Homes England

Making homes happen

Annual Report & Financial Statements

2018/19

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Making homes happen

Homes England[1] Annual Report & Financial Statements 2018/19

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

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HC 2503

[1] In January 2018, the Ministry of Housing Communities and Local Government (MHCLG) launched Homes England as the new name for the Homes and Communities Agency. Homes England is a non-departmental public body and statutory corporation created by the Housing and Regeneration Act 2008 (as amended by the Localism Act 2011). It is the responsibility of and sponsored by MHCLG.

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Chairman’s foreword

This Annual Report and Accounts represents an opportunity to reflect on our first year as Homes England.

Sir Edward Lister
Chairman

We know that housing is one of the most important issues of our time. As an expanded agency with an increased budget, more powers and greater influence, we are already making great strides to tackle the housing challenges our country is facing. In the last year, ambitious deals have been made, new partnerships have been formed and we have increased our workforce by the hundreds.

Arguably the most significant step we’ve taken is launching our five-year Strategic Plan; setting out a bold mission that highlights how we will disrupt the housing market and deliver homes in the places where they are needed the most. We have committed to boosting housing supply, unlocking land, increasing productivity, championing modern methods of construction and supporting SMEs to accelerate the delivery of new homes.

We have been given more resources than ever before to make real market change, and a clear remit from government to help deliver the 300,000 homes a year the country needs.

We’re unlocking both land and investment, managing a £27 billion[1] investment budget, to make homes happen up and down the country. Against a backdrop of affordability pressures, increasing costs and a construction skills shortage, it is remarkable what has been achieved so far.

We’re a growing organisation, with big, bold ambitions. As we look to the future, change will continue to happen at pace. Internally, we’re refining the way we work to best deliver our mission; creating a new way of working which will increase our ability to disrupt the housing market and the number of new homes being built. We’re also embracing technology and digitising our systems to enable us to work more efficiently with partners and adapt to a changing market. It’s an exciting time in our organisation’s evolution and I’m looking forward to seeing what we’ll achieve in the next 12 months and beyond.

I’m incredibly proud of the progress that we’ve made so far. I would like to thank the Board and the Executive Team, with extended thanks to each and every person who has worked hard, for making this happen. Over the coming years there is much more work to be done, but I am confident that we are up to the task. We really are making a difference and creating a lasting legacy of making homes happen for hundreds of thousands of people.

[1] The budget of £27 billion is quoted in our Strategic Plan and covers a five year timeframe 2018/19 to 2022/23.

Performance report

Performance overview

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

Chief Executive's statement

This is our first annual report as Homes England, having been set up in January 2018, and it marks a year of considerable growth and change.

Nick Walkley
Chief Executive

As a new organisation, we've come a long way in a short period of time; evolving, growing and transforming into a dynamic and commercially-minded agency. Over the past 12 months, we've been entrusted by Government to invest £27 billion[1] over the next few years to ensure more homes are built in areas of greatest need.

This is a huge responsibility and one we do not take lightly. That's why, in October, we published our Strategic Plan, outlining our mission and strategic objectives. To support its delivery, we've taken on highly specialised staff from a wide variety of backgrounds – including banking, development, finance and organisational development.

We've built on the strengths of our predecessor, but are unabashed by our desire to change processes, revisit approaches, explore innovation and step into spaces we haven't previously occupied. We're not simply a new logo on some mugs and pin badges. Our whole role and remit has completely shifted from that of the former Homes and Communities Agency.

On that basis – alongside continuing to push the envelope on delivery – we have simultaneously been transforming Homes England from the inside. We've implemented a new structure, put in place a new top team and streamlined the way we engage with existing and new stakeholders.

For our partners, this means they can work with us more easily – unlocking development and investment opportunities. Our primary risks are within my Governance report. I know there is much more to do to manage these risks and to continue to meet our big targets, but I am encouraged by the progress we have made over the last 12 months and the feedback I have received from our partners. A stand-out comment for me, received from one of our stakeholders, was: 'we appreciate the willingness Homes England has to listen to us and implement change.'

Over the coming year, we will continue to implement changes; focusing on our outcomes, continually interrogating our approaches and working hand-in-hand with our partners to deliver the homes we need.

We have a central role to play in delivering 300,000 homes a year by the mid-2020s, and we're stepping up to the plate.

As we reflect on our performance over the last 12 months, I look forward to working with our partners over the coming period to make homes happen.

[1] The budget of £27 billion is quoted in our Strategic Plan and covers a five year timeframe 2018/19 to 2022/23.

Organisational Overview

Who we are

Homes England was launched in January 2018. We are a non-departmental public body sponsored by the Ministry of Housing and Local Government. Our statutory objects are contained in the Housing and Regeneration Act 2008 ('the Act').

Our Statutory Objects

The Statutory Objects of Homes England are set out in the Housing and Regeneration Act, and are:

→ to improve the supply and quality of housing in England;

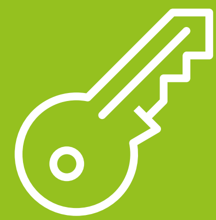
→ to secure the regeneration or development of land or infrastructure in England;

→ to support in other ways the creation, regeneration or development of communities in England or their continued well-being; and

→ to contribute to the achievement of sustainable development and good design in England, with a view to meeting the needs of people living in England.

Following the launch of Homes England, in addition to our statutory objects, we launched a new Mission and Strategic Objectives in October 2018, aligning Homes England to the government's housing priorities.

Our mission is to intervene in the market to ensure more homes are built in areas of greatest need, to improve affordability. We will make this sustainable by creating a more resilient and diverse housing market.

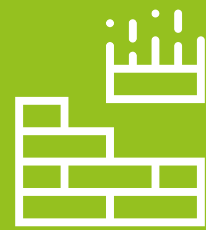


Unlocking land

We'll unlock public and private land where the market will not, to get more homes built where they are needed.

Unlocking investment

We'll ensure a range of investment products are available to support housebuilding and infrastructure, including more affordable housing and homes for rent, where the market is not acting.



Increasing productivity

We'll improve construction productivity.

Driving market resilience

We'll create a more resilient and competitive market by supporting smaller builders and new entrants, and promoting better design and higher quality homes.

Supporting local areas

We'll offer expert support for priority locations, helping to create and deliver more ambitious plans to get more homes built.

Delivering home ownership products

We'll effectively deliver home ownership products providing an industry standard service to consumers.

Organisational Overview

Challenges

As referenced in the Chief Executive's statement, Homes England is aware of the huge responsibility it has to support housing delivery in areas of greatest need and is transforming itself as an organisation in order to achieve this. As such the organisation is in the middle of a defining period of expansion and change. The extent of the scale and pace of change will of necessity lead Homes England to embracing additional Strategic Risk both in terms of successful delivery and people issues.

It is not considered that the current operating model, organisational structures, processes, and procedures will enable Homes England to meet its strategic objectives. The key mitigation strategy for this is the Digital Transformation Programme. Therefore, it is 'mission critical' to achieving our objectives that our Business Case is approved and the Digital Transformation delivered. The Transformation Programme is core to the strategy that Homes England has developed to achieve its objectives.

Given the scale, pace and budgetary allocation associated, it will undoubtedly carry significant risk in implementation. However, this is entirely consistent with the Board's Open Risk Appetite for Strategic Risk.

Over the last year the organisation has identified, assessed, owned and managed risks across the business as a whole. Key areas where focussed risk work is ongoing are in relation to Help to Buy and compliance with anti-money laundering regulations.

Looking forward, there is work to be done to embed a robust Risk Management Culture across the organisation. Board and Ministry of Housing, Communities and Local Government (MHCLG) approval of the Risk Management Framework, Risk Appetite Statement and Risk Taxonomy, combined with planned work on training and business partnering will provide a strong base to support effective risk management across the organisation. See our Governance Report to understand how we manage risk and a description of our primary risks, (page 48).

We're the government's housing accelerator.

We have the appetite, influence, expertise and resources to drive positive market change. By releasing more land to developers who want to make a difference, we're making possible the new homes England needs, helping to improve neighbourhoods and grow communities.

We welcome partners who share our ambition to challenge traditional norms and build better homes faster.

We are a new non-departmental public body, sponsored by the Ministry of Housing, Communities and Local Government. We exist to accelerate the delivery of housing across England, except in London where much of this role is devolved. We're a national agency with experts based in offices across the country, North, South, East and West. Our ambition is to continue to build, to broaden our skills base and drive the delivery of more housing.

Our role is to ensure more people in England have access to better homes in the right places.

To make this happen we intervene in the market to get more homes built where they are needed. We accelerate delivery, tackle market failure where it occurs and help to shape a more resilient and diverse housing market.

Additional Information

Going concern

Our net assets reflect the inclusion of liabilities falling due in future years which, to the extent that they are not met from our other sources of income, may only be met by future grants or grant in aid from our sponsoring department, the Ministry of Housing, Communities and Local Government. Such grants may not be issued in advance of need and grant in aid for the year ending 31 March 2020, taking into account the amounts required by our liabilities falling due in that year, has already been approved by Parliament.

As Homes England and MHCLG have recently agreed a rolling five year business plan and delegated authority limits for the period, the Board considers it appropriate to adopt a going concern basis for the preparation of our financial statements.

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

We are committed to the effective management and application of public funds in accordance with Managing Public Money carried out in the spirit of, as well as to the letter of the law, namely in the public interest, to high ethical standards and achieving value for money. We also endorse the seven Principles of Public Life – the Nolan Principles – of Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

We support the Government's key objectives to mitigate against the risks of financial crime, including fraud, bribery and corruption. We report progress in meeting the Government's counter-fraud functional standards to the HMG Cabinet Office. In support of these objectives we have revised and published a five year counter-fraud and anti-bribery and corruption strategy.

Our fraud action plan underpins our activity. We have examined, developed and amended our existing counter-fraud, bribery and corruption policies to reflect our activity. Our activity is supported by our policies and procedures. A review of fraud reporting mechanisms internally and externally has been implemented to enable us to obtain a greater understanding of our fraud landscape and to inform our risk appetite.

A review of the Agency's fraud investigation processes has been undertaken, a triage approach to investigations now provide visibility to legal, internal audit and financial crime compliance. The collegiate process provides resource oversight accountability and direction.

As the organisation has grown we have responded to our fiduciary regulatory responsibilities. We have introduced mandatory induction training for all staff. The training has been delivered to all areas of the organisation through net-consent, e-learning and webinars. These will be further developed in the forthcoming year to meet the challenges ahead. Counter-fraud, error and loss risk assessment workshops are being delivered to key stakeholders. Our purpose; to identify key fraud risks; to examine and improve our fraud control mechanisms and to deliver training in the areas of Fraud, Theft and Bribery and corruption.

We fully support the Government's objectives to eradicate modern slavery and human trafficking. Each year we publish an annual statement setting out the steps we have taken to assess risk and mitigate modern slavery across our activities and supply chains. In the financial year 2018/19 Homes England we have reviewed and revised our modern slavery policies to reflect our changing environment. External engagement with the Office of the Independent Anti-Slavery Commissioner and the Gangmasters Labour Abuse Authority to inform benchmark and endorse our risk approach.

Together with construction industry partners we are a signatory to the Gangmasters and Labour Abuse Authority (GLAA) intelligence sharing protocol and we have formed and maintained relationships with UK law enforcement bodies.

We have prepared and delivered internal training to Homes England staff in the form of presentations and workshops. In partnership with the Chartered Institute of Builders (CIOB) we are seeking to develop a modern slavery awareness webinar, once complete this will be available to all Homes England staff.

External training has been delivered to our panel firms and framework partners. Our purpose is to ensure that our compliance requirements are met and to educate partners to identify and report suspicious activity and welfare concerns. This change is appropriate and will continue. This has enabled our partners to have the tools to identify indicators of modern slavery and to be equipped to be able to escalate their concerns to enforcement bodies.

Procurement is a powerful tool to influence business practices. We are beginning to utilise the Home Office procurement database for public contractors. We have also built upon and developed specific compliance conditions within our invitations to tender, contracts and legal agreements. Continued top down responsibility and governance from our Executive Management team and Board ensure that we continue to create a hostile environment for modern slavery and ambiguous supply chains.

A year in summary
Homes England (April 2018 - November 2018)

2018

A

Homes England provides a £74 million investment to accelerate the development of more than **5,000 homes** at Ebbsfleet Garden City.

Homes England co-launches the first Regeneration Brainery in Manchester to encourage diversity in regeneration.

M

Homes England launches a new framework to help speed up the delivery of new homes.

J

Homes England agrees a £22.4 million Home Building Fund deal, accelerating the delivery of **1,300 homes** in Cambridge.

J

Homes England signs landmark deals with eight housing associations. The first wave will deliver **14,280 additional affordable homes by March 2022.**

Homes England announces the acquisition of **176 hectares** of land around the Northern Arc in Burgess Hill to deliver more than **3,500 homes,** alongside schools and leisure facilities.

Homes England holds their all staff conference in Liverpool.

The launch of the **£163 million** Community Housing Fund, managed by Homes England.

Homes England agrees £590 million strategic partnerships with eight housing associations, supporting **14,280 homes**

A

Homes England launches their new Garden Communities programme.

Homes England agrees £650,000 in funding for custom-build development in County Durham, supporting **100 homes**

Homes England appoints **19 new members** to our Property Framework helping to speed up the delivery of new homes.

Homes England unlocks and accelerates delivery of **560 new homes** at risk of stalling at the site of Kings School, Macclesfield.

S

£1 billion Housing Delivery Fund overseen by Homes England was launched in partnership with Barclays.

£2 billion of long-term funding to support strategic partnerships with housing associations announced.

Homes England launches a **£1.9 billion** Land Assembly and Small Sites fund.

Our partnership with Telford and Wrekin Council wins collaborative working award at Public Sector Excellence Awards.

O

Homes England agrees a £1 million investment in offsite-manufacturer LoCal Homes, supporting more than **1,000 homes a year**

Homes England launches their **Five Year Strategic Plan**.

Homes England agrees on a £653 million strategic partnership with seven further housing associations, supporting **13,475 homes**

Homes England launches their new brand.

N

Homes England agrees on £75 million infrastructure loan with St Modwen, supporting **13,297 homes**

Homes England launches their new governance framework.

Homes England launches their new operating model.

Homes England publishes their official housing statistics, which showed the number of homes being built in England continued to rise in the first half of this financial year, including a big increase in the number of affordable homes.

A year in summary
Homes England (December 2018 - March 2019)

D

Homes England chose offsite construction specialist McAvoy Group to create their new South-East office at the new town of Northstowe in Cambridgeshire.

Homes England accelerates the start of construction for **3,000 new homes** in St Neots, Cambridgeshire as a result of collaborative working between with Urban&Civic and Nuffield Trusts at Oxford University.

J

2019

The **Homes England Way** is launched. A guide that sets out how we build a new culture founded on our values.

£500 million strategic partnership was agreed with eight further housing associations, supporting **11,500 homes**

Homes England agrees on a £9 million deal with SME developer Apex Airspace Developments, supporting **78 rooftop homes**

Homes England agrees a £70 million deal in Northamptonshire, supporting over **8,000 homes**

F

Homes England raised **£18,400** for **Alzheimer's Society**, Homes England's 2018 Staff Charity of the Year.

Homes England names the **Samaritans** as Homes England's 2019 Staff Charity of the Year.

Homes England holds their Annual Staff Excellence awards.

Homes England forms a new partnership with the Defence Infrastructure Organisation (DIO) to help unlock Ministry of Defence (MoD) land for development.

M

Homes England was part of the UK Government presence at MIPIM Cannes and supported more than 100 partner events to promote regional investment opportunities.

Homes England publishes their Gender Pay Gap Report and outlines measures for improvement, including a pay and grading review and their ambitions to promote gender equality and champion diversity in the housing industry.

Homes England agrees on a £30 million deal for estate regeneration project in Basildon, supporting over **760 new homes**

Countryside Properties UK was announced as the first developer at Homes England's Burgess Hill site, supporting **460 homes**.

Outline planning permission was granted at York Central, with plans for **2,500 homes** and up to **6,500 jobs**.

£717 million infrastructure deals agreed in Old Oak North, Cheshire East, Cambridge and Oxfordshire, supporting **36,711 homes**

Homes England launches their online Land Hub, an interactive digital tool to help match builders to plots of land which are ready for home-building.

Case study: Burgess Hill

The Northern Arc site in Burgess Hill, West Sussex has been identified as a location for major housing delivery for over 10 years. Work on the site had been stalled due to the complexities of land ownership and the need for upfront strategic infrastructure delivery. Having successfully addressed these issues through the acquisition of land and a funding injection to facilitate the construction of key infrastructure, Homes England is working to accelerate the delivery of housing on the site.

A strategic priority for Homes England, the Northern Arc will deliver 3,500 new homes (including 30% affordable), new leisure and community facilities, three new schools, health provision, employment opportunities as well as vehicle, pedestrian and cycle connections. Countryside Properties UK were appointed in March 2019, to deliver the first phase of 460 much needed homes at the Freeks Farm site and work is due to start on site in November.

Case study: Kings School

The site of King's School in Macclesfield, Cheshire is another example of how Homes England is intervening in the housing market to help home builders and communities create great places to live and work.

Homes England signed a deal to buy the main campus of King's School in 2018. To aid the relocation Homes England is leasing the site back to the school until 2020, enabling a new campus to be built without interruption to staff or students.

The purchase is not only bringing forward the delivery of 300 new homes on the site, but will also accelerate plans for a further 260 homes to be built across the remaining three campuses the school is selling as part of its relocation.

Performance analysis

Delivery and financial targets

Our performance is managed by reference to financial and non-financial delivery targets, within the constraints of programme and operational expenditure limits set by MHCLG. Our non –financial measures for 2018/19 include Unlocked Housing Capacity, Starts on Site, Public Sector Land Housing Capacity and Direct Commissioning Starts on Site. From 2019/20 onwards we will monitor our delivery performance against a new set of portfolio based Key Performance Indicators which will include targets for housing completions.

The Board review and hold management to account for our performance through the Management Information Suite. This covers delivery and financial performance in addition to a housing market overview, risk management and key corporate performance indicators. The Management Information suite provides the Board with detailed performance information including both financial and non-financial, such as budgets, expenditure and receipts, actuals, forecasts and variances and progress towards the achievement of delivery targets agreed with MHCLG.

In 2018/19

- We directly supported the completion of **40,289** new homes, including **28,710** affordable homes.
- We delivered **27,286** homes that were additional to the market.
- We supported **61,321** households into home ownership.
- We unlocked land with capacity for **35,500** homes.
- We achieved all of our formal programme targets with the exception of Direct Commissioning.

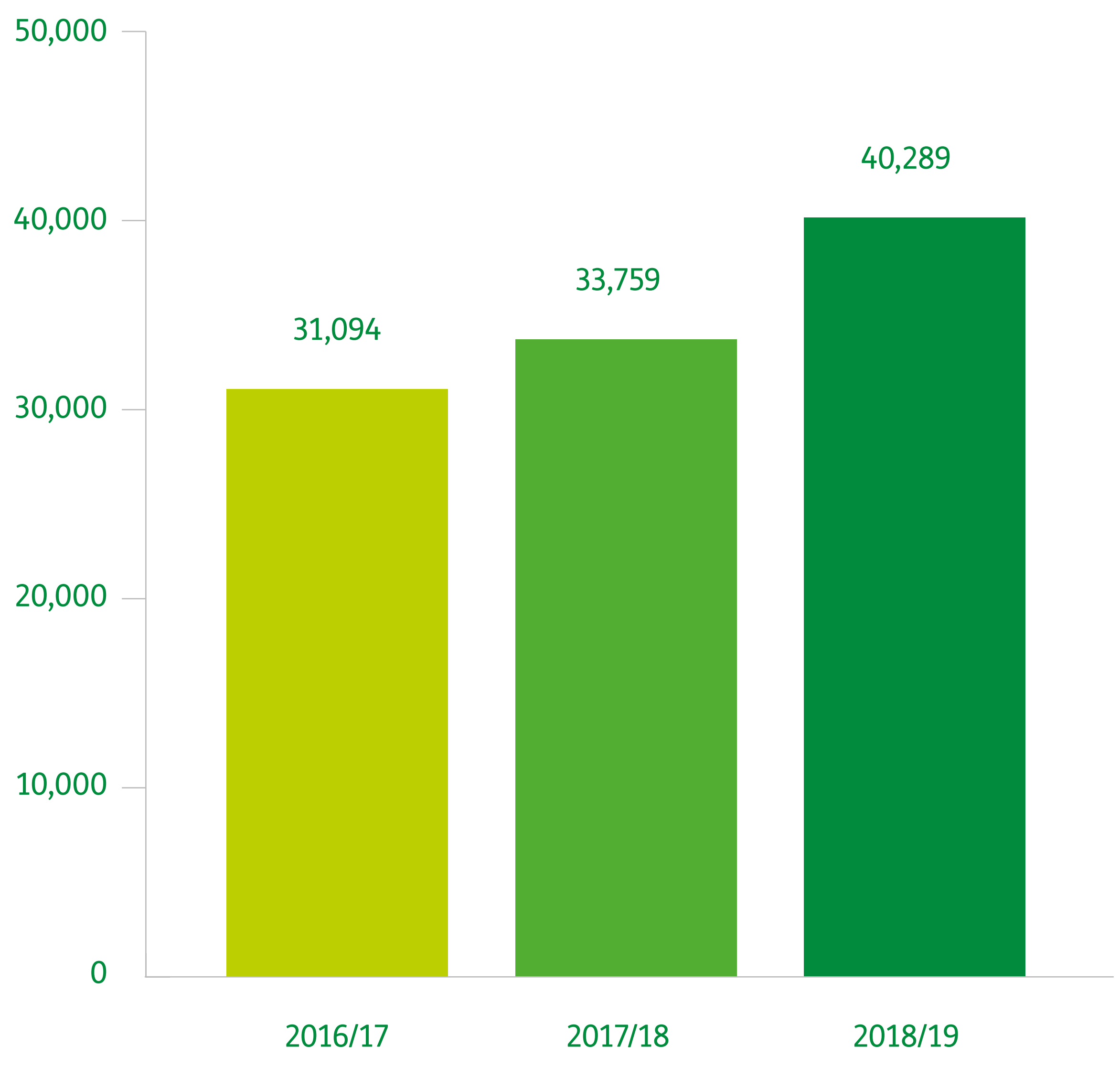
As we move towards our new performance indicators we have also captured our performance in relation to 'total completed new homes supported by Homes England' and 'total affordable completed new homes supported by Homes England' in chart 1 and chart 2.

Total completed new homes supported by Homes England

We supported the delivery of 40,289 housing completions in 2018/19, 19% more than in 2017/18.

Full details of housing delivery can be found at:
https://www.gov.uk/government/collections/housing-statistics

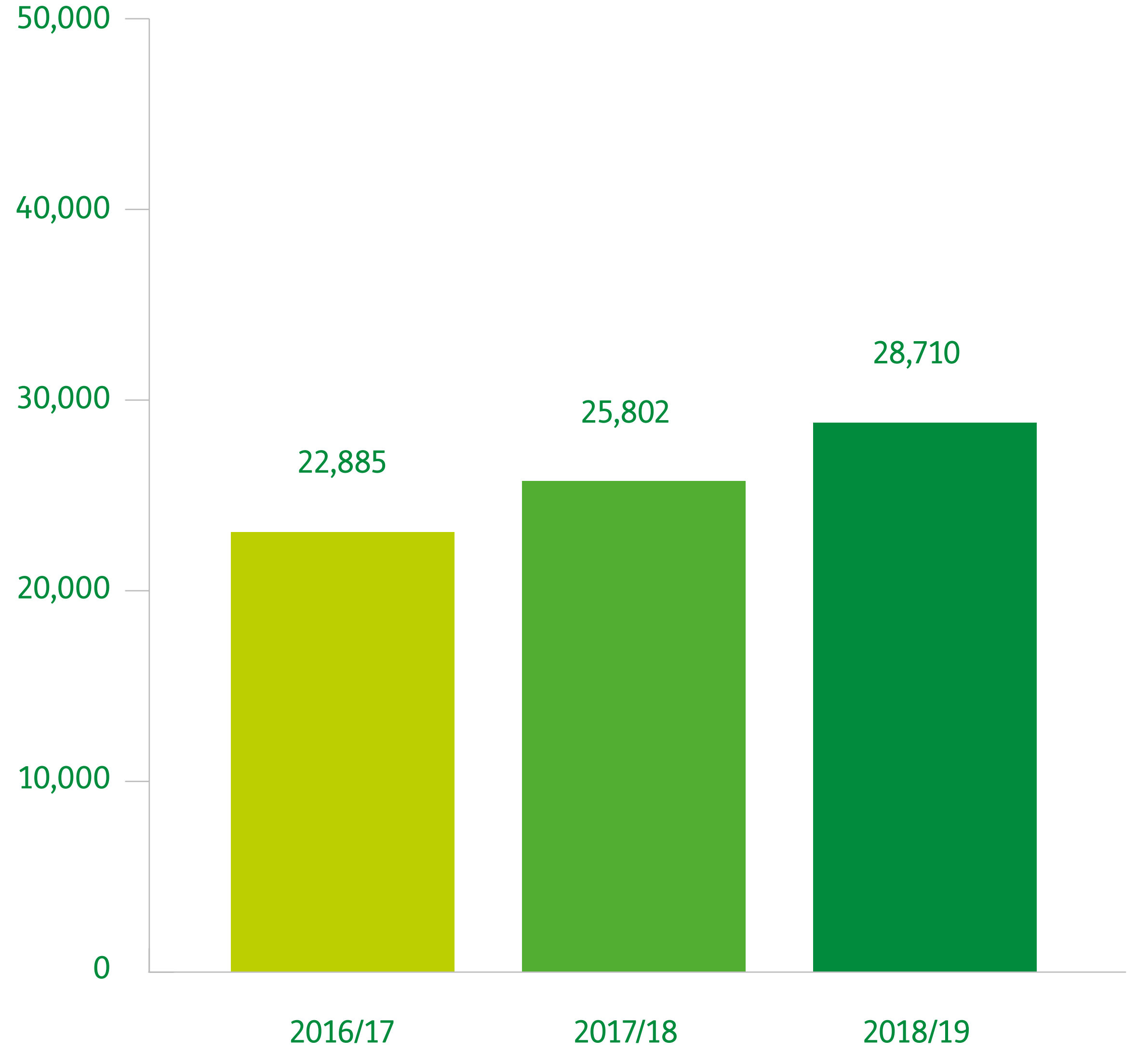
Chart 1 - Total housing completions



Total completed affordable new homes supported by Homes England

Of the total completions delivered in the year 28,710 are affordable homes. This is an 11% increase on 2017/18.

Chart 2 - Total affordable housing completions



The table below illustrates that, with the exception of the Direct Commissioning starts on site target, we exceeded all of our targets. The Direct Commissioning target of 1,354 homes was not achieved in 2018/19 due to one scheme exiting from this pilot programme and three schemes slipping into 2019/20. The shortfall in this target has been absorbed by our performance in other starts on site targets e.g. affordable homes.

2018/19 Performance against Targets[8]		Delivery performance		
Programme	Target[1]	Full year target	Full year outturn	% of target achieved
Investments	Unlocked Housing Capacity[2] (LTF/ER)[3]	28,750	31,046	108.0%
	Starts on Site[4] (STF)[5]	9,977	9,996	100.2%
Land	Public Sector Land Housing Capacity[6]	4,157	4,454	107.1%
	Direct Commissioning Starts on Site[4]	1,354	692	51.1%
Affordable homes[7]	Starts on Site[4]	27,000	29,824	110.5%

[1] The targets were approved by the Ministry of Housing, Communities and Local Government.

[2] Unlocked Housing Capacity is captured when infrastructure works funded have started on site and reflects the site unit capacity. The output is 'Indirect' because there is no contractual relationship between the funding for infrastructure and the provision of the units.

[3] LTF/ER is The Home Building Fund – Long Term Fund and Estate Regeneration.

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

[5] STF is The Home Building Fund – Short Term Fund (THBF - STF). The starts on site figure of 9,996 includes 2,217 indirect units which count towards the overall target to unlock delivery of up to 25,500 homes across the lifetime of the programme but are either in receipt of funding from an affordable housing programme and are reported under that programme or are part of the wider project and have been unlocked as a result of the THBF - STF funding.

[6] Public Sector Land Housing capacity is captured at the point of disposal of Homes England land and reflects the site unit capacity. The target and outturn exclude the disposal of land acquired or transferred from Other Government Departments (OGDs) post March 2016.

[7] Affordable Homes includes the following programmes: Affordable Homes Guarantees; Affordable Homes Programme 2015-18; Care and Support Specialised Housing; Right To Buy Replacement; Shared Ownership and Affordable Homes Programme; and Single Land Programme.

[8] The risks to achieving our targets are contained within the Governance Report.

Financial summary

For the financial year 2018/19, Homes England's performance against its programme financial control totals is summarised below:

Financial programme performance £m	2018/19			2017/18		
	Target	Outturn	Variance	Target	Outturn	Variance
Capital Financial Transactions	4,142	3,848	(294)	3,763	3,523	(240)
of which: Expenditure	4,546	4,254	(292)	3,983	3,743	(240)
Receipts	(404)	(406)	(2)	(220)	(220)	-
Capital Grant	1,021	1,010	(11)	782	756	26
of which: Expenditure	1,173	1,145	(28)	947	957	10
Receipts	(152)	(135)	17	(165)	(201)	(36)
Resource	(50)	(68)	(8)	(89)	(89)	-
of which: Expenditure	94	76	18	48	38	(10)
Receipts	(144)	(144)	-	(137)	(127)	10
Total Programme	5,113	4,790	(323)	4,456	4,190	(266)
of which: Expenditure	5,813	5,475	(338)	4,978	4,738	(240)
Receipts	**(700)**	**(685)**	**15**	(522)	(548)	(26)

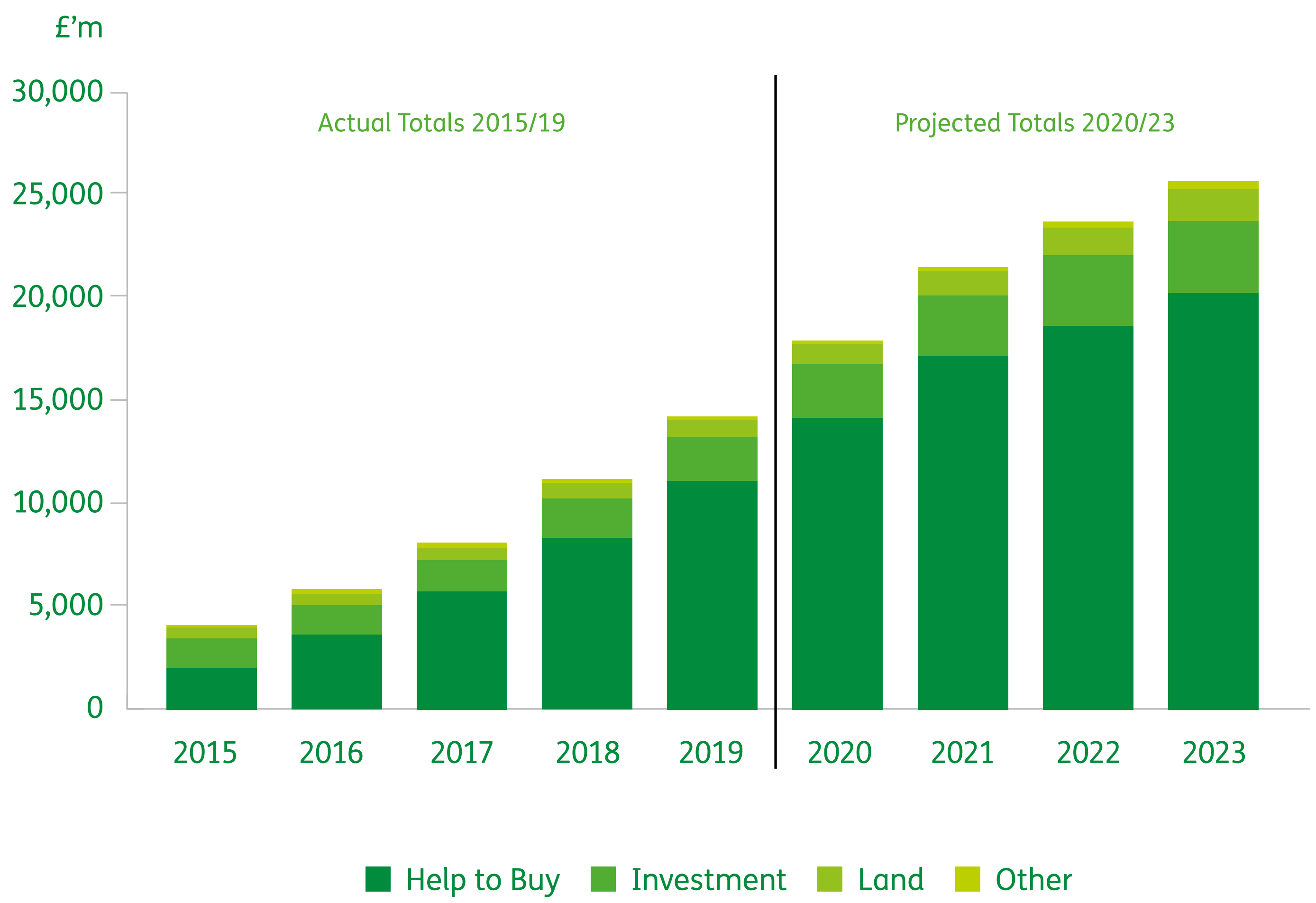
Financial control totals within Capital Financial Transactions, Capital Grant and Resource funding operate independently, and to a net budget position. For all categories the size of budgets has increased from 2017/18. Our net programme expenditure in 2018/19 was £4,790m, an increase of 14% compared to 2017/18. The summary also highlights that the delivery of Homes England's financial activities remains within the control totals set by MHCLG.

Forecast growth in assets

The substantial growth in our balance sheet continued in 2018/19. The major asset category in the balance sheet is Help to Buy. Since its introduction in 2013/14, Help to Buy has grown to £11.1bn at 31 March 2019 and now represents 78% of net assets.

Over the next four years,based on programme expenditure predicted in the Agency's annual business plan, the Agency's net asset position and the relative proportions of the key components are predicted to change as illustrated below.

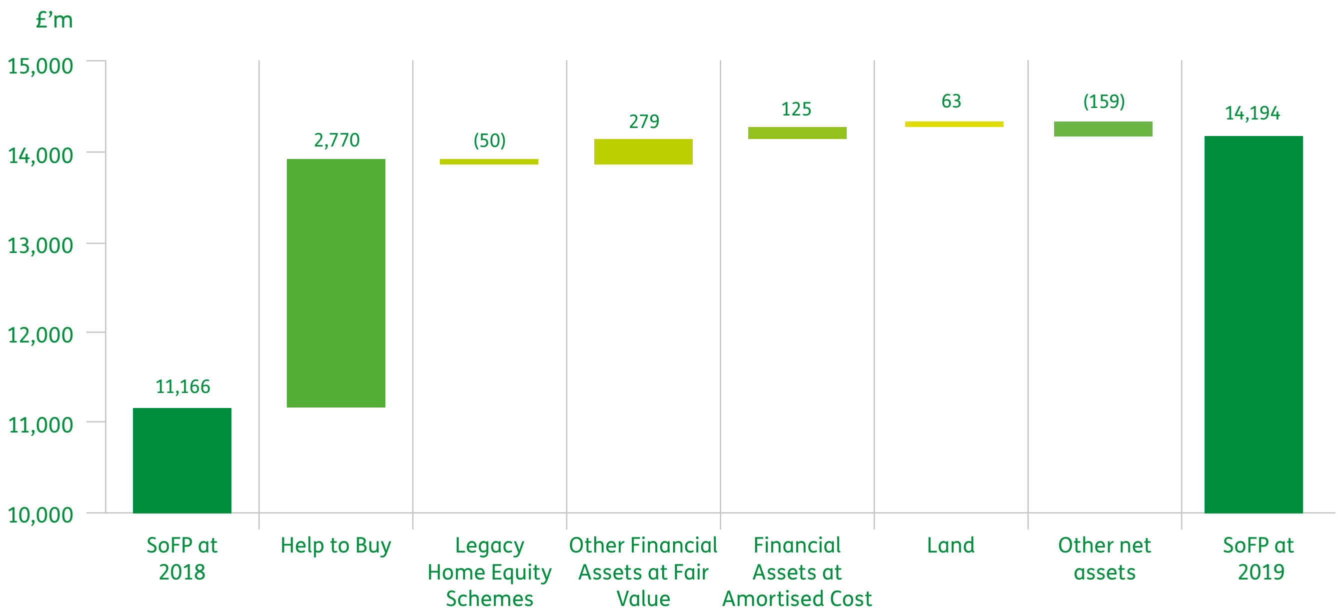
Chart 3: Net assets



Changes in the Agency's portfolio of assets

Over the course of 2018/19, our asset base has changed as illustrated in the chart below, with the most significant movement being in relation to Help to Buy. Here, additions of £3.5bn and disposals of £0.7bn have resulted in a net increase of £2.8bn in the value of assets carried in the Statement of Financial Position (SoFP).

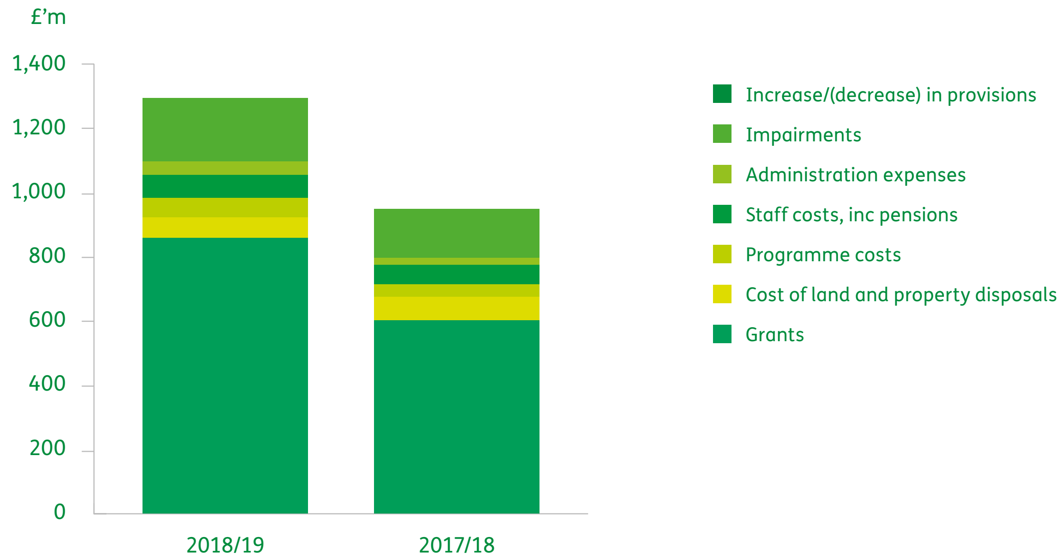
The second most significant area of movement relates to Other Financial Assets at Fair Value. The primary drivers for this are movements on first adoption of International Financial Reporting Standard 9: Financial Instruments on 1 April 2018 (see Note 2) which resulted in £118m loans and £186m receivables being reclassified from amortised cost to fair value.



Operating expenditure

As in 2017/18, the main component of our Operating Expenditure in 2018/19 was grants with £857m paid out in the year. The majority of which was to Registered Providers of Social Housing, as an Affordable Housing grant.

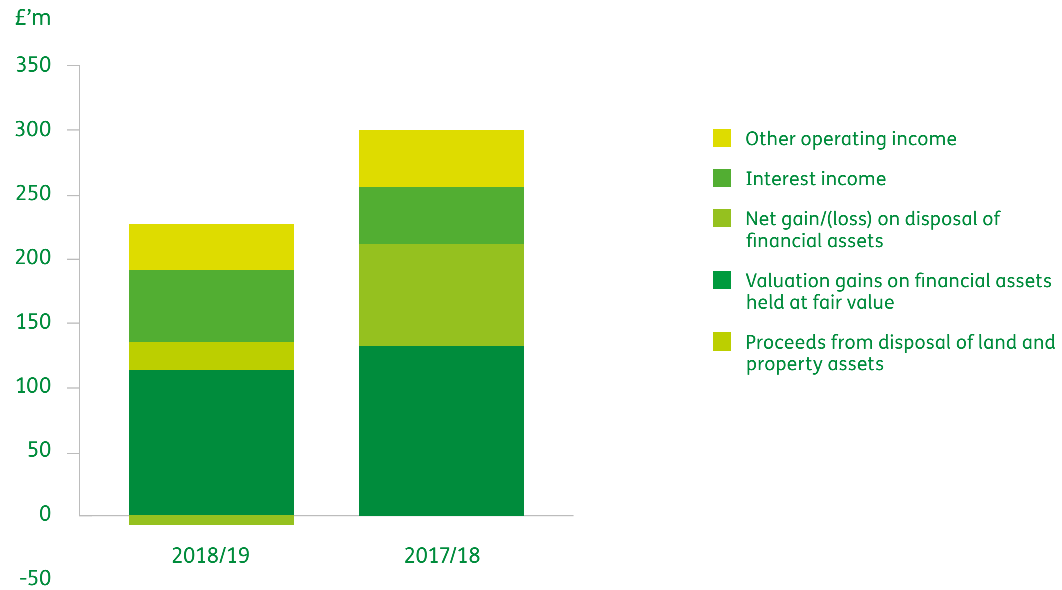
The second most significant element of expenditure relates to asset impairments, where £104m impairments made to land assets and £94m impairment of financial assets resulted in an overall impairment charge of £198m for 2018/19. This includes £20m in relation to Expected Credit Loss allowances, which arise for the first time in 2018/19, following the adoption of International Financial Reporting Standard 9: Financial Instruments.



Operating income

The introduction of International Financial Reporting Standard 9: Financial Instruments has brought about significant changes in the nature and amounts of income recognised.

In 2018/19, £22m valuation gains were recognised which would have passed via reserves in previous reporting periods. Conversely, cumulative fair value gains in relation to financial assets which were recognised on disposal in 2017/18 (as part of the net gain on disposal of financial assets) are no longer recognised. In 2017/18 this amounted to £82m.



Sustainability report

We work towards the Greening Government Commitment (GGC) targets which cover our operational office estate and official business travel.

This report sets out our progress against the GGC targets over the past 12 months compared to 2017/18 and the 2009/10 baseline. It also outlines our broader activities including those relevant to our wider estate, in line with current public sector sustainability reporting guidance from HM Treasury.

Greening Government Commitment

As part of the GGC targets, we've committed to:

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

We're also committed to:

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

Notes on sustainability performance data

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

Sustainability performance data

Greenhouse gas (GHG) emissions		2015/16	2016/17	2017/18	2018/19
Non-financial indicators (tonnes CO2e)	Total Scope 1 (direct) GHG emissions	408.2	378.2	386.8	**349.1**
	Total Scope 2 (indirect) GHG emissions	427.8	377.4	303.3	**222.1**
	Total Scope 3 (official business travel) GHG emissions	359.4	390.8	352.7	**439.7**
	Total GHG emissions: Scopes 1, 2 and 3	1,195.4	1,146.4	1,042.8	**1,010.9**
Related energy consumption (MWh)	Gas use	490	467	550	**516**
	Electricity use	855	840	789	**723**
Related energy consumption ('000s km)	Business travel distance total	6,683	6,655	6,572	**8,157**
	Distance per full time equivalent (FTE) staff	7	8	8	**9**
Related energy consumption (number)	Domestic business flights	118	94	95	**135**
Financial indicators (£'000)	Energy consumption	138	127	132	**134**
	Expenditure on accredited offsets	0	0	0	**0**
	CRC Allowances	105	1	74	**3**
	Official business travel	1,747	1,585	1,772	**2,433**
Resources, waste and recycling		**2015/16**	**2016/17**	**2017/18**	**2018/19**
Non-financial indicators (tonnes)	Total waste generated	30.45	23.03	26.71	**37.39**
	Hazardous waste: landfill	0.05	0.05	0.03	**0.02**
	Non-hazardous waste: landfill	0.12	1.72	1.11	**0.91**
	Non-hazardous waste: incineration with energy recovery	3.34	2.59	2.74	**2.53**
	Non-hazardous waste: recycled	24.77	17.34	16.49	**32.90**
	Non-hazardous waste: ICT reused / recycled	2.17	1.33	6.34	**1.03**
Recycling rate (%)		88	81	85	**91**
Landfill rate (%)		1	8	4	**2**
Paper consumed (A4 reams equivalent)	Number	7,526	6,039	5,542	**5,287**
	Reams per FTE staff	8.3	7.3	7.1	**6.1**
Financial indicators (£'000)	Landfill / incineration	8	12	15	**11**
	Recycling	11	12	9	**18**
	Paper procurement	14	8	19	**21**
Water consumption		**2015/16**	**2016/17**	**2017/18**	**2018/19**
Non-financial indicators (m3)	Water consumption - supplied (none abstracted)	1,572	1,543	1,553	**1,689**
	Consumption per FTE staff (Homes England owned offices)	4.7	4.5	4.2	**4.3**
Financial indicators (£'000)	Water supply and sewerage costs	18	19	19	**20**

Greenhouse gas emissions

We've reduced our greenhouse gas emissions by 3% against last year's total and by 63% since 2009/10, against a departmental GGC target of 60%. We've made ICT improvements to our offices, such as consolidating older servers onto newer and more efficient equipment, which has also reduced cooling requirements. Gas use was lower as the winter was mild. The longer term trend reflects reduced energy demands as the size of our directly controlled office estate has reduced.

Colleagues have travelled further on official business this year, with the total distance up by 24% against 2017/18, largely due to a significant increase in train travel. This reflects growth in staff numbers and evolving business need, such as the introduction of a second annual all-staff event. Associated with this, the number of domestic flights has increased by 42% on 2017/18. Colleagues must obtain director approval before they can travel by air. The lease car fleet of 197 vehicles is increasingly efficient, as 64% of the fleet is now hybrid / electric.

Waste management

We've produced 40% more waste from our offices this year compared to last year. However, we continue to meet the GGC target of less than 10% of waste going to landfill, with 91% of waste recycled this year.

The increase in waste this year was primarily due to the recycling of no longer usable office furniture, as well as the commissioning of document shredding collections from our London office. In addition, when we became Homes England, we recycled safety clothing bearing the logo of our predecessor organisation using a specialist contractor.

Finite resource consumption: Paper and single use plastics

We used less paper in 2018/19. We reduced our use by 5% compared to 2017/18 and by 69% compared to 2009/10, against a GGC target of 50%. In part, this is due to the adoption of digital solutions that reduce the need to print, which we will continue to roll out in the coming year. In addition, we've significantly reduced the printing associated with Help to Buy contracts by reducing the size of the documents by 74% and giving developers more responsibility for printing. We're also phasing out the use of consumer single use plastics in our offices. For example, we supply ceramic mugs for staff use and where disposable cups are needed, we now supply compostable paper cups.

Finite resource consumption: Water

We used more water in our offices in 2018/19, with recorded use up 9% on 2017/18. However, given the increase in the number of staff working in these offices, the use per person (FTE) remained broadly similar. We've reduced our water use by 87% against 2009/10, as the size of our directly controlled office estate has reduced.

Climate change adaptation

The two offices we own are located in flood zone 1, meaning they are at low risk from flooding, with each office more than 100 metres from flood zone 2 (medium risk). We'll continue to consider the implications of a changing climate as and when we upgrade our buildings or move to new offices.

Biodiversity and the natural environment

Our directly controlled operational office estate contains limited greenspace, although we maintain a green roof on our Gateshead office.

On our land and sites, we're committed to preventing pollution and where possible, avoiding adverse impacts on soil, water, air and biodiversity, in line with our public safety, health and environmental (SHE) policy statement. For example, we recently announced new plans for the Lodge Hill site in Medway, Kent. Following careful consideration of the environmental sensitivities on the site, we've reduced the proposed number of new homes from 2,000 to 500, avoiding direct impacts on the Site of Special Scientific Interest (SSSI). We're delivering appropriate management of the SSSI by engaging with Natural England and developing relationships with environmental stakeholders to explore its long term future management.

One of our priorities as Homes England is to support the development of up to one million new homes in the Oxford-Milton Keynes-Cambridge (OxCam) Arc by 2050.

To ensure this work takes proper consideration of environmental implications, we've commissioned consultants AECOM to carry out an in-depth evidence-based study to indicate spatial options for new settlements. This study includes environmental and biodiversity mapping in the area which will be completed by summer 2019. We've actively engaged statutory consultees including the Environment Agency (EA), Natural England and Historic England to shape the outcomes of the study and we'll share results with these environmental partners. We've also worked closely with the EA and the Department for Environmental, Food and Rural Affairs to secure funding and scope for an innovative Local Natural Capital Plan (LNCP) for the OxCam Arc. This will provide a comprehensive environmental baseline across the Arc, helping to deliver the project's goal of biodiversity net gain.

Sustainable procurement

We take account of the Government's mandatory Buying Standards when procuring goods and services, and our procurement policy follows Crown Commercial Service principles.

Sustainable construction

We're moving our Cambridge-based staff into a new office on our Northstowe development site in summer 2019. We've used a modular construction system to limit construction time on site, minimising the impact on the surrounding area and ensuring improved quality control.

We've undertaken extensive modelling to establish the comfort of the environment, avoiding excessive use of mechanical ventilation or heating. We've also incorporated passive solar shading and natural ventilation into the design.

The landscaping and planting we'll deliver as part of the construction has also been designed to increase aesthetic and wellbeing benefits and the incorporation of electric vehicle charging points, dedicated cycle storage, and shower facilities will encourage colleagues to use sustainable transport options to travel to and from work.

We've also undertaken a BREEAM (Building Research Establishment Environmental Assessment Method) pre-assessment in order to assess the likely sustainability rating of the building, which we'll consider alongside other options to improve the sustainability of the office and future buildings on the site.

Looking ahead

As the Government's housing delivery Agency, we recognise that there is more we can do to embed improved sustainability into our activities. We have recently started a process to consider how we can better use our influence, expertise, powers and resources to create a housing market which takes proper consideration of environmental concerns. Many aspects of our work, such as our commitment to increasing productivity through modern methods of construction or our role as a master developer on strategic sites, offer opportunities to increase sustainability.

Our focus, as always, will be on delivery rather than seeking to drive policy development. We will engage with our government partners and other stakeholders to better understand what our role should be in this space and how we can work collaboratively with others to reduce the environmental impacts of the new homes we support.

The Performance report is signed on 4th July 2019

Nick Walkley
Chief Executive and Accounting Officer

The Accountability report

The Accountability report is included to meet key accountability requirements to Parliament.

Contents:

Corporate Governance report

Our Board has overseen a major programme of change for our organisation over the year including the launch of an ambitious new mission in a five-year Strategic Plan, agreeing new ways of working with the Ministry of Housing, Communities and Local Government (MHCLG) - set out in a new Framework Document - and launching a major development programme. It has also shaped major improvements in performance reporting and in managing the profile of expenditure over the financial year.

In the year, our Board examined its own effectiveness, commissioning an external review leading to the Board making transformation plans to deliver our new mission and objectives. As part of this plan, we have worked with MHCLG in recruiting new Board members with key attributes to ensure we have the right composition and expertise to deliver.

This report explains the changed composition and organisation of our governance structures and how they support the achievement of our strategic objectives. It comprises a Governance Statement, Board Members' Report and Statement of Accounting Officer's Responsibilities.

Governance Statement

We are an arm's length body sponsored by MHCLG. Our relationships with MHCLG, including how we interact, the parameters within which we operate and the obligations we are expected to comply with are formally governed by a framework document which:

- recognises our functional and day-to-day operational independence;
- sets out our governance and decision-making arrangements; and
- sets out the financial and management processes that govern our operation.

Our Board and its Committees

The role of our Board is to provide strategic leadership and to promote our long term, sustainable success.

Our Board has statutory responsibility for exercising our functions while working closely with MHCLG to ensure the delivery of our strategic objectives. Some of the Board's statutory functions are delegated to its members, Committees, sub-Committees and staff. Our Board is specifically responsible for:

- ensuring that we deliver our strategic objectives;
- holding the Chief Executive to account for the effective and efficient delivery of the business plan and for our day-to-day management, delivery and performance;
- ensuring that effective arrangements are in place to provide assurance to the Board and MHCLG on risk management, governance and internal control;
- ensuring that MHCLG is kept informed of any circumstances which are likely to impact on our strategic direction or on the attainability of our targets, and advising on the steps needed to deal with such circumstances;
- ensuring that any statutory or administrative requirements for the use of public funds are complied with; that the Board operates within the limits of its statutory authority and any delegated authority agreed with MHLCG, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account Managing Public Money and any guidance issued by the Department;
- approving the Annual Report and Accounts;
- overseeing production and retaining oversight of the Risk Appetite Statement and Risk Management Framework; and
- appointing, with the Secretary of State's prior written approval, a Chief Executive and, in consultation with MHCLG, setting performance objectives and remuneration terms linked to these objectives.

Board and Committee composition

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

Board Members' Report

Sir Edward Lister
Chair of the Homes England Board

Sir Edward was London's Deputy Mayor for policy and planning and chief of staff at the Greater London Authority (GLA) for 5 years. Prior to coming to City Hall, Sir Edward served as a Leader of Wandsworth Council from 1992 to 2011.

Keith House

Keith House has been Liberal Democrat Leader of Eastleigh Borough Council in Hampshire since 1994. In 2014, Keith co-led a national review for the Treasury and the Department for Communities and Local Government on local authorities' role in increasing housing supply. He has jointly launched the Housing & Finance Institute, a key review recommendation.

"We've not built enough homes for a generation. Young people don't stand a chance. I want to fix that, and that's why I'm a Homes England Board Member, making homes happen."

Richard Blakeway

Richard was an adviser in the Prime Minister's Policy Unit and previously Deputy Mayor for Housing and Land at the Greater London Authority. During that time he oversaw the regeneration of major projects including Greenwich Peninsula, the Royal Docks and Barking Riverside. He is a former trustee of the Chartered Institute of Housing.

"It is hugely rewarding to support Homes England as it works closely with partners, both public and private, to drive supply, disrupt the market and deliver great places."

Nick Walkley
Chief Executive

Nick joined Homes England as Chief Executive in March 2017. He has extensive local government experience, most recently as Chief Executive of Haringey Council and previously as Chief Executive of Barnet Council.

Stephen Bell

Stephen has substantial experience in banking and financial services. He is currently Chief Executive of Cullaun Capital, an Irish multi-asset class development finance provider.

"A place to call home is both a basic need and an aspiration. Securing a home is one of the big moments in life and is something I've been interested in throughout my career. I was therefore delighted when I was offered the opportunity to be involved with Homes England. I believe Homes England demonstrates genuine passion and a commitment to intervene in support of delivering more homes at the right price in the places they are needed most. Supporting Homes England as it delivers against its goals through working with my Board colleagues to provide oversight of its strategy and performance with a solid focus on the control environment has been a high point of my career to date."

Board Members' Report cont.

Teresa O'Neill

Teresa has been the Leader of the London Borough of Bexley since 2008 (a Bexley Councillor since 1998) & she is also a Vice-Chair (Leader of the Conservative Group) on London Councils & LGA Peer. She was a member of the London Finance Commission under the last two London Mayors, London Health Commission and was Boris Johnson's advisor for Outer London relations. Her career was previously in the finance sector & she was awarded the Order of the British Empire (Officer) in the Queen's Birthday Honours 2015 for service to the community and local government in London.

"Having been a Councillor & Council Leader for a number of years I see the difference good housing can make to a community and the lives of local residents. Homes England is aspiring to deliver the housing our country needs and I hope I can play a small part in making that happen successfully."

Simon Dudley

Simon is currently Leader of the Royal Borough of Windsor and Maidenhead. He also has a strong commercial background having previously worked as Executive Director of Global Capital Markets at Arcapita Ltd and Managing Director at Citigroup Global Markets Limited.

"I was able to buy my first one bedroom flat at 24. I became a Director of Homes England to help renew that dream of home ownership for younger people in our country."

Duncan Sutherland

Duncan is a practitioner with over 35 years' experience in property, housing, investment, regeneration and development with particular emphasis on public/private delivery partnerships involving government, local government, local communities and private investment.

"Housing for me is one of the key building blocks in creating thriving communities. I wanted to serve on the board of Homes England as I saw a new, developing organisation with ambition, drive and willing to work with partners to achieve this important goal."

Ceri Smith

Ceri was part of the management team that created UK Government Investments (UKGI) when it was spun out of the Department of Business in 2016. He led the creation of, and is a Non-Executive Director of, the British Business Bank, the UK's first domestic economic development bank.

"I was delighted to be offered the opportunity to join the Homes England board, as it expands and transforms to change the housing market. Meeting the housing needs of the country is clearly a priority for Government, and it is great to be able to help Homes England meet that challenge."

Register of members' interests

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

Personal data related incidents

Since 25 May 2018, under the General Data Protection Regulation and the Data Protection Act 2018, there has been a mandatory requirement to report any personal data breach if there is a risk to the rights and freedoms of the data subjects whose data has been breached. In the financial year 2018/19, there were no personal data breaches that met the threshold for mandatory reporting.

Statement of Accounting Officer's Responsibilities

Under the Housing and Regeneration Act 2008, the Secretary of State (with the consent of HM Treasury) has directed Homes England to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Homes England and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

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

- observe the Accounts Direction issued by the Secretary of State including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on a going concern basis; and,
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The Secretary of State has appointed the Chief Executive as Accounting Officer of Homes England. 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 Homes England's assets, are set out in Managing Public Money published by the HM Treasury.

As the Accounting Officer I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Homes England's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

External Auditors

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

The cost of work performed by the auditors for 2018/19 was £260,000 (2017/18: £220,000)

As part of the annual audit of Homes England, the NAO may issue recommendations to strengthen governance and accountability. Such recommendations are considered by senior management, reviewed by the Audit and Risk Committee, and solutions implemented where appropriate.

In addition to the annual audit, Homes England's work was the subject of two NAO reports which were conducted during 2018/19, as summarised below.

- Investigation into the Government's land disposal strategy and programmes (report issued May 2019): This report looked at the wider Government's strategy for land disposals and performance against two targets: to achieve proceeds from the sale of land of £5bn between 2015 and 2020, and to release sufficient land for at least 160,000 homes between 2015 and 2020. Whilst the report covered all of Government's land holdings and therefore other departments and entities, it was also applicable to the work of Homes England. The report's key findings included: By 2020, MHCLG expects enough land to be released for 65,211 homes, being 41% of the target. By 2020, the government expects to achieve its target of realising £5bn from the sale of land.

- Help to Buy: Equity Loan scheme – progress review (report issued June 2019): This report assessed how the equity loan investment in the housing market via the Help to Buy scheme has helped to meet the strategic target of increasing home ownership and increasing housing supply. The report shows that the scheme has increased home ownership and housing supply. However, as the scheme is dependent on the performance of the housing market, the value of the investment can fluctuate with property values. Accordingly the taxpayer could lose out at points when a downturn in the market occurs. The scheme has achieved its intended short-term benefits, although its overall success will be determined through the longer-term effects on the property market and the net return, or cost, to the taxpayer when the Help to Buy equity loans have been repaid.

Following these NAO reports, Public Account Committee (PAC) reports were also issued and Homes England representatives have attended related PAC evidence sessions to discuss their conclusions:

- Sale of Public Land (12 June 2019)
- Help to Buy (26 June 2019)

Any recommendations arising are carefully considered by Senior Management and processes introduced or refined where appropriate.

Homes England Committees

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

Programmes and Projects Committee (PPC)

(From 1 April 2018 to 31 December 2018)

The Programmes and Projects Committee oversaw the delivery of our programmes and projects for investments, the land programmes and affordable home ownership programmes, as well as other corporate issues. Notable business before the Committee includes:

- a new joint venture which will see 5,400 homes being built across the UK in the next ten years, 30% of which is set to be affordable; and
- the establishment of an £800m debt pool with Barclays, to support the delivery of up to 5,000 new homes across England.

Investment Committee (IC)

(From 1 January 2019 to 31 March 2019)

The Investment Committee replaced the Programmes and Projects Committee in January 2019, following the agreement of a new Framework Document revising our remit and delegations. It scrutinises new project and programme business cases, considers guarantees on behalf of MHCLG and monitors performance. Notable business before the Committee in 2019 includes:

- our strategic intervention to enable the construction of 3,000 homes at a major strategic site north of Burgess Hill in Mid-Sussex;
- development of the Chattenden Barracks site in Lodge Hill in Medway, following its transfer from the MoD; and,
- agreement of an equity investment and senior debt facility to enable the establishment and growth of a new standalone modular housebuilder (HoUSe), delivering modular housing at scale nationwide.

The members of the Investment Committee as of 31st March 2019 are Edward Lister (Chair); Simon Dudley; Keith House; Richard Blakeway; Duncan Sutherland; Nick Walkley, Chief Executive Officer (or nominated deputy); Gordon More, Chief Financial Officer (or nominated deputy); and Stephen Kinsella, Chief Land and Development Officer (or nominated deputy).

Credit and Risk Committee (CRC)

(From 1 April 2018 to 31 December 2018)

The Credit & Risk Committee was disbanded in January 2019, following the agreement of a new Framework Document revising the remit and delegations of Homes England. This Committee monitored our risk profile in respect of our portfolio of recoverable investments and considered guarantees on behalf of MHCLG. Our Audit and Risk Committee and Investment Committee now take up this responsibility.

Audit and Risk Committee (ARC)

This Committee supports the Accounting Officer, and Board in their responsibilities for risk control, governance, financial stewardship and financial and statutory reporting. It reviews the comprehensiveness of assurance and reporting processes, consistent with the Accounting Officer's assurance needs. Notable business this year included:

- agreement of a revised Risk Appetite and Risk Framework, and progress in development of the 3 Lines of Defence;
- internal audit activity entered its second year following a thematic approach, and the Committee gave significant attention to outstanding audit items;
- completion of the work necessary to implement International Financial Reporting Standard 9: Financial Instruments (IFRS 9); and
- the Committee, supported by the wider Board, has also undertaken extra work through its Help to Buy meetings to give extra support and attention to the Help to Buy programme.

The members of Audit and Risk Committee as of 31 March 2019 were Stephen Bell (Chair); Teresa O'Neill; Simon Dudley; and Ceri Smith.

The Equality and Diversity Board Advisory Group (EDBAG)

The independent Equality and Diversity Board Advisory Group provides advice to our board on the development and implementation of its Diversity, Equality and Inclusion strategy.

Nominations and Governance Committee (NGC)

This Committee is responsible for advising on overall pay and rewards; the remuneration, contractual and pension arrangements of staff at Director level and above; and setting and agreeing the annual performance objectives, remuneration terms and other terms and conditions of employment of the Chief Executive. The members of the Nominations and Governance Committee as of 31 March 2019 were Edward Lister (Chair); Stephen Bell; Simon Dudley; and Ceri Smith.

Directors Group (DG)

The Directors Group is our principal executive decision-making group for implementing strategies, operational policies and procedures. Our Chief Executive and Accounting Officer is supported by an Executive Team that comprises the following:

- Tom Walker, Deputy Chief Executive (until 30 June 2019)
- Amy Casterton, Chief of Staff
- Tracie Evans, Interim Executive Director – Corporate Services
- Christopher Kinsella, Interim Chief Financial Officer (from 25 February to 30 June 2019) & Interim Executive Director (from 1 July 2019)
- Mark Gray, Chief Risk Officer
- Stephen Kinsella, Executive Director – Land
- Gordon More, Chief Investment Officer
- Lynda McMullan, Chief Finance Officer (from 1st July 2019)

In addition to the current leadership team, the following served on the leadership team throughout the year: Jane Castor (1 April 2018 to 24 February 2019), Bayo Dosunmo (1 April 2018 to 17 February 2019) and Chantal Geall (1 April 2018 to 31 December 2018).

Directors Group also works to ensure that the deployment of resources is sufficient to maintain delivery and that our corporate services provide effective service support.

Directors Group is supported by a number of standing groups and boards, which monitor our programmes, help provide strategic direction and deliver standalone projects.

Regulation Committee (RC)

(From 1 April 2018 to 30 September 2018)

Prior to the launch of the Regulator of Social Housing on 1 October 2018 our regulatory responsibilities as Homes England were discharged, independently to its other functions, by our Regulation Committee. As well as overseeing all the work involved in becoming a standalone organisation, our Committee continued to adapt regulation to reflect the risks and business models evolving in the sector, and undertook analysis of providers' Value for Money metrics, and analysed sector risks.

Regulation Nominations and Governance Committee (RNGC)

The Regulation Nominations and Governance Committee was set up in October 2017 as a sub-Committee of the Nominations and Governance Committee, to deal with remuneration and nomination matters in relation to Regulation. Its members were Simon Dow (Chair), Nick Walkley and Fiona Macgregor. The Committee transferred to the Regulator of Social Housing when it became a separate entity on 1 October 2018.

Board and Committee attendance 2018/19

Board	PPC*	IC	ARC**
Duncan Sutherland 5 (5)	Duncan Sutherland 3 (3)	Duncan Sutherland 4 (4)	Duncan Sutherland 1 (1)
Edward Lister 9 (11)	Edward Lister 9 (9)	Edward Lister 4 (4)	Edward Lister 1 (1)
Keith House 10 (11)	Keith House 8 (9)	Keith House 1 (4)	Keith House 2 (2)
Richard Blakeway 11 (11)	Richard Blakeway 9 (9)	Richard Blakeway 4 (4)	
Simon Dow 4 (6)			Simon Dow 3 (5)
Simon Dudley 11 (11)	Simon Dudley 9 (9)	Simon Dudley 4 (4)	Simon Dudley 3 (3)
Stephen Bell 10 (11)			Stephen Bell 7 (7)
Teresa O'Neill 10 (11)			Teresa O'Neill 7 (7)
Nick Walkley 11 (11)	Nick Walkley 8 (9)	Nick Walkley 4 (4)	
Ceri Smith 4 (4)			Ceri Smith 1 (1)

Board and Committee attendance 2018/19

HtB ARC***	CRC	NGC****
Edward Lister 2 (2)	Edward Lister 4 (4)	Edward Lister 1 (1)
Keith House 3 (3)		
Richard Blakeway 2 (2)	Richard Blakeway 4 (4)	
Simon Dudley 3 (3)	Simon Dudley 4 (4)	Simon Dudley 1 (1)
Stephen Bell 3 (3)		Stephen Bell 0 (1)
Teresa O'Neill 3 (3)		Teresa O'Neill 1 (1)
	Nick Walkley 3 (4)	
Ceri Smith 2 (2)		

Simon Dow left our Board on 31 October 2018, when the Social Housing Regulator was established.
Duncan Sutherland joined our Board on 25 October 2018.
Ceri Smith joined our Board on 27 November 2018.

*Programmes & Projects Committee was replaced by Investment Committee in January 2019.

** Other members of the Board are entitled to attend and members can also be nominated to attend to ensure that meetings are quorote.

*** All available members have attended Help to Buy (HtB) ARC this year, to support the HtB Programme.

****This Committee also met four times by correspondence during the year.

Board and Committee Performance

We are committed to ensuring that our Board and its Committees are continually improving. To assist with this, the Board undertook an externally facilitated Board effectiveness evaluation.

A report detailing findings and suggested improvements has been accepted by our Board and an action plan has been established for implementing key recommendations during 2019/20. This plan includes: recruiting and succession to the Board; training and development; enhanced secretariat services; and, development of supporting processes and frameworks.

Board Information

All Board members are provided with timely and appropriate updates on corporate governance developments, legislative and regulatory changes, resource effectiveness and relevant industry related information.

Risk management and internal control

Our organisation is required to be active in areas of the residential market which are considered unattractive by profit-driven organisations, or the private sector. Unlike some private sector firms we are not aiming to deliver short-term goals but have an ethos of delivering for the public good in the long term. A substantial portion of our activity in delivering our Strategic Delivery Plan is therefore inherently higher risk than the broader market.

This market reality underpins our approach to risk management, which means that we should adopt best practice in managing risk even if we are taking risk to fulfil public policy objectives rather than private sector returns.

Our governance structure provides points of escalation for risks and issues from the operational layers of the business and duly empowered forums and individuals, with the required delegated authority to make and be held accountable for risk management decisions.

Our Executive Team is responsible for managing risk in the organisation, overseen by Homes England's Board and specialist Audit and Risk Committee. Directors Group provide risk oversight for the Executive team.

As referenced in the Performance report, Homes England is aware of the huge responsibility it has to support housing delivery in areas of greatest need and is transforming itself as an organisation in order to achieve this. As such the organisation is in the middle of a defining period of expansion and change. The extent of the scale and pace of change will of necessity lead Homes England to embracing additional Strategic Delivery Risk both in terms of successful delivery and people issues.

It is not considered that the current operating model, organisational structures, processes, and procedures will enable Homes England to meet its strategic objectives. The key mitigation strategy for this is the Digital Transformation Programme. Therefore, it is 'mission critical' to achieving our objectives that our Business Case is approved and the Digital Transformation delivered. The Transformation Programme is core to the strategy that Homes England has developed to achieve its objectives. Given the scale, pace and budgetary allocation associated, it will undoubtedly carry significant risk in implementation. However, this is entirely consistent with the Board's open risk appetite for Strategic Delivery Risk. Over the last year the organisation has identified, assessed, owned and managed risks across the business as a whole. Key areas where focussed risk work is ongoing are in relation to Help to Buy and compliance with anti-money laundering regulations.

Looking forward, there is work to be done to embed a robust Risk Management Culture across the organisation. Board and MHCLG approval of the Risk Management Framework, Risk Appetite Statement and Risk Taxonomy, combined with planned work on training and business partnering will provide a strong base to support effective risk management across the organisation.

Risk Culture

The true foundation of good risk management is having the right culture, where risks and issues are discussed with openness and transparency. This is reinforced by the tone from the top, with communications focused on balancing risk management with achieving objectives while delivering value for money.

Complementing our work to embed the Homes England Way, work is ongoing through the Risk Transformation Plan to build a strong Homes England risk culture, where risk management is treated by everyone across the organisation as an integral part of all planning, delivery and decision making processes.

Risk Taxonomy and Risk Appetite

Our Risk Taxonomy was approved by our Board in January 2019. The Taxonomy identifies 7 primary risk categories, which are then defined further into 42 Secondary risks.

Our Risk Appetite Statement, shown below, was also approved by our Board in January 2019, and identifies our overall willingness to assume, or be exposed to, a level of risk for each of our 7 Primary risk categories.

	Category Definition	Risk Appetite
Policy Risk	Changes in policy priorities leading to a change of Homes England's expected deliverables, resulting in an inability to adapt to amended strategic priorities.	**OPEN:** Homes England is in place to support Policy and therefore needs to be able to react to a change in government or policy and support any policy / government transitions.
Economic Risk	Changes in the macro economic environment leading to volatility in the UK housing market, resulting in unsustainable levels of strategic change.	**OPEN:** Homes England's mission is "to intervene in the market to ensure more homes are built in areas of greatest need, to improve affordability. We will make this sustainable by creating a more resilient and diverse housing market". Homes England is open to taking counter cyclical decisions to support the housing market, investing money and introducing products if needed even in difficult economic conditions.
Strategic Delivery Risk	Pursuing objectives which turn out to be defective, leading to wasted time and resources and resulting in inability to deliver the strategy.	**OPEN:** Homes England recognises that there is a large amount of strategic change to deliver, and that change is inherently risky: with the need to balance costs, speed, and the risk of ineffective change. In order to achieve this balance, Homes England will identify which change requires full project management and which will be delivered as part of BAU activity, recognising that the latter may cause issues that will need rectifying post implementation.
Financial Risk	Homes England's lending / investment decisions leading to a financial loss or sub-optimal recovery, resulting in an inability to achieve planned recovery rates.	**NEUTRAL:** Homes England is in place to support schemes that would not be delivered through the private sector. It manages this risk by setting planned recovery rates for each programme, and aims to achieve these recovery rates, but is willing to accept below plan recovery rates where the reason for these is understood.
Operational Risk	Homes England processes, resources or systems being ineffective, leading to errors, resulting in sub-optimal delivery on strategic objectives.	**AVERSE:** Homes England is averse to operational risks and expects there to be a resilient control environment for key systems and processes.
Fiduciary Risk	Failing to comply with regulation or prevent financial crime, leading to losses / censure, resulting in a failure to deliver on strategic objectives.	**AVERSE:** Homes England has 'zero-tolerance' to all types of non-compliance and subsequent breach of statutes and associated statutory requirements, regulations, codes of practice, common law, professional standards, high-level directive documents and financial crime compliance framework.
Reputational Risk	Homes England's activities, products or conduct leading to an adverse change in stakeholder or public perception or loss of institutional credibility, resulting in an inability to deliver its stated objectives in an acceptable manner.	**NEUTRAL:** Homes England will ensure it understands the reputational risk of its activities and any known other risks (especially operational and fiduciary), but there will be times when achieving its mission leads to a negative public perception. Where there is negative media and/ or public attention Homes England will proactively seek to address this.

Individual business areas have developed or are developing Risk Appetite Statements at the Secondary Risk level, informed by and aligned to the overarching principles of the Agency Risk Appetite Statement. This builds on our embedding of Risk and Control Assessment (RACA) tools across the business over the past year. These tools provide the organisation with an industry-standard method of assessing, controlling and monitoring risks on an ongoing basis.

Primary risks

These risks, detailed within category, have formed the Strategic Risk Register which is owned by the Homes England Board. This will be reviewed and updated regularly by the Homes England's Director's Group and presented to the Homes England Audit and Risk Committee quarterly for approval.

Core strategic risks identified in our 2018/19 to 2022/23 Strategic Plan		
Financial	1	We have considerable exposure to the performance of the housing market in the form of loans to developers and equity loans to consumers. Robust credit approval processes alongside ongoing portfolio management help mitigate risks relating to recovery of loans. Some of this exposure sits within parts of the sector considered a higher credit risk due to it being second charge lending. As with other lenders any loans falling outside approved parameters will be subject to remedial action and, where needed, we can exercise our security rights.
Strategic Delivery	2	The scale and complexity of our activities is likely to increase in the coming years. The increased risk this presents will be mitigated by strengthening our annual business planning process and recruiting and retaining highly qualified staff.
	3	We own a considerable, diverse and complex portfolio of land and property. The level of intervention needed to market this varies but some require significant investment, remediation and infrastructure to make them viable. The key risk we face is a failure to recover the value and resource committed to a site. This is mitigated by ensuring all land proposals are robustly reviewed across each relevant business area, including Risk, Legal, Finance and Land.
Reputational	4	As a government body, we are subject to a high level of public scrutiny and accountability. Our reputation and credibility are critical to our success. To effectively manage potential reputational and conduct risks we will be open and transparent in our decision-making and implement robust governance procedures to maintain high behavioural standards.
Additional strategic and corporate risks identified by Executives		
Policy	5	Similar to all Arms-Length-Bodies, significant changes in government policy, civil service restructure or departmental intervention could constrain progress and materially impact upon Homes England's structure and objectives. This risk is mitigated by regular dialogue with our key government stakeholders, but may materialise within a relatively short timescale if an incoming administration has fundamentally different housing policies and objectives.
Strategic Delivery	6	Uncertainty of long term funding flexibility or significant changes to political priorities and budgetary review may result in an inability to achieve Homes England's strategic objectives. This risk is closely aligned to Policy risk but focuses on our strategic delivery. Mitigation strategy includes regular dialogue with our key external stakeholders.
	7	Failure to achieve key performance indicators and strategic objectives during a period of organisational transformation. Our risk management strategy includes ensuring there are sufficient skilled resources in place to develop and implement our new operating model and maintain business as usual.
Operational	8	An over-reliance on key individuals in business critical areas of the organisation. Our risk strategy includes plans to improve continuity and succession arrangements, which will protect the long-term resilience of our key functions.
	9	Inappropriate IT infrastructure, adequacy and functionality leads to operational inefficiencies, sub-optimal performance, poor data quality and/or integrity to inform accurate reporting and loss of credibility. Our emerging digital development strategy is designed to ensure Homes England maintains a resilient and agile platform to support strategic delivery and our transformation programme.
Reputational	10	Material issues or delivery failure of Homes England's high profile programmes may result in significant reputational damage and loss of credibility. Given the scale and importance of our intervention in the market, our risk strategy includes utilising our broader transformation programme to manage resources effectively in a robust risk management framework.

Risk management framework

In line with best practice, over the past year we are embedding a Three Lines of Defence risk management model across the organisation, enabled by an expansion of Homes England's Risk Directorate.

Within our Three Lines of Defence model, the First Line refers to all of us: we are all responsible for identifying, assessing, managing and owning the risks in our business areas. The Second Line refers to the Risk Directorate, and other areas which identify, monitor measure and report on risks across the organisation as well as provide assurance on and establish standards for the effectiveness of systems and controls relative to the Board's Risk Appetite. The Third Line refers to internal audit, which provide assurance to me as Accounting Officer on the rest of the organisation.

Our Risk Management Framework, which was approved by our Board in January 2019, sets out how risk is managed across our organisation. The Framework is part of a suite of documents which includes our Risk Taxonomy, Risk Appetite Statement and directorate-specific guidance and policy that specifies how risk is monitored and escalated across our organisation.

Our Risk Management Framework is an umbrella document below which other business and activity specific frameworks sit. A Risk Management Framework for our Land Business was approved in October 2018.

Frameworks for Help to Buy, Investments, Equity and Grants will be developed and operationalised over the coming year, along with other activity-specific frameworks.

Internal Audit

Internal Audit is required to provide an annual opinion to the Accounting Officer, on the overall framework of governance, risk and control. It delivers a plan of work agreed with the Accounting Officer to provide this overall assurance opinion.

Internal Audit has issued 28 reports reflecting the work plan period April 2018 to May 2019. The annual opinion also takes account of other observations in relation to governance, risk and control. The overall assurance provided for 2018/19 is a Moderate opinion.

Key issues and opportunities for improvement identified through the work in the management of risk have been focused on:

- The overall arrangements for governance, oversight and assurance in relation to Help to Buy (the Agency's key equity loan product);
- Operational practices within the service chain for Help to Buy;
- Improving the resilience and security of the organisation's data and information;
- Operational processes to ensure that the organisation is able to effectively comply with key regulatory requirements;
- Arrangements to effectively support the change ambitions of the organisation and its growth to meet its expanding remit;
- Effective processes to confirm the delivery of outputs, and demonstrate its achievements;
- Progressing organisations visibility of the ongoing management of risks against its stated risk appetite and to effectively monitor and report this.

Whistleblowing

Our Whistleblowing Policy includes contact details for our staff, the nominated Board Champion and external bodies (such as the NAO) who can be contacted by an employee to make a disclosure under the whistleblowing policy. Staff are encouraged to raise matters informally to their line managers first (if they wish). As a changing organisation there is much to do to continue to ensure staff are able to escalate risks and issues as they are identified.

Conclusion

Based on the content of this report, assurances received from senior management and the reports from internal auditors, I am satisfied that we have complied appropriately with governance arrangements, such as the Corporate Governance Code, and that these were effective during 2018/19.

Remuneration and staff report

Nominations and Governance Committee

The Nominations and Governance Committee has the following responsibilities:

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

Remuneration policy

We determine remuneration levels in order to attract and retain key management personnel with appropriate experience and skills to meet our objectives. The performance of Homes England's key management team is measured through both financial and non-financial indicators. In line with our performance policy, employees agree annual performance objectives which are reviewed mid-year and provide the basis for a formal annual appraisal which is linked to the payment of performance bonuses.

Key managers and employees are entitled to a contribution by Homes England to a defined benefit pension scheme. Homes England implements an annual pay remit which is approved by the Secretary of State. In 2018/19 the maximum pay increase for key management was 1.2%.

Service contracts

Our Accounting Officer and key managers have open-ended service contracts with three-month notice periods that do not contain any pre-determined compensation on termination of office. The exceptions to this are Tom Walker who is on secondment to Homes England, and Christopher Kinsella and Tracie Evans who are employed on a fixed-term contract basis. All three have one-month notice periods.

Appointment of Board Members

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

Audited remuneration information

The following information provides details of the remuneration and pension interests of Board Members, Regulation Committee Members and Key Managers in their capacity as employees of Homes England for the year to 31 March 2019. Sections that are subject to audit are listed as such.

Board Members' emoluments
(subject to audit)

	2018/19 £'000	2017/18 £'000
Chairman		
Sir Edward Lister	**68**	68
Board members		
Keith House	**12**	12
Stephen Bell[1]	**22**	22
Simon Dudley[2]	**17**	14
Teresa O'Neill	**12**	12
Richard Blakeway	**12**	12
Julian Ashby (to 31 January 2018)[3]	**-**	54
Anthony Preiskel (to 31 October 2017)[4]	**-**	10
Dr Ann Limb (to 31 October 2017)[5]	**-**	7
Niall Mills (to 30 June 2017)[5]	**-**	3
Duncan Sutherland (from 25 October 2018)[6]	**6**	-
Simon Dow (from 1 March 2018 to 30 September 2018)[7]	**33**	16
Ceri Smith (from 3 January 2019)[9]	**n/a**	-

Regulation Committee emoluments
(subject to audit)

Our Regulation Committee was established on 1 April 2012 under the provisions of the Localism Act 2011. The Committee transferred to the Regulator of Social Housing when it became a separate entity on 1 October 2018. Its members and their emoluments for the period 1 April 2018 to 30 September 2018 were as follows:

	2018/19 £'000	2017/18 £'000
Simon Dow (Chair) (from 1 March 2018)[7]	**-**	-
Julian Ashby (Chair) (from 31 January 2018)[3]	**-**	-
Richard Moriarty	**6**	11
Ceri Richards	**6**	11
Elizabeth Butler (from 1 September 2017)[5]	**6**	6
Sarah Wall (from 31 July 2017)[8]	**-**	4
Richard Hughes (from 16 April 2018)[8]	**5**	-
Paul Smee (from 16 April 2018)[8]	**5**	-

[1] In addition to being a Board Member, Stephen Bell is the Chair of the Audit and Risk Committee. He is also the Agency's representative on MHCLG's Audit and Risk Committee.

[2] In addition to being a Board Member, Simon Dudley was appointed the Chair of the Credit and Risk Committee with effect from 1 November 2017. Full year equivalent emoluments in 2017/18 were £17,000.

[3] In addition to being a Board Member, Julian Ashby was the Chair of the Regulation Committee until his departure on the 31 January 2018. His emoluments as disclosed under Board Members cover both membership of the Board and Regulation Committee. Full year equivalent emoluments in 2017/18 were £65,000.

[4] In addition to being a Board Member, Anthony Preiskel was appointed the Chair of the Credit and Risk Committee with effect from 1 February 2017, until his departure on 31 October 2017. Full year equivalent emoluments in 2017/18 were £17,000.

[5] Full year equivalent emoluments in 2017/18 were £12,000.

[6] Full year equivalent emoluments in 2018/19 were £12,000.

[7] In addition to being a Board Member, Simon Dow was appointed Chair of the Regulation Committee with effect on 1 March 2018. Full year equivalent emoluments in 2017/18 and 2018/19 were £65,000.

[8] Full year equivalent emoluments in 2017/18 and 2018/19 were £11,000.

[9] Ceri Smith, Director of UK Government Investments (UKGI), was appointed to the Agency's Board as MHCLG's shareholder representative member. He does not receive a salary from the Agency in his capacity as a Board member.

Chief Executive's emoluments (subject to audit)

Single total figure of remuneration	Salary received in year (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (£'000)		Total (£'000)	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Nick Walkley	215-220	210-215	nil	nil	nil	nil	48	48	260-265	255-260

Key Managers' emoluments (subject to audit)

Single total figure of remuneration	Salary received in year (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (£'000)		Total (£'000)	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Tom Walker Deputy Chief Executive and Executive Director of Strategy (from 2 October 2017 to 30 June 2019)[2]	120-125	55-60	10-15	nil	nil	nil	nil	nil	130-135	55-60
Stephen Kinsella Executive Director, Land (from 26 June 2017)[3]	210-215	105-110	nil	nil	4,700	5,100	47	24	260-265	135-140
Gordon More Chief Investments Officer	210-215	210-215	nil	nil	nil	nil	nil	nil	210-215	210-215
Fiona MacGregor Executive Director, Regulator of Social Housing (to 1 October 2018)[4]	70-75	130-135	nil	nil	nil	nil	40	90	110-115	220-225
Richard Ennis Executive Director, Finance and Corporate Services (to 20 November 2018)[5]	110-115	165-170	nil	nil	3,900	8,600	6	26	120-125	200-205
Bayo Dosunmu Executive Director, Homes England Development Programme (to 17 February 2019)[6]	115-120	120-125	nil	nil	4,000	8,600	28	25	150-155	155-160
Chantal Geall Chief Risk Officer (to 31 December 2018)[7]	160-165	210-215	nil	nil	nil	nil	30	40	190-195	250-255
Amy Casterton Chief of Staff (from 16 October 2017)[8]	80-85	35-40	nil	nil	nil	nil	1	nil	80-85	35-40
Colin Molton Chief Operating Officer (to 30 September 2017)[9]	n/a	75-80	n/a	nil	n/a	1,800	n/a	1	n/a	75-80
Jane Castor Interim Finance Director (from 1 April 2018 to 24 February 2019)[10]	120-125	n/a	nil	n/a	5,400	n/a	21	n/a	145-150	n/a
Christopher Kinsella Interim Chief Financial Officer (from 25 February to 30 June 2019) & Interim Executive Director (from 1 July 2019) [11]	20-25	n/a	nil	n/a	nil	n/a	nil	n/a	20-25	n/a
Mark Gray Chief Risk Officer (from 25 February 2019)[12]	20-25	n/a	nil	n/a	nil	n/a	4	n/a	20-25	n/a
Tracie Evans Interim Corporate Services Director (from 25 February 2019)[13]	20-25	n/a	nil	n/a	nil	n/a	nil	n/a	20-25	n/a

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

1 Bonuses disclosed relate to amounts paid during the year.

2 Tom Walker is on secondment from the Ministry of Housing, Communities and Local Government (MHCLG) from 2 October 2017 to 30 June 2019. Full year equivalent emoluments for 2017/18 were £120,000 - £125,000. The costs disclosed above do not include VAT, pensions or social security costs which are due under the terms of the agreement in place with his employer.

3 Stephen Kinsella's full year equivalent emoluments for 2018/19 were £200,000 - £205,000 although he received salary arrears of £5,000 - £10,000 in year. Additionally, an amount of £300 was paid to Stephen Kinsella in error and this has been agreed to be repaid. Full year equivalent emoluments for 2017/18 were £140,000 - £145,000.

4 Fiona MacGregor transferred to the Regulator of Social Housing on the 1 October 2018. The disclosure covers this period only. Full year equivalent emoluments for 2018/19 were £140,000 - 145,000.

5 Richard Ennis left Homes England on 20 November 2018. Full year equivalent emoluments for 2018/19 were £165,000 - £170,000

6 Bayo Dosunmu was seconded to Lambeth Council with effect from 18 February 2019. Full year equivalent emoluments for 2018/19 were £130,000 - £135,000.

7 Full year equivalent emoluments for 2018/19 were £210,000 - £215,000.

8 Amy Casterton was on secondment from (MHCLG) from 16 October 2017 until 18 March 2019 when she was appointed to the role of Chief of Staff. Full year equivalent emoluments for 2017/18 and in 2018/19 whilst on secondment were £80,000 - £85,000. Full year equivalent emoluments following her appointment as Chief of Staff were £105,000 - £110,000. The costs disclosed above whilst on secondment do not include VAT, pensions or social security costs which are due under the terms of the agreement in place with her employer.

9 Colin Molton was Chief Operating Officer until he left the Agency on 30 September 2017. Full year equivalent emoluments for 2017/18 were £140,000 - £145,000.

10 Jane Castor was Interim Finance Director in the absence of Richard Ennis, Executive Director Finance and Corporate Services, until the appointment of Christopher Kinsella as Interim Chief Financial Officer on 25 February 2019. Full year equivalent emoluments for 2018/19 were £125,000 - £130,000. Remuneration includes an additional responsibility allowance of £0 - £5,000 received in year, backdated to 1 November 2017.

11 Christopher Kinsella was appointed as Interim Chief Financial Officer with effect from 25 February 2019. Full year equivalent salary (not eligible for benefits) for 2018/19 was £235,000 - £240,000.

12 Full year equivalent emoluments for 2018/19 were £210,000 - £215,000.

13 Tracie Evans was appointed Interim Corporate Services Director with effect from 25 February 2019. Full year equivalent salary (not eligible for benefits) for 2018/19 was £210,000 - £215,000.

Salary

Basic salaries are determined by taking into account each individual's responsibilities, performance against agreed objectives and experience together with market trends. Salary includes base remuneration and overtime. It may also include a London Weighting allowance, additional responsibility allowance or a market pay supplement if applicable. The Secretary of State determines the Board Members' emoluments.

Performance related pay

The Agency complies with the direction from the Secretary of State on eligibility of a performance related bonus. The Chief Executive and Key Managers benefit from a performance related pay scheme whereby any bonuses are determined with reference to performance against agreed objectives during a performance year running from April to March.

The bonus cannot exceed 10% of salary, and is the only element of pay that is performance related. The Chairman is not eligible for performance related payments or other taxable benefits as a result of his appointment.

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

Benefits in kind

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

Pension benefits

Chief Executive and Accounting Officer

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

Key managers

	Accrued annual pension at 31 March 2019 (£'000)	Real increase in accrued annual pension (£'000)	Accrued lump sum at 31 March 2019 (£'000)	Real increase / (decrease) in accrued lump sum (£'000)	CETV 31 March 2019 (£'000)	CETV 31 March 2018 Restated* (£'000)	Real increase/ (decrease) in CETV (£'000)
Nick Walkley	**5-10**	2.5-5	**15-20**	7.5-10	**153**	79	61
Bayo Dosunmo	**5-10**	0-2.5	**25-30**	2.5-5	**221**	185	30
Chantal Geall [1]	**0-5**	0-2.5	**10-15**	2.5-5	**110**	68	34
Stephen Kinsella	**0-5**	2.5-5	**10-15**	7.5-10	**107**	37	59
Mark Gray [2]	**0-5**	0-2.5	**0-5**	0-2.5	**6**	0	5
Jane Castor [3]	**20-25**	0-2.5	**60-65**	2.5-5	**591**	552	32
Amy Casterton [4]	**0-5**	0-2.5	**0-5**	0-2.5	**1**	0	1
Fiona MacGregor [5]	**45-50**	0-2.5	**55-60**	0-2.5	**768**	725	35
Richard Ennis [6]	**50-55**	0-2.5	**155-160**	0-2.5	**1,420**	1,396	17

* Restated using 2019 pension factors.

[1] Chantal Geall left the Agency and pension scheme on 31 December 2018. Her pension benefits have been calculated to the date of departure.

[2] Mark Gray was appointed to the role of Key Manager during the year. As he commenced employment with the Agency in the year, his CETV for last year is £nil.

[3] Jane Castor performed Key Manager duties during the year although she was employed by Homes England prior to this. The pension figures above therefore cover all employment with Homes England. Dates of appointment are disclosed within Key Managers' emoluments.

[4] Amy Casterton became a member of the pension scheme on 18 March 2019.

[5] Fiona MacGregor transferred to the Regulator of Social Housing on 1 October 2018. Her pension benefits have been calculated to this date. The accrued lump sum disclosed last year of £125,000 - £130,000 was incorrect. The correct figure was £50,000 - £55,000. Fiona MacGregor is a member of the Westminster Pension Scheme but the calculation mistakenly applied the formula relevant for members of the HCA Pension Scheme.

[6] Richard Ennis left the Agency and pension scheme on 20 November 2018. His pension benefits have been calculated to the date of departure.

The Chief Executive and Key Managers are eligible to participate in the Homes & Communities Agency Pension Scheme, which is a multi-employer defined benefit scheme. The Chairman is not entitled to be a member of any of the Agency's pension schemes. With the exception of Fiona MacGregor, who was an active member of the City of Westminster Pension Fund prior to her transfer to the Regulator of Social Housing; Gordon More, who is not an active member of a pension scheme; Christopher Kinsella and Tracie Evans who are employed on a temporary basis; and Tom Walker who is on secondment to the Agency, all remaining Key Managers in post at 31 March 2018 are active members of the Homes & Communities Agency Pension Scheme.

Accrued pension at 31 March 2019

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2019.

Cash Equivalent Transfer Value (CETV) 31 March 2019 (subject to audit)

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

Termination payments (subject to audit)

Termination payments to Key Managers in 2018/19 were £nil (2017/18: £nil).

Staff composition (subject to audit)

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

	2018/19	2017/18
Permanent UK staff	**791**	743
Fixed term UK staff	**45**	27
Temporary staff	**25**	12
Seconded staff	**8**	3
	869	785

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

	2018/19	2017/18
£0 - £25,000	**90**	81
£25,001 - £50,000	**362**	391
£50,001 - £75,000	**315**	231
£75,001 - £100,000	**65**	54
£100,001 - £125,000	**21**	16
£125,001 - £150,000	**10**	8
£150,001 - £175,000	**3**	1
£175,001 - £200,000	**0**	0
£200,001 - £225,000	**3**	3
	869	785

Gender analysis

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

	2018/19	2017/18
Key Managers – Male	**6**	5
Key Managers – Female	**2**	3
Key Managers	**8**	8
Other employees – Male	**433**	392
Other employees – Female	**428**	384
Other employees	**861**	777
	869	785

In March 2019, the Agency published its second annual Gender Pay Gap Report, which is available on the following webpage: https://www.gov.uk/government/publications/gender-pay-gap-report-2018-19. As an organisation that promotes equality of opportunity and values diversity, our gender pay gap continues to be unacceptable, despite showing a small improvement from the previous report.

Median salary (subject to audit)

Homes England is also required to disclose the relationship between the mid-point of the banded remuneration of the highest-paid director and the median remuneration of the Agency's workforce for the year, using a position as at the end of March 2019. The banded remuneration of the highest-paid director, Christopher Kinsella, was £235,000-£240,000 (2017/18: £210,000-£215,000 for Nick Walkley, Chantal Geall and Gordon More). The mid-point of this band was 4.6 times (2017/18: 4.3) the median remuneration of the workforce, which was £51,610 (2017/18: £50,000). The cost of employing a Chief Financial Officer (CFO) on a short term basis until the appointment of a permanent CFO on 1 July 2019, has led to a higher upper salary range and in turn led to an increase in the median pay ratio.

Remuneration ranged from £15,000-£20,000 to £235,000-£240,000 (2017/18: £5,000-£10,000 to£210,000-£215,000) on the basis of total remuneration including benefits in kind. The starting range salary represents the paid remuneration of apprentices. Once apprentices are excluded, remuneration ranged from £15,000-£20,000 to £235,000-£240,000 (2017/18: £15,000-£20,000 to £210,000-£215,000).

Exit packages (subject to audit)

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

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

	2018/19 Departures agreed	2017/18 Departures agreed
£0 - £10,000	-	-
£10,001 - £25,000	-	3
£25,001 - £50,000	-	5
£50,001 - £100,000	3	3
£100,001 - £150,000	-	-
Total number of exit packages	3	11
Total cost of exit packages (£'000)	285	487

Expenditure on consultancy

During the year the Agency incurred expenditure of £416,871 on consultancy as defined by the Cabinet Office (2017/18: £84,950).

Apprenticeship Levy

During the year the Agency incurred expenditure of £191,000 on contributions to the apprenticeship levy to support apprenticeship training and assessment for apprentices (2017/18: £219,000).

Off-payroll arrangements

In accordance with the requirements of the FReM, the Agency is required to publish details of their highly paid and senior off-payroll engagements. The Agency uses off-payroll arrangements for specialist or technical contractors and consultants to address urgent scarce skills gaps.

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

	2018/19	2017/18
No. of existing engagements as of 31 March	23	11
of which have existed for:		
Less than one year at time of reporting	17	8
Between one and two years at time of reporting	3	3
Between two and three years at time of reporting	3	-
Between three and four years at time of reporting	-	-
Four years or more at time of reporting	-	-

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

	2018/19	2017/18
No. of new engagements, or those that reached six months in duration, between 1 April and 31 March	7	38
of which:		
No. assessed as caught by IR35	5	38
No. assessed as not caught by IR35	2	-
	2018/19	**2017/18**
No. engaged directly (via Personal Service Company contracted to the Agency) and are on the Agency payroll	-	-
No. of engagements reassessed for consistency / assurance purposes during the year	-	-
No. of engagements that saw a change to IR35 status following the consistency review	-	-

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

	2018/19	2017/18
No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility during the financial year	1	2
Total no. of individuals both on and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year	14	16

Employee Matters

Staff policy regarding disabled persons

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

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

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

Equality and diversity in employment & occupation

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

We know that organisations perform at their best when they fully embrace diversity and inclusion. It is our ambition to do just that. We aim to create a workforce that represents the diverse communities in which we operate. We also aim to go further by offering leadership on equality, diversity and inclusion to the wider housing and construction industry. We are putting plans in place that will allow us to achieve our aims and to lead by example. We have made great strides during the last year in identifying the behaviours that enhance the respectful, collaborative and ambitious culture we want to achieve. We introduced The Homes England Way and provided a greater emphasis on building our learning and development offer. We also provided facilitated discussions on "Respect at Work" across the organisation and introduced "Culture" as a new work stream for us to monitor and take action on. In addition we have established new staff networks for Graduates and Apprentices, and Future Leaders. They join our established staff networks, (Build Together (LGBT), Build Together Friends (LGBT Allies), Black, Asian and Minority Ethnic, Gender, Disability and Carer's) allowing us to fully embed our diversity and inclusion aims and to ensure that our colleagues are better supported in their roles.

We strongly believe that the actions we have taken are helping us to create working environments that enhances our employee experiences and our value proposition. However, we know that we have more work to do if we are to fully achieve our diversity and inclusion ambitions. For example, we have an unacceptably large gender pay gap. We have made tackling that gap a priority. Our 2019 Gender Pay Gap Action Plan has committed us to taking larger and more determined steps towards closing our gap, building capability, facilitating career progression and ensuring gender balance throughout the organisation.

As part of that work we will also be developing an attraction strategy that will broaden and diversify our talent pool by focusing on the full list of benefits available to our staff in promotional material for our roles and our job advertisements, particularly around our term time and fixed pattern working, maternity, paternity, shared parental leave and childcare benefits.

We have made it our mission to make sure that everyone at Homes England is treated fairly and with respect and to ensure that opportunities are open to all. We remain committed to creating an inclusive culture, valuing, and supporting diversity of backgrounds, which will enable everyone to reach their full potential and to ensure that we stand out as an employer of choice.

Sickness absence

Our sickness absence has improved in 2018/19 with the average working days lost continuing to be low. The percentage of staff with no sickness absence increased to 77% from 65% in 2017/18. The average working days lost has fallen from 2.81 in 2017/18 to 1.12 in 2018/19.

Health and Safety

Our safety performance has remained strong through 2018/19. Two incidents were reported to the Health and Safety Executive (HSE) under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) in 2018/19. One included an injury to a member of the public which required them to be taken to hospital from the scene of the accident and the other was a dangerous occurrence which involved the disturbance of asbestos material during an attempted theft of redundant power cables on one of our development sites.

Our Accident Incident Rate (AIR) for RIDDOR reportable injuries was zero per 100,000 employees in 2018/19 as there were no RIDDOR reportable injuries to our employees. This is below the nationally reported AIR of 263. The AIR for all accidents involving employees was calculated as 316 compared to the Labour Force Survey AIR rate of 2,054 injuries per 100,000 employees.

Homes England set annual corporate health and safety targets for completing risk assessments, training and site inspections and audits. All of the 14 targets set for 2018/19 have been met or exceeded.

Employee Engagement

Homes England participates in the wider Civil Service people survey every year. In 2018, we recorded the highest overall engagement score since we began participating in the survey. As our new operating model is implemented we will continue to monitor employee engagement through a series of workshops and roadshows.

Trade Union relationships

We formally recognise three trade unions – Unite, PCS and Unison – with whom we consult over pay, policies and procedures, working conditions and related issues. Regular meetings take place between management and elected union representatives, called Joint Negotiation and Consultation Committee meetings, on a cycle of approximately six weeks.

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

Relevant union officials	2018/19
Number of employees who were relevant union officials during the relevant period	10
Full-time equivalent employee number	10

Percentage of time spent on facility time	2018/19
0%	0
1 - 50%	10
51% - 99%	0
100%	0

Percentage of pay bill spent on facility time	2018/19
Total cost of facility time (£'000)	49.5
Total pay bill (£'000)	52,781
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.09%

Paid trade union activities	2018/19
Percentage of paid facility time spent on paid trade union activities:	0%

Parliamentary Accountability and Audit report

Regularity of expenditure (subject to audit)

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

	2018/19		2017/18	
	Cases	£'000	Cases	£'000
Total of all losses and special payments	**107**	**11,810**	82	1,563
Cases over £300,000:				
Loans written off	**6**	**11,645**	1	1,476

Under International Accounting Standard 39: Financial Instruments (IAS 39) Homes England recognised impairments only when it was considered that the asset was not recoverable following a trigger event. Under International Financial Reporting Standard 9: Financial Instruments (IFRS 9), which Homes England adopted for the first time on 1 April 2018, a write-off amount is recognised in the financial statements when it is considered that there is no realistic prospect of full recovery. This aligns the accounting treatment with the requirement to disclose losses in this note for the attention of Parliament at the earliest point at which a loss is expected.

As a consequence, on applying the new accounting standard, Homes England re-assessed a number of loans and concluded that evidence existed which met the requirements for recognising an accounting write-off under IFRS 9. These changes are therefore reflected in this note as losses recognised on first adoption of IFRS 9.

Homes England is required to consider the effect of discounting future cash flows (to reflect the present value of the anticipated recovery) in order to determine the required write-off allowance for accounting purposes. The losses recognised here include an element of this discounting effect, which will subsequently be unwound in future years as interest income on the impaired balance.

In 2018/19 there were six cases of loan losses recognised where the amount written-off for accounting purposes was in excess of £300,000. The table on the next page details these losses and provides further detail around the split of loss amounts recognised on first time adoption of IFRS 9, and during 2018/19.

Losses recognised on first time adoption of IFRS9 (£'000)	Losses aligned to accounting write-offs/ reversals in 2018/19 (£'000)	Total write-offs recognised as at 31 March 2019 (£'000)	Comments
3,640	**57**	**3,697**	In 2017/18, Homes England varied the terms of a legal agreement and Homes England recognised an impairment of £3,033k under IAS 39. On first time adoption of IFRS 9, the position was reviewed and a modification loss (as required under IFRS 9) was recognised as an adjustment to the opening position of £500k. This reflected changes to the terms of the agreement which reduced the contractual amount due. At this time, an additional write-off adjustment of £164k was also recognised, being the discount required to reflect the present value of the anticipated recovery. **As at 31 March 2019, total losses recognised were £3,697k.**
2,922	**(43)**	**2,879**	The loss relates to a loan provided under the Get Britain Building programme to fund the development of a 43 unit residential site. Accounting write-offs of £2,922k were recognised on first time adoption of IFRS 9. The losses recognised were as a result of delays with the site development and cost overruns. During 2018/19 there have been total write-off reversals of £43k as the position has improved slightly. **As at 31 March 2019, total net losses recognised were £2,879k.**
1,520	**548**	**2,068**	The loss relates to a loan provided under the Custom Build programme to fund the development of a 23 unit residential site. In 2016/17, as a result of development delays cost overruns and delays in the timing of unit sales against expectations, a shortfall on the scheme was identified and Homes England recognised an impairment but no loss was recognised at this time. Subsequently, in 2017/18, Homes England disclosed a loss of £1.476m in relation to the loan due to it being considered that there was no realistic prospect of recovery of these amounts. In 2018/19, further unforeseen delays with the project resulted in projected cost increases. Reflecting this, an additional loss has been recognised during the current year of £548k. **As at 31 March 2019, total losses recognised were £2,068k.**
1,441	**395**	**1,836**	The loss relates to a loan provided under the Get Britain Building programme to fund the development of a 366 unit residential site. £1,441k was impaired in previous years, as a result of cost overruns and delays on site and on first adoption of IFRS 9 this was considered to meet the requirements for recognising a loss. In 2018/19, due to additional overhead and preliminary costs being forecast as a result of project delays, Homes England has recognised an additional loss of £395k. **As at 31 March 2019, total losses recognised were £1,836k.**
-	**798**	**798**	In 2018/19, Homes England has recognised a loss of £798k on a loan provided under the Home Building Fund for the development of a 44 unit site. Unforeseen additional works, a shortage of subcontractors and a lower demand for units than originally envisaged has resulted in an overall increase in costs on the development. **As at 31 March 2019, total losses recognised were £798k.**
-	**367**	**367**	In 2018/19, Homes England recognised a loss of £354k on a loan provided under the Get Britain Build programme. The funding was provided for the redevelopment of a building to provide 25 units. The loss is a result of a delay in sales and projected reduction in sales values against original estimates. **As at 31 March 2019, total losses recognised were £367k.**
9,523	**2,122***	**11,645**	

*** Included in the 2018/19 accounts are further write-offs of loans totalling £105k, which are below the reporting threshold and therefore have not been included in the table above. In addition to this, the 2018/19 accounts reflect the reversal of previously disclosed losses totalling £349k during the period. Please note that amounts above include the impairment of accrued interest. The contractual amount due on Financial Assets for which amounts have been written off, and which are still subject to enforcement activity was £51.1m at 31 March 2019.**

Fees and charges (subject to audit)

Regulator of Social Housing – 1 April 2018 to 30 September 2018

Homes England, in its capacity as the Regulator of Social Housing Providers in England, has charged fees to Registered Providers during the year. From 1 October 2018, the responsibility for regulating Register Providers in England transferred to a newly created organisation, the Regulator of Social Housing (RSH). At the same time, the net fees collected and unspent, were paid to the RSH.

Fee charging was introduced in 2017/18 following a statutory consultation. Five fees principles were approved by the Secretary of State:

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

The fee structure for the period was:

- → Registered providers with less than 1,000 units, £300 flat fee per annum
- → Registered providers with 1,000 units or greater, £4.72 per social housing unit.

Fees are charged annually in advance and fund those costs related to regulating all Registered Providers. The cost of non-routine regulation, including consumer regulation and any registration costs not covered by initial registration fees, is covered by Grant in Aid. Should there be any underspend on fee-funded costs there would be a proportionate refund of the per unit annual fee to larger providers (those with over 1,000 social housing units).

During the period, £12,622k of fees were charged. Total costs incurred in the period were £6,086k of which £1,281k related to non-fee charging activities and £4,805k related to fee charging activities.

A financial summary of the position is as follows:

	£k
Fees charged to Register Providers	12,622
Costs incurred in relation to fee charging activities	(4,805)
Total fees less fee funded costs held as at 30 September 2018	**7,817**

The balance held above comprises both fee rebates due to Registered Providers and fees income deferred and to be recognised in future periods. On 1 October 2018, as the responsibility for the Regulation of Registered Providers in England transferred to the RSH, the balance above was also transferred.

Regulator of Social Housing – 1 October 2018 to 31 March 2019

On 1 October 2018, Homes England and RSH entered into a Service Level Agreement (SLA) under which Homes England agreed to provide services to RSH for a term of four years. Services provided may include, but are not limited to, the provision of accommodation or facilities, the provision of staff time and expertise, and the provision of technical resources. It was the intention of the Tailor Review, which had recommended the establishment of an independent Regulator, that Homes England and RSH retained close working relationships and recommended the sharing of corporate services.

During the period, service income totalled £792,000. This is included in Other Operating Income.

Other fees

Additionally, Homes England may, from time to time, charge a fee for services provided to other entities. Where applicable, services are charged at full cost and therefore result in no attributable surplus or deficit. During the year, Homes England provided legal and professional services to other parties totalling £277,000. This is included in Other Operating Income.

Other fees include £100,000 charged to the Homes and Communities Agency Pension Scheme for the provision of accommodation, staff and professional services covering 2 years, and £160,000 charged to the Department of Business, Enterprise, Innovation and Skills, for the provision of professional services in connection with the administration of three science parks.

Remote contingent liabilities
(subject to audit)

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

The Accountability report is signed on 4th July 2019

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Nick Walkley
Chief Executive and Accounting Officer

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of Homes England, the trading name of the Homes and Communities Agency for the year ended 31 March 2019 under the Housing and Regeneration Act 2008. The financial statements comprise: the Group Statement of Comprehensive Net Expenditure, the Group and Parent Statements of Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of Homes England's affairs as at 31 March 2019 and of the group's and the parent's net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Housing and Regeneration Act 2008 and Secretary of State directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the 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 Homes England 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.

Conclusions relating to going concern

I am required to 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 Homes England's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

Responsibilities of the Board and the Accounting Officer for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and Homes England's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

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

Other Information

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

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Housing and Regeneration Act 2018;
- 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 Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
9 July 2019
Comptroller and Auditor General

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

Financial statements

Group statement of comprehensive net expenditure – Year ended 31 March 2019

	Note	2018/19 £'000	Represented 2017/18 £'000
Expenditure			
Grants	6	**857,159**	600,774
Cost of land and property disposals	7	**62,491**	72,574
Programme costs	8	**61,634**	38,208
Staff costs	9a	**52,781**	45,267
Pension costs	9a	**17,254**	16,347
Administration expenses	10	**42,705**	20,336
Impairment of land and property	19	**103,956**	58,269
Impairment of financial assets	15f	**93,963**	94,943
Decrease in provisions	21	**(3,890)**	(735)
		1,288,053	945,983
Income			
Proceeds from disposal of land and property assets	7	**113,589**	131,914
Valuation gains on financial assets held at FVTPL*	15f	**21,731**	-
Net (loss)/gain on disposal of financial assets	15f	**(8,151)**	79,774
Interest income	15f	**56,155**	44,894
Other operating income	11	**36,492**	44,802
		219,816	301,384
Net operating expenditure		1,068,237	644,599
Transfer of net liabilities to the Regulator of Social Housing	4	**(767)**	-
Share of (profits)/losses of associates and joint ventures	12	**(2,341)**	390
Pension fund finance costs	23d	**(1,863)**	(1,238)
Net expenditure before tax		1,063,266	643,751
Income tax credit	13a	**(1,503)**	(14,533)
Net expenditure for the year		1,061,763	629,218
Other comprehensive expenditure			
Actuarial gain from pension fund	23e	**(34,650)**	(25,016)
Fair value gain on Available-for-Sale assets**	15d	**-**	(143,320)
Realised gains on disposal of Available-for-Sale assets recognised in net expenditure**	15f	**-**	82,849
Income tax on items in other comprehensive expenditure***	13b	**5,891**	14,533
		(28,759)	(70,954)
Total comprehensive expenditure for the year		1,033,004	558,264

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

* As a result of the adoption of International Financial Reporting Standard 9: Financial Instruments (IFRS 9) on 1 April 2018, from the 2018/19 reporting period the Agency's financial assets measured at fair value are held under a new asset classification: Fair Value Through Profit or Loss (FVTPL). As a result, there are no comparative figures for 2017/18.

** For 2017/18 reporting period, under IAS 39, net fair value movements on Available-for-Sale assets were taken to a fair value reserve and recognised as realised gains in net expenditure when the related Available-for-Sale assets were disposed (Income section: net gain/(loss) on disposal of financial assets).

*** Income tax for 2017/18 includes a £10.0m charge in relation to fair value movements on financial assets.

Represented comparative figures for transactions in 2017/18

Comparative figures for 2017/18 have not been amended, but have been reanalysed and where appropriate reclassified from other headings, in order to simplify the format of the Agency's accounts. This is in line with directions from HM Treasury to streamline financial statements where possible and to support relevant comparison between years where the requirements of IFRS 9 might otherwise cause confusion. This convention is followed throughout all Primary Statements and supporting notes. Commentary is provided where relevant to aid users in understanding significant changes in analysis.

Group statement of financial position – At 31 March 2019

	Note	2018/2019 £'000	Represented 2017/2018 £'000
Non-current assets			
Intangible assets		**3,198**	4,907
Property, plant and equipment		**7,749**	4,395
Investments in associates and joint ventures	14b	**47,149**	17,856
Pension assets	23a	**103,356**	71,209
Trade and other receivables	15b	**102,327**	126,170
Financial asset investments	15c	**12,607,524**	9,798,519
		12,871,303	10,023,056
Current assets			
Land and property assets	19	**839,084**	776,239
Trade and other receivables	15b	**135,258**	139,826
Financial asset investments	15c	**585,375**	424,440
Cash and cash equivalents	15a	**266,826**	242,590
		1,826,543	1,583,095
Total assets		14,697,846	11,606,151
Current liabilities			
Trade and other payables	20	**(468,948)**	(391,716)
Provisions	21	**(384)**	(10,693)
		(469,332)	(402,409)
Non-current assets plus net current assets		14,228,514	11,203,742
Non-current liabilities			
Trade and other payables	20	**(13,523)**	(12,907)
Provisions	21	**(12,412)**	(15,893)
Pension liabilities	23a	**(8,346)**	(8,673)
		(34,281)	(37,473)
Assets less liabilities		14,194,233	11,166,269
Reserves			
Income and expenditure reserve		**14,194,233**	10,813,196
Fair value reserve		**-**	351,103
Regulation reserve		**-**	1,970
Taxpayers' equity		14,194,233	11,166,269

The accompanying Notes are an integral part of these Financial Statements. Approved by the Board on 4th July 2019 and signed on their behalf by:

Sir Edward Lister
Chairman

Nick Walkley
Chief Executive and Accounting Officer

Represented comparative figures for the 2017/18 financial year-end (Group and Agency)

In previous years, the Agency's financial asset investments were split for disclosure between Loans and Available-for-Sale financial assets. As a result of the adoption of International Financial Reporting Standard 9: Financial Instruments (IFRS 9) on 1 April 2018, all financial assets have been assessed for disclosure and measurement under new accounting classifications. In our view, disclosure of the different accounting classifications across each financial year in the Statement of Financial Position, which would have resulted in £nil balances for each asset classification in the adjacent financial year, would have been unhelpful to users of the accounts. This detail is therefore presented in the supporting notes, in particular Note 2, where the full impact of implementing IFRS 9 is explained. In 2019/20, the Agency will revert to disclosing balances by formal asset classification as this issue will be resolved and meaningful comparisons will be possible between years.

Agency statement of financial position – At 31 March 2019

	Note Refs	2018/2019 £'000	Represented 2017/2018 £'000
Non-current assets			
Intangible assets		**3,198**	4,907
Property, plant and equipment		**7,749**	4,395
Investments in subsidiaries	14a	**25,000**	25,000
Investments in associates and joint ventures	14b	**22,790**	-
Pension assets	23a	**103,356**	71,209
Trade and other receivables	15b	**102,327**	126,170
Financial asset investments	15c	**12,607,524**	9,798,519
		12,871,944	10,030,200
Current assets			
Land and property assets	19	**839,084**	776,239
Trade and other receivables	15b	**135,258**	139,826
Financial asset investments	15c	**585,375**	424,440
Cash and cash equivalents	15a	**266,826**	242,590
		1,826,543	1,583,095
Total assets		**14,698,487**	11,613,295
Current liabilities			
Trade and other payables	20	**(473,202)**	(399,875)
Provisions	21	**(384)**	(10,693)
		(473,586)	(410,568)
Non-current assets plus net current assets		**14,224,901**	11,202,727
Non-current liabilities			
Trade and other payables	20	**(13,523)**	(12,907)
Provisions	21	**(12,412)**	(15,893)
Pension liabilities	23a	**(8,346)**	(8,673)
		(34,281)	(37,473)
Assets less liabilities		**14,190,620**	11,165,254
Reserves			
Income and expenditure reserve		**14,190,620**	10,812,181
Fair value reserve		**-**	351,103
Regulation reserve		**-**	1,970
Taxpayers' equity		**14,190,620**	11,165,254

The accompanying Notes are an integral part of these Financial Statements. Approved by the Board on 4th July 2019 and signed on their behalf by:

Sir Edward Lister
Chairman

Nick Walkley
Chief Executive and Accounting Officer

Statement of cash flows – Year ended 31 March 2019

Group and Agency	Note	2018/19 £'000	Represented 2017/18 £'000
Net cash outflow from operating activities	(a)	**(4,038,799)**	(3,579,126)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,157)**	(1,494)
Purchase of intangible assets		**(791)**	(3,947)
Investment made in group companies	14b	**(16,219)**	(2,081)
Transfer of cash to The Regulator of Social Housing	4	**(10,043)**	-
Net cash outflow from investing activities		**(31,210)**	(7,522)
Cash flows from financing activities			
Grant in Aid from sponsor department	SoCTE*	**4,094,245**	3,644,180
Net cash inflow from financing activities		**4,094,245**	3,644,180
Increase in cash and cash equivalents in the period		**24,236**	57,532
Cash and cash equivalents at 1 April	15a	**242,590**	185,058
Cash and cash equivalents at 31 March	15a	**266,826**	242,590

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

	Note	2018/19 £'000	Represented 2017/18 £'000
Net operating expenditure	SoCNE**	**(1,068,237)**	(644,599)
Financial asset investments made by the Agency	15	**(4,256,388)**	(3,751,661)
Proceeds from disposal of financial asset investments	15	**1,206,389**	818,539
Loss /(gain) on disposal of financial assets	15f	**8,151**	(79,774)
Additions to land and property assets	19	**(227,904)**	(315,830)
Cost of land and property assets disposed	7	**61,103**	70,858
Interest added to financial assets held at amortised cost	15f	**(47,418)**	(37,455)
Valuation gains on financial assets held at FVTPL	15f	**(21,731)**	-
Increase in impairment of land and property	19, 10	**103,620**	58,242
Increase in impairment of financial assets	15f	**93,963**	94,943
Capital Grant-in-Kind	6	**-**	35,692
Depreciation and amortisation	10	**3,423**	3,195
Pension costs	23	**6,990**	6,908
Payments of income tax		**(696)**	-
		(4,138,735)	(3,740,942)
Net change in receivables on first time adoption of IFRS 9		**(3,009)**	-
Decrease in receivables		**34,456**	42,441
Increase in payables		**82,279**	124,090
Decrease in provisions		**(13,790)**	(4,715)
Net cash outflow from operating activities		**(4,038,799)**	(3,579,126)

*SOCTE: Statement of Changes in Taxpayers' Equity
**SOCNE: Statement of Consolidated Net Expenditure

Represented comparative figures for transactions in 2017/18

Comparative figures for 2017/18 have not been amended, but have been reanalysed following changes to the analysis of transactions and balances in supporting notes and primary statements, as explained on the Group Statement of Consolidated Net Expenditure and Group Statement of Financial Position. Additional lines are also needed for the current reporting period due to the implementation of IFRS 9 (Note 2) and the transfer of assets and liabilities to the Regulator of Social Housing on 1 October 2018 (Note 4).

Group statement of changes in taxpayers' equity – Year ended 31 March 2019

	Note	Income and expenditure reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total reserves £'000
Balance at 31 March 2017		7,777,475	300,912	1,966	8,080,353
Changes in taxpayers' equity 2017/18					
Net expenditure for the year		(629,222)	-	4	(629,218)
Actuarial gain from pension fund	23e	25,016	-	-	25,016
Fair value gain on Available-for-Sale financial assets*	15f	-	143,320	-	143,320
Realised gains on disposal of financial assets recognised in net expenditure*	15f	-	(82,849)	-	(82,849)
Income tax on items in other comprehensive expenditure	13b	(4,253)	(10,280)	-	(14,533)
Total comprehensive expenditure for the year		(608,459)	50,191	4	(558,264)
Grant in Aid from sponsor department	1(e)	3,644,180	-	-	3,644,180
Balance at 31 March 2018		10,813,196	351,103	1,970	11,166,269
Change in accounting policy on 1 April 2018 **	2c	317,826	(351,103)	-	(33,277)
Changes in taxpayers' equity 2018/19					
Revised balance at 1 April 2018		11,131,022	-	1,970	11,132,992
Release of reserve on transfer to the Regulator of Social Housing	4	1,974	-	(1,974)	-
Net expenditure for the year		(1,061,767)	-	4	(1,061,763)
Actuarial gain from pension fund	23e	34,650	-	-	34,650
Income tax on items in other comprehensive expenditure	13b	(5,891)	-	-	(5,891)
Total comprehensive expenditure for the year		(1,031,034)	-	(1,970)	(1,033,004)
Grant in Aid from sponsor department	1e	4,094,245	-	-	4,094,245
Balance at 31 March 2019		14,194,233	-	-	14,194,233

* For 2017/18 reporting period, under IAS 39, net fair value movements on Available-for-Sale assets were taken to a fair value reserve and recognised as realised gains in net expenditure when the related Available-for-Sale assets were disposed (Income section: net gain/(loss) on disposal of financial assets).

** The change in accounting policy relates to the first time adoption of IFRS 9 and IFRS 15 on 1 April 2018. The effect of implementing these new accounting standards is outlined in detail in Note 2.

Agency statement of changes in taxpayers' equity – Year ended 31 March 2019

	Note	Income and expenditure reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total reserves £'000
Balance at 31 March 2017		7,776,310	300,912	1,966	8,079,188
Changes in taxpayers' equity 2017/18					
Net expenditure for the year		(629,072)	-	4	(629,068)
Actuarial gain from pension fund	23e	25,016	-	-	25,016
Fair value gain on Available-for-Sale financial assets*	15f	-	143,320	-	143,320
Realised gains on disposal of financial assets recognised in net expenditure*	15f	-	(82,849)	-	(82,849)
Income tax on items in other comprehensive expenditure	13b	(4,253)	(10,280)	-	(14,533)
Total comprehensive expenditure for the year		(608,309)	50,191	4	(558,114)
Grant in Aid from sponsor department	1(e)	3,644,180	-	-	3,644,180
Balance at 31 March 2018		10,812,181	351,103	1,970	11,165,254
Change in accounting policy on 1 April 2018**	2c	317,826	(351,103)	-	(33,277)
Changes in taxpayers' equity 2018/19					
Revised balance at 1 April 2018		11,130,007	-	1,970	11,131,977
Release of reserve on transfer to the Regulator of Social Housing	4	1,974	-	(1,974)	-
Net expenditure for the year		(1,064,365)	-	4	(1,064,361)
Actuarial gain from pension fund	23e	34,650	-	-	34,650
Income tax on items in other comprehensive expenditure	13b	(5,891)	-	-	(5,891)
Total comprehensive expenditure for the year		(1,033,632)	-	(1,970)	(1,035,602)
Grant in Aid from sponsor department	1e	4,094,245	-	-	4,094,245
Balance at 31 March 2019		14,190,620	-	-	14,190,620

* For 2017/18 reporting period, under IAS 39, net fair value movements on Available-for-Sale assets were taken to a fair value reserve and recognised as realised gains in net expenditure when the related Available-for-Sale assets were disposed (Income section: net gain/(loss) on disposal of financial assets).

** The change in accounting policy relates to the first time adoption of IFRS 9 and IFRS 15 on 1 April 2018. The effect of implementing these new accounting standards is outlined in detail in Note 2.

Notes to the financial statements year ended 31 March 2019

1. Statement of accounting policies

a) Statutory basis

The Homes and Communities Agency, trading as Homes England (the Agency), is a non-departmental public body (NDPB) and statutory corporation created by the Housing and Regeneration Act 2008 (as amended by the Localism Act 2011). Homes England is part of the Ministry of Housing, Communities and Local Government.

The Financial Statements of Homes England are governed under the provisions of the Housing and Regeneration Act 2008 and by the Accounts Direction given by the Secretary of State, with approval of HM Treasury under the Act. The Direction issued on 8 December 2014 reflects government policy that the Financial Statements should, insofar as appropriate, conform to the accounting and disclosure requirements contained in Managing Public Money, Government Financial Reporting Manual (FReM) and in HM Treasury's Fees and Charges Guide. The Financial Statements have been prepared in accordance with the 2018/19 FReM issued by HM Treasury.

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

In accordance with guidance in the FReM, comparative figures have not been restated for the effect of applying International Financial Reporting Standard 9: Financial Instruments (IFRS 9) which comes into effect for reporting periods starting on or after 1 January 2018. As a result, differing accounting policies apply to 2017/18 and 2018/19. Individual policies below set out the specific policies which applied under each year.

b) Accounting convention

The Financial Statements are prepared under the historical cost convention modified by the revaluation of property, plant and equipment. For 2017/18, this modification applies to Available for Sale financial assets. Under IFRS 9, the modification applies for all financial assets held at Fair Value Through Profit of Loss (FVTPL).

c) Basis of preparation and consolidation

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

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

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

The share of net assets and profit information is based on unaudited financial statements or management information to 31 March 2019 for most associates. Where this information is not available, financial statements with a different reporting date have been used, where this reporting date is within three months of that of the Agency and where this does not produce significantly different results. Adjustments have been made on consolidation for significant transactions following the reporting date of the information used.

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

d) Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures, as recorded in the Agency's own Statement of Financial Position, are accounted for at cost. This is a change from the policy published in 2017/18 which stated that these interests were accounted for at cost less impairment, which is inconsistent with the requirements of International Accounting Standard 27: Consolidated and Separate Financial Statements. This change has no effect because no cumulative impairments were recognised as at 31 March 2018.

e) Funding

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

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

Under paragraph 15 of schedule 1 to the Housing Act 1996, any property that remains in ownership of a Registered Provider (RP), after meeting the claims of creditors and any other liabilities following its dissolution or winding up, was transferable to the Agency. Use of such funds held under this paragraph was restricted to either managing the controlled dissolution and transfer of engagements of an individual RP in financial difficulty, or ensuring its continued existence, provided that adequate financial controls have been put in place. Amounts received or utilised in this way were credited or charged directly to the Regulation reserve. From 1 October 2018, rights under this paragraph were transferred to the Regulator of Social Housing (RSH).

f) Critical accounting judgements and key sources of estimation uncertainty

Financial assets measured at fair value

Where assets are to be measured at fair value, this is performed with reference to the requirements of International Financial Reporting Standard 13 Fair Value Measurement (IFRS 13), applying considerations which follow the three hierarchies set out under the standard for determining fair value.

The majority of financial assets measured at fair value are investments in homes, such as those under the Help to Buy scheme, as analysed in Note 15d. These assets are valued with reference to regional house price indices, supplemented by adjustments for the Agency's experience of actual disposals since the inception of the schemes. However these only provide an estimate of the fair value of these assets because house price indices cannot accurately predict the value of individual homes; and disposal proceeds to date, although a good indicator of market performance, may not occur at the same level in the future.

The valuation of investments in homes (through equity-loan programmes such as Help to Buy) is highly sensitive to changes in assumptions about market prices. Investments in homes are also the Agency's most significant asset category so the judgement exercised by management, both in the application of indexation to the home equity portfolio and in the experience adjustments applied to this indexation, is a key source of estimation uncertainty in the Agency's financial statements. Analysis showing the sensitivity of the valuation of these assets to changes in market prices, and therefore to management's judgement in estimating this valuation, is shown in Note 17. In addition, Note 18a outlines the Agency's analysis of the sensitivity of the valuation of the Help to Buy portfolio to key modelling assumptions.

Other financial assets measured at fair value are generally valued with reference to cash flow forecasts, which are by their nature based on estimates, with the exception of the Agency's investment in the PRS REIT plc, which is valued with reference to quoted unit prices on the London Stock Exchange.

More information on the Agency's application of IFRS 13 to support fair value measurement is set out in Note 15c and Note 16.

Expected Credit Losses

Following the adoption of IFRS 9 in 2018/19, the Agency is required to calculate an Expected Credit Loss Allowance for Financial Assets measured at Amortised Cost. The majority of the assets the Agency measures at Amortised Cost relate to funding the Agency has provided as loans, and a small number of Non-Current Trade Receivables. The Agency also calculates a Simplified Expected Credit Loss Allowance for Current Trade Receivables as permitted under the Standard.

The Expected Credit Loss Allowance at 31 March 2019 is analysed in Note 15h. There are various key assumptions applied to the Expected Credit Loss model to which the calculation is highly sensitive, therefore the assumptions applied are a key judgement of management.

The key assumptions applied are as follows:

- Probability of Default: Probability of Default values are determined with reference to current economic conditions. The Probability of Default values are applied to each Investment in relation to their Credit Risk Rating.
- Economic Scenarios and relative Weightings: The Standard requires the Agency to consider alternative economic scenarios in the calculation of the Expected Credit Loss Allowance. For each identified scenario, variations are made to the Probability of Default values applied based on an individual investment's Credit Risk Rating. The amount of change applied is dependent on the scenario. Weightings are applied to the Expected Credit Loss calculations for each scenario, determined in relation to the probability of each scenario occurring, with reference to current market and credit risk expectations.
- Loss Given Default (LGD) Floor: A minimum percentage value has been applied to the LGD calculation with reference to individual Investments. This is in line with the requirements of IFRS 9, where historic data is insufficient to provide an evidence base for anticipated losses on default. At 1 April 2018 and 31 March 2019 the LGD floor applied was 35%.
- Moderated Security Values (MSVs): To reflect the expected value which might reasonably be realised from the sale of security in the event of default, MSV percentages are applied to gross security values to determine a measure of Loss Given Default (when compared against the estimated exposure on default). The MSVs are varied depending on the type of security held. A lower MSV percentage results in a higher discount applied to the determined security values.

Changes to the above assumptions can have a significant impact on the Expected Credit Loss Allowance calculation. A sensitivity analysis has been performed in relation to the above assumptions in Note 18b.

As described in Note 2, the Agency is required to calculate opening balances on first time adoption of IFRS 9. Therefore an Expected Credit Loss allowance has been calculated to inform the opening position at 1 April 2018. Note 15h provides an analysis of the movements in the Expected Credit Loss allowance between 1 April 2018 and 31 March 2019, including the impact of changes in Credit Risk assumptions over the period.

Market value of land and property assets

The determination of the market value of land and property assets involves a significant amount of judgement and estimation uncertainty, particularly given the complexity of some of the Agency's properties and the range of anticipated routes to disposal. Valuations are performed by qualified valuers with independent external valuers appointed for the majority of the portfolio's value and also to value complex properties. However, the judgement and estimation uncertainty involved in property valuations only affects carrying value when the valuation is below an asset's cost.

Defined benefit pensions

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

g) Grants

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

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

In 2017/18:

Apr – Jun: 50% on start on site (where eligible), 50% on completion

Jul – Nov: 75% on start on site (where eligible), 25% on completion

Nov – Mar: 40% on acquisition (where eligible), 35% on start on site (where eligible), 25% on completion

In 2018/19:

Apr - Mar: 40% on acquisition (where eligible), 35% on start on site (where eligible), 25% on completion.

Additionally, for those RPs who have been selected for continuous market engagement, payment flexibility of up to 95% against eligible expenditure can be claimed at acquisition and/or start on site. This was applicable in March 2019.

Affordable Housing grant under Strategic Housing Partnerships are paid quarterly in arrears, in line with total eligible development expenditure.

h) Grant recoveries

Recoveries of Affordable Housing Grant from Registered Providers of Social Housing (RPs) are accounted for when the amount due for repayment has been agreed with the RP and invoiced. RPs may retain grant recoverable from sales within their own accounts for recycling, with the funds becoming due back to the Agency if unused within three years. Recovery of other grants are accounted for when the repayment becomes contractually due.

i) Revenue recognition

Homes England recognises revenue from its contracts with customers in line with IFRS 15. Note 2 sets out the impact of first-time adoption of this standard: revenue recognition is unchanged from prior periods.

Income from the disposal of land and 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. Income derived from Registered Providers of Social Housing (RPs) is accounted for over the period to which it relates. Any amounts invoiced which relate to future periods are deferred and then released as appropriate. Income is designed to fund costs relating to the regulation of all RPs and is proportionate to those costs. From 1 October 2018, the right to charge fees to RPs transferred to the Regulator of Social Housing.

Income from rent and other property income is recognised over the period to which it relates, except for income from leases, which is accounted for as described in r) below.

Income from homeowner fees is recognised in the period to which it relates. The fee accrues daily after the financial instrument reaches a defined maturity and the income is recognised to the extent that it has accrued at the reporting date.

Income from projects where the Agency acts as master developer, where external contractors manage build and sales on behalf of the Agency, is recognised when a performance obligation in the contract is met. This is normally measured by compliance inspector reports of work performed to date. A contract asset is recognised when the Agency has completed a proportion of the contract activity prior to payment being received. A contract liability is recognised where cash has been received in advance of the contract activity being completed.

j) Income tax

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

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

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

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

k) Intangible assets

Intangible assets comprise:

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

Assets are capitalised where the cost of a single asset, or group of assets, exceeds £5,000. Intangible assets are valued at amortised historical cost and are amortised over four years, including the year of initial recognition.

l) Property, plant and equipment

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

Assets under construction are carried at cost. They are reclassified when they are capable of being brought into use, and their cost is depreciated and revalued in the same way as other assets within their new classification.

Assets are capitalised where the cost of a single asset, or group of assets, exceeds £5,000. Depreciation is charged to net expenditure based on cost or fair value (in the case of revalued assets), less the estimated residual value of each asset, evenly over its expected useful life as follows (including the year of initial recognition):

Freehold and long leasehold property
→ 50 years, or the remaining lease term if shorter

Information technology
→ Three years

Furniture, fixtures and fittings
→ Five years

Office equipment
→ Five years

m) Land and property assets

Valuation

Land and property assets are shown in the Statement of Financial Position at the lower of cost and net realisable value. Cost comprises direct costs that have been incurred in bringing the land and property to their present location and condition. Net realisable value is determined by deducting expected disposal costs from the valuation of each asset. A valuation of the whole portfolio is carried out as at each reporting date by both internal and external qualified valuers, with independent external valuers appointed for the majority of the portfolio's value and also to value complex land and property. The valuation methodology reflects the Agency's objectives and conditions for each asset. In all cases valuations are in accordance with the current edition of RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors.

Each asset is individually assessed in order to calculate an impairment/reversal of impairment following the revaluation. A reversal of an impairment charge may occur for previously impaired assets where the net realisable value increases. Increases are limited to an amount which results in assets being carried at their historical cost. Any movements in the valuation of land and property assets are shown in Net Expenditure as an impairment charge/credit.

Options purchased in respect of land are capitalised initially at cost. Options are reviewed annually for impairment as part of the valuation of the whole portfolio.

Disposal of land and property assets

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

2018/19: Following the adoption of IFRS 9 in 2018/19, where a land sale agreement includes an overage clause, the new accounting standard requires that any associated receivable is measured (discounted to reflect the net present value of the receipt as described above) and disclosed as a financial asset at Fair Value Through Profit or Loss (FVTPL). Over time, the initial discount unwinds through Net Expenditure as a valuation gain. The associated overage clause is measured and disclosed separately as a financial asset at FVTPL (level 3 hierarchy).

Where no overage clause exists the receivable is measured and disclosed as a financial asset at Amortised Cost. Over time, the initial discount unwinds through Net Expenditure as interest income.

2017/18: Under IAS 39, any long-term debt arising from a land sale was measured (discounted, to reflect the net present value of the receipt as described above) and disclosed as a receivable. Over time, the initial discount unwound through Net Expenditure as interest income. Any associated overage clause was measured and disclosed separately as an Available-for-Sale financial asset (level 3 hierarchy).

n) Provisions in respect of environmental liabilities

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

o) Financial assets

Recognition and derecognition

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

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

Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise amounts in bank accounts where there is an insignificant risk of changes in value, with less than three months' notice from inception. Third party cash comprises cash held by solicitors at year-end in relation to deals which were in progress and cash received by the Agency's mortgage administrator for home equity redemptions.

Trade and other receivables

Trade and other receivables may be measured at fair value or amortised cost depending on the nature of the individual balance. Where the balance is measured at amortised cost, the carrying value is subject to an expected credit loss calculation.

In 2017/18, all receivables were held at amortised cost and measured as set out below for financial asset investments. (See also Note 1m).
In 2018/19, on adoption of IFRS 9, the Agency determined that the existence of overage in land sale agreements meant that the agreements failed the two stage test as set out below for financial asset investments and, as a consequence, the majority of land sale agreements with receivable balances which are due over more than 1 year are now held at Fair Value Through Profit of Loss, following the recognition and measurement requirements set out below for financial asset investments.

Financial asset investments

IFRS 9 Financial Instruments was introduced by the International Accounting Standards Board (IASB) in July 2014, replacing IAS 39 Financial Instruments: recognition and management with an effective date of 1 January 2018. The Financial Reporting Manual (FReM) adopted the Standard, consistent with the requirement under the Government Resource Accounts Act 2000, which means that the Standard applies in central government from 2018/19.

The accounting policy choice under IFRS 9 which allows entities upon transition to restate prior periods if, and only if, it is possible without the use of hindsight has been withdrawn in the 2018/19 FReM. All government entities must recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. The impact on Financial Assets of following this requirement is set out in Note 2.

Classification and measurement of financial assets

2017/18: Under IAS 39, four asset classifications were possible:

- Fair Value through Profit of Loss
- Held for Trading
- Loans & Receivables
- Available-for-sale.

The Agency held no assets which met the classification criteria for either Fair Value through Profit of Loss or Held for Trading. Therefore, where assets met the requirements to satisfy recognition as Loans & Receivables (chiefly the existence of fixed and determinable payments), they were classified as Loans and Receivables and, in accordance with IAS 39, all other assets were classified as Available-for-Sale.

All forms of financial assets were initially recognised when the Agency became a party to the contractual provisions of the instrument (usually, when cash was initially advanced to the counterparty), and measured at fair value on recognition inclusive of transaction costs.

Where differences between the fair value at initial recognition, as calculated using the methods described in Note 15c and Note 17, and the price paid by the Agency to acquire the instrument were considered to be significant they were either:

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

Loans were subsequently carried at amortised cost using the effective interest rate. Loans and receivables were assessed for indications of impairment throughout the year and, following review and challenge by the relevant governance Committee, were impaired where there was objective evidence that a loss had been incurred. Objective evidence of impairment could include significant financial difficulty of the customer, default on payment terms or the customer going into liquidation. At this point a charge was recognised in net expenditure to reflect the reduction in asset value.

Available-for-Sale assets were subsequently carried at fair value (as described in Note 15c and Note 16). Gains and losses in relation to Available-for-Sale assets which arise from changes in fair value were recognised directly in the fair value reserve with the exception of impairment losses which were recognised directly in the Statement of Comprehensive Net Expenditure. When the financial asset was disposed, the cumulative gain previously recognised in taxpayers' equity was included in Net Expenditure for that period.
2018/19: Two criteria are used to determine how financial assets should be classified and measured under IFRS 9:

- The business model for managing the asset; and
- The contractual cash flow characteristics of the financial asset.

The measurement categories reflect the nature of the cash flow and the way they are managed. The three categories are:

- financial assets measured at amortised cost (AC);
- financial assets measured at fair value through other comprehensive income (FVOCI); and
- financial assets measured at fair value through profit or loss (FVTPL).

The contractual cash flow characteristics are either:

- financial assets held to collect cash flows only; or
- the assets are held to collect cash flows and to sell.

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

Financial assets are measured at Fair Value Through Other Comprehensive Income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Currently, the Agency has no assets which meet the requirements to be recognised under this classification.

Other financial assets are measured at Fair Value Through Profit or Loss. There is an option to make an irrevocable election for non-traded equity investments to be measured at Fair Value Through Other Comprehensive Income, in which case dividends are recognised in profit or loss, but gains or losses are not reclassified to profit or loss upon derecognition, and impairment is not recognised in the income statement. The Agency has not chosen to make this election for any financial assets.

As a consequence, all financial assets which do not meet the criteria for classification to be recognised and measured at Amortised Cost are recognised and measured at Fair Value Through Profit or Loss (FVTPL). Business models are determined on initial application. The Agency assesses the business model at a portfolio level. Information that is considered in determining the business model includes:

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

Financial assets managed on a fair value basis are held at Fair Value Through Profit or Loss (FVTPL) with no elections made to classify as Fair Value Through Other Comprehensive Income (FVTOCI).

In assessing whether contractual cash flows are solely payments of principal and interest, terms that could change the contractual cash flows so that it would not meet the condition for solely payments of principal and interest are considered, including:

- contingent and leverage features;
- non-recourse arrangements; and

- features that could modify the time value of money.

Changes on first adoption of IFRS 9

The effect of classification changes which arose as a result of adopting IFRS 9 is disclosed in Note 2. This note includes an analysis of adjustments to asset valuations where classifications changed and due to the adoption of the Expected Credit Loss allowance requirements for assets carried at Amortised Cost.

Assets measured at fair value

The majority of the Agency's financial assets are measured at fair value. Under IFRS 9 the Agency is required to value assets in accordance with IFRS 13: Fair Value Measurement. The practical application of this standard is explained with reference to the Agency's asset portfolios in Notes 15c and 16, with detail regarding the key assumptions which support the Agency's most significant fair value estimate set out in Note 18a.

Assets measured at amortised cost

Assets are valued by applying effective interest rates, calculated to recognise interest in accordance with IFRS 9 requirements to capitalise transaction costs and recognise fee income as finance income, spread over the life of the investment. Valuation of assets is subject to the impairment requirements of IFRS 9 for recognising write-off adjustments, modification adjustments and Expected Credit Loss allowances.

Impairment

IFRS 9 introduces a revised impairment model which requires the Agency to recognise expected credit losses based on unbiased forward looking information.

The measurement of expected credit loss involves increased complexity and judgement including estimation of probabilities of default, loss given default, a range of future economic scenarios, estimation of expected lives and estimation of exposures at default and assessing significant increases in credit risk.

Key concepts and management judgements

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

Determining a significant increase in credit risk since initial recognition

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

The Agency assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments.

Default

Default is deemed to have occurred when a borrower has materially defaulted on their obligations and / or there is evidence that a Counterparty is experiencing Financial Difficulty and their ability to repay is considered to be impaired. Homes England rebuts the presumption that exposures where payments past due exceed 90 days results in Default. This is rebutted on the basis Homes England primarily advances development loans where interest is accrued and capitalised and repayment primarily comes from the sale of developed collateral (Dwellings or Land) and a delay in a sale or repayment is not always reflective of a Significant Increase in Credit Risk (SICR) or default.

In determining whether a counterparty and resultantly a financial asset is classified as being in default Homes England assess a range of factors including, but not limited to:

- Whether a significant breach of lending terms and obligations has occurred i.e. a breach in financial covenants, legalisation or litigation has occurred.
- The availability of "Cure", "Remedy" or "Standstill" periods and whether these have lapsed.
- Whether there is a realistic prospect for any distress to be remedied by the Counterparty or Beneficial Owners without significant lender intervention and contract modification.
- Where relevant, if another lender to the counterparty has recognised a default resulting in a SICR regardless of whether this triggers cross default provisions.

As Homes England's Loans and Advances which meet the requirements to be measured at amortised cost are broadly consistent in nature, all being commercial loans and advances to companies involved in Housing Investment and Development a consistent approach to default is taken across the organisation.

Counterparties and associated Financial Assets which are deemed to be in default are only considered to have cured and returned to Stage 2 or Stage 1 following completion of a restructure which has resulted in the Counterparty's ability to repay their obligations no longer being impaired. Any restructure which results in Homes England absorbing a loss as a result will result in the Financial Asset being classified as in default.

Homes England does not utilise probation periods when assessing the Staging of a Financial Asset and therefore assets can move upwards through the Stages without restriction. The approach reflects the nature of Homes England's activities which are heavily concentrated in Development Finance and whereby distress and default is ordinarily only reversed through significant intervention or modification or a fundamental change in economic conditions. In the absence of these factors our expectation is that defaulted assets will remain in default until exited.

Forward-looking information

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate. Expected credit losses are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, a range of forward-looking economic scenarios, currently expected to be a minimum of three, will be considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss. Stress testing scenarios cascaded throughout government by HM Treasury and used by the Agency to support risk analysis for future years are employed as alternative economic scenarios for IFRS 9 purposes.

Homes England assigns Credit Risk Ratings (CRR) to all counterparties with whom the organisation has provided Financial Assets that are measured at amortised cost. The CRR utilises a combination of qualitative and quantitative information including, previous financial performance and strength, projected cashflows and leverage alongside more qualitative factors such as management experience. This assessment culminates in a single CRR figure and associated probability of default being applied based on the overall credit assessment of the given counterparty. This rating takes into consideration past financial performance (where evident) and expected performance of a given counterparty and critically the underlying project.

To ensure compliance with IFRS 9, Homes England has adopted an additional Probability Weighted assessment of Expected Credit Losses, utilising two plausible alternative economic scenarios, which additionally serve a dual purpose of Stress Testing the Financial Asset portfolio. As Homes England operates in a single sector (Housing) the loans and advances made are greatly concentrated and as a result defaults may be more greatly correlated in comparison to a loan portfolio which benefits from sector diversification.

The alternative economic scenarios adopted are both negative in outlook compared to Homes England's current asset performance, these scenarios being a sharp and sudden downturn and a longer term stagnation in economic activity (a sensitivity analysis with regard to this judgement is provided in Note 18b). The decision on how to weight these scenarios against the base case is primarily derived from expert judgement within Homes England. Alternative Scenarios and Weightings are reviewed on a minimum of a six monthly basis and scrutinised through forums and Committees.

Expected life

Lifetime expected credit losses must be measured over the expected life. For modelling purposes, this is restricted to the maximum contractual life of investments. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

Discounting

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

Modelling techniques

Expected credit losses are calculated at the individual financial instrument level by multiplying three main components, being the probability of default, loss given default and the exposure at default, discounted at the original effective interest rate. The methodology and key assumptions are outlined in detail in Note 18b.

Write-offs

As an organisation Homes England only operates within a very limited sector being Housebuilding and Housing related infrastructure. Homes England manages distressed Financial Assets through a specialist team with experience in restructuring and insolvency.

The majority of Homes England's loans and advances have the benefit of security and write offs take place once all such security has been realised or there is no realistic prospect of recovery and the amount of the loss has been determined.

Events that typically result in a write off ahead of security being fully realised include, but are not limited to:

- The Financial Asset is subject to Insolvency Proceedings and the only funds that will be received are the amounts estimated by the Insolvency Practitioner.
- Security (typically property) is disposed of and a decision is made that no further funds payment monies will be received.
- Independent Professional advice (typically third party valuations or assessments) shows a significant shortfall with limited evidence that any shortfall will be recouped.

Any further recoveries of amounts previously written off are generally considered fortuitous gains and reduce the amount of impairment losses recorded in the Statement of Consolidated Net Expenditure.

p) Financial liabilities

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

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

Financial liabilities consist of trade and other payables and certain provisions.

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

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

q) Pension costs

The Agency accounts for pension costs in accordance with IAS 19 Employee Benefits. During the year the Agency's employees were able to participate in one of the following contributory pension schemes: The Homes and Communities Agency Pension Scheme, The City of Westminster Pension Fund or the West Sussex County Council Fund. All three schemes are multi-employer defined benefit schemes as described in paragraph 8 of IAS 19.

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

r) Leases

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

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

s) Impact of standards and interpretations in issue but not yet effective

IFRS 16 Leases

IFRS 16 will be effective for the Agency's 2020/21 reporting period. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Agency expects to reclassify many of its leases, particularly for property, as finance leases as a result. Principally, this will reduce administrative accommodation costs and increase depreciation charges, as well as increasing gross assets and liabilities. The Agency has a low accommodation requirement in relation to its financial size and, as a result, we anticipate that the value of operating or finance leases which will be impacted by the new standard will not be significant to the Agency's financial statements.

2. Changes in accounting policies

From 1 April 2018, two new accounting standards become effective for the Agency: International Financial Reporting Standard 15: Revenue from Contracts with Customers (IFRS 15) and International Financial Reporting Standard 9: Financial Instruments (IFRS 9). In accordance with directions set out in HM Treasury's Financial Reporting Manual (FReM), prior periods are not restated and changes on first adoption are instead made to the brought forward balances as at 1 April 2018, with any changes in value arising from the implementation of the new standards passing through reserves.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The standard requires Homes England to identify its contracts with customers, the performance obligations related to the contracts, the transaction price to be determined, the allocation of the transaction price to the performance obligations, and how the performance obligations are satisfied (enabling revenue to be recognised).

Homes England has assessed its income streams against the standard and has determined that those in scope of IFRS 15 are revenue from disposal of property assets, revenue from rental of property assets, revenue from fees payable by homeowners, and revenue from fees payable to the Regulator of Social Housing (prior to the transfer of function on 1 October 2018).

The performance obligation on the disposal of property assets is the finalisation of a legally binding sale agreement between Homes England and the customer. The transaction price is the consideration set out in the sale agreement, and the performance obligation is satisfied when that sale agreement becomes legally binding. As such, the recognition of revenue from the disposal of property assets is not materially different from revenue recognition under the previous standard, where revenue was recognised in full when there was an unconditional and irrevocable sale agreement in place prior to the reporting date.

Similarly, the performance obligation on the revenue from rental or fees is the provision of a service by Homes England as set out in the contract with the customer: be that access to property, annual fees payable to the Regulator of Social Housing by Registered Providers of Social Housing, or financial assistance through Help to Buy or similar products. The transaction price is the consideration set out in each contract with the customer, and the performance obligation is satisfied as the service is provided over time. As such, the revenue is recognised as the service is provided over time and is therefore not materially different from revenue recognition under the previous standard, where revenue was recognised on the transfer of reward to the customer for the service provided.

In summary, based on management's assessment, the adoption of IFRS 15 has not had a material impact on the financial statements and the comparatives for the prior financial year do not require restatement. The timing and amount of revenue recognised is unchanged by the adoption of IFRS 15.

IFRS 9: Financial Instruments

IFRS 9 makes significant changes to the classification and valuation of financial instruments which make up over 90% of the Agency's Statement of Financial Position. As such, the new standard has a significant impact on the Agency's financial statements with assets valued at £10.5bn as at 31 March 2018 requiring detailed review for both classification and measurement on first adoption. To make the impact of first adoption of IFRS 9 clear to users of the accounts, this is set out below in two stages.

a) Changes in classification on first adoption of IFRS 9

Under International Accounting Standard 39 (Financial instruments), the Agency's financial assets were classified as either Loans & Receivables or Available-for-Sale Financial Assets.

IFRS 9 provides a classification for assets which are to be measured and disclosed as being at Fair Value Through Other Comprehensive Income (FVTOCI). The Agency has no assets which are managed under a business model which would require classification to this category and has not elected to classify any assets to this category. As a result, under IFRS 9 no assets produce valuation movements which would require gains to be held in a fair value reserve until disposal.

Under IFRS 9 the Agency considers that all assets previously classified as Available-for-Sale Financial Assets clearly meet the definition for classification as assets measured at Fair Value through Profit or Loss (FVTPL) and has reclassified all Available-for-Sale Financial Assets into this category on first adoption of IFRS 9 as at 1 April 2018.

For assets previously classified as Loans & Receivables, there are new requirements under IFRS 9 to consider whether the terms of the agreement in substance reflect those of a basic lending arrangement. If satisfied, assets are classified to the Amortised Cost category. The Agency has reviewed all investment and sale agreements which resulted in loans or long-term receivables under IAS 39 and, where this test has not been satisfied, has reclassified the identified investments to the Fair Value Through Profit or Loss category under IFRS 9 on first adoption as at 1 April 2018. This has resulted in a small number of loans being reclassified. The most significant area affected by this review has been long term receivables. Here, the inclusion of overage clauses in land sale agreements requires the Agency to reclassify debts due from land sales on deferred terms from Amortised Cost to the Fair Value through Profit or Loss category under IFRS 9.

As part of this review, seven loan arrangements with an aggregate value of £36.4m which were previously disclosed as Level 3 Development Equity (£10.2m) & Infrastructure Equity (£26.2m) within Available-for-Sale financial assets (Level 3) under IAS 39 have been recategorised to Loans measured at Fair Value through Profit of Loss on first adoption of IFRS 9. This classification is considered to more appropriately reflect the nature of the underlying legal agreements.

Mapping of assets to IFRS 9 classification categories prior to revaluation on first adoption of the new accounting standard (1 April 2018)

		For 2018/19 opening position Classification under IFRS 9		2017/18 closing position Classification under IAS 39	
		Fair Value through Profit or Loss (FVTPL) £'000	Amortised Cost £'000	Available-for-Sale Financial Asset £'000	Loans & Receivables £'000
Available-for-Sale Financial Assets					
Level 1:	PRS REIT	**30,027**	-	30,027	-
Level 2:	Help to Buy Equity Loans	**8,314,304**	-	8,314,304	-
	Legacy Equity Loans	**334,939**	-	334,939	-
Level 3:	Development Equity	**148,922**	-	158,490	-
	Infrastructure Equity	**6,181**	-	32,387	-
	Managed Funds	**28,769**	-	28,769	-
	Overage	**23,492**	-	23,492	-
	City Deals	**21,469**	-	21,469	-
	Other	**9,397**	-	10,069	-
Loans					
	Development Loans*	**34,549**	**493,069**	-	517,285
	Infrastructure Loans*	**120,499**	**613,938**	-	706,036
	Other Loans*	-	**45,742**	-	45,692
Trade and other receivables					
	Land Sale Receivables	**185,160**	**3,408**	-	188,568
	Other Receivables	**673**	**74,417**	-	77,428
		9,258,381	1,230,574	8,953,946	1,535,009
Total financial asset investments prior to revaluation			10,488,955		10,488,955

* Includes accrued interest not yet capitalised on first adoption - previously disclosed under trade receivables

b) Changes to valuation on first adoption of IFRS 9

Following reclassification, the Agency reassessed the valuation of assets where the measurement basis had changed, applying IFRS 13 to assets measured at fair value and introducing the Expected Credit Loss requirements for assets measured at amortised cost. The impact of these changes is analysed below:

Changes to the valuation of Financial Assets on first adoption of IFRS 9 (1 April 2018)

		Value on change of classification £'000	Application of the Expected Credit Loss model £'000	Other changes in valuation on first adoption of IFRS 9 £'000	Revised net value on first adoption of IFRS 9 as at 1 April 2018 £'000
Fair Value through Profit or Loss (FVTPL)					
Level 1:	PRS REIT	30,027	-	-	**30,027**
Level 2:	Help to Buy Equity Loans	8,314,304	-	-	**8,314,304**
	Legacy Equity Loans	334,939	-	-	**334,939**
Level 3:	Development Equity	148,922	-	-	**148,922**
	Infrastructure Equity	6,181	-	-	**6,181**
	Managed Funds	28,769	-	-	**28,769**
	Overage	23,492	-	-	**23,492**
	City Deals	21,469	-	-	**21,469**
	Other Equity	9,397	-	-	**9,397**
	Development Loans carried at FVTPL	34,549	-	154	**34,703**
	Infrastructure Loans carried at FVTPL	120,499	-	(2,589)	**117,910**
	Land Sale Receivables carried at FVTPL	185,160	-	(3,275)	**181,885**
	Other Receivables carried at FVTPL	673	-	1,741	**2,414**
		9,258,381		(3,969)	9,254,412
Amortised Cost:					
	Development Loans	493,069	(9,667)	(1,064)	**482,338**
	Infrastructure Loans	613,938	(19,283)	-	**594,655**
	Other Loans	45,742	(44)	-	**45,698**
	Land Sale Receivables	3,408	-	-	**3,408**
	Other Receivables	74,417	(113)	863	**75,167**
		1,230,574	(29,107)	(201)	1,201,266
Total financial asset investments following first adoption of IFRS 9 (1 April 2018)		10,488,955	(29,107)	(4,170)	10,455,678
Total movement in asset values as a result of adoption of IFRS 9				(33,277)	

c) Impact on Reserves arising from the adoption of IFRS 9 on 1 April 2018

On 1 April 2018, the adoption of IFRS 9 as outlined in a) and b) above had the following two effects on reserves:

i) Balances in the Fair Value Reserve which related to assets classified as Available-for-Sale were reclassified to the income and expenditure reserve.

ii) Changes to asset values on first time adoption were recognised in the income and expenditure reserve.

	Income and expenditure reserve £'000	Fair value reserve £'000	Regulation reserve £'000	Total reserves £'000
Balances as at 31 March 2018	**10,813,196**	**351,103**	**1,970**	**11,166,269**
Movements due to classification changes (i)	351,103	(351,103)	-	-
Movements due to changes in asset values (ii)	(33,277)	-	-	(33,277)
Balances following adoption of IFRS 9 on 1 April 2018	**11,131,022**	**-**	**1,970**	**11,132,992**

3. Operating segments

a) Operating segment analysis

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

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

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

	2018/19			2017/18		
Programme	**Expenditure £m**	**Receipts £m**	**Total £m**	**Expenditure £m**	**Receipts £m**	**Total £m**
Help to Buy	**3,551.7**	**(4.2)**	**3,547.5**	3,048.0	-	3,048.0
Investment:						
Long term fund	**282.4**	**(54.9)**	**227.5**	277.4	(20.3)	257.1
Short term fund	**362.0**	**(251.1)**	**110.9**	300.8	(95.2)	205.6
Build to Rent	**112.0**	**(55.6)**	**56.4**	125.8	(90.0)	35.8
Estate Regeneration	**14.4**	**-**	**14.4**	15.1	-	15.1
Legacy	**6.2**	**(105.6)**	**(99.4)**	9.3	(51.2)	(41.9)
PRS Guarantees	**0.1**	**-**	**0.1**	-	-	-
	777.1	**(467.2)**	**309.9**	728.4	(256.7)	471.7
Housing Infrastructure Fund	**15.9**	**-**	**15.9**	1.9	-	1.9
Land:						
Public Sector Land	**136.4**	**(176.0)**	**(39.6)**	205.5	(247.6)	(42.1)
City Growth Deals	**13.3**	**(7.5)**	**5.8**	16.9	(15.0)	1.9
Land Assembly Fund/Starter Homes	**137.7**	**(6.8)**	**130.9**	164.7	(0.6)	164.1
Direct Commissioning and Accelerated Construction	**23.7**	**(1.1)**	**22.6**	27.6	-	27.6
	311.1	**(191.4)**	**119.7**	414.7	(263.2)	151.5
Affordable Housing:						
Affordable Housing Programme	**817.5**	**(21.7)**	**795.8**	545.6	(28.6)	517.0
Community Housing Fund	**0.9**	**-**	**0.9**	-	-	-
	818.4	**(21.7)**	**796.7**	545.6	(28.6)	517.0
Total programme expenditure and receipts	**5,474.2**	**(684.5)**	**4,789.7**	4,738.6	(548.5)	4,190.1
Administration	**109.6**	**(4.8)**	**104.8**	79.9	(5.1)	74.8
Total expenditure and receipts reported to board	**5,583.8**	**(689.3)**	**4,894.5**	4,818.5	(553.6)	4,264.9

b) Reconciliations to net expenditure

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

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

	Note	2018/19 £m	2017/18 £m
Total net DEL expenditure reported to the Board		**4,894.5**	**4,264.9**
Reconciling items:			
Increase in impairment of land assets	19	**104.0**	58.3
Decrease in impairment of PPE and intangible assets		**(0.3)**	-
Increase in impairment allowances for assets measured at amortised cost	15	**19.5**	7.5
Increase in impairment of assets measured at fair value passing through the SoCNE	15	**72.6**	88.1
Valuation gains on financial assets held at FVTPL	15	**(8.2)**	-
Decrease in provisions	21	**(3.9)**	(0.7)
Utilisation of provisions	21	**(9.9)**	(1.5)
Share of (profits)/losses of associates and joint ventures	14	**(2.3)**	0.4
Investment in joint venture	14b	**(16.2)**	(2.1)
Statuory transfer to RSH	4	**(0.8)**	-
Realised gains on disposal of assets measured at fair value	15	**-**	(82.8)
Pension movements	23	**5.1**	5.7
Book value of land and property asset disposals	19	**61.1**	70.9
Book value of assets measured at fair value disposed	15	**869.1**	631.5
Help to Buy & FirstBuy assets disposed (budget held by HMT)	15	**(729.3)**	(526.0)
Loan repayments (for loans measured at amortised cost)	15	**345.4**	225.8
Capital items recorded as programme expenditure:		**-**	-
Additions to assets measured at fair value	15	**(3,661.5)**	(3,099.4)
Additions to land and property assets	19	**(227.9)**	(315.8)
Loans advanced, including interest added to loans measured at amortised cost	15	**(642.8)**	(682.3)
Additions to PPE and Intangible assets		**(4.9)**	(5.6)
Recovery of long term receivables recorded as programme income		**-**	6.9
Net expenditure before tax as stated in the Statement of Comprehensive Net Expenditure		**1,063.3**	**643.8**

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

	Note	2018/19 £m	Represented 2017/18 £m
Total receipts reported to the Board		**689.3**	**553.6**
Reconciling items:			
Clawback of grants recorded as income but shown net within expenditure in Board reporting		**4.6**	3.4
Other income shown net within expenditure in Board reporting		**1.5**	0.6
Expenditure shown net within income in Board reporting		**1.4**	1.7
Utilisation of reimbursement in respect of provisions		**-**	(2.5)
Valuation gains on financial assets held at FVTPL not reported to Board	15	**8.2**	-
Realised gains on disposal of Available-for-Sale assets recognised in net expenditure	15	**-**	82.8
Timing differences		**-**	(6.9)
Receipts from disposal of capital items recorded as programme income:			
Proceeds from the disposal of financial asset investments measured at Fair Value	15	**(869.1)**	(631.5)
Loan repayments (for loans measured at amortised cost)	15	**(345.4)**	(225.8)
Help to Buy and FirstBuy receipts not included within DEL receipts*		**729.3**	526.0
Income as stated in the Statement of Comprehensive Net Expenditure		**219.8**	**301.4**

* Help to Buy and FirstBuy receipts are not reported to the Agency's board as they are outside the scope of budgets delegated to the Agency to be managed. Cash received is transferred as Consolidated Fund Excess Receipts (CFER) via the Ministry of Housing Communities and Local Government to HM Treasury.

c) Major customers

Income as shown in the Statement of Comprehensive Net Expenditure includes a total of £29m (2017/18: £nil) arising from entities which individually account for more than 10% of the Agency's total income. Income from the largest single entity contributing to income amounted to £29m (2017/18: £nil). This was from a private sector developer.

4. Transfer of net assets to the Regulator of Social Housing

On 1 October 2018, responsibility for the regulation of social housing providers transferred from Homes England to The Regulator of Social Housing (RSH) and all related assets, liabilities and staff transferred out of Homes England to RSH on that date. This transfer is deemed to be a transfer of function and is accounted for using the absorption accounting method, as directed by HM Treasury guidance set out in the Financial Reporting Manual (FReM) for 2018/19.

The FReM dictates that the recorded amounts of net assets transferred should be brought into the Financial Statements of the transferee from the date of transfer. The net asset carrying value should be recorded as a non-operating amount from the date of transfer and any reserve should be released. There should be no restatement of comparatives and both the transferor and transferee should record symmetrical entries.

The net liability transferred from Homes England to RSH was £767,000 and comprised the following:

	£'000
Cash	10,043
Trade and other payables	(8,124)
Pension liabilities	(2,951)
Other net assets	265
Net liability transferred to RSH	**(767)**

A total of 141 employees transferred to RSH. In addition to the net liability analysed above, the residual regulation reserve of £1.9m was released to the income and expenditure reserve.

5. Principal/agent relationships

The Agency manages three science parks on behalf of the Department for Business, Energy and Industrial Strategy (BEIS). During the year the Agency incurred expenditure of £1.3m (2017/18: £2.4m) and collected receipts of £20.9m (2017/18: £13.6m) in relation to rental income and site disposals. The net income of £19.6m is payable to BEIS.

The Agency has an agreement with the Department of Health and Social Care (DHSC) in respect of the Care and Support Specialised Housing Fund. Under this programme, DHSC funds specialist housing for older people and adults with disabilities. The programme is delivered and managed by the Agency on behalf of DHSC. During the year, grants totalling £12.9m (2017/18: £29.5) were paid out by the Agency and reimbursed by DHSC.

The Agency also has agreements with the Ministry of Housing, Communities and Local Government (MHCLG) for the management and delivery of their Cladding Fund, Voluntary Right to Buy (VRTB) and Garden Towns and Villages programmes.

Cladding Fund: the fund was set up to replace aluminium composite material (ACM) cladding panels on large-scale residential social housing. During the year, grants totalling £33.8m (2017/18: £nil) were paid out by the Agency and reimbursed by MHCLG.

Voluntary Right to Buy: under this programme MHCLG compensate Registered Providers for loss of rent where tenants buy their own property. During the year, grants of £1.6m (2017/18: £nil) were paid by the Agency and reimbursed by MHCLG.

Garden Towns and Villages: under this programme MHCLG aim to build more high quality homes and create more green spaces in locally led developments. During the year, grants of £4.5m (2017/18: £nil) were paid out by the Agency and reimbursed by MHCLG.

In each of these relationships the Agency is acting as agent on behalf of the principal BEIS, DHSC and MHCLG respectively. It therefore would not be appropriate to show income or expenditure in respect of these transactions.

6. Grants

Payments were made to Registered Providers of Social Housing, local authorities and other public and private sector partners under the following programmes:

	2018/19 £'000	Represented 2017/18 £'000
Affordable Housing	**819,186**	539,894
Housing Infrastructure Deals	**9,051**	-
Garden Towns and Villages	**8,984**	5,565
City Deals	**7,201**	10,208
Local Authority Accelerated Construction	**5,747**	-
Community Housing Fund	**927**	-
Capital-Grant-in-Kind	**-**	35,692
Other	**6,063**	9,415
	857,159	600,774

Grants in 2017/18 have been reanalysed and where appropriate reclassified from other headings, in order to better reflect the nature of transactions. The comparative 2017/18 expenditure for Affordable Housing has been represented to exclude £3.6m of expenditure that relates to fees paid to local agents who administer the grant programme. This expenditure has been included within Note 8 (Programme costs).

Capital-Grant-in-Kind of £35.7m recognised in 2017/18 was in relation to the transfer of the remaining part of the JESSICA fund to the Liverpool City Region Combined Authority.

7. Disposal of land and property assets

	Note	2018/19 £'000	2017/18 £'000
Proceeds from disposals		**113,589**	131,914
Cost of disposals:			
Book value of disposals	19	**61,103**	70,858
Direct costs of sale		**1,388**	1,716
		62,491	72,574
Gain on disposal		**51,098**	59,340

8. Programme costs

	2018/19 £'000	Represented 2017/18 £'000
Land	**26,267**	26,797
Help to Buy	**21,088**	1,858
Housing Infrastructure Fund	**6,838**	1,945
Financial Investment Programmes	**5,039**	3,776
Affordable Homes	**2,402**	3,832
	61,634	38,208

Programme costs are the operational costs incurred by Homes England to run the various programmes. They are typically professional fees to cover activities such as due diligence, legal advice, financial investigation, administration of payments, and property servicing. Programme costs in 2017/18 have been reanalysed and where appropriate reclassified from other headings, in order to better reflect the nature of transactions.

Help to Buy costs for 2018/19 include £16.4m of fees paid to agents to administer additional lending in the programme. Under accounting standards applicable in previous reporting periods, these costs were capitalised (2017/18: £14.8m) and so they are not included in the comparative figure. This change in accounting treatment follows the requirements of International Financial Reporting Standard 9: Financial Instruments (IFRS 9), which became effective for the Agency for the first time in 2018/19 and requires transaction costs for financial assets held at Fair Value Through Profit or Loss to be expensed.

Land costs include £12.5m (2017/18: £12.4m) in relation to the management of the Agency's land portfolio.

9. Staff costs

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

a) Total staff costs

	2018/19 £'000	2017/18 £'000
Staff costs charged to net expenditure comprise:		
Staff costs	**52,781**	45,267
Pension costs	**17,254**	16,347
Total staff costs	**70,035**	61,614

The costs above can be further analysed as follows:

	2018/19 £'000	2017/18 £'000
Salaries and wages	**44,266**	39,348
Social security costs	**5,312**	4,779
Pension costs - current service cost*	**16,231**	14,377
Pension costs - past service cost and losses on curtailments and settlements	**123**	967
Pension costs - expenses	**900**	1,003
	66,832	60,474
Temporary staff	**2,520**	1,157
Seconded staff	**895**	385
	70,247	62,016
Less: Staff costs capitalised	**(212)**	(402)
	70,035	61,614
Non-Executive Board Member expenses	**25**	27

*The current service pension cost does not include costs relating to early retirements, which are included within Administration costs, Note 10.

On 1 October 2018, 141 members of staff employed within the regulation function transferred to the RSH. Staff costs for the year therefore include only six months of costs for these employees at a total of £4,961,000 (2017/18: £4,755,000 for the same period of the financial year).

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

During the year, £212,000 of staff costs were capitalised (2017/18: £402,000). The costs relate to work undertaken on systems development.

b) Staff bonuses

Staff members who are direct employees of the Agency benefit from a Performance Related Pay scheme whereby any bonuses are determined with reference to performance against agreed objectives during the year. Payments accruing during the year totalled £185,000 (2017/18: £186,000).

During the year, Directors received bonuses of £12,000 (2017/18: £nil). The Accountability section of the Annual Report includes further details of bonuses, the average number of staff employed by the Agency, staff numbers by pay band and exit packages.

10. Administration expenditure

	2018/19 £'000	Represented 2017/18 £'000
Homes England Development Programme	**16,987**	1,079
Accommodation and office running costs	**11,491**	8,545
Taxation not recoverable	**3,894**	1,569
Travel and subsistence	**3,736**	3,107
Depreciation and amortisation	**3,423**	3,195
Professional fees	**1,294**	516
Learning and development	**661**	518
Restructuring costs	**307**	493
Auditor's remuneration (Statutory Audit)	**260**	220
Board Members' remuneration (including employers' national insurance)	**227**	289
Property, plant and equipment impairment reversals	**(336)**	(27)
Other	**761**	832
	42,705	20,336

The Homes England Development Programme was set up to ensure the Agency has the capability to become a more dynamic and agile organisation, able to respond to the changing priorities of the sector and ultimately to disrupt the housing market. The main components of the programme include: governance; business improvement; people, culture and values; a digital strategy; communications and engagement; and an accommodation review. Whilst the programme was set up last year, the bulk of the work has occurred this year hence the significant increase in expenditure.

Administration costs in 2017/18 have been reanalysed and where appropriate reclassified from other headings, in order to better reflect the nature of transactions.

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

11. Other operating income

	Note	2018/19 £'000	Represented 2017/18 £'000
Homeowner fees	15f	**10,402**	6,841
Rent and property income		**8,796**	7,457
Grants and contributions		**5,571**	14,333
Regulator for Social Housing - Income from fees		**4,762**	5,117
Other		**6,961**	11,054
		36,492	44,802

Other operating income in 2017/18 has been reanalysed and where appropriate reclassified from other headings, in order to better reflect the nature of transactions.

In its capacity as the Regulator of Social Housing in England, income from fees represents fees charged to cover the costs incurred in regulating Registered Providers. Fees were charged until 30 September 2018, from which point the responsibility for the regulation of social housing providers transferred to The Regulator of Social Housing (RSH). Note 4 sets out the assets, liabilities and staff transferred to RSH at this point.

In the table above, other includes planning windfall (where a developer buys land which subsequently receives planning permission increasing its value, and the Agency shares in this uplift in value), clawback (where the recipient of grant funding or purchaser of land does not meet the conditions set out in the grant or land sale agreement), contributions from partners (usually arising from s106 contributions) and dividend income from investments.

12. Share of profits of associates and joint ventures

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

	2018/19 £'000	2017/18 £'000
Share of results of associates	**909**	(397)
Share of results of joint ventures	**1,432**	7
Share of profits/(losses) of associates and joint ventures	2,341	(390)

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

13. Income tax

a) Tax charge / credit in net expenditure comprises:

	Note	2018/19 £'000	2017/18 £'000
Corporation Tax on the results of the year at 19%		**3,940**	-
Adjustment to current tax of prior years		**448**	-
Deferred tax relating to the origination and reversal of temporary differences	22	**(5,891)**	(14,533)
Tax credit for the period recognised in Net Expenditure		**(1,503)**	(14,533)

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

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

	2018/19 £'000	2017/18 £'000
Deferred tax relating to:		
Actuarial gain from pension fund	**5,891**	4,253
Revaluation of Available-for-Sale assets under IAS 39	**-**	10,280
Deferred tax charge recognised in Other Comprehensive Expenditure	**5,891**	14,533

c) Reconciliation of tax charge

	2018/19 £'000	2017/18 £'000
Net expenditure before tax	**(1,063,266)**	(643,751)
Income tax on net expenditure at 19%	**(202,021)**	(122,313)
Effects of:		
Non-taxable income	**(1,963)**	(3,692)
Expenditure not deductible for tax	**206,366**	125,052
Depreciation and amortisation	**650**	607
Capital allowances on property, plant and equipment	**(475)**	(322)
Losses utilised	**(3,154)**	(14,370)
Losses carried forward	**(1,354)**	505
Adjustment to current tax of prior years	**448**	-
Tax credit for period	**(1,503)**	(14,533)

14. Investments in subsidiaries, associates and joint ventures

a) Subsidiary undertakings – Agency

Cost	2018/19 £'000	2017/18 £'000
At 1 April	**25,000**	25,000
Investments in the year	**-**	-
Redemptions	**-**	-
At 31 March	**25,000**	25,000

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

Name of undertaking	Share capital	Nature of business
English Partnerships (LP) Ltd	£25,000,000	Investment holding company
The Estuary Management Company Ltd	£1	Property management company
Bristol & Bath Science Park Estate Management Co Ltd	£200	Property management company
Norwepp (NWDA subsidiary) Ltd *	£500	Investment holding company
AWM (Subsidiary) Ltd *	£1	Investment holding company
ONE NorthEast General Partner Ltd *	£100	Investment holding company

* Interest no longer held as at 31 March 19

b) Associated undertakings and joint ventures – Group & Agency

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

Cost or valuation	Note	Group 2018/19 £'000	Group 2017/18 £'000	Agency 2018/19 £'000	Agency 2017/18 £'000
At 1 April		**17,856**	16,165	**-**	-
Investments in the year		**16,219**	2,081	**12,057**	-
Reclassifications		**10,733**	-	**10,733**	-
Redemptions		**-**	-	**-**	-
Share of profits/(losses) of associates and joint ventures	12	**2,341**	(390)	**-**	-
At 31 March		**47,149**	17,856	**22,790**	-

In 2018/19 £4.2m (2017/18 £2.1m) was re-invested by the Group into English Cities Fund. There have been no repayments of funds made during 2018/19 (2017/18 £nil).

The £10.7m reclassification relates to Countryside Maritime Limited. The amount reclassified represents the market value of land which has historically been transferred into the joint venture by the Agency, with the joint venture partners sharing in the subsequent development returns. This investment had been recognised as an Available-for-Sale asset (level 3) in previous years. The Agency has determined that the nature of the investment was more accurately presented as being part of the Agency's equity investment in the joint venture, rather than as a separate investment. An adjustment to reflect this has been made as an immaterial prior period adjustment in the current reporting period (also referred to in note 15d).

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

	2018/19 £'000	2017/18 £'000
Group share of net assets of associates	**22,600**	17,529
Group share of net assets of joint ventures	**24,549**	327
Group share of net assets of associates and joint ventures	**47,149**	17,856

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

Name of undertaking	Interest	Nature of business
English Cities Fund Limited Partnership	46%	Property development
Countryside Maritime Limited ^	50%	Development of land
Kier Community Living LLP ^ **	26%	Property development
Norwepp Limited Partnership ^ *	50%	Property rental and development
Onsite North East Limited Partnership ^ *	50%	Development of land
PxP West Midlands Limited Partnership ^ *	50%	Property rental and development
Temple Quay Management Limited	24%	Property management company
Bristol and Bath Science Park Estate Management Company Limited *	50%	Property management company
Kings Waterfront (Estates) Limited	50%	Property management company
Pride in Camp Hill	33%	Regeneration of Camp Hill area of Nuneaton

^ Joint venture
* No longer an associated undertaking or joint venture at 31 March 2019
**Kier Group has made the decision to dispose of Kier Living Limited after 31 March 2019. Kier Living Limited is an investment partner in Kier Community Living LLP.

The Agency's interest in English Cities Fund Limited Partnership represents the partner profit share arrangements which entitles the Agency to a 45.78% share of the net profits or losses of the Partnership.

c) Commitments for associated undertakings and joint ventures – Group & Agency

The Agency has made a £5.0m (2017/18: £5.0m) working capital facility available to Countryside Maritime Limited, of which £nil (2017/18: £nil) was drawn at 31 March 2019. In addition to the £4.2m invested into English Cities Fund in 2018/19, the Group is committed to invest a further £3.8m from amounts previously repaid to the Group in 2015. In 2017/18, the Group committed to invest a further £25.0m into English Cities Fund. During 2018/19, there have been no amounts drawn down from this additional commitment (2017/18 £nil).

15. Financial assets

In accordance with directions from HM Treasury for the 2018/19 reporting cycle:

- Financial assets reported for 2018/19 are classified and measured in accordance with the requirements of IFRS 9 Financial Instruments.
- Financial assets reported for 2017/18 are classified and measured in accordance with the requirements of IAS 39 Financial Instruments.

		2018/19 (under IFRS 9)			2017/18 (under IAS 39) - Represented		
		Fair value £'000	Amortised cost £'000	Total £'000	Fair value £'000	Amortised cost £'000	Total £'000
Cash and cash equivalents	a)	**-**	**266,826**	**266,826**	-	242,590	242,590
Trade & other receivables	b)	**153,706**	**83,879**	**237,585**	-	265,996	265,996
Financial asset investments	c)	**11,798,699**	**1,394,200**	**13,192,899**	8,953,946	1,269,013	10,222,959
		11,952,405	**1,744,905**	**13,697,310**	8,953,946	1,777,599	10,731,545

Changes to the classification and measurement of financial assets on first adoption of IFRS 9 on 1 April 2018 are provided in Note 2. The introduction of IFRS 9 has no impact on the valuation of assets which were previously measured at fair value under IAS 39, since they remain subject to the valuation requirements of International Financial Reporting Standard 13 Fair Value Measurement (IFRS 13). This is particularly relevant to the Agency because 77% of assets as at 31 March 2018 (£9bn) were measured at fair value. Adoption of the new standard also has no impact on the measurement of cash and cash equivalents.

Where assets are not valued at fair value, the introduction of IFRS 9 does not fundamentally change the amortised cost model for measuring the underlying value of loans or receivables. However, IFRS 9 introduces a forward-looking Expected Credit Loss model which significantly changes the timing and amount of impairments recognised for this class of assets. As a result, impairments are recognised earlier than under IAS 39 and are likely to be larger than previously incurred. The impact of the introduction of the Expected Credit Loss model is set out in Note 2 and below in sections e & h.

Represented comparative for 2017/18

Cash held with third parties was not separately disclosed in 2017/18. This balance includes £3.4m cash which was held by solicitors at year-end (2017/18: £9.7m) in relation to deals which were in progress at 31 March and £32m cash received by the Agency's mortgage administrator (2017/18: £10.8m) for home equity redemptions.

a) Cash and cash equivalents – Group & Agency

	2018/19 £'000	Represented 2017/18 £'000
Cash held with Government Banking Service	231,069	218,539
Cash held with commercial banks	311	3,554
Cash held with third parties	35,446	20,497
	266,826	242,590

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

The cash figure takes account of BACS payments initiated by 31 March 2019 to settle short-term liabilities, but not cleared by 31 March 2019. These payments totalled £68.4m (2017/18: £60.8m) and cleared the bank in early April 2019. There were no cash equivalents at either of the reporting dates shown. In addition to the amounts above, at 31 March 2019 the Agency held £290,000 (2017/18: £467,000) on behalf of third parties.

b) Trade & other receivables – Group & Agency

	2018/19 (under IFRS 9)			2017/18 (under IAS 39) Represented		
Gross balances	Fair value £'000	Amortised cost £'000	Total £'000	Fair value £'000	Amortised cost £'000	Total £'000
Land sale receivables	148,893	3,586	152,479	-	188,568	188,568
Other receivables	4,813	80,524	85,337	-	77,428	77,428
	153,706	84,110	237,816	-	265,996	265,996
Expected Credit Loss allowances		(231)	(231)		-	-
Net balances	153,706	83,879	237,585	-	265,996	265,996
Of which:						
Non-current assets	78,807	23,520	102,327	-	126,170	126,170
Current assets	74,899	60,359	135,258	-	139,826	139,826

Land sale receivables

Land sale receivables are measured with reference to the underlying agreement, in the majority of cases the inclusion of an overage clause within the land sale agreement requires the receivable to be measured at Fair Value Through Profit or Loss (FVTPL). Where the contractual terms give rise to cash flows that are solely payments of the principal amount these are measured at Amortised Cost.

Other receivables

Other receivables held at FVTPL relate to home equity management fees and interest. The remainder of other receivables are held at amortised cost and include trade receivables, VAT, prepayments and other receivables.

Credit risk of trade and other receivables classified to FVTPL

The Agency is exposed to credit risk in relation to trade and other receivables measured at FVTPL. The credit-risk exposure at the year end is £153.7m.

c) Financial asset investments – Group & Agency

		2018/19 (under IFRS 9)			2017/18 (under IAS 39) - Represented		
	Fair value hierarchy (where relevant)	Fair value £'000	Amortised cost £'000	Total £'000	Fair value £'000	Amortised cost £'000	Total £'000
PRS REIT	Level 1	29,520		29,520	30,027		30,027
Help to Buy Equity Loans	Level 2	11,083,941	-	11,083,941	8,314,304	-	8,314,304
Legacy Equity Loans	Level 2	284,707	-	284,707	334,939	-	334,939
Development Loans	Level 3	69,508	571,648	641,156	-	517,285	517,285
Infrastructure Loans	Level 3	128,031	775,891	903,922	-	706,036	706,036
Other Loans	Level 3	-	46,661	46,661	-	45,692	45,692
Development Equity	Level 3	106,548	-	106,548	158,490	-	158,490
Infrastructure Equity	Level 3	6,226	-	6,226	32,387	-	32,387
Managed Funds	Level 3	45,793	-	45,793	28,769	-	28,769
Overage	Level 3	8,195	-	8,195	23,492	-	23,492
City Deals	Level 3	26,856	-	26,856	21,469	-	21,469
Other Equity	Level 3	9,374	-	9,374	10,069	-	10,069
		11,798,699	1,394,200	13,192,899	8,953,946	1,269,013	10,222,959
Of which:							
Non-current assets		11,684,992	922,532	12,607,524	8,953,946	844,573	9,798,519
Current assets		113,707	471,668	585,375	-	424,440	424,440
		11,798,699	1,394,200	13,192,899	8,953,946	1,269,013	10,222,959

Investments measured at Fair Value

Financial assets measured at Fair Value through Profit or Loss (2018/19) and Available-for-Sale financial assets (2017/18) are stated at fair value in accordance with International Financial Reporting Standard 13 Fair Value Measurement (IFRS 13) and relate to the following:

- PRS REIT: An investment in shares issued by the PRS REIT plc, supporting the launch of the first quoted Real Estate Investment Trust to focus purely on the private rented sector;
- The Agency's entitlement to future income arising from financial assistance provided to homebuyers to enable them to buy homes, the majority of which arises from the Help to Buy scheme;
- Development, Infrastructure and Other Loans: Following the adoption of IFRS 9, a small number of loans which had previously been classified under the loans & receivables category under IAS 39 have been reclassified as they did not clearly meet the requirements under IFRS 9 to be described as basic lending arrangements. As a result, they are now classified and measured at fair value under the level 3 hierarchy;
- Development, Infrastructure and Other Equity and City Deals: Investments in development and infrastructure projects under which the Agency benefits from variable returns based on income generated by the project funding, including projects with both the private sector and local authorities, some of which have arisen under City Deals entered into to support the government's aim of promoting localism;
- Managed Funds: Investments in Housing Growth Partnership, operated by Lloyds Banking Group;
- Overage: Future receipts due from the disposal of land to third parties, where the Agency includes contractual provisions in line with Managing Public Money to protect the public interest by requiring additional overage payments to be made where developments are more profitable than envisaged when the initial disposal consideration was agreed.

Assets measured at Fair Value through Profit or Loss (2018/19 figures) are carried at fair value, using the valuation methods described in Note 16. Following initial recognition, all movements in the fair value of these assets are recognised in net expenditure. On disposal of the related assets, the net difference between proceeds and the carrying value of the asset is recognised in net expenditure.

Available-for-Sale financial assets (2017/18 figures) were carried at fair value, using the valuation methods described in Note 16. Impairments of Available-for-Sale assets were recognised in net expenditure. All other fair value adjustments in relation to Available-for-Sale assets, being gains or losses arising from changes in fair value above the initial investment cost, were recognised directly in the fair value reserve. On disposal of the related assets, these gains became realised and so were then recognised in net expenditure.

Non-current / current analysis of assets measured at fair value

In previous years, the current element of balances was not disclosed for financial assets measured at fair value. Following an assessment of the requirements of International Accounting Standard 1: Presentation of Financial Statements, the Agency has determined that this was incorrect and has disaggregated the current element for 2018/19 (being determined from the amounts forecast within one year for fair value assets in the level 3 hierarchy). The comparative 2017/18 figures for the current element of assets measured at fair value are considered to be immaterial (£105m) and so are not restated, in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors.

Investments measured at Amortised Cost

Other than a small number of cases where loan agreements have been reviewed and have been found not to constitute a basic lending arrangement under IFRS 9 (£119.2m reclassified on first adoption of IFRS 9 on 1 April 2018 to the Fair Value through Profit or Loss category), the nature of financial assets measured at Amortised Cost is unchanged from previous reporting periods (other than for the introduction of the Expected Credit Loss model), being the result of current and historic loan funding programmes managed by the Agency, investments inherited from former Regional Development Agencies in 2011 and a small number of loans made by the Agency's predecessor organisations, chiefly to local authorities.

Development Loans have been made to private sector developers in order to bring forward the development of housing under the Agency's programmes, including the Home Building Fund, Get Britain Building, Builder's Finance Fund and Build to Rent. These loans are repayable during periods ranging up to 2024. Infrastructure Loans have been made to private sector developers and local authorities in order to fund infrastructure on stalled sites, or to unlock potential development sites. These loans are repayable during periods ranging up to 2031. Other loans include £27.4m of loans made to utility companies (2017/18: £27.9m) in respect of water infrastructure for new town developments (due for redemption by 2053), £15.5m loans made to Local Authorities (2017/18: £17.6m) which are repayable during periods ranging up to 2034 and loans made of £3.9m in respect of City Deals (2017/18: £nil) which are repayable within 12 months.

d) Movements in financial asset investments measured at Fair Value – Group & Agency

	Level 1	Level 2		Level 3		
	Shares held in The PRS REIT plc £'000	Help to Buy Equity Loans £'000	Other Legacy Equity Loans £'000	Loans at FVTPL* £'000	Other Investments £'000	Total £'000
Balances as at 1 April 2017 under IAS 39	-	5,721,718	410,182	-	286,032	6,417,932
Additions	30,000	3,047,959	720	-	20,730	3,099,409
Reclassifications	-	-	-	-	12,851	12,851
Disposals	-	(492,394)	(80,519)	-	(58,557)	(631,470)
Fair value adjustment	27	115,854	5,633	-	21,806	143,320
Impairments	-	(78,833)	(1,077)	-	(8,186)	(88,096)
Balances as at 31 March 2018 under IAS 39	30,027	8,314,304	334,939	-	274,676	8,953,946
Adjustments on first-time adoption of IFRS 9**	-	-	-	152,613	(36,446)	116,167
Revised balances as at 1 April 2018 under IFRS 9	30,027	8,314,304	334,939	152,613	238,230	9,070,113
Additions	-	3,530,582	-	102,511	33,358	3,666,451
Reclassifications	-	-	-	-	(10,733)	(10,733)
Disposals	-	(714,925)	(52,576)	(56,560)	(45,026)	(869,087)
Fair value adjustment	(27)	(2,667)	2,841	4,244	10,132	14,523
Impairments	(480)	(43,353)	(497)	(5,269)	(22,969)	(72,568)
Balances as at 31 March 2019 under IFRS 9	29,520	11,083,941	284,707	197,539	202,992	11,798,699

* Loans measured at Fair Value Through Profit or Loss (FVTPL) because the contractual terms of the loan do not give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding.
** Adjustments disclosed in Note 2

Significant reclassifications

During 2018/19, in addition to reclassifications made as a result of the adoption of IFRS 9 on 1 April (see Note 2), the Agency reclassified an investment with Countryside Maritime Limited out of this category to be recognised as part of its equity investment in a Joint Venture. This is described fully in Note 14b.

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

Sensitivity of the valuation of assets held at fair value under the level 2 hierarchy

The valuation of the Agency's equity-loan mortgage portfolio is highly sensitive to changes in assumptions, in particular about market prices. Analysis showing the sensitivity of the portfolio valuation of these assets to market prices is shown in Note 17. In addition, the sensitivity of the Help to Buy valuation to the Agency's modelling assumptions is analysed in Note 18a.

Level 3 comprises investments which can be further analysed as follows:

	2018/19 under IFRS 9 £'000	2017/18 under IAS 39 £'000
Loans measured at Fair Value through Profit or Loss (FVTPL)*		
Development Loans measured at FVTPL	**69,508**	-
Infrastructure Loans measured at FVTPL	**128,031**	-
	197,539	-
Other Investments		
Development Equity	**106,548**	158,490
Infrastructure Equity	**6,226**	32,387
Managed Funds	**45,793**	28,769
City Deals	**26,856**	21,469
Overage	**8,195**	23,492
Other	**9,374**	10,069
	202,992	274,676
Total financial asset investments in the Level 3 category of fair value measurement	**400,531**	274,676

* On first adoption of IFRS 9, it was identified that there were a number of Development and Infrastructure Equity assets with a total value of £36.4m which were more appropriately classified as Loans measured at Fair Value through Profit or Loss, to reflect the nature of the underlying legal agreements.

Credit risk of loans classified to Fair Value through Profit or Loss (FVTPL)

The Agency is exposed to credit risk in relation to loans classified to Fair Value through Profit or Loss (FVTPL). The credit-risk exposure at 31 March 2019 in relation to these investments is £180.9m.

e) Movements in financial asset investments measured at Amortised Cost – Group & Agency

	Development Loans £'000	Infrastructure Loans £'000	Other Loans £'000	Total £'000
Balances as at 1 April 2017 under IAS 39	**321,334**	**452,181**	**59,398**	**832,913**
Additions	372,706	277,535	2,011	652,252
Reclassifications	-	-	(12,851)	(12,851)
Disposals	(181,671)	(41,662)	(2,503)	(225,836)
Interest added to loans	12,536	17,982	(447)	30,071
(Impairment)/reversal of impairment of loans	(7,620)	-	84	(7,536)
Balances as at 31 March 2018 under IAS 39	**517,285**	**706,036**	**45,692**	**1,269,013**
Adjustments to gross balances on first-time adoption of IFRS 9	(25,373)	(93,860)	-	(119,233)
Revised gross balances as at 1 April 2018 under IFRS 9*	**491,912**	**612,176**	**45,692**	**1,149,780**
Balances moved from Trade Receivables on first-time adoption of IFRS 9				
Interest accrued but not yet added to loans as at 31 March 2018	93	2,195	50	2,338
Adjustments to interest accrued due to changes in asset classification	-	(433)	-	(433)
Additional elements recognised on first-time adoption of IFRS 9				
Expected Credit Loss Allowances on first-time adoption of IFRS 9	(9,667)	(19,283)	(44)	(28,994)
Revised net balances as at 1 April 2018 under IFRS 9*	**482,338**	**594,655**	**45,698**	**1,122,691**

	Development Loans £'000	Infrastructure Loans £'000	Other Loans £'000	Total £'000
Gross balances as at 1 April 2018 under IFRS 9*	**491,912**	**612,176**	**45,692**	**1,149,780**
Additions	328,014	254,523	7,400	589,937
Reclassifications	-	-	-	-
Disposals	(255,223)	(83,681)	(6,549)	(345,453)
Interest added to loans	23,602	23,864	374	47,840
Amounts written-off loans / modification losses	(1,801)	-	-	(1,801)
Gross balances as at 31 March 2019 under IFRS 9*	**586,504**	**806,882**	**46,917**	**1,440,303**
Interest accrued but not yet added to loans at 31 March 2019**	42	2,175	86	2,303
Expected Credit Loss Allowances	(14,898)	(33,166)	(342)	(48,406)
Net balances as at 31 March 2019 under IFRS 9*	**571,648**	**775,891**	**46,661**	**1,394,200**

* Gross balances exclude Expected Credit Loss Allowances and interest accrued but not yet added to loans, but include the effect of amounts which have been considered to have been written-off as irrecoverable or which have been recognised as modification gains or losses where an agreement has been varied. Net balances include the effect of applying Expected Credit Loss Allowances.
**Interest accrued but not yet capitalised of £14k was written off during 2018/19 and contributes to the overall impairment charge recognised (Note 15f).

Significant reclassifications

In 2018/19, there have been no significant reclassifications of financial asset investments measured at Amortised Cost other than as a result of the adoption of IFRS 9 on 1 April (see Note 2). During 2017/18, a historic investment which provided finance to a commercial partner was reviewed and reclassified from Loans to the Available for Sale financial assets category. The reclassification was made based on the original investment amount provided (£12.9m).

Sensitivity of Expected Credit Losses to modelling assumptions

IFRS 9 requires an Expected Credit Loss allowance calculation to be performed with reference to the level of credit risk and performance of each investment. The determination of the risk associated with each asset is a key judgement by management as the result determines whether a 12-month loss allowance or a lifetime loss allowance is calculated for that asset. The Expected Credit Losses are calculated by comparing the estimated balance at the time of default against moderated security values (calculated by applying Modified Security Value percentages (MSVs) to gross security values to estimate the likely value which might be realised from a sale of security in distressed circumstances). This is then multiplied against an associated Probability of Default percentage value (PD) for the relevant loss calculation period. The PD value applied is determined based on the Credit Risk Rating of the associated asset using industry metrics for default.

In addition to calculating either 12-month or lifetime loss allowances, IFRS 9 also requires consideration of how the calculation would vary under alternative economic scenarios. The Agency achieves this by varying the application of PD assumptions to the same base loan data. The results calculated for each scenario are then used to calculate an unbiased, weighted-average loss allowance. This is done by using the relative likelihood of each scenario, based on the Agency's view of their relative probability and with reference to statements made by the Bank of England about future market conditions.

The Expected Credit Loss model is highly sensitive to the modelling assumptions noted above, which are therefore considered to be a key judgement of management. To analyse the impact of the key assumptions applied at 31 March 2019, a sensitivity analysis has been performed in Note 18b, which also provides an overview of the key modelling assumptions and how they are applied.

f) Summary of movements recognised in consolidated net expenditure in relation to financial assets

	Note	2018/19 £'000	2017/18 £'000
Movements in Net Expenditure in relation to assets held at fair value			
Valuation gains on financial asset investments held at FVTPL*	15d	**14,523**	-
Valuation gains on receivables held at FVTPL*		**7,208**	-
Impairment of financial asset investments held at FVTPL*	15d	**(72,568)**	-
Impairment of receivables held at FVTPL*		**-**	-
Impairment of Available-for-Sale assets	15d	**-**	(88,096)
Loss on disposal against fair value		**(8,151)**	(3,075)
Fair value gains recognised in net expenditure on disposal of Available-for-Sale assets		**-**	82,849
Monthly Fees recognised on Help to Buy equity loans		**4,187**	-
Monthly Fees recognised on other legacy equity loans		**6,215**	6,841
Movements in Net Expenditure in relation to assets held at amortised cost			
Interest on loans		**56,577**	37,510
Interest on receivables		**(422)**	7,384
Credit impairment loss charges (including modification gains/losses)		**(21,395)**	(6,847)
		(13,826)	**36,566**

* Movements for assets measured at Fair Value through Profit or Loss (FVTPL) apply only to 2018/19 as IFRS 9 was not applied for 2017/18, and are split between valuation gains and impairments based on the asset's original investment cost.

Gain / (loss) on disposal of financial asset investments

2018/19	Help to Buy Equity Loans £'000	Other Legacy Equity Loans £'000	Loans at FVTPL £'000	Other Investments £'000	Total £'000
Proceeds from disposals	707,450	51,900	56,560	45,026	860,936
Fair value of assets disposed	714,925	52,576	56,560	45,026	869,087
Loss on disposal against fair value	**(7,475)**	**(676)**	**-**	**-**	**(8,151)**

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

* Under IAS 39 these assets were classified as Available-for-Sale, and gains were recognised in the fair value reserve until the asset was disposed. On this date, any cumulative gains held in the fair value reserve were released to net expenditure. The first-time adoption of IFRS 9 changes the classification of these assets to FVTPL, and removes the fair value reserve. All fair value gains are now released to net expenditure as they are recognised.

Credit impairment loss charges to Net Expenditure in relation to assets held at Amortised Cost

	2018/19 £'000	2017/18 £'000
Net movements in Expected Credit Loss Allowances	**19,530**	-
Amounts written-off loan balances as irrecoverable under IFRS 9	**1,801**	-
Amounts written-off interest accrued but not yet added to loan as irrecoverable under IFRS 9	**14**	-
Amounts written-off receivable balances as irrecoverable under IFRS 9	**50**	-
Modification gains / (losses)	**-**	-
Impairments recognised on loans under IAS 39	**-**	7,536
Bad debt provisions released on receivables under IAS 39	**-**	(689)
Total credit impairment loss charges	**21,395**	**6,847**

There have been no modification gains or losses during 2018/19. On first adoption of IFRS 9, impairments made under IAS 39 were re-assessed and modification losses of £500k were recognised. Further detail is disclosed in the Losses and Special Payments section of the Annual Report on page 60.

Other Comprehensive Income

In addition to the amounts disclosed above, £60.5m was recognised in 2017/18 under IAS 39 within Other Comprehensive Income in relation to:

	2017/18 £'000
Fair value gains on Available-for-Sale assets	143,320
Realised gains on disposal of Available-for-Sale assets recognised in net expenditure	(82,849)
Total recognised in Other Comprehensive Expenditure	60,471

These movements only apply to the 2017/18 period as, following adoption of IFRS 9 on 1 April 2018, the classification applied to all of the Agency's financial assets measured at fair value does not require gains to be passed into a reserve or realised on disposal. (See Note 2).

g) Write-offs and modification gains / losses at the reporting date and on first adoption of IFRS 9 (as applied to assets measured at amortised cost)

Movement in write-off allowances during 2018/19	Allowances at 1 April 2018 £'000	Recognised £'000	Written-back £'000	Utilised £'000	Allowances at March 2019 £'000
Financial asset investments at amortised cost	21,762	2,194	(393)	-	23,563
Trade & other receivables	465	51	(1)	(19)	496
	22,227	2,245	(394)	(19)	24,059

Details of loan balances over £300k which have been considered to be irrecoverable and which are written-off in accordance with IFRS 9, or where the Agency has received authorisation from HM Treasury during the current year to cease pursuing the debt are disclosed in the Annual Report on page 60.

Reconciliation of impairments under IAS 39 to write-off allowances on first adoption of IFRS 9 (1 April 2018)

	Impairments at March 2018 £'000	Reassessment under IFRS 9 £'000	Recognition of modification losses £'000	Write-off allowances at 1 April 2018 £'000
Financial asset investments at amortised cost	21,198	1,064	(500)	21,762
Trade & other receivables	3,432	(2,967)	-	465
	24,630	(1,903)	(500)	22,227

h) Movement in Expected Credit Loss (ECL) allowances during the reporting period

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Simplified approach £'000	Total £'000
Position on first adoption of IFRS 9 on 1 April 2018	18,922	9,769	303	113	29,107
New credit-risk exposures in the reporting period	3,334	-	-	-	3,334
Movements from Stage 1 to Stage 2	(1,438)	1,438	-	-	-
Movements from Stage 1 to Stage 3	(72)	-	72	-	-
Movements from Stage 2 to Stage 1	876	(876)	-	-	-
Movements from Stage 2 to Stage 3	-	(6,912)	6,912	-	-
Movements from Stage 3 to Stage 1	-	-	-	-	-
Movements from Stage 3 to Stage 2	-	-	-	-	-
ECL utilised when written-off*	-	(194)	-	-	(194)
Movements as a result of modifications*	-	-	-	-	-
Released on repayment	(2,787)	(413)	(303)	-	(3,503)
Changes in risk parameters and risk models**	15,655	5,623	(1,302)	(83)	19,893
Net movements in Expected Credit Loss Allowances	15,568	(1,334)	5,379	(83)	19,530
Expected Credit Loss allowance as at 31 March 2019	34,490	8,435	5,682	30	48,637

* Where amounts are considered to be irrecoverable they are written-off (or expensed as modification losses where this arises as the result of changes to contractual terms) and the associated Expected Credit Loss allowance is released. As a result, the charge to Net Expenditure at this time is limited to the difference between the actual amount written-off and the Expected Credit Loss allowance carried at the point of write-off.
** For reasons of practicality and efficiency, all movements in the ECL allowance for short-term receivables (which are calculated by applying a simplified approach based on historic losses observed in the population, as allowed under IFRS 9) are disclosed in a single line.

Expected Credit Loss allowance analysed for disclosure against loan categories

2018/19	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Simplified approach £'000	Total £'000
Development Loans	14,102	668	128	-	14,898
Infrastructure Loans	19,845	7,767	5,554	-	33,166
Other Loans	342	-	-	-	342
Trade & other receivables	201	-	-	30	231
	34,490	8,435	5,682	30	48,637
2017/18	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Development Loans	8,971	393	303	-	9,667
Infrastructure Loans	9,907	9,376	-	-	19,283
Other Loans	44	-	-	-	44
Trade & other receivables	-	-	-	113	113
Total ECL allowances on first adoption of IFRS 9	18,922	9,769	303	113	29,107

During 2018/19, the Economic Scenarios, Weightings and Probability of Default values were revised with reference to current market conditions and future expectations. The change in assumptions has resulted in an increase in the Expected Credit Loss allowance of £19.9m during the year. Three investments moved from Stage 2 to Stage 3 during 2018/19 as the Agency considered them to be in default. This increased the Expected Credit Loss allowance by £5.4m. The assets which were re-classified between Stage 1 and Stage 2 during 2018/19 had a total calculated ECL allowance of £1.4m at 31 March 2018.

16. Fair value of financial assets and financial liabilities

The fair values of financial assets and liabilities are assessed at least annually to meet the reporting requirements of IFRS 9 and are determined as follows:

Level 1	The fair value of the Agency's shareholding in the PRS REIT plc is calculated with reference to prices quoted on the London Stock Exchange and is therefore categorised as level 1 in the fair value hierarchy as defined by IFRS 13.
Level 2	The fair values of Available-for-Sale financial assets (2017/18) and assets held at Fair Value through Profit or Loss (2018/19) relating to the Agency's equity-loan mortgage portfolio are calculated with reference to movements in the ONS house price index (UK HPI) at a regional level, being the most relevant available observable market data. This is supplemented by adjustments for experience of actual disposals since the inception of the schemes, also at a regional level. Therefore these fair values are categorised as level 2 in the fair value hierarchy as defined by IFRS 13.
Level 3	The fair values of Available-for-Sale financial assets (2017/18) and assets held at Fair Value through Profit or Loss (2018/19) relating to managed funds, equity investments in development / infrastructure projects and overage follow the income approach under IFRS 13 and are calculated using project-level cash flow forecasts, discounted at rates set by HM Treasury, or the effective interest rate of the underlying loan agreement for loans at FVTPL if higher. This approach is as prescribed by the Government Financial Reporting Manual, issued by HM Treasury. This reflects the valuation methodology which would be employed by market participants when pricing the assets and, since the inputs which inform the calculation of fair value are unobservable to users of the accounts, the assets are therefore categorised as level 3 in the fair value hierarchy as defined by IFRS 13. Project-level cash flows are either provided by counterparties and moderated by the Agency's project managers or are obtained via independent valuation reports from professional advisers (for individually significant assets).
	The fair value of other financial instruments (including liabilities, where significant and long-term) are similar in nature to other level 3 assets and are calculated by discounting their future cash flows using discount rates set by HM Treasury, or the rate intrinsic to the financial instrument if higher. For financial assets, this results in classification as level 3 in the fair value hierarchy as defined by IFRS 13.

Measuring fair value on recognition

Where differences between the fair value at initial recognition, as calculated using the methods described above, and the price paid by the Agency to acquire the instrument are considered to be significant they are either:

- recognised as grant expenditure where fair value is considered to be below cost, in accordance with IAS 20 Government Grants; or
- deferred and released over the expected life of the instrument in accordance with IAS 39 Financial Instruments: Recognition and Measurement for additions in 2017/18 and IFRS 9 Financial Instruments for additions in 2018/19.

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

Group and Agency	2018/19 £'000	2017/18 £'000
At 1 April	-	-
Gain recognised on first adoption of IFRS 9	**7,415**	-
Gain arising on initial recognition	**-**	-
Released	**(2,195)**	-
At 31 March	**5,220**	-

Comparison of cost and fair value – Group & Agency

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

	Note	2018/19 Original cost £'000	2018/19 Carrying value £'000	2017/18 Original cost £'000	2017/18 Carrying value £'000
Assets measured at amortised cost					
Cash and cash equivalents	15	**266,826**	**266,826**	242,590	242,590
Trade and other receivables	15	**62,943**	**62,447**	237,339	233,907
Financial asset investments	15	**1,466,169**	**1,394,200**	1,295,478	1,269,013
Assets measured at Fair Value					
Trade and other receivables	15	**167,453**	**153,706**	-	-
Financial asset investments	15	**11,708,558**	**11,798,699**	8,766,300	8,953,946
Total financial assets		**13,671,949**	**13,675,878**	10,541,707	10,699,456

There are no significant differences between the carrying value and fair value of the assets above, except for those described in note 15 and those which arise due to the application of the Expected Credit Loss model for impairment allowances to assets held at amortised cost under IFRS 9, as described in note 15.

Prepayments, tax, social security and reimbursements in respect of provisions are excluded from the table above as these are non-financial assets.

There are no differences between the carrying values and fair values of the Agency's financial liabilities, which are as follows:

	Note	2018/19 £'000	2017/18 £'000
Other financial liabilities			
Trade and other payables	20	**467,805**	380,643
Provisions	21	**12,796**	26,586
Total financial liabilities		**480,601**	407,229

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

17. Financial risk management

The Group and Agency's financial assets and liabilities are detailed in Notes 15 & 20. The statements in this note apply to both the Agency itself and the Group, except where indicated.

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

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

a) Market price risk

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

In particular, the Agency is exposed to significant market price risk in its equity-loan mortgage portfolio and land portfolio. Any market price movements are reflected in net expenditure.

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

Home Equity Portfolio

At 31 March 2019, if UK house prices had been 10% higher/lower and all other variables were held constant, the effect on net expenditure arising from movements in investments in these portfolios, before the effects of tax, would have been an increase / (decrease) of £1,136m / (£1,375m) from that stated. This illustrates the impact of the mortgage providers' first charge, which disproportionately increases the estimated level of impairments when house prices reduce, for example in the cases of modelled reductions in house prices shown in the table below:

Modelled change in house prices	Estimated portfolio value (£m)	Incremental change in fair value (£m)	Incremental change in fair value (%)	Incremental gain/ (charge) recognised in net expenditure (£m)
20%	13,639.0	2,270.4	20.0%	2,270.4
10%	12,504.7	1,136.1	10.0%	1,136.1
0%	11,368.6	-	0.0%	-
-5%	10,780.5	(588.1)	-5.2%	(588.1)
-10%	9,994.0	(1,374.6)	-12.1%	(1,374.6)
-20%	7,657.0	(3,711.6)	-32.6%	(3,711.6)
-30%	5,221.1	(6,147.5)	-54.1%	(6,147.5)

Private sector developments, overage and infrastructure

At 31 March 2019, if development returns had been 10% higher/lower and all other variables were held constant, the effect on the Agency's net expenditure arising from movements in investments in private sector developments and infrastructure projects, before the effects of tax, would have been an increase/decrease of £23.3m/£23.3m from that stated.

b) Interest rate risk

The Agency's income is exposed to interest rate risk on its financial assets classified as loans and receivables, where these pay interest at a variable rate. For the majority of the Agency's loan portfolio, the variable element is the EC Reference Rate (1.09% as at 31 March 2019).

If interest rates on the Agency's variable rate loans had been 1% higher/lower throughout the year ended 31 March 2019, the Agency's net expenditure for the year, before the effect of tax, would have been £12.1m/£12.1m higher/lower.

c) Liquidity risk

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

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

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

Substantially all of the Agency's financial liabilities (as described in Note 20) are contractually due within one year of the reporting date.

d) Currency risk

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

e) Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations. The Agency's maximum exposure to credit risk, without taking into account any security held, is the same as the carrying amount of financial assets recorded in the Financial Statements, as disclosed in Note 16.

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

- Financial asset investments measured at fair value relate mainly to amounts receivable individually from the shared equity mortgage portfolio properties when sold, or amounts receivable from various private sector developers, resulting in a broad spread of credit risk for these assets. Amounts receivable from the owners of homes are secured by a second charge over their property.
- Four private sector developers account for 32% of £682m development loans (2017/18: 29% of £517m), and four private sector developers account for 39% of £925m infrastructure loans (2017/18: 41% of £706m).
- Ten private sector developers accounted for 60% of development loans (2017/18: 52%) and ten private sector developers account for 67% of infrastructure loans (2017/18: 72%). Of the total £1,654m loans exposure, ten private sector developers account for 46% of the balance (2017/18: 46% of £1,269m).
- Loans to a single private sector developer account for 11% of development loans (2017/18: 9%) and loans to a single private sector developer account for 12% of infrastructure loans (2017/18: 13%).
- 57% of £47m other loans relate to a major public utility company (2017/18: 46% of £46m).
- Receivables arise largely from disposals of land and property assets, generally to major developers and housebuilders in the private sector. These receivables are always secured by the Agency's right to retake possession of the disposed property in the event of a default by the buyer, and in appropriate cases are backed by financial guarantees. Ten counterparties account for 77% of the Agency's £152m receivables balances due from disposal of land and property assets (2017/18: 72% of £204m).

- 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 or by the Agency's mortgage administrator pending allocation to accounts.

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

For all financial assets excluding cash, the maximum exposure to a single counterparty at 31 March 2019 was £155.5m (2017/18: £106.2m), and the five largest counterparties accounted for 4.1% of the total balance (2017/18: 3.7%).

Credit policies

Credit policies are developed which set the context of the appetite for risk, requirements for risk assessment (both at the outset and through the cycle of facilities provided) and the operational aspects of managing the overall risk profile. Details are provided in the Agency's accounting policies (Note 1).

Assessment of significant increases in credit risk

Individual loans are actively managed by dedicated project managers and are subject to ongoing review, enabling the Agency to react to early warning signs and to continually assess the relevant IFRS 9 stage for Expected Credit Loss (ECL) allowances. This enables the Agency to consider the need for more intensive management to protect the exposure or if needed undertake a structure review to consider whether a write-off allowance is required. Forbearance is considered as part of any assessment and review of the customer risk rating during the term of facilities. This ensures that data which informs the ECL allowance calculation appropriately reflects current credit risk characteristics of the portfolio of investments.

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

Where term loans are issued, it is sensible to apply an assumption that any missed monthly repayments which are not remedied within a 30-day timeframe are indicative of a significant increase in credit risk.

Because the Agency does not issue term loans and loans are usually repayable either on development milestones or in full at a contractual long-stop date, the 30-day measure is not considered to be helpful as an indicator of significant increases in credit risk.

Credit profile of investments

Of the total gross amortised cost exposures of £1,430m at 31 March 2019, £186m were categorised with a Credit Risk Rating (CRR) between 1 to 3 (low risk), with £1,206m of exposures being categorised as CRR 4 to CRR 7 (medium risk). £38m of loan exposures were categorised as CRR 8 or above (high risk or in default).

Collateral held as security for financial asset investments

Collateral is usually obtained as security against default. The primary sources of collateral are often land which is being developed with the aid of the investment finance, but they can be other land assets within the control of our counterparties or their parent group. Parent company guarantees are also employed. For the Expected Credit Loss calculation, only land and property security values are included, with an average haircut of 54% for land and 42% for property applied to reflect reduced values which might reasonably be expected in a distressed sale. Because security values often relate to land under development, security values are modelled based on up-to-date information to take account of factors such as site expenditure and realised sales.

The Agency held gross collateral values against loans totalling £7,513m at 31 March 2019, the majority of which related to security over land and property assets held by third parties (£7,096m). The modified value of this security value after applying Modified Security Values was £3,657m at 31 March 2019. Of the total exposures relating to loans measured at amortised cost of £1,440m, £1,222m (84.2% of agreements) were fully covered by security values held in relation to those investments. There were 29 exposures (15.8% of agreements) totalling £218m at 31 March 2019 where security values held were less than the exposure at that date. The total net security position for these investments was £165m at 31 March 2019. Of these 29 investments, there were 18 investments (9.8% of agreements) where no security is held. The majority of these agreements

are legacy agreements and relate to loans with other government bodies. The total gross value of loans measured at amortised cost which were credit impaired at 31 March 2019 was £43.3m. The agency held gross security values of £67.3m (£21.5m of net security values after applying Marginalised Security Values) against these assets at 31 March 2019.

The Agency held total gross security values of £415.6m (£174.8m of net security values after applying Marginalised Security Values) against Level 3 assets measured at Fair Value at 31 March 2019.

18. Sensitivity of Significant Valuation Modelling Assumptions

a) Help to Buy

Homes England models the fair value of Help to Buy on the basis of the estimated proceeds that would be achieved were all homeowners to redeem their equity loans on the reporting date. Homes England considers these estimated proceeds to be a significant accounting estimate, because the fair value of the portfolio is highly sensitive to market price risk as set out in Note 17. In addition, the estimate is sensitive to significant assumptions that Homes England makes within the valuation model. We have disclosed the individual impact of the assumptions that currently have a material impact on the estimates. The assumptions of estimated rates of first charge mortgage arrears and discount to sales on repossession do not have a material impact at present, but could if there was a significant decrease in house prices.

Assumptions of market adjustments

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

The table considers how the portfolio valuation would vary with 1% changes in the adjustments applied:

	Fair value £m	Movement from base assumption (£m / %)	
2% increase in market adjustment	10,850.9	(233.0)	-2.1%
1% increase in market adjustment	10,968.0	(115.9)	-1.0%
Base assumption	11,083.9	-	0.0%
1% decrease in market adjustment	11,199.2	115.3	1.0%
2% decrease in market adjustment	11,314.3	230.4	2.1%

Assumptions of expected proportions of transaction types

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

The table considers how the portfolio valuation would vary with changes in the expected proportions of transaction types

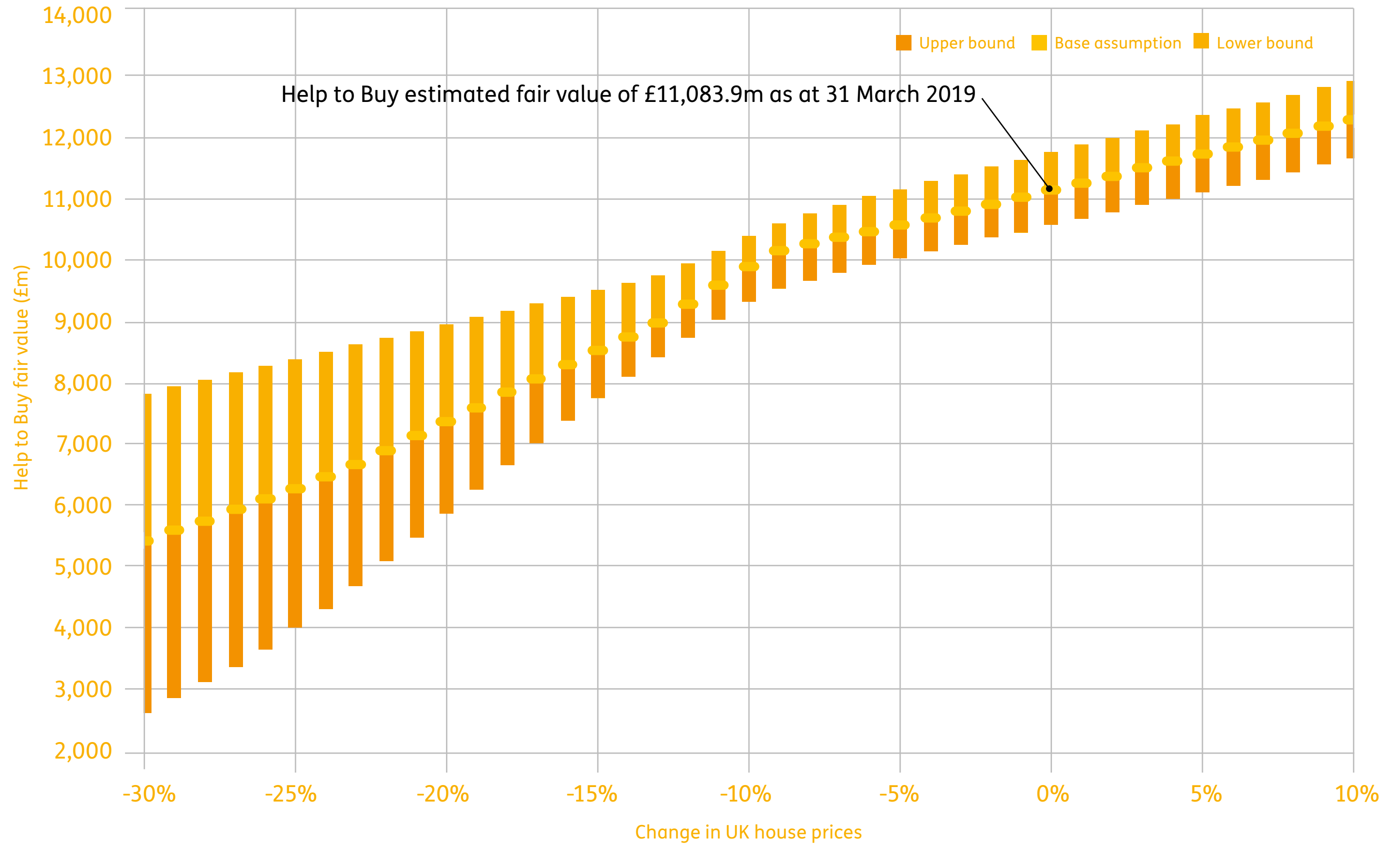
	Fair value £m	Movement from base assumption (£m / %)	
All redemptions are staircasing transactions	10,854.0	(229.9)	-2.1%
10% increase in the rate of staircasing	11,030.0	(53.9)	-0.5%
Base assumption (a blend of sales and staircasing)	11,083.9	-	0.0%
10% increase in the rate of sales	11,137.8	53.9	0.5%
All redemptions are sales	11,393.1	309.2	2.8%

Combined impact of assumptions

The assumptions applied by Homes England will interact with each other in different economic scenarios. For example, a 15% point fall in house prices might lead to both a 10% point increase in staircasing transactions (relative to sales) and a 7.5% increase in accounts in arrears. In this situation the Agency would model a fair value of £8.7bn: a reduction of £2.4bn or 22% on the base assumption.

The below graph illustrates a potential spread of fair value from the combined impact of assumptions and at different market prices. The upper and lower bounds correspond to the scenarios set out in the above tables. For example, the lower bound corresponds with a 2% increase in market adjustment, a 7.5% increase in accounts in arrears, and 15% increase in discount on repossession. Each bound has been calculated by assuming all redemptions are sales and then by assuming all redemptions are staircasing transactions, and then selecting the output that is furthest from the base assumption.

The combined impact of assumptions generates a spread in estimated fair value of £1.1bn at current market prices. This spread would increase in a falling market, reaching approximately £5.1bn should market prices fall by 30%. The combined impact of assumptions is therefore more sensitive in a falling market. This is primarily due to the increased impact of estimated rate of first charge mortgage arrears and of discount to sale proceeds on repossession in a situation of reduced sale proceeds from falling market prices.



b) Expected Credit Loss allowance

Following the adoption of IFRS 9 in 2018/19, the Agency is required to calculate an Expected Credit Loss allowance for Financial Assets measured at Amortised Cost. A summary of the calculation is provided in Note 15e. Due to the complex nature of the Expected Credit Loss methodology, the calculation is highly sensitive to some key judgements and assumptions.

The impact of the assumptions applied in the Expected Credit Loss calculation has been considered and the different assumptions have a varying impact on the results of the calculation.

There are two assumptions which have a trivial impact on the Expected Credit Loss allowance which are summarised as follows:

- → Timing of default events: The calculation of the Expected Credit Loss Allowance at 31 March 2019 assumes that default events would occur at a mid-point of the year for each future calculation date, to build in an unbiased assumption that a default could happen at any point during a future year. This creates variation in the estimate because of the effect of discounting, which will be greater for losses modelled at a later point in the year. If a default event were assumed to occur at the beginning or end of a year, this would increase or decrease the loss allowance by 3%.
- → Timing of forecast expenditure and receipts: Forecast loan balances must be calculated into the future in order to determine the LGD of each asset (calculated as exposure at default less modified security values). Expenditure and receipts data is available at an annual level for future years within the Agency's systems, whereas future balances are calculated at quarterly intervals. As a result, an assumption has been applied within the model in order to apportion spend and receipts over all future quarters using historic data on actual expenditure and receipt profiles. If it had been assumed expenditure and receipts were to be profiled equally over the year, this would have increased the loss allowance by 1.8% at 31 March 2019.

Estimates of the impact of key assumptions on the Expected Credit Loss allowance calculation at 31 March 2019 are provided below.

Economic Scenarios and Scenario Weighting assumptions

IFRS 9 requires the Agency to consider alternative economic scenarios in the calculation of the Expected Credit Loss allowance. For each identified economic scenario, variations are made to the Probability of Default values applied based on an individual investment's Credit Risk Rating. Weightings are applied to the Expected Credit Loss calculation for each scenario, determined in relation to the probability of each scenario occurring, with reference to current market and credit risk expectations. At 31 March 2019 two alternative downturn economic scenarios were applied, with a 75% weighting applied to the base calculation and a total weighting of 25% applied across the alternative scenarios. The impact of varying these weightings is analysed below:

The table considers how the Expected Credit Loss allowance would vary with alternative scenario weighings applied:

	Expected Credit Loss £'000	Movement from base assumption (£'000 / %)	
Weighting of 50% : 25% : 25% applied	70,848	22,241	45.8%
Base assumption - 75% : 15% : 10% applied	48,607	-	0.0%
+Weighting of 80% : 10% : 10% applied	41,272	(7,335)	-15.1%

At 31 March 2019, the Agency applied two downturn scenarios to the Expected Credit Loss calculation. The agency considered the probability of an upturn scenario occurring very low and therefore did not apply an upturn scenario to the calculation. In order to consider the impact on the Expected Credit Loss allowance of not applying an upturn scenario, the calculation has been reperformed by applying a 10% likelihood to an upturn scenario, with 25% being assigned to downturn scenarios and 65% to the base calculation. If these alternative weightings were applied to the calculation, this would have resulted in an Expected Credit Loss allowance of £47.5m, which is £1.1m lower than the allowance recognised at 31 March 2019.

Probability of Default (PD) assumptions

PD values are determined with reference to current economic conditions; however for alternative scenarios the PD values are migrated to adjust the PD % values against each Credit Risk Rating. The PD values are applied to each asset in relation to their CRR. The PD values applied to alternative scenarios have a significant impact of the calculation of the Expected Credit Loss allowance. To illustrate the sensitivity of the estimate to this data, the impact of a one level downgrade / upgrade in PD values assigned to each Credit Risk Rating value across each of the scenarios is analysed below:

The table considers how the Expected Credit Loss allowance would vary with a change to the probability of default assumptions

	Expected Credit Loss £'000	Movement from base assumption (£'000 / %)	
PD values downgraded one level	95,806	47,199	97.1%
Base assumption	48,607	-	0.0%
PD values upgraded one level	24,894	(23,713)	-48.8%

Moderated Security Value (MSV) assumption

To reflect the expected value which might reasonably be realised from the sale of security in the event of default, MSV percentages are applied to gross security values to determine a measure of Loss Given Default (when compared against the estimated exposure on default). The MSVs are varied depending on the type of security held. A lower MSV percentage results in a higher discount applied to the determined security values. The analysis below illustrates the sensitivity of the estimate to a decrease / increase in MSV values by ten percentage points. At present, this only has a limited impact on the ECL due to the effect of the loss floor assumption applied in the Agency's modelling methodology (see below):

The table considers how Expected Credit Loss allowance would vary with changes to the MSV values

	Expected Credit Loss £'000	Movement from base assumption (£'000 / %)	
MSV percentages decreased by ten percentage points	52,083	3,476	7.2%
Base assumption	48,607	-	0.0%
MSV percentages increased by ten percentage points	47,023	(1,584)	-3.3%

Loss Floor

A minimum percentage value has been applied to the Loss Given Default (LGD) calculation with reference to individual investments. This is in line with the requirements of IFRS 9, where historic data is insufficient to provide an evidence base for anticipated losses on default. At 31 March 2018 and 31 March 2019 the LGD floor applied was 35%. In order to demonstrate the sensitivity of the calculation of Expected Credit Loss allowances to the LGD floor assumption, alternative floors of 0%, 50% and 75% have been applied to the calculations with results summarised below.

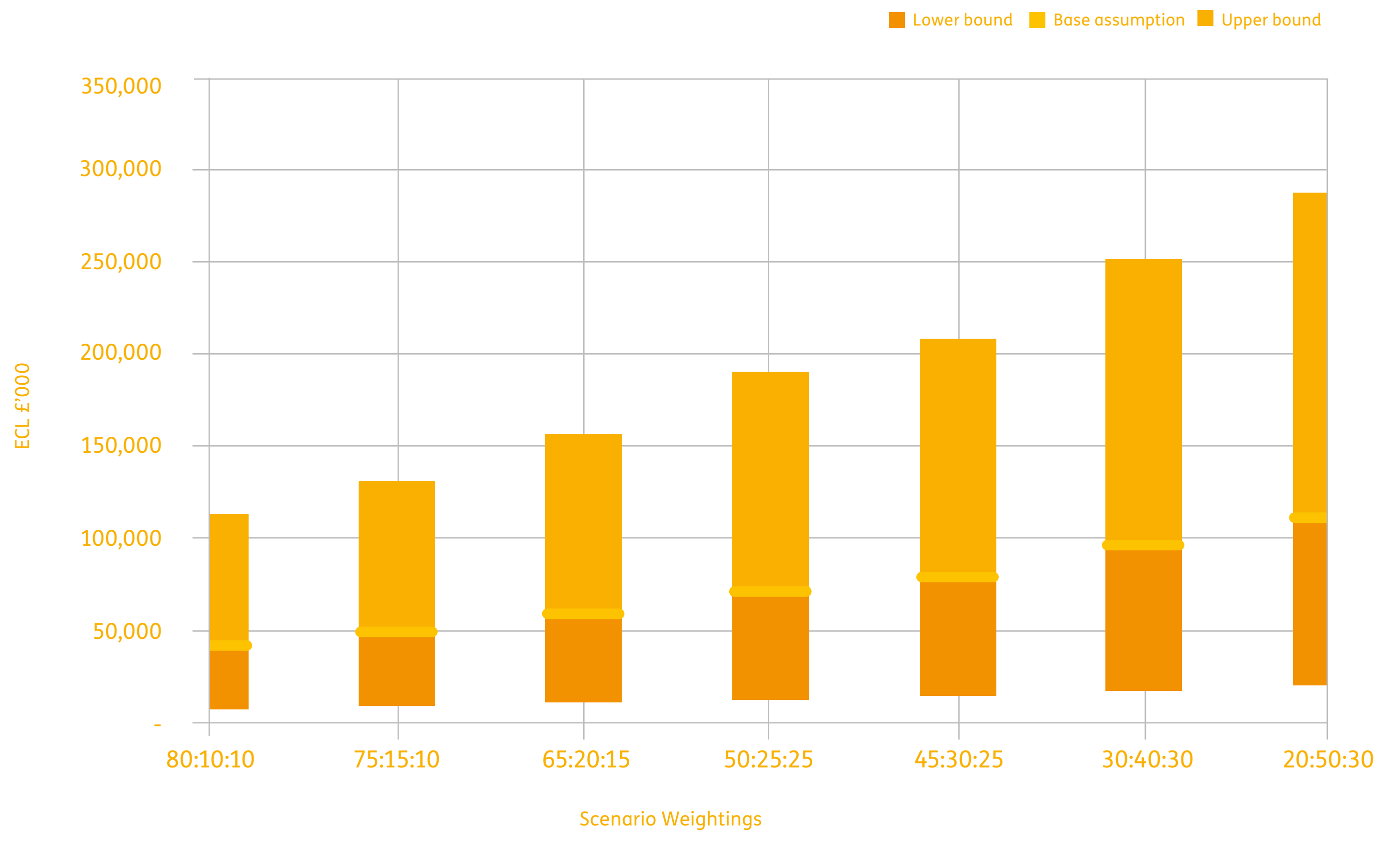
The table considers how the Expected Credit Loss allowance would vary with a change in the Loss Floor

	Expected Credit Loss £'000	Movement from base assumption (£'000 / %)	
Increase in loss floor to 75%	87,813	39,206	80.7%
Increase in loss floor to 50%	62,538	13,931	28.7%
Base assumption	48,607	-	0.0%
Reduction in loss floor to 0%	22,884	(25,723)	-52.9%

Combined impact of assumptions

The sensitivity analysis performed above has focused on changing one assumption in turn, with all other metrics remaining in line with the assumptions applied in determining the Expected Credit Loss allowance as at 31 March 2019.

However to consider the impact of several assumptions changing, an analysis has been performed to establish the impact if the key assumptions above (excluding scenario weightings) were changed within reasonable limits to consider the highest and lowest possible Expected Credit Loss allowance. A variation has then been applied to the scenario weightings against the highest and lowest Expected Credit Loss positions in order to consider the impact of these variations in combination with all other assumptions changing.



19. Land and property assets – Group & Agency

	Note	2018/19 £'000	2017/18 £'000
Net book value at 1 April		776,239	589,536
Additions		**227,904**	315,830
Disposals	7	**(61,103)**	(70,858)
Impairments		**(103,956)**	(58,269)
Net book value at 31 March		839,084	776,239

The above includes land and property assets expected to be realised in more than one year of £701.6m (2017/18: £709.2m).

Valuation

Land and property assets had a combined market value of £1,222m (2017/18: £1,155m).

Impairment of land and property assets

Impairments includes charges of £124.6m (2017/18: £83.2m) and reversals of £20.6m (2017/18: £24.9m).

20. Trade and other payables – Group & Agency

	Group 2018/19 £'000	Represented Group 2017/18 £'000	Agency 2018/19 £'000	Represented Agency 2017/18 £'000
Trade payables	**419,158**	352,787	**419,158**	352,787
Deferred income	**9,464**	22,664	**9,464**	22,664
Taxes and social security	**5,202**	1,316	**5,202**	1,316
Due to subsidiary	**-**	-	**4,254**	8,159
Other	**48,647**	27,856	**48,647**	27,856
Balance at 31 March	482,471	404,623	486,725	412,782
Of which:				
Current liabilities	**468,948**	391,716	**473,202**	399,875
Non-current liabilities	**13,523**	12,907	**13,523**	12,907
Balance at 31 March	482,471	404,623	486,725	412,782

21. Provisions – Group & Agency

	2018/19 £'000	2017/18 £'000
Balance at 1 April	26,586	31,301
Charge to net expenditure	**-**	2,284
Unused provisions credited to net expenditure	**(2,758)**	(2,999)
Unwinding of discount/change in discount rate	**(1,132)**	(20)
Expenditure against provisions	**(9,900)**	(3,980)
Balance at 31 March	12,796	26,586
Of which:		
Current liabilities	**384**	10,693
Non-current liabilities	**12,412**	15,893
Balance at 31 March	12,796	26,586
Total recognised in Net Expenditure		
Decrease in provisions recognised in Net Expenditure	(3,890)	(735)

Provisions include £12.2m environmental liabilities (2017/18: £21m) and £0.6m other liabilities (2017/18: £5.6m). Of the £1.1m recognised in respect of unwinding of discount/change in the discount rate, £0.8m is due to a change in the discount rate for provisions prescribed by HM Treasury from -2.42% in 2017/18 to 0.76% in 2018/19.

22. Deferred tax – Group & Agency

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

2018/19	At 31 March 2018 £'000	Adjustments on adoption of IFRS 9 £'000	Charged to net expenditure £'000	Charged to OCE* £'000	At 31 March 2019 £'000
Fair value gains recognised to 31 March 2018 under IAS39	71,913	(721)	(7,119)	-	**64,073**
ECL recognised on first adoption of IFRS 9	-	(4,948)	495	-	**(4,453)**
Valuation changes on first adoption of IFRS 9	-	(1,116)	112	-	**(1,004)**
Unused tax losses	(78,024)	6,785	(1,353)	-	**(72,592)**
Provisions	(4,520)	-	2,344	-	**(2,176)**
Pensions	10,631	-	(370)	5,891	**16,152**
Deferred tax liability / (asset)	-	-	(5,891)	5,891	-

* Other Comprehensive Expenditure

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

In addition to the above, the Agency has tax losses to carry forward of £130m (2017/18: £117m) for which no deferred tax asset has been recognised because of the uncertainty over future trading profits, which would enable such losses to be utilised. The primary driver of the increase is the residual element to be unwound in relation to the first adoption of IFRS 9.

2017/18	At 31 March 2017 £'000	Charged to net expenditure £'000	Charged to OCE* £'000	At 31 March 2018 £'000
Fair value gains on Available-for-Sale assets	61,633	-	10,280	71,913
Unused tax losses	(63,654)	(14,370)	-	(78,024)
Provisions	(5,321)	801	-	(4,520)
Pensions	7,342	(964)	4,253	10,631
Deferred tax liability / (asset)	-	(14,533)	14,533	-

23. Pension arrangements and liabilities – Group & Agency

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

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

All three schemes are multi-employer defined benefit schemes as described in paragraph 7 of IAS 19 Employee Benefits. The Homes and Communities Agency Pension Scheme is a final salary scheme and is the only one which remains open to new employees. The other schemes are Local Government schemes which changed from a final salary to career average basis for benefits accruing from 1 April 2014. Further information on the funding arrangements for the schemes is contained within Note (l) below.

Valuations of the Agency's assets and liabilities in each scheme as at 31 March 2019 have been prepared in accordance with IAS 19 and the results are disclosed in Note (a) below. Note (b) below shows the weighted average of the key assumptions used by each of the scheme actuaries in preparing the valuations, weighted according to each scheme's liabilities. Other information below is shown on a consolidated basis for all three schemes.

a) Pension assets/(liabilities)

	HCA Pension Scheme £'000	Westminster £'000	West Sussex £'000	Total £'000
2018/19				
Fair value of employer assets	417,082	351,566	75,339	843,987
Present value of funded liabilities	(398,721)	(269,806)	(72,104)	(740,631)
Net funded scheme assets	18,361	81,760	3,235	103,356
Impact of asset ceiling	-	-	-	-
Adjusted net funded scheme assets	18,361	81,760	3,235	103,356
Present value of unfunded liabilities	(1,189)	(3,770)	(3,387)	(8,346)
Adjusted net scheme assets/(liabilities)	17,172	77,990	(152)	95,010
Total of net pension assets				103,356
Total of net pension liabilities				(8,346)
2017/18				
Fair value of employer assets	401,775	368,591	73,975	844,341
Present value of funded liabilities	(368,050)	(305,022)	(71,053)	(744,125)
Net funded scheme assets	33,725	63,569	2,922	100,216
Impact of asset ceiling	-	(29,007)	-	(29,007)
Adjusted net funded scheme assets	33,725	34,562	2,922	71,209
Present value of unfunded liabilities	(1,150)	(4,144)	(3,379)	(8,673)
Adjusted net scheme assets/(liabilities)	32,575	30,418	(457)	62,536
Total of net pension assets				71,209
Total of net pension liabilities				(8,673)

The Westminster Scheme had previously reported an asset ceiling restriction. This was based on the rules specific to the Scheme governing the treatment of surpluses. However, because of a change in the Local Government Pension Scheme (LGPS) regulations in year, this restriction has been removed. The asset ceiling is the limit above which further increases in net pension assets cease to be recognised for accounting purposes, as directed by paragraph 64 of IAS 19. The limit is determined by the benefit which could be obtained by a refund of, or reduction in, employer contributions to a scheme. Movements on the asset ceiling are set out in Note 23(h).

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

As principal employer of the HCA Pension Scheme, the Agency continues to monitor the scheme and has a good working relationship with the Trustees.

The Trustees review the Scheme's investment portfolio on a regular basis. At present, 25% of the Scheme's investments are held within liability driven investments which aim to better match the Scheme's liabilities and partially hedge the Scheme against rises in inflation and interest rates. A further 20% of assets are held in Corporate Bonds. The liability hedging is managed through Insight Investment (one of the HCA Pension Scheme's investment managers) Enhanced Selection Funds which allow Insight Investment the discretion to select the most attractively priced hedging instruments to hold in the pooled fund which may include gilts, index linked gilts, gilt repossession or swaps. As at 31 March 2019, the Scheme had an interest rate hedge ratio of 59% and an inflation hedge ratio of 58% relative to the gilts-flat liabilities.

On 1 October 2018, 141 employees transferred from Homes England to RSH of which 57 were members of the HCA Pension Scheme and 76 were members of the Westminster Pension Scheme. Notes 23 (f) and 23 (g) show the impact of the transfer out on total assets and liabilities.

b) Actuarial assumptions

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

i) Financial assumptions

	2018/19	2017/18
Inflation and pension increases rate (CPI)	**2.2%**	2.2%
Salary increases	**3.7%**	3.6%
Discount rate	**2.4%**	2.6%

ii) Mortality assumptions

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

	2018/19 Years	2017/18 Years
Male - current pensioners	**23.2**	23.6
Male - future pensioners	**24.8**	25.5
Female - current pensioners	**24.8**	25.3
Female - future pensioners	**26.7**	27.4

c) Fair value of employer assets

	2018/19 £'000	Represented 2017/18 £'000
Equities - quoted	**408,162**	429,587
Equities - unquoted	**2,093**	3,180
Bonds - quoted	**268,467**	259,583
Property	**43,124**	39,126
Other assets - quoted	**122,061**	112,773
Other assets - unquoted	**80**	92
Total	**843,987**	844,341
Actual return on employer assets	**44,102**	28,997

Some of the funds in which the Agency's pension assets are invested permit the use of derivatives for the purposes of achieving their investment aims. In all cases, funds are managed by professional investment managers. The composition of assets for 2017/18 has been adjusted by switching £3,180,000 from quoted equities to unquoted equities.

d) Charge to Net Expenditure

	2018/19 £'000	2017/18 £'000
Amounts charged to Net Operating Expenditure		
Current service costs	**16,115**	14,393
Past service costs and losses on curtailments and settlements	**123**	967
Expenses	**900**	1,003
	17,138	16,363
Amounts charged to finance costs		
Interest charged on liabilities	**19,095**	20,246
Expected return on assets	**(21,698)**	(21,660)
Interest on asset ceiling	**740**	176
	(1,863)	(1,238)
Total recognised in Statement of Comprehensive Net Expenditure	**15,275**	15,125

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

e) Amounts recognised in income and expenditure reserve

	2018/19 £'000	2017/18 £'000
Actuarial gains	**34,650**	25,016

The cumulative amount of actuarial gains recognised in other comprehensive expenditure since the adoption of IAS 19 is £141.6m (2017/18: £106.9m)

f) Reconciliation of fair value of employer assets

	2018/19 £'000	2017/18 £'000
Opening fair value of employer assets	**844,341**	**828,887**
Expected return on assets	**21,698**	21,660
Contributions by members	**2,767**	2,565
Contributions by the employer	**9,607**	8,818
Contributions in respect of unfunded benefits	**541**	637
Actuarial gains	**22,404**	7,337
Net transfers	**(177)**	(1,900)
Transfer to RSH	**(35,412)**	-
Expenses	**(957)**	(1,082)
Unfunded benefits paid	**(541)**	(637)
Benefits paid	**(20,284)**	(21,944)
Closing fair value of employer assets	**843,987**	844,341

g) Reconciliation of defined benefit obligation

	2018/19 £'000	2017/18 £'000
Opening defined benefit obligation	**752,798**	779,191
Current service cost	**16,115**	14,393
Past service cost and losses on curtailments and settlements	**123**	967
Interest cost	**19,095**	20,246
Contributions by members	**2,767**	2,565
Actuarial gains - demographic	**(15,189)**	(8,096)
Actuarial losses/(gains) - financial	**37,914**	(19,588)
Actuarial gains - other	**(5,224)**	(12,320)
Net transfers	**(177)**	(1,900)
Transfer to RSH	**(38,363)**	-
Expenses	**(57)**	(79)
Unfunded benefits paid	**(541)**	(637)
Benefits paid	**(20,284)**	(21,944)
Closing defined benefit obligation	**748,977**	752,798

h) Reconciliation of asset ceiling

	2018/19 £'000	2017/18 £'000
Opening asset ceiling	**29,007**	6,506
Interest cost	**740**	176
Actuarial movements	**(29,747)**	22,325
Closing asset ceiling	**-**	29,007

i) Five-year history

	2018/19 £'000	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000
Present value of defined benefit obligations	**(748,977)**	(752,798)	(779,191)	(611,911)	(645,732)
Fair value of employer assets	**843,987**	844,341	828,887	683,714	691,436
Impact of asset ceiling	**-**	(29,007)	(6,506)	(16,550)	-
Surplus in the schemes	**95,010**	62,536	43,190	55,253	45,704
Experience gains/(losses) on scheme liabilities	**5,224**	12,320	6,715	2,009	(5,312)
Experience gains/(losses) on employer assets	**52,151**	7,337	127,173	(28,201)	50,600

j) Sensitivity Analysis

The primary assumptions used in calculating the defined benefit obligation are: discount rate, salary increases, inflation and pension increases and mortality expectations. The assumptions used are specified in Note 23(b). The assumptions are determined by independent professional actuaries whose work is compliant with Technical Accounting Standard 100: Principles for Technical Actuarial Work as issued by the Financial Reporting Council.

IAS 19 sets out the principal underlying the setting of assumptions, that they should be based on the best estimate of future experience, and also gives a clear direction on the basis for calculating the discount rate. Assumptions should also reflect market conditions at the reporting date, including demographic assumptions and the mix of membership of Homes England's Schemes.

The key assumptions are considered to be the discount rate and the rate of future inflation. The discount rate is important in determining the value of liabilities and is based on high quality corporate bonds at the year end. The rate is in line with the AA corporate bond yield curve at the year end. Inflation expectations inform the rate at which current and future pensioner's benefits accrue. It is based on CPI at the year end with an inbuilt allowance for an insurance risk premium. Demographic assumptions, including mortality expectations can also have a bearing on the valuation of liabilities, as can the specific membership mix of our schemes.

The calculation of liabilities is sensitive to movements in assumptions. If they were to change, the impact would be as follows:

Adjustment to discount rate	+0.25%	Current	-0.25%
Present value of total obligation	**714,745**	748,977	784,959
Movement	**(35,982)**	-	34,232

Adjustment to inflation	+0.25%	Current	-0.25%
Present value of total obligation	**779,236**	748,977	720,275
Movement	**30,259**	-	(28,703)

Adjustment to life expectancy	+1 year	Current	-1 year
Present value of total obligation	**774,984**	748,977	723,383
Movement	**26,007**	-	(25,594)

k) Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation of the pension schemes is 20 years.

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

	£'000
Within 5 years	113,490
5-10 years	126,748
After 10 years	508,739
Total defined benefit obligation	**748,977**

l) Funding arrangements

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

The HCA scheme is a multi-employer scheme that does not operate on a segregated basis. Therefore the assets and liabilities are not separately identified for individual participating employers. Benefit obligations are estimated using the Projected Unit Credit Method.

Both Homes England and RSH are members of the HCA Pension Scheme although Homes England is the only significant contributing employer and accounts for the vast majority of the HCA scheme's liabilities. Based on actuarial data at 31 March 2019, the share of the HCA scheme's assets and liabilities attributed to RSH is approximately 2% with the remainder attributed to Homes England. All assets are pooled and a single employer contribution rate is determined as part of the actuarial valuation for the whole scheme. This contribution rate applies for the principal employer, Homes England, along with any other participating employers, including RSH.

Homes England and RSH record the cost of employer contributions in their own Financial Statements and account for their proportionate share of the Scheme's asset and liabilities separately. The assets and liabilities disclosed in Homes England's Financial Statements relates only to its share of the Scheme's assets and liabilities and not to the assets and liabilities of the entire Scheme.

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

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

l) McCloud judgement

In December 2018, the Court of Appeal ruled against the government in two cases: Sargeant and others v London Fire and Emergency Planning Authority [2018] UKEAT/0116/17/LA and McCloud and others v Ministry of Justice [2018] UKEAT/0071/17/LA. The cases related to the Firefighters' Pension Scheme (Sargeant) and to the Judicial Pensions Scheme (McCloud). For the purposes of the LGPS, these cases are known together as 'McCloud'. The court held that transitional protections, afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

It is expected that the ruling will result in a liability to Homes England for LGPS. The Government Actuarial Department (GAD) has estimated the financial impact of one possible remedy to be equal to 3.2% of active liabilities on a scheme-wide basis. The GAD estimated has been prepared on an 'average' member basis and is highly sensitive to the earnings growth assumption. On the basis of this scheme-wide estimate, and taking into account the age profile of the entity's membership, the impact is not expected to be significant for Homes England. On this basis no specific provision for the potential additional liabilities arising from McCloud, has been accounted for.

24. Contingent assets and liabilities

Contingent assets

The Agency has in certain instances disposed of land or made grant payments with certain conditions attached, which if no longer fulfilled will result in a payment to the Agency. Examples include where there is a subsequent change in use of land sold which materially increases the return to the purchaser, or if the conditions of a grant payment are no longer met. The normal term during which this arrangement remains in force is 21 years. For affordable housing and other community related schemes the term is more usually 35 years. By its nature this income is variable and the timing of receipt is uncertain, therefore it is not possible to quantify the likely income which may ultimately be received by the Agency.

Contingent liabilities

a) Sunderland City Council

The freeholds of several hundred properties on two estates in Washington were transferred to Sunderland City Council on 1 April 1997. The transfer was subject to an Agency indemnity valid for a period of 30 years against costs which may be incurred in remedying shale related defects. This indemnity was issued with the approval of MHCLG. The extent of the potential liability will only be known once any defects are identified. No claims have yet been notified under this indemnity.

b) Other contingent liabilities

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

25. Financial commitments

	2018/19 £m	Restated 2017/18 £m
Not later than one year	**2,225**	2,458
Later than one year and not later than five years	**1,397**	1,700
Later than five years	**-**	-
Total commitments at 31 March	**3,622**	**4,158**

The Agency has made financial commitments in relation to programmes for investments in loan and equity assets, which had become unconditional at the reporting date, but which had yet to be drawn down by that date. The value of these commitments, excluding those disclosed in Note 14(c), was £1,090m at 31 March 2019 (31 March 2018: £1,073m).

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 2019 was £978m (31 March 2018: £1,056m).

In addition to the above, the Agency has entered into financial commitments in relation to land development and affordable housing grant programmes totalling £460m and £1,083m respectively at 31 March 2019 (31 March 2018: £433m and £1,590m). These additional commitments were not disclosed in the 2017/18 Financial Statements. As a result, the comparative figures have been restated.

26. Related party transactions

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

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

2018/19	Capital invested in/ (redeemed from) entity £m	Grants and other payments £m	Loans/ equity advanced/ (repaid) £m	Loan interest / dividends received £m
Payments out				
Countryside Maritime Limited	-	-	3.5	-
English Cities Fund Limited Partnership	4.2	-	-	-
FutureGov. Limited	-	2.8	-	-
Kier Living	12.1	-	30.0	-
Receipts in				
Countryside Maritime Limited	-	-	(3.5)	(0.4)
English Cities Fund Limited Partnership	-	-	-	(0.3)
Kier Living	-	-	(0.2)	-

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

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

The related party relationship with FutureGov. Limited is due to one member of the Agency's senior management team during 2018/19 also being the majority shareholder of FutureGov. Limited. The individual was in post throughout the year 2018/19 but left the Agency on 31 March 2019. The Agency has entered into a further contract with FutureGov. Limited which will run from 1 April 2019 until 16 August 2019 with a contract value of £0.9m.

There were no other transactions in which related parties had a direct or indirect financial interest other than those disclosed above.

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

27. Events after the reporting period

The Agency's Financial Statements are laid before the Houses of Parliament by the Secretary of State for Housing, Communities and Local Government. IAS 10 Events After the Reporting Period requires the Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Agency's management to the Secretary of State for Communities and Local Government.

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

In May 2019 the Agency took a shareholding in a new company with individual shareholders comprising Urban Splash group, Noel McKee and Sekisui House to enable the establishment and growth of a new standalone vertically integrated modular housebuilder. The Agency holds a 5% equity interest in HoUSe, with the shareholding determining the right to the profits or losses of the company. The Agency has committed to invest £30m into the company through a combination of capital investment and loan funding.

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