Ministry of Housing,
Communities &
Local Government

# Annual Report and Accounts 2017-18

HC 1106

# Ministry of Housing, Communities and Local Government

# Annual Report and Accounts 2017-18

(For the year ended 31 March 2018)

Accounts presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

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*This is part of a series of Departmental publications which, along with the Main Estimates 2017-18 and the document Public Expenditure: Statistical Analyses 2017, present the Government's outturn for 2017-18 and planned expenditure for 2018-19.*



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# Foreword from the Secretary of State

I am delighted to have been appointed as Secretary of State and to be leading some of the Government's biggest domestic priorities including housing, local growth, integrated communities and local government.

These are also huge priorities for people across this country because they are, quite simply, about creating great places to live, work and build a better life.

We have a large housing agenda, as reflected by the Department's change of name and the extra minister we gained this year.

Thanks to my predecessor and the important reforms he championed, we have made some major advances:

- The biggest increase in housing supply in England - over 217,000 new homes - for almost a decade.
- Hundreds of thousands of households helped on to the housing ladder, thanks to Help to Buy and the cut in stamp duty at Autumn Budget.
- A crackdown on rogue landlords and abuse of leaseholders and, with the recent introduction of the Tenant Fees bill, measures to make renting fairer.

But there is clearly more to do to build the homes we need so that families and those starting out in life in particular, have a home to call their own and greater security.

I am also determined to see us deliver for those in the dire situation of being homeless or sleeping rough and look forward to building on the significant work the Government is doing in this area, including the full implementation of the Homelessness Reduction Act, which came into effect in April 2018.

So this Department's work has never been more important - especially as we mark a year since the unimaginable tragedy at Grenfell Tower. I met some of the bereaved and survivors as soon as I could after I was appointed and, like everyone else, I have been deeply moved by the accounts given at the start of the Public Inquiry by those who lost loved ones. This has strengthened my resolve to ensure that we continue to support those affected and ensure that nothing like this can ever happen again.

To that end, I recently welcomed Dame Judith Hackitt's final, comprehensive report following her independent review of building regulations and fire safety. The significant changes that will flow from this and our continued work on building safety are important steps towards the creation of a system that truly puts people's safety first and restores public confidence. This will form a significant part of our work in the coming months alongside a Green Paper on Social Housing, which will look at how well people living in places like Grenfell Tower are being served.

So a busy 2018-19 lies ahead, with important work also in the pipeline on local government finance, implementing our major planning reform package and local area preparations for Brexit. In addition, we will be taking forward our new integration strategy.

I know just how essential this work - to spread opportunity and break down barriers - is to building a Britain that is fit for the future. I am excited to be working on this and all parts of a very positive agenda that promises to make a real difference to the lives of millions of people now and for years to come.

**Rt Hon James Brokenshire MP**
**Secretary of State for Ministry of Housing, Communities and Local Government**

# Foreword from the Permanent Secretary

The past year has been a very significant one for the Department. The terrible fire at Grenfell Tower in June 2017 threw many of our policies and responsibilities into sharp relief, and required a great deal of work over many months to lead the Government response. We mobilised new teams quickly to support the local effort in Kensington and Chelsea, and to establish a programme to address concerns of building safety in similar high-rise residential buildings across the country.

We have also seen a big increase in our work on housing, with greater Government ambition on housing supply, homelessness and rough sleeping and social housing, together with other reforms to improve the experience of those who buy and rent homes. This was reflected in our change of name in January, bringing Housing back into the Department's title for the first time since the 1960s.

In responding to these new challenges, our staff have shown great professionalism and commitment to public service. We have also recruited new people throughout the year, from inside and outside the civil service. I am grateful for the support and collaboration we have received from other Government Departments and external organisations, including the Local Government Association.

Our staff survey results in autumn 2017 showed another welcome increase. Our 64% engagement score is now amongst the best in the civil service, compared to bottom quartile scores only a few years ago. We have made significant improvements in leadership and management, and are particularly pleased with our progress on diversity and inclusion. This remains a priority for me and the wider MHCLG senior team. In the coming year we are prioritising action to improve our delivery capability on housing, both in the Department and across the wider MHCLG group; to fill vacancies quickly and effectively; and to improve our IT and use of buildings.

This report documents the progress we have made in 2017-18 in delivering the Government's priorities, and putting in place the foundations we need for future years.

**Melanie Dawes CB**
**Permanent Secretary**
**Ministry of Housing, Communities and Local Government**

# Lead Non-Executive Director's Report

2017-18 was an important year for the Department as housing was thrust to the top of the Government's agenda, with the target to build 300,000 new homes per annum and the need to respond quickly and effectively to the issues that have arisen from the Grenfell Tower tragedy.

The Board and Non-Executive Directors have supported this work through advising on the effectiveness of these plans, monitoring their delivery performance (operational and financial) and identifying areas of risk.

To support this work, I was delighted to bring the NED team up to full strength with the appointment of Pam Chesters and Daniel Morley as Non-Executive Directors. Pam brings a range of experience to bear in the Department, which varies from senior private sector executive roles at BP and Duckhams Oils, to the political sphere (10 years as an Opposition Councillor in Camden) and not-for-profit sector (Pam is currently the Chair of Anchor Trust). Daniel has held a number of senior roles in the investment banking sector, and is currently employed at Deutsche Bank.

## Board meetings and sub-committees

There has been significant flux in Board membership over the course of this year due to the General Election in June, the appointment of two new Non-Executive Directors in September and January's re-shuffle. Perhaps inevitably, this has not enabled the continuity I would like to have seen. However, the Board has retained delivery performance as its primary focus and we have continued to enhance the information provided to the Board following last year's Board Effectiveness Evaluation. The work of the Non-Ministerial Board has increased in importance as the Department has undertaken a major business planning exercise: this is the key forum for engaging the Non-Executive cadre collectively on such corporate issues. In total, the Board has met three times this year; the Non-Ministerial Board met four times.

The Audit and Risk Assurance Committee met five times this year, and has continued to grow in its effectiveness to provide robust challenge and support to the Finance Director and Permanent Secretary (as Accounting Officer). I am also pleased to say that the Department has now recruited a Chief Financial Officer to provide strengthened strategic leadership on its financial and commercial activities.

## Wider involvement of Non-Executive Directors

As well as providing valuable input to the Department's formal governance structures, the Non-Executive Directors have also contributed to a variety of specific projects. For example, Mary Ney led a review of the governance and transparency arrangements in Local Enterprise Partnerships; Pam Chesters is now acting in an advice and support capacity for the Department's work on the Grenfell Tower Public Inquiry; Daniel Morley is advising on aspects of local authority commercialisation following the recent consultation on amending the prudential system of capital spending; and I have engaged closely as the Department's Single Departmental Plan has been developed. Such work allows the Non-Executives both to understand more of the Department's responsibilities and also use their skills and experience to strengthen key projects. Looking forward, one of my key aims is to continue to challenge the Department to prioritise effectively and so ensure we are focusing resources on delivering our key programmes such as the 300,000 new homes target, thereby ensuring maximum benefit to the public.

**Nick Markham**
**Lead Non-Executive Director**

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# About MHCLG

The Ministry of Housing, Communities and Local Government (MHCLG), previously known as the Department for Communities and Local Government, is responsible for Government policy relating to housing, planning and building, local growth, local government, integration and community cohesion. Its job is to create great places to live and work right across the country.

In the 2017-18 financial year, the Department has structured its work around six Strategic Objectives, in line with the Single Departmental Plan published in December 2017:

- Fix the broken housing market
- Support effective local government
- Ensure an effective response to the Grenfell Tower fire
- Build integrated communities
- Grow local economies
- Support a smooth exit from the European Union

A high-level version of the Department's Single Departmental Plan for 2017-18 was published online with our priorities, key objectives underpinning them and the metrics by which they are measured. An updated Single Department Plan for 2018-19 was published in May, and the plan sets out our objectives, and how we will achieve them, in the 2018-19 financial year.

This Annual Report is made up of the Performance Report, the Accountability Report and Financial Statements. These set out, respectively: the progress we have made in 2017-18 to deliver our Strategic Objectives; how the Department is structured and the key risks and challenges it faces going forward; and the detailed financial accounts.

During 2017-18, the Departmental Group consisted of the core Department, one Executive Agency and ten other arm's-length bodies (ALBs). Note 21 of the Accounts provides a full list of public bodies sponsored by the Department and identifies those that are consolidated into the accounts of the Departmental Group ('the Group'). The Accountability Report on page 25 provides an introduction to Ministers' areas of responsibility, the Department's Non-Executive Directors and the Executive Team.

# Performance Reporting

In the 2017-18 financial year, the Department has structured its work around six Strategic Objectives, in line with the Single Departmental Plan published in December 2017:

- **Fix the broken housing market** (page 6)
- **Support effective Local Government** (page 9)
- **Ensure an effective response to the Grenfell Tower fire** (page 10)
- **Build integrated communities** (page 11)
- **Grow local economies** (page 12)
- **Support a smooth exit from the European Union** (page 13)

All our objectives are inextricably linked: thriving communities depend on effective housing markets, strong local economies, high quality local public services and resilient and professional local government.

It is now one year since the Grenfell Tower tragedy. 71 people died in the fire. A 72nd resident from the tower passed away earlier this year. In the immediate aftermath of the fire, the Department immediately prioritised its response to the incident over all other activity, focusing on ensuring support for those affected and bereaved, ensuring those who had lost their homes were rehoused, appointing the Independent Grenfell Taskforce to provide support and challenge to the Council, and establishing a programme and team to identify other buildings at risk and start remediation efforts. Responding to the Grenfell Tower tragedy remains a Departmental priority, and our on-going work includes ensuring all households are rehoused and support is provided to those affected, continuing to support and challenge the Council through the Taskforce, supporting the public inquiry, implementing recommendations from the Hackitt Review, and continuing the Building Safety Programme.

## Fix the Broken Housing Market

The Government is committed to fixing the broken housing market, and doing so requires action on many fronts. The Department is tackling failings at every level of the housing sector. We are streamlining the planning process. We are changing the rules so authorities facing the greatest affordability pressures can access the finance they need to build more council homes for local people. The Department will also make available at least £44 billion of capital funding, loans and guarantees over the period to 2022-23. Home building continues to increase[1] and, in 2016-17, net additions to housing stock grew to 217,350, which is the highest since 2007-08 (189,650 in 2015-16 and 170,690 in 2014-15).

The Department's housing supply objective is to create, fund and drive a housing market which will deliver a million homes by the end of 2020, half a million more by the end of 2022, and 300,000 net additional homes a year by the mid-2020s.

1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/659529/Housing_Supply_England_2016-17.pdf

**The Department is reforming the planning system to ensure that the right homes are built in the right places:**

- In the year to end December 2017, planning permission was granted for 338,000 new homes, up 8% on the previous year, and higher than pre-recession levels.
- In March, the Prime Minister launched the draft revised **National Planning Policy Framework**, taking forward 65 measures announced in the Housing White Paper.
- Eight new planning reforms were announced at Autumn Budget 2017 including further reforms on density and small sites; strengthening the Housing Delivery Test; and making it easier to convert underutilised retail and employment land.
- At Autumn Budget 2017, the Department committed to support five new garden towns as part of the **Garden Cities, Towns and Villages** programme. This is in addition to the 24 garden communities we are already supporting, which have the potential to deliver up to 220,000 homes. Ebbsfleet Development Corporation will deliver 15,000 new homes at Ebbsfleet Garden City.
- The Government has committed to monitoring house-building on land sold during both the 2011-15 and 2015-20 Public Land for Housing programmes. In April 2017, following a competitive tender process, Ordnance Survey was awarded the contract, working in partnership with GeoPlace.
- The Department is supporting local authorities to release land for housing through the £45 million Land Release Fund which was launched in February 2018. 79 projects will receive funding to support building up to 7,280 homes on council owned land. This will support local authorities to achieve the ambition to release enough land for 160,000 homes by the end of March 2020.

**The Department is making sure homes are built faster:**

- Autumn Budget 2017 announced a review to investigate the gap between the number of planning permissions granted and the number of homes built in areas of high demand. The **Build Out Review** is now underway led by Sir Oliver Letwin. An interim report was published in March. In the report, Sir Oliver explained that the absorption rate - the rate at which newly constructed homes can be sold into the local market - appears to be the fundamental driver of the rate at which houses are built.
- Following an announcement at Autumn Budget, the Homes and Communities Agency was re-launched as **Homes England** in January 2018, and brings together land, money, expertise, planning and compulsory purchase powers to support the Government's ambition to deliver 300,000 homes a year by the mid 2020s.
- In February, the Department announced £866 million for 133 council-led **Housing Infrastructure Fund** projects to fund key local infrastructure, including new roads, cycle paths, flood defences and land remediation work - preparing the way for new homes.
- The Government continues to support **Modern Methods of Construction**, and at Autumn Budget 2017 announced the £170 million **Transforming Construction Fund** to support innovation.
- A cross-Government action plan on **construction skills** is in place, with the aim of ensuring that we have a UK-based workforce of the right size and with the right skills to deliver our long-term home building ambitions, alongside infrastructure and other construction needs. A £34 million house-building skills fund was announced at Autumn Budget 2017. Administered by the Department for Education with MHCLG input, it will support and incentivise innovative and employer-led approaches to construction training.

**The Department is intervening to diversify the housing market, getting SMEs, custom builders, housing associations, institutional investors, and local authorities to build more homes:**

- The **Home Building Fund** is on track to deliver 25,500 homes by 2020-21, and unlock a pipeline of up to 200,000 homes. Between April 2017 and March 2018 the fund delivered 8,342 starts and unlocked 29,216 homes. The funding is providing development finance to small builders, custom builders, and innovators to deliver homes. The funding is also supporting remediation of brownfield sites and supporting the delivery of essential infrastructure for housing. 63% of all contracted deals for the fund have been from SMEs.

- The Conservative Party Conference confirmed plans for a new generation of council and housing association homes. An additional £2 billion for the **Affordable Homes Programme** was announced, increasing public funding of the Programme to just over £9 billion. Previously, the Government's affordable housing policy primarily supported 'affordable rent' - rent of up to 80% of local market level - and low-cost home ownership. This announcement extended support for 'social rent', which is lower than 'affordable rent', and set according to national guidelines. In 2016-17, an additional 41,530 affordable homes were delivered in England (32,630 in 2015-16 and 66,700 in 2014-15).

- The Autumn Budget announced that the Department would act to enable greater **Local Authority Borrowing** through raising the Housing Revenue Account borrowing cap by £1 billion in areas of high affordability pressures from 2019-20, through a competitive bidding programme.

- The **Affordable Housing Guarantee Scheme** helped to deliver more affordable housing by making debt cheaper for affordable housing providers. Between April 2017 and March 2018 the Department guaranteed £950 million of debt to support the delivery of 2,294 homes. This increases the total debt guaranteed and drawn under the scheme to £3.2 billion, supporting the delivery of 34,231 homes.

- The **Private Rented Sector Housing Guarantee Scheme** helped to deliver more housing by enabling purpose-built privately rented housing to access the debt capital markets. Between April 2017 and March 2018, the Department guaranteed just under £228 million of debt to support the delivery of 1,262 homes. Total approvals at the end of March 2018 amounted to over £1.4 billion, supporting the delivery of 7,177 homes. The Department is continuing to support self and custom builders through implementation of the 'Right to Build' legislation. Data published by the National Custom and Self Build Association estimates that there are now 33,000 people on Right to Build registers.

The Department is working to improve housing supply, but these changes will inevitably take time to have an effect. Therefore the Department is taking steps to help people now. We are working to ensure that, whether in the private or social sector, renting your home is affordable, safe and fair. This includes helping more people to buy a home; improving the quality of rented housing; working to prevent homelessness; and seeking to protect the most vulnerable.

**The Department is working to improve people's access to and experience of the housing market:**

- The Department is committed to bringing forward a **green paper on the future of social housing**. Engaging with 1,000 tenants so far, it has run an online survey for tenants and held roundtables with local authorities, housing associations, charities and academics.

- In November 2017, the draft **Tenant Fees Bill** was published proposing to ban letting fees paid by tenants. It proposes capping security deposits at six weeks' rent to ease the financial burden tenants can face at the start of a new tenancy, while ensuring a reasonable level of security for landlords.

- In October 2017, the Department published a call for evidence on regulating managing agents, and in December published a response to the consultation on **leasehold** houses and ground rents. The Department is also working with the Law Commission which has embarked on a programme of leasehold reform as part of their 13th Programme.

- In October 2017, the Department launched a call for evidence into making the **home buying and selling process** more efficient and less costly, and a Government response setting out an ambitious plan of action was published in March 2018.

- Over 38,000 homes[2] were bought under the **Help to Buy: Equity Loan** scheme between April and December 2017, which brings the total to over 158,000 homes since April 2013. Data for up to March 31st will be published in July-August 2018.
- Between April 2017 and December 2017, the **Right to Buy** scheme helped over 8,300 households[3] to buy their home, bringing total sales since reinvigoration in April 2012 to more than 80,000.[4]

**The Department is committed to helping vulnerable people:**

- At Autumn Budget 2017, the Government reaffirmed its commitment to reduce homelessness and to halve rough sleeping by 2022 and eliminate it altogether by 2027.
- The Department has continued to implement the **Homelessness Prevention Programme**, providing a total of £50 million in funding to prevent homelessness and reduce rough sleeping. This is made up of £20 million for 28 **Homelessness Prevention Trailblazers**; doubling the **Rough Sleepers Fund** to £20 million, which funds 48 Rough Sleeping projects; and £10 million for 8 **Social Impact Bonds**.
- MHCLG also invested £28 million in three **Housing First pilots** in the West Midlands, Manchester and Liverpool. In Autumn 2017, the total number of rough sleepers counted and estimated in England was 4,751 (4,134 in 2016 and 3,569 in 2015).
- The Homelessness Reduction Taskforce and advisory panel are driving forward the implementation of a cross-Government strategy through bringing together Departments with a role in reducing homelessness and rough sleeping.
- The Department has also been working towards the full implementation of the **Homelessness Reduction Act**, which came into effect in April 2018. The Act requires local housing authorities to help all eligible applicants - rather than just those with a 'priority need' - and intervene earlier to prevent people becoming homeless in the first place.

## Support Effective Local Government

The Department is working with local authorities to help them operate more sustainably, so they continue to deliver and improve the services that are valued by the public. The Department is taking steps to achieve this by supporting local authorities to move on to sustainable operating models and transform local services.

**The Department is working with local authorities to support better, efficient public services:**

- The **Troubled Families Programme** has so far supported 289,809 families against a target of 400,000 by 2020, with 104,809 brought onto the programme in 2017-18. The programme has achieved significant progress with 92,245 families (48,245 more than a year ago) having met their agreed improvement goals against each of their headline problems. In 13,907 of these families where progress has been achieved, one or more adults have succeeded in moving into continuous employment, an increase of 4,807 since last year. We have scaled up whole family working from a very low base - between January 2006 and March 2010 only 2,000 families had received whole family support in England.[5]
- The Department is piloting a new funding model ("Earned Autonomy") to provide local authorities with upfront payments to accelerate service reform, building on the existing Payments by Results system.
- The Government announced an additional £150 million to fund adult social care through the **Adult Social Care Support Grant** for 2018-19. We expect that councils will use it to build on their progress so far in supporting sustainable local care markets.[6] The Department is also working closely with the Department of Health and Social Care, who are leading preparations for a green paper on care and support for older people.

2 https://www.gov.uk/government/statistics/help-to-buy-equity-loan-scheme-and-help-to-buy-newbuy-statistics-april-2013-to-31-december-2017
3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/666553/Live_Table__691.xlsx
4 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661597/LT_671.xlsx
5 Department for Education, 'Monitoring and Evaluation of Family Interventions' (information on families supported to March 2010) p. 5 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181676/DFE-RR044.pdf
6 This is in addition to the extra £2 billion for **adult social care** that was announced at the Spring Budget 2017.

**The Department is also working to improve local government sustainability:**

- The Department secured a **4 year financial settlement for local authorities**, which includes just over £44 billion of core spending power in 2018-19. This is the third year of the four-year offer which was accepted by 97% of local authorities in return for publishing efficiency plans. This settlement sees a real terms increase in available resources to local government over the next two years. Under this settlement offer, local authorities in England will receive more than £200 billion for local services over the five-year period 2015-2020.
- A **fair funding review** of relative needs and resources is considering a range of options for developing a more up-to-date and transparent funding formula for local authorities. A 12-week consultation on relative needs closed in March 2018 and there will be further sector engagement over the course of the year ahead.
- The Government announced in December 2017 the aim of increasing the level of **business rates retained by local government** from the current 50% to at least 75% in 2020-21. This will be delivered through the devolution of certain grants to local government, therefore giving local authorities more control over the money they raise.
- We have updated the statutory codes that govern **capital investment and financing** to ensure that local authorities take investment decisions after careful consideration of risk and proportionality, including the potential benefits, and to improve transparency.
- Development of the eight asset pools for **local government pension scheme investments** is well advanced. Two pools are already operational and the rest are expected to follow in the course of 2018. The pools' estimated recurring annual savings of at least £42 million have already been secured through reduced investment and asset servicing costs, and expect to revise their savings forecasts upwards from their original estimate (£200 million per annum by 2033 or £1-2 billion over the period).
- MHCLG has a framework in place to ensure **the accountability of the local government sector**, and an effective risk-based assessment process to provide an overview of local authorities facing financial and governance challenges. We work closely with the Local Government Association, and provided £21 million in 2017-18 to facilitate a comprehensive sector-led programme of improvement support.
- Where local government has failed, or is at risk of failing, in its best value duty the Secretary of State has powers to inspect and, on the basis of the evidence, intervene in local authorities. In January 2018 the Secretary of State announced a best value inspection of **Northamptonshire County Council**. On 27 March, the Secretary of State reached a 'minded to' decision on the appointment of Commissioners.
- MHCLG had two existing **statutory Interventions**, in the London Borough of Tower Hamlets and in Rotherham, and one existing **Independent Improvement Panel** working with Birmingham City Council. In all three, progress has been made. Commissioners have been removed from Tower Hamlets, Rotherham has been given a 'Good' rating for children's services in their most recent Ofsted inspection, and in Birmingham recent appointments to a new permanent senior leadership team should provide the foundations for faster progress.

## Ensure an Effective Response to the Grenfell Tower Fire

The Government is committed to **ensuring those directly affected have the support that they require**, including working with the Royal Borough of Kensington and Chelsea to meet commitments to provide permanent rehousing to households.

The Government is also committed to **ensuring that high-rise residential buildings are safe and that residents feel safe** wherever they live.

The Prime Minister announced on 15 June 2017 that there would be a public inquiry into the fire at Grenfell Tower. The inquiry was formally established on the 15 August 2017 and the Grenfell Tower Inquiry was formally opened on the 14 September 2017.

The Government announced an independent forward-looking review of building regulations and fire safety on 28 July 2017. This review was commissioned by the Secretary of State for Housing, Communities and Local Government and the Home Secretary to make recommendations for a sufficiently robust regulatory system for the future and to provide further assurance to residents that the buildings they live in are safe. The review's interim report was published in December and its final report was published in May 2018.

In 2017-18:

- By 18 June 2018, 135 households, who were residents of Grenfell Tower or Grenfell Walk, have moved out of emergency accommodation, 83 of which have been permanently rehoused.
- Through the appointment of the **independent Grenfell Recovery Taskforce**, we have provided support and challenge to the Council on their recovery effort, including the publication of two Taskforce reports.
- Through the Ministerial Recovery Group (MRG), chaired by our Secretary of State, we have led the cross-Government response. The MRG has met 23 times.
- The Department has fully co-operated with the Grenfell Tower Inquiry and during the year completed all disclosure requests by the deadlines agreed with the Inquiry.
- Through its **Building Safety Programme**, the Department has provided testing regimes to enable the identification of high rise residential buildings that have potentially unsafe cladding of the type understood to have been present on Grenfell Tower and has provided support and advice on interim measures building owners should take to make buildings safe and to complete remediation work. It is supported in this work by an Independent Expert Advisory Panel and an Industry Response Group and local fire and rescue services have been visiting all affected buildings to ensure that safety measures are put in place.
- The Department believes it has identified all residential buildings in the social sector (local authority and housing association-owned) over 18m with aluminium composite material cladding that does not meet the requirements set out in building regulations guidance, and through local authorities, has made good progress in identifying similar buildings in private ownership.
- The Prime Minister announced on 16 May 2018 that the Government will fully fund the removal and replacement of unsafe aluminium composite material cladding on residential social housing buildings over 18m owned by councils and housing associations, with costs estimated at £400 million. This will ensure that local authorities and housing associations can focus their efforts on making these cladding systems safe for the buildings they own without undermining their ability to do important maintenance and repair work, or build new affordable homes. Properly remediating buildings with aluminium composite material cladding is a complex process that takes time and the Department is committed to ensuring it is done properly. As of 22 May 2018, remediation work had started on 107 (67%) of the 159 affected social sector buildings and of these, work had been completed on ten buildings.

## Build Integrated Communities

The Department is leading on delivering the Government's bold vision for building strong integrated communities where people - whatever their background - live, work, learn and socialise together, based on shared rights, responsibilities and opportunities. In 2017-18:

- We published an **Integrated Communities Strategy** as a green paper which invited views on the ambitious programme of actions we propose to take at local and national level to deliver change.
- Through the **Controlling Migration Fund (CMF)**, launched in November 2016, the Government has helped local areas and services to cope where pressures emerge due to recent migration. To the end of March 2018, we had approved bids worth £42 million for 87 local authority areas. Additionally just over £21 million, of which £9.5 million was from the CMF, has also been granted to a total of 135 local authorities to build capacity to support unaccompanied asylum seeking children.

- The **Race Disparity Audit**, which was commissioned last year by the Prime Minister and published in October 2017, uncovered a complex picture of the outcomes for people from different ethnic backgrounds - providing a call to action to do more to tackle inequalities.
- Plans to establish a **National Holocaust Memorial and Learning Centre** took an important step forward in October 2017, with the conclusion of an international competition to select a design team. Ten shortlisted designs were displayed to the public at locations around the UK, including an exhibition at the Victoria and Albert Museum in the summer. The winning design, by Adjaye Associates, was selected by a jury including the Secretary of State for Housing, Communities and Local Government, the Mayor of London, the Chief Rabbi, experts from architecture, art and design, and both first and second generation Holocaust survivors. The design is now being developed further to enable a planning application to be made to Westminster City Council.
- In July 2017, to mark the one year anniversary of the **community based sponsorship scheme for resettled refugees**, £1 million of additional funding was awarded to provide training and support. 53 refugees were welcomed by 10 community groups, including charities, faith groups and churches.
- 11,469 **refugees who have fled Syria have been resettled** across 270 different local authorities between the start of the scheme in 2014 and the end of December 2017. The Government has worked with local authorities and secured over 20,000 pledges of places for refugees. As of March 2018, 723 refugees had also been resettled under the Vulnerable Children's Resettlement Scheme (VCRS).

## Grow Local Economies

The Government is committed to enabling communities to strengthen local economies across the whole country, by bringing together local leadership, investment and innovation to build an economy that benefits everyone.

The Department is **supporting local leadership** to increase local accountability, boost productivity and drive economic growth:

- In May 2017, the Department supported six areas around England to increase their local democratic mandate, through **mayoral elections** for combined authorities in Liverpool City Region, Tees Valley, Cambridgeshire and Peterborough, Greater Manchester, West of England, and the West Midlands. Sheffield City Region held its mayoral elections in May 2018. In addition, the Government has agreed a non-mayoral deal with Cornwall. Since then, the Government has transferred £384 million to combined authorities, including a commitment to a £12 million Mayoral Capacity Fund over two years.
- At Autumn Budget 2017, the Government announced a second **devolution deal** for the West Midlands - over £260 million for housing, construction skills and transport - and new commitments to support devolution in Greater Manchester, including £243 million for transport investment. It also agreed a devolution deal with North of Tyne, including £600 million of new investment to bolster the local economy.
- Eight cities in England have been granted extra spending powers by the Department for the **European Regional Development Fund**, through the establishment of a decision-making body in each city.
- The Department is supporting the Territorial Offices in their work with the **devolved administrations** to support local economic growth across the United Kingdom, with 6 established deals in place in 2017-18. In March 2017, the Government agreed a deal to jointly invest up to £241 million with the Welsh Government in the Swansea Bay City Region. In August 2017, a Heads of Terms agreement was signed with Edinburgh and South East Scotland for UK Government and Scottish Government to jointly invest up to £600 million in the region over the next 15 years. At Autumn Budget 2017, the Government committed to negotiating deals with North Wales, the Borderlands and Belfast, on which the Department is supporting the relevant Territorial Offices.
- As key local delivery partners, the Department has been working to support and clarify the role of **Local Enterprise Partnerships** (LEPs). In October 2017, the Department published Mary Ney's review of LEP governance and

transparency. In January 2018, it produced best practice guidance for LEPs in meeting the recommendations from the review, and is working with them to support implementation. In addition, in November 2017, the Department launched a Ministerial Review led by Ministers in MHCLG, BEIS and HM Treasury to review the roles and responsibilities of LEPs.

The Department is **implementing the Industrial Strategy and delivering the Government's local growth strategy** in collaboration with Local Enterprise Partnerships, local businesses, investors, universities and public sector partners:

- The Minister for the Northern Powerhouse and Local Growth provides dedicated Ministerial support and oversight to help deliver the **Northern Powerhouse Strategy** (published in November 2016). The **Midlands Engine** has received support from the Secretary of State as Midlands Engine Ministerial Champion. On 22 September, the Midlands Engine Partnership published their Vision for Growth, a locally owned and developed vision for the Midlands Engine.
- Following the publication of the Government's Industrial Strategy White Paper in November 2017, the Department is working with three 'trailblazer' areas (Greater Manchester, the West Midlands and the Cambridge - Milton Keynes - Oxford Corridor) to develop **Local Industrial Strategies**.
- The Government has agreed a housing plan with Oxfordshire to support the **Cambridge-Milton Keynes-Oxford Corridor**. Working closely with the Department for Transport and other partners, MHCLG is developing plans to deliver crucial infrastructure, housing and a local industrial strategy to drive investment and growth in the Corridor.
- At Autumn Budget 2017, Sir John Armitt was announced as Chair of the **Thames Estuary** 2050 Growth Commission. The Commission has set out its priorities of supporting people to develop the right skills and providing high quality housing to capitalise on the vast economic potential of the Thames Estuary.
- In April 2017, the Department created 12 new **Enterprise Zones**, bringing the total number of Enterprise Zones to 48.

The Department is **delivering local investment** to boost productivity and drive local growth through the European Regional Development Fund (ERDF) and the Local Growth Fund (LGF):

- £1,273 million **ERDF growth funding** had been confirmed for 506 projects by February 2018. This funding is allocated across the country, supporting a shift towards a low carbon economy in all sectors and helping new and growing businesses to thrive.
- The Government provided **Local Growth** funding to Local Enterprise Partnerships to use in their areas, channelling £1.25 billion in 2017-18 to boost productivity and growth.
- The Department announced funding to run a fifth round of the **Coastal Communities Fund** (CCF), promoting sustainable economic growth so that people are better able to respond to the changing economic needs and opportunities in their area. The Government has committed at least £40 million to support CCF Round 5 in England for projects taking place over 2019-20 and 2020-21.

## Support a Smooth Exit from the European Union

- As the Government prepares to **leave the European Union**, the Department is engaging with local communities, providing reassurance about existing ERDF funding, and continuing to ensure that new projects are agreed and funding gets to local economies.
- The Department is leading a cross-Government programme to create a new **UK Shared Prosperity Fund** (UKSPF), following our exit from the European Union. The UKSPF will replace current European funding for local areas, and will focus investment on reducing inequalities within and between communities across all four nations, increasing productivity to improve economic growth.
- The Department is leading a programme to understand the implications of exiting the EU on local government and housing delivery, including the impact on the adult social care and construction workforces.

## Responding to challenges facing the Department

The Department has faced some substantial challenges this year, as well as achieving significant progress in many areas. Following the tragedy at Grenfell Tower, the Department has mobilised a new building safety programme, identified residential buildings at risk and ensured interim safety measures are in place. However, the nature of testing and remediation works is a lengthy process and is likely to be ongoing until 2020.

Net additions to housing stock are continuing to grow, but not yet at the pace required to ease affordability pressures. The Department has announced a series of reforms, including a new National Planning Policy Framework, and secured significant new funding to drive the step change in delivery that is required. However, more needs to be done to build capacity and capability across the sector, so we can leverage this funding to drive a market that will deliver 300,000 homes a year. Housing supply has never before reached 300,000 in England, using the net additions measure of supply.

In March 2018, an error in the methodology used to calculate the sums due to local authorities participating in business rate retention pilots led to an overpayment of £36 million. As set out in the Governance Statement, this money was not reclaimed by the Department and a ministerial direction was issued in year. An independent review has been commissioned into the internal processes and procedures that underpin the Department's oversight of business rates and related systems.

Attracting and retaining the best capability is and will continue to be an important challenge, particularly in the context of a growing Department. It is, however, a challenge to which we are rising: in 2017-18 we attracted 586 new starters, compared to 268 the previous year; and turnover fell from 10.7% in 2016-17 to 9.8% in 2017-18.

## Our People

**Our goal is to have skilled, talented, trusted, diverse and high-performing people, who are proud to work for MHCLG and are supported by effective and inclusive leaders**

Our objective is firmly to establish MHCLG as a great place to work, where our people are able to deliver key Government priorities. We continue to make progress as evidenced through our People Survey results from 2017. Our engagement level increased for the sixth year in succession and now stands at 64% and we are amongst the top performers across Government in seven of the nine engagement themes.

We recognise the need to sustain this improvement and adapt to meet new and evolving challenges, ensuring we have the capabilities to meet policy ambitions and our operational delivery responsibilities. We reviewed and updated our 2016 People Plan in July 2017 and a further refresh of our People Plan will be introduced in July 2018. Our key actions and achievements in the last 12 months include:

| | |
|---|---|
| The right people for the right roles at the right time | A new and transformed approach to recruitment resulting in reduced time to hire, supported by the introduction of new tools and technology to improve selection and a new recruitment hub which reduces the administrative burden on vacancy managers. |
| Core Curriculum and Professional Development | A Core Curriculum with an enhanced focus on digital, commercial, project delivery and line management capability. Over 337 development and training events delivered in 2017-18 with 6,210 attendees. |
| Always aspiring to be better | A more streamlined, less bureaucratic performance management system with an emphasis on development, supported by performance coaching training for line managers. |
| Inclusion and wellbeing | We updated our strategy and action plan for inclusion and diversity in 2017. We have over 20 trained Fair Treatment Ambassadors and continue to invest in this key issue. We launched a comprehensive wellbeing plan in 2017 and have over 50 Mental Health Ambassadors. |
| Making the most of what MHCLG offers | We held our annual Departmental People Awards in 2017. Our approach to developing diverse talent has been assessed as excellent by the Cabinet Office. We introduced a new HR Self Service system giving an improved user experience and better management information. |

## Our Ways of Working

Our goal is to maximise our resources and deliver efficiencies whilst making real improvements to the way we work

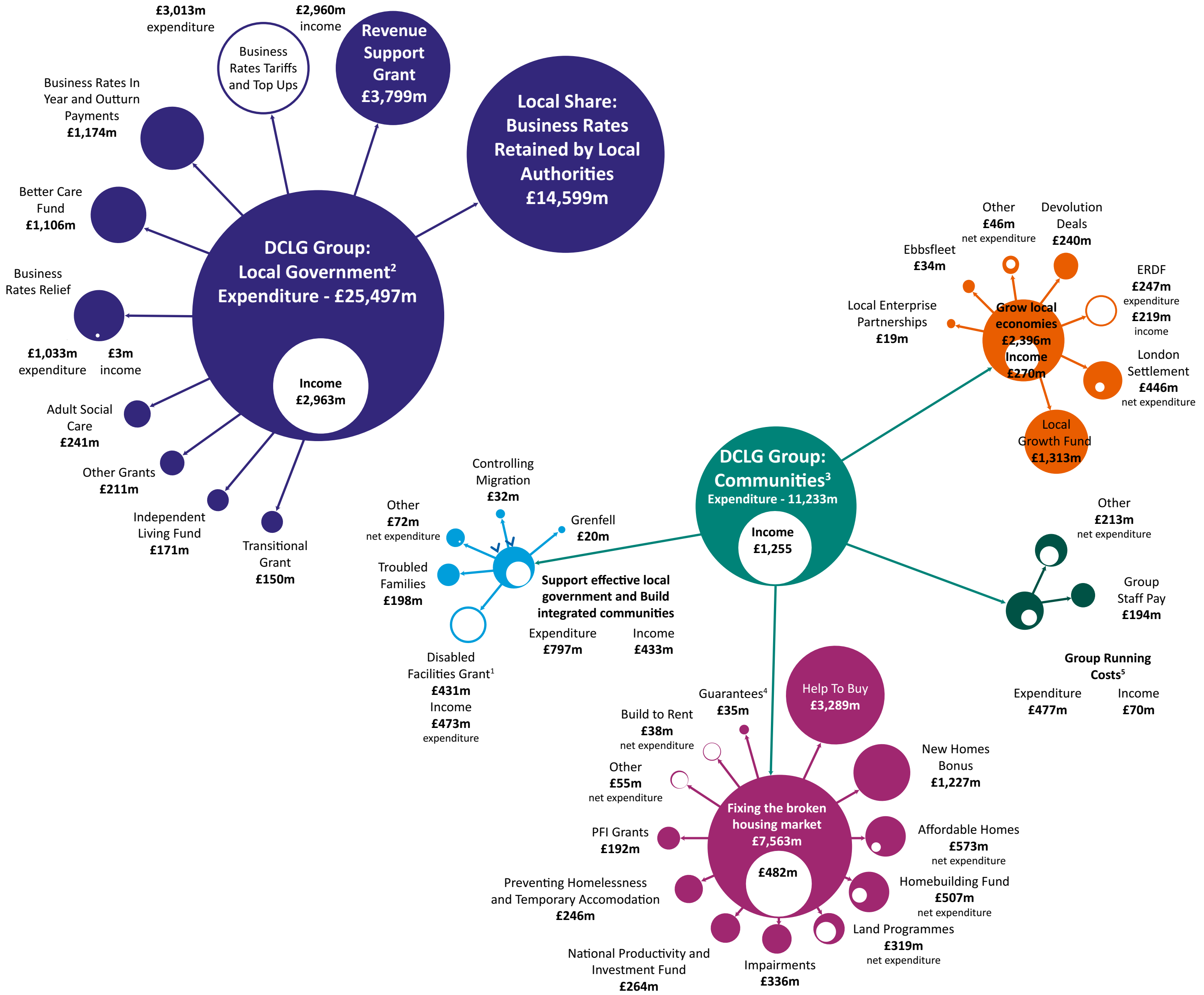
We are committed to improve the way we work while delivering savings. MHCLG and our ALBs have already achieved 50% of the savings in our administration budget required of us over the Spending Review period. Alongside this, we have started a refreshed business planning exercise to review how the Department will look and feel in future. This process will aim to ensure that we can deliver on our expanded range of policy priorities. This is supported by our People Plan, which helps our people to operate and develop in a manner which effectively supports business delivery. We have made progress in the following areas:

| | |
|---|---|
| Strengthening our corporate capability | We have appointed a new Chief Financial Officer and begun to build our new commercial and risk teams; as well as bolstering our analytical, digital and finance teams to provide added support and assurance in the delivery of MHCLG objectives. |
| Strengthening the capacity of our ALBs | We launched a refocussed national housing agency - Homes England - to bring together funding with a clear remit to deliver new homes and intervene more directly in the housing market when needed. |
| New portfolio approach to delivery | We established Portfolio Boards, increasing accountability for project delivery across our major policy portfolios.<br><br>We are also working on flexible approaches that allow us to maximise the value of our different funding streams, such as to adapt our interventions according to the needs of particular places.<br><br>We appointed a new Head of Profession to embed programme management expertise across the Department, spreading learning from the approach taken by our Building Safety Programme. |
| Improving our ability to work flexibly | We have begun the procurement of new mobile devices and operating systems that will encourage greater collaboration between teams and across the Department. These devices will be rolled out to all our people across the next year. |
| Building our digital capacity | We appointed a Chief Digital Officer and a Chief Technology Officer, as well as a new team, to improve our IT infrastructure and build our ability to collect, analyse and publish more data that will benefit the public. |
| Great Policy Making | The second year of our Great Policy Making campaign - a programme of interventions to improve our support for Ministers - has demonstrated strong growth. There were over 1,000 attendees to the range of courses and events and a total of 8 deep dives to help policy teams think differently about the problems they face. |
| Increasing income | Our administration income from financial transactions (investments) increased this year from £28 million to £42 million. |

## Our Expenditure and Financial Position

### Group Budget 2017-18

The diagram below represents the 2017-18 Departmental Group budget[7] of £32,512 million net expenditure, split between expenditure on local government funding and on communities. Local government funding is provided to local authorities and the majority[8] can be spent on any service. The Department administers this funding on behalf of central government. The communities budget is used to fund the Department's programmes and, in the diagram, has been split by Departmental priorities and running costs. During the 2017-18 supplementary estimate process, the Department surrendered £817 million of budget (2.5% of the Departmental Group budget). The majority of the surrender was from the Accelerated Construction and Starter Homes programmes and will be used to support the expansion of the Affordable Homes Programme in future years.



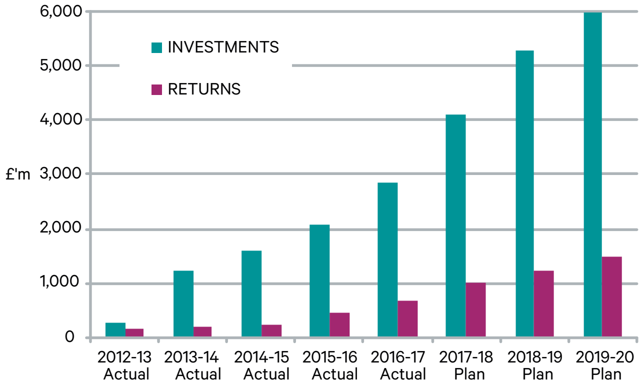

Notes: 1 Income from the Department of Health and Social Care
2 This bubble represents a budget called Local Government DEL and the portion of the Department's AME budget related to local government funding
3 This bubble represents a budget called Communities DEL and the remaining portion of the Department's AME budget related to communities
4 This expenditure represents the increase in the accounting valuation of the liability associated with the borrowing that the Department provides a guarantee for. Please see Note 1 in the Financial Statements for more information.
5 Running costs include administration expenditure (see below) and expenditure related to movements in pension scheme liabilities and additions and impairments of capital assets used to run the Department. Further detail on the Department's budgets can be found in the Parliamentary Accountability and Audit Report from page 57.

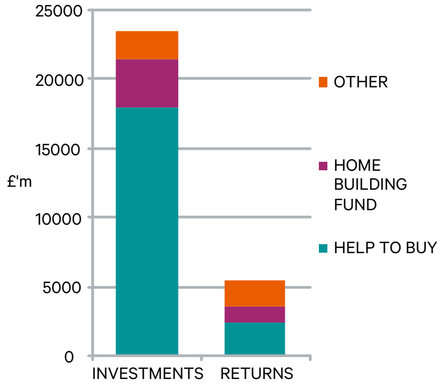
7 Supplementary Estimates 2017-18
8 Local share, Revenue Support Grant, business rates relief, top-ups and in year and outturn payments can be spent on any service.

## Group Loans, Investments and Returns

In working to achieve its objectives, the Department has increasingly made loans and investments that generate returns instead of giving grants. The charts below shows the Department's past and planned[9] outlay on loans and investments, and the returns (capital and interest) that will be generated from them between 2012-13 and 2019-20[10].

MHCLG Group loans and investments and related returns 2012-13 to 2019-20 by year and cumulatively



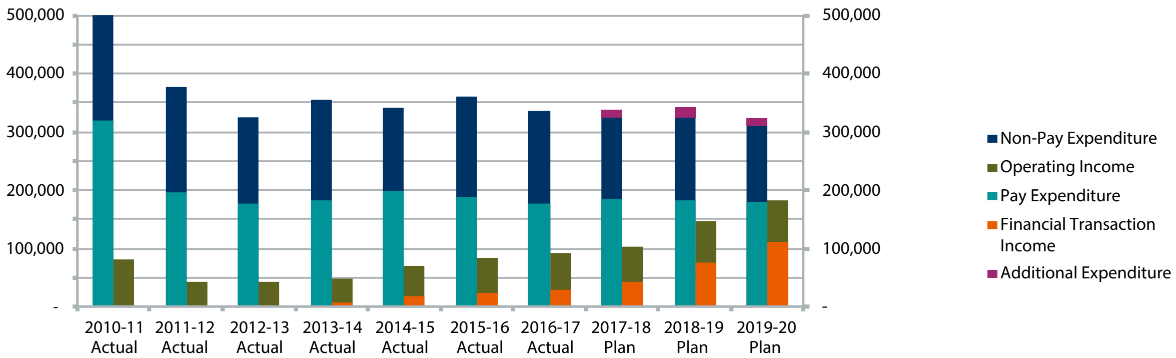

## Group Administration Expenditure

Administration costs represent the net cost of running the Departmental Group. They include the cost of paying staff and non-pay expenditure such as office and IT costs. The Departmental Group also receives some income from investments which HM Treasury has classified as administration income. The chart below[9] shows that, as the Department's investment income increases, the Department is increasingly able to fund its own running costs.

The chart also shows that the group's administration costs[11,12] have been on a decreasing trajectory as the Department seeks and makes efficiency savings. Between 2010 and 2015, the Department accepted the largest budget cuts of any Department, and decreased budgeted administration expenditure by 40% in real terms.

At the 2015 Spending Review, the Department committed to making a further 30% real terms saving on administration budgets based on activities required of the Department at the time. The Department will continue to drive the efficiencies to which it is committed. However, during 2017-18, the Department began additional new work on housing policy, overseeing the Grenfell recovery and response and the building safety programme. The chart shows the current additional administration costs of new work that has so far been agreed and incorporated into budgets from 2017-18.

MHCLG Group Administration Expenditure 2010-11 to 2019-20

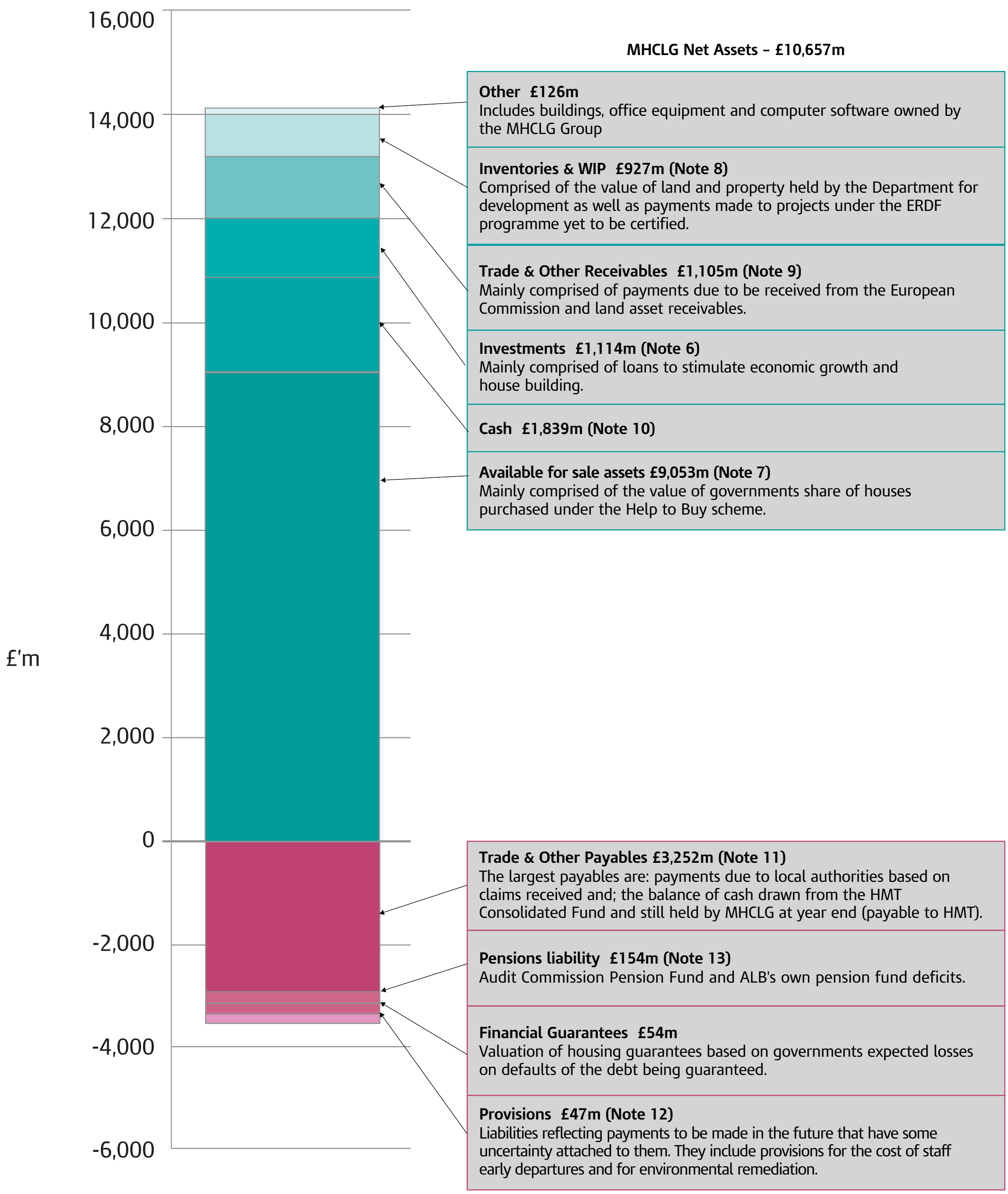



9 Planned figures in 2017-18, 2018-19 and 2019-20 are based on budgets (Supplementary Estimates 2017-18 and Main Estimates 2018-19)
10 Returns include Help to Buy receipts generated when the department receives back it's 'equity share' in homes. These receipts are passed to HM Treasury's consolidated fund and are outside of departmental budgets.
11 One-off non-pay costs have been removed from the figures as follows: 2013-14: £30m payment to reduce a deficit on an ALB pension, £27m moving costs, 2014-15: £18m investment property upwards revaluation.
12 Figures in the charts are represented on a nominal basis

## Group Financial Position

The Department's Statement of Financial Position as at 31 March 2018 shows the size of our asset base which is predominantly made up of the Department's investment in the Help to Buy scheme. The relevant Notes to the Financial Statements have been referenced in the diagram for further information. The Governance Statement describes how the Department manages the financial and credit risk of its portfolio of financial instruments.

### MHCLG Group Assets & Liabilities as at 31 March 2018



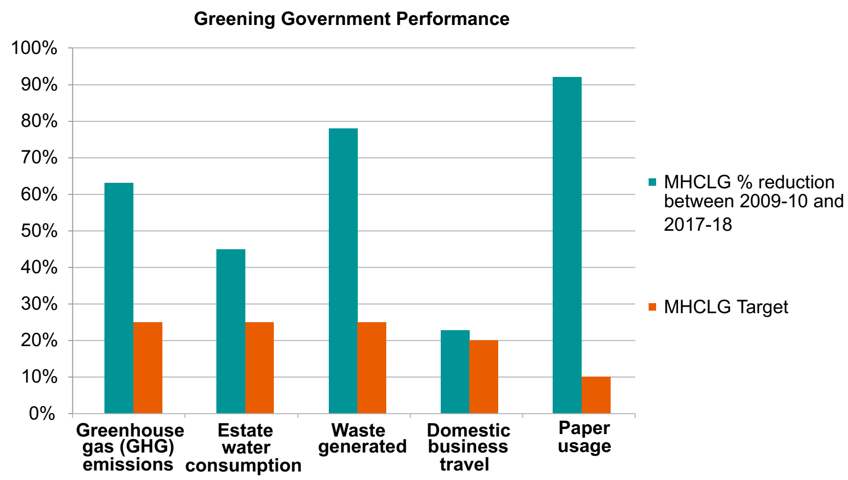
## Sustainability Report

Sustainability is about applying economic, social and environmental thinking to an issue and paying particular attention to the long-term consequences. It can be thought of as a long-term, integrated approach to achieving quality of life improvements while respecting the need to live within environmental limits.

We subscribe to a number of targets including the mandatory Greening Government Commitments (GGC)[13] for reducing energy, water, paper and other resource use, reducing travel and managing waste.

Non-financial data presented in this report is for a 12 month period from January 2017 to December 2017. The Department reports on all its executive agencies and arm's-length bodies. Non-financial information will include the Queen Elizabeth II Conference Centre.

The data in the chart below shows our present position on our Greening Government Commitments for the financial year ending 2017-18 against a 2009-10 baseline.




In 2017-18 the Department met or exceeded the GGC targets for greenhouse gas (GHG) reduction, water, waste arising, landfill and paper use, as well as reducing associated financial costs.

In our London headquarters, we have introduced the following building initiatives:

- The banning of disposable plastic cups in tea points and catering facilities;
- The provision of food and compostable waste bins;
- The re-lamping of lights with energy efficient LED replacements;
- The provision of a real-time energy use display; and
- Participation in events including Earth Hour, Biodiversity Day and Recycling Week

### Greenhouse Gas Emissions

The Department has continued to reduce its total in-scope gross greenhouse gas emissions throughout 2017-18, achieving a total reduction of 64% since the 2009-10 baseline year. This has been achieved largely through improved building management (primarily relating to heating and cooling), estate rationalisation and co-location, and adopting more resource efficient behaviours.

13 https://www.gov.uk/government/collections/greening-government-commitments

| Greenhouse Gas Emissions[14] | | | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---|---|---|---|---|---|---|
| Non-Financial Indicators (tonnes CO2e) | Total Gross Scope 1 (Direct) GHG emissions | | 1,921 | 1,386 | 1,628 | 1,538 | 1,470 |
| | Total Gross Scope 2 (Energy indirect) emissions | | 6,849 | 7,186 | 5,835 | 5,296 | 5,268 |
| | Total Gross Scope 3 (Official business travel) emissions | | 2,130 | 2,234 | 1,647 | 1,743 | 1,617 |
| | **Total Emissions - Scope 1, 2 & 3** | | **10,900** | **10,806** | **9,110** | **8,577** | **8,355** |
| Related Energy Consumption (MWh) | Electricity: Non-Renewable | | 1,091 | 822 | 0 | 0 | 0 |
| | Electricity: Renewable | | 14,284 | 13,718 | 12,624 | 12,854 | 14,456 |
| | Gas | | 10,438 | 7,494 | 7,105 | 6,755 | 6,446 |
| | **Total Energy Consumption** | | **25,813** | **22,034** | **19,729** | **19,609** | **20,902** |
| Financial Indicators (£'000) | Expenditure on Energy | | 2,019 | 1,603 | 1,238 | 1,210 | 1,104 |
| | CRC Licence Expenditure | | 98 | 179[15] | 197 | 78 | 47 |
| | Expenditure on accredited offsets (e.g. Government Carbon Offsetting Fund) | | 1 | 0 | 0 | 0 | 0 |
| | Expenditure on official business travel | | 3,880 | 4,192 | 2,712 | 3,829 | 1,511[16] |
| | Expenditure on domestic air travel | | 65 | 35 | 21 | 31 | 21[16] |
| **International Business Travel** | | | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** |
| Non-Financial Indicators (Tonnes $CO_2e$) | Flights | | 35 | 26 | 51 | 24 | 75 |
| | Rail | | 1 | 1 | 1 | 1 | <1 |
| | **Total** | | **36** | **27** | **52** | **25** | **75** |
| **Waste** | | | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** |
| Non-Financial Indicators (tonnes $CO_2e$) | **Total waste** | | **681** | **728** | **732** | **470** | **479** |
| | Hazardous waste | | 2 | 1 | 3 | 0 | 0 |
| | Non-hazardous waste | Landfill | 117 | 145 | 145 | 46 | 43 |
| | | Reused/Recycled | 492 | 434 | 500 | 293 | 306 |
| | Incinerated/energy from waste | | 70 | 148 | 84 | 131 | 130 |
| | Reams of Paper Procured | | 30,966 | 26,052 | 14,745 | 11,586 | 6027 |
| Financial Indicators (£'000) | **Total disposal cost** | | **108** | **111** | **75** | **86** | **66** |
| | Non-hazardous waste | Landfill | nk | nk | nk | nk | nk |
| | | Reused/Recycled | nk | nk | nk | nk | nk |
| | Paper Procured | | 85 | 75 | 47 | 14 | 12 |
| **Water Consumption** | | | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** |
| Non-Financial Indicators ($m^3$) | Water Consumption | Office Estate | 33,227 | 41,687 | 19,143 | 31,592 | 31,358 |
| | | Whole Estate | 49,521 | 71,340 | 47,990 | 51,318 | 54,974 |
| Financial Indicators (£'000) | Water Supply & Sewage Costs | | 109 | 106 | 82 | 78 | 53 |

14 In line with DEFRA guidance, the Department's greenhouse gas emissions data is not weather corrected.
15 The increase in expenditure relates to Homes England (previously known as the Homes & Communities Agency) participating in the Department's CRC return.
16 Figures based on core Department only.

## Other Sustainability Commitments

The Department is committed to procuring sustainably and reports against a number of transparency commitments as part of the Greening Government Commitments framework:

| Other Sustainability Commitments | |
|---|---|
| Sustainable Procurement | The newly established procurement team in MHCLG is responsible for leading on complex, strategic, high-value and high-profile procurements and will be developing an updated policy on Sustainable Procurement.<br>In addition, the Crown Commercial Service (CCS) continues to run call-off and/or sub-OJEU competitions for common goods and services on behalf of MHCLG and they have indicated that they will always aim to comply with the Greening Government Commitments.<br>Any new procurement staff will be provided with training on sustainable procurement and objectives and training needs for the Procurement Team are identified through the performance management review process and reviewed throughout the reporting year.<br>We will ensure that sustainability is embedded in MHCLG Centre procurement practice, and for mapping progress against the Sustainable Procurement Flexible Framework tool. In particular we will be encouraging a close working relationship between ourselves and the Department's arm's-length bodies such as the Planning Inspectorate and Homes England (previously known as Homes & Communities Agency). |
| SMEs | For 2017-18, the Department's total expenditure with Small Medium Enterprise organisations was 22% with an aspirational target of 33% by 2022. The figure includes both direct and indirect spend (i.e. spend with subcontracted third parties). SME Figures will be finalised in July 2018 after validation by the Crown Commercial Service. |
| Climate Change Adaption | Climate resilient designs are incorporated in retrofit projects and new builds. In addition, robust business continuity plans are in place to manage occurrences of extreme weather events. |
| Biodiversity & Natural Environment | Our staff are able to participate within the MoJ Ecology network and take part in Bio Blitzes, to record biodiversity on our estate. |
| Procurement of Food & Catering | All food supplied is produced to UK or equivalent standards. Menus are designed to reflect in-season produce and purchased locally where feasible to do so to reduce food miles and to assist in supporting our local suppliers. The Government Buying Standard for Food and Defra's Balanced Scorecard are requirements in the Department's Future Facilities Management contract specification. |
| Sustainable Construction | All new build and major refurbishments are required to achieve a Building Research Establishment Environmental Assessment Method (BREEAM) rating of excellent or very good, in line with the Government Buying Standards. |

## Sustainable Development, Climate Change Adaption and Rural Proofing in the policy work of the Department

### Sustainable Development

Sustainable development is integral to policy work in the Department, notably in planning policy and economic growth activities. The draft revised National Planning Policy Framework (NPPF), published for consultation on 5 March sets out more clearly the Government's view of what sustainable development means for the planning system. This closed on 10 May 2018 and a final revised NPPF will be published in the summer.

### Rural proofing

MHCLG supports policy makers to consider the relevant policy tests that need to be considered (e.g. Public Sector Equality Duty, Environmental Impact Assessment and Rural Proofing) through internal guidance, training events and communications to raise awareness as part of the Great Policy Making campaign. The Rural Proofing impact assessment is an important element of that suite of checks. Consideration of rural proofing is reflected across the policy spectrum.

In 2016, MHCLG published jointly with Department for Environment, Food and Rural Affairs (DEFRA) a Call for Evidence for the Rural Planning Review, which sought evidence on how the planning system is operating in rural areas and invited ideas about how the planning system could be improved to support sustainable rural life and businesses. In responding to the review and addressing key messages that emerged, MHCLG has set out a further set of consultation questions as part of the Housing White Paper: Fixing our broken housing market.

The White Paper proposed to amend the NPPF to encourage local planning authorities to identify opportunities for villages to thrive, especially where this would support services and help meet the authority's housing needs. This proposal was strongly supported. The revised NPPF proposes to make clear that, in rural areas, planning policies and decisions should be responsive to local circumstances and support housing developments that reflect local needs.

The White Paper also proposed to amend the NPPF to give stronger support to rural exception sites. There was also strong support for this proposal and in the revised NPPF we propose to make clear that local planning authorities should support opportunities to bring forward rural exception sites that will provide affordable housing to meet identified local needs.

The Department has engaged widely as part of the consultation on the revised draft NPPF. Responses and feedback received will inform the final version of the revised NPPF.

**Climate Change Adaptation**

The Department is preparing for the next National Adaptation Programme (helping to make the UK more resilient to the effects of climate change) due in 2018. MHCLG regularly participates in the Local Adaptation Advisory Panel (LAAP), for which DEFRA provides the secretariat. This forum provides Government with a perspective of how local authorities and their partners are adapting to climate change issues.

The Department continues to ensure that policies with long term implications are robust in the face of changing weather, extreme events and sea-level rise from climate change. The draft revised NPPF sets out proposed changes to ensure new development is robust to a changing climate, including the impacts of rising temperatures.

In 2016, MHCLG, working with DEFRA and the Environment Agency, commenced a review of planning legislation, Government planning policy and local planning policies concerning sustainable drainage in relation to the development of land in England, which will fulfil the commitment in the Housing and Planning Act 2016. This review is due to be published shortly, and the findings have informed proposed changes to the revised NPPF.

## Other Required Reporting

The Department is required to report against various other topics in its Annual Report and Accounts as per the requirements set out in PES (2017) 11:

- Section 70 of the Charities Act 2006 sets out a power for Ministers to give financial assistance to charitable, benevolent or philanthropic institutions and requires that payments made under this power are reported. The table at Annex A sets out the financial assistance provided by the Secretary of State under this power for the year 2017-18, totalling £19.049 million (2016-17: £17.907 million).
- No complaints against the Department were accepted for investigation by the Parliamentary Ombudsman during the period 1 April 2017 to 31 March 2018.
- In 2017-18 the Department processed 15,462 pieces of treat official correspondence from members of the public. Of these, 75% of letters requiring a response were replied to within our target of fifteen working days.

**Melanie Dawes CB** **11 July 2018**
**Accounting Officer**
**Ministry of Housing, Communities and Local Government**

# Accountability Report

## Introduction

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

### Corporate Governance Report

Explains the composition and organisation of the Department's governance structures.

**The Directors' Report – page 26**
Details the members of the ministerial, non-executive and executive team who form the Departmental Board.

**Statement of Accounting Officer's Responsibilities – page 29**
Explains the responsibilities of the Permanent Secretary as the Department's Accounting Officer.

**Governance Statement – page 30**
The Accounting Officer's statement and conclusions on the system of controls and governance framework in place at the Department.

### Remuneration & Staff Report

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

**Remuneration Report – page 43**
Details the remuneration and pension interests of the Department's board members.

**Staff Report – page 51**
Details the cost and composition of the Department's workforce and describes how the Department is supporting the development and diversity of its people.

### Parliamentary Accountability & Audit Report

Brings together the key Parliamentary accountability documents.

**Statement of Parliamentary Supply – page 60**
Reports the financial year's expenditure (based on HMT budgeting principles) set against the Department's budget (estimate) as approved by Parliament.

**Other Parliamentary Accountability Disclosures – page 67**
Reports information as required by 'Managing Public Money' on regularity of expenditure and remote contingent liabilities and by 'PES 2017 (11)' on historic and future planned Departmental expenditure based on HMT budgeting principles.

**Certificate and Report of the Comptroller & Auditor General – page 77**
Reports the conclusion of the Comptroller & Auditor General's audit of the financial statements and other information as marked in the accountability report as 'subject to audit'.

# Corporate Governance Report

## The Directors' Report

### Our Departmental Board

During 2017-18 the Department consisted of the core Department, one Executive Agency and ten other arm's-length bodies (ALBs). Note 21 of the Accounts provide a full list of public bodies sponsored by the Department and identifies those that are consolidated into the accounts of the Departmental Group ('the Group').

The Departmental Board, comprising of Ministers, Non-Executive Directors and the Executive Team, met three times in the year. Each member's attendance at Departmental Board meetings is noted below. The Board's role is to advise on and supervise five key areas: strategic clarity; commercial sense; talented people; results focus; and management information. The Department also has a Non-Ministerial Board which met four times in 2017-18. The Non-Ministerial Board is chaired by the Lead Non-Executive Director. It is attended by the Executive Team and Non-Executive Directors. Its role is to scrutinise organisational capability and culture.

Details of Ministers' areas of responsibility, the Department's Non-Executive Directors and the Executive Team can all be found at: https://www.gov.uk/government/organisations/ministry-of-housing-communities-and-local-government

Information on significant interests held by board members which may conflict with their management responsibilities can be found in Note 19 Related Party Transactions in the accounts.

In response to the Grenfell Tower tragedy, the Department created a new Director-General led Building Safety Group in 2017-18.

### Our Ministers as at 31 March 2018

**The Rt Hon Sajid Javid MP**

Secretary of State for Housing, Communities and Local Government and chair of the Departmental board

Attended 3 of 3 board meetings

**Dominic Raab MP**

Minister of State for Housing and Planning

From 10 January 2018

Attended 1 of 1 board meetings

**Rishi Sunak MP**

Parliamentary Under Secretary of State, Minister for Local Government

From 10 January 2018

Attended 1 of 1 board meetings

**Jake Berry MP**

Parliamentary Under Secretary of State, Minister for the Northern Powerhouse and Local Growth

From 14 June 2017

Did not attend any board meetings

**Heather Wheeler MP**

Parliamentary Under Secretary of State, Minister for Housing and Homelessness

From 10 January 2018

Attended 1 of 1 board meetings

**Lord Bourne of Aberystwyth**

Parliamentary Under Secretary of State, Minister for Faith (and Northern Ireland)

Did not attend any board meetings

## Our Non-Executive Directors

**Nick Markham**
Lead Non-Executive Director

Attended 3 of 3 board meetings

**Mary Ney**
Non-Executive Director

Attended 3 of 3 board meetings

**Pam Chesters**
Non-Executive Director
From 11 September 2017

Attended 3 of 3 board meetings

**Daniel Morley**
Non-Executive Director
From 18 September 2017

Attended 2 of 2 board meetings

## Our Executive Directors

**Melanie Dawes CB**
Permanent Secretary

Attended 3 of 3 board meetings

**Jo Farrar**
Director General, Local Government and Public Services

Attended 2 of 3 board meetings

**Helen MacNamara**
Director General, Housing and Planning

Attended 2 of 3 board meetings

**Simon Ridley**
Director General, Decentralisation and Local Growth

Attended 3 of 3 board meetings

**Tamara Finkelstein**
Director General, Building Safety Group
From 21 June 2017

Attended 1 of 3 board meetings

**Rachel McLean**
Director General, Chief Financial Officer
From 29 January 2018

Attended 1 of 1 board meetings

**Christine Hewitt**
Director, People, Capability and Change

Attended 3 of 3 board meetings

**Lise-Anne Boissiere**

Director, Strategy
From 20 April 2017

Attended 3 of 3 board meetings

Other Ministers who served in the Department during 2017-18 were:

- Alok Sharma MP - Minister of State for Housing & Planning (until 9 January 2018) - Attended 2 of 2 board meetings
- Gavin Barwell MP - Minister of State for Housing & Planning (until 9 June 2017) - Did not attend any board meetings
- Andrew Percy MP - Parliamentary Under Secretary of State, Minister for Northern Powerhouse (until 14 June 2017) - Did not attend any board meetings
- Marcus Jones MP - Parliamentary Under Secretary of State, Minister for Local Government (until 9 January 2018) - Attended 1 of 2 board meetings

Other non-executive directors who served in the Department during 2017-18 were:

- Grenville Turner – Non-executive director (until 26 April 2017) - Did not attend any board meetings

Other executive directors who served in the Department during 2017-18 were:

- Louise Casey - Director General, Independent Review of Integration (until 31 July 2017) - Did not attend any board meetings
- Jacinda Humphry – Acting Director General, Chief Financial Officer (until 26 January 2018) – Attended 1 of 2 board meetings

### Auditors

The core, agency, arm's-length body and group accounts have been audited by the Comptroller and Auditor General (C&AG) under various statutes with the exception of the Leasehold Advisory Service (audited by Beever & Struthers). Further details are given in the accounts of the bodies concerned.

The total cost of the audit across the Departmental Group is £797,500 of which £381,500 is a cash charge and £416,000 is a notional charge (2016-17: £369,000 cash costs and £416,000 notional charge totalling £785,000).

The audit fee for the core Department is £295,000 (2016-17: £295,000), broken down as £290,000 for the Departmental audit, and £5,000 for the cost of consolidation work. This includes £15,000 for the Departmental audit of the Whole of Government Accounts submission made by the Department to HM Treasury.

In addition, the Department meets the costs for audit of the Business Rates-related accounts. The fees are all notional charges and are included in the Group Accounts. The fees on these audits are as follows:

- Main Rating Account: £38,000 (2016-17: £38,000)
- Levy Account: £7,000 (2016-17: £7,000)
- Trust Statement: £19,000 (2016-17: £19,000)

The NAO performed other statutory audit work, including value for money studies, and other reports to management at no cost to the Department.

### Personal Data Related Incidents

The Department, its Agency and ALBs manage a range of data which relates to staff and citizens, most of which is used to support policy analysis and review and does not allow the identification of individuals. Procedures and processes are in place to protect information and data and to ensure it is only used for the purposes for which it was collected.

Four personal data incidents were reported to the Information Commissioner's Office (ICO) during the period 1 April 2017 to 31 March 2018. In all cases, the ICO determined that no action was required of us. In the first case, a contracted company accidentally published the names and bank details of 35 private sector tenants. The details were viewed by local authorities only. In the second incident, a probationer passed the Department's Emergency out of hours contact list to a friend in the Police College. In the third incident, Royal Mail lost two Disclosure Scotland forms. In the fourth incident, a registered envelope containing personal information of a former member of staff was received and signed for and subsequently lost.

# Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Ministry of Housing, Communities and Local Government to prepare, for each financial year, consolidated accounts detailing the resources acquired, held or disposed of and the use of resources during the year by the Department (inclusive of its executive agency) and its sponsored non Departmental and other arm's length public bodies designated by order made under the GRAA by Statutory Instrument 2017 number 1256 (together known as the 'Departmental Group', consisting of the Department and bodies listed in Note 21 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the Departmental Group 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 HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Ensure that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- Make judgements and estimates on a reasonable basis including those judgements involved in consolidating the accounting information provided by non Departmental and other arm's-length public bodies;
- 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 accounts; and
- Prepare the accounts on a going concern basis.

On 1 March 2015, HM Treasury appointed Melanie Dawes, the Permanent Head of the Department, as Accounting Officer of the Ministry of Housing, Communities and Local Government.

The Accounting Officer of the Department has also appointed the Chief Executives or equivalents of its sponsored non Departmental and other arm's length public bodies as Accounting Officers of those bodies. The Accounting Officer of the Department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of their organisation.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Department or sponsored body, are set out in Managing Public Money published by HM Treasury.

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

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

# Governance Statement

## Introduction

2017-18 has been a year of significant change and challenge for the Department. The number of priorities within our Single Departmental Plan has increased over the past year and the scale of our financial and credit risk in the housing market continues to increase. The Department set out the following strategic objectives in its Single Departmental Plan in December 2017[17]:

1. Fix the broken housing market
2. Support effective local government
3. Ensure an effective response to the Grenfell Tower fire
4. Build integrated communities
5. Grow local economies
6. Support a smooth exit from the European Union

We have maintained strong governance to manage these objectives. This Governance Statement sets out:

- The governance framework of the Department, how the Department's Board and its supporting governance structures operate, including how I gain assurance over the Department's system of internal control, the operation of our arm's-length bodies (ALBs) and accountability systems for local government;
- Our approach to managing risk, a summary of the strategic risks faced by the Department and how these are being addressed;
- An account of how the Board complies with HM Treasury's Corporate governance in central government departments: code of good practice; and
- How I assessed the effectiveness of the governance and assurance arrangements during the year.

This Statement covers the whole Group, reflecting the governance arrangements of our arm's-length bodies. Each of these organisations publishes their own Governance Statement as part of their Annual Reports and Accounts. Rather than duplicate information this Statement seeks to explain Group-wide and core Department governance arrangements and any issues that are significant to the Group as a whole.

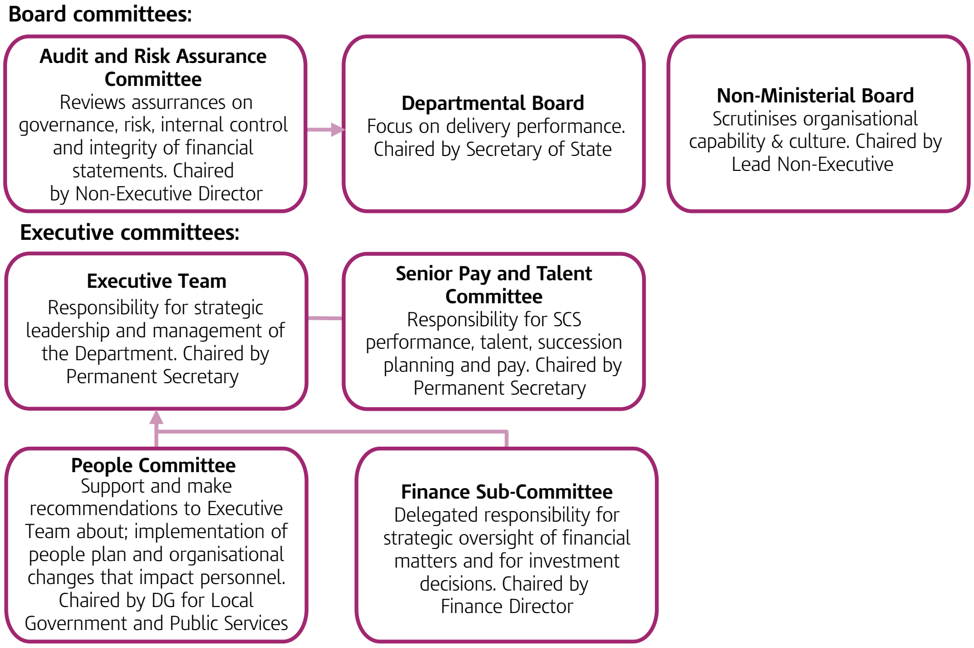
The statement concludes with my assessment, as Accounting Officer, of the effectiveness of our governance arrangements.

17 MHCLG Single Departmental Plan: https://www.gov.uk/government/publications/department-for-communities-and-local-government-single-departmental-plan/ministry-of-housing-communities-and-local-government-single-departmental-plan

## The governance framework

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the delivery of the Department's policies, aims and objectives, whilst safeguarding public funds and Departmental assets. The governance framework for the Department has been designed to maintain the existing internal control environment whilst developing control in response to changes in the Department's risk profile. The governance structures are shown below in the diagram.

### Departmental governance framework




Clear terms of reference for each committee maintain clarity and accountability. The Departmental Board met three times during the year, the Non-Ministerial Board met four times, and the Audit and Risk Assurance Committee met five times in 2017-18. The Executive Team meets routinely each week.

Attendance records for the Departmental Board meetings are provided in the Directors' Report, page 26.

In 2017-18, the Audit and Risk Assurance Committee (ARAC) was chaired by the lead non-executive board member, Nick Markham. Mark Sheridan was an independent member of ARAC throughout the year and Nick Whitaker, also an independent member, stepped down in November 2017. Pam Chesters and Daniel Morley, non-executive board members, joined the membership of ARAC from December 2017.

### Accountability

Alongside the Board structures set out above, Ministers and I have clearly defined responsibilities that support good governance within the Department through Parliamentary accountability. The Secretary of State is responsible and answerable to Parliament for the exercise of the powers on which the administration of the Department depends. He has a duty to Parliament to account and to be held to account for the policies, decisions and actions of the Group.

As Permanent Secretary, I am appointed by HM Treasury as the Department's Accounting Officer and may be called to account in Parliament for the stewardship of the resources within the Department's control and the system of accountability for funding devolved to the local level.

Ministers are also subject to the Ministerial Code which provides assurance as to the propriety of their conduct. Upon appointment, Ministers' attention is drawn to the requirements of the Ministerial Code. As Permanent Secretary, I am responsible for advising Ministers on compliance with the Code.

In accordance with Managing Public Money, this Statement is required to summarise how the Department achieves local accountability for the grants it distributes.

The next two sections set out a summary of the scope of my accountability in relation to ensuring the proper use of public money at a local government level and how I discharge my accountabilities to ensure the regularity, propriety and value for money of these resources.

The Accounting Officer System Statement as part of the Accounting Officer System Statement[18] sets out in more detail how the Department achieves accountability through all its relationships and delivery partners that are in place now and for the future, including local government and the Local Growth Fund. It therefore complements this Governance Statement, which is retrospective, covering systems in place over the last financial year.

### The Local Government Accountability Framework

As the Department's Accounting Officer, I am responsible for the core local government accountability framework for local government and for ensuring that it is working and contains the right checks and balances.

I receive assurance advice twice a year that takes account of the available information to ascertain whether the core accountability framework for local authorities has remained robust. This information includes published reports on local audit and accounts, governance, and fraud, which speaks to regularity, propriety and achieving value for money locally.

The assurance advice for the period January to June 2017 and for the period July to December 2017 concluded that overall the local government accountability framework remains robust. The most recent advice makes a number of recommendations to explore the changing pressures on local authorities, including:

- Continuing to implement the recommendations provided in the December 2017 advice: to review the statutory framework; to make accountability reporting more efficient and transparent; consider if independent external input would help in preparation for the next Spending Review; work to expand our engagement across Government; and improve uptake of the existing sector support offer.
- Continuing to work within the Department and across Government to: assess emerging policies and events which could place additional pressure on local government sustainability; and to prepare for the 2019 Spending Review and exit from the EU.
- Reflecting on the impact which additional pressures may have on the role of statutory officers.
- Reviewing internal governance arrangements to support assurance of the local government accountability framework.

During the financial year 2017-18, there was one new non-statutory intervention in the Royal Borough of Kensington and Chelsea, which commenced in July 2017. The Secretary of State appointed the independent Grenfell Recovery Taskforce to provide challenge and support to the council, and to provide assurance to the Government on the long-term recovery from the Grenfell Tower Fire. The Department continued its statutory interventions in the London Borough of Tower Hamlets and Rotherham Metropolitan Borough Council, and the non-statutory intervention in Birmingham City Council.

In January 2018, the Secretary of State announced a best value inspection of Northamptonshire County Council which reported in March. On 27 March, the Secretary of State reached a "minded to" decision on the appointment of Commissioners and invited councils within the county area to submit proposals on restructuring. Commissioners were appointed on 9 May 2018.

In addition to the core accountability system, other Departments which oversee services run by local government publish statements that explain any other grants made to local authorities, and relevant legislation and regulation in relation to those services. These include the Department for Education, Department of Health and Social Care and Department for Transport.

18 https://www.gov.uk/government/publications/dclg-accounting-officer-system-statement

### Local Growth Fund

I am the Accounting Officer for the Local Growth Fund, which is awarded to Local Enterprise Partnerships (LEPs) through Growth Deals. This Local Growth Fund accountability system sits alongside the Local Government accountability system statement[17]. I am accountable to Parliament for those elements of the fund which are awarded to LEPs from MHCLG's budgets. I am also responsible for the delivery system for Growth Deals within which LEPs invest the Local Growth Fund.

The Local Growth Fund assurance system is based on:

- The national LEP assurance framework which sets out standards around transparency, accountability and value for money which LEPs must comply with in composing their own local assurance frameworks;
- Annual assurance provided by the Section 151 Officer of the LEP's Accountable Body to the Accounting Officer;
- An annual assurance statement from the LEP Chair and Chief Executive which is published on the LEP website;
- Regular reporting against agreed output metrics;
- An evaluation framework;
- Annual performance conversations with each LEP.

Together these elements establish a mechanism for ensuring that funds are spent locally with regularity, propriety and value for money, with oversight of what is being delivered. Those elements of the Fund which remain in other Departments' budgets are also subject to their own funding and oversight mechanisms. These include the Department for Transport and the Department for Business, Energy and Industrial Strategy.

The Department also provides funding via the "Single Pot" to mayoral combined authorities which have been set up as part of devolution agreements. The Single Pot represents different lines of funding from both MHCLG and the Department for Transport. Assurances over the use of funding provided through the Single Pot are obtained via the accountability systems for local authorities and the Local Growth Fund, and the Department for Transport accountability system.

In October 2017 the Department published the findings of a review into LEP governance and transparency conducted by Mary Ney, MHCLG Non-Executive Director. Ministers accepted all the recommendations of this review and most have already been implemented. As part of this the Department is working with the Chartered Institute for Public Finance and Accountancy (CIPFA) to create guidance for Section 151 Officers in LEP Accountable Bodies on their role.

### Ministerial Direction

During 2017-18 the Secretary of State made a Ministerial Direction not to reclaim an overpayment of £36 million made to local authorities that were taking part in the 100% business rates retention pilot. My correspondence with the Secretary of State is available online[19].

The Secretary of State and I agreed that the Department would carry out an independent review of the internal processes and procedures that underpin the Department's oversight of business rates and related systems. This work has already started and is planned to conclude in the summer.

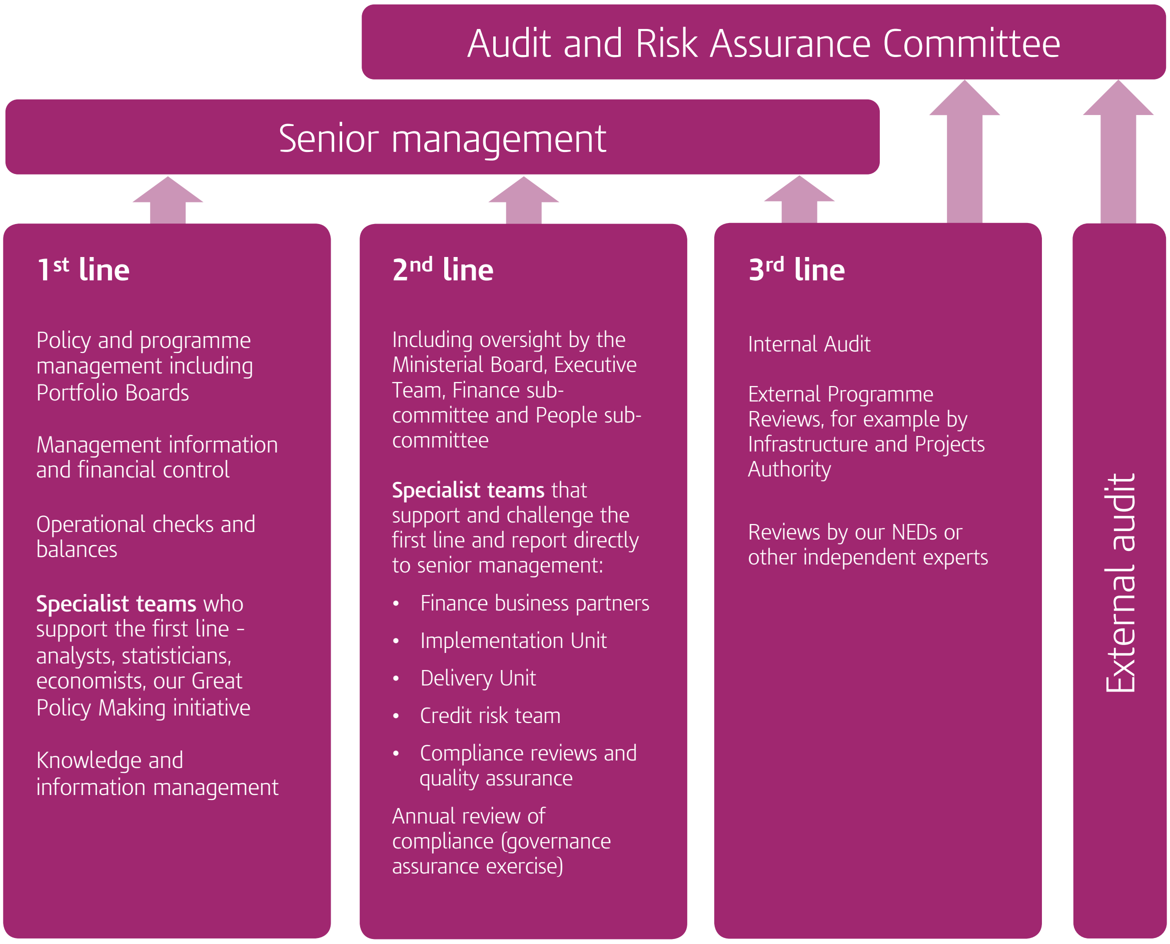
19 Ministerial direction correspondence: https://www.gov.uk/government/publications/local-government-overpayment-ministerial-direction

## Approach to risk management

The Department operates a "three lines of defence" model, as set out in the diagram below.

The system is overseen by the Audit and Risk Assurance Committee which is a delegated committee of the Board. The committee met five times during 2017-18 and considered:

- Risk and how it is managed in the Decentralisation and Growth Group, Housing & Planning Group, Local Government and Public Services Group, and the Building Safety Programme;
- The Department's reaction to the Grenfell Tower tragedy;
- The Department's work preparing for EU exit along with any associated financial risks;
- The Department's Whistleblowing policy and processes;
- The NAO's assessment of value for money within the Department's selected policy programmes; and
- The Government Internal Audit Agency's (GIAA) scrutiny of the Department.




Programme boards are in place for each of the Department's major policies, in which programme delivery and cross-cutting risks are managed. Portfolio boards for each Departmental policy group bring together information on performance and risk across each Portfolio. Where necessary, risks are escalated from programme and Portfolio boards to the Executive Team. The Executive Team also reviews cross-cutting strategic risks for the Department (see below), which are deep dived through the year. The Internal Audit opinion can be found on page 41.

## Our strategic risks

The diagram below summarises the strategic risks faced by the Department, and further detail follows on the mitigating actions the Department is taking.

**Capability**

- **Departmental capability:** we need the right capabilities to deliver Governments' priorities
- **Culture and behaviours:** how we deliver the Department's vision to become smarter, stronger and more streamlined
- **External stakeholders:** We need to maintain and develop strong relationships with a range of external stakeholders
- **Change to policy and in the economy:** how we anticipate and respond quickly and effectively

**System Oversight**

- **Legal risks:** managing the Department's portfolio of litigation, including the risk of fines from the European Commission for ERDF funds
- **Housing credit portfolio:** managing the Department's portfolio of financial instruments in a single sector that is new for government
- **Local authority system sustainability:** identifying and managing risks to the local government system and to individual councils
- **Corporate oversight, including of arm's-length bodies:** getting the right balance between autonomy and control on an increasingly challenging portfolio of programmes

**EU Exit**

- **Exiting the European Union:** ensuring that we seize opportunities and mitigate risk from exiting the EU

## Departmental capability

Our objective is for MHCLG to have skilled, talented, committed, diverse and high-performing people, supported by effective leaders to ensure we have the right capability to deliver. We reviewed our comprehensive People Plan in July 2017 and are investing further in improving recruitment and resourcing, professional learning and development, line manager capability and developing talent. We have also revised our performance management process to focus on the development of our people through regular and high quality performance conversations. We continue to prioritise a diverse and inclusive culture and support resilience and employee welfare through a wide range of initiatives and a very strong offer on mental health and well-being.

### Culture, behaviour and efficiency

We are developing our ways of working through a refreshed three year business planning process which has been and continues to be supported and informed by the following activities: an income review to identify potential new sources and a successful bid to HMT to secure appropriate resources, both completed in 2017-18; a new People Plan which will be publicised in 2018; the creation of a new and stronger Chief Financial Officer Group; a Better Place to Work programme promoting new ways to use the MHCLG estate more effectively and an upgrade of our IT systems; and a new Digital strategy to enable greater digital working. We continue to explore and progress the development of opportunities to join up, work in partnership and share back-office functions with our arm's-length bodies.

### External Stakeholders

The buy-in and support of stakeholders is critical to delivering our objectives. The Department has an External Affairs team which is responsible for ensuring stakeholders are engaged on the right issues at the right stage in the process to ensure their views can be taken into account as policy is developed and implemented. Our Communications team ensures that we use a wide range of channels to keep all those with an interest in our agenda aware of the latest developments.

### Changes to policy or in the economy

The Department needs to anticipate and respond quickly to changes in the policy and economic environment caused by external factors. Measures include:

- The Analysis and Data Division are improving our digital capabilities to source online information and further expand the use of data science to improve the Department's use of information to anticipate economic shocks and policy changes;
- The Resilience and Emergencies Division regularly reviews MHCLG's capacity to respond to high impact / low likelihood scenarios, including our ability to carry out our Lead Government Department responsibilities, and test Ministers and the Executive Team through the civil contingencies exercise programme;
- Officials actively work with Ministers to quickly identify changes ensuring an agile approach to policy prioritisation;
- Using our flexible resourcing model to match people to demand; and
- The Great Policy Making Team helps us make better use of evidence and lessons learnt from significant events and policy.

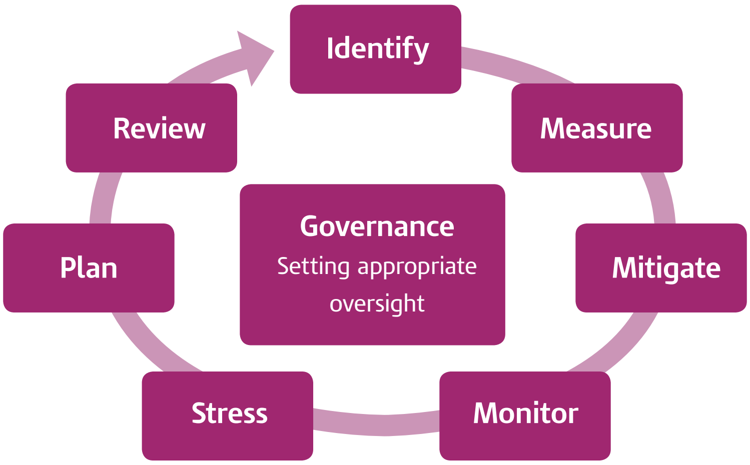
### Legal risks

Legal risks are managed by designing legally robust policies, taking legally sound decisions and, where appropriate, changing the law in the right way to deliver policy. The Department applies knowledge from previous experience and cases. A Legislation Board is an established part of the Department's planning cycle and meets regularly to prioritise and manage primary and secondary legislation programmes.

### Housing credit portfolio

Some of the Department's housing programmes are underpinned by the use of financial instruments such as loans, equity investments and financial guarantees, exposing the Group to significant credit and market risk. The portfolio continues to grow, but remains relatively immature, has not yet been through a market cycle, is concentrated in a single sector that is susceptible to economic shocks, and the investments are typically outside the appetite of other market investors and lenders.

**Our approach to managing financial and credit risk in our portfolio**




In 2017-18 the Department continued to develop and embed capability for managing financial risk, reviewing the tools used to identify and measure the risks associated with the portfolio of financial instrument based programmes, reviewing its risk appetite, and developing its contingency plans. The risk team has also continued to support colleagues in developing new financial transaction programmes, as well as regularly reviewing the risk profile on existing programmes.

The Department's primary delivery partner, Homes England (previously known as the Homes and Communities Agency), has also continued to build operational and resource capacity over the last year in order to effectively manage the delivery of these programmes on behalf of the Department. The Department has a Chief Risk Officer who sits within Homes England with accountability to me in my role as Accounting Officer, as well as to the Accounting Officer of Homes England.

An annual stress testing exercise has been in place since 2015 to help the Department measure and manage the risk of loss associated with a stress event, based on Bank of England cyclical stress test scenarios. The outcomes of the testing will continue to be used in future policy development, with contingency planning taking place to consider steps that could be taken to manage the Department's exposures in times of stress.

### Local authority system sustainability

Local authorities are under a statutory obligation to set a balanced budget. Local authorities' chief finance officers can also issue a 'section 114' notice to impose immediate spending controls if it appears that an authority might spend more in a financial year than the resources available as was the case at Northamptonshire County Council. As Accounting Officer I have accountability for the local authority system and monitor the financial and operational performance of the sector. The Local Government Accountability Framework section (page 32) explains how we assess the sustainability of the local authority system.

The Department maintains and develops a systematic process for assessing the risk of significant service or financial challenges. The NAO 2018 report on financial sustainability referenced the improved oversight the Department has of the sector. We work with the local authority representative bodies, NAO, CIPFA and other government Departments. This provides us with opportunity to quality assure the methodology which underpins our tools for assessing the financial sustainability and understanding potential indicators of stress, identify sector trends, and model the future impacts of economic and policy scenarios in the local authority sector. We continue to encourage councils to take up opportunities to transform, be included in devolution deals and incentivise local authorities to encourage business rates growth through business rates retention policy.

### Corporate oversight, including of Arm's-Length Bodies (ALBs)

The Department has an increasingly complex and challenging portfolio of programmes to deliver with our ALBs. We have one Executive Agency (EAs) and ten other arm's-length bodies (ALBs), as at 31 March 2018. A complete list of the Department's ALBs is provided in Note 21 of the accounts.

The Department's control and assurance framework needs to strike a balance between delegation and autonomy and the need for controls that provide sufficient assurance. The Department regularly reviews the internal control framework to ensure it is appropriate. We actively engage with internal audit, planning the annual cycle and demonstrating improvement in light of recommendations received.

Each ALB maintains its own governance structures and processes, appropriate to their business and scale. Each body has delegated authority from me in my role as Accounting Officer, with an appointed Accounting Officer.

During the year the Department has refreshed and embedded the Cabinet Office's Senior Sponsor partnership model[20] where responsibility for performance and the direction of the ALB is placed with a senior official within the Department, with a central partnership function handling matters relating to governance, finance and public appointments.

The Department continues to integrate its ALBs into the Departmental governance framework to maintain a consistent approach to delivering its objectives across the MHCLG group. The following actions have contributed towards strengthening the partnerships across the group:

- An annual risk-based impact assessment to ensure the level of sponsorship and the level of Accounting Officer engagement is proportionate to each organisation and aligned with Departmental priorities;
- Annual meeting for ARAC chairs where concerns affecting the Departmental group are considered;
- Annual forum for increased engagement between CEOs, Senior Sponsors and the ALB partnership team to discuss common issues and strategic priorities;
- A programme of updates to Framework Documents has been established, with 3 refreshed in this year;
- Improvements to key performance indicators for each ALB to enable increasingly effective performance assessments;
- Development of a consistent approach to ALB board effectiveness with annual appraisal reviews; and
- Departmental representatives attend the Audit and Risk Committees (ARAC) meetings of each ALB.

Each ALB Non-Executive Director is contractually required to declare to the Secretary of State any personal or business interest which may (or may be perceived to) influence their judgement in performing their functions and obligations. They are also responsible for withdrawing from discussions where any such conflict could influence their judgement. A register of interests is maintained by each ALB and is updated when relevant changes occur. ALB Non-Executive Directors are asked to update their declaration of interests annually.

These close working relationships have contributed to strengthening the integration of ALBs into a coherent and consistent Departmental approach to financial planning, risk management and decision making. Further work for 2018-19 includes:

- A meeting which took place in April 2018 to ensure all Senior Sponsors are clear about their responsibilities and to share best practice;
- Development of a programme of senior engagement with ALBs which will see the Permanent Secretary meet all ALB Chairs by the end of 2018 and an annual ALB conference, to which all ALB Chief Executives, Chairs, Senior Sponsors, the Permanent Secretary and Ministers will be invited; and
- Development of guidance and embedding new processes to ensure the effectiveness of ALB Boards.

20 Partnerships between departments and arm's-length bodies: Code of Practice: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594345/Partnerships_between_departments_and_arm_s_length_bodies-code_of_good_practice.pdf

A significant programme of work is also underway to reset the relationship with Homes England, our largest ALB. This includes work to develop an updated Framework Agreement and Corporate Plan. We will establish a new single housing supply portfolio underpinned by robust project and programme management to drive our increased delivery ambition.

### Exiting the European Union

We need to ensure that the Department seizes opportunities and mitigates risk to future policy development from exiting the European Union. Working closely with the Department for Exiting the European Union, the Department has developed preferred and contingency policy positions for the UK's negotiation strategy and domestic responses. The Department is leading a cross-Government programme to create a new UK Shared Prosperity Fund (UKSPF), following our exit from the European Union. The UKSPF will be a domestic programme of investment which will focus on reducing inequalities between communities across all four nations. The Department is also working closely with local government and other stakeholders throughout the negotiations to ensure the interests of every region are taken in account.

## Our corporate governance

Departments are expected to apply the principles of *HM Treasury's Corporate governance in central government departments: code of good practice* unless good governance can be achieved by other means. Departments are also required to identify and explain any areas where they have departed from the Code. Over the past year, there have been no material departures from the Code.

To ensure compliance with the Code, we have put in place arrangements to handle conflicts of interest of Board Members, and use this Governance Statement to explain how conflicts (and potential conflicts) of interest have been resolved. As set out in their contract, each Non-Executive Director is required to declare to the Secretary of State any personal or business interest which may (or may be perceived to) influence their judgement in performing their functions and obligations. They are also responsible for withdrawing from discussions where any such conflict could influence their judgement. A register of interests is maintained by the Board Secretary which covers all executive and non-executive members, and is updated annually and when relevant changes occur.

### Board Performance and Reporting

The Departmental Board is chaired by the Secretary of State. It oversees the Department's performance, seeks assurances on delivery, and provides advice and challenge. Accountability has been improved by enhancing performance reporting to the Departmental and Non-Ministerial Boards.

The last evaluation of the Board's effectiveness was conducted in March 2017. The evaluation made recommendations covering: meeting logistics and presentation of information at Board meetings; being better sighted on the work of the Board's Audit, Risk and Assurance sub-committee (ARAC) and the Department's Senior Talent and Pay Committee; engagement of junior Ministers; utilising the skills and expertise of non-executive Directors and inviting contributions from people other than Department officials. The Department is implementing these recommendations, and has already adopted improved reporting on delivery performance and the work of ARAC.

There were significant changes to the composition of the Board between 2017-2018. During this period new Ministers were given Departmental portfolios, new Non-Executive Directors joined the Departmental board, and a new secretariat team was also recruited. The appointment of a new Lead Non-Executive Director and ARAC Chair is also imminent. Given the extent of these changes, the next effectiveness evaluation has been deferred until autumn 2018.

The Departmental Board is supported by the Audit and Risk Assurance Committee which is chaired by the Lead Non-Executive. This Committee is responsible for reviewing assurances on governance, risk, internal control, and the integrity of accounting and reporting procedures.

The Committee considered its effectiveness in May 2018 during a facilitated session guided by the NAO's ARAC Effectiveness Checklist, covering membership, skills, role and scope and communication and reporting. The exercise concluded that the Committee is performing effectively, though actions were identified to allow the Committee to build on their effectiveness. The Committee will work on implementing those actions in 2018-19.

The Non-Ministerial Board scrutinises organisational capability and culture. This board is chaired by the Lead Non-Executive and meets four times a year.

The Executive Team meets as the most senior official level committee of the Department. The Team oversees decisions on the corporate development of the Department, and reviews data on both delivery and corporate performance. Risk management is overseen through strategic risk reviews.

The Executive Team is supported by the People and Finance Sub-Committees. Once a month the Executive Team meeting expands to include Directors to ensure the widest possible representation is brought to key leadership decisions.

### Fraud and error

The Department has a counter-fraud framework including a whistleblowing policy, a fraud response plan and online material for staff. The framework has been endorsed by the Finance Sub-Committee. We are further developing this framework in line with Cabinet Office standards and are implementing a continuous cycle of counter-fraud activities. These will include induction training, Counter-Fraud Awareness sessions and the targeted promotion of the Department's Counter Fraud Strategy in high-risk areas.

### Whistleblowing

The whistleblowing champion is a member of the Executive Team and regularly raises awareness of the whistleblowing procedures and the importance of reporting any wrongdoings. The Department has nominated officers who are available to support people with whistleblowing queries. Officers are accessible on a dedicated telephone helpline.

The Department reports on the effectiveness of whistleblowing policy and procedures along with quantitative data to the Cabinet Office twice a year. Whistleblowing is also discussed by ARAC once a year.

The Civil Service launched a whistleblowing health check for government Departments to assess their culture and whether employees feel confident to speak up. In May 2017, the Department's whistleblowing champion, People Capability & Change team and Nominated Officers reviewed the whistleblowing health check. They felt confident that the Department had achieved and put in place the recommended processes and systems to engage with staff and to ensure that people have the knowledge and confidence to enable them to raise any concerns. The Department also revisited its whistleblowing procedures in early 2018 when compiling its response to the cross government Sue Owen Review of culture and procedures around sexual misconduct and harassment.

### Information Security

The Department ensures that appropriate policies and guidance are in place to assure compliance with Cabinet Office mandates on electronic and physical data security. This includes annual inspections of the Department's registered files by the Records and Information Governance Services team.

During the year, four personal data incidents were reported to the Information Commissioner's Office. In each case it was determined that no further action was required. Further information on these incidents is provided on page 28.

The Department has carried out an extensive audit of its personal data information assets as a means of helping ensure compliance with the General Data Protection Regulation. We did not identify any major issues which indicated that we needed a change of approach in the way we manage and protect physical and electronic data. However, we decided that these policies should be reviewed and processes could be more thoroughly documented and have started a programme to ensure this is done. The Department is seeking assurance of GDPR compliance from each of its ALBs, and is monitoring data protection risks. The MHCLG Data Protection Officer is acting as Data Protection Officer for a number of our ALBs and this will support them in minimising risks as well as providing additional assurance to the Accounting Officer.

### External scrutiny

The Department's work was the subject of four National Audit Office reports and four Public Accounts Committee reports in 2017-18. The Accounting Officer and members of her leadership team attended two PAC hearings which focussed on Homeless Households and Local Enterprise Partnerships to give evidence on value for money. In addition, the Department committed to recommendations published by the PAC on the integration of health and social care, which was jointly owned with DHSC, and 'Housing: State of the Nation'. For more detail please see the websites of the Public Accounts Committee and the National Audit Office.

### Internal Audit opinion

One of the key sources of independent assurance within the Department comes from the activities of the Internal Audit function provided by the Government Internal Audit Agency (GIAA). The internal audit programme is closely linked to the key risks of the Department, its Executive Agencies and other ALBs. Arrangements are in place to ensure that I am made aware of any significant issues which indicate that key risks are not being effectively managed. The internal audit service complies with the Public Sector Internal Audit Standards.

MHCLG's Group Chief Internal Auditor provided a "Moderate assurance" rating for governance, risk management and control. There remain a number of areas where the Department should continue to focus its efforts to strengthen the control environment and improve its internal audit rating. These include:

- Enterprise Risk Management;
- Strengthening portfolio management of the change programmes;
- Building capacity in the corporate centre; and
- Ensuring that its delivery partners have the capacity to deliver its key policy programmes.

## Governance assurance exercise

The Department undertakes a governance assurance exercise at the end of each financial year. Four independent panels, each led by a NED, provided challenge to the Department's senior management. The Directors General and Directors presented evidence to demonstrate how they complied with the Department's governance and internal control requirements, and summarised key achievements and challenges they faced during the year. Panels were attended by independent directors and Internal Audit, and were observed by the NAO.

The panels were satisfied that the Department had demonstrated appropriate governance and assurance across its business and that risk management had been effective during the year. They were further assured that the Department had suitable plans in place to continue to manage the business and address the strategic risk areas that were identified by the Department as part of the challenge process. These included:

- The Department relies heavily on local authorities and its ALBs to deliver its strategic objectives. The Department must maintain a balance between monitoring and intervening in these partners' activities;
- Departmental capacity and capability, especially due to the significant turnover of leadership and staff within 2017-18;
- Strengthening the central corporate support function to tighten the link between resource inputs and programme outcomes to achieve effective policy delivery; and
- The risks and opportunities of leaving the EU.

## My conclusion

I have reviewed the evidence provided by the governance assurance exercise, the Internal Audit opinion, and NAO and PAC reports, and am satisfied that the Department has maintained a sound system of internal control during this reporting period.

Though the Department has faced significant challenges and change during this period, the governance framework and control environment has been fully operational. Existing assurance and risk management processes continue to be adapted and refreshed to reflect the changing challenges faced by the Department.

# Remuneration and Staff Report

## Remuneration Report

The Remuneration Report provides detail on the remuneration and pension interests of the Department's board members. The Remuneration Report refers to the core Department only. Similar Remuneration Reports are available in the Annual Reports and Accounts of the individual ALBs.

All tables and the Pay Multiples section of the Remuneration Report have been subject to audit.

### Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at: www.ome.uk.com

### Civil service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at: www.civilservicecommission.org.uk

## Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the ministers and most senior management (i.e. Board members) of the Department who have been in post at some point in the current or prior year.

No benefits in kind were received by any minister or official named in the tables below in 2016-17 and 2017-18.

### Single total figure of remuneration

| Ministers | Salary £ | | Full year Equivalent Salary if different £ | | Pension benefits[1] £ (to nearest £1,000) | | Total remuneration £ (to nearest £1,000) | |
|---|---|---|---|---|---|---|---|---|
| | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 |
| The Rt Hon Sajid Javid MP<br>Appointed 14 July 2016 | 67,505 | 48,270 | - | 67,505 | 18,000 | 13,000 | 86,000 | 61,000 |
| Dominic Raab MP [2]<br>Appointed 10 January 2018 | 7,154 | - | 31,680 | - | - | - | 7,000 | - |
| Rishi Sunak MP<br>Appointed 10 January 2018 | 5,052 | - | 22,375 | - | 1,000 | - | 6,000 | - |
| Jake Berry MP<br>Appointed 14 June 2017 | 17,838 | - | 22,375 | - | 5,000 | - | 23,000 | - |
| Heather Wheeler MP<br>Appointed 10 January 2018 | 5,052 | - | 22,375 | - | 2,000 | - | 7,000 | - |
| Lord Bourne of Aberystwyth<br>Appointed 16 July 2016 | 105,076[3] | 74,570[3] | - | 105,076[3] | 24,000 | 11,000 | 129,000 | 86,000 |
| Alok Sharma MP<br>Left 9 January 2018 | 18,190 | - | 31,680 | - | 5,000 | - | 23,000 | - |
| Gavin Barwell MP<br>Left 9 June 2017 | 5,984 | 22,397 | 31,680 | 31,680 | 1,000 | 6,000 | 7,000 | 28,000 |
| Andrew Percy MP<br>Left 14 June 2017 | 4,599 | 15,699 | 22,375 | 22,375 | 1,000 | 4,000 | 6,000 | 20,000 |
| Marcus Jones MP<br>Left 9 January 2018 | 17,323 | 22,375 | 22,375 | - | 4,000 | 6,000 | 21,000 | 28,000 |
| The Rt Hon Greg Clark MP<br>Left 13 July 2016 | - | 19,235 | - | 67,505 | - | 5,000 | - | 24,000 |
| Mark Francois MP<br>Left 14 July 2016 | - | 9,112 | - | 31,680 | - | 3,000 | - | 12,000 |
| Brandon Lewis MP<br>Left 14 July 2016 | - | 9,112 | - | 31,680 | - | 2,000 | - | 11,000 |
| James Wharton MP<br>Left 15 July 2016 | - | 6,496 | - | 22,375 | - | 1,000 | - | 7,000 |
| Baroness Williams of Trafford<br>Left 15 July 2016 | - | 30,506[3] | - | 105,076[3] | - | 11,000 | - | 42,000 |

(1) The value of PCPF pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights. This is a different basis to the way CETV in the Ministerial Pension Benefits table is calculated.

(2) Dominic Raab opted out of the pension scheme.

(3) Figure quoted includes House of Lords Allowance.

## Single total figure of remuneration

| Officials | Salary £'000 | | Full year Equivalent Salary if different £'000 | | Bonus Payments £'000 | | Other Benefits £ (to nearest £1,000) | | Pension benefits[1] £ (to nearest £1,000) | | Total remuneration £ £'000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 |
| Melanie Dawes[2] Permanent Secretary | 160-164 | 160-164 | - | - | - | 15-19 | 25,000 | - | - | 60,000 | 185-190 | 235-240 |
| Helen MacNamara Director General Appointed 1 September 2016 | 130-134 | 75-79 | - | 130-134 | 15-19 | - | - | - | 92,000 | 97,000[3] | 235-240 | 170-175[3] |
| Jo Farrar Director General Appointed 1 September 2016 | 140-144 | 80-84 | - | 140-144 | - | - | - | - | 56,000 | 32,000 | 195-200 | 115-120 |
| Simon Ridley Director General | 130-134 | 125-129 | - | 130-134 | 5-9 | 10-14 | - | - | 51,000 | 105,000 | 185-190 | 240-245 |
| Tamara Finkelstein[4] Director General Appointed 21 June 2017 | 95-99 | - | 125-129 | - | - | - | - | - | 22,000 | - | 115-120 | - |
| Rachel McLean Director General Appointed 29 January 2018 | 20-24 | - | 140-144 | - | - | - | - | - | 10,000 | - | 30-35 | - |
| Christine Hewitt Director | 85-89 | 85-89 | - | - | - | 10-14 | - | - | 11,000 | 66,000 | 100-105 | 160-165 |
| Lise-Anne Boissiere Director Appointed 20 April 2017 | 80-84 | - | 85-89 | - | 5-9 | - | - | - | 81,000 | - | 170-175 | - |
| Louise Casey Director General Left 31 July 2017 | 45-49 | 140-144 | 140-144 | - | - | - | - | - | 12,000 | 65,000[3] | 55-60 | 205-210[3] |
| Jacinda Humphry Acting Director General Left 26 January 2018 | 90-94 | 100-104 | 115-119 | - | 10-14 | - | - | - | 53,000 | 39,000 | 155-160 | 140 -145 |
| Stephen Meek Director Left 31 March 2017 | - | 115-119 | - | - | - | - | - | - | - | 37,000 | - | 150 -155 |
| Peter Schofield Director General Left 17 July 2016 | - | 40-44 | - | 135-139 | - | 15-19 | - | - | - | 19,000 | - | 75 - 80 |
| Helen Edwards Director General Left 31 August 2016 | - | 35-39[5] | - | 165-169 | - | - | - | - | - | - | - | 35-39 |

Note: Bandings above are in the format: £ 0-£4,999, £ 5,000-£9,999, £10,000-£14,999, £15,000-£19,999

(1) This column only shows pension benefits for the Principal Civil Service Pension Scheme (PCSPS) and Civil Servants and Other Pension Scheme (CSOPS). The value of PCSPS and CSOPS pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights. This is a different basis to the way CETV in the Officials' Pension Benefits table is calculated.

(2) Melanie Dawes joined the Partnership pension scheme from 1 April 2017 and as such she did not accrue PSCPS or CSOPS pension benefits in 2017-18. The employer contributions to her Partnership pension account were £24,900 (to the nearest £100) in 2017-18 and are included in the Other Benefits column of this table.

(3) A retrospective update to pension data was carried out by the pension provider, resulting in a change to the closing balance at 31 March 2017.

(4) Tamara Finkelstein was appointed on secondment from the Department of Health and Social Care.

(5) Helen Edwards worked reduced hours from 1 April 2016. She chose not to be covered by the Civil Service pension arrangements.

The Non-Executive Directors (NEDs) did not receive a salary in their capacity as Board Members and details of fees paid to them during 2017-18 are shown below (subject to audit):

| | Fees (£) | |
|---|---|---|
| Non-Executive Directors | 2017-18 | 2016-17 |
| Nick Markham (Lead)[1] | 20,000 | 17,500 |
| Mary Ney<br>Appointed 11 October 2016 | 15,000 | 6,875 |
| Pam Chesters [2]<br>Appointed 11 September 2017 | 8,365 | - |
| Daniel Morley [3]<br>Appointed 18 September 2017 | 8,077 | - |
| Grenville Turner [4]<br>Left 26 April 2017 | - | 15,000 |

(1) Nick Markham became acting lead non-executive on 1 October 2016, and as such his full year entitlement increased to £20,000

(2) Figure quoted is for the period 11 September 2017 - 31 March 2018. The full year fee entitlement is £15,000

(3) Figure quoted is for the period 18 September 2017 - 31 March 2018. The full year fee entitlement is £15,000

(4) Grenville Turner left on 26 April 2017. However, he did not claim any fees for the period in 2017-18.

## Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation.

This report is based on accrued payments made by the Department, and thus recorded in these accounts. In respect of Ministers in the House of Commons, Departments bear only the cost of the additional Ministerial remuneration. Their salaries for services as MP (£76,011 from 1 April 2017) and various allowances to which they are entitled are borne centrally.

However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their Ministerial salaries. This total remuneration for Lord Bourne and Baroness Williams as well as any allowances to which they were entitled is paid by the Department and is, therefore, shown in full in the figures within the Ministers' remuneration table above.

## Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. No Ministers or officials named in these tables received benefits in kind in 2016-17 or 2017-18.

## Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year prior to the financial year that they are paid to the individual. The bonuses reported in 2017-18 relate to performance in 2016-17 and the comparative bonuses reported for 2016-17 relate to the performance in 2015-16.

## Pay Multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid board member in the Department, the Department's Permanent Secretary, in the financial year 2017-18 was £160k - £164k (2016-17, £175k - £179k). This was 4.3 times (2016-17: 4.6 times) the median remuneration of the workforce, which was £38,134 (2016-17: £38,638). In 2017-18, nil (2016-17, nil) employees received remuneration in excess of the highest-paid board member.

Remuneration of employees ranged from £20k - £24k to £160k - £164k (2016-17: £20k - £24k to £175k - £179k). Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The median salary for 2017-18 has decreased by £504 compared to the 2016-17 median salary.

### Compensation for loss of office

Andrew Percy MP left under severance terms on 14 June 2017 and received a compensation payment of £5k - £10k. Marcus Jones MP left under severance terms on 9 January 2018 and received a compensation payment of £5k - £10k. Dame Louise Casey left the Department under voluntary exit terms on 31 July 2017. She received a compensation payment of £95,000.

### Ministerial Pension benefits

The table below shows the PCPF pension benefits accrued by ministers who have served as board members of the Department during the 2017-18 reporting year:

| | Accrued pension at age 65 as at 31/03/18 £'000 | Real increase in pension at age 65 £'000 | CETV at 31/03/18 £'000 | CETV at 31/03/17 £'000 | Real increase in CETV £'000 |
|---|---|---|---|---|---|
| The Rt Hon Sajid Javid MP | 5-10 | 0-2.5 | 85 | 67 | 7 |
| Dominic Raab MP (1) | - | - | - | - | - |
| Rishi Sunak MP | 0-5 | 0-2.5 | 1 | - | - |
| Jake Berry MP | 0-5 | 0-2.5 | 3 | - | 1 |
| Heather Wheeler MP | 0-5 | 0-2.5 | 9 | 7 | 1 |
| Lord Bourne of Aberystwyth | 5-10 | 0-2.5 | 97 | 68 | 21 |
| Alok Sharma MP | 0-5 | 0-2.5 | 8 | 4 | 2 |
| Gavin Barwell MP | 0-5 | 0-2.5 | 20 | 19 | - |
| Andrew Percy MP | 0-5 | 0-2.5 | 4 | 3 | - |
| Marcus Jones MP | 0-5 | 0-2.5 | 11 | 7 | 1 |

(1) Dominic Raab opted out of the pension scheme.

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015, available at: http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc

Those ministers who are Members of Parliament (MPs) may also accrue an MP's pension under the PCPF (details of which are not included in this report). A new MP's pension scheme was introduced from May 2015, although members who were aged 55 or older on 1 April 2013 have transitional protection to remain in the previous final salary pension scheme.

Benefits for Ministers are payable from State Pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 Ministerial pension schemes.

### The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made 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 pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance tax which may be due when pension benefits are taken.

### The real increase in the value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister. It is worked out using common market valuation factors for the start and end of the period.

## Officials' pension benefits

The table below shows the PCSPS and CSOPS pension benefits accrued by officials who have served as board members of the Department during the 2017-18 reporting year. Melanie Dawes joined the Partnership pension scheme from 1 April 2017 so did not accrue PCSPS or CSOPS pension benefits in 2017-18. Employer contributions to her Partnership pension account were £24,900 (to the nearest £100) in 2017-18.

| Officials | Accrued pension at pension age as at 31/03/18 and related lump sum £'000 | Real increase in pension and related lump sum at pension age £'000 | CETV at 31/03/18 £'000 | CETV at 31/03/17 £'000 | Real increase in CETV £000's £'000 |
|---|---|---|---|---|---|
| Helen MacNamara | 25 - 30 plus lump sum of 55 - 60 | 2.5 - 5 plus lump sum of 5 - 7.5 | 360 | 290(1) | 44 |
| Jo Farrar | 5 - 10 plus lump sum of Nil | 2.5 - 5 plus lump sum of Nil | 64 | 23 | 30 |
| Simon Ridley | 35 - 40 plus lump sum of 85 - 90 | 2.5 - 5 plus lump sum of Nil | 509 | 457 | 17 |
| Tamara Finkelstein | 55 - 60 plus lump sum of Nil | 0 - 2.5 plus lump sum of Nil | 839 | 809 | 6 |
| Rachel McLean | 15 - 20 plus lump sum of Nil | 0 - 2.5 plus lump sum of Nil | 178 | 171 | 5 |
| Christine Hewitt | 30 - 35 plus lump sum of 90 - 95 | 0 - 2.5 plus lump sum of 0 - 2.5 | 670 | 619 | 10 |
| Lise-Anne Boissiere | 20 - 25 plus lump sum of Nil | 2.5 - 5 plus lump sum of Nil | 222 | 171 | 36 |
| Louise Casey | 35 - 40 plus lump sum of 85 - 90 | 0 - 2.5 plus lump sum of Nil | 642 | 630(1) | 4 |
| Jacinda Humphry | 35 - 40 plus lump sum of 85 - 90 | 2.5 - 5 plus lump sum of 0 - 2.5 | 612 | 563 | 30 |

(1) A retrospective update to pension data was carried out by the pension provider, resulting in a change to the closing balance at 31 March 2017.

Pension benefits for officials are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced - the Civil Servants and Others Pension Scheme (CSOPS) or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha (CSOPS) sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha - as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha (CSOPS) - as appropriate. Where the official has benefits in both the PCSPS and alpha (CSOPS) the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

### The Cash Equivalent Transfer Value

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made 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 pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in the value of the CETV

This reflects the increase in the CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

# Staff Report

## Our People[21]

MHCLG is a unique Department, offering our people, who work at sites across England, experience in central policy, direct relationships with local areas and the opportunity to help deliver and witness the impact of policy on the ground. We are an ambitious Department: ambitious in what we can achieve and ambitious for our people. We published our People Plan in 2016 setting out five strategic priorities under which we have delivered a wide range of programmes and initiatives, which are helping to make MHCLG a highly performing and great place to work.

In July 2017, we published our “People Plan: One Year On” review, setting out the progress and achievements over the first year and reiterating our priorities for the remaining 12 months of the plan.

In the last 12 months the scope and profile of MHCLG has changed considerably. After several years of staff reductions, the priority work to address the issues highlighted by the Grenfell Tower tragedy and the ever-increasing profile of housing as a key domestic priority have meant that we are expanding again. We are increasing the capability of our corporate centre, particularly on Digital, Risk and Commercial, to enable delivery and ensure appropriate and robust governance and oversight of our responsibilities.

Consequently, we recruited more new people in 2017-18 than we did in the two previous years combined. Over the 12 months to April 2018, MHCLG grew by 312 full time equivalent employees.

This unprecedented growth has brought both opportunities and challenges. We have simultaneously brought in high-quality people with the right skills and attributes whilst also preserving the best of our culture and ensuring that our longer-standing colleagues continue to feel valued and engaged. Our key achievements and the progress made to date against the five priorities in our People Plan are detailed below.

## The right people for the right roles at the right time

We have set up a new ‘Resourcing Hub’, taking the recruitment burden off managers and speeding up the process by using the latest technology and methods. We have also stepped up our corporate induction, offering an updated day-long session every month for new joiners and increasing our support to line managers.

## Core Curriculum and Professional Development

Our internally designed and resourced Core Curriculum, shaped to support both individual and business needs, is firmly established as a key source of learning for our people with over 80% recommending their experience to others. This success was also reflected in the fact that our 2017 People Survey score for learning was amongst the highest across the Civil Service. We have trained and challenged all our senior leaders on inclusive leadership.

## Always aspiring to be better

We have implemented a new streamlined and development focused approach to performance management, supported by the on-going roll out of performance coaching for line managers. We are amongst the highest scoring Whitehall Departments for “My Manager” in the People Survey.

## Inclusion and well being

Inclusion is at the heart of what makes MHCLG a friendly and collaborative place, which is proving one of the great strengths on which we want to build. We maintained a focus on diversity and inclusion as a core priority through the launch of a comprehensive strategy and action plan around representation, inclusion and celebration. This included

21 For clarity, and unless shown otherwise, this section relates to the core Department only. Please refer to the Annual Report and Accounts of the individual bodies for information on human resources in the Department’s ALBs.

introducing a Fair Treatment programme with over 20 trained Fair Treatment Ambassadors and 50 Mental Health Ambassadors. As a result, 29% of our intake of SCS were from BAME backgrounds in 2017 and we achieved 82% on Inclusion and Fair Treatment in the 2017 People Survey - one of the top five high performers.

### Making the most of what MHCLG offers

Our approach to identifying and developing Talent is rated as excellent by the Cabinet Office. Alongside this we have a range of successful careers programmes including apprenticeships, a summer diversity programme and work experience opportunities.

Against a backdrop of considerable change, we were delighted that our People Survey engagement score in 2017 improved by 5 points. This was the sixth consecutive year in which the score has risen and for the first time we were above the Civil Service average. We were also in the top performing group for 7 of the 9 areas that the Survey explores. However, we recognise there is still more to do, for example, we saw a drop in "pay and benefits" and "resources and workload".

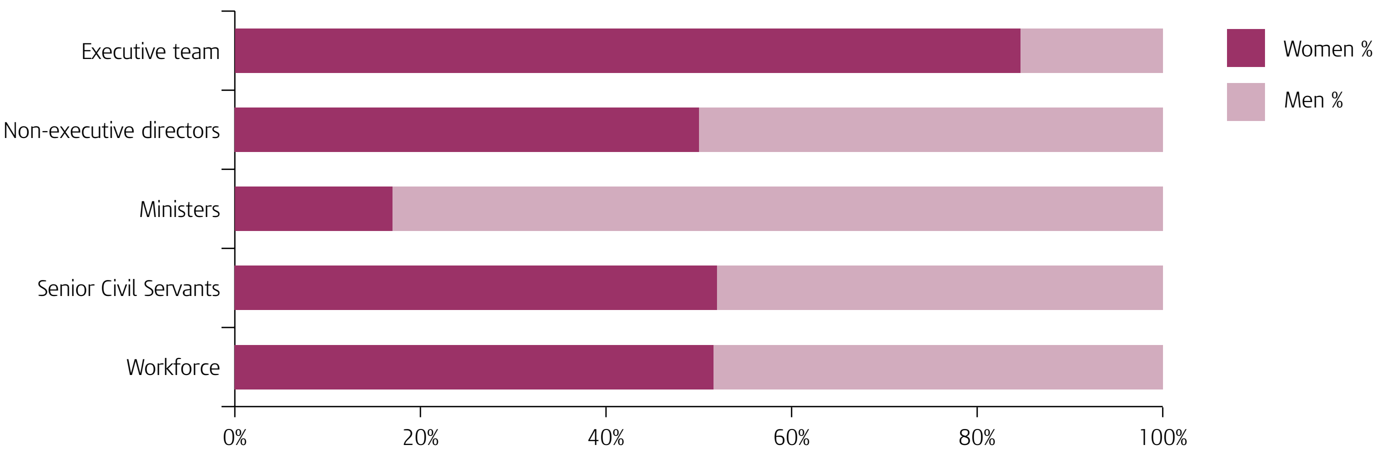
We know that although we made great strides last year there is more to do to ensure that everyone is able to contribute to delivering our key priorities. After hearing from everyone in the Department, we will be refreshing and updating our People Plan in the summer of 2018 to take us to 2020.

### Staff Data

#### Gender Diversity

The Department's gender diversity statistics are shown in the graph below. In January 2018 we published data on our gender pay gap in line with other employers.

**Staff Diversity by Gender - Core Department as at 31 March 2018**



## Health & Safety and Attendance Management

The Department's safety performance has remained strong during 2017-18. No accidents were reported to the Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) in 2017-18 (none in 2016-17). The Reportable Accident Rate was calculated as 0 per 100,000 employees. A total of 2 accidents were reported by employees in 2017-18, against 3 in 2016-17.

The Department's sickness absence has improved in 2017.

**Average Working Days Lost**

| | Jan - Dec 2017 (AWDL)(1) | Jan - Dec 2016 (AWDL)(1) |
|---|---|---|
| Civil Service | 6.8(2) | 7.1 |
| Core Department | 4.9 | 6.2 |
| Executive Agency | 7.5 | 8.0 |

(1) AWDL: Average working days lost

(2) Civil Service AWDL is based on July 2016 - June 2017 data.

**Staff with no sickness absence**

| | Jan-Dec 2017 | Jan-Dec 2016 |
|---|---|---|
| Core Department | 70% | 62% |
| Executive Agency | 49% | 47% |

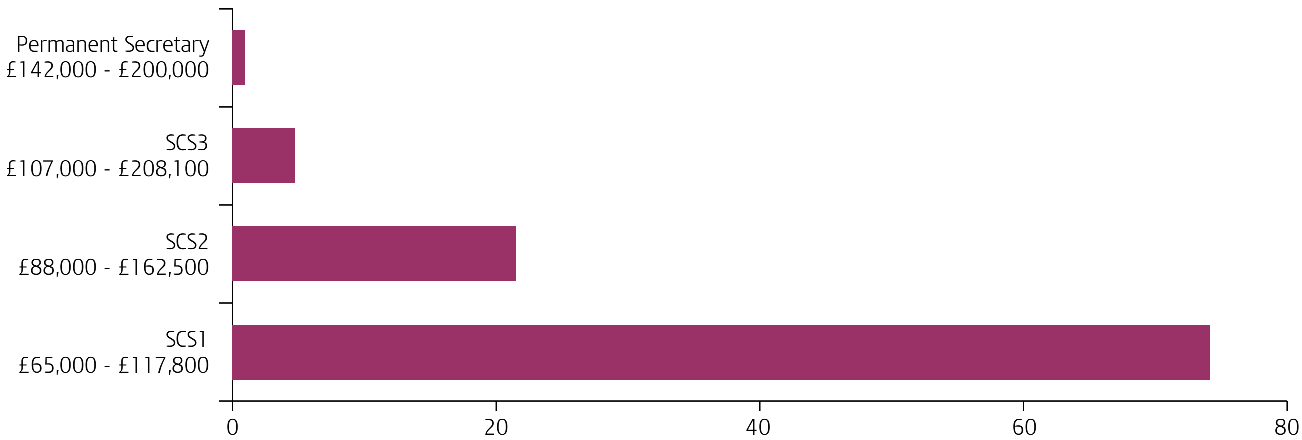
## Trade Union Facility time

This data relates to both the Core Department and Executive Agency combined. There were 38 employees (37 full-time equivalents) who were relevant union officials during the year. Of these, 15 spent 0%, 23 spent 1%-50%, 0 spent 51%-99% and 0 spent 100% of their working hours on trade union facility time. The total cost of facility time (£91,035) was 0.08% of the total pay bill. Of the total paid facility time hours, 0% of those hours were spent on paid trade union activities.

## Senior Civil Service salaries and staffing

At 31 March 2018 there were 100 Senior Civil Service staff, including the Permanent Secretary, on the core Department's payroll.

**SCS Headcount by pay band as at 31 March 2018**



## Staff numbers and related costs

The following sections below have been subject to audit: Staff costs, Average number of full time equivalent persons employed, Reporting of civil service and other compensation schemes and Reporting the tax arrangements of public sector appointees.

### Staff costs[22]

£'000

| | | | | | 2017-18 | 2016-17 |
|---|---|---|---|---|---|---|
| | Permanently Employed Staff | Others | Ministers | Special Advisers | Total | Total |
| Wages & Salaries | 142,112 | 6,476 | 263 | 189 | 149,040 | 145,825 |
| Social Security Costs | 16,213 | 20 | 29 | 23 | 16,285 | 15,758 |
| Pension Costs | 39,760 | 16 | - | 36 | 39,812 | 33,439 |
| **Total Costs** | **198,085** | **6,512** | **292** | **248** | **205,137** | **195,022** |
| Less Recoveries in respect of outward secondments | (2,097) | - | - | - | (2,097) | (2,167) |
| **Total Net Costs** | **195,988** | **6,512** | **292** | **248** | **203,040** | **192,855** |
| Of which: | | | | | | |
| Core Department | 86,313 | 2,741 | 292 | 248 | 89,594 | 84,161 |
| Agency | 31,430 | 341 | - | - | 31,771 | 33,495 |
| Designated Bodies | 80,342 | 3,430 | - | - | 83,772 | 77,366 |

### Average number of full-time equivalent persons employed

| | | | | | 2017-18 | 2016-17 |
|---|---|---|---|---|---|---|
| | Permanent staff | Others | Ministers | Special Advisers | Total | Total |
| Core Department | 1,292 | 310 | 5 | 3 | 1,610 | 1,500 |
| Agency | 597 | 13 | - | - | 610 | 630 |
| Designated Bodies | 1,072 | 66 | - | - | 1,138 | 1,181 |
| **Total** | 2,961 | 389 | 5 | 3 | 3,358 | 3,311 |

### The Principal Civil Service Pension Scheme (PCSPS)

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) - known as "Alpha" are unfunded multi-employer defined benefit schemes but the Department is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk/about-us/resource-accounts/).

For 2017-18, employers' contributions of £18,578,296 (2016-17: £18,208,054) were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. For 2017-18, employers' contributions of £157,301 (2016-17: 156,423) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%. Employers also match employee contributions up to 3% of pensionable earnings. In addition, for 2017-18, employer contributions of £0 (2016-17: £0), 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

22 Special Advisers wages and salaries include compensation in lieu of notice and untaken holiday pay paid to them on their resignation preceding the general election.

Contributions due to the partnership pension providers at the accounting date were £6,185 (2016-17: £7,235). Contributions prepaid at that date were nil.

One member of staff (2016-17: one) retired early on ill-health grounds; the additional accrued pension liabilities in the year amounted to nil (2016-17: £21,409).

### Reporting of civil service and other compensation schemes - exit packages

In the core Department and Agency, redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full when the exit has been agreed in accordance with IAS 19 and 37. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the table.

Staff employed by other bodies in the Departmental Group are not civil servants and redundancy and other departure costs are paid in accordance with the rules applying to the bodies in question. Further details are in the accounts of the bodies concerned.

| | | | 2017-18 | 2016-17 | | | 2017-18 | 2016-17 |
|---|---|---|---|---|---|---|---|---|
| | Core Department and Agency | | | | Departmental Group | | | |
| Exit package cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band | Total number of exit packages by cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band | Total number of exit packages by cost band |
| <£10,000 | - | 3 | 3 | 2 | - | 3 | 3 | 8 |
| £10,000 - £25,000 | - | 15 | 15 | 15 | - | 18 | 18 | 24 |
| £25,000 - £50,000 | - | 25 | 25 | 16 | - | 30 | 30 | 43 |
| £50,000 - £100,000 | - | 24 | 24 | 23 | - | 28 | 28 | 81 |
| £100,000 - £150,000 | - | - | - | - | - | - | - | - |
| £150,000 - £200,000 | - | - | - | - | - | - | - | - |
| £200,001 onwards | - | - | - | - | - | - | - | - |
| **Total number of exit packages** | **-** | **67** | **67** | **56** | **-** | **79** | **79** | **156** |
| | | | £'000 | £'000 | | | £'000 | £'000 |
| **Total cost** | **-** | **3,038** | **3,038** | **2,643** | **-** | **3,592** | **3,592** | **8,646** |

### Expenditure on Consultancy and Temporary Staff

£000

| | 2017-18 | 2016-17 | 2015-16 |
|---|---|---|---|
| **Cost of Contingent Labour** | | | |
| Core Department | 1,640 | 1,236 | 2,858 |
| Executive Agency | 1,908 | 2,251 | 2,796 |
| ALBs | 3,052 | 2,502 | 3,463 |
| **Total** | 6,600 | 5,989 | 9,117 |
| **Cost of Consultancy** | | | |
| Core Department | 336 | 140 | 511 |
| Executive Agency | - | - | - |
| ALBs | 69 | 16 | 24 |
| **Total** | 405 | 156 | 535 |
| **Overall Total** | **7,005** | **6,145** | **9,652** |

Note: Contingent Labour - This is the provision of workers to cover business-as-usual or service delivery activities within an organisation. Temporary Staff are also often referred to as " Contingent Labour".
Note: Consultancy staff - This is the provision to management of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the business-as-usual environment when in-house skills are not available and will be time-limited.

Figures include VAT as applicable and irrecoverable

## Reporting the tax arrangements of public sector appointees

As part of the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, Departments and their arm's-length bodies must publish information on their highly paid and senior off-payroll engagements.

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

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

| | Main Department | Agency | ALBs |
|---|---|---|---|
| **No. of existing engagements as of 31 March 2018** | **14** | **56** | **13** |
| **of which have existed for:** | | | |
| less than one year at time of reporting | 5 | 1 | 10 |
| between one and two years at time of reporting | 4 | 2 | 3 |
| between two and three years at time of reporting | 0 | 0 | 0 |
| between three and four years at time of reporting | 5 | 0 | 0 |
| four years or more at time of reporting | 0 | 53[(1)] | 0 |

(1) The majority of PINS off-payroll engagements are for Non-Salaried Inspectors (NSI's). The NSI's are registered for work with PINS and contracted to carry out specific casework within an agreed period. NSIs are the Inspectorate's flexible resource, allowing them to adjust their workforce to meet peaks and troughs in demand.

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

| | Main Department | Agency | ALBs |
|---|---|---|---|
| **No. of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018** | **7** | **3** | **45** |
| Of which: | | | |
| No. assessed as caught by IR35 | 3 | 0 | 39 |
| No. assessed as not caught by IR35 | 4 | 3 | 6 |
| No. engaged directly (via Personal Service Company contracted to Department) and are on the departmental payroll | 0 | 0 | 0 |
| No. of engagements reassessed for consistency/assurance purposes during the year | 0 | 53 | 7 |
| No. of engagements that saw a change to IR35 status following the consistency review | 0 | 0 | 0 |

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

| | Main Department | Agency | ALBs |
|---|---|---|---|
| No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility, during the financial year | 0 | 0 | 0 |
| Total no. of individuals both on and off-payroll that have been deemed "board members and/or senior officials with significant financial responsibility", during the financial year. | 15 | 12 | 84 |

# Parliamentary Accountability and Audit Report

## Introduction

As described on page 25, the Parliamentary Accountability and Audit Report includes three sections: the Statement of Parliamentary Supply, Parliamentary Accountability Disclosures and the Certificate and Report of the Comptroller and Auditor General. This introduction provides further detail on the figures presented in the Statement of Parliamentary Supply and in the Core Tables of the Parliamentary Accountability Disclosure section.

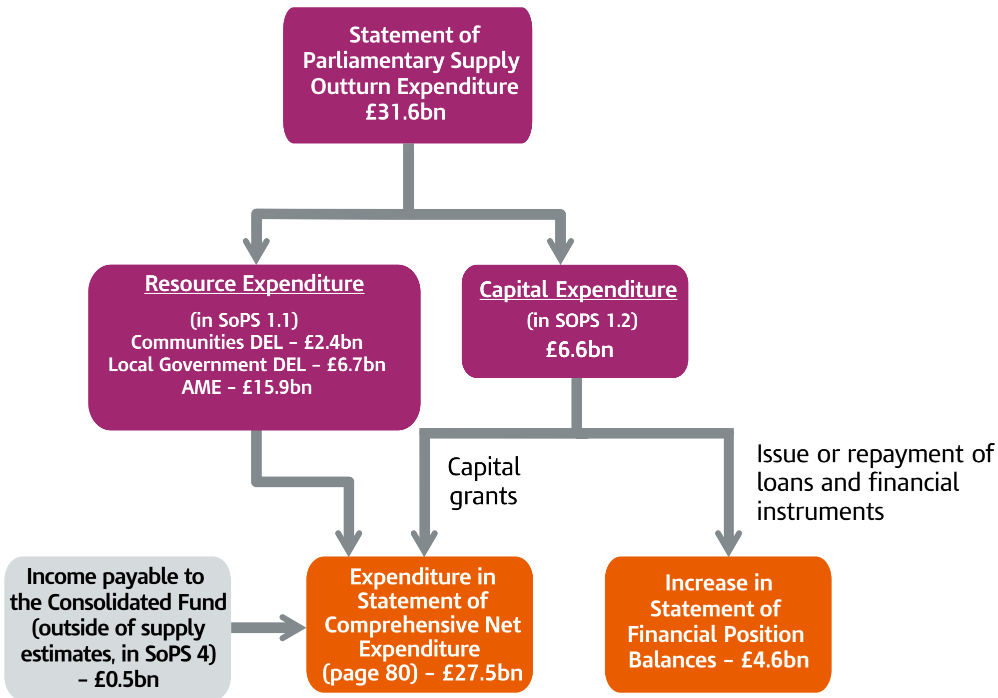
The Department's spending is shown in two presentations in the Annual Report and Accounts.

The **Parliamentary Accountability and Audit Report** presents the Department's spend against the budgets set by Parliament in Supply Estimates. The final budgets for the year were set in the Supplementary Estimates[23].

The Department's budgets follow the international standards of the European System of Accounts. This allows HM Treasury to produce compliant National Accounts capable of international comparison.

The **Financial Statements** meanwhile apply international financial reporting standards as adapted for Government by the Financial Reporting Manual.

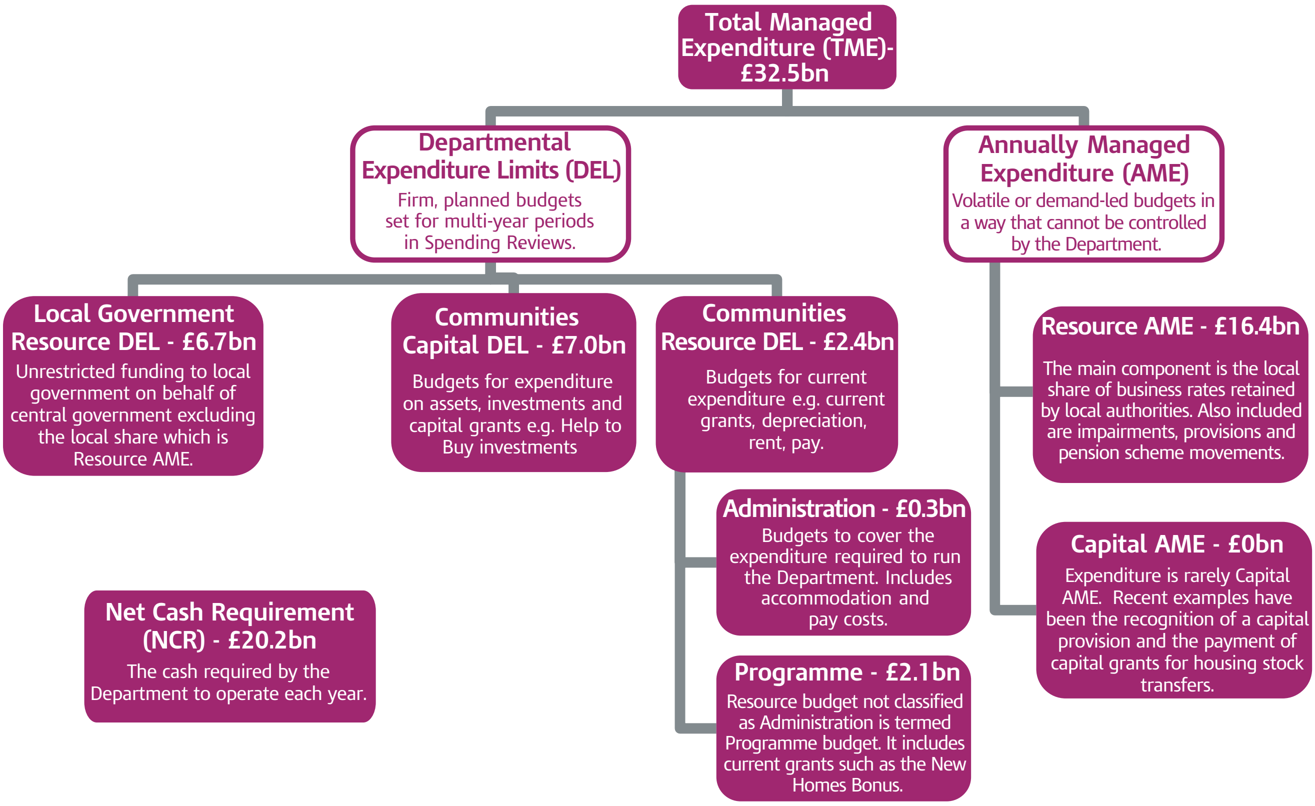
The diagram below shows how total spending from one presentation relates to the other. A more detailed reconciliation between resource expenditure in note SoPS 1.1 and net operating expenditure in the Statement of Comprehensive Net Expenditure in the Financial Statements can be found in SoPS 2 below.




23 Supplementary Estimates 2017-18

## The Department's Budget and Outturn

The diagram below shows the Department's control totals which are the budget totals that we must not breach and which are set in Supply Estimates. MHCLG has a more complex budget than most Departments. We have two Resource DEL control totals, one for the funding we provide to local government on behalf of central government and one for the Department's own spending. These and other control totals are set out in the diagram below. A breach of any of these control totals would be a serious issue resulting in an audit qualification of the Department's accounts.




SoPS 1.1 and SoPS 1.2 report expenditure against each DEL or AME budgetary control limit, split by specific area of Departmental expenditure, for example Housing & Planning or Troubled Families. SoPS 1.1 reports resource expenditure and SoPS 1.2 reports capital expenditure. The specific areas of Departmental expenditure in budgets are called estimate rows.

The Core Tables on page 68 present expenditure at the same level of detail (i.e. by estimate row) and on the same basis as SoPS 1.1 and SoPS 1.2 over a seven year period.

The table below shows the main streams of expenditure contained within each estimate row presented in SoPS 1.1, SoPS 1.2 and the Core Tables.

Costs classified as Administration expenditure by HM Treasury are all incurred within Communities Resource DEL. The Administration expenditure Core Table therefore provides a subset of figures from the Departmental Resource Spending Core Table and the Administration Costs table in the SoPS therefore provides a subset of figures from the summary of Resource and Capital Outturn table and SoPS 1.1.

| Estimate Row | Main Expenditure Streams |
|---|---|
| **Communities DEL Estimate Rows** | |
| A: Local Government & Public Services | • London Settlement to 2017-18<br>• Valuation Office Fees to 2016-17. HMRC now pay the fees.<br>• Controlling Migration Fund from 2016-17 |
| B: Housing and Planning | • Disabled Facilities Grant to 2017-18<br>• New Homes Bonus<br>• PFI Housing Grants<br>• Preventing Homelessness<br>• Expenditure of the Planning Inspectorate - most of which is classified as Administration expenditure<br>• Flexible Homelessness Support Grant from 2017-18 |
| C: Decentralisation & Local Growth | • Devolution Deals from 2013-14 onwards<br>• Local Growth Fund from 2015-16 onwards<br>• Regional Growth Fund from 2012-13 to 2015-16 |
| D: Troubled Families | • Troubled Families Programme |
| E: Research, Data and Trading Funds | • Research & Development expenditure<br>• Realised exchange rate losses<br>• European Regional Development Fund related write-offs |
| F: MHCLG Staff, Building and Infrastructure Costs | The majority is classified as administration expenditure<br>• Staff Pay<br>• Estates costs e.g. rent, rates, utilities |
| G: Local Government & Public Services (ALB)(Net) | • Expenditure of the Valuation Tribunal Service (VTS) and the Commission for Local Administration in England (CLAE) - the majority of which is classified as Administration expenditure |
| H: Housing and Planning (ALB)(Net) | • Affordable Homes Programme<br>• Help to Buy from 2014-15 onwards<br>• Home Building Fund from 2016-17 onwards<br>• Investment income received by Homes England (HE) (previously known as the Homes and Communities Agency)<br>• Administration expenditure by HE on staff and estates<br>• Expenditure by the Leasehold Advisory Service (LAS) and The Housing Ombudsman (THO) - most of which is classified as Administration expenditure<br>• Expenditure by the Ebbsfleet Development Corporation - both Administration and Programme expenditure |
| **Local Government DEL Estimate Rows** | |
| I: Revenue Support Grant | • Revenue support grant - central government funding provided to support local government services |
| J: Other Grants and Payments | • Grant funding for former recipients of Independent Living Fund from 2015-16 onwards<br>• Business rates and council tax reliefs and support from 2013-14 onwards<br>• Additional Better Care Fund grant from 2017-18 onwards<br>• Adult Social Care support grant in 2017-18<br>• Transitional grant from 2016-17 to 2017-18<br>• Rural services delivery grant from 2016-17 onwards |
| K: Business Rates Retention | • Payments to local authorities whose income from business rates is below a baseline level |
| **AME Estimate Rows** | |
| L: Housing & Planning; and<br>Q: Housing & Planning (ALB) | • Impairments of non-current and financial assets<br>• Issue of Affordable Housing and Private Rented Sector Guarantees from 2014-15 onwards |
| M: Research, Data and Trading Funds | • Unrealised exchange rate losses and gains |
| N: MHCLG Staff, Building and Infrastructure Costs | • Expenditure by the core Department on creation and release/utilisation of provisions and revaluation of estates |
| O: Non-Domestic Rates Outturn Adjustment | • Expenditure relating to year end adjustments for business rates retention outturn. |
| P: Local Government & Public Services (ALB)(Net) | • Expenditure on pensions by the VTS and the CLAE |
| R: Business Rates Retention | • Includes the local share of business rates collected and retained by local authorities as well as other business rates retention payments and receipts |

# Statement of Parliamentary Supply (subject to audit)

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Department to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

## Summary of Resource and Capital Outturn 2017-18

£'000

| | | 2017-18 | | | | | | | 2016-17 |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimate | | | Outturn | | | Outturn compared with Estimate: | Outturn |
| | SoPS Note | Voted | Non-Voted | Total | Voted | Non-Voted | Total | saving/ (excess) | Net Total |
| **Spending in Departmental Expenditure Limit (DEL) -MHCLG Communities** | | | | | | | | | |
| Resource | 1.1 | 2,439,704 | - | **2,439,704** | 2,371,529 | - | **2,371,529** | **68,175** | 2,488,457 |
| Capital | 1.2 | 6,996,695 | - | **6,996,695** | 6,633,607 | - | **6,633,607** | **363,088** | 5,113,921 |
| **Spending in DEL - MHCLG Local Government** | | | | | | | | | |
| Resource | 1.1 | 6,717,639 | - | **6,717,639** | 6,713,538 | - | **6,713,538** | **4,101** | 8,229,106 |
| Capital | 1.2 | - | - | **-** | - | - | **-** | **-** | - |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| Resource | 1.1 | 16,358,183 | - | **16,358,183** | 15,936,171 | - | **15,936,171** | **422,012** | 12,566,876 |
| Capital | 1.2 | - | - | **-** | - | - | **-** | **-** | - |
| **Total Resource** | 1.1 | 25,515,526 | - | **25,515,526** | 25,021,238 | - | **25,021,238** | **494,288** | 23,284,439 |
| **Total Capital** | 1.2 | 6,996,695 | - | **6,996,695** | 6,633,607 | - | **6,633,607** | **363,088** | 5,113,921 |
| **Total** | | 32,512,221 | - | **32,512,221** | 31,654,845 | - | **31,654,845** | **857,376** | 28,398,360 |

## Net Cash Requirement 2017-18

£'000

| | | 2017-18 | | | 2016-17 |
|---|---|---|---|---|---|
| | SoPS Note | Estimate | Outturn | Outturn compared with Estimate: saving/(excess) | Outturn |
| Net Cash Requirement | 3 | **20,207,397** | **16,527,714** | 3,679,683 | 16,801,337 |

## Administration Costs 2017-18

£'000

| | | 2017-18 | | | 2016-17 |
|---|---|---|---|---|---|
| | SoPS Note | Estimate | Outturn | Outturn compared with Estimate: saving/(excess) | Outturn |
| Administration Costs | | **271,891** | **223,716** | 48,175 | 242,409 |

The administration expenditure outturn was below budget because:

a) The value of the Department's investment properties were revalued upwards during the year, reducing net outturn. This had not been budgeted for (in fact, a reduction in value had been budgeted for).

b) Income from financial transactions (classified as administration income) was considered an area of uncertainty at the time the budget was set so a contingency budget was held. In the event, it was not required as income was under-achieved only slightly. Some contingency budget for other unforeseen expenditure was also unutilised.

# Notes to the Statement of Parliamentary Supply

## SoPS 1.1 Analysis of Net Resource Outturn by Section

£'000

| | 2017-18 | | | | | | | | | | 2016-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outturn | | | | | | | Estimate | | | Outturn |
| | Administration | | | Programme | | | | | | | |
| | Gross | Income | Net | Gross | Income | Net | Total | Net Total | Net total compared to Outturn | Net total compared to Outturn, adjusted for virements[2] | Total |
| **Spending in Resource Departmental Expenditure Limit (RDEL) - MHCLG Communities** | | | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | | | |
| A Local Government and Public Services | - | - | - | 138,790 | (2,246) | 136,544 | 136,544 | 90,312 | (46,232) | - | 207,171 |
| B Housing and Planning | 46,134 | (9,173) | 36,961 | 1,732,864 | (4,306) | 1,728,558 | 1,765,519 | 1,769,151 | 3,632 | 3,632 | 1,822,372 |
| C Decentralisation and Local Growth | - | - | - | 155,316 | (41,998) | 113,318 | 113,318 | 127,761 | 14,443 | 14,443 | 136,825 |
| D Troubled Families | - | - | - | 213,618 | - | 213,618 | 213,618 | 196,972 | (16,646) | - | 170,807 |
| E Research, Data and Trading Funds | - | - | - | 6,516 | (4,985) | 1,531 | 1,531 | 37,983 | 36,452 | 19,806 | 13,987 |
| F MHCLG Staff, Building and Infrastructure Costs | 168,697 | (33,279) | 135,418 | 2,707 | (1,266) | 1,441 | 136,859 | 187,556 | 50,697 | 3,071 | 135,410 |
| G Local Government and Public Services (ALB) (Net)[1] | 19,115 | - | 19,115 | - | - | - | 19,115 | 17,721 | (1,394) | - | 17,177 |
| H Housing and Planning (ALB) (Net)[1] | 32,222 | - | 32,222 | (47,197) | - | (47,197) | (14,975) | 12,248 | 27,223 | 27,223 | (15,292) |
| **Total Voted** | **266,168** | **(42,452)** | **223,716** | **2,202,614** | **(54,801)** | **2,147,813** | **2,371,529** | **2,439,704** | **68,175** | **68,175** | **2,488,457** |
| **Total spending in RDEL – MHCLG Communities** | **266,168** | **(42,452)** | **223,716** | **2,202,614** | **(54,801)** | **2,147,813** | **2,371,529** | **2,439,704** | **68,175** | **68,175** | **2,488,457** |

(1) Expenditure and income on these estimate rows are presented net in the Gross column per HM Treasury guidance. All other estimate rows present expenditure and income separately: expenditure in the Gross column and income in the Income column.

(2) Parliament does not vote on how budget within a control total is distributed across the estimate row sub-headings. As a result, and per the HMT Supply Estimates Manual, the Department has discretion to move budget between estimate rows via 'virements'.

£'000

| | 2017-18 | | | | | | | | | | 2016-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outturn | | | | | | | Estimate | | | Outturn |
| | Administration | | | Programme | | | | | | | |
| | Gross | Income | Net | Gross | Income | Net | Total | Net Total | Net total compared to Outturn | Net total compared to Outturn, adjusted for virements[1] | Total |
| **Spending in Resource DEL – MHCLG Local Government** | | | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | | | |
| I Revenue Support Grant | - | - | - | 3,799,500 | - | 3,799,500 | 3,799,500 | 3,799,502 | 2 | 2 | 7,205,326 |
| J Other Grants and Payments | - | - | - | 2,907,825 | (3,041) | 2,904,784 | 2,904,784 | 2,908,882 | 4,098 | 4,098 | 998,629 |
| K Business Rates Retention | - | - | - | 9,254 | - | 9,254 | 9,254 | 9,255 | 1 | 1 | 25,151 |
| **Total spending in RDEL - MHCLG Local Government** | **-** | **-** | **-** | **6,716,579** | **(3,041)** | **6,713,538** | **6,713,538** | **6,717,639** | **4,101** | **4,101** | **8,229,106** |
| **Total RDEL spend** | **266,168** | **(42,452)** | **223,716** | **8,919,193** | **(57,842)** | **8,861,351** | **9,085,067** | **9,157,343** | **72,276** | **72,276** | **10,717,563** |

(1) Parliament does not vote on how budget within a control total is distributed across the estimate row sub-headings. As a result, and per the HMT Supply Estimates Manual, the Department has discretion to move budget between estimate rows via 'virements'.

£'000

| | 2017-18 | | | | | | | | | | 2016-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outturn | | | | | | | Estimate | | | Outturn |
| | Administration | | | Programme | | | | | | | |
| | Gross | Income | Net | Gross | Income | Net | Total | Net Total | Net total compared to Outturn | Net total compared to Outturn, adjusted for virements[2] | Total |
| **Spending in Resource Annually Managed Expenditure (RAME)** | | | | | | | | | | | |
| **Voted expenditure** | | | | | | | | | | | |
| Local Government & Public Services | - | - | - | 33,466 | - | 33,466 | 33,466 | - | (33,466) | - | 5,511 |
| L Housing and Planning | - | - | - | 13,967 | (2,065) | 11,902 | 11,902 | 35,964 | 24,062 | 24,062 | 68,391 |
| M Research, Data & Trading Funds | - | - | - | - | (12,262) | (12,262) | (12,262) | 8,100 | 20,362 | 20,362 | 1,625 |
| N MHCLG Staff, building and infrastructure costs | - | - | - | 6,172 | - | 6,172 | 6,172 | 45,336 | 39,164 | 39,164 | (3,854) |
| O Non-Domestic Rates Outturn Adjustment | - | - | - | 30,167 | - | 30,167 | 30,167 | 81,086 | 50,919 | 50,919 | 656 |
| P Local Government & Public Services (ALB)[1] | - | - | - | 803 | - | 803 | 803 | 2,462 | 1,659 | 1,659 | 2,428 |
| Q Housing & Planning(ALB) (Net)[1] | - | - | - | 143,962 | - | 143,962 | 143,962 | 449,964 | 306,002 | 272,536 | 77,519 |
| R Business Rates Retention | - | - | - | 18,727,740 | (3,005,779) | 15,721,961 | 15,721,961 | 15,735,271 | 13,310 | 13,310 | 12,412,600 |
| Decentralisation & Local Growth | - | - | - | - | - | - | - | - | - | - | 2,000 |
| **Total spending in RAME** | **-** | **-** | **-** | **18,956,277** | **(3,020,106)** | **15,936,171** | **15,936,171** | **16,358,183** | **422,012** | **422,012** | **12,566,876** |
| **Total RDEL & RAME spend** | **266,168** | **(42,452)** | **223,716** | **27,875,470** | **(3,077,948)** | **24,797,522** | **25,021,238** | **25,515,526** | **494,288** | **494,288** | **23,284,439** |

(1) Expenditure and income on these estimate rows are presented net in the Gross column per HM Treasury guidance. All other estimate rows present expenditure and income separately: expenditure in the Gross column and income in the Income column.

(2) Parliament does not vote on how budget within a control total is distributed across the estimate row sub-headings. As a result, and per the HMT Supply Estimates Manual, the Department has discretion to move budget between estimate rows via 'virements'.

## SoPS 1.2 Analysis of Net Capital Outturn by Section

£'000

| | 2017-18 | | | | | | 2016-17 |
|---|---|---|---|---|---|---|---|
| | Outturn | | | Estimates | | | Outturn |
| | Gross | Income | Net | Net Total | Net Total compared to Outturn | Net total compared to Outturn, adjusted for virements[2] | Net |
| **Spending in Capital Departmental Expenditure Limit (CDEL) – MHCLG Communities** | | | | | | | |
| **Voted expenditure** | | | | | | | |
| A Local Government & Public Services | 786,062 | (14,487) | 771,575 | 443,449 | (328,126) | - | 424,512 |
| B Housing and Planning | 631,101 | (552,546) | 78,555 | 337,956 | 259,401 | 259,401 | 55,496 |
| C Decentralisation and Local Growth | 1,574,520 | (119,472) | 1,455,048 | 1,450,872 | (4,176) | - | 1,756,812 |
| D Troubled Families | 532 | - | 532 | 832 | 300 | 300 | 827 |
| E Research, Data & Trading Funds | 4,768 | (2,559) | 2,209 | 4,768 | 2,559 | 2,559 | 21,188 |
| F MHCLG Staff, building and infrastructure costs | 7,057 | (513) | 6,544 | 13,198 | 6,654 | 6,654 | 4,652 |
| G Local Government & Public Services (ALB)(Net)[1] | 448 | - | 448 | 550 | 102 | 102 | 202 |
| H Housing and Planning (ALB)(Net)[1] | 4,318,696 | - | 4,318,696 | 4,745,070 | 426,374 | 94,072 | 2,850,232 |
| **Total spending in CDEL – MHCLG Communities** | **7,323,184** | **(689,577)** | **6,633,607** | **6,996,695** | **363,088** | **363,088** | **5,113,921** |

(1) Expenditure and income on these estimate rows are presented net in the Gross column per HMT Treasury guidance. All other estimate rows present expenditure and income separately: expenditure in the Gross column and income in the Income column.

(2) Parliament does not vote on how budget within a control total is distributed across the estimate row sub-headings. As a result, and per the HMT Supply Estimates Manual, the Department has discretion to move budget between estimate rows via 'virements'.

## SoPS 2 Reconciliation of Net Resource Outturn to Net Operating Expenditure

£'000

| | | SoPS Note | 2017-18 | 2016-17 |
|---|---|---|---|---|
| Total Resource Outturn in Statement of Parliamentary Supply: | | 1.1 | 25,021,238 | 23,284,439 |
| Add: | Capital Grants | | 2,751,277 | 2,540,764 |
| | Capital budget adjustments[1] | | (70,719) | (59,817) |
| | Asset transfers | | 27,582 | 24,973 |
| Less: | Income outside the ambit of the estimate payable to the Consolidated Fund | 4.1 | (174,716) | (188,751) |
| **Net Operating Expenditure in Consolidated Statement of Comprehensive Net Expenditure** | | | **27,554,662** | **25,601,608** |

(1) The capital budget adjustments include profit on disposal of certain financial assets that is recorded in net operating expenditure in the financial statements but is not recorded in SoPS budgets and research and development costs which are recorded in net operating expenditure in the financial statements but are recorded in the capital budget rather than the resource budget in SoPS.

## SoPS 3 Reconciliation of Net Resource and Capital Outturn to Net Cash Requirement

£'000

| | SoPS Note | 2017-18 | | |
|---|---|---|---|---|
| | | Estimate | Outturn | Net total outturn compared with Estimate: saving/(excess) |
| Resource Outturn | 1.1 | 25,515,526 | 25,021,238 | 494,288 |
| Capital Outturn | 1.2 | 6,996,695 | 6,633,607 | 363,088 |
| Accruals to cash adjustments: | | | | |
| *Adjustments to remove non-cash items:* | | | | |
| Depreciation and amortisation | | (98,077) | (3,927) | (94,150) |
| New provisions and adjustments to previous provisions | | (2,294) | (6,874) | 4,580 |
| Other non-cash items | | (14,608,141) | (14,165,170) | (442,971) |
| *Adjustments for NDPBs:* | | | | |
| Remove voted resource and capital | | (5,228,015) | (4,468,049) | (759,966) |
| Add cash grant-in-aid | | 4,346,503 | 3,703,023 | 643,480 |
| *Adjustments to reflect movements in working balances:* | | | | |
| Increase/(decrease) in inventories | | - | 89,488 | (89,488) |
| Increase/(decrease) in receivables | | 300,000 | 72,117 | 227,883 |
| (Increase)/decrease in payables | | 2,981,386 | (352,429) | 3,333,815 |
| Use of provisions and pension fund adjustments | | 3,814 | 14,777 | (10,963) |
| Other Adjustments | | - | (10,087) | 10,087 |
| **Net cash requirement** | | **20,207,397** | **16,527,714** | **3,679,683** |

## SoPS 4 Income payable to the Consolidated Fund

### 4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the Department, the following is payable to the Consolidated Fund (cash receipts being shown in italics).

£'000

| | Outturn 2017-18 | | Outturn 2016-17 | |
|---|---|---|---|---|
| | Income | *Receipts* | Income | *Receipts* |
| Income outside the ambit of the Estimate (1) | 174,716 | *174,716* | 188,751 | *188,751* |
| Other amounts collectable on behalf of the Consolidated Fund (2) | 479,871 | *479,871* | 294,060 | *294,060* |
| Excess cash surrenderable to the Consolidated Fund | - | *-* | 2 | *2* |
| **Total amount payable to the Consolidated Fund** | **654,587** | ***654,587*** | **482,813** | ***482,813*** |

The figures above comprise of:

(1) Monies received from local authorities for excess receipts generated from the disposal of housing assets (i.e. assets held under part 2 of the Housing Act 1985 accounted for in local authorities Housing Revenue Accounts). Referred to as CFER income (consolidated fund extra receipt) in Note 5 to the financial statements.

(2) Receipts in relation to the Help to Buy scheme as those home owners who are part of the scheme sell their homes and repay their equity loan.

### 4.2. Consolidated Fund Income collected as agent

Consolidated Fund income shown in SoPS Note 4.1 above does not include any amounts collected by the Department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the Department's Trust Statement published as part of the Annual Report and Accounts from page 106.

# Parliamentary Accountability Disclosures

## Financial Overview

### Significant variances against Estimate

At the start of each year we estimate our costs for each budget type and we monitor these throughout the year. The size of our budget, along with economic, environmental and social changes means there will inevitably be some variance from our Estimates. The Statement of Parliamentary Supply on page 60 shows our 2017-18 outturn figures against Estimates.

Where the comparison of outturn against Estimate has shown an overspend or an underspend of more than £2 million and 10% this is explained below:

| | Estimate Subhead | Outturn £m | Budget £m | Variance to Estimate % | Explanation |
|---|---|---|---|---|---|
| | **Resource Spending in Departmental Expenditure Limit (RDEL) – MHCLG Communities** | | | | |
| A | Local Government & Public Services | 137 | 90 | -52% | The Royal Borough of Kensington & Chelsea have been working quickly and carefully to find suitable permanent accommodation for those who lost their homes in the Grenfell Tower and Walk. However, the pace was slower than expected and this has resulted in costs for the Department on the Grenfell response being £28m higher than expected. In addition, an extra £11m was spent on the Unaccompanied Asylum Seeking Children (UASC) programme. The budget was held for this on the Decentralisation and Local Growth line. |
| C | Decentralisation & Local Growth | 113 | 128 | 11% | £11m of this budget was used to fund the UASC programme (as above). |
| D | Troubled Families | 214 | 197 | -9% | Troubled families is a multi year demand led programme where funding is provided dependent on local authority activity on the programme, the whole picture of which is sometimes not known until after budgets are agreed for the year. |
| E | Research, Data & Trading Funds | 2 | 38 | 96% | A budget set aside for ERDF write-offs was not fully utilised. In addition, favourable movements in the euro/sterling exchange rate meant we did not incur the level of realised exchange rate loss on the ERDF programme that we had budgeted for. |
| F | MHCLG Staff, Building and Infrastructure Costs | 137 | 188 | 27% | The value of the Department's investment properties were revalued upwards during the year, reducing net outturn. This had not been budgeted for (in fact, a reduction in value had been budgeted for). In addition, income from financial transactions was considered an area of uncertainty at the time the budget was set so a contingency budget was held. In the event, it was not required as income was under-achieved only slightly. Some contingency budget for other unforeseen expenditure was also unutilised. |
| H | Housing and Planning (ALB) (Net) | (15) | 12 | >100% | Due to restrictions on the types of homes that can be built on land reserved for starter homes, the Homes England's starter home land has a lower value than it would if it were designated for general market housing. Budget was therefore set aside for a reduction in value (impairment) of land that may have been allocated for starter homes in 2017-18. Less land than expected was allocated for starter homes in the year due to a change in the programme and so there was lower than expected impairment on Homes England land. Without that expenditure, the net outturn was a credit due to income from disposal of land inventories coming in on budget. |
| | **Resource Spending in Annually Managed Expenditure (RAME)** | | | | |
| | Local Government & Public Services | 33 | 0 | >100% | There was an impairment of an available for sale asset owned by the Department due to a downward revaluation of the receipts due to the Department taking into account current market and other factors. The budget for this is held on the Housing & Planning (ALB) (net) row. |
| L | Housing and Planning | 12 | 36 | 67% | Budget set aside for an increase in the value of financial guarantee liabilities was not fully utilised as draw down of PRS guarantees was slower than expected. |
| M | Research, Data & Trading Funds | (12) | 8 | >100% | Favourable movements in the euro/sterling exchange rate meant we did not incur the level of unrealised exchange rate loss on the ERDF programme that we had budgeted for. |
| N | MHCLG Staff, building and infrastructure costs | 6 | 45 | 86% | Budget set aside for the impairment of investment properties was not utilised due to an increase in their value this year. |
| O | Non-Domestic Rates Outturn Adjustment | 30 | 81 | 63% | A contingency budget held for audit adjustments on business rates retention transactions was not fully utilised. |
| Q | Housing & Planning(ALB) (Net) | 144 | 450 | 68% | Budget was set aside for unexpected impairments on housing market related assets owned by Homes England, but only a small amount was required. |

| | Estimate Subhead | Outturn £m | Budget £m | Variance to Estimate % | Explanation |
|---|---|---|---|---|---|
| | **Capital Spending in Departmental Expenditure Limit (CDEL) – MHCLG Communities** | | | | |
| A | Local Government & Public Services | 772 | 443 | -74% | The Greater London Authority were paid an Affordable Housing grant out of the budget held for the wider Affordable Homes programme on the Housing & Planning row below. |
| B | Housing and Planning | 79 | 338 | 77% | See the row above. |
| E | Research, Data & Trading Funds | 2 | 5 | 56% | The Department spent less on various small capital projects during the year. In addition, a budget set aside for capital ERDF write-offs was not fully utilised. |
| F | MHCLG Staff, Building and Infrastructure Costs | 7 | 13 | 50% | The Department spent less on IT system improvements than anticipated. |

## Core Tables[24] – Departmental Expenditure Outturn and Plans

The tables on the following pages show the Department's expenditure outturn for 2017-18 and the four prior years, along with the planned expenditure for the next two years.

The Spending Review in Autumn 2015 set the overall Departmental budget up to 2019-20 for resource expenditure and to 2020-21 for capital expenditure. This was amended in subsequent fiscal events and Estimates. Autumn Budget 2017[25] announced a package of more than £15bn of new financial support over the next five years to support the objective of fixing the broken housing market. This takes total financial support for housing to at least £44bn up to 2022-23. In 2018-19, the new funding includes:

- Additional funding for Help to Buy equity loan of £10bn across the SR period - £2.4bn in 2018-19
- Additional £1.5bn in loan and equity funding as part of the Home Building Fund to support SMEs who cannot access the finance they need to build - £308m in 2018-19
- £400m of loan and equity funding for estate regeneration to deliver new affordable homes in high-demand areas - £50m in 2018-19

Excluding these changes, over the course of this Spending Review, the Department's resource programme is expected to fall. This reflects the reducing budget for New Homes Bonus, which accounts for 57% of the resource programme budget in 2017-18. This is partly offset by budget increases for other policy priorities such as the Troubled Families and Homelessness Reduction programmes, and programmes supporting the growth of local economies.

24 The values within all the Core Tables for the years 2013-14 to 2016-17 have been adjusted to strip out outturn figures for any functions that have been transferred in or out of the Department as part of Machinery of Government changes that have occurred since. The most significant change has been the transfer of the Fire Policy function which transferred to the Home Office on 1 April 2016.
25 https://www.gov.uk/government/topical-events/autumn-budget-2017

## Departmental Resource Spending

| Spending in DEL - MHCLG Communities | 2013-14 Outturn £'000 | 2014-15 Outturn £'000 | 2015-16 Outturn £'000 | 2016-17 Outturn £'000 | 2017-18 Outturn £'000 | 2018-19 Plan £'000 | 2019-20 Plan £'000 |
|---|---|---|---|---|---|---|---|
| Voted expenditure | | | | | | | |
| *Of which:* | | | | | | | |
| A: Local Government & Public Services | 428,320 | 304,821 | 399,405 | 207,171 | 136,544 | 104,601 | 58,823 |
| B: Housing and Planning | 908,299 | 1,194,642 | 1,472,648 | 1,822,372 | 1,765,519 | 1,803,213 | 1,575,209 |
| C: Decentralisation & Local Growth | 178,039 | 188,246 | 68,896 | 136,825 | 113,318 | 203,400 | 171,150 |
| D: Troubled Families | 140,969 | 127,854 | 72,335 | 170,807 | 213,618 | 221,196 | 180,000 |
| E: Research, Data and Trading Funds | 13,058 | 30,208 | (5,530) | 13,987 | 1,531 | 31,044 | 18,275 |
| F: MHCLG Staff, Building and Infrastructure Costs | 205,041 | 141,199 | 158,755 | 135,424 | 136,859 | 199,721 | 224,247 |
| Departmental Unallocated Provision | - | - | - | - | - | - | 56,166 |
| G: Local Government & Public Services (ALB) (net) | 20,108 | 24,541 | 19,716 | 17,177 | 19,115 | 18,259 | 14,657 |
| H: Housing and Planning (ALB)(net) | 90,975 | 31,640 | (12,308) | (15,518) | (14,975) | 236,129 | (30,764) |
| Non voted expenditure | | | | | | | |
| Housing and Planning | - | 188 | (358) | - | - | - | - |
| **Total Spending in DEL - MHCLG Communities** | **1,984,809** | **2,043,339** | **2,173,559** | **2,488,245** | **2,371,529** | **2,817,563** | **2,267,763** |
| Spending in DEL - MHCLG Local Govt | | | | | | | |
| Voted expenditure | | | | | | | |
| Of which: | | | | | | | |
| I: Revenue Support Grant | 15,200,902 | 12,700,735 | 9,532,754 | 7,205,326 | 3,799,500 | 1,378,991 | 2,153,823 |
| J: Other grants and payments | 983,295 | 865,300 | 1,223,544 | 998,629 | 2,904,784 | 2,889,821 | 3,417,240 |
| K: Business Rate Retention | 297,224 | 90,790 | 1,417 | 25,151 | 9,254 | 35,000 | 50,000 |
| **Total Spending in DEL - MHCLG Local Govt** | **16,481,421** | **13,656,825** | **10,757,715** | **8,229,106** | **6,713,538** | **4,303,812** | **5,621,063** |
| **Total Resource DEL** | **18,466,230** | **15,700,164** | **12,931,274** | **10,717,351** | **9,085,067** | **7,121,375** | **7,888,826** |
| Spending in Annually Managed Expenditure (AME) | | | | | | | |
| Voted expenditure | | | | | | | |
| Of which: | | | | | | | |
| Local Government & Public Services | - | - | (102) | 5,511 | 33,466 | 10,000 | - |
| L: Housing and Planning | 7,741 | (1,770) | 4,454 | 68,391 | 11,902 | 139,161 | 161 |
| M: Research, Data and Trading Funds | 15,273 | (22,078) | 6,424 | 1,625 | (12,262) | 8,100 | 8,100 |
| N: MHCLG Staff, Building and Infrastructure Costs | (18,247) | (2,176) | 2,961 | (3,854) | 6,172 | (1,552) | (1,162) |
| O: Non-Domestic Rates Outturn Adjustment | 261,736 | - | - | 656 | 30,167 | 300,000 | 300,000 |
| P: Local Government & Public Services (ALB)(Net) | 719 | (4,760) | 408 | 2,428 | 803 | 2,151 | 2,185 |
| Q: Housing and Planning (ALB)(Net) | (53,692) | 78,232 | 34,238 | 77,745 | 143,962 | 851,752 | 711,193 |
| R: Business Rate Retention | 10,861,568 | 11,661,903 | 12,174,150 | 12,412,600 | 15,721,961 | 21,273,104 | 13,422,000 |
| Decentralisation & Local Growth | - | - | 7,282 | 2,000 | - | - | - |
| **Total Resource AME** | **11,075,098** | **11,709,351** | **12,229,815** | **12,567,102** | **15,936,171** | **22,582,716** | **14,442,477** |
| Spending in Non-Budget Expenditure Limits | | | | | | | |
| Voted expenditure | | | | | | | |
| Prior Period Adjustment | - | (47,704) | - | - | - | - | - |
| **Total Resource** | **29,541,328** | **27,361,811** | **25,161,089** | **23,284,453** | **25,021,238** | **29,704,091** | **22,331,303** |

## Departmental Capital Spending

| | 2013-14 Outturn £'000 | 2014-15 Outturn £'000 | 2015-16 Outturn £'000 | 2016-17 Outturn £'000 | 2017-18 Outturn £'000 | 2018-19 Plan £'000 | 2019-20 Plan £'000 |
|---|---|---|---|---|---|---|---|
| Spending in DEL – MHCLG Communities | | | | | | | |
| Voted expenditure | | | | | | | |
| *Of which:* | | | | | | | |
| A: Local Government and Public Services | 854,600 | 922,801 | 830,843 | 424,512 | 771,575 | 643,644 | 70,094 |
| B: Housing and Planning | 223,600 | 190,338 | (7,937) | 55,496 | 78,555 | 4,438,820 | 6,348,500 |
| C: Decentralisation & Local Growth | 554,753 | 894,567 | 1,328,023 | 1,756,812 | 1,455,048 | 1,160,086 | 728,800 |
| D: Troubled Families | - | - | - | 827 | 532 | - | - |
| E: Research, Data and Trading Funds | 5,225 | 5,493 | - | 21,188 | 2,209 | 5,970 | 5,805 |
| F: MHCLG Staff, Building and Infrastructure Costs | 2,025 | 2,870 | (16,977) | 4,652 | 6,544 | 10,665 | 2,365 |
| G: Local Government and Public Services (ALB)(Net) | 232 | 169 | 163 | 202 | 448 | 150 | 150 |
| H: Housing and Planning (ALB)(Net) | 2,088,754 | 2,316,235 | 1,715,215 | 2,850,232 | 4,318,696 | 3,157,244 | 3,731,687 |
| Departmental Unallocated Provision | - | - | - | - | - | - | (125,939) |
| **Total Spending in DEL – MHCLG Communities** | **3,729,189** | **4,332,473** | **3,849,330** | **5,113,921** | **6,633,607** | **9,416,579** | **10,761,462** |
| **Total Capital DEL** | **3,729,189** | **4,332,473** | **3,849,330** | **5,113,921** | **6,633,607** | **9,416,579** | **10,761,462** |
| Spending in Annually Managed Expenditure (AME) | | | | | | | |
| Voted expenditure | | | | | | | |
| *Of which:* | | | | | | | |
| L: Housing and Planning | - | 120,882 | 207,035 | - | - | - | - |
| **Total Spending in AME** | **-** | 120,882 | 207,035 | **-** | **-** | **-** | **-** |
| **Total Capital** | **3,729,189** | **4,453,355** | **4,056,365** | **5,113,921** | **6,633,607** | **9,416,579** | **10,761,462** |

Included within Departmental Resource Spending:

## Administration budgets

| | 2013-14 Outturn £'000 | 2014-15 Outturn £'000 | 2015-16 Outturn £'000 | 2016-17 Outturn £'000 | 2017-18 Outturn £'000 | 2018-19 Plan £'000 | 2019-20 Plan £'000 |
|---|---|---|---|---|---|---|---|
| Voted expenditure | | | | | | | |
| B: Housing and Planning | 37,431 | 32,195 | 41,715 | 38,240 | 36,961 | 37,758 | 34,534 |
| F: MHCLG Staff, Building & Infrastructure Costs | 204,423 | 139,552 | 156,697 | 133,430 | 135,418 | 197,221 | 221,747 |
| G: Local Government & Public Services (ALB)(Net) | 20,108 | 24,541 | 19,716 | 17,177 | 19,115 | 18,259 | 14,657 |
| H: Housing and Planning (ALB)(Net) | 101,078 | 55,907 | 57,237 | 53,350 | 32,222 | 12,290 | (31,866) |
| Non Voted Expenditure | | | | | | | |
| Housing and Planning - Contingency Fund Advance | - | 188 | (358) | - | - | - | - |
| **Total Administration expenditure** | **363,040** | **252,383** | **275,007** | **242,197** | **223,716** | **265,528** | **239,072** |

## Interpreting the Core Tables

The rows called Departmental Unallocated Provision represent small unallocated budgets in both Resource DEL and Capital DEL which exist to help fund programmes in the future should the need arise.

Below, we have provided detail to help explain significant movements on the estimate row lines shown in the core tables above.

The Administration expenditure table provides a subset of figures from the Departmental Resource Spending table and, as such, detail on administration costs are provided within the first section below about the Resource DEL - Communities budget. In addition, the trend in administration expenditure is illustrated by the graph found on page 18.

Resource DEL – Communities

- A: Local Government & Public Services - From 2017-18, the Valuation Office Agency budget for business rate valuation and appeals transferred to HMRC.
- B: Housing and Planning - Planned expenditure peaks in 2018-19 due to planned expenditure on the Right to Buy Pilot (£140m).
- C: Decentralisation and Local Growth - Expenditure increases as a result of the increased devolution deal budget. The budget for 2018-19 includes funding for two areas not funded in previous years.
- D: Troubled Families - The budget for 2018-19 includes £41 million reprofiled from 2017-18 to more accurately match the budget with delivery.
- E: Research Data and Trading Funds - The row includes a budget for potential write offs and exchange rate losses that may be incurred on the European Regional Development Fund (ERDF) programmes.
- F: MHCLG Staff, Building and Infrastructure - The increase in our resource administration spend in 2018-19 and 2019-20 is caused by flexibilities the Department was awarded at Autumn Budget to employ additional resources to deliver expanded programmes.

  From 2018-19, the Department is allowed to retain £72m of income from investment interest and charges to offset the costs of running the Department. This increases our income shown on Row H and our expenditure shown on row F. In 2019-20, we expect to generate income in excess of this cap and this will be returned to HM Treasury. The amount that cannot be retained (estimate £43.5m in 2019-20) is included in Row F as expenditure and Row H as income.
- H: Housing and Planning (ALB) (net) - The peak in 2018-19 is caused by a large impairment budget in that year, part of which relates to the Starter Homes programme. Changes to the Starter Homes programme in 2018-19 mean that this budget is unlikely to be fully utilised. This is offset by an increase in income from investments which are classified as administration by HM Treasury.

Resource DEL – Local Government

The Local Government Resource DEL figures have not yet been adjusted to represent any effect on the Department's budgets of the possible move to greater local authority retention of business rates.

- I: Revenue Support Grant - Part of the Department's remit is to manage and provide funding to local government on behalf of central government. 32% of Local Government DEL will be paid as Revenue Support Grant in 2018-19. This funding can be spent by local authorities on any service. The budget is decreasing across this SR period, but Local Government Core Spending Power is expected to rise by 1.9% in 2018-19 and 1.1% in 2019-20. Core Spending Power is a measure of the wider resources available to local government including council tax and retained business rates. The Department publishes an annual summary of Core Spending Power - the 2018-19 publication can be found here: https://www.gov.uk/government/publications/core-spending-power-final-local-government-finance-settlement-2017-to-2018

- J: Other Grants and Payments - In 2017-18, the local authority funding on this estimate row was increased by new expenditure on Better Care Fund and Adult Social Care grants. In 2018-19 there is an increase in the value of the Business Rates Reliefs given to local authorities but an overall decrease in the budget due to the Adult Social Care Support grant having not yet been incorporated into budgets. The increase in 2019-20 is due to the Better Care Fund grant reaching £1.8bn (£1.1bn in 2017-18).

- K: Business Rates Retention - The row provides budget for the safety net payments to local authorities whose income from business rates is below a baseline level.

Resource AME

- L: Housing and Planning - Rise in budgets in 2018-19 is caused by the increasing scope of the Department's housing portfolio and larger expected exposure over the coming financial year, particularly on the Private Rented Sector guarantee programme. 2019-20 expenditure on the guarantees programmes are not yet incorporated into budgets.

- M: Research, Data and Trading Funds - The row provides budget for unrealised losses on foreign exchange movements that may occur as a result of the Department's work as the Managing Authority of the ERDF programme.

- N: MHCLG Staff, Building and Infrastructure - The row provides budget for the creation and release of the core Department's provisions. Note 12 provides more detail.

- O: Non-Domestic Rates Outturn Adjustment - The row contains a £300m budget for 2018-19 and 2019-20 which has been set aside for outturn adjustments against prior year business rates expenditure following receipt of the audited NNDR3 forms in the following year. The Department originally held the same size budget for outturn adjustments in 2017-18, though this was not utilised and surrendered during the Supplementary Estimates process.

- P: Local Government and Public Services (ALB) (net) - The row records the pension costs of the VTS and the CLAE.

- Q: Housing and Planning (ALB) (net) - The Department has set aside increasing budgets for AME to cover potential impairments or devaluations in the Group's portfolio of financial assets, primarily the Homes England interest in Help to Buy properties. The amount used each year has been much lower than budgeted. In 2017-18, a budget of £450m was held on this row.

- R: Business Rates Retention - Since 2013-14, local authorities retain at least 50% of the business rates they collect, which forms a significant portion of their income. Retained business rates are recorded as a non cash expenditure item in the Department's accounts and the amount estimated to be retained by local authorities in 2018-19 is £21.3 billion. This is an increase over the 2017-18 estimate and reflects an expanded programme of 100% business rate pilots and growth. The 2018-19 100% business rates pilots are for one year only. Ministers have confirmed that there will be pilots in 2019-20, but until the pilot programme is finalised it is too early for it to be reflected in AME numbers for that year.

Capital DEL – Communities

- A: Local Government & Public Services - 2018-19 planned expenditure relates to loans and grants awarded to the Greater London Authority as part of the London Settlement. These have not currently been budgeted for post 2018-19 and this explains the reduction of planned expenditure in 2019-20.

- B: Housing and Planning - Planned expenditure is on an increasing trajectory from 2017-18 as a result of planned capital expenditure under the new National Productivity Infrastructure Fund and significant new funding received at Autumn Budget for Help to Buy.

- C: Decentralisation and Local Growth - The budget reduces over the remainder of Parliament due to a reduction in the Local Growth Fund budget.

- D: Troubled Families - The row records expenditure on research and development for the Troubled Families programme which was newly classified as capital expenditure by HM Treasury from 2016-17.

- E: Research, Data and Trading Funds - The row records other capital expenditure on research and development.

- F: MHCLG Staff, Building and Infrastructure - The row records the core Department's expenditure on the purchase of non-current assets, mostly IT system improvements.

- G: Local Government and Public Services (ALB)(net) - The row records capital expenditure on the purchase of non-current assets by two ALBs: the VTS and the CLAE.

- H: Housing and Planning (ALB)(net) - Expenditure on the Help to Buy programme remains a significant proportion of the budget and causes the peak in 2017-18. The figures also include a significant increase in expenditure on both the Affordable Homes programme from 2017-18, and on the Home Building Fund in 2016-17 and 2017-18.

# Regularity of Expenditure (subject to audit)

## Losses, special payments and gifts

Managing Public Money and the FReM (both available on www.gov.uk) require the Department to produce a statement showing losses and special payments by value and by type. Where cases individually exceed £300,000, details of those cases must be disclosed.

| | 2017-18 | | | | 2016-17 | | | |
|---|---|---|---|---|---|---|---|---|
| | Core Department and Agency | | Departmental Group | | Core Department and Agency | | Departmental Group | |
| | Cases | £'000 | Cases | £'000 | Cases | £'000 | Cases | £'000 |
| Losses (general) | 38 | 36,229 | 106 | 36,247 | 27 | 6 | 122 | 11 |
| Claims abandoned | 55 | 9,773 | 69 | 11,317 | 46 | 11.334 | 196 | 11,456 |
| Fruitless payments | 5 | 232 | 5 | 232 | 10 | 36 | 10 | 36 |

| | 2017-18 | | | | 2016-17 | | | |
|---|---|---|---|---|---|---|---|---|
| | Core Department and Agency | | Departmental Group | | Core Department and Agency | | Departmental Group | |
| | Cases | £'000 | Cases | £'000 | Cases | £'000 | Cases | £'000 |
| Special Payments | 89 | 1,878 | 89 | 1,878 | 120 | 1,957 | 120 | 1,957 |

The Secretary of State made a Ministerial Direction not to reclaim an overpayment of £36 million made to local authorities that were taking part in the 100% business rates retention (BRR) pilot (see the Governance Statement for more detail). This resulted in a total write-off of £36 million. 24 local authorities were overpaid by more than £300k and 5 were overpaid by less.

In the normal course of administering the European Regional Development Fund (ERDF) and the Regional Growth Fund (RGF) which is now closed, the Department pays grants to projects. When the project does not spend the grant in line with the conditions of the grant, the Department seeks to recoup the funds. Where funds cannot be re-couped, they are written off. There were 18 ERDF payment recovery write-offs individually below £300k with a total value of just over £1 million. There were a further two ERDF and three RGF write-offs each greater than £300k.

| Cases over £300k | £'000 |
|---|---|
| Two ERDF payment recovery write offs each greater than £300k (claims abandoned) | 3,144 |
| Three RGF payment recovery write offs each greater than £300k (claims abandoned) | 5,209 |
| 24 BRR 100% pilot payment write offs each greater than £300k (general losses) | 35,158 |
| Homes England - Custom Build Programme write offs greater than £300k (claims abandoned) | 1,476 |

Gifts, as defined by Managing Public Money, must also be disclosed and detailed where the value is greater than £300,000. Neither the Department, nor its ALBs made any reportable gifts in 2017-18 (2016-17: nil).

## Fees and Charges (subject to audit)

The following information provides an analysis of the services for which a fee is charged.

£'000

| Objectives | 2017-18 Full Cost | 2017-18 Income | 2017-18 Surplus/ (Deficit) | 2016-17 Full Cost | 2016-17 Income | 2016-17 Surplus/ (Deficit) |
|---|---|---|---|---|---|---|
| PINS - Local plans, major specialist casework and national infrastructure | (11,581) | 5,915 | (5,666) | (12,309) | 7,267 | (5,042) |
| THO - Membership of Housing Ombudsman scheme | (5,811) | 6,004 | 193 | (5,237) | 4,567 | (670) |
| HCA - The Regulator of Social Housing[1] | (5,117) | 5,117 | - | - | - | - |
| **Total** | **(22,509)** | **17,036** | **(5,473)** | **(17,546)** | **11,834** | **(5,712)** |

(1) Statutory fees in relation to the regulation of Registered Provider (RPs) were charged from 1st October 2017

# Contingent liabilities not required to be disclosed under IAS 37 but included for parliamentary reporting and accountability purposes (subject to audit)

### Quantifiable

The Department has entered into quantifiable contingent liabilities by offering guarantees.

- The Department provides a guarantee scheme for the affordable housing sector, guaranteeing debt of no more than £3.5 billion. At the reporting date, the Department had approved borrowing of circa £3.5 billion of which £3.2 billion had been drawn down. The guarantees have been valued in accordance with IAS39 and have been recognised as a financial guarantee in the Statement of Financial Position with a value of £27.9 million.
- The Department provides a guarantee scheme for the private rented sector, guaranteeing debt of no more than £3.5 billion. At the reporting date, the Department had approved borrowing of circa £1.4 billion of which £0.4 billion had been drawn down and is covered by the guarantee scheme. The guarantees have been valued in accordance with IAS39 and have been recognised as a financial guarantee in the Statement of Financial Position with a value of £26.7 million.

The Department has not entered into any quantifiable contingent liabilities by offering indemnities or by giving letters of comfort.

### Unquantifiable

The Department has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote.

- The Department provides a guarantee under the NewBuy scheme to underwrite a percentage of mortgage lending risk. These guarantees have been measured in accordance with IAS 37 as they do not fit the recognition criteria for a financial instrument under IAS 39. Any liability arising as measured under IAS 37 is considered too remote for recognition as a contingent liability at the date of these accounts but is disclosed for parliamentary reporting and accountability purposes.
- The Department has given an indemnity to the Official Receiver for the former Sahaviriya Steel Industries UK (SSI) Steel works site in Redcar, unlimited in value, to protect him against liabilities incurred in connection with activities undertaken by consultants carrying out site assessments activity on the site he had responsibility for keeping safe. An indemnity was also given to the South Tees Site Company (STSC) for the period when it held responsibility for keeping the site safe to cover all liabilities suffered or incurred as a result of the site assessment activity.
- In 2016, the UK Government announced that the Government would guarantee, after the UK has left the EU, EU funded structural and investment fund projects signed before the UK leaves the EU, providing they are good value for money and in line with domestic strategic priorities. The financial settlement has now been signed off by both UK & EU Commission negotiators in a draft Withdrawal Agreement and welcomed by the EU-27 at March European Council. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified. The Department is responsible for the European Structural Fund so discloses a quantifiable contingent liability of £1.3bn relating to European Regional Development Fund and discloses a further unquantifiable contingent liability relating to European Territorial Cooperation element of the European Regional Development Fund.

**Melanie Dawes CB** **11 July 2018**
**Accounting Officer**
**Ministry of Housing, Communities and Local Government**

# The Certificate and Report of the Comptroller and Auditor General to the House of Commons

## Opinion on financial statements

I certify that I have audited the financial statements of the Ministry of Housing, Communities and Local Government and of its Departmental Group for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agency. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2017. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2018 and of the Department's net operating expenditure and Departmental Group's net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis of opinions

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

## Responsibilities of the Accounting Officer for the financial statements

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

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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

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

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

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

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also 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.

### Other Information

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

### Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

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

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

### Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**

16 July 2018

**Comptroller and Auditor General**
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

# Financial Statements

## Consolidated Statement of Comprehensive Net Expenditure

For the year ended 31 March 2018 *All activities are continuing*

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

£'000

| | | 2017-18 | | 2016-17 | |
|---|---|---|---|---|---|
| | Note | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| Staff Costs | 3 | 121,365 | 205,137 | 117,656 | 195,022 |
| Operating Expenditure | 4 | 30,637,089 | 31,457,716 | 28,540,787 | 29,144,937 |
| Operating Income | 5 | (3,870,099) | (4,108,191) | (3,446,665) | (3,738,351) |
| Grant-in-aid to ALBs | | 3,703,023 | - | 2,566,387 | - |
| **Net Operating Expenditure for the year ended 31 March** | | **30,591,378** | **27,554,662** | **27,778,165** | **25,601,608** |
| Total Expenditure | | 34,461,477 | 31,662,853 | 31,224,830 | 29,339,959 |
| Total Income | | (3,870,099) | (4,108,191) | (3,446,665) | (3,738,351) |
| **Net Operating Expenditure for the year ended 31 March** | | **30,591,378** | **27,554,662** | **27,778,165** | **25,601,608** |
| **Other Comprehensive Net Expenditure:** | | | | | |
| **Items that will not be reclassified to net operating expenditure:** | | | | | |
| Net (Gain)/Loss on: | | | | | |
| Pensions Schemes | 13 | 13,405 | (23,990) | 25,842 | 43,762 |
| Income tax on items in other comprehensive expenditure | | - | 14,533 | - | 8,873 |
| Disposal of available for sale assets recognised in net expenditure | | - | 82,849 | - | 68,012 |
| **Items that may be reclassified to net operating expenditure:** | | | | | |
| Fair value gain on available for sale assets | 7 | - | (143,319) | - | (148,199) |
| **Total comprehensive expenditure for the year ended 31 March** | | **30,604,783** | **27,484,735** | **27,804,007** | **25,574,056** |

The Notes on pages 86 to 105 form part of these accounts.

# Consolidated Statement of Financial Position

as at 31 March 2018

This statement presents the financial position of the Departmental Group. It comprises three main components: assets owned or controlled by the Group; liabilities owed to other bodies; and equity, the remaining value of the Group.

£'000

| | | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|---|
| | Note | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Non-current assets** | | | | | |
| Property, plant and equipment | | 21,856 | 26,621 | 23,421 | 27,404 |
| Intangible assets | | 8,328 | 33,544 | 6,424 | 10,478 |
| Investments | 6 | 251,492 | 1,113,921 | 118,738 | 778,007 |
| Available for sale financial assets | 7 | 99,482 | 9,053,430 | 151,558 | 6,569,490 |
| Investment properties | | 65,022 | 65,022 | 46,336 | 46,336 |
| Trade and other receivables | 9 | 39,201 | 165,371 | 20,330 | 171,605 |
| **Total non-current assets** | | **485,381** | **10,457,909** | **366,807** | **7,603,320** |
| **Current assets** | | | | | |
| Inventories | 8 | 147,420 | 927,443 | 57,932 | 648,531 |
| Trade and other receivables | 9 | 371,839 | 939,895 | 335,265 | 675,130 |
| Cash and cash equivalents | 10 | 1,588,308 | 1,838,863 | 1,628,766 | 1,820,893 |
| **Total current assets** | | **2,107,567** | **3,706,201** | **2,021,963** | **3,144,554** |
| **Total Assets** | | **2,592,948** | **14,164,110** | **2,388,770** | **10,747,874** |
| **Current liabilities** | | | | | |
| Trade and other payables | 11 | 2,573,269 | 2,971,202 | 2,277,206 | 2,546,645 |
| Provisions | 12 | 4,141 | 14,906 | 4,631 | 22,295 |
| **Total current liabilities** | | **2,577,410** | **2,986,108** | **2,281,837** | **2,568,940** |
| **Non-current assets plus/less net current assets/liabilities** | | **15,538** | **11,178,002** | **106,933** | **8,178,934** |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 11 | 267,597 | 280,504 | 246,697 | 261,037 |
| Provisions | 12 | 16,146 | 32,039 | 13,654 | 27,361 |
| Pensions | 13 | 170,630 | 153,743 | 161,866 | 175,317 |
| Financial guarantees | | 54,567 | 54,567 | 34,404 | 34,404 |
| **Total non-current liabilities** | | **508,940** | **520,853** | **456,621** | **498,119** |
| **Assets less liabilities** | | **(493,402)** | **10,657,149** | **(349,688)** | **7,680,815** |
| **Taxpayers' equity** | | | | | |
| General fund | | (330,260) | 10,801,822 | (200,007) | 7,848,071 |
| Revaluation reserve | | 311 | 251 | 367 | 307 |
| Pension reserve | | (163,453) | (144,924) | (150,048) | (167,563) |
| **Total taxpayers' equity** | | **(493,402)** | **10,657,149** | **(349,688)** | **7,680,815** |

**Melanie Dawes CB** **11 July 2018**
**Accounting Officer**
**Ministry of Housing, Communities and Local Government**

The Notes on pages 86 to 105 form part of these accounts.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2018

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Departmental Group during the reporting period. The statement shows how the Department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Group. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Departments' future public service delivery.

£'000

| | | 2017-18 | | 2016-17 | |
|---|---|---|---|---|---|
| | Note | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Cash Flows from Operating Activities** | | | | | |
| Net Operating Expenditure | SoCNE | (30,591,378) | (27,554,662) | (27,778,165) | (25,601,608) |
| **Adjusted for:** | | | | | |
| Finance costs | 4,5 | 3,402 | (41,432) | 23,896 | (18,878) |
| (Profit)/loss on disposal of non-current assets | 4,5 | - | (79,720) | (3,787) | (68,232) |
| Depreciation and amortisation | 4 | 3,927 | 7,624 | 5,377 | 8,267 |
| Revaluation of non-current assets passing through the SoCNE | 4 | (20,362) | (20,362) | 5,823 | 5,823 |
| Impairment of non-current assets | 4 | 40,967 | 136,570 | 53,272 | 103,930 |
| Increase/decrease in inventories | 8 | (89,488) | (269,126) | 233,472 | 226,826 |
| Other non cash transaction | 4,5 | 44,505 | 43,817 | 16,646 | 16,547 |
| (Increase)/decrease in trade and other receivables | | (72,117) | (32,519) | (8,937) | (36,780) |
| Increase/(decrease) in trade and other payables | | 352,429 | 479,490 | (394,006) | (319,102) |
| Movement in provisions | 4 | 6,874 | 6,139 | 898 | 8,138 |
| Utilisation of provision | 12 | (4,872) | (8,850) | (5,533) | (14,960) |
| Pension fund adjustments | | (9,905) | (3,234) | (6) | 2,921 |
| Local share (business rates retained by local authorities) | 4 | 14,587,527 | 14,587,527 | 11,588,387 | 11,588,387 |
| Adjustments for Corporation Tax | | - | (14,533) | - | (8,873) |
| Adjustments for net operating (gains)/losses - asset transfers | 4,5 | 1,676 | 27,582 | - | 24,973 |
| **Net Cash outflow from operating activities** | | **(15,746,815)** | **(12,735,689)** | **(16,262,663)** | **(14,082,621)** |
| **Cash Flows from Investing Activities** | | | | | |
| Purchase of property, plant and equipment | | (4,201) | (5,784) | (3,718) | (4,091) |
| Purchase of intangible assets | | (2,930) | (27,015) | (2,527) | (5,997) |
| Financial assets issued | | (231,188) | (4,015,002) | (152,825) | (2,870,225) |
| Proceeds on disposal of financial assets | | 13,295 | 605,998 | 12,760 | 399,752 |
| Proceeds from disposal of Fire Service College assets held for sale | | - | - | 1,532 | 1,532 |
| Repayment of financial assets | 6 | 99,113 | 324,949 | 88,139 | 265,359 |
| Interest received | 5 | 5,034 | 43,281 | 1,739 | 28,193 |
| Other adjustments - investing activities | | (34) | (34) | (105) | (105) |
| **Net Cash inflow/(outflow) from investing activities** | | **(120,911)** | **(3,073,607)** | **(55,005)** | **(2,185,582)** |

£'000

| | Note | 2017-18 Core Department & Agency | 2017-18 Departmental Group | 2016-17 Core Department & Agency | 2016-17 Departmental Group |
|---|---|---|---|---|---|
| **Cash Flows from Financing Activities** | | | | | |
| From the consolidated fund (supply) - current year | | 16,536,782 | 16,536,782 | 17,991,702 | 17,991,702 |
| Capital element of payments in respect of finance leases | | (3,174) | (3,174) | (3,042) | (3,042) |
| Interest paid | 4 | (5,804) | (5,806) | (5,992) | (6,043) |
| Foreign exchange movements | 4,5 | 3,577 | 3,577 | 8,176 | 8,176 |
| **Net Cash inflow/(outflow) from financing activities** | | **16,531,381** | **16,531,379** | **17,990,844** | **17,990,793** |
| **Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund** | | **663,655** | **722,083** | **1,673,176** | **1,722,590** |
| Receipts due to the Consolidated Fund which are outside the scope of the Department's activities | | - | - | (7) | (7) |
| Payments due to the Consolidated Fund | | (704,113) | (704,113) | (436,394) | (436,394) |
| Other balances surrenderable to the Consolidated Fund | SoPS4.1 | - | - | 2 | 2 |
| **Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund** | | **(40,458)** | **17,970** | **1,236,777** | **1,286,191** |
| **Cash and cash equivalents at the beginning of the period** | 10 | **1,628,766** | **1,820,893** | **391,989** | **534,702** |
| **Cash and cash equivalents at the end of the period** | 10 | **1,588,308** | **1,838,863** | **1,628,766** | **1,820,893** |

The Notes on pages 86 to 105 form part of these accounts.

# Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2018

This statement shows the movement in the year on the different reserves held by the Departmental Group, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of a Department, to the extent that the total is not represented by other reserves and financing items. The Pension Reserve reflects actuarial gains/losses on pension schemes.

£'000

| | Note | General Fund | Revaluation Reserve | Pension Reserve | Total Reserves |
|---|---|---|---|---|---|
| **Balance at 31 March 2016** | | **5,452,300** | **16,537** | **(121,247)** | **5,347,590** |
| Comprehensive Net Expenditure | SOCNE | (25,530,294) | - | (43,762) | (25,574,056) |
| Non cash charges - auditor's remuneration | 4 | 416 | - | - | 416 |
| Local share (business rates retained by local authorities) | 4 | 11,588,387 | - | - | 11,588,387 |
| Other adjustments to reserves | | - | - | (48) | (48) |
| Transfers between reserves | | 18,736 | (16,230) | (2,506) | - |
| **Total recognised income and expenses for 2016-17** | | **(13,922,755)** | **(16,230)** | **(46,316)** | **(13,985,301)** |
| Net Parlimentary Funding | | 16,801,337 | - | - | 16,801,337 |
| CFERs payable to the Consolidated Fund | SoPS4.1 | (482,811) | - | - | (482,811) |
| Transfers between reserves | | - | - | - | - |
| **Sub Total** | | **16,318,526** | **-** | **-** | **16,318,526** |
| **Balance at 31 March 2017** | | **7,848,071** | **307** | **(167,563)** | **7,680,815** |
| Comprehensive Net Expenditure | SOCNE | (27,508,725) | - | 23,990 | (27,484,735) |
| Non cash charges - auditor's remuneration | 4 | 416 | - | - | 416 |
| Local share (business rates retained by local authorities) | 4 | 14,587,527 | - | - | 14,587,527 |
| Transfers between reserves | | 1,407 | (56) | (1,351) | - |
| **Total recognised income and expenses for 2017-18** | | **(12,919,375)** | **(56)** | **22,639** | **(12,896,792)** |
| Net Parliamentary Funding | | 16,527,713 | - | - | 16,527,713 |
| CFERs payable to the consolidated fund | SoPS4.1 | (654,587) | - | - | (654,587) |
| Transfers between reserves | | - | - | - | - |
| **Sub Total** | | **15,873,126** | **-** | **-** | **15,873,126** |
| **Balance at 31 March 2018** | | **10,801,822** | **251** | **(144,924)** | **10,657,149** |

The Notes on pages 86 to 105 form part of these accounts.

# Core Department and Agency Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2018

£'000

| | Note | General Fund | Revaluation Reserve | Pension Reserve | Total Reserves |
|---|---|---|---|---|---|
| **Balance at 31 March 2016** | | **(345,350)** | **16,546** | **(124,206)** | **(453,010)** |
| Comprehensive Net Expenditure | SOCNE | (27,778,165) | - | (25,842) | (27,804,007) |
| Non cash charges - auditor's remuneration | | 416 | - | - | 416 |
| Local share (business rates retained by local authorities) | 4 | 11,588,387 | - | - | 11,588,387 |
| Transfers between reserves | | 16,179 | (16,179) | - | - |
| **Total recognised income and expenses for 2016-17** | | **(16,173,183)** | **(16,179)** | **(25,842)** | **(16,215,204)** |
| Net Parlimentary Funding | | 16,801,337 | - | - | 16,801,337 |
| CFERs payable to the Consolidated Fund | SoPS4.1 | (482,811) | - | - | (482,811) |
| Transfer of assets and liabilities | | - | - | - | - |
| **Sub Total** | | **16,318,526** | **-** | **-** | **16,318,526** |
| **Balance at 31 March 2017** | | **(200,007)** | **367** | **(150,048)** | **(349,688)** |
| Comprehensive Net Expenditure | SOCNE | (30,591,378) | - | (13,405) | (30,604,783) |
| Non cash charges - auditor's remuneration | | 416 | - | - | 416 |
| Local share (business rates retained by local authorities) | 4 | 14,587,527 | - | - | 14,587,527 |
| Transfers between reserves | | 56 | (56) | - | - |
| **Total recognised income and expenses for 2017-18** | | **(16,003,379)** | **(56)** | **(13,405)** | **(16,016,840)** |
| Net Parliamentary Funding | | 16,527,713 | - | - | 16,527,713 |
| CFERs payable to the consolidated fund | SoPS4.1 | (654,587) | - | - | (654,587) |
| Transfers between reserves | | - | - | - | - |
| **Sub Total** | | **15,873,126** | **-** | **-** | **15,873,126** |
| **Balance at 31 March 2018** | | **(330,260)** | **311** | **(163,453)** | **(493,402)** |

The Notes on pages 86 to 105 form part of these accounts.

# Notes to the Departmental Accounts

## Note 1. Statement of Accounting Policies

### 1. General

These consolidated financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury under section 5 (2) of the Government Resources and Accounts Act 2000.

The accounting policies adopted are in accordance with the 2017-18 FReM issued by HM Treasury and 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 has been judged to be most appropriate to the particular circumstances of the Departmental Group for the purpose of giving a true and fair view has been selected.

### 2. Basis of consolidation

These Financial Statements consolidate those of the core Department, the Department's Executive Agency and those arm's-length bodies (ALBs) which fall within the Departmental boundary as defined by the FReM; these bodies make up the 'Departmental Group'. The Ministry of Housing, Communities and Local Government is the ultimate parent of the Departmental Group and its results, along with those of the Department's Executive Agency, are presented in columns labelled 'Core Department & Agency'. Transactions between, and balances with, entities included in the Departmental Group are eliminated. A list of all those entities within the Departmental boundary is given in Note 21.

### 3. Impact of standards and interpretations in issue but not yet effective

The Department has assessed the following standards and amendments that have been issued but are not yet effective and determined not to adopt them before the effective date:

- IFRS 9 Financial Instruments - effective from 2018-19. The standard introduces new classification categories and subsequent measurement requirements for financial assets as well as the introduction of a new approach for calculating and recognising impairments.

  Under IFRS 9, the classification of financial assets will be determined by reference to the asset's contractual cash flow characteristics and the business model in which the asset is held, resulting in the asset being assigned one of three classifications: amortised cost, fair value through profit and loss or fair value through other comprehensive income.

  The Department's available for sale assets will be classified at fair value through profit and loss. The assets will continue to be accounted for at fair value however; any change in fair value will now be recognised in net expenditure. This will increase volatility in net expenditure and result in the elimination of the fair value reserve (currently included in the general fund balance).

  The Department's other financial assets, which would have previously been designated as loans and receivables, will be classified at amortised cost and therefore impacted by the introduction of a new impairment model. The model requires the recognition of a loss allowance based on *expected* credit losses as opposed to *incurred* credit losses as required by the previous standard, bringing forward the recognition of losses on these financial assets. The loss allowance will be updated at each reporting date reflecting the changes in credit risk since initial recognition. Assets classified at amortised cost are, in the main, held by Homes England (previously known as the Homes & Communities Agency), for more detail on the new impairment model, refer to Homes England Annual Report and Accounts.

Whilst there are significant changes in the treatment of financial assets, the classification and measurement of financial liabilities under IFRS 9 remains largely unchanged from the previous standard.

The FReM has confirmed that the Department shall not restate comparatives for 2017-18 and instead will recognise any difference between the carrying amount at 31 March 2018 under IAS 39 and the opening balance on 1 April 2018 under IFRS 9 in the opening reserves of the 2018-19 financial year. Opening reserves are expected to decrease by between £30m and £40m, this impact assessment has been estimated under an interim control environment with models that continue to undergo development and validation.

- IFRS 15 Revenue from Contracts with Customers - effective from 2018-19. IFRS 15 establishes a model that should be applied when reporting information about the nature, amount and timing of revenue from a contract with a customer. Its application in the public sector context has been interpreted by the FReM. The new standard is not expected to have a material impact on the Department.
- IFRS 16 Leases - effective from 2019-20. The standard largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The application of IFRS 16 in the public sector context has yet to be confirmed by the FReM. The most significant effect of the new requirements is expected to be an increase in lease assets and liabilities on the Department's statement of financial position, however the financial impact cannot currently be reasonably estimated.

## 4. Significant estimates and judgements

The preparation of the financial statements requires management to make estimates and judgements that affect amounts reported. Estimates and judgements are based on knowledge of current facts and circumstances, historic experience and other relevant factors. Where significant estimates and judgements have been made, the relevant accounting policy or note to the accounts will provide further details.

## 5. Inventories

The Homes England (previously known as the Homes & Communities Agency) property/development assets, consisting of land and buildings, are valued in accordance with IAS2.

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. The determination of the portfolio value, by its nature, involves a significant amount of estimation uncertainty and accordingly, is a significant estimate within the accounts. In all cases valuations are in accordance with RICS Valuation - Professional Standards (9th Edition) published by the Royal Institution of Chartered Surveyors.

A receivable (net of VAT) from the disposal of development property assets is recognised 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.

Claims for payment to 2007-13 and 2014-20 European Regional Development Fund (ERDF) projects are initially charged against work in progress and only recognised as an expense once certified as compliant with the ERDF Regulations, such that the related ERDF income can be recognised. Where any amounts charged to work in progress subsequently fail certification, recovery of the cost is sought from projects. Further details about the ERDF balances included in these accounts can be found in Annex B.

## 6. Financial Assets

The Department's financial assets are classified as either available for sale assets or loans and receivables, in line with IAS 39. See Note 14 for more information.

## 7. Financial Guarantees

The Department provides Affordable Housing guarantees over borrowing to Private Registered Providers to facilitate access to borrowing at competitive interest rates to fund the building of affordable housing. The guarantees are recognised in line with IAS 39 with a probability-weighted expected loss model used as the basis of the accounting valuation.

The Department also provides Private Rented Sector guarantees over borrowing to incentivise institutional investment in the supply of new, purpose built and professionally managed private rented sector homes. The guarantees are recognised in line with IAS 39 with the accounting valuation based on the lifetime fee that will be paid by the borrower in return for the guaranteed funds. This fee includes the cost of risk, administration costs and a fee to the Department based on appropriate remuneration.

The methodology used to determine the fair value of the guarantees is considered to be an area of significant estimation and judgment within the accounts.

## 8. Principal Civil Service Pension Scheme

Past and present employees of the core Department and Agency are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This comprises several schemes which are unfunded defined benefit schemes with varying contribution rules and rates. The Department recognises the expected cost of employers' contributions over the period during which it benefits from employees' services by payments to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and not recognised in these accounts.

For details of other pension schemes the Department holds, please see Note 13. Employees of arm's-length bodies (ALBs) are generally members of funded defined benefit schemes. More details of individual schemes are available in the annual accounts of the bodies concerned.

## 9. Grants

Grants made or received by the Department are recorded as expenditure or income respectively in the period that the underlying event or activity giving entitlement to the grant occurs, or with unringfenced grants on the occurrence of such other event giving rise to entitlement.

Grant-in-Aid payments from the core Department to ALBs are paid only when the need for cash has been demonstrated by the body concerned. ALBs treat receipts of Grant in Aid as financing in accordance with the FReM. These transactions are eliminated on consolidation.

Grant payments may need to be recovered from recipients for a variety of reasons depending on the grant conditions. Where recoveries are made income is recognised at the point that the invoice, or other notice requiring repayment, has been issued.

Grant expenditure and income in respect of Business Rates is also recognised at the point at which eligibility is determined. For the accounting year, Business Rates income is determined via NNDR1 claim forms submitted by local authorities and the associated expenditure, including the notional charge for the local share, and income are recognised once these claim forms are approved. The amounts recognised also include final adjustments to prior years' figures where eligibility has been confirmed by inclusion of audited figures in local authority NNDR3 returns. The local share refers to the business rates that local authorities retain under Business Rates Retention.

Grant expenditure and income in respect of ERDF is also recognised at the point at which eligibility is determined. Further details about the ERDF balances included in these accounts can be found in Annex B.

# Note 2. Operating costs by operating segment

The Department's operating costs are analysed into four operating segments. Activities in respect of Finance and Corporate Services, Strategy, Communications & Private Office are not reported as a segment as these are all administrative functions. They do not meet the specified criteria of a reportable segment in line with IFRS 8 because they do not directly impact on performance.

Net programme expenditure against the four operating segments is shown in the following table. Programme expenditure on 'Research, Data and Trading Funds' and 'MHCLG staff, buildings and infrastructure' (Estimate Rows E and F in the Estimate) and administration expenditure is not allocated to segments and these form the reconciling items in Note 2.1.

£'000

| | | 2017-18 | | | | | 2016-17 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Local Government and Public Services | Troubled Families | Housing and Planning | Decentralisation and Growth | Total | Local Government and Public Services | Troubled Families | Housing and Planning | Decentralisation and Growth | Total |
| Gross Expenditure | SoPS1.1 | 26,302,419 | 214,150 | 3,076,053 | 1,729,836 | 31,322,458 | 23,687,891 | 171,634 | 2,887,462 | 2,210,828 | 28,957,815 |
| Income | SoPS1.1 | (3,011,066) | - | (565,815) | (161,470) | (3,738,351) | (2,443,004) | - | (618,752) | (317,191) | (3,378,947) |
| **Net Expenditure** | | **23,291,353** | **214,150** | **2,510,238** | **1,568,366** | **27,584,107** | **21,244,887** | **171,634** | **2,268,710** | **1,893,637** | **25,578,868** |

The Department does not consider that assets and liabilities can be meaningfully allocated to segments and manages and reports on assets and liabilities as a single block. Therefore, in accordance with IFRS 8, no breakdown of assets and liabilities by segment is given.

## 2.1 Reconciliation between operating segments and CSoCNE

The table below shows the small difference between expenditure analysed in Note 2 and total expenditure in our Consolidated Statement of Comprehensive Net Expenditure. It relates to the income and expenditure of the activities not included in Note 2 as operating segments along with non-budget income the Department passes to HM Treasury.

£'000

| | Note | 2017-18 Total | 2016-17 Total |
|---|---|---|---|
| **Total net expenditure reported for operating segments** | 2 | **27,584,107** | **25,578,868** |
| Reconciling items: | | | |
| Income | | (369,840) | (359,404) |
| Expenditure | | 270,468 | 354,592 |
| **Total net expenditure per Statement of Comprehensive Net Expenditure** | SoCNE | **27,484,735** | **25,574,056** |

# Note 3. Staff Costs

£'000

| | | 2017-18 | | 2016-17 | |
|---|---|---|---|---|---|
| | Notes | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Staff Costs** | | 121,365 | 205,137 | 117,656 | 195,022 |

The Staff Report, page 51, contains a full breakdown of staff costs.

# Note 4. Operating Expenditure

| | | | | | £'000 |
|---|---|---|---|---|---|
| | | 2017-18 | | 2016-17 | |
| | Notes | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Non-Cash Items** | | | | | |
| Asset transfers: capital grant in kind expenditure | | 1,676 | 37,368 | - | 64,013 |
| Depreciation and amortisation | | 3,927 | 7,624 | 5,377 | 8,267 |
| Impairment of assets | | 40,967 | 194,839 | 53,272 | 154,059 |
| Revaluation of assets | | (20,362) | (20,362) | 5,823 | 5,823 |
| Loss on disposal of assets | | - | 53 | 103 | 103 |
| ERDF write-offs and disallowances | | 1,371 | 1,371 | 3,485 | 3,485 |
| ERDF exchange rate losses (unrealised) | | - | - | 1,625 | 1,625 |
| Auditors remuneration | | 416 | 416 | 416 | 416 |
| Increase/Decrease in provisions (Provisions provided for in year less any release) | 12 | 6,874 | 6,139 | 898 | 8,138 |
| Write-off of bad debt | | 42,718 | 42,030 | 12,745 | 12,646 |
| Net interest on pension scheme liabilities | 13 | 4,250 | 4,479 | 4,452 | 3,925 |
| Admin charge on pension assets | | 1,014 | 1,171 | 1,064 | 1,195 |
| Share of Loss of Joint Ventures and Associates | 6 | - | 390 | - | - |
| Notional costs | | 121 | 121 | 115 | 115 |
| Local share (business rates retained by local authorities) | | 14,587,527 | 14,587,527 | 11,588,387 | 11,588,387 |
| Other non cash costs | | 15,272 | 15,272 | 21,453 | 21,453 |
| **Total Non Cash Items** | | **14,685,771** | **14,878,438** | **11,699,215** | **11,873,650** |
| **Cash Items** | | | | | |
| Rentals under operating leases | | 427 | 1,406 | 409 | 1,406 |
| Accommodation including rentals under operating leases | | 41,866 | 50,855 | 41,473 | 50,400 |
| Research and development | | 8,301 | 8,301 | 7,194 | 7,194 |
| Legal and professional services | | 15,150 | 39,435 | 185,964 | 203,140 |
| Consultancy | | 276 | 334 | 585 | 895 |
| Marketing and communications | | 1,095 | 1,607 | 7,663 | 7,888 |
| Training and development | | 2,984 | 3,816 | 1,760 | 2,472 |
| Auditor's remuneration | | 47 | 501 | 52 | 517 |
| IT expenditure | | 19,211 | 22,988 | 20,795 | 25,022 |
| Travel and subsistence | | 3,532 | 6,233 | 3,478 | 5,972 |
| Early retirement and voluntary exit costs | | 7,041 | 7,041 | 5,073 | 5,073 |
| ERDF exchange rate losses (realised) | | - | - | - | - |
| Interest payable | | 5,804 | 5,806 | 5,992 | 6,043 |
| Taxation | | 5,196 | (7,414) | 4,076 | (3,400) |
| ERDF grants | | 143,019 | 143,019 | 302,775 | 302,775 |
| Revenue support grant and PFI grant | | 4,017,658 | 4,017,658 | 7,424,375 | 7,424,375 |
| Business rates retention (top ups) | | 3,058,592 | 3,058,592 | 2,453,096 | 2,453,096 |
| Other capital grants to local authorities | | 2,641,353 | 2,716,508 | 2,595,243 | 2,675,070 |
| Other current grants to local authorities | | 5,938,681 | 5,944,491 | 3,687,768 | 3,708,391 |
| Other grants | | 31,785 | 536,799 | 68,695 | 356,815 |
| Other cash costs | | 9,300 | 21,302 | 25,106 | 38,143 |
| **Total Cash Items** | | **15,951,318** | **16,579,278** | **16,841,572** | **17,271,287** |
| **Total** | | **30,637,089** | **31,457,716** | **28,540,787** | **29,144,937** |

The external auditors total group fees (notional and cash) for all statutory audit work were £798k. Of the £501k cash charge for Auditor's remuneration, £382k relates to external audit fees and the remaining relates to other assurance work not performed by external audit.

# Note 5. Operating Income

£'000

| | | 2017-18 | | 2016-17 | |
|---|---|---|---|---|---|
| | Notes | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Non Cash Items** | | | | | |
| Asset transfers: capital grant in kind income | | - | 9,786 | - | 39,040 |
| Gain on sale of non current assets and assets held for sale | | - | 139,111 | 3,890 | 168,508 |
| Increase in fair value - financial assets | | - | 7,365 | 236 | 6,156 |
| Decrease in fair value - financial liabilities | | 2,065 | 2,065 | 539 | 539 |
| ERDF exchange rate gains (unrealised) | | 12,262 | 12,262 | - | - |
| Notional income | | 121 | 121 | 115 | 115 |
| Share of profit of joint ventures and associates | 6 | - | - | - | 10,055 |
| **Total Non Cash Items** | | **14,448** | **170,710** | **4,780** | **224,413** |
| **Cash Items** | | | | | |
| CFER income | | 174,716 | 174,716 | 188,751 | 188,751 |
| Grant income | | 469,069 | 477,451 | 435,891 | 449,282 |
| ERDF grant income | | 144,648 | 144,941 | 313,756 | 320,144 |
| Business rates retention (tariff) | | 3,005,779 | 3,005,779 | 2,442,056 | 2,442,056 |
| Goods and services | | 7,833 | 8,264 | 14,100 | 14,635 |
| Accommodation | | 25,406 | 32,097 | 24,908 | 32,577 |
| Fees | | 6,148 | 17,623 | 7,494 | 12,703 |
| ERDF exchange rate gains (realised) | | 3,577 | 3,577 | 8,176 | 8,176 |
| Interest and dividends | | 5,034 | 43,281 | 1,739 | 28,193 |
| ERDF match income | | - | - | 16 | 16 |
| Miscellaneous | | 13,441 | 29,752 | 4,998 | 17,405 |
| **Total Cash Items** | | **3,855,651** | **3,937,481** | **3,441,885** | **3,513,938** |
| **Total** | | **3,870,099** | **4,108,191** | **3,446,665** | **3,738,351** |

# Note 6. Investments

Shares & Equity Investments relate to investments in joint ventures and are accounted for in accordance with IAS 28 via the Equity method.

Investment Funds, Private and Public Sector Loans are financial assets under IAS 39 and are categorised as Loans and Receivables.

- Investment funds relate to investment in the Coalfields Enterprise Fund and the Coalfields Growth Fund.
- The private sector loan additions in 2016-17 and 2017-18 relate to loans made under the Home Building Fund and Build to Rent programmes.
- Public Sector Loans primarily relate to loan facilities held with Greater London Authority and Manchester City Council. For further details on these loans, see Note 16.

Public Dividend Capital relates to the financing of the QEII conference centre.

£'000

| | Shares & Equity Investments | Investment Funds | Private Sector Loans | Public Sector Loans | Public Dividend Capital | Total Investments & Loans |
|---|---|---|---|---|---|---|
| **Opening balance at 1 April 2016** | **12,528** | **11,328** | **485,281** | **62,811** | **821** | **572,769** |
| Additions | 905 | - | 381,067 | 155,531 | - | 537,503 |
| Write down/Impairments | - | (1,440) | (2,062) | - | - | (3,502) |
| Repayments | - | - | (165,119) | (100,240) | - | (265,359) |
| Profit/(loss) on JV or Associate | 10,055 | - | - | - | - | 10,055 |
| Reclassification | (2,323) | - | - | - | - | (2,323) |
| Transfer to receivables ‹ 1year | - | - | (71,136) | - | - | (71,136) |
| **Balance at 31 March 2017** | **21,165** | **9,888** | **628,031** | **118,102** | **821** | **778,007** |
| Additions | 2,081 | - | 680,322 | 233,190 | - | 915,593 |
| Write down/Impairments | - | 679 | (7,536) | - | - | (6,857) |
| Repayments | - | - | (216,995) | (107,954) | - | (324,949) |
| Profit/(loss) on JV or Associate | (390) | - | - | - | - | (390) |
| Transfers in/(out) | - | - | (12,851) | - | - | (12,851) |
| Transfer to receivables ‹ 1year | - | - | (234,632) | - | - | (234,632) |
| **Balance at 31 March 2018** | **22,856** | **10,567** | **836,339** | **243,338** | **821** | **1,113,921** |
| **Of which:** | | | | | | |
| Core Department | 5,000 | 10,567 | - | 235,104 | 821 | 251,492 |
| Agencies | - | - | - | - | - | - |
| Designated bodies | 17,856 | - | 836,339 | 8,234 | - | 862,429 |

# Note 7. Available for sale financial assets

Available for sale financial assets are, in the main, made up of assets of Homes England (previously known as the Homes & Communities Agency) which represents their interests in housing developments and Help to Buy properties.

Movement in the fair value of available for sale assets is recognised within a fair value reserve, presented in these financial statements as part of the general fund. At 31 March 2018, the fair value reserve amounts to £351m of the total general fund. As detailed in the Statement of Accounting Policies, the fair value reserve will be eliminated on the introduction of IFRS 9 in 2018-19.

For further details on the accounting treatment and valuation of the available for sale assets, see the Homes England's Agency Annual Report and Accounts.

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Opening balance at 1 April** | **151,558** | **6,569,490** | **187,747** | **4,627,758** |
| Additions | - | 3,099,409 | - | 2,332,722 |
| Write offs | (38,781) | (126,874) | (31,436) | (82,187) |
| Disposals | (13,295) | (644,765) | (4,753) | (459,325) |
| Revaluations | - | 143,319 | - | 148,199 |
| Transfers | - | 12,851 | - | 2,323 |
| **At 31 March** | **99,482** | **9,053,430** | **151,558** | **6,569,490** |

# Note 8. Inventories

Inventories in respect of land and buildings relate to property and development land assets.

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Land and buildings** | | | | |
| **Opening balance at 1 April** | **-** | **590,599** | **-** | **544,913** |
| Additions | - | 318,552 | - | 214,342 |
| Disposals | - | (70,859) | - | (118,527) |
| Impairments | - | (58,269) | - | (50,129) |
| **Closing balance Land and buildings as at 31 March** | **-** | **780,023** | **-** | **590,599** |
| **ERDF Work in Progress** | | | | |
| **Opening balance as at 1 April** | 57,932 | 57,932 | 291,404 | 291,404 |
| Payments to Projects | 193,669 | 193,669 | 75,266 | 75,266 |
| Disposals | (104,181) | (104,181) | (308,738) | (308,738) |
| **Closing balance ERDF as at 31 March** | **147,420** | **147,420** | **57,932** | **57,932** |
| **Total inventory closing balance as at 31 March** | **147,420** | **927,443** | **57,932** | **648,531** |

## Note 9. Trade and other receivables

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Amounts falling due within one year:** | | | | |
| Trade receivables | 1,283 | 94,012 | 845 | 88,231 |
| Deposits and advances | - | 42 | - | 40 |
| VAT receivables | 1,735 | 8,259 | 1,662 | 1,720 |
| Other receivables | 26,515 | 41,961 | 26,698 | 54,946 |
| ERDF accrued income | 273,672 | 273,672 | 256,738 | 256,738 |
| Prepayments and accrued income | 68,634 | 97,507 | 49,322 | 83,645 |
| Current asset investments | - | 424,442 | - | 189,810 |
| **Sub Total** | **371,839** | **939,895** | **335,265** | **675,130** |
| **Amounts falling due after more than one year:** | | | | |
| Trade receivables | - | 106,644 | - | 133,506 |
| Other receivables | 23,938 | 43,464 | 19,364 | 37,133 |
| ERDF advances | 14,531 | 14,531 | - | - |
| Prepayments and accrued income | 732 | 732 | 966 | 966 |
| **Sub Total** | **39,201** | **165,371** | **20,330** | **171,605** |
| **Total** | **411,040** | **1,105,266** | **355,595** | **846,735** |

## Note 10. Cash and cash equivalents

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| Balance at 1 April | 1,628,766 | 1,820,893 | 391,989 | 534,702 |
| Net change in cash and cash equivalent balances | (40,458) | 17,970 | 1,236,777 | 1,286,191 |
| **Cash Balance at 31 March** | **1,588,308** | **1,838,863** | **1,628,766** | **1,820,893** |
| **The following balances at 31 March were held at:** | | | | |
| Commercial banks and cash in hand | - | 31,841 | - | 44,389 |
| Government Banking Service | 1,588,308 | 1,807,022 | 1,628,766 | 1,776,504 |
| **Balance at 31 March** | **1,588,308** | **1,838,863** | **1,628,766** | **1,820,893** |

# Note 11. Trade and other payables

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Amounts falling due within one year:** | | | | |
| Taxation and social security | 2,638 | 4,189 | 2,421 | 9,613 |
| Trade payables | 244 | 356,150 | 555 | 226,212 |
| Other payables | 339,427 | 355,073 | 13,496 | 29,704 |
| Accruals | 401,744 | 409,341 | 430,135 | 442,282 |
| Finance lease | 9,669 | 9,669 | 8,977 | 8,977 |
| Deferred income | 1,254 | 18,487 | 938 | 9,173 |
| ERDF deferred income | 229,985 | 229,985 | 191,918 | 191,918 |
| Amount issued from the Consolidated Fund for supply but not spent | 1,550,053 | 1,550,053 | 1,540,985 | 1,540,985 |
| Consolidated fund extra receipts to be paid to the Consolidated Fund | | | | |
| -received | 38,255 | 38,255 | 87,781 | 87,781 |
| -receivable | - | - | - | - |
| **Sub Total** | **2,573,269** | **2,971,202** | **2,277,206** | **2,546,645** |
| **Amounts falling due after more than one year:** | | | | |
| Finance lease | 89,877 | 89,877 | 93,742 | 93,742 |
| ERDF deposits held | 171,172 | 171,172 | 148,785 | 148,785 |
| Other payables | 3,161 | 10,605 | - | 11,985 |
| Deferred income | 3,387 | 8,850 | 4,170 | 6,525 |
| **Sub Total** | **267,597** | **280,504** | **246,697** | **261,037** |
| **Total** | **2,840,866** | **3,251,706** | **2,523,903** | **2,807,682** |

The 'Amount issued from the Consolidated Fund for supply but not spent' represents the balance of the cash held in the Department's bank account at year end that will be available for use on voted activities next year when it becomes 'Deemed Supply'.

# Note 12. Provisions for liabilities and charges

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Opening balance at 1 April** | 18,285 | 49,656 | 22,920 | 56,478 |
| Increase | 7,828 | 10,112 | 2,846 | 9,826 |
| Utilisation | (4,872) | (8,850) | (5,533) | (14,960) |
| Reversal | (954) | (3,953) | (1,948) | (2,676) |
| Unwinding of discount | - | (20) | - | 988 |
| **Balance at 31 March** | **20,287** | **46,945** | **18,285** | **49,656** |
| Of which: | | | | |
| Current liabilities | 4,141 | 14,906 | 4,631 | 22,295 |
| Non-current liabilities | 16,146 | 32,039 | 13,654 | 27,361 |
| **Balance at 31 March** | **20,287** | **46,945** | **18,285** | **49,656** |

Core Department provisions comprise:

### (i) Early retirement provisions

The Department and its Agency meet the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme benefit for employees who retire early. An amount is paid annually to the Principal Civil Service Pension Scheme for the period between early departure and the normal retirement date. The Department and Agency provide for this in full when the early retirement becomes a binding liability.

### (ii) Other provisions

In the core Department, these provisions include claims made by staff and third parties against the Department. The provision is calculated based on general experience of what the maximum for each type of claim is worth. Provisions are also made for dilapidations to comply with lease clauses for buildings which are occupied by the Department. The Department's dilapidation provisions are calculated based on the estimated cost of meeting future expenditure, in order to settle obligations in respect of lease clauses.

The rest of the Departmental Group provisions relate to Homes England (previously known as the Homes & Communities Agency). The Homes England Annual Report and Accounts provides further details.

### Analysis of expected timing of discounted cashflows by type

£'000

| | Early Retirement | Other | Total |
|---|---|---|---|
| Not later than one year | 1,769 | 20,526 | 22,295 |
| Later than one year and not later than five years | 2,004 | 22,919 | 24,923 |
| Later than five years | - | 2,438 | 2,438 |
| **Balance at 31 March 2017** | **3,773** | **45,883** | **49,656** |
| Not later than one year | 2,584 | 12,322 | 14,906 |
| Later than one year and not later than five years | 3,967 | 28,072 | 32,039 |
| Later than five years | - | - | - |
| **Balance at 31 March 2018** | **6,551** | **40,394** | **46,945** |

# Note 13. Pensions

The Core Department is responsible for the Audit Commission Pension Scheme, a funded scheme. The liabilities of this scheme are represented below in the Core Department & Agencies column. The staff of arm's-length bodies are members of a number of different pension schemes; full details are available in the accounts of the bodies concerned. The assets and liabilities for these schemes are included in the Departmental Group column below.

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| **Reconciliation of defined benefit obligation** | | | | |
| **Opening balance** | 1,274,139 | 2,239,476 | 1,043,378 | 1,809,975 |
| Current service cost | - | 19,083 | - | 13,084 |
| Interest charges | 34,028 | 59,257 | 35,038 | 62,502 |
| Admin charge on pension liabilities | - | (79) | - | (95) |
| Contribution by members | - | 1,607 | - | 4,247 |
| Contribution by employer | - | 64 | - | - |
| Remeasurement of (gains)/losses on liability | (8,580) | (57,674) | 221,452 | 397,231 |
| Past service cost/(gains) | - | 967 | - | 1,185 |
| Losses/(gains) on curtailment | - | - | - | (39) |
| Transfers | - | (197) | - | 195 |
| **Benefits paid** | | | | |
| Funded benefits paid | (27,743) | (54,834) | (25,723) | (48,639) |
| Unfunded benefits paid | (5) | (738) | (6) | (170) |
| **Closing defined benefit obligation** | **1,271,839** | **2,206,932** | **1,274,139** | **2,239,476** |
| **Reconciliation of fair value of employer asset** | | | | |
| **Opening balance** | (1,112,273) | (2,064,159) | (912,864) | (1,686,509) |
| Interest income on scheme asset | (29,778) | (54,778) | (30,586) | (58,577) |
| Admin charge on pension assets | 1,014 | 1,171 | 1,064 | 1,212 |
| Contributions by members | - | (1,607) | - | (4,247) |
| Contributions by employer | (9,900) | (23,613) | - | (12,064) |
| Remeasurement of (gains)/losses on asset | 21,985 | 33,684 | (195,610) | (353,469) |
| (Losses)/gains on curtailment | - | 1,082 | - | 1,051 |
| Assets distributed on settlement | 27,743 | 55,031 | 25,723 | 48,444 |
| **Closing fair value of employer asset** | **(1,101,209)** | **(2,053,189)** | **(1,112,273)** | **(2,064,159)** |
| **Closing net pension liability** | **170,630** | **153,743** | **161,866** | **175,317** |
| of which: | | | | |
| **Funded** | 170,561 | 143,311 | 161,792 | 169,771 |
| **Unfunded** | 69 | 10,432 | 74 | 5,546 |

## Audit Commission Pension Scheme (ACPS)

The ACPS is a defined benefit scheme. The scheme is a Registered Pension Scheme under the provisions of Schedule 36 of the Finance Act 2004. The provision of a Crown Guarantee takes the pension scheme out of certain regulatory provisions that would otherwise apply.

The valuation of the scheme liabilities as at 31 March 2018 was completed by the Department's independent actuaries using the projected unit method.

### Financial overview of the ACPS

The pension scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past employees. The Scheme's assets have been invested as follows:

£m

| Fair Value of Scheme Assets | 2017-18 | 2016-17 |
|---|---|---|
| Diversified Growth Funds | 738 | 834 |
| Liability Driven Investment | 231 | 278 |
| Infrastructure | 99 | - |
| Property | 33 | - |
| **Total** | **1,101** | **1,112** |

Overall, the Scheme's assets have decreased in value over the year to 31 March 2018. The Scheme invests in a Liability Driven Investment portfolio to mitigate the risks relating to interest rate and inflation rate changes. The net pension liability for the ACPS increased from £161.8 million to £170.6 million over the year. This is mainly due to lower than expected returns on the Scheme assets. This has, however, been partially offset by a contribution made to the Scheme by the Department of £9.9 million.

### Principal assumptions

The financial assumptions used for purposes of the IAS 19 calculations for the five years to 2018 are shown in the table below.

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Principal assumptions** | % pa | % pa | % pa | %pa | % pa |
| Rate of inflation | 3.25 | 3.30 | 3.05 | 3.20 | 3.50 |
| Rate of salary increase | n/a | n/a | n/a | n/a | 1.00[1] |
| Discount rate for liabilities | 2.65 | 2.70 | 3.40 | 3.35 | 4.40 |
| Rate of increase of pensions in payment | 3.25 | 3.30 | 3.05 | 3.20 | 3.50 |
| Rate of increase of deferred pensions | 3.25 | 3.30 | 3.05 | 3.20 | 3.50 |

[1] Until 31 March 2015, nil thereafter.

The assumed life expectations on retirement at age 60 were: for males retiring today, 28 years, for females retiring today, 29 years and for males and females retiring in 20 years, 31 years.

The following table shows the impact of a change in each of the principal assumptions used to value the scheme's liabilities.

| Assumption | Change in assumption | Impact on scheme liabilities |
|---|---|---|
| Discount rate | Decrease by 0.5% | Increase by 12% |
| Rate of inflation | Increase by 0.5% | Increase by 11% |
| Rate of mortality | Mortality table rated down by one year | Increase by 3% |

# Note 14. Financial Instruments: Risk Management and Fair Value

The Department oversees a portfolio of financial instruments (including loans, guarantees and Help to Buy available for sale financial assets) much of which is outside the appetite of other market investors and lenders. The portfolio is continuing to increase in size and is largely concentrated in a single sector, housing.

## Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As the cash requirements of the group are largely met through the Estimates process, there is minimal liquidity risk.

## Currency risk

The Department has risks arising from foreign exchange only in relation to the European Regional Development Fund (ERDF) programme. Further details about the ERDF balances included in these accounts can be found in Annex B. The following table shows the balances held by the Department as at 31 March 2018 that are subject to exchange rate risk. (Exchange rate at 29 March 2018 £1 = €1.1410[26])

| Currency Risks | Floating rate financial liabilities | |
|---|---|---|
| | £'000 | €'000 |
| **Total assets at 31 March 2018** | **273,672** | **312,260** |
| Total assets at 31 March 2017 | 256,738 | 300,229 |
| **Total liabilities at 31 March 2018** | **(176,890)** | **(201,831)** |
| Total liabilities at 31 March 2017 | (154,502) | (180,675) |

The liabilities balance represents upfront payments from the EU for the 2014-20 ERDF Programme.

The asset balance represents ERDF grant payments made but yet to be claimed from the EU. These balances are fixed in Euros being the Euro equivalent of the Sterling expenditure at the time the expenditure was incurred using the 'Europa' rate.

To an extent, these balances act as a natural hedge whereby the loss that would arise on the liability balance from a weakening of Sterling would be offset by the gain on the asset balance and vice versa. This reduces but does not eliminate the risks.

The following table illustrates the impact of changes in the sterling to Euro exchange rate and assumes the level of balances remains constant.

| Category | Balance at 31 Mar 2018 | Euro Rate at 31 Mar 2018 | Impact of rate change to | | | |
|---|---|---|---|---|---|---|
| | £'000 | | 1:1.00 | 1:1.10 | 1:1.30 | 1:1.40 |
| Assets | 273,672 | 1.1410 | £39m gain | £10m gain | £33m loss | £51m loss |
| Liabilities | (176,890) | 1.1410 | £25m loss | £7m loss | £22m gain | £33m gain |
| Net gain/loss | | | £14m gain | £3m gain | £11m loss | £18m loss |

## Market risk

The Department and Homes England (previously known as Homes & Communities Agency) have completed a risk assessment for all live financial instruments exposed to market risk. Performance and changes in risk profile are monitored on a regular basis.

Homes England's results and equity are dependent upon the prevailing conditions of the UK economy, especially UK house prices, which significantly affect the valuation of financial and non-financial assets.

26 Source: Bank of England spot rate: http://www.bankofengland.co.uk/boeapps/iadb/Rates.asp?

Homes England is also exposed to significant market price risk in its shared-equity mortgage portfolio and land portfolio. As these assets are classified as available for sale, any market price movements are reflected in net expenditure for the period when an impairment is reported, or otherwise as changes in equity.

Homes England 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:

| Variable | Change | Impact on fair value of Homes England Financial Assets |
|---|---|---|
| UK House prices (Home Equity Portfolio) | +/- 10% | +£866m / -£1,102m |
| Development returns (Private sector developments, overage and infrastructure) | +/- 10% | +£27m / -£27m |

The Department is also exposed to market risk via the financial guarantees it provides over borrowing for affordable housing and private rented sector homes. More detail on the magnitude of those schemes can be found on page 76. Changes in the housing market may cause rental arrears or void properties which may have an impact on the borrower's ability to repay the loans issued under the guarantees programme. The Governance Statement sets out how the Department manages the market and credit risk associated with its financial instruments.

### Credit Risk

The financial guarantees also expose the Department to credit risk given that borrowers could default on loans drawn potentially triggering a call through the guarantee provided. The full exposure under these schemes is detailed on page 76. The Department has put in place measures to mitigate the risk of loss.

Affordable Housing guarantees are provided only to strongly rated and therefore low risk Private Registered Providers, a liquidity reserve is also held which is designed to cover a shortfall in income and protect bond coupon payments in the event of default.

Sensitivity analysis was conducted by changing the key assumptions in the model, the Probability of Default (PD) based on the creditworthiness of borrowers and the size of any Loss Given Default (LGD). The result, taking account of the liquidity reserve, is a valuation range from £4 million (5% LGD, Low PD) to £203 million (25% LGD, High PD).

Private Rented Sector guaranteed debt is generally only available once units are completed and generate a stable income. Borrowers are also subject to strict financial covenants; loan to value cannot exceed 80%, collateral is provided, a liquidity reserve must be held and a minimum projected net rent/interest cover requirement must be maintained throughout the life of the guarantee.

Homes England's (previously known as Homes & Communities Agency) maximum exposure to credit risk, without taking into account any security held, is the same as the carrying amount of financial assets recorded in their Annual Report and Accounts.

The nature of the credit risk arising from Homes England's most significant financial assets is summarised below:

- 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.
- Of the total £1,269m Homes England loans exposure, ten private sector developers account for 46% of the balance (2017: 46% of £833m).
- Receivables arise largely from disposals of land and property assets, generally to major developers and housebuilders in the private sector. These receivables are always secured by the Homes England's right to retake possession of the disposed property in the event of a default by the buyer, and in appropriate cases are backed by financial guarantees. Ten

counterparties account for 72% of the Agency's £204m receivables balances due from disposal of land and property assets (2017: 78% of £235m).

- The Agency's cash is generally held with the Government Banking Service, except where commercial reasons necessitate otherwise, for example when cash is held by solicitors around completion of property sales or purchases.

There are no significant concentrations of credit risk in Homes England's other financial instruments.

For all financial assets excluding cash, the maximum exposure to a single counterparty at 31 March 2018 was £106.2m (2017: £90.3m), and the five largest counterparties accounted for 3.7% of the total balance (2017: 4.5%).

## Interest rate risk

The Departmental group is exposed to a low level of interest rate risk on its financial assets classified as loans and receivables, where these pay interest to the Departmental group at a variable rate.

## Fair values

The estimated fair values of the financial instruments held by the Department approximate to their book values at 31 March 2017 and 31 March 2018. The table shows how fair value of the Department's financial assets and liabilities has been estimated.

For a reconciliation of the movements in the value of Level 1, 2 and 3 fair value financial instruments, as defined by IFRS 13, and detail on the sensitivities of the fair values, see Homes England (previously known as Homes & Communities Agency) Annual Report and Accounts.

| Financial Instrument | Basis of fair value estimation |
|---|---|
| Current payables and receivables (Note 11 and Note 9) and Public Dividend Capital (Note 6) | Nominal value |
| Non-current payables and receivables (Note 11 and Note 9) | Discounted cost (where materially different from nominal value) |
| Investments in the Coalfields Enterprise Fund and the Coalfields Growth Fund (Note 6) | Fund manager revaluation |
| Available for sale financial assets relating to housing units (Note 7) | The fair values of available for sale financial assets relating to housing units are calculated with reference to movements in the ONS house price index (UK HPI) at a regional level, being the most relevant available observable market data. This is supplemented by adjustments for experience of actual disposals since the inception of the schemes, also at a regional level. The judgement excercised in the application of these adjustments is considered to be a key source of estimation uncertainty in the accounts.<br>These fair values are therefore categorised as level 2 in the fair value hierarchy as defined by IFRS 13. |
| Available for sale financial assets relating to equity investments in private sector developments and infrastructure projects (Note 7) | The fair values of available for sale financial assets relating to equity investments in development and infrastructure projects are calculated using cashflow forecasts for the projects concerned, discounted at rates set by HM Treasury.<br>These fair values are therefore categorised as level 3 in the fair value hierarchy as defined by IFRS 13. |
| Available for sale financial assets relating to managed funds (Note 7) | The fair value of managed funds are equal to the net assets of those funds at the reporting date, and are therefore categorised as level 3 in the fair value hierarchy as defined by IFRS 13. |
| Other financial instruments | Discounted future cash flows using discount rates set by HM Treasury or the rate intrinsic to the financial instrument if higher. |
| Affordable Housing financial guarantees liabilities | For initial recognition, fair value is based on probability weighted expected losses. |
| Private Rented Sector financial guarantees liabilities | For initial recognition, fair value is based on the fee charged for the guarantee. |

# Note 15. Commitments under Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| Obligations under operating leases comprise: | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| Buildings: | | | | |
| Payment due within 1 year | 24,912 | 27,360 | 26,694 | 29,988 |
| Payment due after 1 year but not more than 5 years | 77,442 | 81,686 | 96,283 | 102,670 |
| Payment due thereafter | 119,436 | 119,436 | 180,310 | 180,437 |
| **Total value of obligations** | **221,790** | **228,482** | **303,287** | **313,095** |
| Other: | | | | |
| Payment due within 1 year | - | 697 | - | 511 |
| Payment due after 1 year but not more than 5 years | - | 1,232 | - | 482 |
| Payment due thereafter | - | - | - | - |
| **Total value of obligations** | **-** | **1,929** | **-** | **993** |

£'000

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| Receipts under operating sub-leases comprise: | Core Department & Agency | Departmental Group | Core Department & Agency | Departmental Group |
| Buildings: | | | | |
| Receipts due within 1 year | 15,836 | 23,095 | 18,974 | 23,741 |
| Receipts due after 1 year but not more than 5 years | 32,018 | 48,545 | 58,389 | 68,845 |
| Receipts due thereafter | 2,806 | 22,233 | 18,413 | 32,169 |
| **Total value of receivables** | **50,660** | **93,873** | **95,776** | **124,755** |

# Note 16. Other Commitments

The total value of loans the Department has made as at 31 March 2018 can be found in Note 6. Additionally, the Department has committed to providing the following loan facilities as at 31 March 2018; these are not otherwise included in the financial statements:

- a loan facility to the Greater London Authority which can be drawn for the purposes of funding qualifying investments in the Housing Zones programme. A total of £200m is available in tranches through to 31 March 2020. As at 31 March 2018 £55m is still available for draw down.
- a loan facility to Manchester City Council which can be drawn for the purposes of funding qualifying investments in the Housing Investment Fund. A total of £300m has been made available in tranches through to 31 March 2019. As at 31 March 2018 £80m is still available for draw down. The availability for draw down of £185m previously repaid by Manchester City Council is currently being considered.

Homes England (previously known as the Homes and Communities Agency) has made financial commitments for loans and equity investments which had become unconditional at the reporting date, but which had yet to be drawn down by that date. The value of these commitments was £1,073m at 31 March 2018 (2016-17: £1,149m).

In addition to the above, Homes England has given outline approval to investments under the Help to Buy scheme which, while still conditional, are likely to result in the drawdown of investments in the coming year. The value of these outstanding approvals at 31 March 2018 was £1,056m (2016-17: £1,385m).

# Note 17. Contingent liabilities disclosed under IAS 37

In accordance with Government policy, properties included in non-current assets in the Statement of Financial Position are not insured. Other contingent liabilities are set out below.

| | | | £'000 |
|---|---|---|---|
| | | 2017-18 | 2016-17 |
| a | The Government Legal Department (GLD) manages litigation cases on behalf of the Department. Adverse litigation costs may be incurred following unsuccessful attempts to resist some of those challenges. The timing and value of such awards are difficult to predict. | 524 | 155 |
| b | Claim for repair or repurchase of defective Right to Buy homes sold by local authorities between 1980 and 1985. | 250 to 750 | 250 to 750 |
| c | Potential liabilities to the EC arising from current European legislation. | Unquantifiable | Unquantifiable |
| d | Potential losses arising from inability to recover ineligible expenditure arising as a result of the closure of ERDF 2007-2013 programme. | Unquantifiable | Unquantifiable |
| e | Commitment to fund potential shortfalls of land sale receipts of a Housing Association. | Up to 4,000 | Up to 4,000 |
| f | Potential liability - details withheld for commercial reasons. | Up to 492 | Up to 492 |
| g | Potential dilapidation payments. | 750 | 750 |
| h | Potential liabilities arising following the tragic events at Grenfell Tower in June 2017. At this time, the nature and value of the liabilities arising cannot be determined with sufficient reliability and consequently, are considered to be unquantifiable. | Unquantifiable | - |
| i | HCA: 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 a HCA 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 the Department. The extent of the potential liability is unquantifiable at this time. | Unquantifiable | Unquantifiable |
| j | HCA: The HCA 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. | Unquantifiable | Unquantifiable |
| k | Planning Inspectorate: Litigation costs may be incurred following unsuccessful attempts to resist a High Court challenge to an Inspector's decision. The timing and value of such awards are difficult to predict. | 118 | 179 |
| l | Planning Inspectorate: Ex-gratia payments which may possibly be made to appellants or other appeal parties who have incurred abortive appeal costs following an error made by a member of the Inspectorate's staff. | - | 196 |

# Note 18. Contingent assets disclosed under IAS 37

| | | | £'000 |
|---|---|---|---|
| | | 2017-18 | 2016-17 |
| a | HCA: The HCA 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. | Unquantifiable | Unquantifiable |

# Note 19. Related party transactions

The Department is the parent of a number of sponsored bodies listed in Note 21. These bodies are regarded as related parties with which the Department has had various material transactions during the year. In addition, the Department has made a number of material transactions with other government Departments, central government bodies and local government organisations.

Non-Executive and Executive Board members must declare to the Permanent Secretary any personal or business interest which may, or may be perceived to, influence their judgement as a board member.

Departmental Ministers make specific disclosure of financial interests as required by the Ministerial Code of Conduct.

Mary Ney is one of the Commissioners at Rotherham Metropolitan Borough Council, tasked with improving the council's performance and helping rebuild trust of the local residents. During 2017-18, MHCLG paid various grants to Rotherham MBC as part of normal business, the most significant of which was Revenue Support Grant.

During the year no Board member, key manager or other related parties, other than those mentioned above, have undertaken any material transactions with the Department.

# Note 20. Events after the reporting period

The Department's financial statements are laid before the Houses of Commons by HM Treasury. In accordance with the requirements of IAS 10 'Events After the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

As part of our Building Safety Programme, the Government has committed to fully funding the removal and replacement of unsafe cladding by councils and housing associations. The financial cost of this is estimated at £400 million.

# Note 21. Entities within the Departmental Boundary

All bodies apart from the Queen Elizabeth II Conference Centre and the Architects Registration Board are consolidated into the Departmental accounts.

**Executive Agencies**

Planning Inspectorate

**Advisory Bodies**

Building Regulations Advisory Committee

**Tribunals**

Valuation Tribunal for England

**Executive Non Departmental Public Bodies (NDPBs)**

| | | |
|---|---|---|
| Homes England (previously known as Homes and Communities Agency) | The Leasehold Advisory Service | Ebbsfleet Development Corporation |
| The Housing Ombudsman | Valuation Tribunal Service | |

**Other Bodies Not Classed as NDPBs**

Commission for Local Administration in England

**Trading Funds**

Queen Elizabeth II Conference Centre

**Public Corporations**

Architects Registration Board

# Business Rates Retention and Non-Domestic Rates Trust Statement

## Foreword

### Introduction

A Trust Statement provides an account of the collection of revenues which by statute or convention are due to HM Treasury's Consolidated Fund where the entity undertaking the collection acts as agent rather than principal. Trust Statements are required to be prepared under section 2(3) of the Exchequer and Audit Departments Act 1921.

The Department acts as an agent responsible for collecting Business Rate income under the Business Rate Retention system from local authorities, central list businesses and the Ministry of Defence.

The Business Rates Retention and Non-Domestic Rates Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 7(2) of the Government Resources and Accounts Act 2000.

### Scope

The Department operates the system of Business Rates Retention which came into force on 1 April 2013 and replaced the previous collection and redistribution National Non-Domestic Rating system. Under the retention system, local authorities retain at least 50% of the rates collectable as their 'local share'. Central List and Visiting Forces income is accounted for alongside Business Rates Retention but these National Non Domestic Rates otherwise operate in the same way as before the introduction of Business Rate Retention.

The results presented in this Trust Statement are entirely separate from the results presented in the Department's Group Accounts although they flow through the Department's accounting system.

### Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7 of the Government Resources and Accounts Act 2000. The audit opinion is on page 108. The auditor's notional fee of £19,000 (2016-17: £19,000) for this is included in the Department's Group Accounts. There were no fees in respect of non-audit work.

# Statement of the Accounting Officer's Responsibilities in respect of the Trust Statement

Under section 7 of the Government Resources and Accounts Act 2000, HM Treasury has directed the Ministry of Housing, Communities and Local Government to prepare for each financial year a Trust Statement in the form and on the basis set out in the Accounts Direction.

On 1 March 2015, HM Treasury appointed Melanie Dawes, the Permanent Head of the Department, as the Accounting Officer for the Business Rates Retention and Non-Domestic Rates Trust Statement.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in Managing Public Money published by the Treasury.

The Trust Statement is prepared on an accruals basis and must give a true and fair view of the state of affairs of Business Rates collected by the Department, together with the net amounts surrendered to the Consolidated Fund.

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) prepared by the Treasury and, in particular, to:

- Observe the Accounts Direction issued by HM Treasury, 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 FReM have been followed, and disclose and explain any material departures in the account; and
- Prepare the Trust Statement on a going concern basis.

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

The annual report and accounts as a whole is fair, balanced and understandable and I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

# Governance Statement in respect of the Trust Statement

The Department's Governance Statement, covering both the Group Accounts and the Trust Statement, starts on page 30.

**Melanie Dawes CB**
**Accounting Officer**
**Ministry of Housing, Communities and Local Government**

**11 July 2018**

# The Certificate and Report of the Comptroller and Auditor General to the House of Commons - Trust Statement

## Opinion on financial statements

I certify that I have audited the financial statements of Business Rates Retention and Non-Domestic Rates Trust Statement for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the Business Rates Retention and Non-Domestic Rates Trust Statement gives a true and fair view of the state of affairs of the income collectable under Business Rates Retention and Non-Domestic Rates by the Ministry of Housing, Communities and Local Government (MHCLG) on behalf of the Consolidated Fund as at 31 March 2018 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## Opinion on regularity

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

## Basis of opinions

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

## Responsibilities of the Accounting Officer for the audit of the financial statements

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

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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

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

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

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

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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.

## Other Information

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

### Opinion on other matters

In my opinion:

- the information given in the foreword 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 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** **16 July 2018**
**Comptroller and Auditor General**

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

# Statement of Revenue, Other Income and Expenditure

For the period ended 31 March 2018

£'000

| | Note | 2017-18 | 2016-17 |
|---|---|---|---|
| **Income** | | | |
| **Licence Fees and Taxes** | | | |
| National Non Domestic Rates | | 1,612,670 | 1,377,868 |
| Business Rates Retention | | 24,981,057 | 23,853,749 |
| **Local Share** | | | |
| Deduction of Local Share | | (14,587,527) | (11,588,387) |
| **Total Revenue after deduction of Local Share** | 3 | 12,006,200 | 13,643,230 |
| **Net Revenue for the Consolidated Fund Account** | | **12,006,200** | **13,643,230** |

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 114 to 115 form part of this Statement.

# Statement of Financial Position

as at 31 March 2018

£'000

| | Note | 2017-18 | 2016-17 |
|---|---|---|---|
| **Current Assets** | | | |
| Accrued Revenue Receivable | | 262,169 | 140,213 |
| Cash and Cash Equivalents | CfS, 4 | - | 88 |
| **Total Current assets** | | **262,169** | **140,301** |
| **Current Liabilities** | | | |
| Accrued Revenue Payable | | - | 88 |
| **Total Current Liabilities** | | **-** | **88** |
| **Total assets less current liabilities** | | **262,169** | **140,213** |
| Represented by: | | | |
| **Balance on Consolidated Fund Account** | 2 | **262,169** | **140,213** |

**Melanie Dawes CB**
**Accounting Officer**
**Ministry of Housing, Communities and Local Government**

**11 July 2018**

The notes at pages 114 to 115 form part of this Statement.

# Statement of Cash Flows

for the period ended 31 March 2018

£'000

| | Note | 2017-18 | 2016-17 |
|---|---|---|---|
| **Cash flows from operating activities** | | 11,884,156 | 13,561,106 |
| **Cash paid to the Consolidated Fund** | | (11,884,244) | (13,561,018) |
| **Increase/(decrease) in cash in this period** | | **(88)** | **88** |
| **A: Reconciliation of Net Cash Flow to Movement in Net Funds** | | | |
| Net Revenue for the Consolidated Fund | 3 | 12,006,200 | 13,643,230 |
| (Increase)/Decrease in receivables | | (121,956) | (71,650) |
| Increase/(Decrease) in payables | | (88) | (10,474) |
| **Net Cash Flow from Operating Activities** | | **11,884,156** | **13,561,106** |
| **B: Analysis of Changes in Net Funds** | | | |
| Increase/(decrease) in Cash in this Period | | (88) | 88 |
| Net funds at 1 April | | 88 | - |
| **Net Funds as 31 March** | | **-** | **88** |

The notes at pages 114 to 115 form part of this Statement.

# Notes to the Trust Statement

## Trust Statement Note 1 Statement of Accounting Policies

### Basis of accounting

The Trust Statement is prepared in accordance with:

- the Accounts Direction issued by HM Treasury on 9 February 2015 under section 7(2) of the Government Resources and Accounts Act 2000
- the 2017-18 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.

The Trust Statement has been prepared on an accruals basis and in accordance with the historical cost convention.

This Trust Statement reports the income collectable under the Business Rates Retention system as also reported in the Main Non-Domestic Rating Account and the Levy Account.

### Revenue recognition

Revenue is collected from local authorities, central list companies and the Ministry of Defence.

Revenue detailed in this Statement is collected on behalf of the Consolidated Fund in respect of Business Rates. Revenue is measured in accordance with IAS 18 and recognised when the underlying event giving rise to the liability to the Consolidated Fund has occurred, can be measured reliably and it is probable that the economic benefits will flow to the Exchequer.

Local authority adjustments to the amounts collected for the Consolidated Fund are not agreed, due or received until the year following the accounting period and are therefore not recognised until that point.

### Local share

Under Business Rates Retention, local authorities retain a percentage of the Business Rates collectable as their local share. Following the Office of National Statistics classification of the entire system as a central government tax, the local share is included in this Trust Statement as income collectable in respect of the tax and is then deducted as an allowable expense to calculate the amount due to the Consolidated Fund.

From 2017-18 we have piloted 100% business rates retention. This has increased the local share and decreased central share payments to the Consolidated Fund.

The cost of collection borne by local authorities included within the local share is £84 million (£84 million in 2016-17).

## Trust Statement Note 2 Balance on the Consolidated Fund

£'000

| Consolidated Fund | 2017-18 | 2016-17 |
|---|---|---|
| Balance on Consolidated Fund Account as at 1 April | 140,213 | 58,001 |
| Net Revenue of the Consolidated Fund | 12,006,200 | 13,643,230 |
| Less amount paid to the Consolidated Fund | (11,884,244) | (13,561,018) |
| **Balance on Consolidated Fund Account as at 31 March** | **262,169** | **140,213** |

## Trust Statement Note 3 Revenue collected on behalf of the Consolidated Fund

£'000

| Revenue | 2017-18 | 2016-17 |
|---|---|---|
| Central list and others: NNDR revenue collectable on behalf of the Consolidated Fund | 1,612,670 | 1,377,868 |
| Local authorities: BRR revenue collected on behalf of the Consolidated Fund | 10,393,530 | 12,265,362 |
| **Balance on Consolidated Fund Account as at 31 March** | **12,006,200** | **13,643,230** |

## Trust Statement Note 4 Cash at Bank

The cash and cash equivalents and net funds disclosed in the Statement of Cash Flows are held with the Government Banking Service.

## Trust Statement Note 5 Events after the reporting period

The Department's financial statements which includes this Trust Statement are laid before the Houses of Commons by HM Treasury. In accordance with the requirements of IAS 10 'Events After the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General. There are no post Statement of Financial Position events between the balance sheet date and this date.

# Accounts Direction Given by HM Treasury

This direction applies to the Ministry of Housing, Communities and Local Government for the reporting of the Business Rates Retention and Non-Domestic Rates.

The Department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2015 and subsequent financial years for the revenue and other income, as directed by HM Treasury, collected by the Department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for that financial year.

The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of Business Rates; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

The Department shall report the total amount of Business Rates revenue, comprising the central and local share, including those elements that are recorded separately. These include levy income receivable from local authorities and other income following reconciliation adjustments. The Department shall show the local share as an allowable deduction from the total amount of Business Rates revenue recognised and correspondingly reduce revenues payable to the consolidated fund by the amounts retained by local government in the form of the local share.

The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

When preparing the Statement, the Department shall comply with the guidance given in the FReM. The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 7(2) of the Government Resources and Accounts Act 2000 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless HM Treasury have agreed that the Trust Statement may be laid at a later date.

This Accounts Direction supersedes any previously issued Accounts Directions in respect of Business Rates Retention.

**Ross Campbell**
**Deputy Director, Government Financial Reporting**
**Her Majesty's Treasury**
**9 February 2015**

# Annex A: Section 70 Grant Payments to Charities

| Institution | Payments £'000 | Purpose |
|---|---|---|
| **Build integrated communities** | | |
| **Anne Frank Trust**<br>Integration & Extremism - Tolerance | 218 | To use Anne Frank's life and diary to empower young people with the knowledge, skills and confidence to challenge all forms of prejudice & discrimination. |
| **Apasenth**<br>The e3 pilot Project - English through Social, Economic and Community Action | 496 | To deliver Community-Based English Language training to adults with the lowest levels of English, in order to increase integration. |
| **Big Ideas Community Interest Company**<br>Remembering Together | 399 | To commemorate the sacrifice of the men of the various Labours Corps in the First World War and to commemorate the 100th anniversary of Passchendaele. |
| **B'nai B'rith Hillel Foundation**<br>Expanding Bridges not boycotts | 50 | To promote responsible dialogue on university and college campuses regarding the Israeli-Palestinian conflict. |
| **Church Urban Fund**<br>Near Neighbours programme | 2,150 | To bring people together in communities that are religiously and ethnically diverse, so that they can get to know each other better, build relationships of trust and collaborate together on initiatives that improve the local community they live in. |
| **Clapton Common Boys Club**<br>Charedi Testimony | 50 | Holocaust Testimony Project. |
| **Faith Action**<br>Creative English | 735 | To deliver Community-Based English Language training to adults with the lowest levels of English, in order to increase integration. |
| **Faith Matters**<br>Integration & Extremism - Tolerance | 829 | To encourage people to report instances of anti-Muslim hatred and to carry out community engagement to educate people about anti-Muslim hatred. |
| **Faiths Forum for London**<br>70 Years On | 70 | To build community cohesion by commemorating the 70th Anniversary of Indian partition. |
| **Fayre Share Foundation**<br>Strengthening Faith Institutions | 487 | To strengthen and support places of worship of all faiths in order to improve governance, increase their capacity to engage with women and young people, challenge intolerance and develop resilience to extremism. |
| **Gate Herts**<br>Herts Gate - Report racism - Gypsy, Roma and Traveller | 28 | To increase hate crime reporting for Gypsy, Roma and Traveller communities. |
| **Golden Tours Foundation**<br>Inspiring Young Minds | 48 | Remembering Indian Soldiers during the First World War. |
| **Good Things Foundation**<br>Community-Based English language Programme | 2,050 | To deliver Community-Based English Language training to adults with the lowest levels of English, in order to increase integration. |
| **Groundwork UK**<br>Neighbourhood Planning | 2,915 | Drawdown of funding by grant administrator to disburse to recipients of support under the Community Rights and Neighbourhood Planning support programmes. |
| **Holocaust Memorial Day Trust**<br>Holocaust Memorial Day | 1,150 | Holocaust Memorial Day Trust delivers Holocaust Memorial Day on behalf of Government and supports local Holocaust Memorial Day activities. |
| **Inter Faith Network for the UK**<br>Strategic Grant | 382 | To promote understanding and cooperation between organisations and people of different faiths across the country. |
| **Irish Traveller Movement in Britain**<br>Operation Report Hate - The Traveller Movement | 35 | Encouraging the Gypsy, Roma and Traveller communities to report hate crime and supporting the work to educate the Gypsy, Roma and Traveller communities about homophobia and misogyny within the community. |

| Institution | Payments £'000 | Purpose |
|---|---|---|
| **Learning From the Righteous**<br>Irena Sendler Exhibition and Workshops | 20 | To inspire children to make a positive impact on the world, Learning from the Righteous aims to honour Irena Sendler's memory and to inspire others with her humanity. |
| **Locality**<br>Community Enabler Fund | 135 | To support community groups to consitute themselves in order that they can take community action. |
| **Maccabi GB**<br>Maccabi GB Streetwise | 50 | To educate young people on the dangers of anti-Muslim hatred and anti-Semitism. |
| **National Holocaust Centre and Museum**<br>The Journey | 442 | Supporting the digitisation of 'The Journey': an immersive first-person experience following the story of a child who came to England on the Kindertransport. |
| **Nisa-Nashim**<br>Challenging Conversations | 30 | Supporting Jewish and Muslim women across the country to have conversations about difficult topics in safe places. |
| **One Voice Europe**<br>Solutions not Sides Education Programme | 100 | To ensure that young people are more aware of the nuances behind the conflict in Israel and Palestine and to help build understanding between communities. |
| **One20**<br>Community-Based English language Programme | 322 | To deliver Community-Based English Language training to adults with the lowest levels of English, in order to increase integration. |
| **Operation Black Vote**<br>Parliamentary Shadowing Schemes | 53 | To provide opportunities for young people from BAME backgrounds to shadow members of the House of Commons and House of Lords. |
| **Services for Education Limited**<br>Lest We Forget | 47 | To commemorate the end of the First World War with a concert of mass children's choirs in Birmingham. |
| **Show Racism the Red Card**<br>Show Hate Crime the Red Card | 85 | To organise and deliver high-profile hate crime awareness and education events in partnership with football clubs. |
| **St Philips Centre Ltd**<br>Tough options | 79 | To provide methods for communities to understand the conflict in Israel and Palestine and to re-engage young people in civic society. |
| **Stop Hate UK**<br>Challenging Online Hate | 65 | To address online hate by engaging in activity aimed at challenging and reporting hate crime/ hate speech online, as well as supporting and signposting targeted individuals. |
| **The Linking Network**<br>Schools Linking | 368 | To develop and facilitate effective links between schools of different demographic backgrounds, creating sustained social mixing and supporting them to develop a positive, cohesive ethos. |
| **The Sophie Lancaster Foundation**<br>Sophie | 35 | An initiative which works in schools to educate young people around the issue of hate crime. The project works to change attitudes and is based on the experiences of Sophie Lancaster who was murdered for being a member of an alternative culture. |
| **UK Toremet**<br>From the Depths | 38 | Documenting unmarked graves. |
| **Ummah Help**<br>Remember Srebrenica Genocide Project | 400 | To commemorate what happened in the town of Srebrenica during the Yugoslavian civil war whilst raising awareness aimed at countering discrimination and building stronger community relations here in the UK. |
| **Youth United Foundation**<br>Youth United Foundation | 400 | Map and develop youth group provision. |
| **Grow local economies** | | |
| **Power to Change Trust**<br>Bright Ideas | 120 | To accelerate from "ideas and pre-venture" to "start-up" enterprises and businesses. |
| **Power to Change Trust**<br>Bright Ideas | 30 | To raise awareness amongst local authorities across England of the Assets of Community Value online directory platform. |

| Institution | Payments £'000 | Purpose |
|---|---|---|
| **Power to Change Trust**<br>Bright Ideas | 80 | A research project to assess the success / failure of community asset transfer and to inform future policy making. |
| **Pub is the Hub**<br>Community Rights and Pubs | 70 | To support the Community Services Fund. |
| **Ensure an effective response to the Grenfell Tower fire** | | |
| **London Community Foundation**<br>Grenfell Recovery | 46 | Funding to support administration of the relief effort by local charities. |
| **London Funders**<br>Grenfell Recovery | 84 | Funding to support administration of the relief effort by local charities. |
| **Tudor Trust**<br>Grenfell Tower Victim Support Fund | 1,798 | To manage the funding that will support Anchor and Infrastructure local organisations in Grenfell and North Kensington that have supported volunteers and smaller groups, to facilitate the development of community voices and to advocate on behalf of the community. |
| **Fix the broken housing market** | | |
| **Construction Industry Council**<br>Built Environment Professional Education project | 30 | To support institutions with their accreditation criteria for education programmes (Architecture and Engineering) and to promote implementation of the Teaching and Learning Guide. |
| **Design Council**<br>Embed inclusive design into professional education | 67 | To support institutions with their accreditation criteria for education programmes (Architecture and Engineering) and to promote implementation of the Teaching and Learning Guide. |
| **Gloucestershire Wildlife Trust**<br>Planning Delivery Fund | 9 | To accelerate the planning and delivery of high quality new homes by embedding and mainstreaming building with nature within the Cotswolds, West Oxfordshire and the Forest of Dean. |
| **Royal Town Planning Institution**<br>Planning Delivery Fund | 115 | To establish a joint initiative with higher education establishments to pay planning bursaries to students in order to bring new trained planners into the planning profession. |
| **Urban Design London**<br>Planning Delivery Fund | 72 | To support local participants involved in planning and housing to deliver good design through training and networking. |
| **Support effective Local Government** | | |
| **National Association of Local Councils**<br>Data Transparency Parishes | 1,517 | To assist smaller authorities affected by the new transparency regulation by providing them with the equipment and skills required to meet these regulations. |
| **Smaller Authorities' Audit**<br>Smaller Authorities Sector-Led Body | 250 | To establish a not-for-profit, private limited company to act as a sector-led body for smaller authorities, plus exempted authorities, to procure audit services in line with legal requirements. |
| **Total** | **19,049** | |

# Annex B: European Regional Development Fund

The information in the following paragraphs gives additional information about entries included in the financial statements and notes regarding the European Regional Development Fund (ERDF).

The ERDF was set up in 1975 to stimulate economic development in the least prosperous regions of the European Union (EU). The Department acts as Managing Authority (the organisation responsible for the efficient management and implementation of the programme) for the 2000-2006, 2007-2013 and 2014-2020 Programmes. In London, the ERDF continues to be delivered by an intermediary body, the Greater London Authority (GLA).

Where project expenditure is not in accordance with ERDF regulations it becomes ineligible for ERDF grant funding. The Department seeks to recover such ineligible expenditure from grant recipients in the first instance. Where recovery is not possible or feasible, the liability ultimately falls to the Department to manage and, where appropriate, write off.

ERDF income is recognised once the relevant claim has been certified by the Department's ERDF Certifying Authority team. Payments to projects that were made by the Department have been treated as current asset inventories on the Statement of Financial Position (31 Mar 18: £147 million, 31 Mar 17: £58 million) and only transferred to expenditure on certification. In the event that the payments fail certification, the amounts are reclaimed from projects.

All programmes have an associated intervention rate. This is the percentage of project expenditure which can be funded by the ERDF. Projects can be offered an ERDF grant at differing intervention rates but claims made to the European Commission (EC) are based on the programme level intervention rate. Differences therefore arise between the amounts claimed from the EC and that paid out to projects. The differences between these amounts are posted to the Statement of Financial Position either as current asset inventories (31 Mar 18: £0, 31 Mar 17: £0) or as deferred income within current payables (31 Mar 18: £224 million, 31 Mar 17: £186 million).

## European Regional Development Fund 2014-2020

The Department agreed the 2014-20 ERDF Programme in 2015-16 and the first payments were made in June 2016. The Department has been provided with an initial advance which is held as a payable until utilised (31 Mar 18: £95 million, 31 Mar 17: £89 million). In the 2014-20 Programme, there is an advance for the whole programme plus annual advances paid each year, for use on an annual basis. Any annual advance not used by the Department has to be paid back to the EC once the annual accounts have been agreed. The 2014-20 programme differs from the 2007-13 as the EC hold back 10% of each requested amount from each payment application made. Once the annual accounts have been agreed this amount is released and is taken from the annual advance, along with any adjusted amounts that have been made to previous payment applications through the annual accounts. Any unused amount of the annual advance will be paid back to the EC. The EC will pay any additional monies that are owed to the Department at this stage (31 Mar 2018: £73 million, 31 Mar 2017: £57 million).

The Audit Authority (the designated body that audits the ERDF) tested the validity of 36 claims, equating to €79.4 million out of total declared expenditure of €225.8 million. Testing of the audit sample revealed instances of ineligible expenditure on a number of ERDF projects (15 of the 36 claims examined contained ineligible expenditure). However, the Audit Authority calculated the total error rate for the EC's 2016-17 accounting period as being 0.070%, which is far below the 2% materiality threshold.

In October 2016, HM Treasury confirmed that the Government will guarantee EU funding for structural and investment fund projects signed before the UK's departure from the EU, even when these projects continue after we have left the EU[27]. The England ERDF 2014-20 programme falls under this guarantee. See page 76 for more detail.

27 https://www.gov.uk/government/news/further-certainty-on-eu-funding-for-hundreds-of-british-projects

# European Regional Development Fund 2007-13 programme

The 2007-2013 Programme closed on 31 December 2015. The Department submitted formal closure documents for all ten programmes to the EC by 31 March 2017. Although the Commission have approved the Final Implementation Reports (FIRs), we are now waiting for them to conclude their reviews of the closure packs, to sign off the Audit Authority's Final Control Report (FCR) and Closure Declaration, and to then issue pre-closure letters with closure offers for all ten programmes. We expect the Programmes to be closed down within the next 12 months.

At the start of the programme 7.5% of the value of the programme was paid by the EC to the Department as an advance payment. This payment was to provide working capital and any interest gained on the cash balances could be used as match funding within the programme and where not utilised, returned to the EC. The interest is now in the Departmental bank account and will be used for matched funding of technical assistance (technical assistance provides funding for MHCLG, as the managing authority, to administer the ERDF programme) once the programmes for 2007-13 have been formally closed by the EC. Two programmes have some unused advance which is expected to be returned to the EC. 5% of each programme value is held on retention by the EC and will be returned to the Department, if eligible, as part of the final closure settlement.

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