Ministry of Housing,
Communities &
Local Government

Annual Report and Accounts 2018-19

HC 2369

Ministry of Housing, Communities and Local Government

Annual Report and Accounts 2018-19

(For the year ended 31 March 2019)

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

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

Ordered by the House of Commons to be printed 11 July 2019

HC 2369

This is part of a series of Departmental publications which, along with the Main Estimates 2019-20 and the document Public Expenditure: Statistical Analyses 2018, present the Government's outturn for 2018-19 and planned expenditure for 2019-20.

This publication is available at www.gov.uk/official-documents

Any enquiries regarding this publication should be sent to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London, SW1P 4DF
Telephone 030 3444 0000

ISBN: 978-1-5286-1419-1

CCS0419985260 07/19

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

Foreword from the Secretary of State

What makes somewhere a great place to live? How can we help people build a better life and unite communities in a shared sense of pride and belonging? These questions go to the heart of the kind of country we want to be - and everything we do at MHCLG.

It has been the privilege of my career to serve as Communities Secretary, to help us come together to find the answers to these vital questions. And I'm incredibly proud of what we have collectively achieved over the past year. We've:

- Delivered more additional homes than at any point in all but one of the last 31 years;
- Removed the government cap on how much councils can borrow to build, paving the way for a new generation of social housing;
- Put fairness at the heart of the housing market through the Tenants Fees Act and committed to abolishing no-fault evictions;
- Boosted our high streets and towns through the £675 million High Street Fund and the £1.6 billion Stronger Towns Fund respectively; and
- Empowered people to change their lives for the better through our Troubled Families Programme.

In normal political times, these would be tremendous accomplishments in of themselves. But these achievements - which I believe can be transformational for many decades to come - have been delivered without losing focus on the other challenges we face.

We've continued to help our sectors and communities prepare for Brexit. We've made huge strides in the battle to break the cycle of homelessness through our Rough Sleeping Strategy, and this year we have seen the first fall in the number of people sleeping rough for eight years.

And, two years since the devastating events at Grenfell Tower, we've continued to support the community and take vital steps to ensure nothing like this can ever happen again. This has required some bold action: the banning of combustible materials on external walls of high-rise buildings, and funds to accelerate remediation of buildings with unsafe aluminium composite material (ACM) cladding.

The year ahead will no doubt bring a new set of challenges, but I'm clear on what we need to achieve.

We are consulting on proposals to implement meaningful reform to our building and fire safety regulatory systems, and we are finalising our response to the Social Housing Green Paper. This will continue to be a significant endeavour.

We will also launch a new UK Shared Prosperity Fund, establish a National Holocaust Memorial and Learning Centre and continue to invest in places to unlock homes and local economic growth.

And we will continue to support local government as it delivers the essential services on which so many people depend. The £650 million for social care, announced at last year's Autumn budget, was an important step forward in this respect. We must continue our vital work to ensure a fair, self-sufficient and resilient local government - so it can continue to provide the very best of public service.

As we leave the European Union, our agenda becomes more important not less - making the difference that transforms people's lives across this great country. It's an agenda I'm very proud to lead.

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

Foreword from the Permanent Secretary

2018-19 has been another significant year for the department. With housing, planning and growth at the forefront of the Government's domestic agenda, we have driven progress across all our objectives. This includes new strategies to tackle rough sleeping and to support high streets and small towns. We continue to lead the Government's response to the tragic fire at Grenfell Tower in 2017, and will shortly take responsibility for the Tower site itself as we support the local community in their decisions about its future.

In common with all Government departments we significantly stepped up our preparations for Brexit this year, including contingency planning for No Deal. This included reprioritisation of our resources in the final months of the financial year. Once again I have been grateful for the dedication and resilience of civil servants across the department as they responded to a fast-moving situation, with prolonged periods of uncertainly. Brexit has also been a catalyst for deeper engagement with local government, and has been a further reminder of the vital role of councils in leading their communities.

Inside the department, we have welcomed Michael Jary as our new Lead Non-Executive. Michael brings a wealth of experience as a strategy advisor for over 30 years. Jeremy Pocklington, Catherine Frances and Ruth Bailey have joined the Executive Team. The department has recruited many new staff in the past year, concluding the expansion that was required in the wake of the Grenfell Tower fire, and with our additional responsibilities on housing.

I was very pleased with our people survey results in October 2018. With engagement at 66%, the department has for the first time joined the group of top performers across the Civil Service. Our staff rated us the most inclusive and fair department in Whitehall, with very strong scores for our managers. This year has seen big improvements to our IT which is helping our staff work more effectively and flexibly. We have also invested significantly in Homes England, our biggest Arm's Length Body, and in the way we manage and govern our relationship with them. Over the coming year we will build further on these changes so that the department remains a great place to work, supporting the Government to deliver on its priorities.

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

Lead Non-Executive Director's Report

The year started with the appointment of a new Secretary of State in April 2018, and during the year the department accommodated subsequent changes within its ministerial, executive and non-executive director (NED) teams.

Over the past 12 months the department has proposed new reforms to improve the fairness of the housing market, and has overseen an increase in housing supply as well as a boost in investment for local growth. It has also continued to drive forward reforms to address the problems exposed by the tragedy at Grenfell Tower. In common with all other parts of government, MHCLG led a programme of work to support the UK's departure from the European Union.

I joined the department as Lead Non-Executive Director from 1 February 2019, and I was pleased to find a diverse and talented team to welcome me. My fellow non-executives - Pam Chesters, Daniel Morley and Mary Ney - bring their commercial, financial, private and public sector expertise to the Board, supporting ministers and the department's senior leadership to develop strategic clarity, deliver results and make appropriate assessment of risks.

Board meetings and sub-committees

The Ministerial Board met on four occasions during the reporting year; the Non-Ministerial Board on three. Our focus has been on reviewing delivery and performance against the department's Single Departmental Plan for 2018-19. Given the importance of Homes England in delivering the department's housing supply objectives, the Board has paid close attention to its transformation programme. Sir Edward Lister and Nick Walkley (Chair and Chief Executive Officer of Homes England respectively) have been invited to attend the Board, to brief members on Homes England performance. Taking forward the Board Effectiveness recommendations made by my predecessor in 2017, the Board has held occasional "deep dives" on priority topics. For example, the July Board meeting discussed local government financial sustainability through an item presented jointly by the then Director General for Local Government and Rishi Sunak MP, Minister for Local Government. Meanwhile, the Non-Ministerial Board has played an important role in helping set the department's business plan for 2018-19; evolving MHCLG's principles and values; and strengthening the performance framework.

Involvement of Non-Executive Directors

The non-executives continue to make an important contribution by advising and supporting the Executive Team and Ministerial Board on key issues; and by leading the four Governance Assurance Panels covering the Housing & Building Safety, Decentralisation & Growth and Planning, Local Government & Public Services and Chief Financial Officer portfolios, in the final quarter of the year. The Panels provide independent challenge of assurances given by Directors General and Directors about compliance with their delegations, providing evidence and expert advice to the Accounting Officer so that her Governance Statement can be made with confidence.

Pam Chesters was appointed as chair of the Audit and Risk Assurance Committee (ARAC), which comprises non-executive directors and an independent member, from 1 September. The Committee considers the department's risk exposures and control procedures. The ARAC Effectiveness Review concluded in May 2018 and recommendations have been taken forward on Committee attendance from Homes England, cyber security, and engagement with the National Audit Office and Government Internal Audit Agency. In addition to chairing ARAC and the Governance Assurance Panels, Pam has played an important role in supporting the department's work for the Grenfell Tower Public Inquiry, overseeing progress on the Decentralisation and Growth portfolio and maintaining regular contact with the department on its preparations for EU Exit.

Mary Ney's role as Commissioner for Rotherham Metropolitan Borough Council ended in March 2019. Her extensive career experience in local government underpins her support to the Local Government & Public Services portfolio. She also sits on the department's Building Safety Portfolio Board. Daniel Morley serves on ARAC. During 2018 -2019 he has engaged with the department's Public Sector Land programme to ensure government departments support wider housing goals. He maintains his interest in local government commercialisation; works closely with the Director General for Housing; and is a member of the Holocaust Memorial Delivery Board.

The timing of my own recent appointment has enabled me to play a support and challenge role by carrying out this year's evaluation of Board Effectiveness and in the department's preparations for the forthcoming Spending Review. As Chair of the Non-Ministerial Board, I look forward to helping develop its capacity to challenge and bring expertise to the department, supporting ministers and assisting the Executive Team in their strategic thinking.

Michael Jary
Lead Non-Executive Director

Contents

1. Performance Summary

Overview

The Annual Report is made up of this Performance Report, the Accountability Report and the Financial Statements which together set out the progress we have made in 2018-19 to deliver our strategic objectives, and how we have used the resources voted to us by Parliament, and, finally our detailed financial accounts.

This section provides a summary of our purpose, how we have performed against our objectives in 2018-19 and our key risks.

Our role and purpose

MHCLG aims to help create great places to live and work right across the country and to back communities to come together and thrive.

We strive to ensure people throughout the country have access to affordable and high-quality housing, provide opportunities for all parts of the country to grow economically, build integrated communities and support effective local government.

How we are organised

The Secretary of State heads the department's ministerial team, who are accountable to Parliament. They are supported by the Permanent Secretary who has executive responsibility for the department and for safeguarding public funds as the Principal Accounting Officer. Our non-executive directors provide an important external perspective to the department but do not have decision-making or spending powers. Our Governance Statement on page 35 provides detail on the department's structures.

Our strategic objectives

The department has seven strategic objectives, which were set out in our Single Departmental Plan for 2018-19.[1]

1. Deliver the homes the country needs

We are delivering a wide-ranging programme of activity to create, fund and drive a market which will deliver 300,000 homes a year sustainably by the mid-2020s.

2. Make the vision of a place you call home a reality

We are taking steps to help people now to find the right home. This includes helping the most vulnerable people in our society through preventing homelessness and rough sleeping; and improving people's access to, and experience of, the housing market.

3. Deliver a sustainable future for local government, strengthening its connection with the communities it serves

We are progressing reforms to the local government finance system, ensuring that public services are stronger, the allocation of funding is fairer, gives local authorities more control over the money they raise, and supports the delivery of local services in the most sustainable and efficient way.

4. Create socially and economically stronger and more confident communities

We are working to address inequality, increase social cohesion, and boost local growth in all parts of the country.

5. Secure effective support for those affected by the Grenfell Tower disaster, delivering the changes this tragedy demands and ensuring people are, and feel, safe within their homes

GRENFELL

We are responding to the Grenfell Tower tragedy, including ensuring those directly affected have the support they need, now and in the years to come; and that high-rise residential buildings are safe and feel safe.

6. Support a smooth exit from the European Union

We are providing assurance and stability to our sectors to help them to prepare for EU Exit, including supporting the UK's transition from European growth programmes.

7. Maintain MHCLG as a great place to work

We will invest in our people by prioritising inclusion and diversity, nurturing talent, and strengthening our capabilities, while continuing to make great policy by optimising our use of data, building our digital capacity and increasing flexibility and productivity.

1 The high-level version of the department's Single Departmental Plan for 2018-19 is available at: https://www.gov.uk/government/publications/department-for-communities-and-local-government-single-departmental-plan/ministry-of-housing-communities-and-local-government-single-departmental-plan--2

Our highlights in 2018-19

Delivering the homes the country needs

- We have continued to build more homes year on year.
- We saw the **second highest number of homes being built in 2017-18** compared to the last 31 years (222,190 net additions). We have implemented a range of reforms and measures to ensure homes are built faster and in the right places.
- We published a **revised National Planning Policy Framework** in July, setting out our vision of a planning system that will deliver the homes we need and responded to the views of tens of thousands of people.

Making the vision of a place you call home a reality

- We oversaw the **first reduction in the number of those sleeping rough on a single night** since 2010, published our Rough Sleeping Strategy and Delivery Plan, and continued implementation of the Homelessness Reduction Act.
- We **rebalanced the relationship between tenants and landlords** by publishing the Social Housing Green Paper and securing Royal Assent for both the Tenant Fees Bill and the Homes (Fitness for Human Habitation) Act.

Delivering a sustainable future for local government, strengthening its connection with the communities it serves

- We ensured that **local government has the funding it needs** to deliver vital services by securing an increase for local government through the Local Government Finance Settlement and an additional £650 million for social care at Autumn Budget.
- We improved the **sustainability of local government finances** by progressing work to reform the finance system, including commencing a review of local authorities' relative needs and resources and completing a series of Business Rates Retention pilots.

Our highlights in 2018-19

Creating socially and economically stronger and more confident communities

- We helped to ensure that all people - whatever their background - live, work, learn and socialise together, based on shared rights, responsibilities and opportunities by publishing an **Integrated Communities Action Plan**.
- We are boosting productivity and reducing inequalities across the country by establishing a new **£675 million Future High Streets Fund** and announcing a **£1.6 billion Stronger Towns Fund**.

Securing effective support for those affected by the Grenfell Tower disaster, delivering the changes this tragedy demands and ensuring people are safe and feel safe within their homes

- We continued to ensure that those **directly affected have the support** they require, including appropriate rehousing for all those affected.
- We committed to take **responsibility for the Grenfell Tower site** until the community has determined the long term future of the site.
- We ensured that residents are **and feel safe from fire** by supporting **remedial action** on unsafe Aluminium Composite Material (ACM) cladding and introducing a clear **regulatory ban on the use of combustible materials** in external walls of high-rise buildings.
- We published the **Government Implementation Plan** in December 2018 in response to Dame Judith Hackitt's Independent Review of building regulations and fire safety.

Supporting a smooth exit from the European Union

- We helped councils in England to **prepare for EU Exit** by providing over £58 million of funding.
- We provided assurance and stability in funding to UK communities and organisations by securing an **HMG guarantee** that covers the full 2014-20 programme period and new spending commitments up to 2020. Refer to page 85 of the Accountability Report for details of the guaranteed funding.
- We escalated our preparations for a no deal scenario in line with the Cabinet's direction, working closely with other government departments.

Maintaining MHCLG as a great place to work

- Our **People Survey engagement score** has improved by three points to 66% putting us in the top performing group across the civil service for the first time. Our score of 81% for **inclusion and fair treatment** places us as the top performer across Whitehall.
- Our gender pay gap has improved since 2017.
- We have been awarded a **Gold rating** in the 'Mind Wellbeing at Work Index' reflecting that the department has embedded mental health into its policies and practices.

2. Performance Analysis

Overview

This section sets out the department's performance against the six operational strategic objectives as set out in the Single Departmental Plan for 2018-19. An update on our corporate objective, strategic objective seven, is included in "Our People" on page 56 of the Accountability Report.

1. Deliver the homes the country needs

We set out our strategy for increasing housing supply in the Housing White Paper in February 2017: planning for the right homes in the right places, building homes faster and diversifying the market. At Autumn Budget 2017, we announced £44 billion of financial support over the next five years, to 2022-2023, to boost housing delivery and use funds flexibly to unblock the barriers to more housebuilding.

Our increased ambition means we have to think about delivery on a different scale, better linking together how we create, fund and drive a market which will deliver 300,000 homes a year in a sustainable way. We are transforming the way we work with Homes England, the department's delivery arm, to ensure we have the right structures and capability to succeed.

What we achieved in 2018-19:

Housing Supply

- Awarded **£1.1 billion** of the **Home Building Fund** which is expected to unlock over 47,000 homes, by supporting key marginal sectors such as small and medium-sized enterprise developers.
- Announced **£4 billion of guarantees** of which the £3 billion **Affordable Homes Guarantee Scheme** will support the delivery of up to 30,000 new affordable homes across England, and a further £1 billion for small and medium enterprise housebuilders in the private sector through the **ENABLE Build Guarantee Scheme**.
- Announced the **Local Authority Accelerated Construction Programme**, through which we will release up to £450 million to speed up delivery of local authority housing schemes and the use of innovative construction methods. We have allocated **£14 million** of this to date, to support four sites.
- Allocated **£9 million** to help new garden towns and villages prepare for development as part of the **Garden Communities** project which is expected to deliver 200,000 homes by 2050.
- Increased the total envelope for the **Help to Buy: Equity Loan scheme by £7.2 billion**, helping a further 110,000 households to get on the property ladder, and published an independent evaluation which attributed 14.5% of new build homes delivered between 2015 and 2017 to the scheme.
- In the Spring Statement, **responded to Sir Oliver Letwin's recommendation** that greater differentiation in the types and tenures of housing delivered on large sites would increase build out rates, by committing to publish **additional planning guidance on housing diversification**, helping to create the homes that the country needs.

Infrastructure

- Awarded **£717 million** of the **Housing Infrastructure Fund** to local authorities to deliver much needed infrastructure in Old Oak North, Cheshire East, Northern Fringe East and Didcot Garden Town, unlocking over 36,000 new homes. Also awarded £320 million to deliver at least 7,500 homes at Brent Cross Cricklewood.
- Made final decisions on **Marginal Viability Funding projects**, with up to **£785 million** being allocated to unlock up to 140,000 homes.
- Launched the **£630 million Small Sites Fund** to help public land owners or local authorities speed up getting the right infrastructure in place to support stalled small sites.

Land

- Launched the **£1.3 billion Land Assembly Fund** to acquire land needing work, making it less risky for developers to invest in.
- Managed the **£45 million Land Release Fund** to help release surplus local authority owned land for around 7,000 homes by 2020, with 47 of 79 projects having already commenced.

Figure 1

Our performance: Net additional dwellings per annum

Annual housing supply in England amounted to 222,190 net additional dwellings in 2017-18, up 2% on 2016-17. This resulted from 195,290 new build homes, 29,720 gains from change of use between non-domestic and residential, 4,550 from conversions between houses and flats and 680 other gains (caravans, house boats etc.), offset by 8,050 demolitions.

Year	Net additional dwellings
2017-18	222,190
2016-17	217,350
2015-16	189,650
2014-15	170,690

Source: Housing Supply: Net Additional Dwellings ; release schedule: annually in November.

Figure 2

Our performance: Gross supply of affordable housing completions

There were 47,355 affordable homes delivered in England in 2017-18, an increase of 14% compared to 2016-17. Since 2013-14, affordable rent has become the most common tenure type for affordable homes delivery. In 2017-18, there were 26,838 new affordable rent homes, representing 57% of all new affordable homes.

Year	Gross supply of affordable housing completions
2017-18	47,355
2016-17	41,530
2015-16	32,630
2014-15	66,700

Source: Affordable housing supply data; release schedule: annually in November.

2. Make the vision of a place you call home a reality

As well as working to improve housing supply, we are taking steps to implement policies that will help the most vulnerable people in our society. We have published our vision for ending rough sleeping by 2027 and introduced the Homelessness Reduction Act to ensure that more people are provided with the support they need sooner.

We are also improving people's access to, and experience of, the housing market, by helping more people to buy a home and creating fairer markets for consumers whether they are renting or trying to buy.

What we achieved in 2018-19:

Helping vulnerable people

- Introduced the **Homelessness Reduction Act**, the most ambitious legal reform in decades which places new duties on councils to prevent and relieve homelessness, ensuring more people are provided with the support they need sooner.
- Published the **Rough Sleeping Strategy and Delivery Plan** which set out the government's vision for halving rough sleeping by 2022 and ending it by 2027. During initial implementation, we have seen a **2% decrease** in rough sleeping numbers overall and a **19% reduction** in Rough Sleeping Initiative areas.[2]
- Allocated £30 million to **Rough Sleeping Initiative** areas to boost immediate support to help those living on the streets into accommodation and provided over 1,750 new bed spaces and over 500 dedicated homelessness workers.
- Announced 42 early adopters that will receive **Rapid Rehousing Pathway** funding to ensure people at risk are helped rapidly into a settled home and offered continuing support.

Access and experience

- Published the **Social Housing Green Paper: a 'new deal' for social housing** which sets ambitions for a new, fairer deal for social housing residents, making it easier for residents to progress into home ownership, following engagement with over 8,000 stakeholders.
- Launched the **Voluntary Right to Buy pilot** which is giving thousands of social housing association tenants in the Midlands the opportunity to buy their homes, and to have a place they can call their own.
- Lifted the **Housing Revenue Account** borrowing cap to enable councils to build more new council housing, building around 10,000 new homes a year by 2021-22.
- Published plans to **regulate and professionalise property agents** and set up a **working group** of experts chaired by Lord Best to make recommendations to better support homebuyers, sellers, landlords, leaseholders and tenants.
- Consulted on **Reforms to the Leasehold Market**, which tackle unfair practices by looking to introduce legislation to largely prohibit new residential long leases on houses and restrict ground rents.
- Enacted the **Tenant Fees Act** which banned lettings fees paid by tenants and capped tenancy deposits to reduce the costs, rebalancing the relationship between tenants and landlords to deliver a fairer, more affordable private rented sector.
- Empowered tenants to hold their landlords to account if they fail to keep their property fit for human habitation through the **Homes (Fitness for Human Habitation) Act**.

2 Data Source: Rough Sleeping Statistics, Autumn 2018, England

Figure 3

Our performance: Rough sleeping count for England

The total number of people counted or estimated to be sleeping rough on a single night was 4,677. This was down by 74 people or 2% from the 2017 total of 4,751. This is a single night snapshot and is taken annually in England using street counts, evidence-based estimates, and estimates informed by spotlight street counts.

Year	Number of rough sleepers	% change from previous year
2018	4,677	-2
2017	4,751	+15
2016	4,134	+16
2015	3,569	-

Data Source: Rough Sleeping Statistics, Autumn 2018, England release schedule: annually in February

3. Deliver a sustainable future for local government, strengthening its connection with the communities it serves

The department has responsibility for maintaining an overview of the financial sustainability of the local authority sector, to support individual authorities. We have worked to progress reforms to the finance system which, when fully implemented, will ensure the allocation of funding is fairer and gives local authorities more control over the money they raise. We are committed to helping local authorities become more sustainable and efficient by promoting the use of best practice across the sector. We also hold a responsibility to deliver and manage interventions to improve failing councils.

What we achieved in 2018-19:

- Commenced a review of **local authorities' relative needs and resources**, in advance of the 2020-21 Local Government Finance Settlement. This included completing a consultation on relative needs, resources and potential transitional arrangements, exploring options to develop a more simple and up-to-date funding formula for local authorities.
- Completed a series of **Business Rates Retention** pilots and consultation on proposals for reform of the Business Rates Retention system as part of the department's commitment to give local government more control of the money it raises locally.
- Secured an increase for local government through the **Local Government Finance Settlement** from £45.1 billion in 2018-19 to £46.4 billion in 2019-20, which includes an additional **£650 million secured through the Autumn Budget**.
- **Concluded interventions** in Tower Hamlets Council and Rotherham Metropolitan Borough Council and stepped down the Improvement Panel working with Birmingham City Council following demonstrable improvements by all three authorities. The department also took steps to ensure that Northamptonshire County Council **continued its path to financial sustainability** by appointing Commissioners to work with the council.
- Supported **two new unitary councils** in Dorset and **three merged district councils** in East Suffolk, West Suffolk and Somerset West and Taunton, ensuring local services are delivered in the most efficient and effective ways. In addition, the department announced the intention to implement a proposal to create a single **new unitary council in Buckinghamshire**, and continued to support consideration of a proposal for **unitarisation in Northamptonshire**.
- Set up the **Local Digital Collaboration Unit** to help local authorities deliver digital efficiencies through collective action and **funded 16 collaborative projects** that will build capacity and secure better value from the digital sector.

4. Create socially and economically stronger and more confident communities

Communities are at the core of our work, and the department is working to address inequality, increase social cohesion, and boost productivity in all parts of the country.

By implementing policies which support integration and social cohesion, we will bring together people and communities and tackle the inequalities revealed by the Prime Minister's Race Disparity Audit. Continued working with the Department for Business, Energy & Industrial Strategy (BEIS) will help to deliver inclusive growth for all our communities, implement policies and deliver funding to boost productivity in local economies across the country, and make sure local areas are ready to take advantage of opportunities presented by our exit from the EU. We supported local authorities to deliver joined-up services, and continue to work to improve local resilience to support communities in the event of emergencies across the country.

Figure 4

Our performance: Troubled Families Programme

Families engaged in the Troubled Families Programme

380,426

by December 2018

Source: Third annual report of the Troubled Families Programme 2018-19

What we achieved in 2018-19:

Building integrated communities

- Responded to the **Integrated Communities Strategy Green Paper** consultation, publishing the **Integrated Communities Action Plan** setting out next steps to build communities where people, whatever their background, can live, work, learn and socialise together, and allocated £50 million of funding to progress the actions. Established the **Integration Area programme**, bringing together local partners in five areas to address challenges and develop local solutions, with Walsall and Blackburn with Darwen having launched their strategies.
- Worked with Rt Hon Lord Pickles and Rt Hon Ed Balls as co-chairs of the **UK Holocaust Memorial Foundation Advisory Board** and submitted the planning application for the **UK Holocaust Memorial and Learning Centre** to establish a monument which will be a place of reflection and education, acting as a commitment for all of us to stand up whenever our shared values are threatened.

Delivering better public services that respond to community needs

- Supported local areas to work with over 380,426 families (as of December 2018) with multiple and complex problems as part of the **Troubled Families programme**, with 171,890 families achieving significant and sustained progress at March 2019.
- Published a refreshed **Hate Crime Action Plan** with the Home Office, to protect victims and promote shared values, including a review of legislation, extra funding to support communities and improving the response to incidents.
- Supported 4,407 refugees (as of December 2018) affected by the crisis in Syria to find safety in the UK through the **Vulnerable Persons Resettlement Scheme** and enabled 688 vulnerable children and their families from the Middle

East and North Africa (as of December 2018) to start their new life in the UK through the **Vulnerable Children's Resettlement Scheme**.

- Provided £9.5 million of funding for community-backed projects in 21 areas to help families who are vulnerable to knife crime and gang culture as part of **Supporting Families Against Youth Crime Fund** and provided funding to training frontline workers to support families affected.

Delivering local growth strategies

- Worked with other government departments and key local stakeholders to develop ambitious policy proposals that will drive economic growth and prosperity in the North as part of the refresh the **Northern Powerhouse Strategy** in 2019.
- Reaffirmed the importance of the Midlands Engine by committing to refreshing the **Midlands Engine Strategy** in 2019, helping to establish the Midlands Engine Economic Observatory to deliver economic analysis and helping to launch the Midlands Engine communications campaign.
- Published progress statements on development of **Local Industrial Strategies** in the West Midlands and Greater Manchester and worked intensively with the Local Enterprise Partnerships (LEPs) in the Oxford-Cambridge Arc to help them finalise their Local Industrial Strategies.
- Channelled £1.025 billion of **Local Growth Funding** to LEPs in 2018-19 to support local economic growth priorities from their Strategic Economic Plan, boosting productivity.
- Published the Government response to the **Thames Estuary** 2050 Growth Commission which set out our ambition for the Thames Estuary, recognising it as a major growth area.
- Announced in the Spring Statement the publication of a **vision statement on the Oxford-Cambridge Arc** which will ensure coordinated leadership and decision making to facilitate economic growth and investment in the area and enable the building of one million high quality homes by 2050.
- Awarded £36 million as part of the **Coastal Communities Programme** to help develop and improve tourist attractions, create jobs and promote socio-economic growth, collectively supporting over 15,000 jobs, and attracting up to £40 million in additional investment.
- Supported the **first mayoral elections in Sheffield City Region**, established the **North of Tyne mayoral combined authority** and confirmed the North of Tyne devolution deal which is expected to generate £1.1 billion for the local economy and 10,000 new jobs over 30 years.
- Supported the Territorial Offices to help make significant progress on a number of devolution deals, including announcing funding for new deals in **North Wales (£120 million)**, **Belfast (£350 million)** and **£260 million for the innovative Borderlands Growth Deal**, which includes £65 million new funding from the UK Government for the Scottish areas of the deal, and will enable economic growth and increased productivity in the border regions of England and Scotland.

Investing in our communities

- We worked with stakeholders across government to agree principles for the **UK Shared Prosperity Fund (UKSPF)**, including how the fund will support growth in local economies and invest in our communities.
- Contracted £1.804 billion of **European Regional Development Funding** to projects across a range of growth priorities including research and innovation, low carbon economy and small and medium-sized enterprise (SME) support.
- Launched the fourth annual **Great British High Streets Awards** which had a record-breaking 240 entries, celebrating the great work that is being done to revive, adapt and diversify the nation's high streets. This year, the award for Best UK High Street was won by Crickhowell in Wales.

- Launched £675 million **Future High Streets Funding** to support local areas' plans to make their high streets and town centres fit for the future. The Fund also supports the regeneration of heritage high streets through the Department for Digital, Culture, Media and Sport (DCMS).

5. Secure effective support for those affected by the Grenfell Tower disaster, delivering the changes this tragedy demands and ensuring people are safe and feel safe within their homes

Our highest priority is to ensure those directly affected have the support they need, now and in the years to come.

The Independent Grenfell Recovery Taskforce continues in their work to support and challenge the council, and provide assurance to the Secretary of State on the council's response to the Grenfell tragedy. The Taskforce's third report was published on 18 December 2018.

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

We have made significant progress in the social sector of identifying and remediating buildings with unsafe ACM cladding, but continue to face the challenge of matching this progress in the private sector.

What we achieved in 2018-19:

Support for those affected

- **Committed £55 million** to support recovery following the Grenfell Tower fire, in addition to the £46 million of government funding that has already been spent. This critical funding has been used to support rehousing costs, new mental health services, investment in the Lancaster West Estate, and a new community space.
- Continued to **lead the cross-government response** through the Ministerial Recovery Group, chaired by our Secretary of State.
- Announced that the government would be taking on responsibility for the **Grenfell Tower site**, making operational decisions, such as on the site's safety and security, until the until the community has determined the long term future of the site.
- Continued to co-operate fully with the **Grenfell Tower Inquiry** including submitting position statements, information, and comments on the interim recommendations of the Grenfell Tower Inquiry.

Ensure residents are and feel safe from fire

- Continued with the **remediation of buildings** with unsafe ACM cladding systems. As of 31 March 2019, remediation had started or been completed on 135 (85%) of the 158 social sector buildings, with commitments in place to remediate the remaining 23. Of the 267 privately-owned buildings, there are plans to remediate 220 (82%) buildings with unsafe ACM cladding systems, with 47 private buildings having made no commitment to remediate to date.
- Announced **financial support for local authorities** to carry out emergency remedial work where private building owners refuse to remediate high-rise buildings with unsafe cladding.
- Strengthened the **Housing Health and Safety Rating System** (HHSRS) to provide specific guidance on the assessment of residential high-rise buildings with unsafe cladding.

- Published the **implementation plan** in response to the recommendations of the Independent Review of Building Regulations and Fire Safety, committing the government to a programme of reform that allows us to make sure that people are safe and feel safe in their homes.
- Continued to make progress with system changes ahead of legislation by establishing a **Joint Regulators Group** to provide coordinated regulatory leadership and begin preparations for a transition to a new regulatory regime. We are launching calls for evidence to both inform a full technical review of the building regulations fire safety guidance, and to invite views on how residents are supported to meet their responsibilities to keep their homes and buildings safe.

6. Support a Smooth Exit from the European Union

To provide assurance and stability in funding to UK communities and organisations in the event of any EU Exit scenario, we have secured an HMG guarantee for the European Regional Development Fund that covers the full 2014-20 programme period and new spending commitments up to 2020.

MHCLG has worked closely with other departments that manage policies with an impact on local government to ensure that councils are aware of any changes they need to make, new costs are funded, there is capacity funding to support planning, resources and guidance are available, engagement is targeted in areas of particular concern and local authorities' voices are heard.

The level of local authority awareness for EU exit preparations has increased due to our engagement work with other departments which includes themed and regional events, our landing page on gov.uk, the Secretary of State chaired Delivery Board, and advisory groups of Chief Executives to develop and test policy development. We have also established a network of nine regional Chief Executives to report intelligence from individual local authorities and disseminate prompt and accurate information to local authorities.

We have provided over **£58 million of funding** to councils in England to help them prepare for EU Exit, including additional funding for areas with strategic ports and to strengthen preparations and support communities in all areas and have worked across Whitehall to understand the implications that leaving the EU has for delivering our strategic objectives both in the short and longer term.

We escalated our preparations for a no deal scenario in line with direction from the Cabinet for an exit at the end of March 2019. We worked closely with other government departments to support no deal preparations, co-ordinated by the Cabinet Office, to ensure an effective response. We developed a detailed understanding of the implications this scenario would have, particularly on the government's resilience and response unit, which is part of MHCLG, as well as other policy areas such as local growth, local government and housing. Preparations remain in place in the event that a no deal scenario materialises in 2019-20.

Challenges facing the department

The department has faced some substantial challenges this year, as well as achieving significant progress in many areas.

Net additions to **housing stock** are continuing to grow, but not yet at the pace required to ease affordability pressures. The department has announced a series of reforms, including a new National Planning Policy Framework, and secured significant new funding to drive the step change in delivery that is required. However, it remains very challenging to build capacity and capability across the sector, so we can drive a market that will deliver 300,000 homes a year.

The department successfully secured an increase in total core spending power for local government through the Local Government Finance Settlement in 2019-20, reflecting the pressures Councils face in meeting growing demand for services and rewarding their impressive efforts to drive efficiencies and help rebuild our economy. Work is well underway to put together a compelling case for Local Government at the Spending Review later this year.

The department is continuing the post-implementation review of the work instigated by Andrew Hudson in relation to governance and processes in the **Local Government Finance Directorate**. Further information is provided on page 41 of the Accountability Report.

Following the tragedy at **Grenfell Tower**, the department has mobilised a new building safety programme, identified residential buildings at risk and ensured interim safety measures are in place. However, the nature of testing and remediation works is a lengthy process. We have made significant progress in the social sector of identifying and remediating buildings with unsafe ACM cladding but we continue to face the challenge of matching this progress in the private sector. Further detail on private sector remediation is provided on page 37 of the Accountability Report. We must continue to both monitor and remain responsive to any events relating to building safety.

This year, we have maintained the delivery of our ambitious domestic agenda and legislative programme to support an effective **EU Exit.**

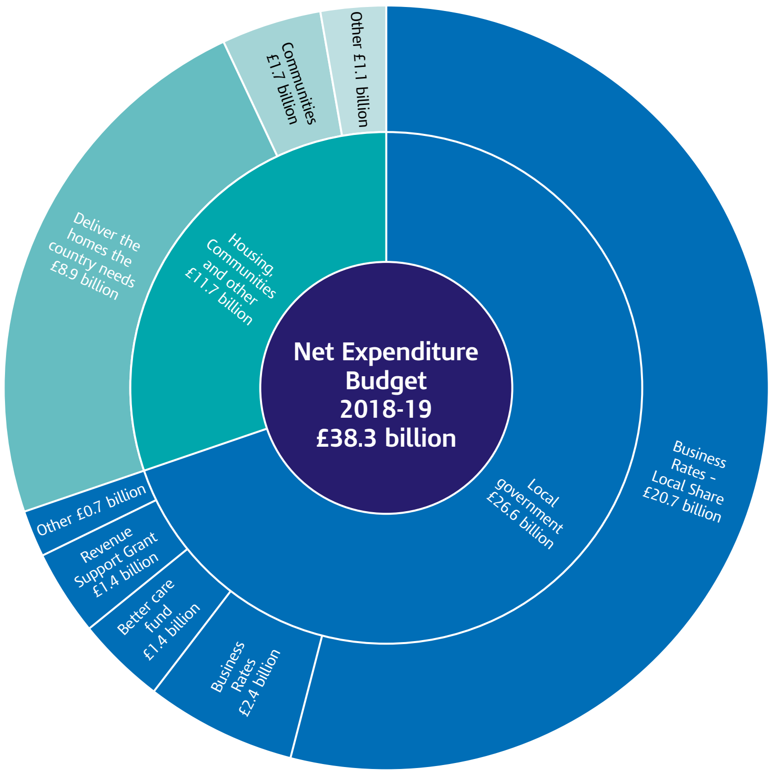
Our Expenditure and Financial Position

Group Budget 2018-19

The diagram below represents the 2018-19 Departmental Group budget. This section sets out our budget for 2018-19; actual expenditure comparted to budget can be found on page 68.

Our **total net expenditure budget of £38.3 billion**[3] is shown in the centre of the diagram. This is then split between two segments; local government (£26.6 billion: £28.5 billion expenditure offset by £1.9 billion income) and our other strategic objectives as shown on page 7 (£11.7 billion: £13.0 billion expenditure offset by £1.3 billion income). The outer circle shows the main components of spend within each segment. This diagram includes AME budgets attributed to each strategic area.

Figure 5: Net Expenditure Budget 2018-19



Local Government: Local government funding is provided to local authorities and the majority can be spent on any service.[4] The outer circle splits our local government budget into further detail:

- the local share of business rates retained by local authorities to spend locally (£20.7 billion);
- the business rates spent centrally (£2.4 billion);
- the Better Care Fund (£1.4 billion);
- the Revenue Support Grant (£1.4 billion); and
- other smaller grants (£0.7 billion).

Other grants (£0.7 billion) includes the Adult Social Care Fund, Independent Living Fund and various other grants which are all administered by MHCLG.

3 Supplementary Estimates 2018-19
4 Local share, Revenue Support Grant, business rates relief, top-ups and in year and outturn payments can be spent on any service.

Housing, communities and other: The housing and communities budget is used to fund the department's programmes and, in the diagram, has been split by strategic objective. The majority of this spend relates to our objectives to deliver the homes the country needs (£8.9 billion) and to create socially and economically stronger and more confident communities (£1.7 billion). Other housing and communities spend (£1.1 billion) includes our strategic objectives to make the vision of a place you call home a reality (£0.4 billion); deliver a sustainable future for local government (£0.02 billion); secure effective support for those affected by the Grenfell Tower disaster, deliver the changes this tragedy demands and ensure people are safe and feel safe within their home (£0.05 billion Grenfell recovery and £0.25 billion building safety programme); and our running costs (£0.4 billion). The strategic objectives for maintaining MHCLG as a great place to work and supporting a smooth exit from the EU do not have a specific budget allocated to them. They are included across the areas above.

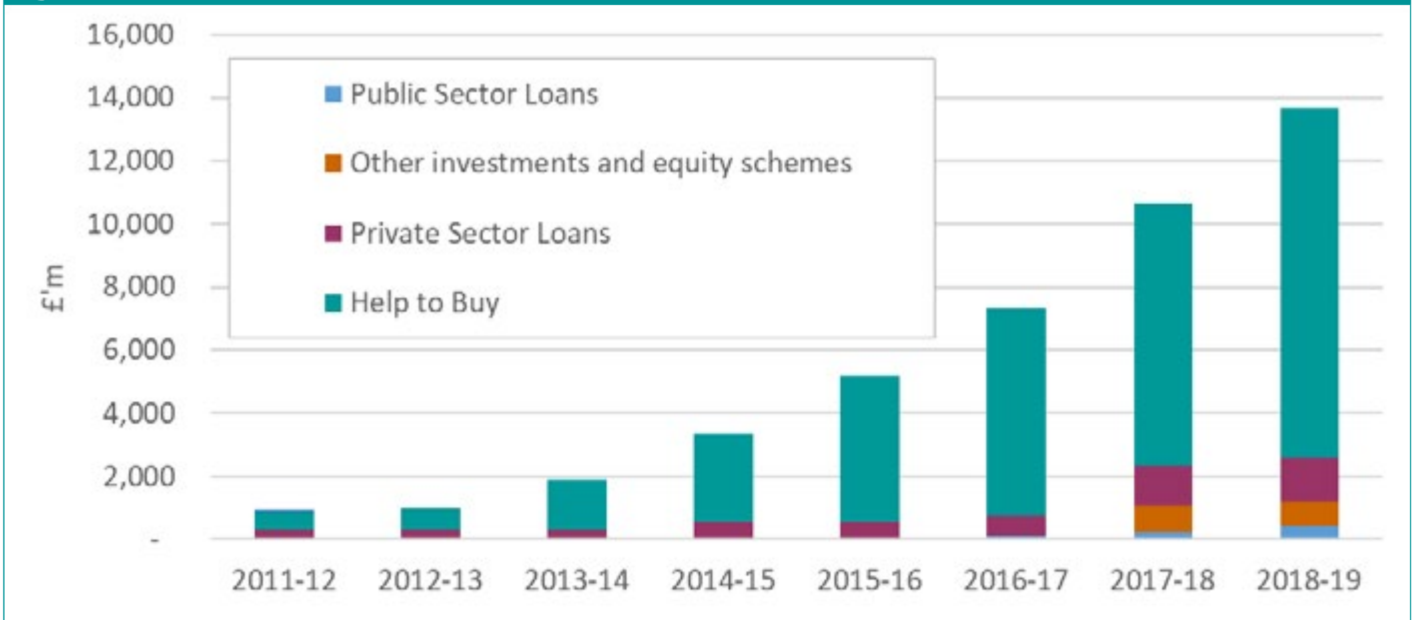
Running costs include administration expenditure and expenditure related to movements in pension scheme liabilities and additions and impairments of capital assets used to run the department. We earn £0.07 billion income to offset our internal costs. Further detail on the department's budgets can be found in the Parliamentary Accountability and Audit Report from page 65.

Group Loans, Investments and Returns

In order to achieve its objectives more efficiently, the department has increasingly made investments or given loans instead of grants, sometimes from its own balance sheet and sometimes by guaranteeing loans made from other entities. All loans are due to be repaid in full with an appropriate rate of interest. However, as with any investment product, there is a risk of loss and provisions are recorded as required.

Most of the department's loans have maturities of less than 10 years, but finance extended under the Help to Buy scheme has, typically, a 25 year limit, and finance extended under the guarantee programmes may have maturities up to 30 years.

Figure 6: MHCLG Financial Assets

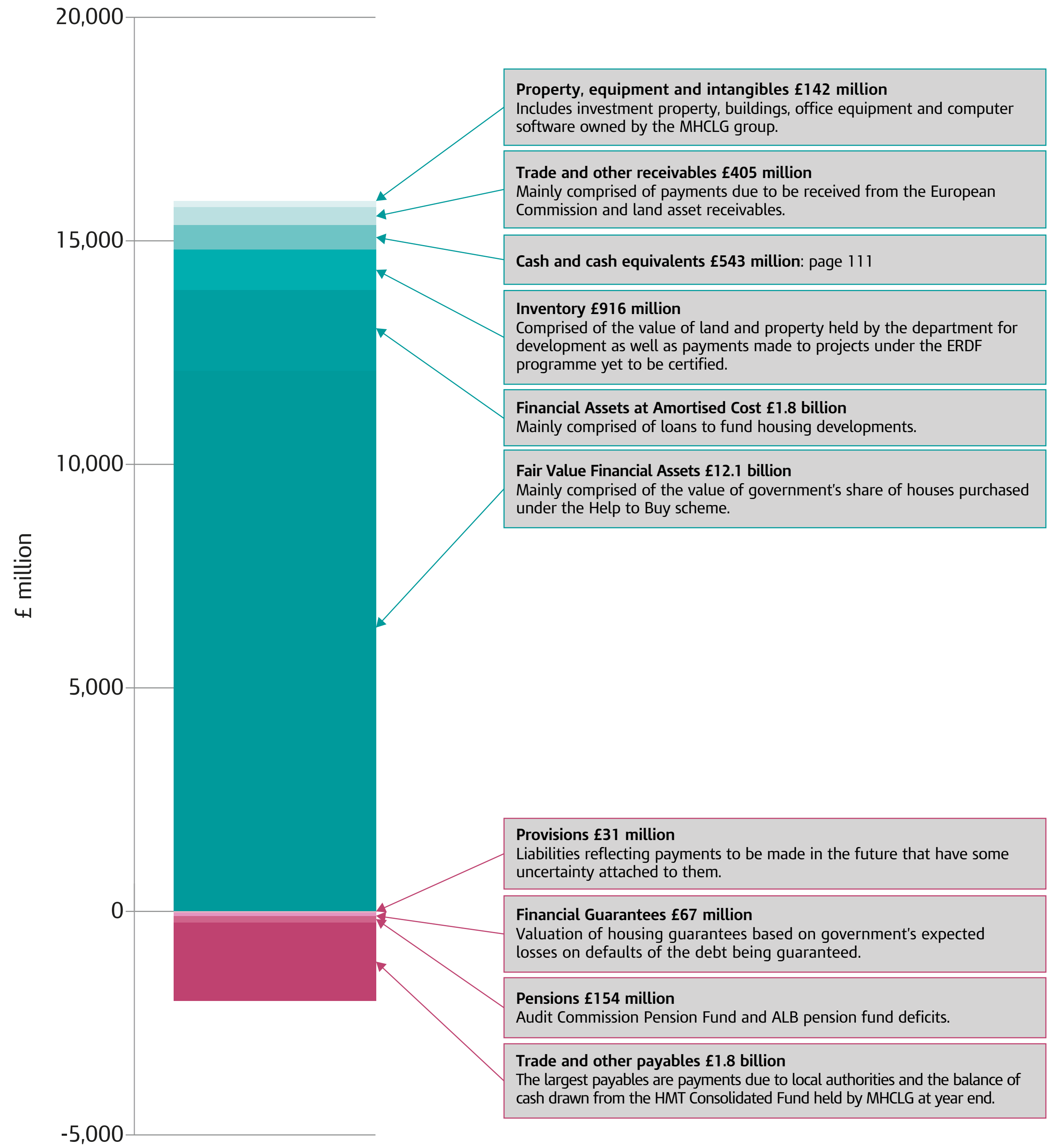


Source: Annual Report and Accounts

Group Financial Position

The department's Statement of Financial Position as at 31 March 2019 (page 91) shows the size of our asset base which is predominantly made up of the department's investment in the Help to Buy scheme. The Governance Statement describes how the department manages the financial and credit risk of its portfolio of financial instruments.

Figure 7: Department's Statement of Financial Position 31 March 2019



Source: Annual Report and Accounts

Managing our key risks

MHCLG faces a range of risks stemming from its diverse responsibilities for housing, local government, communities and growth, as well as its role as a central government department and employer. The risks we face are varied in nature and severity and are sometimes determined by unpredictable external events such as changes in the UK economy, or by external forces over which the department may have some influence but no control.

The department must ensure its budgets are allocated appropriately in order to meet its objectives and must act to ensure value for money and to deliver on its duty of care to staff and others, while mitigating these risks.

Over the course of the year, the Executive Team and the Ministerial Board have actively considered such risks and have implemented a new Risk Management Framework to support effective decision making, mitigate against financial loss and to minimise disruption to the delivery of its programmes. The Governance Statement provides further details of these arrangements from page 43.

Figure 8: MHCLG's risk management framework

Risk Area		
Strategic	**Financial**	**Operational**
Risk Appetite		
Significant, but difficult to quantify	Significant, but quantifiable and limitable	Minimal to zero, insofar as it is cost-effective to drive it out
Risk Owners		
Executive Team and senior leadership team	Financial programme managers, working under delegated limits	All the department's people, working under agreed processes and procedures
The key risks to MHCLG		
Capability: we need the right staff, skills and knowledge to deliver our priorities Complexity and interconnectedness of our sectors Emerging dangers: from short-term economic trends to long-term climate change	Credit risk on the department's loans Financial exposure to the housing market from the Help to Buy scheme	Threats from "bad actors" Data loss and other security threats Internal errors or misconduct Fraud

Sustainability Report

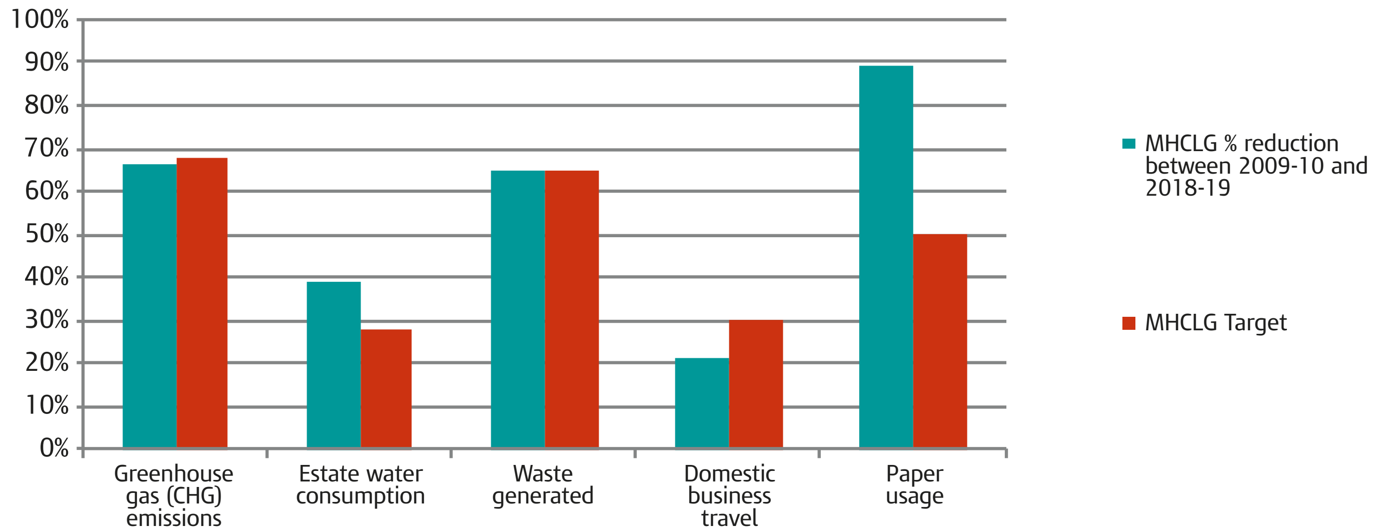
Sustainability recognises that the three 'pillars' of the economy, society and the environment are interconnected. It is a long-term, integrated approach to achieving quality of life improvements, while respecting the need to live within environmental limits.

We subscribe to a number of targets including the mandatory Greening Government Commitments (GGC)[5] for reducing energy, water, paper and other resource use, reducing travel and managing waste.

Non-financial data presented in this report is for a 12 month period from January to December. Financial data is for the 12 month period to March. The department reports on its executive agency and arm's length bodies which are set out in Note 26. Non-financial information will include the Queen Elizabeth II Conference Centre.

The data in the chart below shows our present position on our Greening Government Commitments against a 2009-10 baseline.

Figure 9: Greening Government Performance



At December 2018, the department was on track to meet its new greenhouse gas emission target of 68% in the financial year overall (year to March 2019) and had met or exceeded the GGC targets for water, waste arising, recycling, landfill and paper use, as well as reducing associated financial costs. Although a reduction of 21% in domestic air travel has been achieved, this fell short of the 30% target.

At our London offices, 2 Marsham Street:

- Bottled water in both catering outlets and vending machines has been removed;
- Bottled water used for hospitality has been replaced with re-fillable carafes;
- Plastic milk bottles have been replaced with 14 litre containers in catering services;
- Milk for hospitality is provided in reusable jugs;
- Enveloped teabags have been removed; and
- A price reduction scheme is in operation for customers using their own reusable cup.

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

Greenhouse Gas Emissions

The department has continued to reduce its total in-scope gross greenhouse gas emissions throughout 2018-19, achieving a total reduction of 66% since the 2009-10 baseline year. This has been achieved largely through improved building management (primarily relating to heating and cooling), estate rationalisation and co-location, and adopting more resource efficient behaviours.

Figure 10: Greenhouse Gas Emissions

Greenhouse Gas Emissions[6]			2014-15	2015-16	2016-17	2017-18*	2018-19
Non-Financial Indicators (tonnes CO_2e)	Total Gross Scope 1 (Direct) GHG emissions		1,386	1,628	1,538	1,617	1,686
	Total Gross Scope 2 (Energy indirect) emissions		7,186	5,835	5,296	5,155	4,561
	Total Gross Scope 3 (Official business travel) emissions		2,234	1,647	1,743	1,569	1,672
	Total Emissions – Scope 1, 2 & 3		**10,806**	**9,110**	**8,577**	**8,341**	**7,919**
Related Energy Consumption (MWh)	Electricity: Non-Renewable		822	0	0	0	0
	Electricity: Renewable		13,718	12,624	12,854	14,663	15,324
	Gas		7,494	7,105	6,755	7,266	7,805
	Total Energy Consumption		**22,034**	**19,729**	**19,609**	**21,929**	**23,129**
Financial Indicators (£'000)	Expenditure on Energy		1,603	1,238	1,210	1,104	1,058
	CRC Licence Expenditure		179[7]	197	78	47	40
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Fund)		0	0	0	0	0
	Expenditure on official business travel		4,192	2,712	3,829	1,511[8]	1,996
	Expenditure on domestic air travel		35	21	31	22	29
International Business Travel			**2014-15**	**2015-16**	**2016-17**	**2017-18***	**2018-19**
Non-Financial Indicators (tonnes CO_2e)	Flights		26	51	24	74	45
	Rail		1	1	1	<1	<1
	Total		**27**	**52**	**25**	**75**	**45**
Waste			**2014-15**	**2015-16**	**2016-17**	**2017-18***	**2018-19**
Non-Financial Indicators (tonnes CO_2e)	**Total waste**		**728**	**732**	**470**	**520**	**710**
	Hazardous waste		1	3	0	0	0
	Non-hazardous waste	Landfill	145	145	149	43	40
		Reused/Recycled	434	500	500	336	570
	Incinerated/energy from waste		148	84	131	141	100
	Reams of Paper Procured		26,052	14,745	11,586	9,049	9,693
Financial Indicators (£'000)	**Cost of disposal**		**111**	**75**	**86**	**66**	**123**
	Non-hazardous waste	Landfill	nk	nk	nk	nk	nk
		Reused/Recycled	nk	nk	nk	nk	nk
	Paper Procured		75	47	14	12	42
Water Consumption			**2014-15**	**2015-16**	**2016-17**	**2017-18***	**2018-19**
Non-Financial Indicators (m^3)	Water Consumption	Office Estate	41,687	19,143	31,592	30,735	36,058
		Whole Estate	71,340	47,990	51,318	55,228	60,553
Financial Indicators (£'000)	Water Supply & Sewage Costs		106	82	78	53	20

*2017-18 non-financial indicators have been restated to include actual environmental performance for the financial year. 2018-19 figures are the latest available (December 2018).

6 In line with DEFRA guidance, the department's greenhouse gas emissions data is not weather corrected.
7 The increase in expenditure relates to Homes England (trading name of the Homes & Communities Agency) participating in the department's CRC return.
8 Figures based on core department only.

Other Sustainability Commitments

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

Sustainable Procurement

Procurement staff are provided with annual training on sustainable procurement. Identified procurement champions are offered a more advanced annual training to provide a robust layer of sustainable coverage. Sustainability clauses are embedded within the department's general terms and conditions and is in the process of being defined around a 'whole - life' contractual analysis. New contracts require that suppliers meet the Government Buying Standards (GBS).

Procurement of Food and Catering

Food provided in catering outlets is local and in season, where possible. The department buys food from farming systems that minimise harm to the environment, such as produce certified by LEAF, the Soil Association or Marine Stewardship Council. Fairly traded and ethically sourced products are also available. The amount of foods of animal origin eaten is being reduced, as livestock farming is one of the most significant contributors to climate change, and caterers ensure that meat, dairy products and eggs purchased are produced to high environmental and animal welfare standards. The amount of palm oil used is also being reduced.

Sustainable Construction

The department is committed to achieving the Building Research Establishment Environmental Assessment Method (BREEAM) excellent/very good standard for new builds or major refurbishment in line with the Government Buying Standards. However, there were no such projects carried out in 2018-19.

Small and Medium Sized Enterprises (SMEs)

The Group reported that 26.3% of its total spend was made to SMEs during the 2018-19 financial year. This figure includes both direct and indirect spend. Based on the trend over the previous two financial years, the Group has set a target for an increase of 0.5% in SME spend each year, until the financial year 2021-22.

Biodiversity and Natural Environment

The department's estate comprises mainly of buildings with little outside space and limited opportunity to enhance the natural environment.

Sustainable Development

Sustainable development remains integral to policy work in the department, notably in planning policy and economic growth activities. The National Planning Policy Framework (NPPF) sets out the government's view of what sustainable development means for the planning system.

Rural Proofing

The Department for Environment, Food & Rural Affairs' (DEFRA) rural proofing impact assessment is an integral part of the department's approach to developing regulation.

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

In 2016, MHCLG published jointly with DEFRA a Call for Evidence for the Rural Planning Review, which sought evidence on how the planning system is operating in rural areas and invited ideas about how the planning system could be improved to support sustainable rural life and businesses. In responding to the review and addressing key messages that emerged, MHCLG set out a further set of consultation questions as part of the *Housing White Paper: Fixing our broken housing market* and following this, published the revised National Planning Policy Framework (NPPF) in July 2018.

Following on from the White Paper, the revised NPPF makes it clear that planning policies should identify opportunities for villages to grow and thrive, especially where this will support local services. The framework has also made it clear by stating that in rural areas, planning policies and decisions should be responsive to local circumstances and support housing developments that reflect local needs.

To highlight the importance of rural exception sites, the NPPF states that local planning authorities should support opportunities to bring forward rural exception sites that will provide affordable housing to meet identified local needs, and consider whether allowing some market housing on these sites would help to facilitate this.

Climate Change Adaptation

The department is supporting work to underpin the third Climate Change Risk Assessment (CCRA3), due in 2021, which will help inform what the priorities should be for the next National Adaptation Programme, helping to make the UK more resilient to the effects of climate change. The department regularly participates in the Local Adaptation Advisory Panel (LAAP), for which DEFRA provides the secretariat. This forum provides Government with a perspective of how local authorities and their partners are adapting to climate change issues. We expect local planning authorities to appreciate the full possibilities offered by the recently published UK Climate Predictions (UKCP18) as they review and update their plans.

The department continues to ensure that policies with long term implications are robust in the face of changing weather, extreme events and sea-level rise from climate change. Tackling climate change is at the centre of what government expects from the planning system. As well as contributing to the reduction of emissions, this also means designing and shaping places that are resilient to, and appropriate for, current and future climate change impacts.

The department is working closely with DEFRA on the Environment Bill, which will fulfil the government's promise to ensure that this generation is the first to leave the environment in a better state than we found it. Safeguarding and improving the environment will help to mitigate the impacts of a changing climate, reduce pollution and foster adaptation.

Climate resilient designs are incorporated in retrofit projects and new builds. In addition, robust business continuity plans are in place to manage occurrences of extreme weather events.

Other Required Reporting

The department is required to report against various other topics in its Annual Report and Accounts as per the requirements set out in PES (2018) 13:

- Section 70 of the Charities Act 2006 sets out a power for Ministers to give financial assistance to charitable, benevolent or philanthropic institutions and requires that payments made under this power are reported. The table at Annex A sets out the financial assistance provided by the Secretary of State under this power for the year 2018-19, totalling £16.491 million (2017-18: £19.049 million).
- No complaints against the department were accepted for investigation by the Parliamentary Ombudsman during the period 1 April 2018 to 31 March 2019.
- In 2018-19 the department processed 20,203 pieces of treat official correspondence from members of the public, of these, 66% of letters requiring a response were replied to within our target of fifteen working days.

Melanie Dawes CB **8 July 2019**
Accounting Officer
Ministry of Housing, Communities and Local Government

Accountability Report

Introduction

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

Corporate Governance Report

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

The Directors' Report – page 30
Details the members of the ministerial, non-executive and executive team who form the Departmental Board.

Statement of Accounting Officer's Responsibilities – page 34
Explains the responsibilities of the Permanent Secretary as the department's Accounting Officer.

Governance Statement – page 35
The Accounting Officer's statement and conclusions on the system of controls and governance framework in place at the department.

Remuneration & Staff Report

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

Remuneration Report – page 48
Details the remuneration and pension interests of the department's board members.

Staff Report – page 56
Details the cost and composition of the department's workforce and describes how the department is supporting the development and diversity of its people.

Parliamentary Accountability & Audit Report

Brings together the key Parliamentary accountability documents.

Statement of Parliamentary Supply – page 68
Reports the financial year's expenditure (based on HMT budgeting principles) set against the department's budget (estimate) as approved by Parliament.

Other Parliamentary Accountability Disclosures – page 75
Reports information as required by 'Managing Public Money' on regularity of expenditure and remote contingent liabilities and by 'PES 2017 (11)' on historic and future planned departmental expenditure based on HMT budgeting principles.

Certificate and Report of the Comptroller & Auditor General – page 86
Reports the conclusion of the Comptroller & Auditor General's audit of the financial statements and other information as marked in the Accountability Report as 'subject to audit'.

Corporate Governance Report

The Directors' Report

Our Departmental Board

During 2018-19 the department consisted of the core department, one executive agency and eleven other arm's length bodies (ALBs). Note 26 of the accounts provides a full list of public bodies sponsored by the department and identifies those that are consolidated into the accounts of the Departmental Group ('the Group').

The Departmental Board, comprising of Ministers, non-executive directors and the ET, met four times in the year. Each member's attendance at Departmental Board meetings is noted below. The Board's role is to advise on and supervise five key areas: strategic clarity; commercial sense; talented people; results focus; and management information. The department also has a Non-Ministerial Board which met three times in 2018-19. The Non-Ministerial Board is chaired by the Lead Non-Executive Director. It is attended by the ET and non-executive directors. Its role is to scrutinise organisational capability and culture.

Further details of Ministers' areas of responsibility, the department's non-executive directors and the ET can all be found at: https://www.gov.uk/government/organisations/ministry-of-housing-communities-and-local-government

Information on significant interests held by board members which may conflict with their management responsibilities can be found in Note 24 Related Party Transactions in the accounts.

Our Ministers as at 31 March 2019[9]

The Rt Hon James Brokenshire MP

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

From 30 April 2018

Attended 4 of 4 board meetings

Kit Malthouse MP

Minister of State for Housing

From 10 July 2018

Attended 4 of 4 board meetings

Rishi Sunak MP

Parliamentary Under Secretary of State, Minister for Local Government

Attended 3 of 4 board meetings

Jake Berry MP

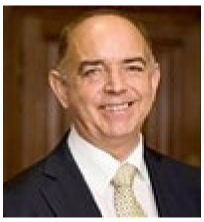
Parliamentary Under Secretary of State, Minister for the Northern Powerhouse and Local Growth

Attended 1 of 4 board meetings

Heather Wheeler MP

Parliamentary Under Secretary of State, Minister for Housing and Homelessness

Attended 3 of 4 board meetings[10]



Lord Bourne of Aberystwyth

Parliamentary Under Secretary of State, Minister for Faith

Attended 2 of 4 board meetings

9 Attendance records relate to Ministerial Board meetings.
10 Nigel Adams MP (Parliamentary Under Secretary of State) attended the board meeting on 19 July 2018 in place of Heather Wheeler MP.

Our Non-Executive Directors

Michael Jary

Lead Non-Executive Director

From 1 February 2019

Attended 1 of 1 board meetings

Dame Mary Ney DBE

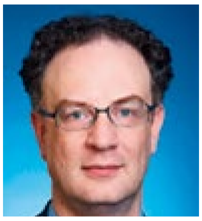
Non-Executive Director

Attended 3 of 4 board meetings

Pam Chesters CBE

Non-Executive Director

Attended 3 of 4 board meetings



Daniel Morley

Non-Executive Director

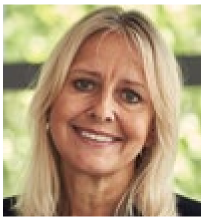
Attended 3 of 4 board meetings

Our Executive Directors

Melanie Dawes CB

Permanent Secretary

Attended 4 of 4 board meetings



Jo Farrar

Director General, Local Government & Public Services

(Replaced by Catherine Frances from 1 April 2019)

Attended 3 of 4 board meetings

Jeremy Pocklington

Director General, Housing

From 28 August 2018

Attended 3 of 3 board meetings

Simon Ridley

Director General, Decentralisation & Growth

Attended 4 of 4 board meetings

Rachel McLean

Director General, Chief Financial Officer

Attended 4 of 4 board meetings

Ruth Bailey

Director, People Capability & Change

From 4 March 2019

Attended 1 of 1 board meetings

Lise-Anne Boissiere

Director, Strategy

Attended 3 of 4 board meetings

Other Ministers who served in the department during 2018-19 were:

- The Rt Hon Sajid Javid MP - Secretary of State for Housing, Communities and Local Government (until 29 April 2018) - did not attend any board meetings.*
- Dominic Raab MP - Minister of State for Housing and Planning (until 9 July 2018) - did not attend any board meetings.*

Other non-executive directors who served in the department during 2018-19 were:

- Nick Markham - Lead Non-Executive Director (until 31 December 2018) - attended 3 of 3 meetings.

Other executive directors who served in the department during 2018-19 were:

- Helen MacNamara - Director General, Housing & Planning (until 3 June 2018) - did not attend any board meetings.*
- Christine Hewitt - Director, People, Capability & Change (until 31 December 2018) - attended 1 of 3 board meetings.

* No board meetings were scheduled during this time.

Auditors

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

The total cost of the audit across the Departmental Group is £820,920 of which £404,920 is a cash charge and £416,000 is a notional charge (2017-18: £797,500 of which £381,500 was a cash charge and £416,000 was a notional charge).

The audit fee for the core department is £295,000 (2017-18: £295,000), broken down as £270,000 for the departmental audit, £10,000 for the cost of consolidation work and £15,000 for the departmental audit of the Whole of Government Accounts submission made by the department to HM Treasury.

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

- Main Rating Account: £38,000 (2017-18: £38,000)
- Levy Account: £7,000 (2017-18: £7,000)
- Trust Statement: £19,000 (2017-18: £19,000)

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

Personal Data Related Incidents

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

Eight personal data incidents were reported to the Information Commissioner's Office (ICO) during the period 1 April 2018 to 31 March 2019. In all cases, the ICO determined that no further action was required of us. Details of these incidents are as follows, of which points 5 - 8 relate to our ALBs.

1. A survey/form collecting company that was a project partner of our data processor was accessed by an unauthorised third party.

2. A third-party contractor had a breach of their finance system, personal data was accessed but not extracted.
3. Personal data was included on an incorrect part of a database, this was viewed by a third party and there was an attempt to claim damages for the stress caused by the personal data being viewed.
4. A file pertaining to Directors and Deputy Directors' appraisals was left out overnight.
5. An individual claimed that when their name and address were published as part of a planning application, it meant when their bag was stolen the thief could have discovered where they lived. The individual claimed £900 in compensation as they needed to change their locks.
6. Representations were sent to the Environment Agency and the appellant's agent despite requests for data to be kept private. Because of this breach the Data Protection Officer ran a training session in the Bristol offices.
7. A planning decision was published which contained a special category of personal data relating to one individual.
8. An individual making a representation on a planning enforcement appeal asked for their identity not to be made public, however the unredacted representation was copied to the appellant and local planning officer.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the Ministry of Housing, Communities and Local Government to prepare, for each financial year, consolidated accounts detailing the resources acquired, held or disposed of and the use of resources during the year by the department (inclusive of its executive agency) and its sponsored non-departmental and other arm's length public bodies designated by order made under the GRAA by Statutory Instrument 2018 number 313 (together known as the 'Departmental Group', consisting of the department and bodies listed in Note 26 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the Departmental Group for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis including those judgements involved in consolidating the accounting information provided by non-departmental and other arm's length public bodies;
- state whether applicable accounting standards, as set out in the FReM, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts 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.

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

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

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the department or sponsored body, are set out in *Managing Public Money*[11] published by 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 the department'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.

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

11 This publication offers guidance on how to manage public funds and can be found here: https://www.gov.uk/government/publications/managing-public-money

Governance Statement

Introduction

The Accounting Officer is responsible to Parliament for the stewardship of the resources given to MHCLG, including those allotted to the department's arm's length bodies (ALBs) and for funding which is devolved to local bodies such as Local Authorities (LAs) and Local Enterprise Partnerships (LEPs). This Governance Statement sets out the range of measures we implement to achieve effective control across the Departmental Group and the sources of assurance available to the Accounting Officer to support the conclusion drawn.

More detail on the control system is given in the Accounting Officer System Statement[12] (AOSS) and the National Local Growth Assurance Framework[13] which gives details of arrangements for LEPs. Details for individual ALBs are contained in the Governance Statements of their individual Annual Report and Accounts.

This Governance Statement sets out:

- the role of the Board and the Audit and Risk Assurance Committee (ARAC) of the Board and in particular the work of the non-executive directors in supporting and challenging the work of the department, culminating in the annual Governance Assurance Exercise;
- the role of the ET and its sub-committees;
- the role of the Senior Sponsors and the Boards of the ALBs;
- the mechanisms in place to assure the Accounting Officer that locally devolved budgets are spent with regularity, propriety and value for money; and
- the risk management framework and the risk environment in which we operate.

Board Committees

The Board committee structure is set out in figure 11.

Figure 11: Board committees

12 This sets out the accountability relationships in place now and for the future and complements this Governance Statement, which is a retrospective view. The latest version of MHCLG's AOSS can be found here: https://www.gov.uk/government/collections/accounting-officer-system-statements
13 This framework is for Mayoral Combined Authorities with a Single Pot funding arrangement and Local Enterprise Partnerships and can be found here: https://www.gov.uk/government/publications/national-local-growth-assurance-framework

The Departmental Board and Non-Ministerial Board

The Departmental Board is chaired by the Secretary of State and comprises Ministers, the ET and non-executive directors (NEDs). Michael Jary was appointed as our Lead Non-Executive Director from 1 February 2019, replacing Nick Markham. The Board met four times during the year and full attendance records are provided in the Directors' Report, page 30.

The Non-Ministerial Board is chaired by Michael Jary and comprises the non-executive directors and the ET. It met three times during the year.

These Boards consider the department's performance against its strategic objective metrics and indicators through regular Departmental Performance Reports and a verbal report from the Permanent Secretary. The Departmental Board receives a briefing and report from the ARAC setting out the agenda, business and discussion at the latest ARAC meetings as a standing item, implementing Recommendation 7 from the Board Effectiveness Evaluation 2017.

During 2018-19 the Departmental Board reviewed departmental finances, Homes England capacity and delivery, EU Exit preparation and local government financial sustainability. The last item was introduced by an external speaker from the NAO, implementing Recommendation 8 from the Board Effectiveness Evaluation 2017 - presentations from people other than officials, and was delivered jointly by officials and Rishi Sunak MP, Minister for Local Government, implementing Recommendation 5 from the Board Effectiveness Evaluation 2017 - greater involvement of Ministers.

We take measures to ensure compliance with the Corporate Governance Code.[14] These include:

- undertaking periodic evaluations of the Board effectiveness including its composition (see paragraph below);
- managing conflicts of interest. We ensure all potential conflicts of interest of Board Members are understood, considered and handled appropriately. A register of interests is maintained which covers all executive and non-executive members. It is updated annually and when relevant changes occur. I am satisfied that there were no material conflicts of interest during the year; and
- effective management and reporting of risks, including undertaking deep dives at ARAC of individual risk areas.

An evaluation of Board effectiveness was deferred in 2018 due to significant changes to the composition of the Board during the previous year: Ministers had been given new departmental portfolios, new non-executive directors had joined the Board and a new secretariat team had been recruited. The new lead NED has undertaken an evaluation this year, which concluded that it is a valued and important forum whose effectiveness has improved over the past year. There were a number of recommendations which covered the frequency and content of Board meetings; the inclusion of more forward-looking and cross-cutting departmental issues; and holding more scrutiny of departmental performance in the non-Ministerial board, with exception reporting to the Ministerial Board. The recommendations are now with the Secretary of State for consideration.

In terms of data quality presented to Board, this year Board members have acknowledged an improvement in data and presentation of performance reporting at Board meetings, and overall that it is acceptable to them.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) is chaired by a NED. Pam Chesters replaced Nick Markham in this role on 1 September 2018. Mark Sheridan's appointment as an independent member of ARAC was extended from 1 December 2018, for a three-year term. The ARAC met five times during 2018-19, receiving papers on the internal and external audit programmes; the actions being taken to implement recommendations made by the Hudson Review;[15] the department's risk management framework; preparations for EU Exit; the General Data Protection Regulation (GDPR) and reviewing the Annual Report and Accounts.

14 This publication lays out the policy for corporate governance in central government departments and can be found here: https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

15 Andrew Hudson's review of the governance and processes which underpin MHCLG's oversight of the business rates system, which can be found here: https://www.gov.uk/government/publications/local-government-finance-review-of-governance-and-processes

Governance Assurance Exercise

At the end of each financial year there is a governance assurance exercise. Independent panels, each led by the Chair of the ARAC with NEDs, representatives of the Government Internal Audit Agency (GIAA) and independent Directors, interview Directors General (DGs) and their senior leadership team. The panels are designed to challenge the assurances given by senior management that they comply with their delegated authority and are managing their risks effectively. The four DGs and their Directors presented evidence to demonstrate how they complied with the department's governance and internal control requirements and summarised challenges they faced during the year.

The panels were satisfied that appropriate governance and assurance had been demonstrated across the business and that risk management had been effective during the year. They were further assured that suitable plans are in place to continue to manage the business and address the strategic risk areas that were identified during the exercise. These areas included:

- the department's relationship with its ALBs;
- pressures caused by resourcing for EU exit;
- how the department inducts new starters and retains corporate knowledge;
- the governance and accountability of local authorities; and
- the consequences of the UK's departure from the EU.

Ministerial Directions

There were no Ministerial Directions during 2018-19.

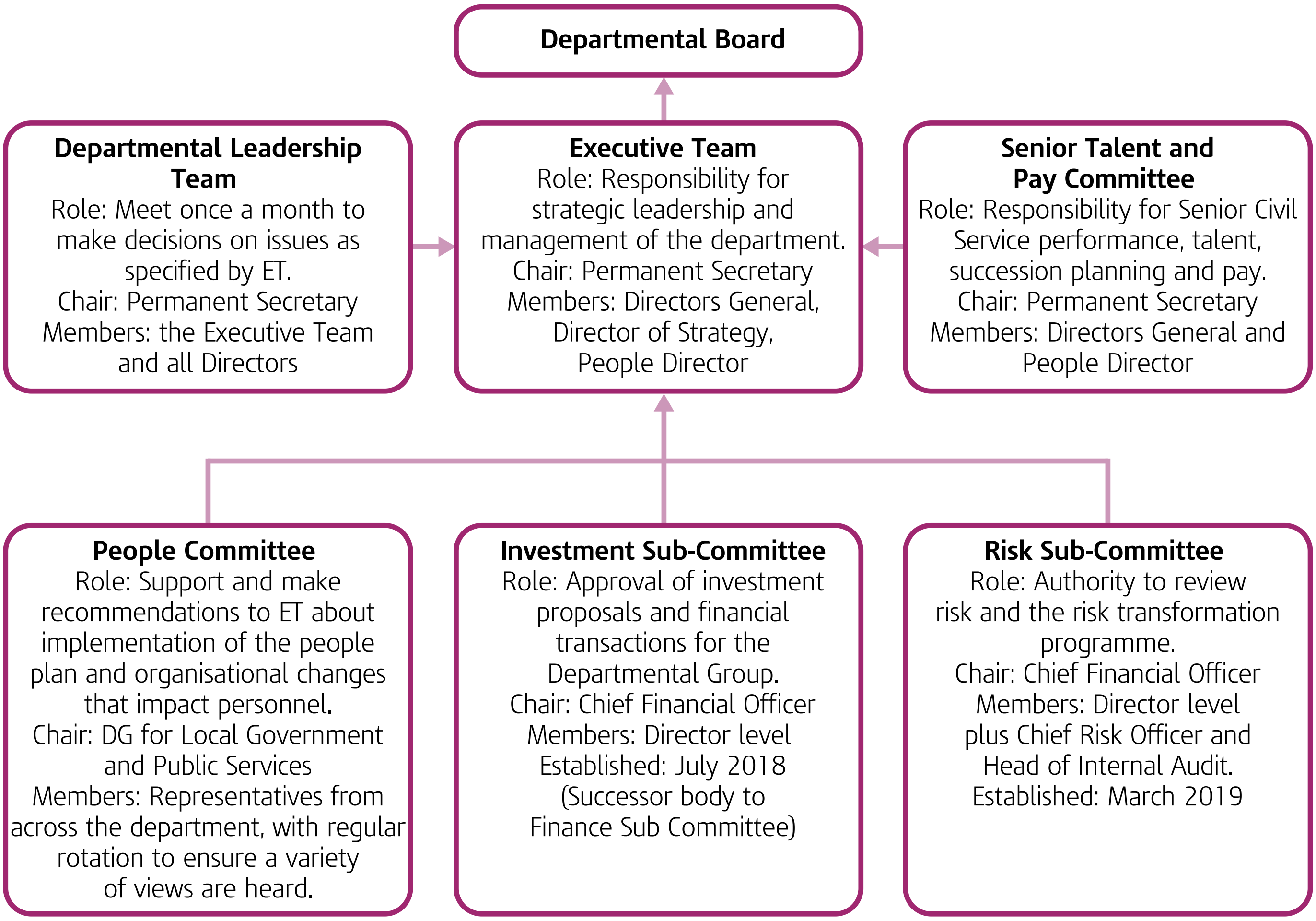
On 8 May 2019, the Secretary of State gave a Ministerial Direction to implement the Private Sector Remediation Fund for Aluminium Composite Material (ACM) cladding on multi-occupied high-rise residential buildings. This is reported here as a significant post-balance sheet event.

The Ministerial Direction was communicated to the National Audit Office (NAO), The Housing, Communities and Local Government Select Committee, HM Treasury and the Public Accounts Committee. Details of the correspondence between the Accounting Officer and the Secretary of State are available online.

The Executive and its Sub-Committees

The executive committee structure is set out in figure 12.

Figure 12: Executive Committees



Executive Team (ET)

The ET is chaired by the Permanent Secretary and comprises the Directors General, the Director for Strategy and the Director for People, Capability and Change. The ET meets every week, including one week in each month when all Directors join the ET as the Departmental Leadership Team. The ET also meets monthly as the Senior Talent and Pay Committee (STPC) to consider senior civil service resourcing, talent and pay.

The ET considers corporate and policy issues, focusing on the performance, management and coordination of the department and on strategic planning. Discussions this year have included the People Plan (described further in the Staff Report on page 56), internal and external engagement plans, the diversity and inclusion strategy and our preparations for EU exit. Each month the ET reviews a detailed written Departmental Performance Report, considering progress against the annual Single Departmental Plan[16] milestones, finance, workforce and risk. Annually it reviews progress of the internal audit programme and approves the audit programme for the year ahead. The ET also receives reports from its sub-committees.

Until July 2018 responsibility for ensuring there were adequate financial and management controls in policy-making and operational areas was vested in the Finance Sub-Committee (FSC), a sub-committee of the ET. The FSC delegated approval of investment proposals to the Investment Sub-Committee (ISC) and approval of proposals to provide loan or

16 The current Single Departmental Plan can be found here: https://www.gov.uk/government/publications/department-for-communities-and-local-government-single-departmental-plan/ministry-of-housing-communities-and-local-government-single-departmental-plan--2

equity funding or guarantees to the Finance Sub-Committee (Investments). From July 2018 this structure was revised and the FSC was dissolved, with ISC becoming the sub-committee of ET. The ISC was strengthened to provide more thorough scrutiny of new proposals and is now formed of more senior staff from across the department and chaired by the Chief Financial Officer.

In response to the Departmental Group's changing and growing risk profile a new risk management framework and Risk Sub-Committee were introduced in March 2019. During the year, ET directly undertook greater scrutiny of budgets and performance, informally supported by a Finance Control meeting chaired by the Finance Director.

People Committee

This committee is chaired by a Director General, which this year this was the Director General for Local Government and Public Services. It comprises representatives from across the department, who are rotated on a regular basis and meets monthly to review a written report from the People, Capability & Change (PCC) Programme Board, overseeing the development and delivery of the People Plan. It also oversees and contributes to the people elements of other corporate programmes to ensure a coordinated and joined up approach.

Investment Sub-Committee (ISC)

The ISC is chaired by the Chief Financial Officer and comprises a fixed membership of Directors from across the professions and additional independent members. It meets twice a month or as needed to scrutinise and approve investment proposals for the Departmental Group to ensure they achieve value for money and meet the requirements of *Managing Public Money*. ISC does this by reviewing the associated business cases, taking into account deliverability, affordability, value for money, risk management, transparency of procurement and how programmes will evaluate progress during their lifecycle.

Risk Sub-Committee

A new Risk Sub-Committee was established this year. This is chaired by the Chief Financial Officer and comprises a Director from each of the DG Groups, the Chief Risk Officer, Directors of Finance and Legal and the Head of Internal Audit. It has delegated authority to review risk and meets monthly to oversee the implementation of the new risk framework. It receives a report on the department's risk profile and its key risks, including any significant new transactions and activities and an update on the performance of the department's risk management controls and risk management processes.

The Role of the Senior Sponsors and Boards of the ALBs

The department currently has one executive agency (EA) and eleven other arm's length bodies (ALBs), which are listed in Note 26 on page 126. Each maintains its own governance structures and processes, appropriate to their business and scale and each body has its own Accounting Officer with delegated authority from the Principal Accounting Officer.

The ALB control and assurance framework strikes a balance between delegation and autonomy for the bodies and the need for controls that provide sufficient assurance. We have embedded the Cabinet Office's 'Senior Sponsor' partnership model,[17] with oversight of performance and the direction of the ALB placed with a senior official within the department who receives central support on matters relating to governance and the appointment of non-executive members of ALB Boards.

Further assurance has been achieved through:

- an annual risk-based impact assessment to ensure the level of sponsorship and Accounting Officer engagement is proportionate to each organisation and aligned with departmental priorities;
- a bi-annual meeting for ARAC chairs where concerns affecting the Departmental Group are considered;

17 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594345/Partnerships_between_departments_and_arm_s_length_bodies-code_of_good_practice.pdf

- improvements to key performance indicators for each ALB to enable effective performance assessments; and
- development of a consistent approach to ALB Board effectiveness with annual appraisal reviews, including for chairs.

Homes England

The largest of our ALBs is Homes England (HE) which is governed by a Board that provides strategic leadership to ensure that Ministerial aims and objectives for the organisation are met. It is chaired by Sir Edward Lister and its members are appointed by the Secretary of State. Meeting ten times a year, the Board gains assurance through the monitoring of performance against KPIs, analysis of written reports such as the Market Overview report and early Warning Indicator report and upward reporting from HE's other committees, which are:

- the Audit and Risk Committee (ARC), which works with the Board on risk control, governance, financial control and statutory reporting and is authorised to investigate any activity within these areas, including additional meetings to provide extra support and attention to the Help to Buy programme;
- the Investment Committee, which scrutinises new project and programme business cases, considers guarantees on behalf of MHCLG and monitors performance; and
- the Nominations and Governance Committee, which advises on overall pay and rewards, particularly of executive staff.

To ensure a strong and effective corporate governance system, with effective arrangements in place to provide assurance to the department on risk management, governance and internal control, the Board is constituted to ensure a majority of non-executive members.

The department's Director General for Housing and Building Safety is the Senior Sponsor for Homes England. Under the Senior Sponsor model, the functions of shareholder and client are separated to reflect their different interests.

- The Corporate Sponsorship Team manages the department's corporate relationship with Homes England, holding them to account for its corporate and governance performance and ensuring their assets and liabilities are managed efficiently and effectively and providing assurance that Homes England performance is compliant with the department's spending plans, risk systems and overall financial and arm's length body frameworks. This function is performed by the department's Finance directorate in partnership with UK Government Investments (UKGI). Corporate and governance performance is discussed at a quarterly Shareholder Meeting comprising the Senior Sponsor and Chief Financial Officer from the department together with the Chair, Chief Executive and other executives from Homes England.
- The Policy Sponsorship Team, represents the department's coordinated policy interest in Homes England delivery and their alignment with wider departmental objectives. This is performed by the department's Housing Strategy Division.

Over the last year we have taken significant steps to strengthen the governance relationship between the department and Homes England. The Secretary of State has set out a new mission and objectives for Homes England reflected in their new 5-year Strategic Plan that was published in October 2018. This plan further sets out a new set of KPIs against which their performance will be measured.

We have also published a revised Framework Document which sets out the parameters within which Homes England is expected to operate, the relationship between the department and Homes England and the manner in which it is expected that the department (in its capacity as Homes England's sole sponsor) and Homes England will interact with each other.

Steps are being taken to further strengthen the membership of Homes England's Board. We are currently recruiting up to four new Board members to bring specific additional skills and expertise to support the delivery of Homes England's new mission and objectives. The Secretary of State has also appointed UKGI Director, Ceri Smith, as the department's shareholder representative member on the Homes England Board.

Locally Devolved Budgets

This department is responsible for the local government accountability framework for local authorities and for the award of the Local Growth Fund to LEPs. This section sets out the controls that provide the assurance that devolved budgets meet the requirements of Managing Public Money.

Local Government Accountability Framework

Regular assurance advice is provided to me as Accounting Officer on whether the core accountability framework for local authorities has remained robust. This takes account of published reports on local audit and accounts, governance and fraud, which cover regularity, propriety and achieving value for money locally. It also includes research from the sector; work the department has produced; and specific advice on whether the framework may need amending.

As stated in evidence to the Public Accounts Committee in March 2019, the department intends to enhance its role in oversight and leadership of the local authority governance system. This will include enhancing the systematic process for assessing the risk of significant service or financial challenges in individual authorities, which will involve closer working with other government departments as well as work with local authority representative bodies to build a richer picture of individual local authorities, built on a more transparent data set. The department will also be convening partners such as the Chartered Institute of Public Finance and Accountancy (CIPFA) and the NAO, which own or have an interest in elements of the accountability framework for local government, in an accountability framework panel to review the local government accountability system as a whole to ensure it remains fit for purpose.

As a final step the department has commissioned an independent review of the localised audit regime in the Local Audit and Accountability Act 2014 which will begin in the Summer of 2019 and report by April 2020. The review will look broadly at the effectiveness of the local audit regime, including consider audit fees, the effectiveness and value of external audit as well as internal governance elements, including how local authorities respond to local audit recommendations.

The department has an ongoing statutory intervention at Northamptonshire County Council where Commissioners appointed by the Secretary of State in May 2018 continue to oversee strategic finance and governance to improve the Council. They have submitted two reports on progress to the Secretary of State: one in September 2018, and one in February 2019. The non-statutory intervention in the Royal Borough of Kensington and Chelsea also continues: the independent Grenfell Recovery Taskforce is supporting and advising the Council on its recovery effort, and their third report was published in December 2018. Two statutory interventions in Tower Hamlets and Rotherham came to an end during the year following a satisfactory conclusion, and the Independent Improvement Panel supporting Birmingham City Council stepped down in April 2019. At the time of this report, the Secretary of State is considering his response to the Panel's recommendations.

Hudson Review and Data Issues

A review by Andrew Hudson into governance and processes in the Local Government Finance Directorate was published in October 2018. The review found that the department and local authorities had managed the growing complexity of the business rates system well and with few errors. However it made a series of recommendations around managing complexity, governance and management, capacity and capability, and openness and culture, which Ministers accepted in full. Since then the following actions have taken place:

- A new Central Policy and Programme team has been established to provide strategic oversight and co-ordination in policy development and delivery, alongside refreshed governance structures and reporting;
- A new group has been established to further development, implementation and review of quality assurance processes;
- We have introduced a lock down period ahead of the Local Government Finance Settlement to allow appropriate time for quality assurance processes; and
- The expected timetable for 2019-20 Local Government Finance Settlement was published and the final settlement delivered earlier than in previous years and ahead of the timetable recommended by the Hudson Review.

In 2019-20, the department is preparing to make special payments to a number of local authorities on a goodwill basis, following failure by officials to update the guidance note for 2019-20 business rates pilots to correct for a previous error. This is related to the issue in 2017-18 where an error in the formula used to calculate s.31 grant payments led to incorrect payments and, due to the overpayment not being discovered until near the end of the financial year, a ministerial direction due to the decision not to recover overpayments. This issue was reported in last year's accounts.

This year, there has been no mistake in any of the calculations, or any payments, relating to the business rates pilots. However, as last year's error was corrected for, officials failed to update the relevant guidance note. As a result the NNDR guidance note for the financial year 2019-20, which was issued to local authorities on 17 December 2018, contained the same error, in the same formula.

The error in the guidance represents the equivalent of less than 0.2% core spending power, on average for those affected. However, given that the financial year had already started, and particularly since the error in the guidance repeated the same mistake as last year, the Secretary of State exceptionally decided to offer a goodwill payment to those councils who had used the incorrect guidance for their financial planning in 2019-20, and where the consequences of doing so could be more difficult to mitigate. Our current expectation is that the final sum will be less than £15 million. The Permanent Secretary wrote to the Public Accounts Committee and the Housing, Communities and Local Government Select Committee on 31 May 2019 describing the issue and will be keeping both committees updated.

At this stage, following the comprehensive nature of the work that we have done since Andrew Hudson's report, the department does not believe that it indicates further underlying weaknesses to our systems. However, in light of this further error, the planned post-implementation review of the work instigated by Andrew Hudson as part of our internal audit plan for 2019-20 will be accelerated and widened with the appointment of external advisors. This is consistent with the guidance in Managing Public Money that departments should "consider routinely whether particular cases reveal concerns about the soundness of the control systems".

Local Enterprise Partnerships (LEPs) and the Local Growth Fund

Growth deals provide funds to LEPs for projects that benefit the local area and economy. The Local Enterprise Partnership National Assurance Framework[18] guides local decision-making to support accountability, transparency and value for money. Substantial work was undertaken during 2018-19 to enable a new framework, the National Local Growth Assurance Framework (NLGAF) to be introduced from April 2019. This incorporates recommendations from the non-executive director review of LEP governance and transparency[19] (October 2017) conducted by Dame Mary Ney, one of the department's NEDs. It also addresses a number of the recommendations included in the Ministerial Review into LEPs, Strengthened Local Enterprise Partnerships[20] (July 2018) and in NAO reports. The purpose of this assurance system is to ensure funds are spent locally with regularity, propriety and value for money, with oversight of what is being delivered and is based on:

- annual assurance provided by the Section 151 Officer of the LEP's Accountable Body to the Accounting Officer;
- an annual assurance statement from the LEP Chair and chief executive which is published on the LEP website;
- regular reporting against agreed output metrics;
- an evaluation framework;
- annual performance reviews with each LEP; and
- deep dives to review LEP governance, accountability and transparency.

18 This publication guides local decision making to support accountability, transparency and value for money and can be found here: https://www.gov.uk/government/publications/local-enterprise-partnership-national-assurance-framework
19 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/655188/Review_of_local_enterprise_partnership_governance_and_transparency.pdf
20 This policy document sets out the government's approach to strengthening LEPs: https://www.gov.uk/government/publications/strengthened-local-enterprise-partnerships

For Mayoral Combined Authorities and LEPs who have agreed to combine funding into a 'Single Pot', the NLGAF supersedes the guidance given in the *Single Pot Assurance Framework* (2016).

Managing risks to our objectives

This section outlines our risk management framework and describes the risk environment in which we operate.

Our risk framework

This year a new risk framework was introduced in the department. Its goals are to support effective decision making, to protect the department's reputation, to mitigate against financial loss and to minimise disruption to the delivery of its programmes. It will be reviewed annually by the ET and the ARAC.

The new framework has been designed to focus management time, energy and resourcing on two key issues:

- **Risk appetite.** Which risks does the department wish to take on and which does it seek to avoid.
- **Roles and responsibilities.** Which risks are managed directly by the ET and which are managed elsewhere.

Towards this end, it segments the department's risk into three areas - Strategic, Financial and Operational, as shown in figure 8, page 23. Risk reporting in each one of these three broad areas is supported by a new risk taxonomy and a new online risk reporting tool, available to all staff. The department has created a new Risk Sub-Committee of the ET with delegated authority to review risk and to oversee the implementation of the new risk framework and we have appointed a Chief Risk Officer with extensive banking industry experience on secondment from the Bank of England.

Figure 13: MHCLG's risk management framework

Risk Area		
Strategic	**Financial**	**Operational**
Risk Appetite		
Significant, but difficult to quantify	Significant, but quantifiable and limitable	Minimal to zero, insofar as it is cost-effective to drive it out
Risk Owners		
Executive Team and senior leadership team	Financial programme managers, working under delegated limits	All the department's people, working under agreed processes and procedures
The key risks to MHCLG		
Capability: we need the right staff, skills and knowledge to deliver our priorities Complexity and interconnectedness of our sectors Emerging dangers: from short-term economic trends to long-term climate change	Credit risk on the department's loans Financial exposure to the housing market from the Help to Buy scheme	Threats from "bad actors" Data loss and other security threats Internal errors or misconduct Fraud

Our risk environment

MHCLG operates in a complex risk environment and faces a number of internal and external threats and challenges. In line with our new risk framework, the three sections which follow summarise the most important of these risks under the three broad headings of strategic, financial and operational risk.

Strategic risks

The department's role has changed in recent years, becoming increasingly accountable for real world housing delivery at scale as well as the formulation of policy. This relies on specialist technical and market knowledge which has historically been difficult to recruit and retain. However, the department is investing further to ensure we have the right capability to deliver our goals.

In the near term, the department faces systemic pressures such as those on local government finance sustainability. The department is also significantly exposed to wider economic risks that may materialise through the economic cycle or following an external shock.

Furthermore, the complexity of our mission, which includes building safety, leasehold reform, local government finance sustainability, planning, homelessness, and faith and integration in addition to the delivery responsibilities outlined above, is amplified by the complexity of the systems in which we operate and by the need to balance different central government and local government objectives.

In the longer term, larger uncertainties such as climate change and the need for carbon reduction have the potential to transform the nation's housing needs entirely with attendant implications for planning, housing finance and the construction industry.

Financial risks

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

The department has continued to develop its capability for managing financial risk, reviewing the tools used to identify and measure the risks associated with the portfolio of financial instrument based programmes, reviewing its risk profile and appetite and developing its contingency plans.

An annual stress testing exercise has been in place since 2015 to help the department measure and manage the risk of loss associated with a stress event based on Bank of England cyclical stress test scenarios. The outcomes of the stress tests continue to be used for contingency planning and policy development with particular regard to economic risks related to Britain's exit from the EU and to the current slow-down in global economies which could affect the UK economy and housing sector as well.

Operational risks

The department is also exposed to a range of operational risks for which our appetite is close to zero. However, these are intrinsically-connected to our core functions and therefore difficult to eradicate entirely. Among them are fraud; the loss of damaging, valuable or reputationally-sensitive data; payment errors; staff misconduct, and threats to the physical safety and security of our staff, premises and systems.

Management of these risks is focussed on identifying them reporting them and then driving them out, generally via implementation of standardised procedures and controls. Towards this end, the department has appointed a new Head of Non-Financial Risk, a new Security Advisor and new Head of Counter-Fraud. Fraud prevention activity in this area will continue in the new financial year.

Information Security

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

In 2018-19 there were eight data breaches for MHCLG and its ALBs that required reporting to the Information Commissioner's Office (ICO) and in all those cases the ICO determined that no further action was required. Further details can be found in the Accountability Report (pages 32-33).

The Digital directorate has been raising awareness of cyber security, providing advice and guidance to staff about how to stay secure online in both a personal and professional context. ARAC review cyber security at their meetings using the NAO guidance as a framework, augmented by specific concerns for the department. A Government Internal Audit cyber security review will take place in 2019-20.

Fraud, Error and Whistleblowing

The Counter Fraud Framework and Strategy includes a whistleblowing policy and a fraud response plan. This is available to staff online and is reviewed and updated regularly to ensure emerging risks are considered and the framework remains relevant.

The department has nominated officers who are available to support people with whistleblowing queries and a member of the ET is a 'whistleblowing champion'. The department reviewed its procedures in early 2018 when compiling the response to Dame Sue Owen's cross government review of culture and procedures around sexual misconduct and harassment. As a result, the department has added a whistleblowing reporting option to the Employee Assistance Programme (EAP), enabling people to contact EAP for advice and report any concerns to MHCLG using a confidential helpline. This has broadened the range of ways people can report wrongdoing concerns.

The department received one whistleblowing case in 2018-19 and there was one whistleblowing case in the arm's length bodies.

Business Appointment Rules

The Business Appointment Rules (BAR) is part of the Civil Service Management Code and regulates the movement of Civil Servants and Ministers into other business sectors. Civil servants must consider if the BAR requires them to seek departmental permission before applying for or accepting a job outside of the Service. Most moves do not require an application, but some will and in some cases, approval is subject to conditions. The aim of the BAR is to avoid any reasonable concerns that:

- a civil servant might be influenced in carrying out his or her official duties by the hope or expectation of future employment with a particular firm or organisation, or in a specific sector; or
- on leaving the Civil Service, a former civil servant might improperly exploit privileged access to contacts in Government or sensitive information; or
- a particular firm or organisation might gain an improper advantage by employing someone who, in the course of their official duties, has had access to information relating to unannounced or proposed developments in Government policy, knowledge of which may affect the prospective employer or any competitors; or commercially valuable or sensitive information about any competitors.

In the 2018/19 year, MHCLG received BAR applications from five individuals, and all five were approved. Details of any applications and the outcome are published on the MHCLG website here for staff at SCS Pay Band 1 and 2 level and Special Advisers of equivalent level, and on the ACOBA website here for SCS Pay Band 3 or above and Ministers.

Internal Audit Opinion

One of the key sources of independent assurance within the department comes from the audit function provided by the Government Internal Audit Agency (GIAA). The internal audit programme is closely linked to the key risks of the department, its executive agency and other ALBs. Arrangements are in place to ensure the Accounting Officer is made aware of any significant issues which indicate that key risks are not being effectively managed. The internal audit service complies with the Public Sector Internal Audit Standards.[21]

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

- managing the risks around LEP capability and their capacity to deliver increased programmes;
- deploying tightly managed change management control processes able to support programme delivery in a tight fiscal environment;
- embedding new risk management processes and contract management in the newly established Commercial directorate; and
- improving temporary worker processes to avoid conflicts of interest.

External Scrutiny

The department's work was the subject of five NAO reports and five Public Accounts Committee (PAC) reports in 2018-19, a further NAO report and PAC in June 2019, all of which are summarised below.

NAO Reports

- **The health and social care interface:** : this report emphasised the importance of closer working at the interface between health and social care and highlighted the challenges that have made closer working difficult including financial pressures.
- **Local auditor reporting in England 2018:** : this report concluded that while auditors are increasingly highlighting weaknesses within local bodies, some of these are met with inadequate responses. The proportion of local public bodies whose plans for keeping spending within budget are inadequate, or who have significant weaknesses in their governance, is too high. Those responsible for governance need to hold their executives to account for taking prompt and effective action. Local auditors need to exercise their additional reporting powers especially where they consider that local bodies are not taking sufficient action.
- **Local authority governance:** this report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable. The report suggested that, in order to mitigate the growing risks to value for money in the sector, the department needs to improve its system-wide oversight, be more transparent in its engagement with the sector and adopt a stronger leadership role across the governance network.
- **Planning for new homes:** this report assesses how effectively the department works with the Planning Inspectorate, Local Authorities and other government departments within the existing planning regime to achieve its target of delivering 300,000 net additional homes a year on average by the mid-2020s. The report highlighted the Planning Inspectorate's performance against targets and challenges within the planning system that made the targets hard to meet.
- **Departmental Overviews - Local authorities 2017-18 and Ministry of Housing, Communities and Local Government 2017-18:** both of these overviews summarised the department's responsibilities, how it spends its money and its key work developments.

21 https://www.gov.uk/government/publications/public-sector-internal-audit-standards

- **Help to Buy: Equity Loan scheme – progress review (June 2019):** this report assessed how the government's loan investment in the housing market through the Help to Buy scheme has helped the department 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 the market turns down. 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 loans have been repaid.

PAC evidence sessions

- local government governance and accountability;
- the financial sustainability of local authorities;
- local government spending;
- auditing local government;
- the interface between health and adult social care; and
- Help To Buy (June 2019).

In addition, the department committed to recommendations published by the PAC on adult social care workforce and the interface between health and adult social care (both led by the Department for Health and Social Care). Details of these are on the websites of the Public Accounts Committee and the National Audit Office.

NAO reports are normally considered by the PAC. The PAC makes recommendations which the department responds to in Treasury Minutes. The department's responses can be found at https://www.gov.uk/government/collections/treasury-minutes.

My Conclusion

I have reviewed the evidence provided by the governance assurance exercise, the Internal Audit opinion and NAO and PAC reports and I am satisfied that overall the department has achieved a sound system of internal control during this reporting period. The department has strengthened its existing control environment throughout the year and delivered some significant improvements including the new risk framework, improvements to the Investment Sub-Committee and enhanced monthly performance reporting. We have also significantly strengthened the relationship with Homes England and implemented actions from the Hudson review, although the department recognises there are still ongoing challenges and will continue to strive for further improvements. The department will continue this journey next year by:

- undertaking and broadening the planned post-implementation review of the Hudson report;
- embedding our improved risk management framework;
- recruiting an additional member to ARAC with specific skills in accounting and finance;
- continue to strengthen the key governance meetings including forums working across the whole Departmental Group; and
- working closely with our key partners in local authorities and our ALBs to manage risk and deliver assurance.

Remuneration and Staff Report

Remuneration Report

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

All tables and the pay multiples section of the Remuneration Report have been subject to audit.

Remuneration Policy

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

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

Civil Service Contracts

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

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

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

Remuneration (Including Salary) and Pension Entitlements

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

No benefits in kind were received by any minister or official named in the tables below in 2017-18 and 2018-19.

Single total figure of remuneration (subject to audit)

Ministers	Salary £		Full year Equivalent Salary if different £		Pension benefits[1] £ (to nearest £1,000)		Total remuneration £ (to nearest £1,000)	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
The Rt Hon James Brokenshire MP Appointed 30 April 2018	62,067	-	67,505	-	15,000	-	77,000	-
Kit Malthouse MP Appointed 10 July 2018	22,994	-	31,680	-	6,000	-	29,000	-
Rishi Sunak MP Appointed 10 January 2018	22,375	5,052	-	22,375	6,000	1,000	28,000	6,000
Jake Berry MP Appointed 14 June 2017	22,375	17,838	-	22,375	5,000	5,000	27,000	23,000
Heather Wheeler MP Appointed 10 January 2018	22,375	5,052	-	22,375	5,000	2,000	27,000	7,000
Lord Bourne of Aberystwyth	105,076[2]	105,076[2]	-	-	10,000	24,000	115,000	129,000
The Rt Hon Sajid Javid MP Left 29 April 2018	5,438	67,505	67,505	-	(1,000)	18,000	4,000	86,000
Dominic Raab MP[3] Left 9 July 2018	8,686	7,154	31,680	31,680	-	-	9,000	7,000
Alok Sharma MP Left 9 January 2018	-	18,190	-	31,680	-	5,000	-	23,000
Gavin Barwell MP Left 9 June 2017	-	5,984	-	31,680	-	1,000	-	7,000
Andrew Percy MP Left 14 June 2017	-	4,599	-	22,375	-	1,000	-	6,000
Marcus Jones MP Left 9 January 2018	-	17,323	-	22,375	-	4,000	-	21,000

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

(2) Figure quoted includes House of Lords Allowance.

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

Nigel Adams was appointed to provide temporary support for Heather Wheeler in 2018-19. He is not included in the remuneration table as he is not on the department's payroll.

Single total figure of remuneration (subject to audit)

Officials	Salary £'000		Full year Equivalent Salary if different £'000		Bonus Payments £'000		Other Benefits £ (to nearest £1,000)		Pension benefits[1] £ (to nearest £1,000)		Total remuneration £ £'000	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Melanie Dawes[2] Permanent Secretary	165-170	160-165	-	-	15-20	-	25,000	25,000	-	-	205-210	185-190
Jo Farrar[3] Director General Left 31 March 2019	145-150	140-145	-	-	-	-	22,000	-	-	56,000	165-170	195-200
Jeremy Pocklington Director General Appointed 28 August 2018	80-85	-	130-135	-	10-15	-	-	-	54,000		145-150	-
Simon Ridley Director General	135-140	130-135	-	-	10-15	5-10	-	-	47,000	51,000	190-195	185-190
Rachel McLean Director General Appointed 29 January 2018	145-150	20-25	-	140-145	10-15	-	-	-	57,000	9,000[4]	215-220	30-35
Ruth Bailey Director Appointed 4 March 2019	5-10	-	110-115	-	-	-	-	-	(6,000)	-	0-5	-
Lise-Anne Boissiere Director Appointed 20 April 2017	90-95	80-85	-	85-90	0-5	5-10	-	-	40,000	81,000	130-135	170-175
Helen MacNamara Director General Left 3 June 2018	30-35[5]	130-135	130-135	-	-	15-20	-	-	7,000	92,000	35-40	235-240
Christine Hewitt Director Left 31 December 2018	65-70	85-90	90-95	-	5-10	-	-	-	12,000	11,000	85-90	100-105
Tamara Finkelstein[6] Director General Appointed 21 June 2017 Left 31 March 2018	-	95-100	-	125-130	-	-	-	-	-	22,000	-	115-120
Louise Casey Director General Left 31 July 2017	-	45-50	-	140-145	-	-	-	-	-	12,000	-	55-60
Jacinda Humphry Acting Director General Left 26 January 2018	-	90-95	-	115-120	-	10-15	-	-	-	53,000	-	155-160

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

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

(2) Melanie Dawes joined the Partnership pension scheme from 1 April 2017 and as such she did not accrue PCSPS or CSOPS pension benefits. The employer contributions to her Partnership pension account were £25,400 (to the nearest £100) in 2018-19 and are included in the Other Benefits column of this table.

(3) Jo Farrar joined the Partnership pension scheme from 1 April 2018 and as such she did not accrue PCSPS or CSOPS pension benefits in 2018-19. The employer contributions to her Partnership pension account were £22,300 (to the nearest £100) in 2018-19 and are included in the Other Benefits column of this table.

(4) A retrospective update to pension data was carried out by the pension provider, resulting in a change to the closing balance at 31 March 2018.

(5) This figure includes a payment made in lieu of untaken annual leave.

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

The non-executive directors (NEDs) did not receive a salary in their capacity as Board Members and details of fees paid to them during 2018-19 are shown below (subject to audit):

	Fees (£)	
Non-Executive Directors	2018-19	2017-18
Michael Jary (Lead)[1] Appointed 1 February 2019	3,278	-
Mary Ney	15,000	15,000
Pam Chesters[2] Appointed 11 September 2017	16,458	8,365
Daniel Morley Appointed 18 September 2017	15,000	8,077
Nick Markham (Acting Lead)[3] Left 31 December 2018	15,000	20,000

(1) Michael Jary became lead non-executive on 1 February 2019. Figure quoted is for the period 1 February 2019 - 31 March 2019. The full year entitlement is £20,000.

(2) Pam Chesters became Chair of Audit Risk and Assurance Committee on 1 September 2018 and as such her full year entitlement was increased to £17,500.

(3) Nick Markham was acting lead non-executive and left on 31 December 2018. The full year fee entitlement is £20,000.

Salary

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

This report is based on accrued payments made by the department, and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional Ministerial remuneration. Their salaries for services as an MP (£77,379 from 1 April 2018) and various allowances to which they are entitled are borne centrally.

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

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HM Revenue and Customs as a taxable emolument. No Ministers or officials named in these tables received benefits in kind in 2017-18 or 2018-19.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year prior to the financial year that they are paid to the individual. The bonuses reported in 2018-19 relate to performance in 2017-18 and the comparative bonuses reported for 2017-18 relate to the performance in 2016-17.

Fair Pay Disclosures (subject to audit)

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

The banded remuneration of the highest paid board member in the department, the department's Permanent Secretary, in the financial year 2018-19 was £180,000 - £185,000 (2017-18, £160,000 - £165,000). The increase from the prior year is due to a bonus that was received this year when no bonus was received in 2017-18. This was 4.8 times (2017-18: 4.3 times) the median remuneration of the workforce, which was £38,112 (2017-18: £38,134).

In 2018-19, nil (2017-18, nil) employees received remuneration in excess of the highest-paid board member.

Remuneration of employees ranged from £20,000 - £25,000 to £180,000 - £185,000 (2017-18: £20,000 - £25,000 to £160,000 - £165,000). Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The median salary for 2018-19 has decreased by £22 compared to the 2017-18 median salary.

Compensation for loss of office (subject to audit)

No ministers or officials received compensation for loss of office in 2018-19.

Ministerial Pension Benefits (subject to audit)

The table below shows the Parliamentary Contributory Pension Fund (PCPF) pension benefits accrued by ministers who have served as board members of the department during the 2018-19 reporting year:

	Accrued pension at age 65 as at 31/03/19	Real increase in pension at age 65	CETV(1) at 31/03/19	CETV at 31/03/18(2)	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
The Rt Hon James Brokenshire MP	5-10	0-2.5	119	101	7
Kit Malthouse MP	0-5	0-2.5	8	3	3
Rishi Sunak MP	0-5	0-2.5	5	1	1
Jake Berry MP	0-5	0-2.5	7	3	1
Heather Wheeler MP	0-5	0-2.5	17	10	4
Lord Bourne of Aberystwyth	5-10	0-2.5	118	97	8
The Rt Hon Sajid Javid MP	5-10	0-2.5	93	93	(1)
Dominic Raab MP(3)	-	-	-	-	-

(1) CETV stands for Cash Equivalent Transfer Value.

(2) The factors for calculating CETVs were changed by the Government Actuary in November 2018. Therefore, the CETV figure for the start of the period do not correspond with the CETV figure for the end of the period last year.

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

Pension benefits for ministers are provided by the PCPF. The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015.[22]

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

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

22 http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc

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

The Cash Equivalent Transfer Value (CETV)

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

The real increase in the value of the CETV

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

Officials' Pension Benefits (subject to audit)

The table below shows the PCSPS and CSOPS pension benefits accrued by officials who have served as board members of the department during the 2018-19 reporting year. Melanie Dawes and Jo Farrar joined the Partnership pension scheme from 1 April 2017 and 1 April 2018 respectively so did not accrue PCSPS or CSOPS pension benefits in 2018-19. Employer contributions to their Partnership pension accounts were £25,400 and £22,300 (to the nearest £100) in 2018-19.

Officials	Accrued pension at pension age as at 31/03/19 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/03/19 £'000	CETV at 31/03/18 £'000	Real increase in CETV £000's £'000
Jeremy Pocklington	45 - 50 plus a lump sum of 20 - 25	2.5 - 5 plus a lump sum of 0 - 2.5	668	552	31
Simon Ridley	40 - 45 plus a lump sum of 85 - 90	2.5 - 5 plus lump sum of Nil	617	509	18
Rachel McLean	15 - 20 plus lump sum of Nil	2.5 - 5 plus lump sum of Nil	241	178	31
Ruth Bailey	15 - 20 plus a lump sum of 45 - 50	0 plus lump sum of Nil	300	304	-5
Lise-Anne Boissiere	20 - 25 plus lump sum of Nil	0 - 2.5 plus lump sum of Nil	285	222	15
Helen MacNamara	25 - 30 plus a lump sum of 55 - 60	0 - 2.5 plus lump sum of Nil	365	360	2
Christine Hewitt	30 - 35 plus a lump sum of 95 - 100	0 - 2.5 plus a lump sum of 0 - 2.5	764	687(1)	11

(1) A retrospective update to pension data was carried out by the pension provider, resulting in a change to the closing balance at 31 March 2018.

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

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

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

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

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

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

The Cash Equivalent Transfer Value

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

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

Real increase in the value of the CETV

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

Staff Report

Our People[23]

MHCLG is a unique department, offering our people, who work at sites across England, experience in central policy, direct relationships with local areas and the opportunity to help deliver and witness the impact of policy on the ground. We are an ambitious department: ambitious in what we can achieve and ambitious for our people.

We published our first People Plan in 2016 setting out five strategic priorities under which we delivered a wide range of programmes and initiatives, which have helped to make MHCLG a high performing and great place to work.

Building on this success we published a new two-year People Plan in 2018. The plan was developed and agreed after extensive consultation across the department and is based on a detailed assessment of our workforce needs in the period up to 2020. Through the delivery of this plan our goal is to have skilled, talented, diverse and high performing people who are proud to work for MHCLG and are supported by empowering and inclusive leaders.

The new plan has been designed to reflect the evolving nature of the challenges and priorities we face as a department. In the last 12 months this has been highlighted by the need to maintain our focus on our key domestic priorities including the housing agenda, the ongoing work to improve building safety following the Grenfell Tower fire and the preparations for the UK's exit from the EU. In the period from December 2018 onwards, this work included planning for a possible no deal exit where we flexibly deployed MHCLG colleagues and relied on a skilled and engaged workforce.

Against a backdrop of continuing change, our People Survey engagement score in 2018 improved by three points to 66%, the seventh consecutive year in which the score has risen and for the first time we are in the top performing group across the Civil Service.

Our new People Plan is informed by our new principles and values, which again were created jointly with our people and which articulate the standards and behaviours we are seeking for all our people. These principles and values are:

- We understand the local picture and use it to shape the national debate
- We are open, inclusive and collaborative. We listen
- People at every level are skilled, trusted and empowered so that effective decisions are made at the right level
- We have clear accountabilities using professional processes and tools
- We take responsibility for effective stewardship of our statutory, policy and delivery systems
- We engage all departmental and arm's-length body skills and resources in a purposeful way
- We lead within the Civil Service, play our part in its success and grow brilliant Civil Service careers

Our new strategic people priorities and the progress we are making against each are set out in more detail below.

We are one MHCLG

Under this priority we are focusing on; improving cross-site working, developing regional resourcing plans (which will support the wider civil service work on improving opportunities in the regions) and on supporting the wider Departmental Group.

We ensure our people based in the regions can engage with and influence senior leaders, including offering a monthly meeting with the Permanent Secretary and through a series of coordinated ET visits to all our sites. Work on regional resourcing plans will commence in 2019.

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

The department's senior HR senior leaders meet with their counterparts in our key agencies and ALBs monthly to share best practice and discuss common challenges on issues such as diversity and inclusion and performance management. Throughout 2018 we have supported the Planning Inspectorate through an operating model review, including membership of steering groups and acting as an independent source of advice on organisational design and development. In 2018 we worked effectively with our ALBs to publish the Gender Pay Gap report for the Departmental Group. Since this report, we now have a much-improved Gender Pay Gap of 3.1% at the mean and 7.7% at the median for the Group compared to 5.9% and 9.8% respectively in 2017.

We have the right people in the right roles at the right time

This priority focuses on our induction offer for new joiners, developing an agile resourcing strategy and the launch of Success Profiles to enhance our job design and attraction strategy.

We have improved our induction offer to ensure new starters have a positive, supported and inclusive experience. We appointed more people in 2018-19 (733) than in three of the four previous years combined.

We were able to effectively manage the resourcing pressures created by the additional work required to prepare for and support the UK's exit from the EU. This was achieved by working with stakeholders and individuals to redeploy people into critical EU Exit roles as and when required with a flexible approach which enabled the department to increase or reduce resources as the potential exit scenarios and changes to the date of exit crystallised.

The Success Profiles framework, which supports our approach to recruitment, has been developed across the Civil Service to build a more holistic picture of applicants and employs a wider range of elements and methods to identify the right person for a role. We have trained over 700 people on how to use them with over 87% of participants now confident in employing this more holistic approach when selecting candidates.

As part of the department's preparations to manage a no deal scenario in March and April and to facilitate the organisation of our Yellowhammer systems and processes we put in place a robust system of governance and oversight through weekly ministerial and officials GOLD committee meetings, supplemented by a working level resourcing subcommittee. Corporate support teams liaised closely with EU Exit teams to identify and action the complete range of issues related to a stand up of our Yellowhammer response e.g. estates, IT, resourcing etc. Senior leaders across the Department were briefed and involved in the development of EU Exit planning via regular discussions at SCS round up and the Departmental Leadership team forum. We sought volunteers to provide cover in the event shift working was required. We have also developed a close working partnership with MOD which proved extremely valuable in helping to resource our resilience and emergencies operating centre based in Bristol. This partnership will now be extended to also help provide resource for our departmental operating centre based in London. This work has provided a solid foundation on which to prepare for the new scheduled exit date of 31 October.

We offer great careers

This priority is focused on supporting our people's career journeys, including developing a strong early careers offer, and on maintaining a business focused learning offer which supports professional development and accelerates talent.

We will develop a career offer which provides accessible toolkits, information and development support for people at each of the different stages of their career. The progress we have made in developing our early careers offer is reflected in the fact that we are one of only four departments with a "green" rating from the Cabinet Office on how we manage recruitment to our apprenticeships scheme. Our new Advance Programme for Administration Officers and Executive Officers offers a structured programme for participants at junior grades to acquire key skills and experiences and to progress at an accelerated rate.

We are diverse and inclusive

We have implemented a new Diversity and Inclusion action plan informed by consultation with our people and supported by a panel of external advisors. The plan contains three strategic aims:

- to bring in diverse talent
- to bring on and grow diverse talent
- to build an inclusive culture for all.

Representation of protected groups continues to remain stronger in the department than the Civil Service overall particularly in our Senior Civil Service (SCS) grades. Across the Civil Service we rank as second highest representation for women and people declared LGBT+, third highest for people from an ethnic minority background and fourth highest for people declared disabled in SCS roles. We have undertaken plans to further improve declaration rates for both ethnicity and disability and started gathering data about socio-economic background in 2019, a year ahead of the Civil Service ambition to introduce these measures (2020).

All our senior recruitment panels now include a BAME and/or disabled individual. We were named within Business In the Community's Best Employers for Race list for the first time in 2018 and shortlisted for a recruitment award for our work in growing the proportion of new entrants to SCS roles for people from an ethnic minority background. Our people survey score of 84% for Inclusion and Fair Treatment places us as the top performer across Whitehall. Diversity and Inclusion is celebrated part of our culture and ways of working at MHCLG. We have 20 staff networks with volunteers organising events, workshops and creating policy and change to support their group. Each of our ET members partner with one of the main protected characteristic groups to provide a Champion role, with an additional Champion for Social Mobility. Commitment from senior staff includes all having an individual Diversity and Inclusion objective which we have published on our intranet for all colleagues to access.

We have been awarded a Gold rating in the 'Mind Wellbeing at Work Index'. This reflects the fact that the department has successfully embedded mental health into its policies and practices using a variety of best practice approaches and demonstrating a long-term, in-depth commitment to staff mental health. Our lead for this work was recognized through the 'Cabinet Secretary's Inclusion Award' on Wellbeing and Mental Health Awareness. Just under 90% of our senior leaders have taken part in Wellbeing Confident Leaders training within the department.

We have confident managers and empowering leaders

This priority seeks to develop our managerial capability and design and deliver a new approach to performance management and provide a business-driven senior leadership offer.

We have delivered a 'Brilliant Manager' programme to enhance our management capability with the aim of establishing confident, engaged and knowledgeable managers who value, support and inspire the people they manage. We are on target to train 50% of new managers initially. We have further supported our managers through volunteer management coaches.

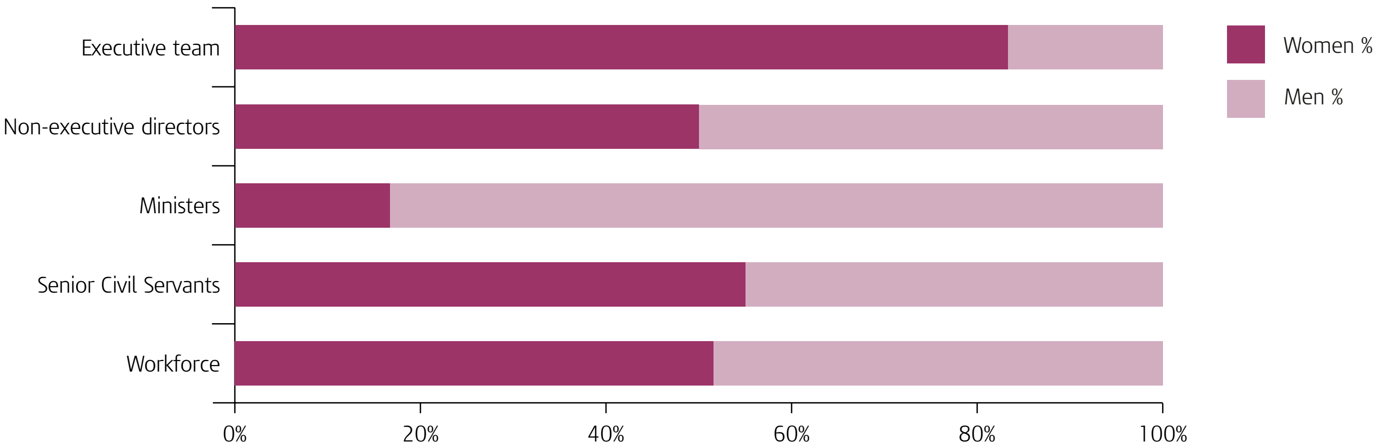
Our review of Performance Management is progressing with the aim that our new approach, focused more on business outcomes, the quality of performance conversations, appropriate development support and a process which demonstrates an inclusive approach for all our people, will begin to come on stream in 2019. We are finalising the process through a series of 'co-creation' workshops.

Staff Data

Gender Diversity

The department's gender diversity statistics are shown in the graph below. In January 2018 we published data on our gender pay gap in line with other employers.[24] The MHCLG Group gender pay gap data for 31 March 2019 will be published in December 2019 as part of a co-ordinated publication exercise across all Whitehall departments.

Staff Diversity by Gender - Core Department as at 31 March 2019



Health & Safety and Attendance Management

The department's safety performance has remained strong during 2018-19. No accidents were reported to the Health and Safety Executive under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) in 2018-19 (none in 2017-18). The Reportable Accident Rate was calculated as 0 per 100,000 employees. A total of four accidents were reported by employees in 2018-19, against two in 2017-2018.

The department's sickness absence has improved in 2018.

Average Working Days Lost

	Jan - Dec 2018 (AWDL)(1)	Jan - Dec 2017 (AWDL)(1)
Civil Service	6.8(2)	6.8
Core Department	3.9	4.9
Executive Agency	6.9	7.5

(1) AWDL: Average working days lost.

(2) Civil Service AWDL is based on January 2017 - January 2018 data.

Staff with no sickness absence

	Jan-Dec 2018	Jan-Dec 2017
Core Department	71%	70%
Executive Agency	54%	49%

24 https://www.gov.uk/government/publications/mhclg-gender-pay-gap-report-and-data-2018

Trade Union Facility time

The following data relates to both the core department and executive agency (HE) combined.

Relevant union officials

Number of employees who were relevant union officials during 1 April 2018 - 31 March 2019	Full-time equivalent employee number
42	41.92

Percentage of time spent on facility time

Percentage of time	Number of employees
0%	12
1-50%	30
51%-99%	-
100%	-

Percentage of pay bill spent on facility time

	Figures
Total cost of facility time	£126,975
Total pay bill	£152,803,000
Percentage of the total pay bill spent on facility time	0.08%

Paid trade union activities

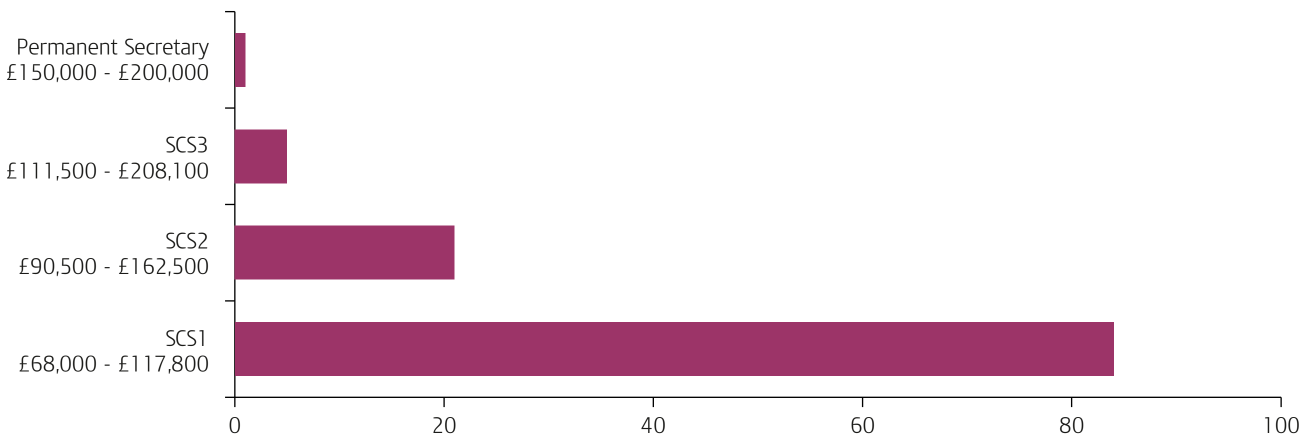
Time spent on paid trade union activities as a percentage of total paid facility time hours	0%

Some relevant union officials did not spend facility time on union activities.

Senior Civil Service salaries and staffing

At 31 March 2019 there were 111 Senior Civil Service staff, including the Permanent Secretary, on the core department's payroll.

SCS Headcount by pay band as at 31 March 2019



Staff numbers and related costs (subject to audit)

The following sections below have been subject to audit: staff costs, average number of full time equivalent persons employed, and reporting of civil service and other compensation schemes.

Staff costs[25]

£'000

	2018-19					2017-18
	Permanently Employed Staff	Others	Ministers	Special Advisers	Total	Total
Wages & Salaries	172,277	12,865	291	184	185,617	149,040
Social Security Costs	19,710	34	33	22	19,799	16,285
Pension Costs	46,132	34	-	29	46,195	39,812
Total Costs	**238,119**	**12,933**	**324**	**235**	**251,611**	**205,137**
Less Recoveries in respect of outward secondments	(2,284)	-	-	-	(2,284)	(2,097)
Total Net Costs	**235,835**	**12,933**	**324**	**235**	**249,327**	**203,040**
Of which:						
Core Department	109,960	7,469	324	235	117,988	89,594
Agency	34,226	589	-	-	34,815	31,771
Designated Bodies	93,933	4,875	-	-	98,808	83,772

Average number of full-time equivalent persons employed

	2018-19					2017-18
	Permanent staff	Others	Ministers	Special Advisers	Total	Total
Core Department	1,634	378	6	3	2,021	1,610
Agency	636	15	-	-	651	610
Designated Bodies	1,279	116	-	-	1,395	1,138
Total	3,549	509	6	3	4,067	3,358

Staff redeployments

In accordance with "Transfers within the Civil Service" (February 2019), short-term staff loans of up to six months remained on the payroll and terms and conditions of their home department and the host department bore no responsibility for the costs of the loaned staff. 53 MOD staff were loaned to the department for EU exit work. The average duration was two months. If the cost had been incurred by the department, the staff would have been classified in programme budgets. A breakdown for 2018-19 by grade is shown below.

Grade	No. Staff
G7	16
G6	5
SEO	9
HEO	20
EO	3
Total	**53**

25 Special Advisers wages and salaries in 2017-18 included compensation in lieu of notice and untaken holiday pay paid to them on their resignation preceding the 2017 general election.

The Principal Civil Service Pension Scheme (PCSPS)

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

For 2018-19, employers' contributions of £ 22,462,367.89 (2017-18: £18,578,296) were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. For 2018-19, employers' contributions of £154,976 (2017-18: £157,301) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%. Employers also match employee contributions up to 3% of pensionable earnings. In addition, for 2018-19, employer contributions of 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the accounting date were £14,662 (2017-18: £6,185). Contributions prepaid at that date were nil.

One member of staff (2017-18: one) retired early on ill-health grounds; the additional accrued pension liabilities in the year amounted to £8,430 (2017-18: nil).

Reporting of civil service and other compensation schemes – exit packages

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

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

			2018-19	2017-18			2018-19	2017-18
	Core Department and Agency				Departmental Group			
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total number of exit packages by cost band
<£10,000	-	-	-	3	-	-	-	3
£10,000 - £25,000	-	-	-	15	-	-	-	18
£25,000 - £50,000	-	-	-	25	-	-	-	30
£50,000 - £100,000	-	7	7	24	-	10	10	28
£100,000 - £150,000	-	-	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-	-	-
£200,001 onwards	-	-	-	-	-	-	-	-
Total number of exit packages	**–**	**7**	**7**	**67**	**-**	**10**	**10**	**79**
			£'000	£'000			£'000	£'000
Total cost	-	**494**	**494**	**3,038**	**–**	**755**	**755**	**3,592**

Expenditure on Consultancy and Temporary Staff

			£000
	2018-19	2017-18	2016-17
Cost of Contingent Labour			
Core Department	4,819	1,640	1,236
Executive Agency	3,453	1,908	2,251
ALBs	5,105	3,052	2,502
Total	13,377	6,600	5,989
Cost of Consultancy			
Core Department	3,169	336	140
Executive Agency	93	-	-
ALBs	46	69	16
Total	3,308	405	156
Overall Total	**16,685**	**7,005**	**6,145**

Note: Contingent Labour - This is the provision of workers to cover business-as-usual or service delivery activities within an organisation. Temporary Staff are also often referred to as "Contingent Labour".

Note: Consultancy staff - This is the provision to management of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the business-as-usual environment when in-house skills are not available and will be time-limited.

Figures include VAT as applicable and irrecoverable

The increase in consultancy and contingent labour costs in 2018-19 is due to a number of factors. Planned building of capability and some urgent resourcing requirements to support our EU exit resourcing.

In 2018-19, we built the CFO function in earnest - building capability in our central functions including Digital. A number of contractors were brought in to support the build of the digital function and the roll out of the new IT software. We also relied on some contingent labour in our contingency planning for Yellow Hammer to resource some urgent and pressing resource gaps.

Reporting the tax arrangements of public sector appointees

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

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

Off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months	Main Department	Agency	ALBs
No. of existing engagements as of 31 March 2019	**25**	**102[2]**	**33**
of which have existed for:			
less than one year at time of reporting	12	98	26
between one and two years at time of reporting	7	4	4
between two and three years at time of reporting	1	0	3
between three and four years at time of reporting	1	0	0
four years or more at time of reporting	4[1]	0	0

(1) These are independent expert assessors approved by the Secretary of State to assess prospective Tenant Management Organisations. The assessors' employment is sporadic, and these roles cannot be fulfilled by on-payroll staff because this work must be carried out by experts who are independent from Government.

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

New off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months	Main Department	Agency	ALBs
No. of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019	**17**	**106**	**18**
Of which:			
No. assessed as caught by IR35	1	0	5
No. assessed as not caught by IR35	16	106	13
No. engaged directly (via Personal Service Company contracted to Department) and are on the departmental payroll	0	0	0
No. of engagements reassessed for consistency/assurance purposes during the year	0	7	10
No. of engagements that saw a change to IR35 status following the consistency review	0	0	0

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019	Main Department	Agency	ALBs
No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility, during the financial year	0	0	4[3]
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	12	77

(3) Homes England had an interim CFO on off-payroll to provide certainty for the end of the financial year. This is a six month appointment until July 2019.
An off-payroll interim FD was appointed to QEII for under five months following the unexpected death of the then current FD. The off-payroll arrangement ended when a permanent replacement was appointed.
The other two individuals are secondees with the Housing Ombudsman Service who are on their parent organisation's payroll.

Parliamentary Accountability and Audit Report

Introduction

As described on page 29, the Parliamentary Accountability and Audit Report includes three sections: the Statement of Parliamentary Supply, Parliamentary Accountability Disclosures and the Certificate and Report of the Comptroller and Auditor General. This introduction provides further detail on the figures presented in the Statement of Parliamentary Supply and in the Core Tables of the Parliamentary Accountability Disclosure section.

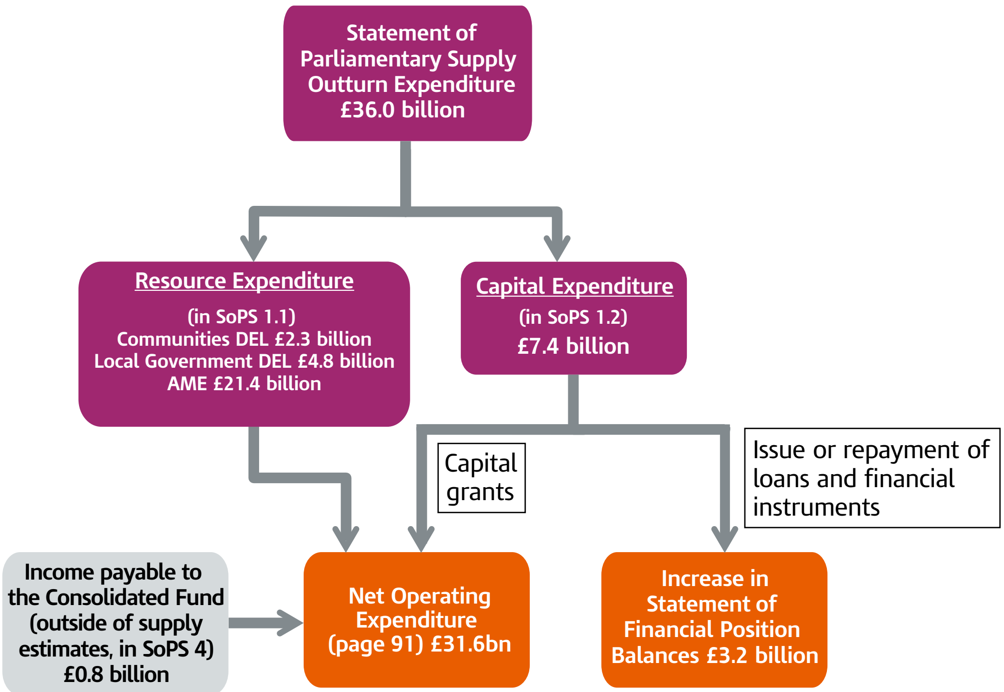
The department's spending is shown in two presentations in the Annual Report and Accounts.

The **Parliamentary Accountability and Audit Report** presents the department's spend against the budgets set by Parliament in Supply Estimates. The final budgets for the year were set in the Supplementary Estimates[26].

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

The **Financial Statements** meanwhile apply International Financial Reporting Standards (IFRS) as adapted for Government by the Financial Reporting Manual (FReM).

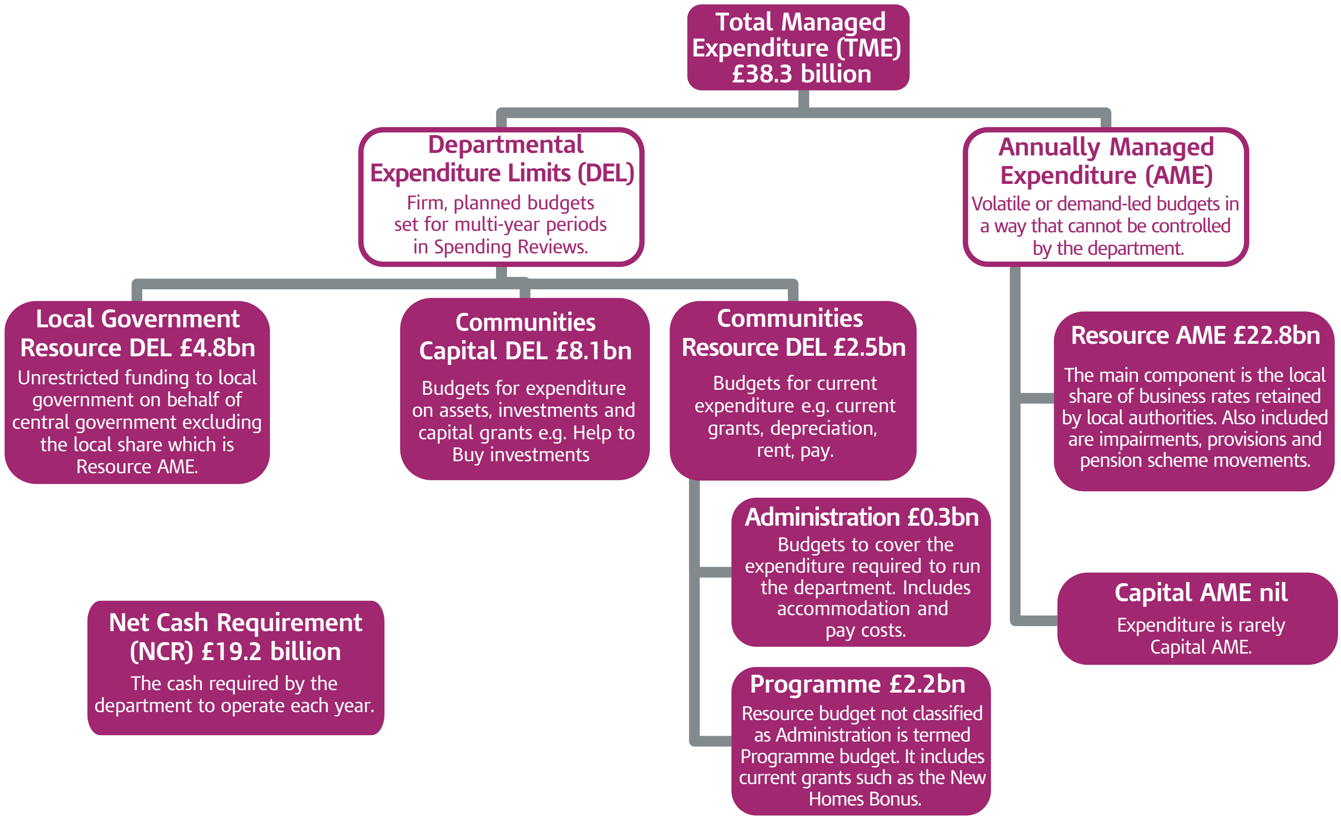
The diagram below shows how total spending from one presentation relates to the other. A more detailed reconciliation between resource expenditure in note Statement of Parliamentary Supply (SoPS) 1.1 and net operating expenditure in the Statement of Comprehensive Net Expenditure in the Financial Statements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



26 Supplementary Estimates 2018-19

The Department's Budget and Outturn

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



SoPS 1.1 and SoPS 1.2 report expenditure against each DEL or AME budgetary control limit, split by specific area of departmental expenditure, for example Housing & Planning or Troubled Families. SoPS 1.1 reports resource expenditure and SoPS 1.2 reports capital expenditure. The specific areas of departmental expenditure in budgets are called estimate rows. The Core Tables on page 77 present expenditure at the same level of detail (i.e. by estimate row) and on the same basis as SoPS 1.1 and SoPS 1.2 over a six year period.

The table on the next page shows the main streams of expenditure contained within each estimate row presented in SoPS 1.1, SoPS 1.2 and the Core Tables. Costs classified as administration expenditure by HM Treasury are all incurred within Communities Resource DEL. The administration expenditure Core Table provides a subset of figures from the Departmental Resource Spending Core Table. The Administration Costs table in the SoPS provides a subset of figures from the summary of Resource and Capital Outturn table and SoPS 1.1.

Estimate Row	Main Expenditure Streams
Communities DEL Estimate Rows	
A: Local Government & Public Services	• London Settlement • Controlling Migration Fund • Supporting those affected by the Grenfell Tower disaster
B: Housing and Planning	• New Homes Bonus • Flexible Homelessness Support Grant • PFI Housing Grants • Manchester Housing Investment Fund • Expenditure of the Planning Inspectorate - most of which is classified as Administration expenditure
C: Decentralisation & Local Growth	• Devolution Deals • Local Growth Fund
D: Troubled Families	• Troubled Families Programme
E: Research, Data and Trading Funds	• Research & Development expenditure • European Regional Development Fund related write-offs • Dividends from Queen Elizabeth II Conference Centre (Trading Fund)
F: MHCLG Staff, Building and Infrastructure Costs	Expenditure on the day to day running of the department, which is mainly classified as administration expenditure including: • Staff Pay • Estates costs e.g. rent, rates, utilities • IT Infrastructure
G: Local Government & Public Services (ALB)(Net)	• Expenditure of the Valuation Tribunal Service (VTS) and the Commission for Local Administration in England (CLAE) - the majority of which is classified as Administration expenditure
H: Housing and Planning (ALB)(Net)	Expenditure by Homes England (HE) (trading name of the Homes and Communities Agency) on programmes including: • Help to Buy • Affordable Homes Programme • Home Building Fund • Land Assembly Fund • Investment income received by HE • Administration expenditure by HE on staff and estates • Expenditure by the Leasehold Advisory Service (LAS) and The Housing Ombudsman (THO) - most of which is classified as Administration expenditure • Expenditure by the Ebbsfleet Development Corporation and the Regulator of Social Housing - both Administration and Programme expenditure
Local Government DEL Estimate Rows	
I: Revenue Support Grant	• Revenue support grant - central government funding provided to support local government services
J: Other Grants and Payments	• Business rates and council tax reliefs and support • Additional Better Care Fund grant • Grant funding for former recipients of Independent Living Fund • Adult Social Care support grant
K: Business Rates Retention	• Payments to local authorities whose income from business rates is below a baseline level
AME Estimate Rows	
L: Housing & Planning; and	• Impairments of non-current and financial assets
Q: Housing & Planning (ALB)	• Issue of Affordable Housing and Private Rented Sector Guarantees from 2014-15 onwards
M: Research, Data and Trading Funds	• Unrealised exchange rate losses and gains
N: MHCLG Staff, Building and Infrastructure Costs	• Expenditure by the core department on creation and release/utilisation of provisions and revaluation of estates
O: Non-Domestic Rates Outturn Adjustment	• Expenditure relating to year-end adjustments for business rates retention outturn.
P: Local Government & Public Services (ALB) (Net)	• Expenditure on pensions by the Valuation Tribunal Service (VTS) and the Commission for Local Administration England (CLAE)
R: Business Rates Retention	• Includes the local share of business rates collected and retained by local authorities as well other business rates retention payments and receipts

Statement of Parliamentary Supply (subject to audit)

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

Summary of Resource and Capital Outturn 2018-19

£'000

		2018-19							2017-18
		Estimate			Outturn			Outturn compared with Estimate:	Outturn
	SoPS Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	saving/(excess)	Net Total
Spending in Departmental Expenditure Limit (DEL) – MHCLG Communities									
Resource	1.1	**2,535,537**	–	2,535,537	**2,328,243**	–	2,328,243	**207,294**	2,371,529
Capital	1.2	**8,118,237**	–	8,118,237	**7,423,772**	–	7,423,772	**694,465**	6,633,607
Spending in DEL – MHCLG Local Government									
Resource	1.1	**4,837,976**	–	4,837,976	**4,833,828**	–	4,833,828	**4,148**	6,713,538
Capital	1.2	–	–	-	–	–	-	–	-
Spending in Annually Managed Expenditure (AME)									
Resource	1.1	**22,817,644**	–	22,817,644	**21,386,517**	–	21,386,517	**1,431,127**	15,936,171
Capital	1.2	–	–	-	–	–	-	–	-
Total Resource	1.1	**30,191,157**	–	30,191,157	**28,548,588**	–	28,548,588	**1,642,569**	25,021,238
Total Capital	1.2	**8,118,237**	–	8,118,237	**7,423,772**	–	7,423,772	**694,465**	6,633,607
Total		**38,309,394**	–	38,309,394	**35,972,360**	–	35,972,360	**2,337,034**	31,654,845

Net Cash Requirement 2018-19

£'000

		2018-19			2017-18
	SoPS Note	Estimate	Outturn	Outturn compared with Estimate: saving/(excess)	Outturn
Net Cash Requirement	3	**19,249,208**	**15,595,231**	3,653,977	16,527,714

Administration Costs 2018-19

£'000

		2018-19			2017-18
	SoPS Note	Estimate	Outturn	Outturn compared with Estimate: saving/(excess)	Outturn
Administration Costs		**298,167**	**254,907**	43,260	223,716

Notes to the Statement of Parliamentary Supply

SoPS 1.1 Analysis of Net Resource Outturn by Section

£'000

	2018-19										2017-18
	Outturn							Estimate			Outturn
	Administration			Programme							
	Gross	Income	Net	Gross	Income	Net	Total	Net Total	Net total compared to Outturn	Net total compared to Outturn, adjusted for virements[2]	Total
Spending in Resource Departmental Expenditure Limit (RDEL) – MHCLG Communities											
Voted expenditure											
A Local Government & Public Services	-	-	-	177,115	(2,970)	174,145	174,145	124,706	(49,439)	-	136,544
B Housing and Planning	52,331	(16,247)	36,084	1,549,281	(12,027)	1,537,254	1,573,338	1,607,258	33,920	5,129	1,765,519
C Decentralisation & Local Growth	-	-	-	456,262	(278,116)	178,146	178,146	170,414	(7,732)	-	113,318
D Troubled Families	-	-	-	174,370	-	174,370	174,370	185,921	11,551	-	213,618
E Research, Data and Trading Funds	-	-	-	5,909	(2,989)	2,920	2,920	17,514	14,594	-	1,531
F MHCLG Staff, Building and Infrastructure Costs	204,045	(42,550)	161,495	7,055	(2,482)	4,573	166,068	203,601	37,533	35,298	136,859
G Local Government & Public Services (ALB) (Net)[1]	17,789	-	17,789	-	-	-	17,789	17,924	135	135	19,115
H Housing and Planning (ALB) (Net)[1]	39,539	-	39,539	1,928	-	1,928	41,467	208,199	166,732	166,732	(14,975)
Total Voted	**313,704**	**(58,797)**	**254,907**	**2,371,920**	**(298,584)**	**2,073,336**	**2,328,243**	**2,535,537**	**207,294**	**207,294**	**2,371,529**
Total spending in RDEL – MHCLG Housing and Communities	**313,704**	**(58,797)**	**254,907**	**2,371,920**	**(298,584)**	**2,073,336**	**2,328,243**	**2,535,537**	**207,294**	**207,294**	**2,371,529**

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

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

£'000

										2018-19	2017-18
	Outturn							Estimate			Outturn
	Administration			Programme							
	Gross	Income	Net	Gross	Income	Net	Total	Net Total	Net total compared to Outturn	Net total compared to Outturn, adjusted for virements[1]	Total
Spending in Resource DEL – MHCLG Local Government											
Voted expenditure											
I Revenue Support Grant	-	-	-	1,378,991	-	1,378,991	1,378,991	1,378,991	-	-	3,799,500
J Other Grants and Payments	-	-	-	3,500,766	(49,859)	3,450,907	3,450,907	3,455,055	4,148	4,148	2,904,784
K Business Rates Retention	-	-	-	3,930	-	3,930	3,930	3,930	-		9,254
Total spending in RDEL – MHCLG Local Government	**–**	**–**	**–**	**4,883,687**	**(49,859)**	**4,833,828**	**4,833,828**	**4,837,976**	**4,148**	**4,148**	**6,713,538**
Total RDEL spend	**313,704**	**(58,797)**	**254,907**	**7,255,607**	**(348,443)**	**6,907,164**	**7,162,071**	**7,373,513**	**211,442**	**211,442**	**9,085,067**

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

£'000

										2018-19	2017-18
	Outturn							Estimate			Outturn
	Administration			Programme					Net total compared to Outturn	Net total compared to Outturn, adjusted for virements[2]	
	Gross	Income	Net	Gross	Income	Net	Total	Net Total			Total
Spending in Resource Annually Managed Expenditure (RAME)											
Voted expenditure											
L Local Government & Public Services	-	-	-	7,903	-	7,903	7,903	8,311	408	408	33,466
M Housing and Planning	-	-	-	10,718	(4,550)	6,168	6,168	116,161	109,993	107,174	11,902
N Research, Data & Trading Funds	-	-	-	(74)	-	(74)	(74)	8,100	8,174	2,372	(12,262)
O MHCLG Staff, building and infrastructure costs	-	-	-	1,267	-	1,267	1,267	(1,552)	(2,819)	-	6,172
P Non-Domestic Rates Outturn Adjustment	-	-	-	(10,818)	-	(10,818)	(10,818)	50,000	60,818	60,818	30,167
Q Local Government & Public Services (ALB) (Net)[1]	-	-	-	2,356	-	2,356	2,356	3,118	762	762	803
R Housing & Planning (ALB) (Net)[1]	-	-	-	174,889	-	174,889	174,889	875,474	700,585	700,585	143,962
S Business Rates Retention	-	-	-	22,921,451	(1,722,427)	21,199,024	21,199,024	21,758,032	559,008	559,008	15,721,961
T Decentralisation & Local Growth	-	-	-	5,511	291	5,802	5,802	-	(5,802)	-	-
Total spending in RAME	**-**	**-**	**-**	**23,113,203**	**(1,726,686)**	**21,386,517**	**21,386,517**	**22,817,644**	**1,431,127**	**1,431,127**	**15,936,171**
Total RDEL & RAME spend	**313,704**	**(58,797)**	**254,907**	**30,368,810**	**(2,075,129)**	**28,293,681**	**28,548,588**	**30,191,157**	**1,642,569**	**1,642,569**	**25,021,238**

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

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

SoPS 1.2 Analysis of Net Capital Outturn by Section

£'000

	2018-19						2017-18
	Outturn			Estimates			Outturn
	Gross	Income	Net	Net Total	Net Total compared to Outturn	Net total compared to Outturn, adjusted for virements[2]	Net
Spending in Capital Departmental Expenditure Limit (CDEL) – MHCLG Communities							
Voted expenditure							
A Local Government & Public Services	885,338	-	885,338	856,794	(28,544)	-	771,575
B Housing and Planning	1,013,410	(558,658)	454,752	816,554	361,802	327,864	78,555
C Decentralisation and Local Growth	1,488,664	(298,202)	1,190,462	1,185,204	(5,258)	-	1,455,048
D Troubled Families	696	-	696	1,041	345	345	532
E Research, Data & Trading Funds	6,279	(3,208)	3,071	5,621	2,550	2,550	2,209
F MHCLG Staff, building and infrastructure costs	14,638	(714)	13,924	13,788	(136)	-	6,544
G Local Government & Public Services (ALB) (Net)[1]	496	-	496	546	50	50	448
H Housing and Planning (ALB) (Net)[1]	4,875,033	-	4,875,033	5,238,689	363,656	363,656	4,318,696
Total spending in CDEL – MHCLG Communities	**8,284,554**	**(860,782)**	**7,423,772**	**8,118,237**	**694,465**	**694,465**	**6,633,607**

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

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

SoPS 2 Reconciliation of Net Resource Outturn to Net Operating Expenditure

£'000

		SoPS Note	2018-19	2017-18
Total Resource Outturn in Statement of Parliamentary Supply:		1.1	28,548,588	25,021,238
Add:	Capital grants		3,207,500	2,751,277
	Capital budget adjustments[1]		18,097	(70,719)
	Asset transfers		50	27,582
Less:	Income outside the ambit of the estimate payable to the Consolidated Fund	4.1	(180,994)	(174,716)
Net Operating Expenditure in Consolidated Statement of Comprehensive Net Expenditure			**31,593,241**	**27,554,662**

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

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

£'000

	SoPS Note	2018-19		
		Estimate	Outturn	Net total outturn compared with Estimate: saving/(excess)
Resource Outturn	1.1	30,191,157	28,548,588	1,642,569
Capital Outturn	1.2	8,118,237	7,423,772	694,465
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation and amortisation		(139,637)	(5,613)	(134,024)
New provisions and adjustments to previous provisions		(3,294)	(2,070)	(1,224)
Other non-cash items		(20,690,547)	(19,473,956)	(1,216,591)
Adjustments for NDPBs:				
Remove voted resource and capital		(6,343,950)	(5,112,030)	(1,231,920)
Add cash grant-in-aid		4,717,525	4,143,550	573,975
Adjustments to reflect movements in working balances:				
Increase/(decrease) in inventories		-	(84,552)	84,552
Increase/(decrease) in receivables		-	(98,858)	98,858
(Increase)/decrease in payables		3,395,032	251,179	3,143,853
Use of provisions and pension fund adjustments		4,685	3,776	909
Other Adjustments		-	1,445	(1,445)
Net cash requirement		**19,249,208**	**15,595,231**	**3,653,977**

SoPS 4 Income payable to the Consolidated Fund

4.1 Analysis of income payable to the Consolidated Fund

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

£'000

	Outturn 2018-19		Outturn 2017-18	
	Income	*Receipts*	Income	*Receipts*
Income outside the ambit of the Estimate[1]	180,994	*180,994*	174,716	*174,716*
Other amounts collectable on behalf of the Consolidated Fund[2]	666,448	*666,448*	479,871	*479,871*
Total amount payable to the Consolidated Fund	**847,442**	***847,442***	**654,587**	***654,587***

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

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

4.2 Consolidated Fund income collected as agent

Consolidated Fund income shown in SoPS Note 4.1 above does not include any amounts collected by the department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statement published as part of the Annual Report and Accounts from page 127.

Parliamentary Accountability Disclosures

Financial Overview

Significant variances against Estimate

At the start of each year we estimate our costs for each budget type and we monitor these throughout the year. The size of our budget, along with economic, environmental and social changes means there will inevitably be some variance from our Estimates. The Statement of Parliamentary Supply on page 68 shows our 2018-19 outturn figures against Estimates.

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

	Estimate Subhead	Outturn £m	Budget £m	Variance to Estimate %	Explanation
	Resource Spending in Departmental Expenditure Limit (RDEL) – MHCLG Communities				
A	Local Government & Public Services	174	125	-39%	Additional amounts were spent in relation to EU Exit (£25m), providing funding to local authorities for them to spend on planning and strengthening their resources ahead of exiting the EU. The department also announced additional spending (£13m) on Parks, providing local authorities with funding to improve their parks and green spaces.
E	Research, Data & Trading Funds	3	18	84%	European Regional Development Fund (ERDF) programme write offs were lower than expected. Additional favourable movements in the exchange rate meant we did not incur the level of realised exchange rate losses on the ERDF programme that we had expected.
F	MHCLG Staff, Building and Infrastructure Costs	166	204	19%	Income from financial transactions was higher than initial expectations. Contingency held for other unforeseen expenditure was not needed.
H	Housing and Planning (ALB) (Net)	41	208	>100%	The legislative framework for Starter Homes is not yet in place so the £100m of depreciation budget for that programme was not needed. Income from financial transactions was higher than expected.
	Resource Spending in Annually Managed Expenditure (RAME)				
M	Housing and Planning	6	116	95%	The valuation of expected losses from financial guarantee liabilities was lower than expected.
N	Research, Data & Trading Funds	(0)	8	>100%	Favourable movements in the euro/sterling exchange rate meant that we did not incur the level of unrealised exchange rate losses on the ERDF programme that we had held budget for.
P	Non-Domestic Rates Outturn Adjustment	(11)	50	122%	Year end adjustments to the amounts due to local authorities were lower than expected (£50 million). The negative outturn is as a result of the release of accruals from the previous financial year that were not needed.
R	Housing & Planning(ALB) (Net)	193	875	78%	Impairments on housing market related assets owned by Homes England were lower than expected.
	Capital Spending in Departmental Expenditure Limit (CDEL) – MHCLG Communities				
B	Housing and Planning	455	817	44%	The underspend can be partly attributed to Social Sector Cladding due to a number of projects being unable to meet and evidence grant milestones. Another significant contributor to the underspend relates to Help to Buy, where demand for the scheme was lower than expected.
E	Research, Data & Trading Funds	3	6	49%	An underspend has emerged following a valuation adjustment in relation to the Regional Control Centres.

Core Tables[27] – Departmental Expenditure Outturn and Plans

The tables on the following pages show the department's expenditure outturn for 2018-19 and the four prior years, along with the planned expenditure for the next year.

The Spending Review in Autumn 2015 set the overall departmental budget up to 2019-20 for resource expenditure and to 2020-21 for capital expenditure. This budget has been amended in subsequent fiscal events and Estimates.

Autumn Budget 2017[28] announced a package of more than £15billion of new financial support over the next five years to support the objective to deliver the homes the country needs. This takes total financial support for housing to at least £44billion up to 2022-2023. In 2019-20, the new funding includes:

- additional funding for Help to Buy equity loan of £10billion across the SR period - £2.8billion in 2019-20;
- additional £1.5 billion in loan and equity funding as part of the Home Building Fund to support SMEs who cannot access the finance they need to build - £522 million in 2019-20; and
- £630 million of further funding for the Small Sites: Infrastructure and Remediation Fund to accelerate the building of homes on small or stalled sites, by speeding up on-site infrastructure and land preparation - £230 million in 2019-20.

At Autumn Budget 2018,[29] additional funding was announced to boost efforts to build the homes communities need further, restore the dream of home ownership, help our high streets and support councils to deliver local services. Funding was made available as follows:

- £620 million of funding for Future High Streets to help the regeneration of town centres through innovative proposals around transport, housing delivery and our public services - £14 million in 2019-20.
- £652 million of funding for Strategic Partnerships in the Affordable Housing Programme for the next wave of seven strategic partnerships with in housing associations - £227 million in 2019-20.

27 The values within all the Core Tables for the years 2013-14 to 2016-17 have been adjusted to strip out outturn figures for any functions that have been transferred in or out of the Department as part of Machinery of Government changes that have occurred since. The most significant change has been the transfer of the Fire Policy function which transferred to the Home Office on 1 April 2016.
28 https://www.gov.uk/government/topical-events/autumn-budget-2017
29 https://www.gov.uk/government/topical-events/budget-2018

Departmental Resource Spending	2014-15 Outturn £'000	2015-16 Outturn £'000	2016-17 Outturn £'000	2017-18 Outturn £'000	2018-19 Outturn £'000	2019-20 Plan £'000
Spending in DEL – MHCLG Communities						
Voted expenditure						
Of which:						
A: Local Government & Public Services	304,821	399,405	207,171	136,544	174,145	133,660
B: Housing and Planning	1,194,642	1,472,648	1,822,372	1,765,519	1,573,338	1,809,242
C: Decentralisation & Local Growth	188,246	68,896	136,825	113,318	178,146	214,752
D: Troubled Families	127,854	72,335	170,807	213,618	174,370	146,000
E: Research, Data and Trading Funds	30,208	(5,530)	13,987	1,531	2,920	21,162
F: MHCLG Staff, Building and Infrastructure Costs	141,199	158,755	135,424	136,859	166,068	198,446
Departmental Unallocated Provision	-	-	-	-	-	10,471
G: Local Government & Public Services (ALB) (net)	24,541	19,716	17,177	19,115	17,789	17,797
H: Housing and Planning (ALB) (net)	31,640	(12,308)	(15,518)	(14,975)	41,467	49,048
Total Voted	**2,043,151**	**2,173,917**	**2,488,245**	**2,371,529**	**2,328,243**	**2,600,578**
Non voted expenditure						
Housing and Planning	188	(358)	-	-	-	-
Total Non Voted	188	(358)	-	-	-	-
Total Spending in DEL – MHCLG Communities	**2,043,339**	**2,173,559**	**2,488,245**	**2,371,529**	**2,328,243**	**2,600,578**
Spending in DEL – MHCLG Local Govt						
Voted expenditure						
Of which:						
I: Revenue Support Grant	12,700,735	9,532,754	7,205,326	3,799,500	1,378,991	653,055
J: Other grants and payments	865,300	1,223,544	998,629	2,904,784	3,450,907	4,539,461
K: Business Rate Retention	90,790	1,417	25,151	9,254	3,930	13,281
Valuation Services	-	-	-	-	-	-
Local Government (ALB) (net)	-	-	-	-	-	-
Non-Domestic Rates Payments	-	-	-	-	-	-
London Governance	-	-	-	-	-	-
Audit Commission and Disbanding	-	-	-	-	-	-
Total Spending in DEL – MHCLG Local Govt	**13,656,825**	**10,757,715**	**8,229,106**	**6,713,538**	**4,833,828**	**5,205,797**
Total Resource DEL	**15,700,164**	**12,931,274**	**10,717,351**	**9,085,067**	**7,162,071**	**7,806,375**
Spending in Annually Managed Expenditure (AME)						
Voted expenditure						
Of which:						
Local Government & Public Services	-	(102)	5,511	33,466	7,903	-
L: Housing and Planning	(1,770)	4,454	68,391	11,902	6,168	161
M: Research, Data and Trading Funds	(22,078)	6,424	1,625	(12,262)	(74)	2,000
N: MHCLG Staff, Building and Infrastructure Costs	(2,176)	2,961	(3,854)	6,172	1,267	(1,162)
O: Non-Domestic Rates Outturn Adjustment	-	-	656	30,167	(10,818)	300,000
P: Local Government & Public Services (ALB) (Net)	(4,760)	408	2,428	803	2,356	2,860
Q: Housing and Planning (ALB) (Net)	78,232	34,238	77,745	143,962	174,889	710,518
R: Business Rate Retention	11,661,903	12,174,150	12,412,600	15,721,960	21,199,024	18,032,569
Decentralisation & Local Growth	-	7,282	2,000	1	5,802	6,100
Total Resource AME	**11,709,351**	**12,229,815**	**12,567,102**	**15,936,171**	**21,386,517**	**19,053,046**
Spending in Non-Budget Expenditure Limits						
Voted expenditure						
Prior Period Adjustment	(47,704)	-	-	-	-	-
Total Resource	**27,361,811**	**25,161,089**	**23,284,453**	**25,021,238**	**28,548,588**	**26,859,421**

Departmental Capital Spending	2014-15 Outturn £'000	2015-16 Outturn £'000	2016-17 Outturn £'000	2017-18 Outturn £'000	2018-19 Outturn £'000	2019-20 Plan £'000
Spending in DEL – MHCLG Communities						
Voted expenditure						
Of which:						
A: Local Government & Public Services	922,801	830,843	424,512	771,574	885,338	1,307,000
B: Housing and Planning	190,338	(7,937)	55,496	78,556	454,752	545,535
C: Decentralisation & Local Growth	894,567	1,328,023	1,756,812	1,455,050	1,190,462	1,057,347
D: Troubled Families	-	-	827	532	696	-
E: Research, Data and Trading Funds	5,493	-	21,188	2,210	3,071	5,805
F: MHCLG Staff, Building and Infrastructure Costs	2,870	(16,977)	4,652	6,545	13,924	14,000
G: Local Government & Public Services (ALB) (Net)	169	163	202	448	496	295
H: Housing and Planning (ALB) (Net)	2,316,235	1,715,215	2,850,232	4,318,690	4,875,033	6,689,179
Departmental Unallocated Provision	-	-	-	-	-	1,067,001
Total Spending in DEL – MHCLG Communities	**4,332,473**	**3,849,330**	**5,113,921**	**6,633,605**	**7,423,772**	**10,686,162**
Total Capital DEL	**4,332,473**	**3,849,330**	**5,113,921**	**6,633,605**	**7,423,772**	**10,686,162**
Spending in Annually Managed Expenditure (AME)						
Voted expenditure						
Of which:						
L: Housing and Planning	120,882	207,035	-	-	-	-
Total Spending in AME	**120,882**	207,035	-	**–**	**–**	**–**
Total Capital	**4,453,355**	**4,056,365**	**5,113,921**	**6,633,605**	**7,423,772**	**10,686,162**

Included within Departmental Resource Spending:

Administration budgets	2014-15 Outturn £'000	2015-16 Outturn £'000	2016-17 Outturn £'000	2017-18 Outturn £'000	2018-19 Outturn £'000	2019-20 Plan £'000
B: Housing and Planning	32,195	41,715	38,240	36,963	36,084	43,825
F: MHCLG Staff, Building & Infrastructure Costs	139,552	156,697	133,430	135,418	161,495	190,956
G: Local Government & Public Services (ALB) (Net)	24,541	19,716	17,177	19,110	17,789	17,797
H: Housing and Planning (ALB) (Net)	55,907	57,237	53,350	32,222	39,539	25,469
Total Voted	**252,195**	**275,365**	**242,197**	**223,713**	**254,907**	**278,047**
Housing and Planning - Contingency Fund Advance	188	(358)	-	-	-	-
Total Non Voted	**188**	**(358)**	**–**	**–**	**–**	**–**
Total Administration expenditure	**252,383**	**275,007**	**242,197**	**223,713**	**254,511**	**278,047**

Interpreting the Core Tables

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

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

Administration costs are included within the first section below regarding the Resource DEL - Communities budget. For further detail on the administration budget, please refer to page 68.

Resource DEL - Communities

- A: Local Government & Public Services - From 2017-18, the Valuation Office Agency budget for business rate valuation and appeals transferred to HMRC resulting in a fall in outturn from that year onwards.
- B: Housing and Planning - Spending fell in 2018-19 due to a reduction in the New Homes Bonus. Whilst the New Homes Bonus budget is lower again in 2019-20 this is offset by additional planned expenditure on the Right to Buy Pilot (£193m) and Rough Sleeping (£92m).
- C: Decentralisation and Local Growth - Expenditure increases as a result of the increased devolution deal budget. Planned expenditure also includes the new Stronger Towns Fund in 2019-20.
- D: Troubled Families - Payments on this programme are demand-led, with payment made in accordance with the programme results achieved by Local Authorities. The budget for 2019-20 has been allocated to match with expected delivery.
- E: Research Data and Trading Funds - The row includes a budget for potential write offs and exchange rate losses that may be incurred on the European Regional Development Fund (ERDF) programmes as such spending will vary from year to year.
- F: MHCLG Staff, Building and Infrastructure - The increase in our resource administration spend supported the employment of additional resources to deliver expanded programmes.

  These flexibilities include the retention of income from investment interest and charges to offset the costs of running the department (income is reflected on Estimate Row H). In 2018-19 the department could retain up to £72m. For 2019-20, we expect to generate income in excess of this cap and this will be returned to HM Treasury.

  HM Treasury has subsequently agreed to further flexibilities such as a budget switch from Programme to Administration budgets and additional funding to cover the increase in employer pension contribution rates, these have resulted in a peak in expected spend in 2019-20.
- H: Housing and Planning (ALB) (net) - The increase in expenditure can be attributed to additional spend on a number of programmes including the Community Housing Fund and also to the additional costs incurred in Resource DEL budgets to support expanding Capital DEL programmes. This is offset by an increase in income from investments which are classified as administration by HM Treasury.

Resource DEL - Local Government

- I: Revenue Support Grant - Part of the department's remit is to manage and provide funding to local government on behalf of central government. 12.5% of Local Government Resource DEL will be paid as Revenue Support Grant in 2019-20. This funding can be spent by local authorities on any service. The Revenue Support Grant is decreasing across this Spending Review period. However, local authorities have access to £46.4 billion of Core Spending Power in 2019-20, which represents a real-terms increase and a 2.8% increase in cash terms compared to the previous financial year. Core Spending Power is a wider measure of the resources available to local government, including council tax and retained business rates.

- J: Other Grants and Payments - In 2017-18, the local authority funding on this estimate row was increased by new expenditure on the Better Care Fund and Adult Social Care grants. In 2018-19 there is an increase in the value of the Business Rates Reliefs given to local authorities and Adult Social Care Winter Pressures grant. The increase in 2019-20 is due to the Better Care Fund grant reaching £1.8 billion (£1.1 billion in 2017-18) and the inclusion of the new Social Care grant (£410m).
- K: Business Rates Retention - The row provides budget for the safety net payments to local authorities whose income from business rates is below a baseline level. The 2019-20 budget of £13m includes some contingency to cover New Burden costs associated with business rates retail relief and year-end adjustments.

Resource AME

- L: Housing and Planning - Outturn has risen in previous years due to the increasing scope of the department's housing portfolio and larger expected exposure to changes in land values. The reduction seen for 2019-20 plans is due to Estimate Row Q now holding the majority of the budget previously recognised on this line.
- M: Research, Data and Trading Funds - The row provides budget for unrealised losses on foreign exchange movements that may occur as a result of the department's work as the Managing Authority of the ERDF programme.
- N: MHCLG Staff, Building and Infrastructure - The row provides budget for the creation and release of the core department's provisions. Note 16 provides more detail.
- O: Non-Domestic Rates Outturn Adjustment - The row contains a £300m budget for 2019-20 which has been set aside for outturn adjustments against prior year business rates expenditure.
- P: Local Government and Public Services (ALB) (net) - The row records the pension costs of the Valuation Tribunal Service (VTS) and the Commission for Local Administration in England (CLAE).
- Q: Housing and Planning (ALB) (net) - The department has set aside increasing budgets for AME to cover potential impairments or devaluations in the Group's portfolio of financial assets, including the Homes England interest in Help to Buy properties. The amount used each year has been much lower than budgeted as these impairments or devaluations have not materialised. The basis of measurement changed in 2018-19 with the application of IFRS 9, see Note 1.4.
- R: Business Rates Retention - Since 2013-14, local authorities have retained at least 50% of the business rates they collect, which forms a significant portion of their income. Retained business rates are recorded as a non-cash expenditure item in the department's accounts and the amount estimated to be retained by local authorities in 2018-19 is £20.2 billion. This is an increase over the 2017-18 estimate and reflects an expanded programme of 100% business rate pilots and growth. There is a year on year reduction in 2019-20 following the introduction of 75% business rates retention pilots following the end of the 100% business rate pilots in 2018-19.

Capital DEL – Communities

- A: Local Government & Public Services - 2019-20 planned expenditure predominantly relates to loans and grants awarded to the Greater London Authority as part of the London Settlement. The amounts due to be paid out under the London Settlement for 2019-20 are significantly higher than previous years due to the increased funding made available for the Affordable Homes Programme.
- B: Housing and Planning - Planned expenditure is on an increasing trajectory from 2017-18 as a result of planned capital expenditure under the new National Productivity Infrastructure Fund. Planned expenditure in 2019-20 is increased further still due to new spending plans including those for Cladding Remediation and further work on Brent Cross Thameslink Station.

- C: Decentralisation and Local Growth - The budget reduces over time due to a reduction in Local Growth Fund budget reflecting the funding profile available to the department.
- D: Troubled Families - The row records expenditure on research and development for the Troubled Families programme which was reclassified as capital expenditure by HM Treasury from 2016-17.
- E: Research, Data and Trading Funds - The row records other capital expenditure on research and development.
- F: MHCLG Staff, Building and Infrastructure - The row records the core department's expenditure on the purchase of non-current assets, mostly relating to IT system improvements.
- Departmental Unallocated Provision - The department has allocated budgets for 2019-20 based on the best available forecasts for the year however, this leaves a portion of the Capital DEL budget unallocated. In holding this unallocated amount, the department has flexibility to prioritise budgets in response to market conditions and to ensure that funding is allocated to programmes that are able to progress good quality, value for money programmes. The unallocated amount also provides contingency in the event of any unexpected movements.
- G: Local Government and Public Services (ALB)(net) - The row records capital expenditure on the purchase of non-current assets by two ALBs: the Valuation Tribunal Service (VTS) and the Commission for Local Administration in England (CLAE).
- H: Housing and Planning (ALB)(net) - Expenditure on the Help to Buy programme remains a significant proportion of the budget and expenditure is planned to continue increasing in 2019-20. The figures also include a significant increase in expenditure on both the Affordable Homes programme from 2017-18, and on the Home Building Fund from 2016-17.

Regularity of Expenditure (subject to audit)

Losses, special payments and gifts

Managing Public Money and the FReM require the department to produce a statement showing losses and special payments by value and by type. Where cases individually exceed £300,000, details of those cases must be disclosed.

	2018-19				2017-18			
	Core Department and Agency		Departmental Group		Core Department and Agency		Departmental Group	
	Cases	£'000	Cases	£'000	Cases	£'000	Cases	£'000
Losses (general)	23	7	100	17	38	36,229	106	36,247
Claims abandoned	53	5,962	83	17,762	55	9,773	69	11,317
Fruitless payments	-	-	-	-	5	232	5	232
Constructive losses	-	-	-	-	-	-	-	-

	2018-19				2017-18			
	Core Department and Agency		Departmental Group		Core Department and Agency		Departmental Group	
	Cases	£'000	Cases	£'000	Cases	£'000	Cases	£'000
Special Payments	96	3,403	96	3,403	89	1,878	89	1,878

In the normal course of administering the European Regional Development Fund (ERDF) and the Regional Growth Fund (RGF), which is now closed, the department pays grants to projects. When the project does not spend the grant in line with the conditions of the grant, the department seeks to recoup the funds. Where funds cannot be recouped, they are written off. There were nine ERDF payment recovery write-offs individually below £300,000 with a total value of just over £1 million. There were a further two ERDF, one RGF and one revenue support grant write-offs each greater than £300,000.

Homes England: In 2017-18, Homes England varied the terms of a legal agreement and recognised an impairment of £3,033,000 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 £500,000. This reflected changes to the terms of the agreement which reduced the contractual amount due. At this time, an additional write-off adjustment of £164,000 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 £3,697,000.

Cases over £300,000	£'000
Two ERDF payment recovery write offs each greater than £300,000 (claims abandoned)	1,390
One RGF payment recovery write off greater than £300,000 (claims abandoned)	2,666
Revenue support grant calculation error (claims abandoned)	592
Homes England: Loans written off	11,645

Further information on the revenue support grant calculation error is provided on page 41 of the Accountability Report.

Gifts, as defined by Managing Public Money, must also be disclosed and detailed where the value is greater than £300,000. Neither the department, nor its ALBs made any reportable gifts in 2018-19 (2017-18: nil).

Fees and Charges (subject to audit)

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

£'000

Objectives	2018-19 Full Cost	2018-19 Income	2018-19 Surplus/ (Deficit)	2017-18 Full Cost	2017-18 Income	2017-18 Surplus/ (Deficit)
Planning Inspectorate - Local plans, major specialist casework and national infrastructure	(14,505)	12,931	(1,574)	(11,581)	5,915	(5,666)
Planning Inspectorate - Local Plans	(5,383)	4,976	(407)	(4,234)	3,909	(325)
Planning Inspectorate - Other Major Specialist Casework	(4,273)	1,621	(2,652)	(3,738)	1,204	(2,534)
Planning Inspectorate - National Infrastructure	(4,849)	6,334	1,485	(3,609)	802	(2,807)
THO - Membership of Housing Ombudsman scheme	(5,968)	5,968	0	(5,811)	6,004	193
HCA - The Regulator of Social Housing(1)	(4,762)	4,762	-	(5,117)	5,117	-
RSH - The Regulator of Social Housing(2)	(5,695)	5,703	8	-	-	-
Total	**(30,930)**	**29,364**	**(1,566)**	**(22,509)**	**17,036**	**(5,473)**

(1) Statutory fees in relation to the regulation of Registered Provider (RPs) were charged from 1st October 2017
(2) RSH was previously part of the Homes and Communities Agency but became a standalone body in 2018-19

MHCLG Core does not have any fees where the full cost was over £2m

Ministerial Direction

Note 25 explains the Ministerial Direction on 8 May 2019 in relation to our Building Safety Programme. Further information is available on page 37.

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

Quantifiable

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

- The department operates a guarantee scheme for the affordable housing sector (AHGS), and at the accounting date £3.2 billion has been drawn down and is covered by the guarantee scheme. The AHGS closed to applicants in March 2016 and the programme is now in the portfolio management and monitoring phase, meaning there will be no new applicants or approvals. Therefore, there will be no further drawing against this scheme. The financial guarantees have been recognised in the Statement of Financial Position with a value of £26.6 million.
- The department has provided a Guarantee scheme for the private rented sector, guaranteeing debt of no more than £3.5 billion. At the accounting date, the department has approved borrowing of circa £1.5 billion of which £0.7 billion has been drawn down and is covered by the guarantee scheme. The guarantees have been valued in accordance with IFRS9 and have been recognised as a financial guarantee in the Statement of Financial Position with a value of £40.6 million.
- On the 7 May 2019, the department launched the ENABLE Build guarantee scheme, guaranteeing debt of no more than £1 billion. As the scheme was launched after the reporting date, no approved borrowing had been drawn down at the reporting date.

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

Unquantifiable

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

- The department provides a guarantee under the NewBuy scheme to underwrite a percentage of mortgage lending risk. These guarantees have been measured in accordance with IAS 37 as they do not fit the recognition criteria for a financial instrument under IFRS 9. Any liability arising as measured under IAS 37 is considered too remote for recognition as a contingent liability at the date of these accounts but is disclosed for parliamentary reporting and accountability purposes.
- The department has given an indemnity to the Official Receiver for the former Sahaviriya Steel Industries UK (SSI) Steel works site in Redcar, unlimited in value, to protect him against liabilities incurred in connection with activities undertaken by consultants carrying out site assessments activity on the site he had responsibility for keeping safe. An indemnity was also given to the South Tees Site Company (STSC) for the period when it held responsibility for keeping the site safe to cover all liabilities suffered or incurred as a result of the site assessment activity.
- In July 2018, the UK Government announced an extension of its guarantee of EU-funded projects after the UK has left the EU. The guarantee was originally announced in 2016.The guarantee now covers the following:

  a. The full Multiannual Financial Framework allocation for structural and investment funds over the 2014-20 funding period, with payments to beneficiaries made up to the end of 2023;

b. The payment of awards where UK organisations successfully bid directly to the European Commission on a competitive basis for EU funding projects while we remain in the EU (e.g. before Exit day), for the lifetime of the project;

c. The payment of awards where UK organisations successfully bid to the European Commission on a competitive basis to participate as a 3rd country after Exit, and until the end of 2020, for the lifetime of the project; and

d. The current level of agricultural funding under CAP Pillar 1 until 31 December 2020.

The financial settlement was agreed in principle by both the UK and EU, as set out in the draft Withdrawal Agreement of 25 November 2018. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified in the case of no deal, and UK organisations are unable to access EU funding. As a result, and due to MHCLG's responsibility for the European Structural Fund, the department discloses an unquantifiable contingent liability in relation to the European Regional Development Fund and discloses a further unquantifiable contingent liability in relation to the European Territorial Cooperation element of the European Regional Development Fund.

- To strengthen local authorities' ability to enforce building safety remediation action, the department has indemnified the Joint Inspection Team (JIT) for professional indemnity and for death and personal injury claims resulting from their advice. The local authority retains responsibility for decisions on enforcement. The indemnity is unquantifiable and will continue for the duration of the period over which the JIT operates and 6 years thereafter for professional indemnity, and 125 years for death and personal injury.

- On 21 May 2019, the department laid before Parliament an unquantifiable contingent liability related to the government's intention to take ownership of the Grenfell Tower site. The unquantifiable contingent liability will remain for the duration of the government's ownership of the site. The government will own the site until the community has determined the long term future of the site, and an appropriate body has been established. For further information, refer to events after the reporting period on page 125.

Melanie Dawes CB **8 July 2019**
Accounting Officer
Ministry of Housing, Communities and Local Government

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

Opinion on financial statements

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

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

In my opinion:

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

Opinion on regularity

In my opinion, in all material respects:

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

Basis of opinions

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

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 ability of the Ministry of Housing, Communities and Local Government and the Departmental

Group 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 Accounting Officer for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Ministry of Housing, Communities and Local Government's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are the Local Government Departmental Expenditure Limits (Resource and Capital), Communities Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

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

10 July 2019

Financial Statements

Consolidated Statement of Comprehensive Net Expenditure

For the year ended 31 March 2019 *All activities are continuing*

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

£'000

		2018-19		2017-18	
	Note	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Staff Costs	3	152,803	251,611	121,365	205,137
Operating Expenditure	4	33,495,162	34,671,824	30,637,089	31,457,716
Operating Income	5	(3,157,426)	(3,330,194)	(3,870,099)	(4,108,191)
Grant-in-aid to ALBs		4,143,550	-	3,703,023	-
Net Operating Expenditure for the year ended 31 March		**34,634,089**	**31,593,241**	**30,591,378**	**27,554,662**
Total Expenditure		37,791,515	34,923,435	34,461,477	31,662,853
Total Income		(3,157,426)	(3,330,194)	(3,870,099)	(4,108,191)
Net Operating Expenditure for the year ended 31 March		**34,634,089**	**31,593,241**	**30,591,378**	**27,554,662**
Other Comprehensive Net Expenditure:					
Items that will not be reclassified to net operating expenditure:					
Net (Gain)/Loss on:					
Pension Schemes	17	27,460	(13,714)	13,405	(23,990)
Income tax on items in other comprehensive expenditure		-	5,891	-	14,533
Disposal of available for sale assets recognised in net expenditure		-	-	-	82,849
Items that may be reclassified to net operating expenditure:					
Fair value gain on available for sale assets	11	-	-	-	(143,319)
Total comprehensive expenditure for the year ended 31 March		**34,661,549**	**31,585,418**	**30,604,783**	**27,484,735**

As a result of the adoption of IFRS 9, the department no longer holds assets classified as available-for sale so there are no disposals of available-for-sale financial assets or fair value gains on available-for-sale financial assets in 2018-19.

The Notes on pages 96 to 126 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2019

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

£'000

		31 March 2019		31 March 2018	
	Note	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Non-current assets					
Property, plant and equipment		26,620	34,862	21,856	26,621
Intangible assets		9,935	34,631	8,328	33,544
Investments in associates and joint ventures	6	5,000	52,149	251,492	1,113,921
Financial assets at fair value	7	106,224	11,983,729	-	-
Financial assets at amortised cost	9	341,469	1,216,695	-	-
Available for sale financial assets	11	-	-	99,482	9,053,430
Investment properties		72,752	72,752	65,022	65,022
Trade and other receivables	13	87,019	110,539	39,201	165,371
Total non-current assets		**649,019**	**13,505,357**	**485,381**	**10,457,909**
Current assets					
Inventories	12	62,868	915,602	147,420	927,443
Financial assets at fair value	8	-	70,086	-	-
Financial assets at amortised cost	10	65,165	584,143	-	-
Trade and other receivables	13	226,879	294,946	371,839	939,895
Cash and cash equivalents	14	256,592	543,099	1,588,308	1,838,863
Total current assets		**611,504**	**2,407,876**	**2,107,567**	**3,706,201**
Total Assets		**1,260,523**	**15,913,233**	**2,592,948**	**14,164,110**
Current liabilities					
Trade and other payables	15	994,140	1,476,731	2,573,269	2,971,202
Provisions	16	4,554	5,025	4,141	14,906
Total current liabilities		**998,694**	**1,481,756**	**2,577,410**	**2,986,108**
Non-current assets plus/less net current assets/liabilities		**261,829**	**14,431,477**	**15,538**	**11,178,002**
Non-current liabilities					
Trade and other payables	15	268,134	281,657	267,597	280,504
Provisions	16	14,030	26,442	16,146	32,039
Pensions	17	203,631	153,938	170,630	153,743
Financial guarantees		67,206	67,206	54,567	54,567
Total Non-current liabilities		**553,001**	**529,243**	**508,940**	**520,853**
Assets less liabilities		**(291,172)**	**13,902,234**	**(493,402)**	**10,657,149**
Taxpayers' equity					
General fund		(100,510)	14,035,825	(330,260)	10,801,822
Revaluation reserve		251	251	311	251
Pension reserve		(190,913)	(133,842)	(163,453)	(144,924)
Total taxpayers' equity		**(291,172)**	**13,902,234**	**(493,402)**	**10,657,149**

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

8 July 2019

The Notes on pages 96 to 126 form part of these accounts.

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

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

£'000

		2018-19		2017-18	
	Note	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Cash Flows from Operating Activities					
Net Operating Expenditure	SoCNE	(34,634,089)	(31,593,241)	(30,591,378)	(27,554,662)
Adjusted for:					
Finance costs	4,5	5,761	(77,256)	3,402	(41,432)
(Profit)/loss on disposal of non-current assets	4,5	183	8,338	-	(79,720)
Depreciation and amortisation	4	5,613	9,481	3,927	7,624
Revaluation of non-current assets passing through the SoCNE	4	(7,730)	(7,730)	(20,362)	(20,362)
Impairment of non-current assets	4	7,328	99,112	40,967	136,570
(Increase)/decrease in inventories	12	84,552	11,791	(89,488)	(269,126)
Other non cash transaction	4,5	7,671	9,537	44,505	43,817
(Increase)/decrease in trade & other receivables		33,693	49,500	(72,117)	(32,519)
Increase/(decrease) in trade & other payables		(251,179)	(169,596)	352,429	479,490
Movement in provisions	4	2,070	(1,805)	6,874	6,139
Utilisation of provision	16	(3,773)	(13,673)	(4,872)	(8,850)
Pension fund adjustments	17	(3)	8,891	(9,905)	(3,234)
Local share (business rates retained by local authorities)	4	20,118,760	20,118,760	14,587,527	14,587,527
Adjustments for Corporation Tax		-	(2,199)	-	(14,533)
Adjustments for net operating (gains)/losses - asset transfers	4,5	-	50	1,676	27,582
Net Cash outflow from operating activities		**14,631,143**	**(11,550,040)**	**(15,746,815)**	**(12,735,689)**
Cash Flows from Investing Activities					
Purchase of property, plant and equipment		(12,983)	(17,380)	(4,201)	(5,784)
Purchase of intangible assets		(4,090)	(6,206)	(2,930)	(27,015)
Financial assets issued		(190,000)	(4,483,823)	(231,188)	(4,015,002)
Proceeds on disposal of financial assets		1,466	862,402	13,295	605,998
Repayment of financial assets	7,8,9,10	81,206	426,658	99,113	324,949
Interest received	5	15,227	74,068	5,034	43,281
Other adjustments - investing activities		1,154	(8,888)	(34)	(34)
Net Cash inflow/(outflow) from investing activities		**(108,020)**	**(3,153,169)**	**(120,911)**	**(3,073,607)**

					£'000
		2018-19		2017-18	
	Note	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Cash Flows from Financing Activities					
From the consolidated fund (supply) - current year		14,241,146	14,241,146	16,536,782	16,536,782
Capital element of payments in respect of finance leases		(4,065)	(4,065)	(3,174)	(3,174)
Interest paid	4	(5,604)	(5,606)	(5,804)	(5,806)
Foreign exchange movements	4,5	1,043	1,043	3,577	3,577
Net Cash inflow/(outflow) from financing activities		**14,232,520**	**14,232,518**	**16,531,381**	**16,531,379**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(506,643)**	**(470,691)**	**663,655**	**722,083**
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		(1)	(1)	-	-
Payments due to the Consolidated Fund		(825,072)	(825,072)	(704,113)	(704,113)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(1,331,716)**	**(1,295,764)**	**(40,458)**	**17,970**
Cash and cash equivalents at the beginning of the period	14	**1,588,308**	**1,838,863**	**1,628,766**	**1,820,893**
Cash and cash equivalents at the end of the period	14	**256,592**	**543,099**	**1,588,308**	**1,838,863**

The Notes on pages 96 to 126 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2019

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

£'000

	Note	General Fund	Revaluation Reserve	Pension Reserve	Total Reserves
Balance at 31 March 2017		**7,848,071**	**307**	**(167,563)**	**7,680,815**
Changes in Accounting policy		-	-	-	-
Restated balance at 1 April 2017		**7,848,071**	**307**	**(167,563)**	**7,680,815**
Comprehensive Net Expenditure	SOCNE	(27,508,725)	-	23,990	(27,484,735)
Non cash charges - auditor's remuneration	4	416	-	-	416
Local share (business rates retained by local authorities)	4	14,587,527	-	-	14,587,527
Transfers between reserves		1,407	(56)	(1,351)	-
Total recognised income and expenses for 2017-18		**(12,919,375)**	**(56)**	**22,639**	**(12,896,792)**
Net Parlimentary Funding		16,527,713	-	-	16,527,713
CFERs payable to the Consolidated Fund	SoPS4.1	(654,587)	-	-	(654,587)
Sub Total		**15,873,126**	**-**	**-**	**15,873,126**
Balance at 31 March 2018		**10,801,822**	**251**	**(144,924)**	**10,657,149**
Changes in accounting policy	23	(36,462)	-	-	(36,462)
Restated balance at 1 April 2018		**10,765,360**	**251**	**(144,924)**	**10,620,687**
Comprehensive Net Expenditure	SOCNE	(31,599,132)	-	13,714	(31,585,418)
Non cash charges - auditor's remuneration	4	416	-	-	416
Local share (business rates retained by local authorities)	4	20,118,760	-	-	20,118,760
Transfers between reserves		2,632	-	(2,632)	-
Total recognised income and expenses for 2018-19		**(11,477,324)**	**-**	**11,082**	**(11,466,242)**
Net Parliamentary Funding		15,595,231	-	-	15,595,231
CFERs payable to the consolidated fund	SoPS4.1	(847,442)	-	-	(847,442)
Sub Total of Net Parliamentary Funding and CFERs payable		**14,747,789**	**-**	**-**	**14,747,789**
Balance at 31 March 2019		**14,035,825**	**251**	**(133,842)**	**13,902,234**

Changes in accounting policy relates to the first time adoption of IFRS 9 on 1 April 2018. The effect of implementing this new accounting standard is outlined in detail in Note 23.

The Notes on pages 96 to 126 form part of these accounts.

Core Department and Agency Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2019

£'000

	Note	General Fund	Revaluation Reserve	Pension Reserve	Total Reserves
Balance at 31 March 2017		**(200,007)**	**367**	**(150,048)**	**(349,688)**
Comprehensive Net Expenditure	SOCNE	(30,591,378)	-	(13,405)	(30,604,783)
Non cash charges - auditor's remuneration		416	-	-	416
Local share (business rates retained by local authorities)	4	14,587,527	-	-	14,587,527
Transfers between reserves		56	(56)	-	-
Total recognised income and expenses for 2017-18		**(16,003,379)**	**(56)**	**(13,405)**	**(16,016,840)**
Net Parlimentary Funding		16,527,713	-	-	16,527,713
CFERs payable to the Consolidated Fund	SoPS4.1	(654,587)	-	-	(654,587)
Sub Total		**15,873,126**	**-**	**-**	**15,873,126**
Balance at 31 March 2018		**(330,260)**	**311**	**(163,453)**	**(493,402)**
Changes in Accounting policy	23	(3,186)	-	-	(3,186)
Restated balance at 1 April 2018		**(333,446)**	**311**	**(163,453)**	**(496,588)**
Comprehensive Net Expenditure	SOCNE	(34,634,089)	-	(27,460)	(34,661,549)
Non cash charges - auditor's remuneration		416	-	-	416
Local share (business rates retained by local authorities)	4	20,118,760	-	-	20,118,760
Transfers between reserves		60	(60)	-	-
Total recognised income and expenses for 2018-19		**(14,514,853)**	**(60)**	**(27,460)**	**(14,542,373)**
Net Parliamentary Funding		15,595,231	-	-	15,595,231
CFERs payable to the consolidated fund	SoPS4.1	(847,442)	-	-	(847,442)
Transfers between reserves					
Sub Total		**14,747,789**	**-**	**-**	**14,747,789**
Balance at 31 March 2019		**(100,510)**	**251**	**(190,913)**	**(291,172)**

The Notes on pages 96 to 126 form part of these accounts.

Notes to the Departmental Accounts

Note 1. Statement of Accounting Policies

1. General

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

The accounting policies adopted are in accordance with the 2018-19 FReM issued by HM Treasury and apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Departmental Group for the purpose of giving a true and fair view has been selected.

2. Basis of consolidation

These Financial Statements consolidate those of the core department, the department's executive agency and those arm's length bodies (ALBs) which fall within the departmental boundary as defined by the FReM; these bodies make up the 'Departmental Group'. The Ministry of Housing, Communities and Local Government is the ultimate parent of the Departmental Group and its results, along with those of the department's executive agency The Planning Inspectorate, are presented in columns labelled 'Core Department & Agency'. Transactions between, and balances with, entities included in the Departmental Group are eliminated. A list of all those entities within the departmental boundary is given in Note 26.

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

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

- IFRS 16, as adapted and interpreted by the FReM, will be effective from 1 April 2020. The application of this standard will include the recognition of assets currently disclosed as operating leases as right of use assets with a corresponding lease liability. The option to use the revaluation model for subsequent measurement of right of-use assets has been withdrawn for the public sector so the cost model shall be applied. The public sector interpretation of the standard includes intra-UK government agreements where non-performance may not be enforceable by law. Short term and low value leases are not within scope. HM Treasury discount rates will be applied unless there is a readily determined interest rate implicit in the lease.

  Upon transition, the accounting policy choice to apply IFRS 16 retrospectively to each prior period presented in accordance with IAS 8 has been withdrawn for the public sector. The cumulative effects of initially applying IFRS 16 recognised at the date of initial application will be recognised as an adjustment to the opening balances of taxpayers' equity. The value of operating leases disclosed in 2018-19 is £205.7 million (Note 19).

4. Adoption of new and revised standards

IFRS 9: Financial Instruments

IFRS 9 Financial Instruments was introduced by the International Accounting Standards Board (IASB) in July 2014, replacing IAS 39 Financial Instruments: recognition and management. In the current year, the department has applied IFRS 9 and the related consequential amendments to other IFRS Standards such as IFRS 7 Financial Instruments. The date of initial application is 1 April 2018.

In accordance with the FReM, IFRS 9 is applied with adaptations relating solely to financial instruments within government. 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. Accordingly, the department has recognised 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 opening reserves. As a result, differing accounting policies apply to 2017-18 and 2018-19.

IFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities. All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The department has reviewed and assessed the existing financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Refer to notes 6 to 10 and 23 for details of these reclassifications.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the department to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. Refer to Financial Assets, below, for further detail.

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 identification of 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). The majority of the department's income is outside scope of this standard. Where there are performance obligations, such as on disposal of property, the recognition of revenue under IFRS 15 is not significantly different from revenue recognition under the previous standard.

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.

5. Segmental reporting

In accordance with IFRS 8: Operating Segments (IFRS 8), the department has considered the need to analyse its income and expenditure relating to operating segments. The department's operating costs are analysed into four operating segments. Activities in respect of Finance and Corporate Services, Strategy, Communications and Private Office are not reported as a segment as these are all administrative functions. They do not meet the specified criteria of a reportable segment in line with IFRS 8 because they do not directly impact on performance. The department does not consider that assets and liabilities can be meaningfully allocated to segments and manages and reports on assets and liabilities as a single block. Therefore, in accordance with IFRS 8, no breakdown of assets and liabilities by segment is given. See Note 2 for operational disclosures.

6. Significant estimates and judgements

The preparation of the financial statements requires management to make estimates and judgements that affect amounts reported. Estimates and judgements are based on knowledge of current facts and circumstances, historic experience and other relevant factors. Where significant estimates and judgements have been made, the relevant accounting policy or note to the accounts will provide further details. Note 18 sets out significant estimates and judgements in relation to Financial Instruments.

7. Inventories

The Homes England property/development assets, consisting of land and buildings, are valued in accordance with IAS2.

A valuation of the whole portfolio is carried out as at each reporting date by both internal and external qualified valuers, with independent external valuers appointed for the majority of the portfolio's value and also to value complex properties. The determination of the portfolio value, by its nature, involves a significant amount of estimation uncertainty and accordingly, is a significant estimate within the accounts. In all cases valuations are in accordance with the 'RICS Valuation - Global Standards 2017' Red Book published by the Royal Institution of Chartered Surveyors.

A receivable (net of VAT) from the disposal of development property assets is recognised when there is a legally binding sale agreement, which has become unconditional and irrevocable by the end of the reporting period, subject to any provisions necessary to cover residual commitments relating to the property. This receivable is classed as a fair value through profit or loss financial asset under IFRS9.

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

8. Financial Assets

Classification of financial assets

As explained in Adoption of new and revised standards, above, IFRS 9 was adopted on 1 April 2018. The impact on Financial Assets of following this requirement is set out in Note 23.

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

- Fair value through profit or loss;
- Held for Trading;
- Loans & Receivables; or
- Available-for-sale.

The department held no assets which met the classification criteria for either fair value through profit or loss or Held for Trading.

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;
- 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.

The department's financial assets are initially measured at fair value, but are classified into those subsequently measured at either amortised cost or fair value through profit and loss, in accordance with IFRS9. 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 (SPPI). Other financial assets are measured at fair value through profit or loss.

Amortised cost assets

Amortised cost assets comprise loans to public and private sectors and the QEII public dividend capital balance. These loans meet the SPPI test because they are solely payments of principal and interest and are not linked to other valuation movements such as property prices. The FReM specifies that PDC is held at amortised cost. The department holds these assets to collect cashflows with no intention of selling.

For amortised cost assets, an expected credit loss allowance is calculated based on the probability of a loss (or default) occurring, and the estimated value of the loss, taking into account the value of any collateral available to the department. The probability of loss is calculated based on credit ratings. The loan exposure is calculated based on projecting contractual cashflows into the future which are adjusted based on assumptions of potential arrears and wider economic factors. The value of collateral available to the department is calculated based on the expected value of properties constructed under the loans, which is adjusted for distressed sale conditions and wider economic assumptions. The impairment calculation is set at 12 months of expected credit losses unless there has been a significant increase in credit risk, when it increases to the lifetime expected credit loss. The simplified approach of recognising the lifetime expected credit loss is applied to trade receivables.

The methodologies used to determine the expected credit loss are considered to be an area of estimation and judgment within the accounts. The assumptions which can have a significant impact on the Expected Credit Loss Allowance calculation 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.

Fair value through profit or loss

Fair value through profit or loss assets comprise the Help to Buy asset portfolio, property investments and other financial assets that are not SPPI. The department expects to hold these assets until they are derecognised when the underlying property assets are sold by the owners. The department therefore does not hold them for collection of contractual cashflows or for sale. The cashflows due to the department from these assets are variable subject to movements in the housing market, so do not consist of solely payments of principal and interest.

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. Note 18 provides further detail on how the department measures fair values.

The department holds no financial assets measured at fair value through other comprehensive income.

9. Financial Liabilities

The department's financial liabilities including trade and other payables are measured at amortised cost. The valuation of provisions is an area of estimate and judgement.

10. Financial Guarantees

The department provides Affordable Housing Guarantees (AHG) over borrowing to Private Registered Providers to facilitate access to borrowing at competitive interest rates to fund the building of affordable housing. The guarantees are recognised in line with IFRS9 at the higher of initial fair value and expected loss, with a probability-weighted model used as the basis of the accounting valuation.

The department also provides Private Rented Sector guarantees over borrowing to incentivise institutional investment in the supply of new, purpose built and professionally managed private rented sector homes. The guarantees are recognised in line with IFRS9 at the higher of initial fair value and expected loss, with the accounting valuation based on the lifetime fee that will be paid by the borrower in return for the guaranteed funds. This fee includes the cost of risk, administration costs and a fee to the department based on appropriate remuneration.

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

11. Principal Civil Service Pension Scheme

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

For details of other pension schemes the department holds, please see Note 17. Employees of arm's length bodies (ALBs) are generally members of funded defined benefit schemes. More details of individual schemes are available in the annual accounts of the bodies concerned.

The valuation of pension liabilities is an area of estimate and judgement. The value of the department's and ALB'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.

12. Income

Operating income relates directly to the operating activities of the department.

Business Rates income represents the tariff retention by the department and is accounted in accordance with IFRS15. As there are no performance obligations and the revenue is non-refundable, revenue is recognised when an equivalent to a taxable event has occurred, the revenue can be measured reliably and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. All these elements must be satisfied. Revenue is determined via NNDR1 claim forms submitted by local authorities. The amounts recognised also include final adjustments to prior years' figures where eligibility has been confirmed by inclusion of audited figures in local authority NNDR3. 2018/19 is the first year of implementation for IFRS15, but there is no change to the numbers reported in the previous year as there are no performance obligations and the revenue is non-refundable.

Income from financial instruments is accounted for in line with IFRS 9.

13. Grants

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

Grants to local authorities include the Revenue Support Grant which finances revenue expenditure and capital grants which finance non-current assets. These are agreed through the Local Government Finance Settlement. In addition, specific grants are distributed outside the settlement. The basis of specific grants varies but they are accounted for in line with the same criteria as set out above.

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

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

Grant expenditure in respect of Business Rates is also recognised at the point at which eligibility is determined. Expenditure including the notional charge for the local share is determined via NNDR1 claim forms and NNDR3 returns (see note 4). The local share refers to the business rates that local authorities retain under Business Rates Retention. The department records notional income to reflect the rates due to the department and a notional grant to local authorities for the amount that they are permitted to retain.

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

Note 2. Operating costs by operating segment

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

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

£'000

	Note	2018-19 Local Government and Public Services	2018-19 Troubled Families	2018-19 Housing and Planning	2018-19 Decentralisation and Growth	2018-19 Total	2017-18 Local Government and Public Services	2017-18 Troubled Families	2017-18 Housing and Planning	2017-18 Decentralisation and Growth	2017-18 Total
Gross Expenditure	SoPS1.1	28,832,030	175,066	3,548,686	1,944,926	34,500,708	26,302,419	214,150	3,076,053	1,729,836	31,322,458
Income	SoPS1.1	(1,775,256)	-	(650,802)	(576,318)	(3,002,376)	(3,011,066)	-	(565,815)	(161,470)	(3,738,351)
Net Expenditure		**27,056,774**	**175,066**	**2,897,884**	**1,368,608**	**31,498,332**	**23,291,353**	**214,150**	**2,510,238**	**1,568,366**	**27,584,107**

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

2.1 Reconciliation between operating segments and CSoCNE

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

£'000

	Note	2018-19 Total	2017-18 Total
Total net expenditure reported for operating segments	2	**31,498,332**	**27,584,107**
Reconciling items:			
Income		(327,818)	(369,840)
Expenditure		414,904	270,468
Prior period adjustment			
Total net expenditure per Statement of Comprehensive Net Expenditure	SoCNE	**31,585,418**	**27,484,735**

Note 3. Staff Costs

£'000

	Notes	2018-19 Core Department & Agency	2018-19 Departmental Group	2017-18 Core Department & Agency	2017-18 Departmental Group
Staff Costs		152,803	251,611	121,365	205,137

The Staff Report, page 56, contains a full breakdown of staff costs.

Note 4. Operating Expenditure

£'000

	Notes	2018-19 Core Department & Agency	2018-19 Departmental Group	2017-18 Core Department & Agency	2017-18 Departmental Group
Non-Cash Items					
Asset transfers: capital grant in kind expenditure		-	-	1,676	37,368
Depreciation and amortisation		5,613	9,481	3,927	7,624
Impairment of Property, Plant and Equipment		4,906	4,589	2,865	2,839
Impairment of other financial assets		2,422	198,556	38,102	192,000
Revaluation of assets		(7,730)	(7,730)	(20,362)	(20,362)
Loss on disposal of assets		183	188	-	53
ERDF write-offs and disallowances		1,528	1,528	1,371	1,371
ERDF exchange rate losses (unrealised)		5,728	5,728	-	-
Auditors remuneration		416	416	416	416
Increase/Decrease in provisions (Provisions provided for in year less any release)	16	2,070	(1,805)	6,874	6,139
Write-off of bad debt		5,727	7,593	42,718	42,030
Net interest on pension scheme liabilities	17	4,534	3,829	4,250	4,479
Admin charge on pension assets	17	1,010	1,189	1,014	1,171
Share of Loss of Joint Ventures and Associates	6	-	(2,341)	-	390
Notional costs		134	134	121	121
Local share (business rates retained by local authorities)		20,118,760	20,118,760	14,587,527	14,587,527
Other non cash costs		9,705	9,705	15,272	15,272
Total Non Cash Items		**20,155,006**	**20,349,820**	**14,685,771**	**14,878,438**
Cash Items					
Rentals under operating leases		440	1,348	427	1,406
Accommodation including rentals under operating leases		34,030	44,697	41,866	50,855
Research and development		11,414	11,414	8,301	8,301
Legal and professional services		37,818	103,502	15,150	39,435
Consultancy		2,763	2,825	276	334
Marketing and communications		885	1,735	1,095	1,607
Training and development		4,945	5,941	2,984	3,816
Auditor's remuneration		51	660	47	501
IT expenditure		30,396	37,814	19,211	22,988
Travel and subsistence		4,496	7,933	3,532	6,233
Early retirement and voluntary exit costs		2,290	2,290	7,041	7,041
Interest payable		5,604	5,606	5,804	5,806
Taxation		4,398	5,285	5,196	(7,414)
ERDF grants		555,009	555,009	143,019	143,019
Revenue support grant and PFI grant		1,596,593	1,596,593	4,017,658	4,017,658
Business rates retention (top ups)		1,733,646	1,733,646	3,058,592	3,058,592
Other capital grants to local authorities		2,904,653	2,982,663	2,641,353	2,716,508
Other current grants to local authorities		6,370,407	6,385,070	5,938,681	5,944,491
Other grants		28,981	819,463	31,785	536,799
Other cash costs		11,337	18,510	9,300	21,302
Total Cash Items		**13,340,156**	**14,322,004**	**15,951,318**	**16,579,278**
Total		**33,495,162**	**34,671,824**	**30,637,089**	**31,457,716**

The external auditors total group fees (notional and cash) for all statutory audit work were £820,920. Of the £660,000 cash charge for Auditor's remuneration, £404,920 relates to external audit fees and the remaining relates to other assurance work not performed by external audit.

Note 5. Operating Income

£'000

	Notes	2018-19 Core Department & Agency	2018-19 Departmental Group	2017-18 Core Department & Agency	2017-18 Departmental Group
Non Cash Items					
Asset transfers: capital grant in kind income		-	50	-	(9,786)
Gain on sale of non current assets and assets held for sale		-	(42,948)	-	(139,111)
Increase in fair value - FVTPL assets		-	(21,311)	-	(7,365)
Decrease in fair value - financial guarantees		(4,550)	(4,550)	(2,065)	(2,065)
ERDF exchange rate gains (unrealised)		-	-	(12,262)	(12,262)
Notional income		(134)	(134)	(121)	(121)
Total Non Cash Items		**(4,684)**	**(68,893)**	**(14,448)**	**(170,710)**
Cash Items					
CFER income		(180,994)	(180,994)	(174,716)	(174,716)
Grant income		(612,295)	(621,825)	(469,069)	(477,451)
ERDF grant income		(568,070)	(568,070)	(144,648)	(144,941)
Business rates retention (tariff)		(1,722,432)	(1,722,432)	(3,005,779)	(3,005,779)
Goods and services		(8,020)	(8,784)	(7,833)	(8,264)
Accommodation		(23,901)	(31,857)	(25,406)	(32,097)
Fees		(13,042)	(29,429)	(6,148)	(17,623)
ERDF exchange rate gains (realised)		(1,043)	(1,043)	(3,577)	(3,577)
Interest and dividends		(15,227)	(74,068)	(5,034)	(43,281)
Miscellaneous		(7,718)	(22,799)	(13,441)	(29,752)
Total Cash Items		**(3,152,742)**	**(3,261,301)**	**(3,855,651)**	**(3,937,481)**
Total		**(3,157,426)**	**(3,330,194)**	**(3,870,099)**	**(4,108,191)**

Note 6. Investments

£'000

	Investment in Associates & Joint Ventures	Other investments and equity schemes	Private Sector Loans	Public Sector Loans	Public Dividend Capital	Total investments
Opening balance at 1 April 2017	**21,165**	**9,888**	**628,031**	**118,102**	**821**	**778,007**
Additions	2,081	-	680,322	233,190	-	915,593
Write down/Impairments	-	679	(7,536)	-	-	(6,857)
Repayments	-	-	(216,995)	(107,954)	-	(324,949)
Profit/(loss) on JV or Associate	(390)	-	-	-	-	(390)
Transfers in/(out)	-	-	(12,851)	-	-	(12,851)
Transfer to receivables <1year	-	-	(234,632)	-	-	(234,632)
Balance at 31 March 2018	**22,856**	**10,567**	**836,339**	**243,338**	**821**	**1,113,921**
Reclassification	-	(10,567)	(836,339)	(243,338)	(821)	(1,091,065)
Restated balance at 31 March 2018	**22,856**	**–**	**–**	**–**	**–**	**22,856**
Additions	16,219	-	-	-	-	16,219
Profit/(loss) on JV or Associate	2,341	-	-	-	-	2,341
Transfers in/(out)	10,733	-	-	-	-	10,733
Balance at 31 March 2019	**52,149**	**–**	**–**	**–**	**–**	**52,149**
Of which:						
Core Department	5,000	-	-	-	-	5,000
Agencies	-	-	-	-	-	-
Designated bodies	47,149	-	-	-	-	47,149

In accordance with the FReM:

- 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.

On transition to IFRS 9, £1.1 billion assets formerly classified as investments were reclassified to financial assets at amortised cost or fair value through profit or loss. Further information is provided in Note 23.

During 2018-19, in addition to reclassifications made as a result of the adoption of IFRS 9 on 1 April, Homes England reclassified an investment with Countryside Maritime Limited from fair value through profit or loss to be recognised as part of its equity investment in a Joint Venture. Further detail is available in Homes England's Annual Report and Accounts.

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

Investments of designated bodies at 31 March 2019 include:

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
English Cities Fund Limited Partnership	46%	Property development
Countryside Maritime Limited	50%	Development of land
Kier Community Living LLP	26%	Property development
Temple Quay Management Limited	24%	Property management company
Kings Waterfront (Estates) Limited	50%	Property management company
Pride in Camp Hill	33%	Regeneration of Camp Hill area of Nuneaton

Note 7. Financial assets at fair value through profit or loss: due after one year

£'000

	Investments in Help to Buy Programme	Other investments and equity schemes	Due from disposal of land and property	Total non current financial assets
Balance at 31 March 2018	**-**	**-**	**-**	**-**
Reclassification	8,314,304	755,645	204,913	9,274,862
Restated balance at 31 March 2018	**8,314,304**	**755,645**	**204,913**	**9,274,862**
Additions	3,530,582	135,868	(15,891)	3,650,559
Write down/Impairments	(43,355)	(26,038)	(5,537)	(74,930)
Fair value gains/(losses)	(2,667)	17,190	-	14,523
Disposal	(714,925)	(154,161)	(1,466)	(870,552)
Transfers in/(out)	-	-	(10,733)	(10,733)
Balance at 31 March 2019	**11,083,939**	**728,504**	**171,286**	**11,983,729**
Of which:				
Core Department	-	13,745	92,479	106,224
Agencies	-	-	-	-
Designated bodies	11,083,939	714,759	78,807	11,877,505

On transition to IFRS 9, financial assets which are not solely payments of principal and interest are measured at fair value through profit or loss (FVTPL). £9.3 billion assets formerly classified as available-for-sale assets, investments or receivables were reclassified to financial assets at fair value through profit or loss. This included valuation changes of £4.0 million on adoption of the new standard. Further information is provided in Note 23.

Investments in Help to Buy represent the entitlement to future income arising from financial assistance provided to homebuyers to enable them to buy houses, the majority of which arises from the Help to Buy scheme.

Other investments for the core department include the Coalfields Enterprise Fund and the Coalfields Growth Fund. Other investments of designated bodies include an investment in PRS REIT PLC (a quoted Real Estate Investment Trust), a small number of loans which did not meet the criteria for a basic lending arrangement (2018-19: £154.6 million 2017-18 restated: £150.6 million), investments in development and infrastructure projects with variable returns, the Housing Growth Partnership managed fund and overage, where future receipts are due on the disposal of land to third parties.

Amounts due from disposal of land and property 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).

Note 7.2 Financial Instruments – Recognised fair value measurements

	2018-19			
£'000	Level 1	Level 2	Level 3	Total
Financial assets held at fair value through profit or loss (FVTPL)				
Financial assets				
Investment in Help to Buy Programme	-	11,083,939	-	11,083,939
Other property investments	-	-	899,790	899,790
Investments	52,149	-	-	52,149
Total financial assets	**52,149**	**11,083,939**	**899,790**	**12,035,878**
of which				
Core Department	5,000	-	106,224	111,224
Agencies	-	-	-	-
Designated bodies	47,149	11,083,939	793,566	11,924,654
Total financial assets	**52,149**	**11,083,939**	**899,790**	**12,035,878**
Financial liabilities at fair value through profit or loss				
Financial guarantees	-	-	(67,206)	(67,206)
Other financial liabilities	-	-	(1,943,793)	(1,943,793)
Total financial liabilities	**-**	**-**	**(2,010,999)**	**(2,010,999)**
of which				
Core Department	-	-	(1,551,695)	(1,551,695)
Agencies	-	-	-	-
Designated bodies	-	-	(459,304)	(459,304)
Total financial liabilities	**-**	**-**	**(2,010,999)**	**(2,010,999)**

	2017-18			
£'000	Level 1	Level 2	Level 3	Total
Financial assets held at fair value through profit or loss (FVTPL)				
Financial assets				
Investment in Help to Buy Programme	-	8,314,304	-	8,314,304
Other property investments	-	-	960,558	960,558
Investments	22,856	-	-	22,856
Total financial assets	**22,856**	**8,314,304**	**960,558**	**9,297,718**
of which				

Core Department	5,000	-	99,482	104,482
Agencies	-	-	-	-
Designated bodies	17,856	8,314,304	861,076	9,193,236
Total financial assets	**22,856**	**8,314,304**	**960,558**	**9,297,718**
Financial liabilities at fair value through profit or loss				
Financial guarantees	-	-	(54,567)	(54,567)
Other financial liabilities	-	-	(3,452,394)	(3,452,394)
Total financial liabilities	**-**	**-**	**(3,506,961)**	**(3,506,961)**
of which				
Core Department	-	-	(3,086,350)	(3,086,350)
Agencies	-	-	-	-
Designated bodies	-	-	(420,611)	(420,611)
Total financial liabilities	**-**	**-**	**(3,506,961)**	**(3,506,961)**

Changes in level 3 Instruments Financial assets £'000	Other property investments
Balance 31 March 2017	**-**
Reclassifications	960,558
Balance 31 March 2018	**960,558**
Additions	119,977
Repayments/disposals	(155,627)
Reclassifications	(10,733)
Gains/losses recognised in SOCNE	(14,385)
Balance 31 March 2019	**899,790**
of which	
Core Department	106,224
Agencies	-
Designated bodies	793,566
Balance 31 March 2019	**899,790**

Changes in level 3 Instruments Financial liabilities £'000	Financial guarantees
Balance 31 March 2017	**(34,404)**
Additions	(20,163)
Repayments/disposals	-
Reclassifications	-
Gains/losses recognised in SOCNE	-
Balance 31 March 2018	**(54,567)**
Additions	(12,639)
Repayments/disposals	-
Reclassifications	-
Gains/losses recognised in SOCNE	-
Balance 31 March 2019	**(67,206)**
of which	
Core Department	(67,206)
Agencies	-
Designated bodies	-
Balance 31 March 2019	**(67,206)**

Note 8. Financial assets at fair value through profit or loss: due within one year

£'000

	Current financial assets at fair value through profit or loss
Balance at 31 March 2018	**-**
Reclassifications	78,868
Restated balance at 31 March 2018	**78,868**
Revaluations	(8,782)
Balance at 31 March 2019	**70,086**
Of which:	
Core Department	-
Agencies	-
Designated bodies	70,086

Note 9. Financial Assets held at amortised cost: due after one year

£'000

	Private Sector Loans	Public Sector Loans	Public Dividend Capital	Total Financial Assets held at amortised cost
Balance at 31 March 2018	**-**	**-**	**-**	**-**
Reclassification	836,339	243,338	821	1,080,498
Restated balance at 31 March 2018	**836,339**	**243,338**	**821**	**1,080,498**
Additions	633,844	193,934	-	827,778
Write down/Impairments	(1,801)	-	-	(1,801)
Expected loss allowance	(47,377)	(4,279)	-	(51,656)
Repayments	(341,910)	(19,583)	-	(361,493)
Transfers in/(out)	(116,930)	-	-	(116,930)
Transfer to receivables <1year	(94,536)	(65,165)-	-	(159,701)
Balance at 31 March 2019	**867,629**	**348,245**	**821**	**1,216,695**
Of which:				
Core Department	-	340,648	821	341,469
Agencies	-	-	-	-
Designated bodies	867,629	7,597	-	875,226

Public Sector Loans in the core department relate to loan facilities held with Greater London Authority and Manchester City Council. Private Sector Loans primarily relate to development loans and infrastructure loans.

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

On transition to IFRS 9, £1.1 billion assets formerly classified as investments or receivables were reclassified to financial assets at fair value through profit or loss. This included £32.3 million adjustments on application of the expected credit loss model and £0.2 million other valuation changes on adoption of the new standard. Further information is provided in Note 23.

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost.

Note 10. Financial Assets held at amortised cost: due within one year

£'000

	Private Sector Loans	Public Sector Loans	Total current Financial Assets held at amortised cost
Balance at 31 March 2018	**–**	**–**	**–**
Reclassifications	424,442	–	424,442
Restated balance at 31 March 2018	**424,442**	**–**	**424,442**
Transfer from receivables > 1year	94,536	65,165	159,701
Balance at 31 March 2019	**518,978**	**65,165**	**584,143**
Of which:			
Core Department	0	65,165	65,165
Agencies	0	0	0
Designated bodies	518,978	0	518,978

Note 11. Financial assets previously classified as available for sale

Available for sale financial assets were, in the main, made up of assets of Homes England which represents their interests in housing developments and Help to Buy properties.

Movement in the fair value of available for sale assets was recognised within a fair value reserve, presented in these financial statements as part of the general fund. At 31 March 2018, the fair value reserve amounted to £351m of the total general fund. The fair value reserve has been eliminated on the introduction of IFRS 9 in 2018-19.

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

£'000

	2018-19		2017-18	
	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Cost or valuation				
Opening balance at 1 April	**99,482**	**9,053,430**	**151,558**	**6,569,490**
Reclassification	(99,482)	(9,053,430)	–	–
Restated balance at 1 April	**–**	**–**	**151,558**	**6,569,490**
Additions	–	–	–	3,099,409
Write offs	–	–	(38,781)	(126,874)
Disposals	–	–	(13,295)	(644,765)
Revaluations	–	–	–	143,319
Transfers	**–**	**–**	**–**	**12,851**
At 31 March	**–**	**–**	**99,482**	**9,053,430**

Note 12. Inventories

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

£'000

	2018-19		2017-18	
	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Land and buildings				
Opening balance at 1 April	**–**	**780,023**	**–**	**590,599**
Additions	-	237,847	-	318,552
Disposals	-	(61,103)	-	(70,859)
Impairments	-	(104,033)	-	(58,269)
Closing balance Land and buildings as at 31 March	**–**	**852,734**	**–**	**780,023**
ERDF Work in Progress				
Opening balance as at 1 April	147,420	147,420	57,932	57,932
Payments to Projects	397,903	397,903	193,669	193,669
Disposals	(482,455)	(482,455)	(104,181)	(104,181)
Closing balance ERDF as at 31 March	**62,868**	**62,868**	**147,420**	**147,420**
Total inventory closing balance as at 31 March	**62,868**	**915,602**	**147,420**	**927,443**

Note 13. Trade and other receivables

£'000

	2018-19		2017-18	
	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Amount falling due within one year:				
Trade receivables	2,265	4,939	1,283	94,012
Deposits and advances	-	26	-	42
VAT receivables	2,488	3,850	1,735	8,259
Other receivables	53,224	116,536	26,515	41,961
ERDF accrued income	132,069	132,069	273,672	273,672
Prepayments and accrued income	36,833	37,526	68,634	97,507
Current asset investments	-	-	-	424,442
Sub Total	**226,879**	**294,946**	**371,839**	**939,895**
Amounts falling due after more than one year:				
Trade receivables	-	1,072	-	106,644
Other receivables	28,482	50,930	23,938	43,464
ERDF advances	58,016	58,016	14,531	14,531
Prepayments and accrued income	521	521	732	732
Sub Total	**87,019**	**110,539**	**39,201**	**165,371**
Total	**313,898**	**405,485**	**411,040**	**1,105,266**

Note 14. Cash and cash equivalents

£'000

	2018-19		2017-18	
	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Balance at 1 April	1,588,308	1,838,863	1,628,766	1,820,893
Net change in cash and cash equivalent balances	(1,331,716)	(1,295,764)	(40,458)	17,970
Cash Balance at 31 March	**256,592**	**543,099**	**1,588,308**	**1,838,863**
The following balances at 31 March were held at:				
Other bank and cash	-	35,446	-	-
Commercial banks and cash in hand	-	9,467	-	31,841
Government Banking Service	256,592	498,186	1,588,308	1,807,022
Balance at 31 March	**256,592**	**543,099**	**1,588,308**	**1,838,863**

Note 15. Trade and other payables

£'000

	2018-19		2017-18	
	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Amounts falling due within one year:				
Taxation and social security	3,231	8,731	2,638	4,189
Trade payables	585	420,731	244	356,150
Other payables	80,322	124,838	339,427	355,073
Accruals	447,506	451,337	401,744	409,341
Finance lease	9,851	9,851	9,669	9,669
Deferred income	1,456	10,054	1,254	18,487
ERDF deferred income	194,597	194,597	229,985	229,985
Amounts owed to Joint Ventures and Associates				
Amount issued from the Consolidated Fund for supply but not spent	195,968	195,968	1,550,053	1,550,053
Consolidated fund extra receipts to be paid to the Consolidated Fund -received	60,624	60,624	38,255	38,255
Sub Total	**994,140**	**1,476,731**	**2,573,269**	**2,971,202**
Amounts falling due after more than one year:				
Finance lease	85,630	85,630	89,877	89,877
ERDF deposits held	176,732	176,732	171,172	171,172
Other payables	3,161	8,260	3,161	10,605
Deferred income	2,611	11,035	3,387	8,850
Sub Total	**268,134**	**281,657**	**267,597**	**280,504**
Total	**1,262,274**	**1,758,388**	**2,840,866**	**3,251,706**

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

Note 16. Provisions for liabilities and charges

£'000

	2018-19		2017-18	
	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Opening balance at 1 April	20,287	46,945	18,285	49,656
Increase	3,625	3,640	7,828	10,112
Utilisation	(3,773)	(13,673)	(4,872)	(8,850)
Reversal	(1,555)	(4,313)	(954)	(3,953)
Unwinding of discount	-	(1,132)	-	(20)
Balance at 31 March	**18,584**	**31,467**	**20,287**	**46,945**
Of which:				
Current liabilities	4,554	5,025	4,141	14,906
Non-current liabilities	14,030	26,442	16,146	32,039
Balance at 31 March	**18,584**	**31,467**	**20,287**	**46,945**

Core department provisions comprise:

(i) Early retirement provisions

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

(ii) Other provisions

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

The rest of the Departmental Group provisions relate to Homes England. The Homes England Annual Report and Accounts provides further details.

Analysis of expected timing of discounted cashflows by type

£'000

	Early Retirement	Other	Total
Not later than one year	2,584	12,322	14,906
Later than one year and not later than five years	3,967	28,072	32,039
Later than five years	-	0	0
Balance at 31 March 2018	**6,551**	**40,394**	**46,945**
Not later than one year	2,584	2,441	5,025
Later than one year and not later than five years	837	25,605	26,442
Later than five years	-	-	-
Balance at 31 March 2019	**3,421**	**28,046**	**31,467**

Note 17. Pensions

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

£'000

	2018-19		2017-18	
	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Reconciliation of defined benefit obligation				
Opening balance	1,271,839	2,206,932	1,274,139	2,239,476
Current service cost	-	22,444	-	19,083
Interest charges	33,334	57,591	34,028	59,257
Admin charge on pension liabilities	-	(44)	-	(79)
Contribution by members	-	3,574	-	1,607
Contribution by employer	-	-	-	64
Remeasurement of (gains)/losses on liability	57,543	79,316	(8,580)	(57,674)
Past service cost/(gains)	-	125	-	967
Transfers	-	-	-	(197)
Benefits paid				
Funded benefits paid	(28,082)	(52,518)	(27,743)	(54,834)
Unfunded benefits paid	(3)	(643)	(5)	(738)
Closing defined benefit obligation	**1,334,631**	**2,316,777**	**1,271,839**	**2,206,932**
Reconciliation of fair value of employer asset				
Opening balance	(1,101,209)	(2,053,189)	(1,112,273)	(2,064,159)
Interest income on scheme asset	(28,800)	(53,762)	(29,778)	(54,778)
Admin charge on pension assets	1,010	1,176	1,014	1,171
Contributions by members	-	(3,574)	-	(1,607)
Contributions by employer	-	(13,935)	(9,900)	(23,613)
Remeasurement of (gains)/losses on asset	(30,083)	(93,030)	21,985	33,684
(Losses)/gains on curtailment	-	957	-	1,082
Assets distributed on settlement	28,082	52,518	27,743	55,031
Closing fair value of employer asset	**(1,131,000)**	**(2,162,839)**	**(1,101,209)**	**(2,053,189)**
Closing net pension liability	**203,631**	**153,938**	**170,630**	**153,743**
of which:				
Funded	203,565	143,935	170,561	143,311
Unfunded	66	10,003	69	10,432

Audit Commission Pension Scheme (ACPS)

The ACPS is a defined benefit scheme. The scheme is a Registered Pension Scheme under the provisions of Schedule 36 of the Finance Act 2004. The provision of a Crown Guarantee takes the pension scheme out of certain regulatory provisions that would otherwise apply. This is a closed scheme. The duration of the scheme is 24 years.

The valuation of the scheme liabilities as at 31 March 2019 was completed by the department's independent actuaries using the projected unit method.

Financial overview of the ACPS

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

£'m

Fair Value of Scheme Assets	2018-19	2017-18
Diversified Growth Funds	724	738
Liability Driven Investment	215	231
Infrastructure	102	99
Property	79	33
Cash	11	-
Total	**1,131**	**1,101**

Overall, the Scheme's assets have increased in value over the year to 31 March 2019. The Scheme invests in a Liability Driven Investment portfolio to mitigate the risks relating to interest rate and inflation rate changes. The net pension liability for the ACPS increased from £170.6 million to £203.6 million over the year. This is mainly due to changes to the financial assumptions.

Principal assumptions

The financial assumptions used for purposes of the IAS 19 calculations for the five years to 2019 are shown in the table below.

	2019	2018	2017	2016	2015
Principal assumptions	% pa	% pa	% pa	% pa	%pa
Rate of inflation	3.35	3.25	3.30	3.05	3.20
Rate of salary increase	n/a	n/a	n/a	n/a	n/a
Discount rate for liabilities	2.50	2.65	2.70	3.40	3.35
Rate of increase of pensions in payment	3.35	3.25	3.30	3.05	3.20
Rate of increase of deferred pensions	3.35	3.25	3.30	3.05	3.20

The assumed life expectations on retirement at age 60 were: for males and females retiring today, 28 years (2017-18: 28 years) and for males and females retiring in 20 years, 30 years (2017-18: 31 years).

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

Assumption	Change in assumption	Impact on scheme liabilities	Impact on scheme liabilities
Discount rate	Decrease by 0.5%	Increase by 12%	160
Rate of inflation	Increase by 0.5%	Increase by 11%	147
Rate of mortality	Mortality table rated down by one year	Increase by 3%	40

Note 18. Financial Instruments: Risk Management and Fair Value

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

Liquidity risk

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

Currency risk

The department has risks arising from foreign exchange only in relation to the European Regional Development Fund (ERDF) programme. Further details about the ERDF balances included in these accounts can be found in Annex B. The following table shows the balances held by the department as at 31 March 2019 that are subject to exchange rate risk. (Exchange rate at 29 March 2019 £1 = €1.1605)[30]

Currency Risks	Floating rate financial liabilities	
	£'000	€'000
Total assets at 31 March 2019	**190,086**	**220,595**
Total assets at 31 March 2018	273,672	312,260
Total liabilities at 31 March 2019	**(182,449)**	**(211,732)**
Total liabilities at 31 March 2018	(176,890)	(201,831)

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

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

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

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

Category	Balance at 31 Mar 2019	Euro Rate at 31 Mar 2019	Impact of rate change to			
	£'000		1:1.00	1:1.10	1:1.30	1:1.40
Assets	190,086	1.1605	£31m gain	£10m gain	£20m loss	£33m loss
Liabilities	(182,449)	1.1605	£29m loss	£10m loss	£20m gain	£31m gain
Net gain/loss	£7,637		£2m gain	nil	nil	£2m loss

Market risk

The department and Homes England have completed a risk assessment for all live financial instruments exposed to market risk. Performance and changes in risk profile are monitored on a regular basis.

Homes England's results and reserves 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, Homes England is exposed to

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

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

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

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 £1,136 million/(£1,375million) from that stated. This illustrates the impact of the mortgage providers' first charge, which disproportionately increases the estimated level of impairments when house prices reduce, for example in the cases of modelled reductions in house prices shown in the table below:

Modelled change in house prices	Estimated portfolio value (£m)	Incremental change in fair value (£m)	Incremental change in fair value (%)	Incremental impairment (charge)/reversal made to net expenditure (£m)
20%	13,639.0	2,270.4	20.0%	222.3
10%	12,504.7	1,136.1	10.0%	219.8
0%	11,368.6	-	0.0%	-
-5%	10,780.5	(588.1)	-5.2%	(428.3)
-10%	9,994.0	(1,374.6)	-12.1%	(1,135.4)
-20%	7,657.0	(3,711.6)	-32.6%	(3,419.6)
-30%	5,221.1	(6,147.5)	-54.1%	(5,845.7)

Homes England also holds assets in relation to private sector developments, land sale overages and infrastructure. At 31 March 2019, if development returns had been 10% higher/lower and all other variables were held constant, the effect on Homes England'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 £23.3 million/£23.3 million.

Further sensitivity analysis is available in Homes England's Annual Report and Accounts.

The department is also exposed to market risk via the financial guarantees it provides over borrowing for affordable housing and private rented sector homes. More detail on the magnitude of those schemes can be found on page 84. Changes in the housing market may cause rental arrears or void properties which may have an impact on the borrower's ability to repay the loans issued under the guarantees programme. The Governance Statement sets out how the department manages the market and credit risk associated with its financial instruments.

Credit Risk

The department has provided guarantees to strongly rated (low risk) Private Registered Providers to facilitate access to borrowing at competitive interest rates. This funding is then used by the borrowers to build affordable housing. The department has also provided Private Rented Sector guarantees to private rented sector operators and Private Registered Providers to incentivise institutional investment into the supply of new, purpose built and professionally managed private rented sector homes. Guaranteed debt is generally available once units are completed and generate a stable income.

The potential liabilities arising from the provision of these guarantees will be subject to credit risk, particularly increases in rental arrears and void properties which may have an impact on a borrower's ability to repay a loan issued under the guarantees programme. The department has set up a number of risk mitigations to minimise the risk arising from the guarantees, including a rigorous eligibility criteria and credit assessment process.

For assets measured at amortised cost, including loans, Homes England has performed a sensitivity analysis that considers how expected credit losses would vary under alternative future economic scenarios. Refer to the Homes England Annual Report and Accounts for details of this analysis. The Expected Credit Loss model is highly sensitive to its modelling assumptions, which are therefore considered to be a key judgement of management.

Credit impairment loss charges to Net Expenditure in relation to assets held at Amortised Cost	2018-19 £'000
Opening balance	–
Net movements in Expected Credit Loss Allowances	51,656
Amounts written-off loan balances as irrecoverable under IFRS 9	10,583
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	231
Total credit impairment loss charge	**62,484**

Affordable Housing Guarantees

As at 31 March 2019, of the circa £3.5 billion approved, £3.2 billion has been drawn down and is covered by Affordable Housing financial guarantees issued by the department. The accounting valuation for the guarantee programme as at 31 March 2019 is £26.6 million. This valuation takes account of the liquidity reserve, which is designed to cover a shortfall in income and protect bond coupon payments in the event of default.

An expected loss model is used as the basis of the accounting valuation of the guarantee. Sensitivity analysis was conducted by changing the key assumptions in the model, the Probability of Default (PD) based on the creditworthiness of borrowers and the Loss Given Default (LGD).The result, taking account of the liquidity reserve, is a valuation range from £4 million (5% LGD, Low PD) to £147 million (25% LGD, High PD).

Private Rented Sector Guarantees

As at 31 March 2019, the Department had approved circa £1.5 billion worth of debt finance to be raised by PRS Finance plc. to finance long term loans to private sector operators and Private Registered Providers. Of the circa £1.5 billion, £0.7 billion has been drawn and is covered by the Private Rented Sector financial guarantees issued by the Department. The valuation of the liability arising as a result is £40.6 million.

The accounting valuation is based on the appropriate elements of the lifetime fee that will be paid by the borrower in return for the guaranteed funds. Specifically, the cost of risk, administration costs and a fee to the department based on appropriate remuneration of capital.

Homes England'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 their Annual Report and Accounts.

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

- Four private sector developers account for 33% of £682 million development loans (2017-18: 29% of £517 million), and four private sector developers account for 39% of £925 million infrastructure loans (2017-18: 41% of £706 million).
- Ten private sector developers accounted for 63% of development loans (2017-18: 52%) and ten private sector developers account for 67% of infrastructure loans (2017-18: 72%). Of the total £1,654 million loans exposure, ten private sector developers account for 46% of the balance (2017-18: 46% of £1,269 million).
- 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 £47 million other loans relate to a major public utility company (2017-18: 46% of £46 million).
- 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 Homes England's right to retake possession of the disposed property in the event of a default by the buyer, and in appropriate cases are backed by financial guarantees. Ten counterparties account for 77% of the agency's £152 million receivables balances due from disposal of land and property assets (2017-18: 72% of £204 million).

- 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 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%).

Interest rate risk

The Departmental Group has no material interest rate risk on its financial assets.

Fair values

The estimated fair values of the financial instruments held by the department approximate to their book values at 31 March 2018 and 31 March 2019. The table shows how fair value of the department's financial assets and liabilities has been estimated.

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

Financial Instrument	Basis of fair value estimation
Current payables and receivables (Note 15 and Note 13) and Public Dividend Capital (Note 6)	Nominal value. The fair value is categorised as level 3 in the fair value hierarchy as defined by IFRS 13.
Non-current payables and receivables (Note 15 and Note 13)	Discounted cost (where materially different from nominal value). The fair value is categorised as level 3 in the fair value hierarchy as defined by IFRS 13.
Investments in the Coalfields Enterprise Fund and the Coalfields Growth Fund (Note 7)	The fair value of the funds are identified with reference to the fund manager revaluation. The fair value is categorised as level 3 in the fair value hierarchy as defined by IFRS 13.
Homes England's shareholding in the PRS REIT plc	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.
Financial assets relating to housing units	The fair values of Homes England'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.
Equity investments in private sector developments and infrastructure projects	The fair values of financial assets relating to equity investments in development and infrastructure projects are calculated using cashflow forecasts for the projects concerned, discounted at rates set by HM Treasury. These fair values are therefore categorised as level 3 in the fair value hierarchy as defined by IFRS 13.
Managed funds	The fair value of managed funds are equal to the net assets of those funds at the reporting date, and are therefore categorised as level 3 in the fair value hierarchy as defined by IFRS 13.
Other financial instruments	Discounted future cash flows using discount rates set by HM Treasury or the rate intrinsic to the financial instrument if higher.
Affordable Housing financial guarantees liabilities	For initial recognition, fair value is based on probability weighted expected losses. For subsequent recognition, at the higher of initial fair value and expected loss. The fair value is categorised as level 3 in the fair value hierarchy as defined by IFRS 13.
Private Rented Sector financial guarantees liabilities	For initial recognition, fair value is based on the fee charged for the guarantee. For subsequent recognition, at the higher of initial fair value and expected loss. The fair value is categorised as level 3 in the fair value hierarchy as defined by IFRS 13.

Note 19. Commitments under operating leases

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

£'000

	2018-19		2017-18	
Obligations under operating leases comprise:	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Buildings:				
Payment due within 1 year	24,453	25,334	24,912	27,360
Payment due after 1 year but not more than 5 years	69,773	70,851	77,442	81,686
Payment due thereafter	109,473	109,473	119,436	119,436
Total value of obligations	**203,699**	**205,658**	**221,790**	**228,482**
Other:				
Payment due within 1 year	-	-	-	697
Payment due after 1 year but not more than 5 years	-	-	-	1,232
Payment due thereafter	-	-	-	-
Total value of obligations	**–**	**–**	**–**	**1,929**

£'000

	2018-19		2017-18	
Receipts under operating sub-leases comprise:	Core Department & Agency	Departmental Group	Core Department & Agency	Departmental Group
Buildings:				
Receipts due within 1 year	16,612	16,612	15,836	23,095
Receipts due after 1 year but not more than 5 years	20,403	20,403	32,018	48,545
Receipts due thereafter	2,553	2,553	2,806	22,233
Total value of receivables	**39,568**	**39,568**	**50,660**	**93,873**

Note 20. Other Commitments

The total value of loans the department has made as at 31 March 2019 can be found in Notes 7, 9 and 10. The following loan facilities have outstanding amounts still available for drawdown; these amounts are not otherwise included in the financial statements:

- a loan facility to the Greater London Authority which can be drawn for the purposes of funding qualifying investments in the Housing Zones programme. A total of £200 million is available in tranches through to 31 March 2020. As at 31 March 2019 £45 million is still available for draw down.

Homes England has made financial commitments for loans and equity investments which had become unconditional at the reporting date, but which had yet to be drawn down by that date. The value of these commitments was £1,047 million at 31 March 2019 (2017-18: £1,073 million).

In addition to the above, Homes England has given outline approval to investments under the Help to Buy scheme which, while still conditional, are likely to result in the drawdown of investments in the coming year. The value of these outstanding approvals at 31 March 2019 was £978 million (2017-18: £1,056 million).

Note 21. Contingent liabilities disclosed under IAS 37

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

			£'000
		2018-19	2017-18
a	The Government Legal Department (GLD) manages litigation cases on behalf of the department. Litigation costs may be incurred following unsuccessful attempts to resist some of those challenges.	225	524
b	Claim for repair or repurchase of defective Right to Buy homes sold by local authorities between 1980 and 1985.	250 to 750	250 to 750
c	Potential liabilities to the EC arising from current European legislation	Unquantifiable	Unquantifiable
d	Potential losses arising from inability to recover ineligible expenditure arising as a result of the closure of ERDF 2007-2013 programme.	Unquantifiable	Unquantifiable
e	Commitment to fund potential shortfalls of land sale receipts of a Housing Association	Up to 4,000	Up to 4,000
f	Potential liability - details withheld for commercial reasons	-	Up to 492
g	Potential dilapidation payments	-	750
h	Potential liabilities arising following the tragic events at Grenfell Tower in June 2017. At this time, the nature and value of the liabilities arising cannot be determined with sufficient reliability and consequently, are considered to be unquantifiable.	Unquantifiable	Unquantifiable
i	Homes England: The freeholds of several hundred properties on two estates in Washington were transferred to Sunderland City Council on 1 April 1997. The transfer was subject to a Homes England indemnity valid for a period of 30 years against costs which may be incurred in remedying shale related defects. This indemnity was issued with the approval of the department. The extent of the potential liability will only be known once any defects are identified. No claims have yet been notified under this indemnity.	Unquantifiable	Unquantifiable
j	Homes England: Homes England 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.	Unquantifiable	Unquantifiable
k	Planning Inspectorate: Litigation costs may be incurred following unsuccessful attempts to resist a High Court challenge to an Inspector's decision. The timing and value of such awards are difficult to predict	110	118
l	Planning Inspectorate: Ex-gratia payments which may possibly be made to appellants or other appeal parties who have incurred abortive appeal costs following an error made by a member of the Inspectorate's staff.	467	-

Note 22. Contingent assets disclosed under IAS 37

			£'000
		2018-19	2017-18
a	Homes England: Homes England 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 Homes England. Examples include where there is a subsequent change in use of land sold which materially increases the return to the purchaser, or if the conditions of a grant payment are no longer met. The normal term during which this arrangement remains in force is 21 years. For affordable housing and other community related schemes the term is more usually 35 years. By its nature this income is variable and the timing of receipt is uncertain, therefore it is not possible to quantify the likely income which may ultimately be received by the agency.	Unquantifiable	Unquantifiable

Note 23. First time adoption of IFRS 9

In accordance with the FReM prior year balances (2017-18) have not been restated to reflect the first time adoption of IFRS9. The impact on reserves is shown as an in-year movement in reserves. The introduction of IFRS9 has changed the classification of financial assets, switched valuation changes to the SoCNE and increased impairments for assets held at amortised cost.

Impact of the change in classification

Mapping of assets to IFRS 9 classification categories (1 April 2018)		2018/19 opening position Classification under IFRS 9			2017/18 closing position Classification under IAS 39	
		Fair Value through Profit or Loss (FVTPL)	Amortised Cost	Investments	Available-for-Sale	Receivables
		£'000	£'000	£'000	£'000	£'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	-
	Greenwich Peninsula	99,482	-	-	99,482	-
Loans and investments:	Coalfields investment fund	10,567	-	10,567	-	-
	Private Sector Loans	140,348	1,182,956	836,339	-	424,442
	Public Sector Loans	-	243,338	243,338	-	-
	QEII PDC	-	821	821	-	-
Trade and other receivables:	Land Sale Receivables	185,160	3,408	-	-	188,568
	Other Receivables	673	74,417	-	-	77,428
Total		9,353,730	1,504,940	1,091,065	9,053,428	690,438
Total financial asset investments			10,858,670			10,834,931

Impact of the change in valuation

Changes in valuation on first adoption of IFRS9 relate to expected losses (accelerated impairment charges).

Changes to the valuation of Financial Assets on first adoption of IFRS 9 (1 April 2018)		Value on change of classification	Application of the Expected Credit Loss Model	Other changes in valuation on first adoption of IFRS 9	Revised net value on first adoption of IFRS 9 as at 1 April 2018
		£'000	£'000	£'000	£'000
Fair value through profit or loss:					
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	8,329	-	1,741	10,070
	Greenwich Peninsula	99,482	-	-	99,482
	Coalfields enterprise and growth funds	10,567	-	-	10,567
	Private Sector Loans	142,783	-	(2,435)	140,348
	Land Sale Receivables	188,435	-	(3,275)	185,160
		9,357,699	-	(3,969)	9,353,730
Amortised cost:					
	Private Sector Loans	1,213,014	(28,994)	(1,064)	1,182,956
	Public Sector Loans	246,523	(3,185)	-	243,338
	QEII PDC	821	-	-	821
	Land Sale Receivables	3,408	-	-	3,408
	Other Receivables	73,667	(113)	863	74,417
		1,537,433	(32,292)	(201)	1,504,940
Total financial asset investments following first adoption of IFRS 9 (1 April 2018)		10,895,132	(32,292)	(4,170)	10,858,670
	Total movement in asset values as a result of adoption of IFRS 9			(36,462)	

Impact on Reserves from the adoption of IFRS 9

Group

£000	General Fund	Revaluation Reserve	Pension Reserve	Total Reserves
Balance at 31 March 2018	10,801,822	251	(144,924)	10,657,149
Valuation charges	(36,462)	-	-	(36,462)
Adjusted IFRS9 balance	**10,765,360**	**251**	**(144,924)**	**10,620,687**

Core and Agency

£000	General Fund	Revaluation Reserve	Pension Reserve	Total Reserves
Balance at 31 March 2018	(330,260)	311	(163,453)	(493,402)
Valuation charges	(3,186)	-	-	(3,186)
Adjusted IFRS9 balance	**(333,446)**	**311**	**(163,453)**	**(496,588)**

Note 24. Related party transactions

The department is the parent of a number of sponsored bodies listed in Note 26. These bodies are regarded as related parties with which the department had various material transactions during the year. In addition, the department has made a number of material transactions with other government departments, central government bodies and local government organisations.

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

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

Mary Ney was one of the Commissioners at Rotherham Metropolitan Borough Council, tasked with improving the council's performance and helping rebuild trust of the local residents, until the Secretary of State returned powers to the council in September 2018. During 2018-19, MHCLG paid various grants to Rotherham MBC as part of normal business, the most significant of which was Revenue Support Grant.

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

Note 25. Events after the reporting period

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

As part of our Building Safety Programme, the government has committed to make up to £200 million available to remove and replace unsafe Aluminium Composite Material cladding from around 170 privately owned high-rise residential buildings.

In May 2019, an error was identified in the guidance notes for the 2019-20 National Non Domestic Business Rates (NNDR) returns which may have affected aspects of some BR Pilot authorities' budgeting decisions. The department has obtained Treasury approval for special payments to compensate local authorities who were significantly impacted by this error. Further information can be found on page 85 of the Accountability Report.

In July 2019, the department is taking responsibility for the Grenfell Tower site. This will remain until the community has determined the long term future of the site. As part of this process, the government has also committed to transferring the land to the bereaved and survivors if that is their wish, once an appropriate body has been established. A valuation of the site and the associated decommissioning liabilities will be completed during 2019-20.

Homes England: In May 2019, Homes England entered into a new joint venture company with individual shareholders comprising the shareholders of the 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 £30 million into the company through a combination of capital investment and loan funding.

Note 26. Entities within the Departmental Boundary

The department has one Executive Agency and 11 designated bodies. All bodies apart from the Queen Elizabeth II Conference Centre and the Architects Registration Board are consolidated into the departmental accounts. The Regulator of Social Housing was formerly part of the Homes and Communities Agency but their functions were transferred to a standalone ALB on 1 October 2018. The UK Holocaust Memorial Fund is currently part of the core department.

Executive Agencies

Planning Inspectorate

Advisory Bodies

Building Regulations Advisory Committee

Tribunals

Valuation Tribunal for England

Executive Non Departmental Public Bodies (NDPBs)

Homes England (trading name of the Homes and Communities Agency)	The Leasehold Advisory Service	Ebbsfleet Development Corporation
The Housing Ombudsman	Valuation Tribunal Service	Regulator of Social Housing

Other Bodies Not Classed as NDPBs

Commission for Local Administration in England

Trading Funds

Queen Elizabeth II Conference Centre

Public Corporations

Architects Registration Board

Business Rates Retention and Non-Domestic Rates Trust Statement

Foreword

Introduction

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

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

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

Scope

The department operates the system of Business Rates Retention which came into force on 1 April 2013 and replaced the previous collection and redistribution National Non-Domestic Rating system. Under the retention system, local authorities retain at least 50% of the rates collectable as their 'local share'. The Trust Statement reports the remaining portion of the rates collectable retained by central government. This includes the Central Share. Separate to this, Central List and Visiting Forces income is accounted for alongside Business Rates Retention but these National Non Domestic Rates otherwise operate in the same way as before the introduction of Business Rate Retention. Central List income relates to hereditaments that go beyond one local authority area, such as gas, electricity, railways and communication networks. Visiting Forces Income relates to rates paid by the Ministry of Defence in respect of properties occupied by Visiting Forces, these typically include Royal Air Force bases.

The results presented in this Trust Statement are separate to those presented in the department's Resource Accounts although they flow through the department's accounting system.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7 of the Government Resources and Accounts Act 2000. The audit opinion is on page 129. The auditor's notional fee of £19,000 (2017-18: £19,000) for this is included in the department's Resource Accounts. There were no fees in respect of non-audit work.

Statement of the Accounting Officer's Responsibilities in Respect of the Trust Statement

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

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

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

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the FReM, have been followed, and disclose and explain any material departures in the account;
- prepare the Trust Statement on a going concern basis; and
- confirm that the Trust Statement as a whole is fair, balanced and understandable and take personal responsibility for the Trust Statement and the judgements required for determining that it is fair, balanced and understandable.

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 the department'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.

Governance Statement in respect of the Trust Statement

The department's Governance Statement, covering both the Resource Accounts and the Trust Statement, starts on page 35.

Melanie Dawes CB **8 July 2019**
Accounting Officer
Ministry of Housing, Communities and Local Government

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

Opinion on financial statements

I certify that I have audited the financial statements of Business Rates Retention and Non-Domestic Rates Trust Statement for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the Business Rates Retention and Non-Domestic Rates Trust Statement gives a true and fair view of the state of affairs relating to the collection and allocation of Business Rates, and the cash flows as at 31 March 2019 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

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

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 appropriateness of the Trust Statement to continue to be prepared on a going concern basis. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may mean that the going concern basis ceases to be appropriate. I have nothing to report in these respects.

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

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

Auditor's responsibilities for the audit of the financial statements

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (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 MHCLG'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.

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

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

Other Information

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

Opinion on other matters

In my opinion:

- the information given in the foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

10 July 2019

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

Statement of Revenue, Other Income and Expenditure

For the period ended 31 March 2019

£'000

	Note	2018-19	2017-18
Income			
Taxes			
National Non Domestic Rates		1,701,057	1,612,670
Business Rates Retention		29,294,525	24,981,057
Local Share			
Deduction of Local Share		(20,118,760)	(14,587,527)
Total Revenue after deduction of Local share	3	10,876,822	12,006,200
Net Revenue for the Consolidated Fund Account		**10,876,822**	**12,006,200**

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

The notes at pages 135 to 136 form part of this Statement.

Statement of Financial Position

as at 31 March 2019

£'000

	Note	2018-19	2017-18
Current Assets			
Accrued Revenue Receivable		96,221	262,169
Cash and Cash Equivalents	CfS, 4	2	-
Total Current assets		**96,223**	**262,169**
Current Liabilities			
Accrued Revenue Payable		2	-
Total Current Liabilities		**2**	**-**
Total assets less current liabilities		**96,221**	**262,169**
Balance on Consolidated Fund Account	2	**96,221**	**262,169**

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

8 July 2019

The notes at pages 135 to 136 form part of this Statement.

Statement of Cash Flows

for the period ended 31 March 2019

£'000

	Note	2018-19	2017-18
Cash flows from operating activities		11,042,772	11,884,156
Cash paid to the Consolidated Fund		(11,042,770)	(11,884,244)
Increase/(decrease) in cash in this period		**2**	**(88)**
A: Reconciliation of Net Cash Flow to Movement in Net Funds			
Net Revenue for the Consolidated Fund	3	10,876,822	12,006,200
(Increase)/Decrease in receivables		165,948	(121,956)
Increase/(Decrease) in payables		2	(88)
Net Cash Flow from Operating Activities		**11,042,772**	**11,884,156**
B: Analysis of Changes in Net Funds			
Increase/(decrease) in Cash in this Period		2	(88)
Net funds at 1 April		-	88
Net Funds as 31 March		**2**	**-**

The notes at pages 135 to 136 form part of this Statement.

Notes to the Trust Statement

Trust Statement Note 1 Statement of Accounting Policies

Basis of accounting

The Trust Statement is prepared in accordance with:

- the Accounts Direction issued by HM Treasury on 9 February 2015 under section 7(2) of the Government Resources and Accounts Act 2000
- the 2018-19 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.

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

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

Revenue recognition

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

Business Rates income represents the tariff retention by the department and is accounted in accordance with IFRS15. As there are no performance obligations revenue is recognised when the revenue is wholly non-refundable, can be measured reliably, and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. All these elements must be satisfied. Revenue is determined via NNDR1 claim forms submitted by local authorities. The amounts recognised also include final adjustments to prior years' figures where eligibility has been confirmed by inclusion of audited figures in local authority NNDR3.

Local share

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

For 2018-19 we have piloted 100% business rates retention. This has increased the local share and decreased central share payments to the Consolidated Fund.

The cost of collection borne by local authorities included within the local share is £84 million (£84 million in 2017-18).

Effects of new accounting standards

2018-19 is the first year of implementation for IFRS15 and IFRS 9. The department has assessed the effect on business rates and concluded that the impact on the BRR Trust Statement is not material.

Trust Statement Note 2 Balance on the Consolidated Fund

£'000

Consolidated Fund	2018-19	2017-18
Balance on Consolidated Fund Account as at 1 April	262,169	140,213
Net Revenue of the Consolidated Fund	10,876,822	12,006,200
Less amount paid to the Consolidated Fund	(11,042,770)	(11,884,244)
Balance on Consolidated Fund Account as at 31 March	**96,221**	**262,169**

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

£'000

Revenue	2018-19	2017-18
Central list and others: NNDR revenue collectable on behalf of the Consolidated Fund	1,701,057	1,612,670
Local authorities: BRR revenue collected on behalf of the Consolidated Fund	9,175,765	10,393,530
Balance on Consolidated Fund Account as at 31 March	**10,876,822**	**12,006,200**

Trust Statement Note 4 Cash at Bank

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

Trust Statement Note 5 Events after the reporting period

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

Accounts Direction Given by HM Treasury

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

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

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

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

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

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

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

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

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

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

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

Annex A: Section 70 Grant Payments to Charities

Section 70 of the Charities Act 2006 (the Act) sets out the powers for ministers to give financial assistance to charitable, benevolent or philanthropic institutions and requires that payments made under this power are reported.

Institution	Payments £'000	Purpose
Build integrated communities		
Anne Frank Trust UK Ltd	170	To use Anne Frank's life and diary to empower young people with the knowledge, skills and confidence to challenge all forms of prejudice and discrimination.
Antisemitism Policy Trust	60	To examine the intersectionality of sexism and antisemitism, and for a campaign to combat antisemitic tropes.
Apasenth	496	To deliver community-based English language training to adults with the lowest levels of English to increase integration
Association for Public Service Excellence (APSE)	41	To develop an evidence base for the value, usage and state of parks and identify training needs for park professionals.
Big Ideas Community Interest Company	555	UK Holocaust Memorial community engagement, launch of South Africa Heritage day (Mandela 100) and commemorating the unremembered of the First World War.
Birmingham University	79	To deliver the Faith Leader Training Initiative for Ministers.
Church Urban Fund	2,031	To bring people together in communities that are religiously and ethnically diverse, so that they can get to know each other better, build relationships of trust and collaborate together on initiatives that improve the local community they live in, building well connected inter-faith communities with resilient structures for times of need.
Churches Together in England	7	Service to deliver the Spirit of Windrush, Church Service at Westminster Abbey on 22nd June 2018 - to mark 70th year of Windrush.
Cohesion & Integration Network	50	Core funding to support the development and launch of the Cohesion and Integration Network (CoIN).
Duke Playhouse Ltd	25	Improving educational outcomes for Gypsy, Roma and Travelling communities.
Faith Action (Aka Lifeline Community Projects)	734	To deliver community-based English language training to adults with the lowest levels of English to increase integration.
Faith Matters	892	To encourage people to report instances of anti-Muslim hatred via Tell MAMA and carry out community engagement to educate people about anti-Muslim hatred and improve the recognition and reach of Tell MAMA in communities.
Faiths Forum for London	9	To increase the number of faith representatives at the annual wreath-laying ceremony at the Cenotaph.
Fayre Share Foundation	799	To strengthen and support places of worship of all faiths in order to improve governance, increase their capacity to engage with women and young people, challenge intolerance and develop resilience to extremism.
Forum for Discussion of Israel and Palestine (FODIP)	62	To engage in constructive dialogue on the Israel-Palestine conflict with the aim to increase understanding of other perspectives through workshops, training and community events.
Friends Families & Travellers	30	Improving health outcomes for Gypsy, Roma and Travelling communities.
Gate Herts	28	Increase hate crime reporting for Gypsy, Roma and Travelling communities.
Granby Toxteth Development Trust	29	Improving educational outcomes for Gypsy, Roma and Travelling communities.
Good Things Foundation	1,950	To deliver community-based English language training to adults with the lowest levels of English to increase integration.
Holocaust Educational Trust	150	To tackle antisemitism and hatred as well as support Holocaust education and commemoration on University campuses.

Institution	Payments £'000	Purpose
Holocaust Memorial Day Trust	1,146	Developing the content of the UK Holocaust Memorial and Learning Centre and promoting Holocaust Memorial Day across the UK.
Institute of Education	100	To create a lasting education and civic legacy for the four year First World War Battlefield Tours programme through developing resources, networks and promoting best practice.
Inter Faith Network for the UK	385	To promote understanding and cooperation between organisations and people of different faiths across the country.
Kick It Out	12	To promote the reporting of hate crime/discriminatory incidents through the professional game, grassroots football and on social media.
Landscape Institute	20	To work in partnership to deliver continuous professional development to support improvements to the modern parks manager.
Locality	130	To empower Parks communities to be more active in the stewardship of parks through an online knowledge hub, networking and community events.
Luton Roma Trust	26	Improving community cohesion outcomes for Gypsy, Roma and Travelling communities through English for Life project.
Maccabi Gb	75	Educate young people on the dangers of anti-Muslim hatred and antisemitism.
Muslim Women's Council	86	To build capacity to educate and inform couples and their children of the benefit of civilly registering religious marriages.
National Trust	1,410	Initial set-up funding to support local authorities to transform their parks estates using innovative and new models of parks management and funding.
Natural England	38	To support the development of Green Infrastructure standards and quality of parks and green spaces; and research to explore the use of parks and green spaces.
One Voice Europe	50	To ensure that young people are more aware of the nuances behind the conflict in Israel and Palestine and help build understanding between communities.
One20 (Aka Timebank)	326	To deliver community-based English language training to adults with the lowest levels of English to increase integration.
Operation Black Vote	45	To deliver the Operation Black Vote Parliamentary Shadowing Schemes.
Parks Alliance	55	To support the appointment of a coordinator to deliver key actions to inform the response to the Select Committee Inquiry on Public Parks.
Prison Radio Association	30	Improving community cohesion outcomes for Gypsy, Roma and Travelling communities.
Services for Education Limited	26	To commemorate the end of First World War with a concert of mass children choirs in Birmingham.
Show Racism The Red Card	23	To organise and deliver high-profile hate crime awareness and education events in partnership with football clubs.
Soas	72	To support the Dar Ul Uloom Seminary Accreditation taskforce working within the Muslim communities.
Thornbury Centre	39	Improving health outcomes for Gypsy, Roma and Travelling communities.
The Linking Network	725	To develop and facilitate effective links between schools of different demographic backgrounds, creating sustained social mixing and supporting them to develop a positive, cohesive ethos.
Umma Help	400	To commemorate what happened in the town of Srebrenica during the Yugoslavian civil war whilst raising awareness aimed at countering discrimination and building stronger community relations here in the UK.
Wiener Library	75	To support Holocaust survivors, refugees and their families in investigating the International Tracing Service archive and discovering information about their family's fates.
Youth United Foundation	188	Support to Youth United Foundation to embed integration in uniformed youth provision.
Deliver the homes the country needs		
Construction Industry Council	2	To support institutions with their accreditation criteria for education programmes (Architecture and Engineering) and promote implementation of the Teaching and Learning Guide.

Institution	Payments £'000	Purpose
Design Council	27	To support institutions with their accreditation criteria for education programmes (Architecture and Engineering) and promote implementation of the Teaching and Learning Guide.
Gloucestershire Wildlife Trust	72	To accelerate the planning and delivery of high quality of new homes by embedding and mainstreaming Building with Nature within Cotswold, West Oxfordshire and Forest of Dean.
Meanwhile Foundation	157	To pilot a brokerage service to help tackle loneliness, support community groups and businesses and reduce the number of empty properties.
National CLT Network	2,000	First element of a £6m grant to a consortium of leading stakeholder groups to deliver a programme of national advisory services, technical support, training and seed-corn funding for community-based groups undertaking local housebuilding schemes.
Princes Foundation	47	To support two model charrettes to research stakeholder and community engagement and the impact this could have on achieving well-designed places.
Royal Town Planning Institute	115	To establish a joint initiative with higher education establishments to pay planning bursaries to students in order to bring new trained planners into the planning profession.
University of Oxford	25	To support the University of Oxford Said Business School's research into the availability of finance for new housing supply.
Urban Design London	177	To support local participants involved in planning and housing to deliver good design through training and networking.
Grow local economies		
Pub is the Hub	188	To support pubs to expand their services and facilities into a range of new ones that are community focussed.
Support effective Local Government		
National Association of Local Councils	2	To perform the statutory role of Parish and Town Council Selector within agreed parameters.
Total	**16,491**	

Annex B: European Regional Development Fund

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

The ERDF was set up in 1975 to stimulate economic development in the least prosperous regions of the European Union (EU). The department acts as Managing Authority (the organisation responsible for the efficient management and implementation of the programme) for the 2000-2006, 2007-2013 and 2014-2020 Programmes. In London, the ERDF continues to be delivered by an intermediate body, the Greater London Authority (GLA). A more limited range of Managing Authority functions has been delegated to devolved intermediate bodies[31] either as part of the delivery of the mainstream ERDF programme or Sustainable Urban Development.

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

ERDF income is recognised once the relevant claim has been certified by the department's ERDF Certifying Authority team. Payments to projects that were made by the department have been treated as current asset inventories on the Statement of Financial Position (31 March 2019: £63 million, 31 March 2018: £147 million) and only transferred to expenditure on certification. In the event that the payments fail certification, the amounts are reclaimed from projects.

All programmes have an associated intervention rate. This is the percentage of project expenditure which can be funded by the ERDF. Projects can be offered an ERDF grant at differing intervention rates but claims made to the European Commission (EC) are based on a combination of the priority axis and category of region level intervention rates. Differences therefore arise between the amounts claimed from the EC and that paid out to projects. The differences between these amounts are posted to the Statement of Financial Position either as current asset inventories (31 March 2019: £0, 31 March 2018: £0) or as deferred income within current payables (31 March 2019: £189 million, 31 March 2018: £224 million).

European Regional Development Fund 2014-2020

The department agreed the 2014-20 ERDF Programme in 2015-16 and the first payments were made in June 2016. The department has been provided with an initial advance which is held as a payable until utilised (31 March 2019: £92 million, 31 March 2018: £95 million). In the 2014-20 Programme, there is an advance for the whole programme plus annual advances paid each year, for use on an annual basis. Any annual advance not used by the department has to be paid back to the EC once the annual accounts have been agreed, although after the finalisation of the last two annual accounts the EC offset the amount owed against the next year's yearly advance. The 2014-20 programme differs from the 2007-13 as the EC hold back 10% of each requested amount from each payment application made. Once the annual accounts have been agreed this amount is released and is taken from the annual advance, along with any adjusted amounts that have been made to previous payment applications through the annual accounts. The EC will pay any additional monies that are owed to the department at this stage (31 March 2019: £84 million, 31 March 2018: £73 million).

The Audit Authority function (the designated body that audits the ERDF), which is delivered by the Government Internal Audit Agency, tested the validity of 61 claims, equating to €66.5 million out of total declared expenditure of €222.5 million. Testing of the audit sample revealed instances of ineligible expenditure on several ERDF projects (27 of

31 Devolved intermediate bodies have been designated in Cornwall IOS, Tees Valley, Manchester, Liverpool, Newcastle, Leeds, Sheffield, Nottingham, Birmingham and Bristol.

the 61 claims examined contained ineligible expenditure, most of which had low impact / limited financial consequence). However, the Audit Authority calculated the total error rate for the EC's 2017-18 accounting period as being 0.930%, which is far below the 2% materiality threshold. In their February 2019 annual report to the EC, the Audit Authority provided an unqualified opinion, specifically that:

- the ERDF accounts submitted to the EC by the department for the EC accounting period 2017-18 give a true and fair view, as established by Article 29(5) of Regulation (EU) No 480/2014;
- the expenditure in these accounts for which reimbursement has been requested from the Commission is legal and regular; and
- the ERDF management and control system put in place by MHCLG functions properly.

The EC have completed their review of the Audit Authority's work, with no changes made to assurances provided.

If the UK is unable to access EU funding as a result of leaving the EU without a deal, the Chancellor announced in August and October 2016 that the government would guarantee certain EU projects agreed before we leave the EU in order to provide more certainty for UK organisations over the course of EU exit. This guarantee included all ERDF projects.

In July 2018 the government extended the guarantee so that it would cover all projects that would have been funded by the EU under the 2014-2020 programme period, including all ERDF projects. The extension means that MHCLG will continue to sign new ERDF projects after EU exit until programme closure. The England ERDF 2014-20 programme falls under this guarantee. See page 84 for more detail.

European Regional Development Fund 2007-13 programme

The department submitted formal closure documents for all ten programmes to the EC by 31 March 2017. The Commission has approved the Managing Authority's Final Implementation Reports (FIRs),the Audit Authority's Final Control Report (FCR) and Closure Declaration, and the Certifying Authority's claim for the final balance, for nine of the ten programmes. Five percent of each programme value is held on retention by the EC. Final closure settlement for nine programmes of £115m due has been received by the department. We may receive a further £99,800 for the SW Convergence programme, which is pending the outcome of ongoing OLAF (European Anti-Fraud Office) investigations. The Commission issue a closure letter for each programme which fixes the date from which the three-year document retention period runs. We may still be subject to audit during this period, should the Commission elect to complete a review. We expect the SW Convergence programme to receive its final closure letter and be closed down within the next six months.

978-1-5286-1419-1
CCS0419985260