARCH 2014

I certify that I have audited the financial statements of the Homes and Communities Agency for the year ended 31 March 2014 under the Housing and Regeneration Act 2008. The financial statements comprise: the Group Statement of Comprehensive Net Expenditure and Group and Agency Statements of Financial Position, Cash Flows, and Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor

As explained more fully in the 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. My responsibility is to audit, certify and report on the financial statements in accordance with the Housing and Regeneration Act 2008. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Homes and Communities Agency; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of the Agency's affairs as at 31 March 2014 and of the group's and Agency's net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Housing and Regeneration Act 2008 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

24 June 2014

GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE

YEAR ENDED 31 MARCH 2014

	Note	2013/14 £'000	2012/13 £'000
Expenditure			
Grant payments	2	1,051,743	988,946
Capital grants in kind	19	–	12,700
Cost of property disposals	3	101,235	109,922
Programme costs	4	9,950	11,241
Estate management costs		21,107	24,257
Staff costs, excluding pensions	6	43,370	42,129
Pension costs	6	9,176	(12,057)
Other administration costs	7	12,839	18,014
Restructuring costs	8	580	523
(Gain)/loss on disposal of available for sale financial assets	5	(966)	215
Depreciation and amortisation	21, 22	2,925	3,102
Increase in provision for impairments	9	9,820	17,426
Increase in provisions	10	7,433	983
		1,269,212	1,217,401
Income			
Proceeds from disposal of property assets	3	111,799	101,539
Clawback of grants and contributions	13	17,356	23,356
Other operating income	14	21,090	35,944
		150,245	160,839
Net operating expenditure	12	1,118,967	1,056,562
Interest receivable	16	(25,811)	(24,400)
Interest payable	17	65	6,120
Pension fund finance costs	32(d)	(781)	(5,128)
Share of losses of associates and joint ventures	18	9,282	14,294
Losses on statutory transfers	42	–	411,102
Net expenditure before tax		1,101,722	1,458,550
Income tax credit	20	(31,406)	(11,133)
Net expenditure for the year		1,070,316	1,447,417
Other comprehensive expenditure			
Reclassification of previous years		–	(57,562)
Funds transferred from RPs		–	(60)
Actuarial (gain)/loss from pension fund	32(e)	(45,384)	8,043
Net gain on revaluation of property/development assets	26	(103,489)	(37,110)
Fair value gain on available for sale assets*	24	(18,661)	(3,226)
Realised gains on disposal of available for sale assets recognised in net expenditure	5	1,949	876
Income tax on items in other comprehensive expenditure*	20(b)	31,406	10,854
		(134,179)	(78,185)
Total comprehensive expenditure for the year		936,137	1,369,232

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

* Fair value gains or losses on available for sale assets will be reclassified into net expenditure when the related available for sale assets are ultimately disposed. Income tax includes a £1.8m charge in relation to gains in 2013/14 (2012/13: £1.8m). No other items of Other Comprehensive Expenditure shown above will be reclassified into net expenditure.

GROUP STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2014

	Note	2014 £'000	Restated 2013 £'000
Non-current assets			
Intangible assets	21	1,943	2,031
Property, plant and equipment	22	3,763	4,816
Investments in associates and joint ventures	23(b),(c)	9,141	11,483
Available for sale financial assets	24	1,553,936	666,905
Pension assets	32(a)	90,717	26,832
Loans	25	293,384	327,809
Trade and other receivables	27	127,454	133,156
		2,080,338	1,173,032
Current assets			
Property/development assets	26	833,069	726,055
Loans	25	256,119	73,768
Trade and other receivables	27	72,394	95,727
Cash and cash equivalents	28	97,732	7,630
		1,259,314	903,180
Total assets		3,339,652	2,076,212
Current liabilities			
Trade and other payables	29	(287,769)	(303,471)
Provisions	30	(33,196)	(55,349)
		(320,965)	(358,820)
Non-current assets plus net current assets		3,018,687	1,717,392
Non-current liabilities			
Trade and other payables	29	(67,318)	(24,085)
Provisions	30	(9,877)	(110,223)
Deferred tax liabilities	31	–	–
Pension liabilities	32(a)	(11,454)	(25,349)
		(88,649)	(159,657)
Assets less liabilities		2,930,038	1,557,735
Reserves			
Income and expenditure reserve		2,676,170	1,377,303
Revaluation reserve		232,323	173,828
Fair value reserve		19,592	4,656
Regulation reserve		1,953	1,948
Taxpayers' equity		2,930,038	1,557,735

The accompanying Notes are an integral part of these Financial Statements.
Approved by the Board on 19 June 2014 and signed on their behalf by:

Robert Napier Chairman

Andrew Rose Chief Executive and Accounting Officer

AGENCY STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2014

	Note	2014 £'000	Restated 2013 £'000
Non-current assets			
Intangible assets	21	1,943	2,031
Property, plant and equipment	22	3,763	4,816
Investments in subsidiaries	23(a)	11,077	12,968
Investments in associates and joint ventures	23(c)	-	-
Available for sale financial assets	24	1,553,936	666,905
Pension assets	32(a)	90,717	26,832
Loans	25	293,384	327,809
Trade and other receivables	27	127,454	133,156
		2,082,274	1,174,517
Current assets			
Property/development assets	26	833,069	726,055
Loans	25	256,119	73,768
Trade and other receivables	27	72,394	95,727
Cash and cash equivalents	28	97,732	7,630
		1,259,314	903,180
Total assets		3,341,588	2,077,697
Current liabilities			
Trade and other payables	29	(287,769)	(303,471)
Provisions	30	(33,196)	(55,349)
		(320,965)	(358,820)
Non-current assets plus net current assets		3,020,623	1,718,877
Non-current liabilities			
Trade and other payables	29	(67,318)	(24,085)
Provisions	30	(9,877)	(110,223)
Deferred tax liabilities	31	–	–
Pension liabilities	32(a)	(11,454)	(25,349)
		(88,649)	(159,657)
Assets less liabilities		2,931,974	1,559,220
Reserves			
Income and expenditure reserve		2,678,106	1,378,788
Revaluation reserve		232,323	173,828
Fair value reserve		19,592	4,656
Regulation reserve		1,953	1,948
Taxpayers' equity		2,931,974	1,559,220

The accompanying Notes are an integral part of these Financial Statements.
Approved by the Board on 19 June 2014 and signed on their behalf by:

Robert Napier Chairman

Andrew Rose Chief Executive and Accounting Officer

STATEMENT OF CASH FLOWS
YEAR ENDED 31 MARCH 2014

Group and Agency	Note	2013/14 £'000	2012/13 £'000
Net cash outflow from operating activities	(a)	(1,129,296)	(838,479)
Cash flows from investing activities			
Loans advanced by Agency	25	(284,714)	(122,238)
Loans repaid to Agency		117,650	18,636
Purchase of property, plant and equipment	22	(369)	(578)
Purchase of intangible assets	21	(1,094)	(1,312)
Additions to available for sale financial assets	24	(902,366)	(170,351)
Proceeds from disposal of available for sale financial assets	5	40,925	40,868
Cash received on transfer of TSA	42a	–	2,265
Interest received		11,967	12,669
Net cash outflow from investing activities		(1,018,001)	(220,041)
Cash flows from financing activities			
Grant in Aid from sponsor department		2,308,440	1,131,135
Funds transferred from RPs		–	60
Interest paid	17	(65)	(125)
Capital element of repayment of finance leases		(972)	(1,204)
Net cash inflow from financing activities		2,307,403	1,129,866
Increase in cash and cash equivalents in the period		160,106	71,346
Cash and cash equivalents at 1 April	(b)	(62,374)	(133,720)
Cash and cash equivalents at 31 March	(b)	97,732	(62,374)

In 2013/14 the Agency took property assets in settlement of loans to associates to the value of £24.85m. The property values were independently assessed prior to the transaction taking place and the remainder of these loan notes were settled in cash.

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED 31 MARCH 2014

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

	Note	2013/14 £'000	2012/13 £'000
Net operating expenditure		(1,118,967)	(1,056,562)
Additions to property/development assets	26	(94,544)	(47,908)
Cost of property/development assets disposed	3, 26	98,285	98,717
Increase in impairments	9	9,820	17,426
Depreciation and amortisation	21, 22	2,925	3,102
(Gain)/loss on disposal of available for sale financial assets	5	(966)	215
Pension costs		(31,615)	(26,261)
		(1,135,062)	(1,011,271)
Decrease in receivables		28,653	48,995
Increase in payables		25,080	142,422
Decrease in provisions		(47,967)	(18,904)
Income tax repaid		–	279
Net cash outflow from operating activities		(1,129,296)	(838,479)

(b) Analysis of cash and cash equivalents

	Note	2014 £'000	2013 £'000
Cash and cash equivalents as shown in Statement of Financial Position	28	97,732	7,630
Bank overdraft	29	–	(70,004)
Cash and cash equivalents as shown in Statement of Cash Flows		97,732	(62,374)

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

YEAR ENDED 31 MARCH 2014

	Note	Income and expenditure reserve £'000	Revaluation reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total £'000
Balance at 31 March 2012		1,575,638	197,725	22,469	–	1,795,832
Changes in taxpayers' equity 2012/13						
Net expenditure for the year		(1,447,417)	–	–	–	(1,447,417)
Reclassification of previous years	24, 25	57,562	–	–	–	57,562
Funds transferred from RPs		–	–	–	60	60
Reclassification of reserves following transfer in from TSA		(1,888)	–	–	1,888	–
Reclassification of reserves prior to transfer out to GLA		56,439	(38,095)	(18,344)	–	–
Actuarial loss from pension fund	32(e)	(8,043)	–	–	–	(8,043)
Net gain on revaluation of property/ development assets	26	–	37,110	–	–	37,110
Revaluation gains transferred on disposal		17,647	(17,647)	–	–	–
Fair value gain on available for sale assets	24	–	–	3,226	–	3,226
Realised gains on disposal of available for sale assets recognised in net expenditure	5	–	–	(876)	–	(876)
Income tax on items in other comprehensive expenditure	20	(3,770)	(5,265)	(1,819)	–	(10,854)
Total comprehensive expenditure for the year		(1,329,470)	(23,897)	(17,813)	1,948	(1,369,232)
Grant in Aid from sponsor department	1(h)	1,131,135	–	–	–	1,131,135
Balance at 31 March 2013		1,377,303	173,828	4,656	1,948	1,557,735
Changes in taxpayers' equity 2013/14						
Net expenditure for the year		(1,070,321)	–	–	5	(1,070,316)
Actuarial gain from pension fund	32(e)	45,384	–	–	–	45,384
Net gain on revaluation of property/ development assets	26	–	103,489	–	–	103,489
Revaluation gains transferred on disposal		42,589	(42,589)	–	–	–
Fair value gain on available for sale assets	24	–	–	18,661	–	18,661
Realised gains on disposal of available for sale assets recognised in net expenditure	5	–	–	(1,949)	–	(1,949)
Income tax on items in other comprehensive expenditure	20	(27,225)	(2,405)	(1,776)	–	(31,406)
Total comprehensive expenditure for the year		(1,009,573)	58,495	14,936	5	(936,137)
Grant in Aid from sponsor department	1(h)	2,308,440	–	–	–	2,308,440
Balance at 31 March 2014		2,676,170	232,323	19,592	1,953	2,930,038

AGENCY STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

YEAR ENDED 31 MARCH 2014

	Note	Income and expenditure reserve £'000	Revaluation reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total £'000
Balance at 31 March 2012		1,578,043	197,725	22,469	–	1,798,237
Changes in taxpayers' equity 2012/13						
Net expenditure for the year		(1,448,337)	–	–	–	(1,448,337)
Reclassification of previous years	24, 25	57,562	–	–	–	57,562
Funds transferred from RPs		–	–	–	60	60
Reclassification of reserves following transfer in from TSA		(1,888)	–	–	1,888	–
Reclassification of reserves prior to transfer out to GLA		56,439	(38,095)	(18,344)	–	–
Actuarial loss from pension fund	32(e)	(8,043)	–	–	–	(8,043)
Net gain on revaluation of property/development assets	26	–	37,110	–	–	37,110
Revaluation gains transferred on disposal		17,647	(17,647)	–	–	–
Fair value gain on available for sale assets	24	–	–	3,226	–	3,226
Realised gains on disposal of available for sale assets recognised in net expenditure	5	–	–	(876)	–	(876)
Income tax on items in other comprehensive expenditure	20	(3,770)	(5,265)	(1,819)	–	(10,854)
Total comprehensive expenditure for the year		(1,330,390)	(23,897)	(17,813)	1,948	(1,370,152)
Grant in Aid from sponsor department	1(h)	1,131,135	–	–	–	1,131,135
Balance at 31 March 2013		1,378,788	173,828	4,656	1,948	1,559,220
Changes in taxpayers' equity 2013/14						
Net expenditure for the year		(1,069,870)	–	–	5	(1,069,865)
Actuarial gain from pension fund	32(e)	45,384	–	–	–	45,384
Net gain on revaluation of property/development assets	26	–	103,489	–	–	103,489
Revaluation gains transferred on disposal		42,589	(42,589)	–	–	–
Fair value gain on available for sale assets	24	–	–	18,661	–	18,661
Realised gains on disposal of available for sale assets recognised in net expenditure	5	–	–	(1,949)	–	(1,949)
Income tax on items in other comprehensive expenditure	20	(27,225)	(2,405)	(1,776)	–	(31,406)
Total comprehensive expenditure for the year		(1,009,122)	58,495	14,936	5	(935,686)
Grant in Aid from sponsor department	1(h)	2,308,440	–	–	–	2,308,440
Balance at 31 March 2014		2,678,106	232,323	19,592	1,953	2,931,974

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

1 Statement of accounting policies

a) Statutory basis
The Financial Statements of the Homes and Communities Agency (the Agency) are governed under the provisions of the Housing and Regeneration Act 2008 and by the Accounts Direction given by the Secretary of State, with approval of HM Treasury under the Act. The Direction issued on 24 November 2008 reflects Government policy that the Financial Statements should, insofar as appropriate, conform to the accounting and disclosure requirements contained in Managing Public Money, Financial Reporting Manual (FReM) and in HM Treasury's Fees and Charges Guide. The Financial Statements have been prepared in accordance with the 2013/14 Government Financial Reporting Manual (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 non-current assets, stock of development assets and available for sale financial assets.

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

The FReM directs that these transfers should be accounted for using absorption accounting. Under this method, the results and cashflows of the transferring functions are reported by the transferee from the date of transfer. No adjustment is made for transactions before the date of transfer, and assets are transferred at their carrying values, adjusted only to achieve uniformity of accounting policies. The net assets or liabilities transferred are recognised within Losses on statutory transfers in the Statement of Comprehensive Net Expenditure, while reserve balances are maintained by reclassification at the point of transfer to the income and expenditure reserve. Note 42 describes these transfers in more detail.

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

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

1. Statement of accounting policies (continued)

The share of net assets and profit information is based on unaudited financial statements or management information to 31 March 2014 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. In the current financial year, English Cities Fund has been consolidated using financial statements dated 31 December 2013. PxP West Midlands and Onsite North East have been prepared using management accounts dated 31 January 2014.

e) Intangible assets

Intangible assets comprise:

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

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

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

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

f) Property, plant and equipment

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

1. Statement of accounting policies (continued)

g) Property/development assets

i) Valuation
Property/development assets, consisting of land and buildings, are shown in the Statement of Financial Position at market value. The valuation methodology reflects the Agency's objectives and conditions for each asset. A valuation of the whole portfolio is carried out as at each reporting date by both internal and external qualified valuers, with independent external valuers appointed for the majority of the portfolio's value and also to value complex properties. In all cases valuations are in accordance with *RICS Valuation – Professional Standards* (9th Edition) published by the Royal Institution of Chartered Surveyors.

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

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

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

Where proceeds are receivable over a period of more than 12 months after the end of the reporting period, the proceeds are discounted at a rate prescribed by HM Treasury to reflect the net present value of the receipts.

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

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

Grant in Aid received to finance activities and expenditure which support the statutory and other objectives of the Agency 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 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.

1. Statement of accounting policies (continued)

i) Grants payable

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

Payments of Affordable Housing Grant are paid in two instalments, a Start on Site tranche and a completion tranche. However, grants to unregistered providers are generally paid in one tranche on completion. Start on Site tranches for Registered Providers were as follows:

National Affordable Housing Programme:	50% throughout 2012/13 and 2013/14
Affordable Homes Programme:	75% before 31 March 2012
	nil from 1 April 2012 to 22 July 2012
	50% from 23 July 2012

j) Grant recoveries from RPs

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

k) Other income

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

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

l) Investments in subsidiaries, associates and joint ventures

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

m) Income tax

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

1. Statement of accounting policies (continued)

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.

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

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

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

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

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

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

1. Statement of accounting policies (continued)

p) Provisions in respect of community related assets

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

q) Financial instruments

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

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

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

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 receivables

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

1. Statement of accounting policies (continued)

The Agency provides financial assistance to home buyers to buy a share in a new build home. The buyer must take out an affordable mortgage, which along with any deposit, must make up a minimum of 80% of the full purchase price of the property. In return the Agency will assist with up to 20% of the full property price. In the FirstBuy programme, which was replaced by the Help to Buy programme in April 2013, this assistance was provided equally by the Agency and the housebuilder. In similar schemes historically, the Agency assisted with up to 50% of the purchase price. The Agency's assistance is paid to the participating housebuilder, not the buyer. However, as part of the sales agreement, the Agency has an entitlement to a share of the future sales proceeds which will be equal to the initial percentage contribution. This is secured by a second charge on the property. The Agency's entitlement to the future sale proceeds on these properties is classified as being available for sale under IAS 39.

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

Available for sale 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 34.

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 34) 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 at the end of each reporting period and are impaired where there is objective evidence that the recovery of the receivable is in doubt. Objective evidence of impairment could include significant financial difficulty of the customer, default on payment terms or the customer going into liquidation.

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

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

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

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

r) Critical accounting 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:

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

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

Liabilities
The liability for additional consideration on development land is calculated by estimating the profits from, and timing of, future land disposals. These estimates are based on current market conditions and the Agency's current plans for utilisation of the sites. In 2013/14, the estimation uncertainty decreased as many sites have now progressed to the later stages of the disposal process, so the liability has been reclassified from provisions to payables.

Provisions
The environmental liability is calculated by estimating the future remediation costs to be incurred, based on current site conditions and remediation processes.

Defined benefit pensions
The value of the Agency's defined benefit pension assets and liabilities have been assessed by qualified independent actuaries. In making these assessments, it is necessary for actuarial assumptions to be used which include future rates of inflation, salary growth, discount rates and mortality rates. Differences between those estimates used and the actual outcomes will be reflected in taxpayers' equity in future years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

1. Statement of accounting policies (continued)

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

s) Changes in accounting policies

IAS 1 Presentation of Financial Statements
An amendment to IAS 1 requires items of other comprehensive expenditure which may at some point be reclassified into net expenditure to be separately identified from those that will not.

IAS 19 Post-Employment Benefits (Pensions)
An amendment to IAS 19 introduces changes to the disclosure requirements to better show the characteristics and risks arising from defined benefit plans. It also amends the requirements for assessing the expected return on pensions scheme assets and the disclosure thereof.

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

IFRS 9 Financial Instruments
IFRS 9 will be effective no earlier than the Agency's 2018/19 reporting period. The new standard simplifies the classification and measurement of financial assets as well as addressing how impairments should be calculated and recorded. IFRS 9 has yet to be endorsed by the EU, is subject to change arising from exposure drafts currently in issue, and its application in the public sector context has yet to be interpreted by the FReM. There is therefore significant uncertainty about how the standard may affect the Agency.

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IAS 27 Separate Financial Statements

IAS 28 Investments in Associates and Joint Ventures
These new or amended standards will be effective from the Agency's 2014/15 reporting period, as adapted for the public sector by the FReM. The standards affect the consolidation and reporting of subsidiaries, associates and joint ventures. They re-define control by looking at investor power and the ability to direct activities, provide a principles based definition of joint arrangements based on rights and obligations, and require greater disclosure of the financial effects and risks on the consolidating entity. These standards will have limited impact on the Agency's Financial Statements.

IFRS 13 Fair Value Measurement

IFRS 13 will be effective no earlier than the Agency's 2015/16 reporting period. The new standard aims to provide consistent guidance on fair value measurement for all relevant balances and transactions covered by other IFRSs. The application of IFRS 13 in the public sector context has yet to be interpreted by the FReM, and there is therefore significant uncertainty about how the standard may affect the Agency.

Financial Reporting Manual

The 2014/15 FReM has been amended to direct that inventories should be valued using the historical cost convention, and that this convention should not be modified by revaluation to fair value. As a result, the agency's development assets will be recorded at the lower of cost and net realisable value from 2014/15. The agency's results for 2013/14 will therefore be restated to account for this change when the 2014/15 accounts are published. The effect as at 31 March 2014 will be to eliminate the revaluation reserve of £232.3m, reduce the carrying value of property/development assets by £290.4m and reduce the income and expenditure reserve by £58.1m to account for the resulting changes to deferred tax. The effect on net expenditure for 2013/14 will be to reduce cost of property disposals by £42.6m, being the revaluation reserve realised on the disposal of property assets in the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

2 Grant payments

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

	2013/14 £'000	2012/13 £'000
Affordable Housing Grant (Note 2(b))	459,350	512,449
Decent Homes	406,137	364,364
Mortgage Rescue	54,063	60,602
Property and Regeneration	40,492	22,705
Economic Assets	36,064	8,819
Bringing Empty Homes Back into Use	16,861	5,074
Traveller Pitch Funding	10,984	1,482
Homelessness Change Programme	10,400	6,123
Kickstart Housing Delivery	8,243	2,280
Armed Forces Home Ownership Scheme	4,726	5,048
City Deals	4,202	–
Community Right to Build	221	–
	1,051,743	988,946

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

(b) Affordable Housing Grant

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

	Payments £'000	Recoveries £'000	2013/14 Net total £'000	Payments £'000	Recoveries £'000	2012/13 Net total £'000
National Affordable Housing Programme	72,467	(7,717)	64,750	246,912	(2,829)	244,083
Affordable Homes Programme	386,133	(1,144)	384,989	250,396	(418)	249,978
Kickstart Housing Delivery	750	–	750	15,141	–	15,141
	459,350	(8,861)	450,489	512,449	(3,247)	509,202

3. Disposal of property assets

	Note	2013/14 £'000	2012/13 £'000
Proceeds from disposals		111,799	101,539
Cost of property disposals:			
Book value of property disposals	26	98,285	98,717
Direct sales expenses		1,015	840
Increase in provision for additional consideration payable for development assets	30	1,935	10,365
		101,235	109,922
Gain/(deficit) on disposal		10,564	(8,383)

4. Programme costs

	2013/14 £'000	2012/13 £'000
Property and Regeneration	2,038	4,081
Economic Assets	1,928	2,425
Affordable Homes Programme Agents Fees	1,306	966
Kickstart Housing Delivery	428	827
Get Britain Building	200	2,939
Build to Rent	1,994	–
Public Land Infrastructure Fund	1,449	–
Local Infrastructure Fund	584	–
Other initiatives	23	3
	9,950	11,241

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

5. Gain/(loss) on disposal of available for sale financial assets

	Note	2013/14 £'000	2012/13 £'000
Proceeds from disposals		40,925	40,868
Fair value of assets disposed	24	41,908	41,959
Loss on disposal against fair value		(983)	(1,091)
Fair value gains recognised in net expenditure on disposal		1,949	876
Gain/(loss) on disposal against historic cost		966	(215)

6. Staff costs

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

(a) Total staff costs

	2013/14 £'000	2012/13 £'000
Total staff costs charged to net expenditure comprise:		
Staff costs, excluding pensions	43,370	42,129
Pension costs	9,176	(12,057)
Total staff costs	52,546	30,072

The costs above can be further analysed as follows:	2013/14 £'000	Restated 2012/13 £'000
Salaries and wages	38,687	37,332
Social security costs	3,585	3,564
Pension costs – current service cost*	8,654	6,067
Pension costs – past service cost and losses on curtailments and settlements	-	966
Pension costs – expenses	522	342
Pension costs – gain on settlement**	-	(19,432)
	51,448	28,839
Temporary staff	419	611
Seconded staff	679	622
	52,546	30,072
Non-Executive Board Member expenses	20	23

There were no staff costs capitalised in 2013/14 (2012/13: £nil).
The figures above for 2012/13 have been restated for the revised requirements of IAS 19 Employee Benefits relating to the disclosure of pension costs in the categories shown.

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

**The gain on settlement is in relation to the closure of the Regional Development Agencies (RDAs) and is described more fully in Note 32. It is noted as an exceptional item in Note 11 because of its size and unique nature.

6. Staff costs (continued)

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

	2013/14 Number	2012/13 Number
Permanent UK staff	794	809
Fixed term UK staff	74	35
Temporary staff	10	11
Seconded staff	7	7
	885	862

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

	2013/14 Number	2012/13 Number
£0 – £25,000	143	141
£25,001 – £50,000	461	453
£50,001 – £75,000	224	215
£75,001 – £100,000	47	42
£100,001 – £125,000	5	5
£125,001 – £150,000	3	5
£150,001 – £175,000	2	1
	885	862

(d) Staff bonuses

Staff members who are direct employees of the Agency benefit from a Performance Related Pay scheme whereby any bonuses are determined with reference to performance against agreed objectives during the year. Payments accruing during the year totalled £204,000 (2012/13: £184,000). The Secretary of State has determined that bonuses cannot be awarded to more than 25% of staff, and that a cap of £950 per person applies (excluding directors).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

6. Staff costs (continued)

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

	2013/14			2012/13		
Exit package cost band	Departures agreed Number	Departures revoked Number	Net total Number	Departures agreed Number	Departures revoked Number	Net total Number
£0 – £10,000	1	-	1	-	-	-
£10,001 – £25,000	3	-	3	3	(1)	2
£25,001 – £50,000	2	-	2	1	(1)	-
£50,001 – £100,000	3	-	3	6	-	6
£100,001 – £150,000	2	-	2	2	(1)	1
£150,001 – £200,000	-	-	-	-	-	-
More than £200,000	-	-	-	-	(1)	(1)
Total number of exit packages	11	-	11	12	(4)	8
Total cost of exit packages (£'000)	598	-	598	940	(417)	523

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

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

7. Other administration costs

	Note	2013/14 £'000	2012/13 £'000
Board Members' remuneration (including employers' national insurance)		290	278
Indirect staff costs		1,035	909
Travel and subsistence		3,498	3,556
Accommodation costs		5,173	5,161
Office running costs		2,884	3,242
Professional fees		1,259	1,882
Communications		91	85
Auditor's remuneration	12	197	195
Taxation not recoverable		1,374	2,532
Rebate of taxation previously treated as not recoverable		(3,137)	-
Other		175	174
		12,839	18,014

Included within administration costs is £12,000 (2012/13: £14,000) in relation to non-staff hospitality and entertaining.

8. Restructuring costs

	2013/14 £'000	Restated 2012/13 £'000
Redundancy and restructuring	519	420
Early retirement pension costs	61	103
	580	523

The restructuring costs shown above include adjustments to accruals made in previous years, and are therefore different to the exit package costs shown in Note 6(e) which relate only to new departures agreed in the year.

9. Movement in provision for impairments

	Note	2013/14 £'000	2012/13 £'000
Impairments/(impairment reversals) arise on assets as follows:			
Property/development assets	26	17,584	12,318
Available for sale financial assets	24	(3,151)	(9,791)
Loans	25	2,648	27,434
Less: amounts included in share of losses of associates and joint ventures	18	(6,940)	(12,998)
Property, plant and equipment	22	(321)	463
		9,820	17,426

10. Movement in provisions

	Note	2013/14 £'000	2012/13 £'000
Movement in bad debt provision	12	(141)	352
Movement in other provisions	30	7,574	631
		7,433	983

The movement in other provisions does not include the movement on the provision for additional consideration on development land which is charged to costs of property disposals, as described in Note 30.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

11. Exceptional costs

Pension gain on settlement

The gain on settlement of pension liabilities in 2012/13 in relation to the Regional Development Agencies (RDAs), described more fully in Note 32, is noted as an exceptional item because of its size and unique nature.

12. Net operating expenditure

	Note	2013/14 £'000	2012/13 £'000
Net operating expenditure has been arrived at after charging the following:			
Auditor's remuneration		197	195
Contingent rents payable under finance leases		131	176
Operating lease rentals – land and buildings		3,663	2,727
Operating lease rentals – other		1,076	1,130
Redundancy and restructuring	8	519	420
Early retirement pension costs	8	61	103
Movement in bad debt provision	10	(141)	352

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

13. Clawback of grants and contributions

	2013/14 £'000	2012/13 £'000
Affordable Housing Grant (Note 2(b))	8,861	3,247
Kickstart Housing Delivery – clawback of gap funding to developers	3,142	4,197
Property and Regeneration Grants	1,231	3,303
Economic Assets Grants	4,122	12,609
	17,356	23,356

14. Other operating income

	2013/14 £'000	2012/13 £'000
Rent and other property income	11,950	17,210
Release of restrictive covenants and other windfall income	2,667	3,980
Contributions from partners towards specific programme expenditure	615	1,477
Milton Keynes Tariff	-	7,782
Housing Action Trusts	365	389
Homeowner fees	3,918	2,850
Miscellaneous	1,575	2,256
	21,090	35,944

Milton Keynes Tariff income relates to developer contributions to strategic infrastructure in Milton Keynes. Under the Tariff, developers undertake to pay a fixed contribution per residential unit, or per hectare of commercial space, towards infrastructure development. On 14 January 2013 Milton Keynes Council took over the running of the Tariff (see Note 42c).

15. Operating segments

(a) Operating segment analysis

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 MARCH 2014

15. Operating segments (continued)

	2013/14 £m	2012/13 £m
Programme expenditure:		
National Affordable Housing Programme	65.9	246.7
Affordable Homes Programme	373.3	245.2
Affordable Homes Guarantees	15.3	-
Property and Regeneration	85.5	86.5
Economic Assets	116.2	64.6
Endowments	19.3	-
Accelerated Disposals	-	23.4
Public Sector Land	49.0	-
Decent Homes Backlog	217.0	210.0
Decent Homes Gap Funding	189.1	154.3
Mortgage Rescue	54.1	60.6
Kickstart Housing Delivery	12.2	13.6
Help to Buy	858.4	-
FirstBuy	13.7	113.5
Get Britain Building	221.8	160.7
Build to Rent	17.2	-
Local Infrastructure Fund - Large Sites	68.8	-
Local Infrastructure Fund - Enterprise Zones	4.3	-
Custom Build	1.5	-
Empty Homes	16.9	5.1
Homelessness Change	10.4	6.1
Traveller Pitch Funding	11.0	1.5
Right to Buy replacement	1.5	-
Community Right to Build	0.2	-
Total programme expenditure	**2,422.6**	**1,391.8**
Staff and administration	68.5	76.0
Depreciation	2.9	3.1
Restructuring costs	0.6	0.8
Pension costs – deficit payments (Note 32(f))	30.0	-
Total gross expenditure	**2,524.6**	**1,471.7**
Receipts:		
Property and Regeneration receipts	(113.8)	(133.7)
Economic Assets receipts	(152.1)	(83.0)
Accelerated Disposal receipts	(26.0)	(4.3)
Kickstart receipts	(15.1)	(36.4)
Get Britain Building	(41.2)	-
Build to Rent	(0.1)	-
HomeBuy Direct	(13.2)	-
Help to Buy/FirstBuy	(2.0)	-
Custom Build	(0.1)	-
Other receipts	(7.6)	(9.7)
Total receipts	**(371.2)**	**(267.1)**
Total DEL expenditure reported to the Board	**2,153.4**	**1,204.6**

15. Operating segments (continued)

(b) Reconciliations to net expenditure

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

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

	2013/14 £m	2012/13 £m
Total DEL expenditure reported to the Board	**2,153.4**	**1,204.6**
Reconciling items:		
Increase in provision for impairments	9.8	17.4
Increase in provisions	6.5	0.6
Utilisation of provisions (net of reimbursements)	(10.0)	(9.7)
Share of losses of associates and joint ventures	9.3	14.3
Losses on statutory transfers	-	411.1
Realised gains on disposal of available for sale assets	(1.9)	(0.9)
Pension movements	(32.4)	(31.4)
Book value of development asset disposals	98.3	98.7
Book value of available for sale assets disposed	41.9	42.0
Loan repayments	142.5	17.2
Capital items recorded as programme expenditure	(1,327.2)	(341.4)
Timing differences	11.5	36.1
Net expenditure before tax as stated in the Statement of Comprehensive Net Expenditure	**1,101.7**	**1,458.6**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

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:

	2013/14 £m	2012/13 £m
Property and Regeneration receipts	113.8	133.7
Economic Assets receipts	152.1	83.0
Accelerated Disposal receipts	26.0	4.3
Kickstart receipts	15.1	36.4
Get Britain Building	41.2	-
Build to Rent	0.1	-
HomeBuy Direct	13.2	-
Help to Buy/FirstBuy	2.0	-
Custom Build	0.1	-
Other receipts	7.6	9.7
Programme receipts reported to the Board	**371.2**	**267.1**
Reconciling items:		
Interest receivable	(25.8)	(24.4)
Clawback of grants shown as income in the Statement of Comprehensive Net Expenditure but netted off Programme Expenditure in the Board Report	8.9	3.2
Timing differences	(19.7)	(25.9)
Receipts from disposal of capital items recorded as programme income	(184.4)	(59.2)
Income as stated in the Statement of Comprehensive Net Expenditure	**150.2**	**160.8**

(c) Major customers

Income as shown in the Statement of Comprehensive Net Expenditure includes a total of £nil (2012/13: £58.9m within the Property and Regeneration 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 £11.8m from a private sector developer within the Accelerated Disposal segment (2012/13: £30.9m from a local authority within the Property and Regeneration segment).

16. Interest receivable

	2013/14 £'000	2012/13 £'000
Unwinding of discount on financial assets	5,539	6,534
Loan interest	19,647	17,390
Interest on grant recoveries from RPs	141	149
Miscellaneous interest	484	327
	25,811	24,400

17. Interest payable

	2013/14 £'000	2012/13 £'000
Unwinding of discount on financial liabilities	-	5,995
Finance lease interest	65	109
Other interest	-	16
	65	6,120

18. Share of losses of associates and joint ventures

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

	Note	2013/14 £'000	2012/13 £'000
Share of revenue of associates		24,857	44,640
Share of revenue of joint ventures		4,387	11,907
		29,244	56,547
Share of (losses)/profits of associates		(4,105)	827
Share of losses of joint ventures		(5,177)	(15,121)
		(9,282)	(14,294)
Share of losses of associates and joint ventures:			
Shown as movement in investment in associates and JVs	23(b)	(2,342)	(1,296)
Shown as impairment of loans to associates and JVs	25	(6,940)	(12,998)
Share of losses of associates and joint ventures		(9,282)	(14,294)

19. Principal/Agent relationships

Capital grants in kind

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

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

These assets were therefore effectively disposed of by the Agency, and proceeds from disposal of property in 2012/13 therefore includes notional income of £12.7m for the value of these assets, with a capital grant in kind also being recognised for the same amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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HCA acting as agent
HCA has continued to manage three science parks on behalf of BIS. During the year the Agency incurred expenditure of £3.63m and collected income of £3.51m as a result of its day to day management of the sites and recovered the net amount of £0.12m from BIS at regular intervals throughout the year.

During the year, the Agency signed an agreement with the Department of Health (DoH) in respect of the Care and Support Specialised Housing Fund. Under this programme, DoH is making available £160m to fund specialist housing for older people and adults with disabilities. The programme will be delivered and managed by HCA on behalf of DoH. During the year, grants totalling £13.76m were paid out by the Agency and reimbursed by DoH.

In both of these relationships, HCA is acting as an agent on behalf of the principal, BIS and DoH 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 received.

20. Income tax

(a) Tax credit in net expenditure comprises:

	Note	2013/14 £'000	2012/13 £'000
Corporation tax on the results for the year at 23%/24%		-	-
Adjustment to current tax of prior years		-	(279)
Deferred tax relating to the origination and reversal of temporary differences	31	(31,406)	(10,854)
		(31,406)	(11,133)

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

	2013/14 £'000	2012/13 £'000
Deferred tax relating to:		
Actuarial gain/(loss) from pension fund	17,430	(465)
Revaluation of development assets	12,200	9,500
Revaluation of available for sale assets	1,776	1,819
	31,406	10,854

(c) Reconciliation of tax charge

	2013/14 £'000	2012/13 £'000
Net expenditure before tax	(1,101,722)	(1,458,550)
Income tax on net expenditure at 23%/24%	(253,396)	(350,052)
Effects of:		
Non-taxable grant income	(3,992)	(7,473)
Expenditure not deductible for tax, including grant payments	217,157	334,666
Depreciation and amortisation	673	744
Capital allowances on property, plant and equipment	(173)	(215)
Losses carried forward	8,325	11,476
Over provision of current tax in previous years	-	(279)
Tax credit for period (Note 20(a))	(31,406)	(11,133)

21. Intangible assets

Group and Agency

	Software £'000	Information technology £'000	Total £'000
Cost			
At 1 April 2012	1,669	6,525	8,194
Transfer in from TSA	895	2,190	3,085
Additions	601	711	1,312
Disposals	-	-	-
At 31 March 2013	3,165	9,426	12,591
Additions	137	957	1,094
Disposals	-	-	-
At 31 March 2014	3,302	10,383	13,685
Amortisation			
At 1 April 2012	1,370	5,574	6,944
Transfer in from TSA	813	1,367	2,180
Charge in year	358	1,078	1,436
Disposals	-	-	-
At 31 March 2013	2,541	8,019	10,560
Charge in year	303	879	1,182
Disposals	-	-	-
At 31 March 2014	2,844	8,898	11,742
Net book value			
At 1 April 2012	299	951	1,250
At 31 March 2013	624	1,407	2,031
At 31 March 2014	458	1,485	1,943

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

22. Property, plant and equipment

Group and Agency

	Land £'000	Freehold buildings £'000	Leasehold buildings £'000	Fixtures, fittings and office equipment £'000	Information technology £'000	Total £'000
Cost or valuation						
At 1 April 2012	1,076	2,119	711	5,835	3,473	13,214
Transfer in from TSA	-	-	981	530	471	1,982
Additions	-	-	-	234	344	578
Disposals	-	-	-	-	-	-
Impairments	(225)	(295)	(715)	-	-	(1,235)
At 31 March 2013	851	1,824	977	6,599	4,288	14,539
Additions	-	-	-	4	365	369
Disposals	-	-	-	(538)	(85)	(623)
Impairments	25	260	(838)	-	-	(553)
At 31 March 2014	876	2,084	139	6,065	4,568	13,732
Depreciation						
At 1 April 2012	-	-	-	4,991	3,000	7,991
Transfer in from TSA	-	-	-	440	398	838
Charge in year	-	57	715	440	454	1,666
Disposals	-	-	-	-	-	-
Released on impairment	-	(57)	(715)	-	-	(772)
At 31 March 2013	-	-	-	5,871	3,852	9,723
Charge in year	-	36	838	426	443	1,743
Disposals	-	-	-	(538)	(85)	(623)
Released on impairment	-	(36)	(838)	-	-	(874)
At 31 March 2014	-	-	-	5,759	4,210	9,969
Net book value						
At 1 April 2012	1,076	2,119	711	844	473	5,223
At 31 March 2013	851	1,824	977	728	436	4,816
At 31 March 2014	876	2,084	139	306	358	3,763

Land and freehold buildings comprise the Agency's offices at St George's House, Gateshead and Arpley House, Warrington. Independent professional valuations were carried out by GVA and CBRE, which showed the values to be £1.19m and £1.77m, respectively as at 31 March 2014. An accounting adjustment has been made to reflect these values.

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

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

23. Investments

(a) Subsidiary undertakings

Agency

Cost or valuation	2013/14 £'000	2012/13 £'000
At 1 April	12,968	15,184
Impairments	(1,891)	(2,216)
At 31 March	11,077	12,968

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
Norwepp (NWDA subsidiary) Ltd	£500	Investment holding company
AWM (Subsidiary) Ltd	£1	Investment holding company
emEP Ltd	£1,000	Investment holding company
ONE NorthEast General Partner Ltd	£100	Investment holding company

Except for English Partnerships (LP) Ltd, the Agency's investment in each subsidiary is fully impaired, and the aggregate capital and reserves are equal to the share capital stated above. English Partnerships (LP) Ltd has aggregate capital and reserves of £11.1m (2013: £13.0m) as shown in the table above.

(b) Associated undertakings and joint ventures

Group

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

	Note	2013/14 £'000	2012/13 £'000
Cost or valuation			
At 1 April		11,483	12,779
Share of losses of associates and joint ventures		(2,342)	(1,296)
Net assets disposed*	18	-	-
At 31 March		9,141	11,483

* During 2013/14, the Agency disposed of its investment in North East Property Partnership (NEPP) which resulted in the repayment of £50.9m of loan notes. The Agency also significantly reduced the scale of its joint venture investment in Norwepp Limited Partnership which resulted in the repayment of £32.1m, being the majority of its loan notes. These result in significant movements in the group share of assets and liabilities disclosed below, although as the majority of the Agency's investment in these entities is by way of loans, there is no significant change to the share of net assets shown above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 MARCH 2014

23. Investments (continued)

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

	2014 £'000	2013 £'000
Associates		
Assets	33,050	32,535
Liabilities	(33,042)	(28,422)
Total group share of net assets of associates	8	4,113
Joint ventures		
Non-current assets	17,933	100,305
Current assets	18,443	26,475
Current liabilities	(3,016)	(53,462)
Non-current liabilities	(58,204)	(127,803)
Total group share of net liabilities of joint ventures	(24,844)	(54,485)
Total group share of net liabilities of associates and joint ventures	(24,836)	(50,372)
Shown as follows:		
Share of net assets of associates and joint ventures	9,141	11,483
Cumulative impairments of loans to associates	(33,977)	(61,855)
Total group share of net liabilities of associates and joint ventures	(24,836)	(50,372)

(c) Associated undertakings and joint ventures

Agency

The nominal cost of the Agency's investment in associates and joint ventures was less than £1,000. The majority of the Agency's investment is by way of loans as disclosed in Note 25.

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

23. Investments (continued)

Name of undertaking	Interest	Nature of business
English Cities Fund Limited Partnership	33%	Property development
Blueprint Limited Partnership	50%	Property rental and development
Norwepp Limited Partnership ^	50%	Property rental and development
Onsite North East Limited Partnership ^ **	50%	Development of land
North East Property Partnership ^ *	50%	Property rental and development
PxP West Midlands Limited Partnership ^ **	50%	Property rental and development
Countryside Maritime 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

* As at 31 March 2014 this entity was no longer an associated undertaking, as the Agency's interest was disposed of during the year, as described further in Note 23(b).

** The results and share of net assets for these entities are based on unaudited management information to 31 January 2014, but this information included property valuations as at 31 March 2013. The potential differences between the net assets used and those which would otherwise be presented are not considered to be material.

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

24. Available for sale financial assets

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

- the Agency's entitlement to future income arising from financial assistance provided to homebuyers to enable them to buy housing units
- the Agency's share in the profits of private sector developments under the Kickstart Housing, Get Britain Building and Build to Rent Initiatives
- investments in infrastructure projects under which the Agency benefits from variable returns on its investments based on income generated by the infrastructure funded
- an investment in the North West England Jessica fund (Joint European Support for Sustainable Investment in City Areas). The fund is operated by the European Investment Bank on the Agency's behalf and is partly funded by the European Regional Development Fund (ERDF).

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

Assets are categorised below according to the hierarchies described above. Assets relating to housing units are categorised as level 2, while all other available for sale financial assets are categorised as level 3. There are no assets categorised as level 1. Note 34 describes the valuation methods in more detail. Impairments of available for sale financial assets are shown within movements in provision for impairments (Note 9).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 MARCH 2014

24. Available for sale financial assets (continued)

Group and Agency

	Note	Level 2 £'000	Level 3 £'000	Total £'000
At 1 April 2012		437,835	112,373	550,208
Reclassification of previous years		-	24,395	24,395
Additions		116,440	53,911	170,351
Transfer out to GLA	42b	(47,663)	(1,444)	(49,107)
Disposals	5	(18,844)	(23,115)	(41,959)
Fair value adjustment		3,223	3	3,226
Impairment reversals/(impairments)		16,282	(6,491)	9,791
At 31 March 2013		507,273	159,632	666,905
Additions		872,287	30,079	902,366
Reclassifications		-	4,761	4,761
Disposals	5	(35,771)	(6,137)	(41,908)
Fair value adjustment		10,880	7,781	18,661
Impairment reversals/(impairments)		12,577	(9,426)	3,151
At 31 March 2014		1,367,246	186,690	1,553,936

	2014 £'000	2013 £'000
Level 2 comprises investments under the following programmes:		
- Help to Buy	834,738	-
- FirstBuy	168,986	153,659
- HomeBuy Direct	236,361	230,909
- First Time Buyers' Initiative	127,161	122,705
	1,367,246	507,273

	2014 £'000	2013 £'000
Level 3 comprises investments under the following programmes:		
- Jessica Fund	91,074	88,162
- Get Britain Building	49,712	37,471
- Regional Infrastructure Fund	26,469	27,445
- Kickstart	1,352	6,554
- Build to Rent	2,707	-
- Other	15,376	-
	186,690	159,632

Reclassifications include £1.5m of loans and £3.3m of receivables which have been reclassified as available for sale assets following contractual changes to the determination and timing of amounts expected to be recovered.

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

25. Loans

Group and Agency

	Note	Development loans £'000	Infra-structure loans £'000	Loans to associates and joint ventures £'000	Other loans £'000	Total £'000
At 1 April 2012		55,773	5,000	252,991	31,962	345,726
Reclassification of previous years		–	23,916	–	–	23,916
Transfers out to GLA		(21,758)	–	(29,022)	–	(50,780)
Loans advanced		117,178	–	496	4,564	122,238
Loans repaid		(8,262)	(1,800)	(8,164)	(410)	(18,636)
Interest added to loans		4,671	–	–	–	4,671
Unwind of discount		–	526	1,350	–	1,876
Impairments		(14,436)	–	(12,998)	–	(27,434)
At 31 March 2013		133,166	27,642	204,653	36,116	401,577
Loans advanced		211,132	71,882	–	1,700	284,714
Loans repaid		(50,772)	(7,045)	(83,456)	(1,227)	(142,500)
Reclassifications	24	–	–	(43,858)	42,358	(1,500)
Interest added to loans		8,302	3	–	–	8,305
Unwind of discount		–	75	1,380	100	1,555
Impairment reversals/(impairments)		13,667	–	(16,315)	–	(2,648)
At 31 March 2014		315,495	92,557	62,404	79,047	549,503
Amounts at 31 March 2014 are disclosed as follows:						
Non-Current assets		137,654	77,611	7,251	70,868	293,384
Current assets		177,841	14,946	55,153	8,179	256,119
		315,495	92,557	62,404	79,047	549,503
Amounts at 31 March 2013 are disclosed as follows:						
Non-Current assets		122,347	26,642	143,094	35,726	327,809
Current assets		10,819	1,000	61,559	390	73,768
		133,166	27,642	204,653	36,116	401,577

Development loans

Loans have been made to private sector developers in order to bring forward the development of housing under the Agency's Get Britain Building, Kickstart, Build to Rent and Custom Build schemes. These loans are repayable during periods ranging up to March 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 March 2031.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

25. Loans (continued)

The reclassification of previous years in 2012/13 related to a change in treatment of specific investments which were previously expensed. These amounts are more correctly treated as loans, where the Agency has an unconditional contractual right to receive repayments.

Loans to associates and joint ventures
The Agency's principal investment in its associates and joint ventures is by way of loans. During 2013/14 the Agency disposed of its investment in North East Property Partnership (NEPP) which resulted in the repayment of £50.9m of loan notes and the reclassification of £42.3m to other loans. The Agency also significantly reduced the scale of its joint venture investment in Norwepp Limited Partnership which resulted in the repayment of £32.1m, being the majority of its loan notes. Norwepp remains a joint venture at 31 March 2014, but with significantly reduced assets.

Of the £16.3m impairments recorded in the year (2013: £13.0m), £6.9m is reported within share of losses of associates and joint ventures. The balance relates to loan impairments as a result of the disposal of the Agency's investments in NEPP and Norwepp.

Other loans
Other loans include £29.7m of loans made to utility companies in respect of water infrastructure for new town developments and £42.3m of loans reclassified from loans to associates and joint ventures following the Agency's disposal of investment in NEPP.

The remaining reclassification of £1.5m has been reclassified as an available for sale financial asset following contractual changes to the determination and timing of amounts expected to be recovered.

26. Property/development assets

Group and Agency

	Note	2013/14 £'000	2012/13 £'000
Market value at 1 April		726,055	1,015,443
Movement in year:			
Transfer out to GLA	42	-	(263,371)
Capital expenditure		119,394	47,908
Disposals	3	(98,285)	(98,717)
Movement in provision for impairment	9	(17,584)	(12,318)
Revaluation adjustment		103,489	37,110
Market value at 31 March		833,069	726,055

Included above are development assets expected to be realised in more than one year of £721.3m (2013: £686.8m).

Assets valued at £10.8m included above have a restriction on title which prevents them from being disposed of until equivalent cash funding is provided to the NW Jessica fund (see note 24).

(a) Impairment and revaluation movements

(i) Provision for impairment of development assets
Where the market value of a property/development asset is lower than costs incurred on that asset, a provision is established to write the asset down to market value. This provision is reviewed annually and any adjustment is taken to net expenditure. Any provision against an asset is utilised against the cost of disposal when that asset is sold. The provision includes impairments charged in the year of £73.7m and the write back of impairments charged in previous years of £56.1m.

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

(b) Property interests with negative value

The market valuation excludes property interests with a negative value. The future liabilities associated with these property interests are fully provided for in provisions (Note 30). Such provisions are made based on modified valuation data that takes into account any contractual, legal or constructive obligations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 MARCH 2014

27. Trade and other receivables

Group and Agency

	Note	2014 £'000	2013 £'000
(a) Amounts falling due after more than one year			
Due from disposal of property/development assets		96,299	76,581
Reimbursement in respect of provisions	30c	6,534	22,433
Other receivables		24,621	34,142
		127,454	133,156
(b) Amounts falling due within one year			
Due from disposal of property/development assets		31,598	29,799
Trade receivables		4,460	12,992
VAT		-	2,447
Prepayments		1,330	1,461
Reimbursement in respect of provisions	30c	15,521	15,793
Other receivables		19,485	33,235
		72,394	95,727
Total trade and other receivables		199,848	228,883

	2014 £'000	2013 £'000
(c) Intra-Government balances		
Balances with other Central Government bodies	9,818	3,815
Balances with local authorities	28,784	17,104
Balances with NHS bodies	35	240
Intra-Government balances	38,637	21,159
Balances with bodies external to Government	161,211	207,724
	199,848	228,883

28. Cash and cash equivalents

Group and Agency

	2014 £'000	2013 £'000
Cash held with Government Banking Service	90,399	1,948
Cash held with commercial banks	7,333	5,682
	97,732	7,630

There were no cash equivalents at any of the reporting dates shown. In addition to the amounts above, the Agency held £518,000 on behalf of third parties.

29. Trade and other payables

Group and Agency

	Note	2014 £'000	Restated 2013 £'000
(a) Amounts falling after more than one year			
Additional consideration on development land	30	59,832	-
Deferred income		7,231	23,130
Finance leases		255	955
		67,318	24,085

	Note	2014 £'000	Restated 2013 £'000
(b) Amounts falling due within one year			
Trade payables		234,406	200,520
Accruals		12,270	7,710
Additional consideration on development land	30	13,595	-
Deferred income		21,028	20,918
Bank overdraft		-	70,004
VAT		3,485	-
Other taxes and social security		1,260	1,429
Finance leases		700	972
Other payables		1,025	1,918
		287,769	303,471
		355,087	327,556

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

29. Trade and other payables (continued)

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

Amounts for 2012/13 above have been restated to more correctly reflect the profile of liabilities falling due.

	2014 £'000	2013 £'000
(c) Intra-government balances		
Balances with other central government bodies	79,787	2,777
Balances with local authorities	67,394	70,809
Balances with NHS bodies	2,098	118
Intra-government balances	149,279	73,704
Balances with bodies external to government	205,808	253,852
	355,087	327,556

30. Provisions

Group and Agency

	CRA transfers £'000	Property interests with negative value £'000	Environmental liabilities £'000	Other liabilities £'000	Additional consideration on development land £'000	Total £'000
Balance at 1 April 2012	3,650	6,690	72,461	3,290	92,390	178,481
Charge to net expenditure	712	500	-	893	10,365*	12,470
Unused provisions credited to net expenditure	(17)	(1,276)	-	(181)	-	(1,474)
Unwinding of Discount	-	-	5,995	-	-	5,995
Expenditure against provisions	(676)	(1,578)	(26,485)	(1,161)	-	(29,900)
Balance at 31 March 2013	3,669	4,336	51,971	2,841	102,755	165,572
Charge to net expenditure	-	-	8,302	886	1,935*	11,123
Unused provisions credited to net expenditure	(150)	(988)	-	(476)	-	(1,614)
Unwinding of Discount	-	-	(1,105)	-	-	(1,105)
Expenditure against provisions	(971)	(2,429)	(21,179)	(1,634)	(31,263)	(57,476)
Reclassification to payables	-	-	-	-	(73,427)	(73,427)
Balance at 31 March 2014	2,548	919	37,989	1,617	-	43,073

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

Amounts above are disclosed as follows:	2014 £'000	2013 £'000
Current liabilities	33,196	55,349
Non-current liabilities	9,877	110,223
	43,073	165,572

30. Provisions (continued)

(a) Community related asset (CRA) transfers

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

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

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

(b) Property interests with negative value

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

(c) Environmental liabilities

The environmental liabilities cover two key 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, £29.7m at the year end.

The Agency has a right to partial reimbursement from the Department of Energy and Climate Change in respect of this liability, the amounts of which are shown within receivables (Note 27).

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

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 £8.3m.

(d) Other liabilities

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

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

In 2005/06 the Agency entered into an agreement with a Government Department to acquire a portfolio of surplus public sector land. The development agreement was structured so that initial consideration payable would be supplemented by further consideration when milestones for income and profit were triggered.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 MARCH 2014

30. Provisions (continued)

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

In 2013/14, the estimation uncertainty inherent in this liability decreased as many sites have now progressed to the later stages of the disposal process. Therefore the liability has been reclassified from provisions to payables.

31. Deferred tax

Group and Agency

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

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

	At 31 March 2013 £'000	Charged to net expenditure £'000	Charged to other comprehensive expenditure £'000	At 31 March 2014 £'000
Revaluation of development assets	55,676	(9,795)	12,200	58,081
Fair value gains/(losses) on available for sale assets	3,122	-	1,776	4,898
Unused tax losses	(44,691)	(25,526)	-	(70,217)
Provisions	(14,448)	5,833	-	(8,615)
Pensions	341	(1,918)	17,430	15,853
Deferred tax liability	-	(31,406)	31,406	-

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 £218m (2013: £826m) 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.

32. Pension arrangements and liabilities

Group and Agency

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

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

All three schemes are multi-employer defined benefit schemes as described in paragraph 7 of *IAS 19 Employee Benefits*. They are all final salary schemes and have broadly comparable benefits, but the Homes and Communities Agency Pension Scheme is the only one which remains open to new employees. Further information on the funding arrangements for the schemes is contained within note (k) below.

Valuations of the Agency's assets and liabilities in each scheme as at 31 March 2014 have been prepared in accordance with IAS 19 and the results are disclosed in Note (a) below.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 MARCH 2014

32. Pension arrangements and liabilities (continued)

(a) Pension assets/(liabilities)

	Present value of funded liabilities £'000	Present value of unfunded liabilities £'000	Present value of scheme liabilities £'000	Fair value of employer assets £'000	Net pension assets/ (liabilities) £'000
2014					
Homes and Communities Agency Pension Scheme	(247,224)	-	**(247,224)**	293,126	**45,902**
City of Westminster Pension Fund	(223,225)	-	**(223,225)**	268,040	**44,815**
West Sussex County Council Pension Fund	(60,446)	(9,331)	**(69,777)**	58,323	**(11,454)**
Total	(530,895)	(9,331)	**(540,226)**	619,489	**79,263**
Total of net pension assets					**90,717**
Total of net pension liabilities					**(11,454)**
2013					
Homes and Communities Agency Pension Scheme	(245,119)	-	**(245,119)**	271,951	**26,832**
City of Westminster Pension Fund	(232,137)	-	**(232,137)**	218,555	**(13,582)**
West Sussex County Council Pension Fund	(57,629)	(8,793)	**(66,422)**	54,655	**(11,767)**
Total	(534,885)	(8,793)	**(543,678)**	545,161	**1,483**
Total of net pension assets					**26,832**
Total of net pension liabilities					**(25,349)**

The HCA and Westminster pension schemes have net assets at 31 March 2014 as shown above and have therefore been disclosed within non-current assets in the Statement of Financial Position. The HCA scheme was similarly disclosed within non-current assets at 31 March 2013.

32. 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

	2014	2013
Inflation increases rate	2.4%	2.7%
Salary increases	4.3%	4.6%
Pension increases	2.7%	2.7%
Discount rate	4.5%	4.4%

ii) Mortality assumptions

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

	2014 Years	2013 Years
Male – current pensioners	22.8	22.9
Male – future pensioners	24.8	24.6
Female – current pensioners	25.4	25.1
Female – future pensioners	27.6	27.1

(c) Fair value of employer assets

	2014 £'000	2013 £'000
Equities – quoted	254,308	236,164
Equities – unquoted	134,449	102,510
Bonds	189,962	182,997
Property	15,398	13,114
Other assets – quoted	2,558	–
Other assets – unquoted	22,814	10,376
Total	**619,489**	**545,161**
Actual return on employer assets	**40,782**	**63,724**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 MARCH 2014

32. Pension arrangements and liabilities (continued)

(d) Charge to net expenditure

	2013/14 £'000	Restated 2012/13 £'000
Amounts charged to net operating expenditure		
Current service costs	8,715	6,170
Past service costs and losses on curtailments and settlements	-	966
Expenses	522	342
Gain on settlement*	-	(19,432)
	9,237	**(11,954)**
Amounts charged to finance costs		
Interest charged	23,762	23,350
Expected return on assets	(24,543)	(28,478)
	(781)	**(5,128)**
Total recognised in Statement of Comprehensive Net expenditure	**8,456**	**(17,082)**

The total expected employer contributions to these schemes in the year ending 31 March 2015 are £8.8m.

* The gain on settlement relates to the agreement reached by the Agency to absorb the pension liabilities of those former employees of Regional Development Agencies who were members of the HCA Pension Scheme, following the RDAs' closure in 2011/12. The liability for these former employees otherwise rested with the Department for Business, Innovation and Skills (BIS) under Section 75 of the Pensions Act 1995 (s75). Under the agreement reached, BIS made a cash contribution to the scheme based on the value of its obligations under s75, which was assessed using assumptions that approximate those an insurer would use to price annuity policies, and which therefore place a significantly higher value on liabilities than those adopted under IAS 19. As a result, the Agency recognised a gain of £19.4m in 2012/13, being the difference between the assets and liabilities newly apportioned to the Agency from those of the scheme overall, and which includes the effect of the cash contribution from BIS.

The 2012/13 figures have been restated to reflect revised IAS 19 disclosure requirements.

(e) Amounts recognised in income and expenditure reserve

	2013/14 £'000	2012/13 £'000
Actuarial gains/(losses)	**45,384**	**(8,043)**

The cumulative amount of actuarial gains recognised in other comprehensive expenditure since the adoption of IAS 19 is £122.0m.

32. Pension arrangements and liabilities (continued)

(f) Reconciliation of fair value of employer assets

	2013/14 £'000	2012/13 £'000
Opening fair value of employer assets	**545,161**	**313,884**
Expected return on assets	24,543	28,478
Contributions by members	2,337	2,268
Contributions by the employer	40,316	14,882
Contributions in respect of unfunded benefits	536	561
Actuarial gains	16,239	35,246
Transfer in from TSA	-	99,215
Settlement with BIS	-	63,978
Other net transfers	6,665	1,374
Unfunded benefits paid	(536)	(561)
Benefits paid	(15,772)	(14,164)
Closing fair value of employer assets	**619,489**	**545,161**

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

The settlement with BIS is as described in (d) above.

Contributions by the employer in 2013/14 include a £30.0m lump sum payment made to reduce the actuarial deficit in the City of Westminster Pension Fund. This is above the normal level of contributions payable, which includes an element to recover the deficit in the scheme over the longer term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 MARCH 2014

32. Pension arrangements and liabilities (continued)

(g) Reconciliation of defined benefit obligation

	2013/14	Restated 2012/13
	£'000	£'000
Opening defined benefit obligation	**543,678**	**319,132**
Current service cost	8,715	7,648
Interest cost	23,762	23,350
Contributions by members	2,337	2,268
Past service cost and losses on curtailments and settlements	-	966
Actuarial (gains)/losses – demographic	(2,167)	4,138
Actuarial (gains)/losses – financial	(14,514)	42,585
Actuarial (gains)/losses – other	(12,464)	(3,434)
Transfer in from TSA	-	115,830
Settlement with BIS	-	44,546
Other net transfers	6,665	1,374
Unfunded benefits paid	(536)	(561)
Benefits paid	(15,250)	(14,164)
Closing defined benefit obligation	**540,226**	**543,678**

The current service cost shown in this table in 2012/13 is not the same as the amount shown in Note 32d because the movement in accruals for early retirement pension costs are contained within trade and other payables, not the defined benefit obligation above.

The 2012/13 figures have been restated to reflect revised IAS 19 requirements.

(h) Five-year history

	2014	2013	2012	2011	2010
	£'000	£'000	£'000	£'000	£'000
Present value of defined benefit obligations	(540,226)	(543,678)	(319,132)	(310,439)	(336,463)
Fair value of employer assets	619,489	545,161	313,884	242,086	212,258
Surplus/(deficit) in the scheme	**79,263**	**1,483**	**(5,248)**	**(68,353)**	**(124,205)**
Experience gains/(losses) on scheme liabilities	12,464	(3,194)	(2,574)	8,283	4,670
Experience gains/(losses) on employer assets	16,239	35,246	(1,133)	(10,487)	44,857

(i) Sensitivity analysis

Pension liabilities are calculated using actuarial estimates as shown in note 32(b) above. If the major assumptions were to change, the impact on the defined benefit obligation would be as follows:

32. Pension arrangements and liabilities (continued)

Adjustment to discount rate	+0.25%	current	-0.25%
Present value of total obligation	516,614	540,226	564,830
Movement	(23,612)	–	24,604
Adjustment to life expectancy	**+1 year**	**current**	**-1 year**
Present value of total obligation	555,375	540,226	525,153
Movement	15,149	–	(15,073)
Adjustment to inflation	**+0.25%**	**current**	**-0.25%**
Present value of total obligation	564,365	540,226	517,593
Movement	24,139	–	(22,633)

(j) Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation of the pension schemes is 22 years. Pension benefits, including insurance premiums, are expected to be paid over time as follows:

	£'000
Within 5 years	76,921
5-10 years	87,859
After 10 years	375,446
Total defined benefit obligation	**540,226**

(k) 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 within the West Sussex scheme. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

33. 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	2014 Original cost £'000	2014 Carrying value £'000	2013 Original cost £'000	2013 Carrying value £'000
Loans and receivables					
Cash and cash equivalents	28	97,732	97,732	7,630	7,630
Trade and other receivables		183,506	176,463	195,008	186,749
Loans	25	598,268	549,503	496,899	401,577
Available for sale					
Available for sale financial assets	24	1,613,571	1,553,936	751,617	666,905
Total financial assets		**2,493,077**	**2,377,634**	**1,451,154**	**1,262,861**

There are no differences between the carrying value and fair value of the assets above, except for those described in Note 34.

Prepayments, tax, social security and reimbursements in respect of provisions are excluded from the table above as these are non-financial assets. The fair values of financial assets above are determined as described in Note 34.

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

	2014 £'000	2013 £'000
Other financial liabilities		
Trade and other payables	322,083	282,079
Provisions	919	107,091
Total financial liabilities	**323,002**	**389,170**

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 34.

34. Fair value of financial assets and financial liabilities

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

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

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

Group and Agency	2013/14	2012/13
	£'000	£'000
At 1 April	(127)	603
Gain/(loss) arising on initial recognition	831	(174)
Released to net expenditure	149	(556)
At 31 March	853	(127)

35. Financial risk management

The Group and Agency's financial assets and liabilities are detailed in Note 33. The statements in this Note apply to both the Agency itself and the Group, except where indicated.

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

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

- providing a risk management framework for the Agency
- facilitating risk assessment workshops for strategic, programme, operating area and project activities
- providing quarterly reports to senior management.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

35. Financial risk management (continued)

The Agency has approved a risk management framework including policy, strategy, processes and reporting responsibilities. A monthly review of risk takes place across the Agency, from which the Board and the Audit and Risk Committee are informed on a quarterly basis. The monthly reviews incorporate numerically scored assessments of both the likelihood and impact of specific risks arising, which are combined to direct management's attention to the areas requiring action. Quantitative data, for example on receivables, is provided by Central Finance as necessary. Due to the Agency's increasing exposure to financial risks, a Chief Risk Officer was appointed in April 2014 specifically to oversee the management of financial risk exposures in the Agency.

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

(a) Credit risk
Credit risk is the risk of financial loss where counterparties are not able to meet their obligations. The Agency's maximum exposure to credit risk, without taking into account any security held, is the same as the carrying amount of financial assets recorded in the Financial Statements, as disclosed in Note 33.

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

- the Agency's cash is generally held with the Government Banking Service, except where commercial reasons necessitate otherwise, for example when cash is held by solicitors around completion of property sales or purchases. The amount shown as a bank overdraft at 31 March 2013 relates only to payments which were in transit at those dates, and the Agency's bank accounts remained in credit throughout the period
- receivables arise largely from disposals of development assets, generally to major developers and housebuilders in the private sector. These receivables are always secured by the Agency's right to retake possession of the disposed property in the event of a default by the buyer, and in appropriate cases are backed by financial guarantees
- available for sale financial assets relate mainly to amounts receivable individually from the private owners of housing units when their properties are sold, or amounts receivable from various private sector developers, resulting in a broad spread of credit risk for these assets. Amounts receivable from the owners of housing units are secured by a second charge over their property
- loans to associates and joint ventures are concentrated amongst three counterparties. Other loans relate mainly to a major public utility company and a local authority. Infrastructure loans are dispersed amongst various developers and housebuilders in the private sector and to various local authorities.

35. Financial risk management (continued)

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 2014 was £91m, and the five largest counterparties accounted for 13.5% of the total balance.

(b) Liquidity risk

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

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

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

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

	Carrying value £'000	Contractual cash flows £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Other financial liabilities						
Trade and other payables	322,083	322,083	261,952	12,316	32,018	15,797
Provisions	919	919	583	329	7	-
Total	**323,002**	**323,002**	**262,535**	**12,645**	**32,025**	**15,797**

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

£73.4m of the trade and other payables shown above are contractually payable only when cash has been realised from receivables arising from disposals of the relevant property. The contractual cash flows above reflect the estimated timing of cash receipts as used in the calculation of the carrying value of the related amount included in receivables.

The Agency's financial guarantee contracts (as disclosed in Note 37) can be called upon at any time.

(c) Interest rate risk

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

If interest rates on the Agency's variable rate loans and receivables had been 1% higher/lower throughout the year ended 31 March 2014, the Agency's net expenditure for the year, before the effect of tax, would have been £2.1m higher/lower.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

35. Financial risk management (continued)

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

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

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

At 31 March 2014, if UK house prices had been 10% higher/lower and all other variables were held constant, the effect on the Agency's reserves arising from movements in investments in housing units, before the effects of tax, would have been an increase/decrease of £127m/£231m from that stated.

At 31 March 2014, 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 £9.4m/£9.4m from that stated.

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

36. Operating leases

As at 31 March 2014 the Agency had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2014 Land and Buildings £'000	2014 Others £'000	2013 Land and Buildings £'000	2013 Others £'000
Within one year	2,086	1,017	2,413	745
Between one and five years	1,263	1,874	5,490	1,470
In more than five years	292	-	613	-
	3,641	2,891	8,516	2,215

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

36. Operating leases (continued)

As at 31 March 2014 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.

	2014	2013
	£'000	£'000
Within one year	3,857	3,961
Between one and five years	10,353	11,301
In more than five years	126,345	136,052
	140,555	151,314

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

37. 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 DCLG. The extent of the potential liability will only be known once any defects are identified.

(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 payment is considered probable.

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38. Financial commitments

	2014	2013
	£'000	£'000
Expenditure that has been authorised by the Agency at 31 March	8,656	47,390

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

39. Related party transactions

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

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

2013/14	Grants and other payments £m	Equity invested/ (repaid) £m	Loan stock invested/ (repaid) £m	Loan interest received £m
North East Property Partnership *	–	–	(50.9)	2.3
Norwepp Limited Partnership	0.2	–	(29.9)	1.9
PxP West Midlands Limited Partnership	0.6	–	(1.4)	2.6
Countryside Maritime Ltd	–	–	(1.3)	–
English Cities Fund Limited Partnership	–	3.0	1.0	–
Onsite North East Limited Partnership	–	–	–	0.6

* Ceased to be a related party on 17 May 2013

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

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.

39. Related party transactions (continued)

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

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

40. Losses and special payments

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.

		2013/14
	Cases	£'000
Total number of losses	19	47,745
Cases over £250,000		
Loans written off	2	46,354
Receivables written off	1	1,141
		47,495

Loan written off

In 2006, a former Regional Development Agency (RDA) established an investment in a joint venture as a means of capturing value from its large property portfolio, with the aim of investing in properties and disposing of them over a ten year period. Consideration for the properties transferred to the joint venture was recognised by the RDA as loans.

Adverse economic conditions after 2008 severely undermined the ability of the joint venture to achieve the original value of the property invested by the RDA due to year-on-year operating losses and impairment of property values.

In 2011/12, prior to the closure of the RDAs the investment and its associated losses were transferred to the HCA from the RDA. At the time the loans had already been subject to a cumulative impairment of £22.3m by the RDA.

Following the transfer the joint venture continued to experience losses. The Agency therefore re-evaluated the position, and recognised further impairments of £8.9m up to 31 March 2013.

During 2013, as part of its strategic review of investments aimed at reducing future losses to a minimum, the Agency decided that the most advantageous option was to wind up the joint venture. This will be done in September 2014. The remaining property assets and cash have either been, or will be returned to the Agency in settlement of the outstanding loan balances.

As a result of this decision the balance of the loan not settled by those property assets and cash, is impaired and, together with the impairments of £31.2m previously recognised at 31 March 2013, is written off.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

40. Losses and special payments (continued)

In summary the position is:

		Cumulative impairments
	£m	£m
Total advances made by RDA and not repaid prior to transfer to the Agency	82.2	–
Impairments made by RDA prior to transfer to the Agency	(22.3)	(22.3)
Repayments received by the Agency following the transfer	(11.9)	–
Impairment made by the Agency in 2012/13 following revaluation	(8.9)	(8.9)
Cumulative discounting adjustments (zero coupon loan)	(2.1)	–
Impaired balance prior to exit	37.0	(31.2)
Value of property and cash to be received by the Agency	(27.4)	–
Impairment recognised in 2013/14 accounts	(11.7)	(11.7)
Discount unwound on exit through impairments in 2013/14 accounts	2.1	–
Net book value and cumulative impairment at the point of exit	–	(42.9)

The net cumulative (unrealised) impairment therefore becomes realised at the point of exit, resulting in a loan write-off of £42.9m.

Loan written off

In 2004, a former Regional Development Agency (RDA) established an investment in a joint venture with an agreement which terminated on 1 April 2014.

In 2011/12, prior to the closure of the RDAs the investment was transferred to the HCA from the RDA.

Following that transfer the Agency recognised impairments of £3.6m against these loans up to 31 March 2013, in line with its share of the losses experienced by the joint venture.

In May 2013, following its strategic review of investments aimed at reducing future losses to a minimum, the Agency agreed that the most advantageous option was to exit the joint venture which formalised a reduction in the loan amounts to be settled as part of a wider revision to the existing loan agreements.

Whilst a formal write-off is recognised as a result of the agreement, the net impact recognised in 2013/14 is a gain to the Agency of £0.2m due to the impairment previously recognised.

In summary the position is:

		Cumulative impairments
	£m	£m
Total advances made by RDA and not repaid prior to transfer to the Agency	98.2	–
Repayments received by the Agency following the transfer	(50.9)	–
Impairment made by the Agency in 2012/13 following revaluation	(3.6)	(3.6)
Impaired balance prior to formal restructure of loans	43.7	(3.6)
Reversal of impairment recognised in 2013/14 accounts	0.2	0.2
Balance carried forward (disclosed as loans or available for sale assets)	43.9	(3.4)

The net cumulative (unrealised) impairment therefore becomes realised at the point of the agreement, resulting in a loan write-off of £3.4m.

Receivable written off

During 2013/14, the Agency has made a partial write off of a receivable balance in relation to funds extended to a developer under the First Time Buyers' Initiative, where the Agency has agreed to waive some of the amount recoverable following agreement with other creditors.

The residual receivable balance of £1.1m written off in 2013/14 was fully impaired at 31 March 2013 and so no further impairment was recognised during 2013/14.

41. Events after the reporting period

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

The certified accounts were authorised for issue by the Chairman and the Chief Executive and Accounting Officer on 24 June 2014

42. Transfers in to and out of the Agency

During 2012/13 the Agency was involved in three separate transfers with other public bodies resulting in the losses shown below.

Losses on statutory transfers	Note	2013/14 £'000	2012/13 £'000
Net liabilities transferred from Tenant Services Authority	42a	–	47,297
Net assets transferred to Greater London Authority	42b	–	363,805
Transfer of Milton Keynes Tariff to Milton Keynes Council	42c	–	–
		–	**411,102**

(a) Transfer from the Tenant Services Authority

On 1 April 2012 the Agency took over responsibility for the regulation of social housing providers in England from the Tenant Services Authority (TSA), and all assets, liabilities and staff of the TSA transferred to the Agency on that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 MARCH 2014

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

(b) Transfer to the Greater London Authority
On 1 April 2012 the functions, assets, liabilities and staff of the Agency in London transferred to the Greater London Authority (GLA) under the provisions of the Localism Act 2011. The transferred function included many of the Agency's programmes, but only to the extent that they related to the Greater London area.

(c) Transfer to Milton Keynes Council
On 14 January 2013 the Agency sold most of its land assets in Milton Keynes to Milton Keynes Council (MKC). On the same date the Agency's planning powers also transferred to MKC, as did responsibility for the Milton Keynes Tariff. This was not a statutory transfer, and therefore gains and losses arising were included in income and expenditure in 2012/13.

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

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

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

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

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

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

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

   Signed by authority of the Secretary of State

   EHBond.

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

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

SCHEDULE 1

Additional Disclosure Requirements

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

The notes to the annual accounts shall disclose:

(a) an analysis of grants from:

   (i) government departments

   (ii) European Community funds

   (iii) other sources identified as to each source;

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

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

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

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

   (ii) the total amount of loans to employees

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

      (1) wages and salaries

      (2) early retirement costs

      (3) social security costs

      (4) contributions to pension schemes

      (5) payments for unfunded pension

      (6) other pension costs

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

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

      I employed directly by the Agency

      II on secondment or loan to the Agency

      III agency or temporary staff

      IV employee costs that have been capitalised;

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

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

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

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

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

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

(iii) the following are related parties:

(1) subsidiary and associate companies of the Agency

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

(3) board members and key managers of the Agency

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

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

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

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

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

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

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

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

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

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

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

For the purposes of this sub-paragraph:

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

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

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

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

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