Homes England

Making homes happen

# Annual Report & Financial Statements

## 2019/20

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# Homes England[1] Annual Report & Financial Statements 2019/20

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

Ordered by the House of Commons to be printed 5 November 2020.

HC 866

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

This Annual Report & Financial Statements presents the audited consolidated results of the 2019/20 Financial Year for the group of entities of which Homes England is the parent.

The Homes England Group is consolidated into the 2019/20 Financial Statements of the Ministry of Housing, Communities & Local Government.

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

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ISBN: 978-1-5286-1461-0
CCS0320330936 11/20

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.

# Contents



# Interim Chair's foreword

## Our organisation has achieved a lot in a short amount of time. We have transformed ourselves into a new type of public delivery body, one that co-invests in places and develops new services to stimulate sustainable housing growth.

**Simon Dudley**
Interim Chairman & Senior Independent Director

We're now a stronger, more commercial national organisation capable of working with our partners to achieve the Government's housing ambitions, create new communities and address one of the most important challenges of our time.

This last 12 months has seen us meet our ambitious delivery targets, reshape the Agency to better deliver our mission and bring in hundreds of people with significant expertise in their fields to improve our capabilities. We are clear that to deliver on our mission we will become a centre of expertise for housing led growth and use our knowledge to support our many public and private partners to achieve their housing ambitions.

In addition to welcoming new colleagues to the Agency and new businesses to the country Homes England has welcomed new board members. Mark Rennison, Olivia Scanlon, Sadie Morgan and Vanessa Murden joined us in August, bolstering the Agency with their knowledge and experience and challenging us to be better in everything we do.

This year saw the Agency lay down a marker for the kind of intervention we are looking to make in the housing market, with the announcement of our collaboration with Japanese modular housebuilder Sekisui House and Urban Splash announced in May.

Bringing Sekisui, one of the world's leading offsite manufacturers, to the UK shows our increased level of ambition, as we use our funding to disrupt the market and accelerate the change we all want to see in the housing industry.

This determination is also evident in the progress we have made on our own strategic sites,

with housebuilding now progressing at Burgess Hill, modular homes about to be built on our own land at Northstowe and York Central winning an award for masterplanning. We set high standards for place-making and will continue to broker partnerships to accelerate development up and down the country.

The coming years will see us invest billions across the country to accelerate new growth and build communities. This unprecedented investment will lever in many more billions from private investors and create thousands of jobs and community assets, including schools, health centres and green spaces.

The importance of our work to shape new communities and build healthy places was thrown into sharp relief by the COVID-19 pandemic which, along with other possible future economic challenges, could have a significant impact on the valuation of assets held on our balance sheet, in particular Help to Buy. There may also be changes to how we need to think about the built environment, the public realm and delivering beautiful places. We welcome the Government's commitment to housing and our resources and expertise make us extremely well positioned to play a key part in building back better and greener.

I'm incredibly proud of everything we have accomplished this year and full of optimism for what our organisation will achieve in the future. As I finish my term as interim Chair, I would like to thank the Board and the Executive Team, and every colleague and partner who have worked through challenging times to continue making homes happen.

# Performance report

Contents:

# Performance overview

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

# Chief Executive's statement

## This year has seen Homes England make significant progress towards building a different type of organisation, with the capacity, capability and relationships needed to disrupt and rebalance the housing market so it works for more people.

**Nick Walkley**
Chief Executive

Central to this is increasing the number of high quality homes built every year. I'm incredibly proud that we have exceeded our annual delivery targets, delivering a year on year increase in the number of housing completions the Agency has supported, and in the number of homes we have delivered that were additional to the market, as well as surpassing our target for affordable housing delivery.

Directly supporting the completion of 40,452 new homes, including 28,261 affordable homes, unlocking land for 114,361 homes and delivering a further 42,358 starts on site is a testament to the hard work and dedication of everyone at Homes England.

As an organisation we never forget that behind every deal, we're creating employment, supporting growth and transforming lives by supporting people into new homes, something the COVID-19 pandemic really did drive home.

With house prices remaining resilient as we moved into the early part of 2020/21, the pandemic did not significantly impact on the Agency's asset values at 31 March 2020. However, the wider economic consequences of COVID-19 in the second half of 2020/21 and beyond will no doubt have implications for the housing market, the sector and Homes England and its mission. I note our key risks in my Governance report and the potentially significant impact of changes in economic conditions on our balance sheet in Note 2 of the Financial Statements (in particular for our portfolio of Help to Buy equity loans). With these challenges firmly in mind, I have confidence that our work to date to create an organisation capable of making real change in the housing sector puts us in a strong position to tackle the challenges ahead.

I was incredibly proud of how everyone pulled together to navigate a shift to home working. Huge credit has to go to our digital team for their work throughout the year to equip every member of staff with the new technology and training that made this transition so straightforward. It went a long way to supporting the Agency to exceed its public facing targets and complete on a number of sizeable transactions.

We want to do things differently and encourage our people to work creatively and collaboratively to deliver truly transformational partnerships and projects. Nowhere is this ambition better showcased than our collaboration with Sekisui House and Urban Splash, bringing one of the world's biggest housebuilders to the UK for the first time.

The same is true of our Strategic Partnerships with Housing Associations, by committing to work with our partners in new and more ambitious ways we are set to deliver tens of thousands of homes over and above what they would have otherwise delivered.

As a national organisation, we work alongside our local partners in many places across the country. We are serious about working in, recruiting and supporting the communities we are helping to shape. We now employ more than 1,100 high-skilled staff, with the majority based in the Midlands, North West and the North East. We have moved our national headquarters to Coventry with a smaller office in London.

We continue to transform ourselves from the inside out, adding the likes of economists, data scientists and service designers to our skilled workforce of investment, planning and regeneration experts. It's been immensely heartening to see how our mission and objectives resonate equally with colleagues who've worked in the private sector, local government and other parts of the public sector. Having nearly 900 colleagues attend our All Staff event in Gateshead in July 2019 to hear from partners, celebrate our successes and look to the future really did bring home how far we've come.

The willingness of our people to take ownership of our values and culture is epitomised by the fact that this year saw Homes England ranked within the top 100 most inclusive employers by Stonewall and recognised as a Top 20 Trans Employer for the first time. There's always more to do but we're making progress. In July 2020 we published our first Equality Diversity and Inclusion report setting out the steps we will take as an agency to be the change we want to see in the sector.

This year has also seen Sir Edward Lister leave his role as Chair of Homes England. On behalf of everyone at the Agency I'd like to extend my warmest thanks to him for his support and guidance. Simon Dudley, our interim Chair has stepped into the role with great skill and we are all grateful for his expertise and leadership.

Within the Agency itself we have moved to a more flexible, market-facing structure, launching our new directorate Markets, Partners and Places (MPP). MPP will play a leading role in driving Homes England's business development activity, combining strategy, economics, research and analysis alongside local knowledge, delivery expertise and strategic market engagement.

Securing approval for our Transformation Business case in April 2020 is a hugely important moment for the Agency as we work to make our services more usable for partners and staff. Adapting and innovating ourselves is essential if we are to achieve our ambitions and transform the housing market. By improving our processes and streamlining our work, our transformation work is freeing us up to focus more of our time on the ground alongside local partners.

# Organisational Overview

## Who we are

We are a non-departmental public body sponsored by the Ministry of Housing, Communities and Local Government. Our statutory objects are contained in the Housing and Regeneration Act 2008 ('the Act').

We exist to accelerate the delivery of housing across England. We are a national agency with experts based in offices across the country. We're governed by a Board, appointed by the Secretary of State for Housing, Communities and Local Government, and led by interim chair Simon Dudley. Our Chief Executive, Nick Walkley, leads an executive team that includes specialists in land, investment, finance, business transformation and risk management.

Our role is to ensure more people in England have access to better homes in the right places. To make this happen we intervene in the market to get more homes built where they are needed. We accelerate delivery, tackle market failure where it occurs and help to shape a more resilient and diverse housing market.

We work in collaboration with partners who share our ambition. These include local authorities, private developers, housing associations, lenders and infrastructure providers. Our activities are always in response to local needs and robust leadership ensures we deliver best value for money in all of our interventions, including those delivered with partners.

## Our Statutory Objects

The Statutory Objects of Homes England are set out in the Housing and Regeneration Act 2008, and are:

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

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

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

### Unlocking land

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

### Unlocking investment

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

### Increasing productivity

We'll improve construction productivity.

### Driving market resilience

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

### Supporting local areas

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

### Delivering home ownership products

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

## Market disruption and managing risks

Our organisation is required to be active in areas of the residential market which are considered unattractive by commercial organisations.

As an organisation we have an ethos of delivering for the public good in the long term. Therefore, a substantial portion of activity in delivering our Strategic Delivery Plan carries an inherently higher risk than the broader market.

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

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

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

Over the last 12 months Homes England has undergone significant organisational design change to support a new operating model and ensure we are an efficient and effective team. To mitigate identified operational risks which fall outside of the organisation's appetite, the Service Transformation Plan is a key mitigation strategy, and we are conducting internal 'deep dive' reviews and independent assessments into operational risks. Sections later in the report set out where work is ongoing to identify, assess, own and manage risks.

See our Governance Report to understand how we manage risk and a description of our key risks, (page 64).

## Impact of COVID-19 in 2019/20

The impact of the COVID-19 pandemic became significant from mid to late-March and as such did not have a pronounced impact on delivery at year-end.

In 2019/20, COVID-19 affected our delivery in two main areas; first, the sale of land planned for completion was delayed as buyers deferred decision making until the impact of COVID-19 on the sector and prices was known. Second, although the lockdown dramatically reduced completions, there was little impact on the three key performance indicators for house completions in 2019/20.

The pandemic occurred very close to year-end and the majority of the Agency's assets have values which are closely linked to the strength of the housing market. As a result, there was relatively little impact on asset values at 31 March 2020 (see Note 2 for details of the accounting judgements made for each significant asset type).

This may differ from financial institutions such as banks with large residential lending due to differences in the accounting valuation requirements for different asset types. The majority of the Agency's assets are valued with reference to market values as at 31 March 2020, whereas conventional lending (e.g. residential mortgages) requires a valuation which considers the impact of possible default under future scenarios (as is the case for the Agency's commercial lending, where the impact of alternative future scenarios is considered in determining

Expected Credit Losses – please see Note 15h and the sensitivity analysis performed in Note 18b).

## Future impact of COVID-19

COVID-19 clearly has the potential to have a long-lasting effect on the sector in 2020/21 and beyond as lockdown and social distancing continue to reduce the output of partners. COVID-19 has affected several industry variables; the pace of developers returning to site, the productivity of sites when they return, and, investor confidence. They will all impact on our ability to deliver against our mission and strategic objectives.

We manage our performance and Key Performance Indicator delivery as a portfolio, the risk profile and uncertainty that is attached with specific projects is spread over the portfolio enabling us to effectively manage risk and uncertainty. Delivery of our performance is secured through partners who independently manage their own risk and uncertainty, this represents an additional factor that can impact our performance that we need to proactively manage.

Given the magnitude of the uncertainty and risk created by COVID-19 we are forecasting a material reduction in the performance of our Key Performance Indicators in 2020/21. We are working closely with MHCLG and other stakeholders to gather and share market intelligence to understand the emerging challenges that the sector faces and respond appropriately.

Looking forward to 2020/21 year-end, changes in the economy as a result of the pandemic could have a significant impact on the value of assets managed by the Agency. This possible future impact is considered in Note 2 of the Financial Statements. Here, alternative future scenarios are considered to determine the financial impact we might reasonably expect to see if they occurred. The most significant thing to note from this analysis is the overall uncertainty surrounding the potential future impact of COVID-19, with a £4.3bn range in estimated asset values across the three scenarios modelled (the majority of which relates to Help to Buy, where the main driver of asset values is house prices).

## Future budgets and performance targets

Looking beyond 2020/21 the Spending Review to be announced in Autumn 2020 will establish the funding settlement and performance outcomes for the capital budgets through to 2024/25. This will reflect the risk and uncertainty we face as a result of COVID-19, EU Exit and the economic outlook to set our expected future performance.

## Going concern

Our net assets reflect the inclusion of liabilities falling due in future years. If they are not met from our other sources of income, we may only be able to meet these liabilities from future grants or grant in aid from our sponsoring department, the Ministry of Housing, Communities and Local Government. Grants may not be issued in advance of need and grant in aid for the year ending 31 March 2021, taking into account the amounts required by our liabilities falling due in that year, has already been approved by Parliament.

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

# 2019/20 Performance summary

## Leading the sector by building our capacity and living our values

### We created **three Centres of Excellence**

that brings together specialist teams in Investment, Development and local authority capacity so we can share expertise across the Agency and with our partners.

### We were named as **one** of the **100 most inclusive employers** by Stonewall

We provided training to increase understanding of issues affecting LGBT and trans people as part of our commitment to fostering diversity and inclusion.

### **New offices opened**

in shared spaces with local authority stakeholders in Coventry, Liverpool and Manchester with our offices in Crawley and our purpose built space in Northstowe.

### **New chair** and **board members**

Sir Edward Lister stepped down to join the Prime Minister’s team, and board member Simon Dudley became interim chair. We also welcomed Sadie Morgan, Vanessa Murden, Mark Rennison and Olivia Scanlon as non-executive members.

### **Speeding up delivery**

by creating a single development pipeline driven by our new MPP directorate. The new Transformation directorate focuses on transforming services, use of technology and ways of working.

# Investing in the sector

## **Homes England** became a proud sponsor of **ReGeneration Brainery**

which encourages school leavers and undergraduates to consider a career in property through creative workshops.

REGENERATION BRAINERY

## **Homes England** invested £30m in **ilke Homes**

as part of the 'Construction Corridor' in Yorkshire to deliver carbon-free homes.

## Delivering the initial **£600m private sector remediation fund** for buildings with aluminium composite cladding (ACM), **with a further £1bn** for other types of unsafe cladding.

## Worked with **UK Finance** to open up the **Help to Buy** remortgage market

Help to Buy

by enabling Equity Loan customers to remortgage their homes beyond the original 25-year repayment period.

## **Launched a new £10m** asbestos remediation framework, and investment in estates management and land survey specialisms.

# Highlights from a year of ‘making homes happen’

## 1st new town in 50 years

Announced plans for the country’s first new town in 50 years at Northstowe in Cambridgeshire. The proposed scheme will create 8500 new homes plus half a million square feet of commercial and community space.

SEKISUI HOUSE

Sekisui, Japan’s biggest housebuilder and MMC pioneers, moved into the UK housing market after striking a multimillion-pound deal with Homes England and Urban Splash, in what came to be known as -

## ‘Deal of the decade’

Housing Infrastructure Fund unlocks

## 70,000 homes

Last year we worked with councils to invest £73m through the government’s Housing Infrastructure Fund that will ultimately unlock 70,000 homes that enhance communities and grow local economies.

As construction sites closed across the country to slow COVID-19, Homes England continued to acquire

## 19 sites for £180m

before the end of the financial year.

## Funding deals with 18 local authorities worth £95m

Homes England agreed funding deals with 18 local authorities worth £95m as part of the government's Local Authority Accelerated Construction (LAAC) Programme for infrastructure and remediation.

## £12.2 billion grant fund to build affordable homes

The Chancellor handed Homes England responsibility for the non-London share of a £12.2 billion grant fund to build affordable homes in the Budget.

## Partnership between Homes England and the Defence Infrastructure Organisation

An MoD site in Ripon as the first site to be progressed as part of a partnership between Homes England and the Defence Infrastructure Organisation (DIO) to develop surplus military land across the country.

## Loans worth £150m

for developments in Wimbledon and Southampton became the first deals for the government's

## £1bn Housing Delivery Fund partnership

with Barclays, designed to accelerate house building.

# Performance analysis

We directly supported the completion of **40,452** new homes, including **28,261** affordable homes.

We delivered **27,090** homes that were additional to the market.

We supported **61,251** households into home ownership.

We unlocked land with capacity for **114,361** homes.

We delivered starts on site of **42,358** homes.

# Delivery and financial targets

When Homes England launched in 2018, we identified ten key performance indicators against which the success of the Agency would be measured over time. Since then, we have been working closely with MHCLG to define the detail behind these measures to align them correctly with policy objectives and then standing up the system, process and data capture required to begin reporting on them. This has taken time to complete to enable us to begin reporting on measures. MHCLG, HM Treasury and other stakeholders are sighted on progress and barriers to ensure we have progressed these as quickly as possible.

For the 2019/20 reporting cycle, five of the measures were approved for reporting and we include analysis below which reflects our progress against them. In 2020/21 we have stood up a further three of the measures (as at the date of publication of this Annual Report & Financial Statements) and have plans for the remaining two to be stood up before the end of 2020/21.

## Completion of new homes

We successfully closed 2019/20 by exceeding our delivery targets for the three key performance indicators where official targets are set by MHCLG for completions:

| 2019/20 Performance against targets | | | |
|---|---|---|---|
| Target | Delivery performance | | |
| | Full year target | Full year outturn | % of target achieved |
| Total completed new homes supported by Homes England | 40,000 | 40,452 | 101.1% |
| Total completed new homes which were additional to the market | 26,000 | 27,090 | 104.2% |
| Total affordable completed new homes supported by Homes England | 28,000 | 28,261 | 100.9% |

The financial year 2019/20 was particularly challenging for the housing sector, which started with uncertainty about the impact of the UK's exit from the European Union and ended with an almost total shut-down due to COVID-19. Despite these factors, we exceeded our delivery targets on our three key performance indicators for house completions. The result highlights the support we have provided to the market to deliver against our mission and strategic objectives.

In 2019/20 COVID-19 affected our delivery in two main areas; first, the sale of land planned for completion was delayed as buyers deferred decision making until the impact of COVID-19 on the sector and prices was known. Second, although the lockdown dramatically reduced completions, there was little impact on the three key performance indicators for house completions in 2019/20. The impact will be in 2020/21 as lockdown and social distancing continue to reduce the output of partners.

COVID-19 has affected several industry variables; the pace of developers returning to site, the productivity of sites when they return, and investor confidence. They will all impact on our ability to deliver against our mission and strategic objectives.

We manage our performance and Key Performance Indicator delivery as a portfolio, the risk profile and uncertainty that is attached with specific projects is spread over the portfolio enabling us to effectively manage risk and uncertainty. Delivery of our performance is secured through partners who independently manage their own risk and uncertainty, this represents an additional factor that can impact our performance that we need to proactively manage.

Given the magnitude of the uncertainty and risk created by COVID-19 we are forecasting a material reduction in the performance of our Key Performance Indicators in 2020/21. We are working closely with MHCLG and other stakeholders to gather and share market intelligence to understand the emerging challenges that the sector faces and respond appropriately.

Looking beyond 2020/21 the Spending Review to be announced in Autumn 2020 will establish the funding settlement and performance outcomes for the capital budgets through to 2024/25. This will reflect the risk and uncertainty we face as a result of COVID-19, EU Exit and the economic outlook to set our expected future performance. Our performance is managed against financial and non-financial delivery targets, within the programme and operational expenditure limits set by MHCLG. This year, we have been monitoring our delivery performance against portfolio based Key Performance Indicators. They include targets for housing completions, the additionality of these completions to the market, and affordable housing completions.

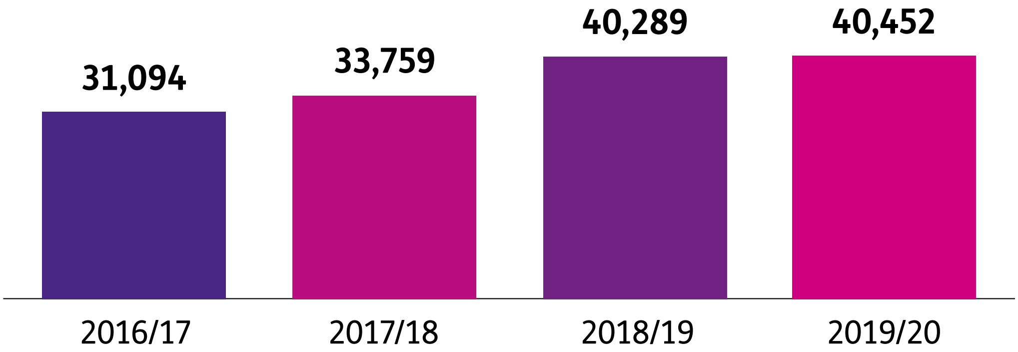
The Board reviews and holds management to account for our performance through the Management Information Suite. This covers delivery and financial performance, in addition to a housing market overview, risk management and key corporate performance indicators. The Management Information Suite provides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

## Total completed new homes supported by Homes England

We supported the delivery of 40,452 housing completions in 2019/20, ahead of our 40,000 completions target.

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

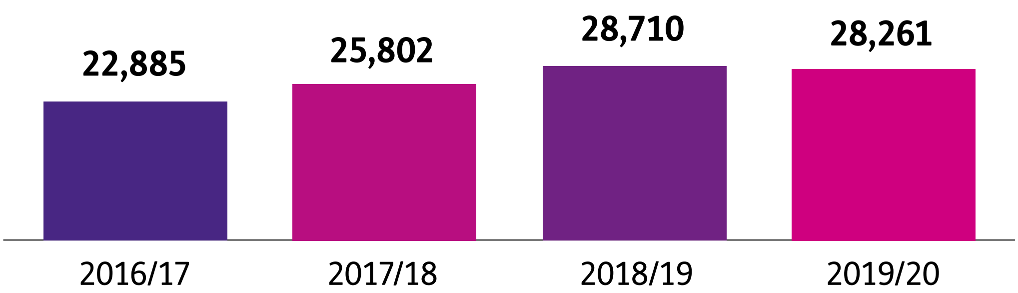
## Chart 1 - Total housing completions




## Total completed affordable new homes supported by Homes England

28,261 or 70 per cent of housing completions in 2019/20 were for affordable homes. This represents a reduction of 2 per cent on the 28,726 affordable homes completed in 2018/19. The drop in affordable completions is a result of delivery at certain points of a programme cycle of different and overlapping funding streams. Remaining delivery through the 2015-18 Affordable Housing Programme is tapering off as expected as allocations complete. The 2015-18 Affordable Housing Programme was followed by the launch of the Shared Ownership and Affordable Housing Programme 2016-21 which is now seeing increasing delivery. The impact of COVID-19 on housebuilding in March, when there has historically been an increased rate of completions very close to year end, will also have had an effect on overall completion numbers.

## Chart 2 - Total affordable housing completions




### Definition of completions across Homes England's programmes:

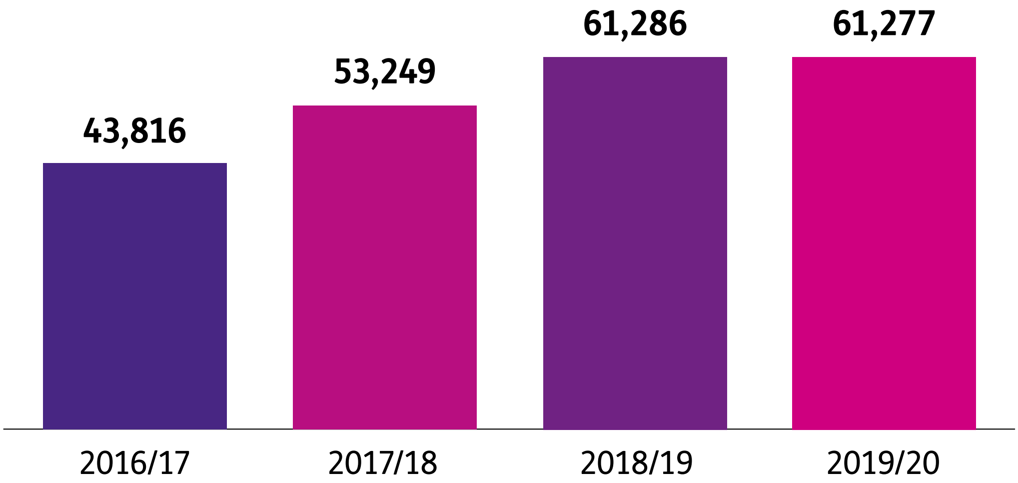
- For Affordable Housing programmes, a completion, as defined in the Capital Funding Guide (paragraph 4.2.7), is a housing unit that has been completed in accordance with the terms in the relevant building contract, and the terms of the contract between Homes England and the Registered Provider that has an allocation; and is fit for occupation as per National House-Building Council (NHBC) requirements.
- For Investment & Land programmes, a completion is defined as the physical completion of an individual housing unit or block such that it is habitable. There is scope to claim completion subject to customer options – for example if a kitchen/ flooring is to be completed upon sale.

Units may be counted as completions both in the case of new homes, and where units have been rehabilitated or repurposed to become habitable where they were not previously.

## Total Households supported into home ownership by Homes England Products

61,251 households were supported into home ownership in 2019/20 through Homes England Products.

## Chart 3- total households supported into home ownership




## Forward-looking performance indicators

In addition to the official targets for completions set by MHCLG, we also assess performance using two key forward-looking performance indicators:

| 2019/20 Performance against forecast | | | |
|---|---|---|---|
| Forecast | Delivery performance | | |
| | Full year target | Full year outturn | % of forecast delivered |
| Unlocking Housing Capacity | 120,243 | 114,361 | 95.1% |
| Starts on Site | 42,544 | 42,358 | 99.6% |

Delivery against these performance indicators in 2019/20 was impacted by the macroeconomic challenges highlighted above, EU Exit preparation and corresponding economic uncertainty, purdah which paused our activity in late 2019 and finally the impact of COVID-19. The delivery of some programme outputs therefore slipped into 2020/21.

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

We are committed to the effective management and application of public funds in accordance with Managing Public Money. This is carried out legally and in the public interest, with high ethical standards while achieving value for money. We also endorse the seven Principles of Public Life - the Nolan Principles - of Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

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

Our fraud action plan underpins our activity. We have examined, developed and amended our existing counter-fraud, bribery and corruption policies to reflect our activity. Our activity is supported by our policies and procedures. We review every reported case of fraud, take appropriate action and monitor progress. Additionally, as part of its reporting function all cases are escalated and reported periodically to MHCLG.

All key internal stakeholders attended counter-fraud error and loss risk assessment workshops, resulting in the completion of a fraud risk register. In order to maintain our understanding of fraud risk exposure, these assessments will form part of a rolling programme of work. We continue rolling out mandatory induction and continual periodic training for all staff. The content will be further developed in the forthcoming year to meet the challenges ahead.

Counter-fraud, error and loss risk assessment workshops have now been delivered to all business areas, which identified key fraud risks. We continue to examine our existing fraud control mechanisms to improve them wherever necessary.

We have developed and introduced an electronic centralised process to report, manage, supervise and oversee 'Gifts and Hospitality' reporting to enhance usability and immediate supervisory intervention.

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

In the financial year 2019/20 we have again undertaken an annual review of our modern slavery policies to reflect our changing environment. Engagement with the Office of the Independent Anti-Slavery Commissioner and the Gangmasters Labour Abuse Authority continues, which aids benchmarking and endorses our risk approach. We now enjoy the status of being one of their approved employers.

Together with construction industry partners, we signed the Gangmasters and Labour Abuse Authority (GLAA) intelligence sharing protocol and we maintain relationships with UK law enforcement bodies. We have continued to deliver external training to our panel firms and framework partners to ensure that our compliance requirements are met. We require partners to identify and report suspicious activity and welfare concerns.

We have continued to prepare and deliver internal training to Homes England staff in the form of presentations and workshops. Once our new training delivery platform is procured in the third quarter of 2020 we will deliver a modern slavery awareness webinar in partnership with the Chartered Institute of Builders (CIOB).

We have also developed our proactive reassurance plan to deliver inspection activities in conjunction with our monitoring surveyors at our high-risk sites throughout the UK. Finally, the responsibility and governance programme, overseen by our Executive Management team and Board, continues to create a hostile environment for modern slavery and ambiguous supply chains.

# Financial summary

For the financial year 2019/20, Homes England's performance against its programme financial control totals is summarised below:

| Financial programme performance £m | 2019/20 | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| | Target | Outturn | Variance | Target | Outturn | Variance |
| Capital Financial Transactions | 3,826 | 3,762 | (64) | 4,142 | 3,848 | (294) |
| of which: Expenditure | 4,309 | 4,219 | (90) | 4,546 | 4,254 | (292) |
| Receipts | (483) | (457) | 26 | (404) | (406) | (2) |
| Capital Grant | 1,805 | 1,723 | (82) | 1,021 | 1,010 | (11) |
| of which: Expenditure | 2,076 | 1,951 | (125) | 1,173 | 1,145 | (28) |
| Receipts | (271) | (228) | 43 | (152) | (135) | 17 |
| Resource | 42 | (47) | (89) | (50) | (68) | (8) |
| of which: Expenditure | 281 | 138 | (143) | 94 | 76 | 18 |
| Receipts | (239) | (185) | 54 | (144) | (144) | - |
| Total Programme | 5,673 | 5,438 | (235) | 5,113 | 4,790 | (323) |
| of which: Expenditure | 6,666 | 6,308 | (358) | 5,813 | 5,475 | (338) |
| Receipts | **(993)** | **(870)** | **123** | **(700)** | **(685)** | **15** |

Financial control totals within Capital Financial Transactions, Capital Grant and Resource funding operate independently, and to a net budget position. The Agency's net programme results at £5,438m were 4% less than the net programme target of £5,673m, and the results show a continued increase in delivery of 14% compared to 2018/19. Homes England manages its budgets independently across Capital Financial Transactions, Capital Grant and Resource, and to a net budget position. The summary highlights that the Agency's activity remains within the financial control totals set by MHCLG.

## Financial performance in 2019/20

The Agency's financial performance throughout 2019/20 has been strong.

Grants to the Affordable Housing Sector increased by 71% from £819m in 2018/19 to £1,398m in 2019/20 largely due to the increase in the strategic partnership element of the programme. These partnerships provide additional support to Registered Providers for the construction of affordable homes. The Strategic Partnership programme, which was launched part way through 2018/19, has grown from £170m last year to £700m this year.

Across all financial asset programmes, the Agency made new investments totalling £4.2bn (including £3.6bn under the Help to Buy scheme) and achieved receipts of £1.45bn (of which, £0.93bn were in relation to Help to Buy).

A slowly rising housing market in 2019/20 has lifted asset values for the Help to Buy portfolio by £259m (including £109m reversal of previous impairments), relatively few losses have been observed on the Agency's £1.7bn commercial loan book.

At the same time, the Agency has realised £230m from the sale of land assets (a 102% increase in sales proceeds compared to 2018/19, at a profit of £75m) and has suffered less than half the level of impairments on land assets that it recognised in 2018/19.

## Impact of COVID-19

The impact of the COVID-19 pandemic became significant from mid to late-March and as such did not have a pronounced impact on delivery at year-end. However, it clearly has the potential to have a long-lasting effect on both the Agency and the sector in 2020/21 and beyond. The Agency's current assessment of key risks, including consideration of the impact of COVID-19, is set out on page 64.

Uncertainty in how the pandemic will impact on the economy is reflected in a wide range of possible future economic scenarios. We have considered this uncertainty in determining estimates for asset valuations for the 2019/20 Financial Statements.

It is important to note that some estimates of asset values are based on market information as at 31 March 2020 and others are based on expectations of future performance. Broadly, our valuations fall into these categories as follows:

| Asset type | Valued with reference to observed evidence of conditions & prices which existed at 31 March 2020 | Valued with reference to expectations of future performance |
|---|---|---|
| Home equity loans, including Help to Buy | ✓ | |
| Loans measured at amortised cost: **Write-offs** | ✓ | |
| Loans measured at amortised cost: **Expected Credit Losses** | | ✓ |
| Market value of land and property assets | | ✓ |
| Other Financial assets measured at fair value | | ✓ |

This means that potential future effects of COVID-19 on the housing market are not reflected in the value of the Help to Buy portfolio reported at 31 March 2020. Users of the accounts may wish to consider the future risks to the portfolio from changes in the economic environment as a result of COVID-19, which may have a significant impact on portfolio values in the future.

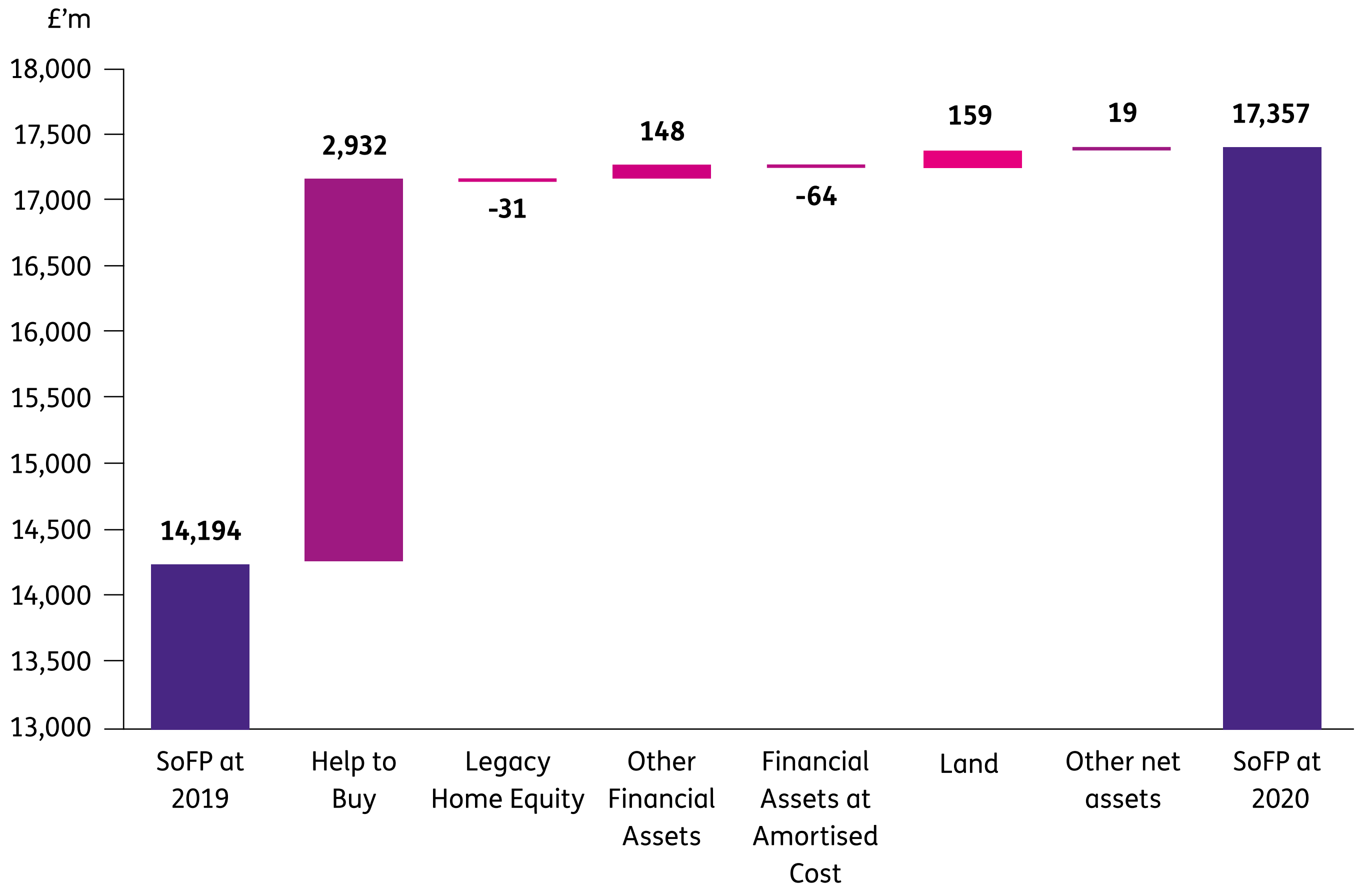
A detailed disclosure of the accounting judgements made for valuing these key asset areas and a sensitivity analysis of the effect of potential future scenarios has been performed and is reported on in Note 2 on page 114.

The most significant thing to note from this analysis is the overall uncertainty surrounding the future impact of COVID-19, with a £4.3bn range in anticipated values across the three scenarios, modelled based on the market conditions associated with each scenario at March 2021. Of this range in outcomes, the most significant area impacted is home equity loans, including Help to Buy, where potential movements in house prices could drive significant short-term reductions in the value of assets carried on the Agency's balance sheet, but with an expectation that asset values would recover over time with the housing market.

## Growth of assets in 2019/20

In 2019/20 the Agency's balance sheet continued to grow significantly, driven mainly by £2.93bn net growth in Help to Buy, which now represents 81% of net assets (2018/19: 78%).

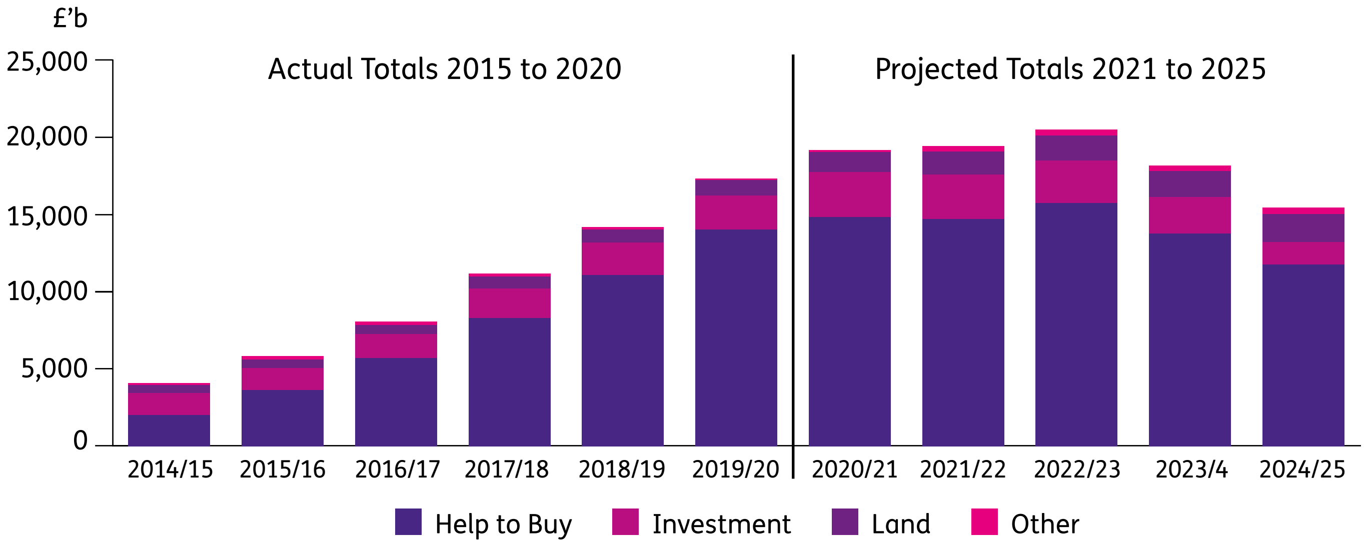
## Chart 3: Change in net assets during 2019/20 (£m)



## Future growth of net assets

Over the next five years, based on programme expenditure predicted in the Agency's Annual Business Plan (revised to reflect the current anticipated effect of COVID-19), the Agency's net asset position and the relative proportions of the key components are predicted to change as illustrated below, peaking at over £20bn in 2022/23.

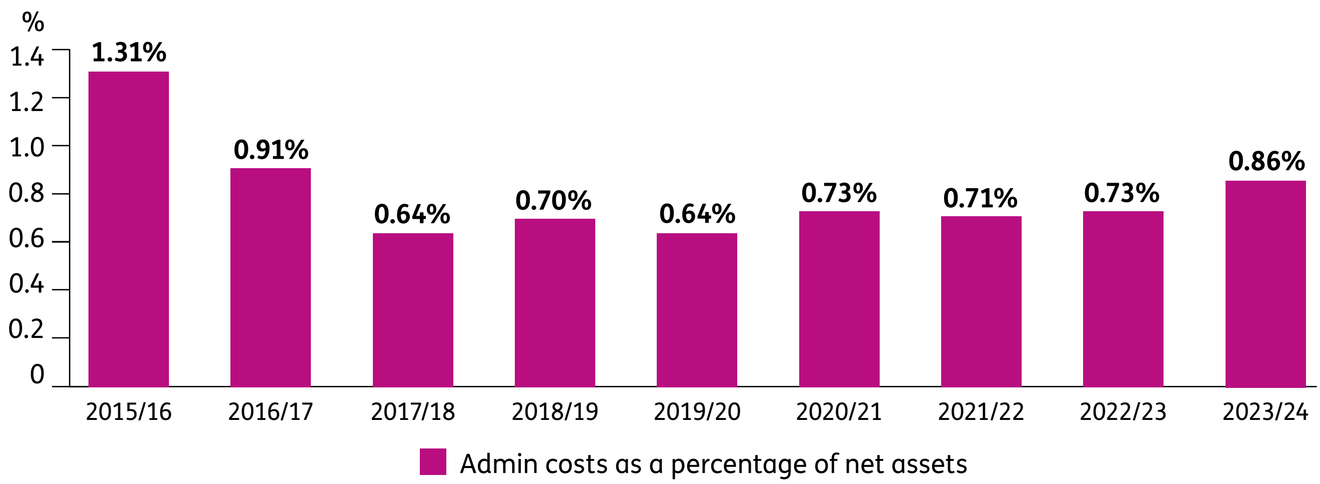
## Chart 4: Projected change in net assets over time, based on the Agency's Annual Business Plan




## Changes in the level of administrative costs in relation to assets managed

As illustrated in chart 5 below, The Agency's administrative costs expressed as a percentage of net assets managed are currently half the level observed in 2015/16 and are expected to remain at below 0.8% of net assets until 2023/24 after the Help to Buy equity-loan programme has ended. At this point, the Agency expects to be receiving significant redemption proceeds from homeowners redeeming their Help to Buy equity-loans and so, whilst net assets will be reducing, administrative activity across the Agency is expected to remain at similar levels to previous years.

## Chart 5: Projected change in the relationship between admin costs and net assets over time, based on the Agency's Annual Business Plan



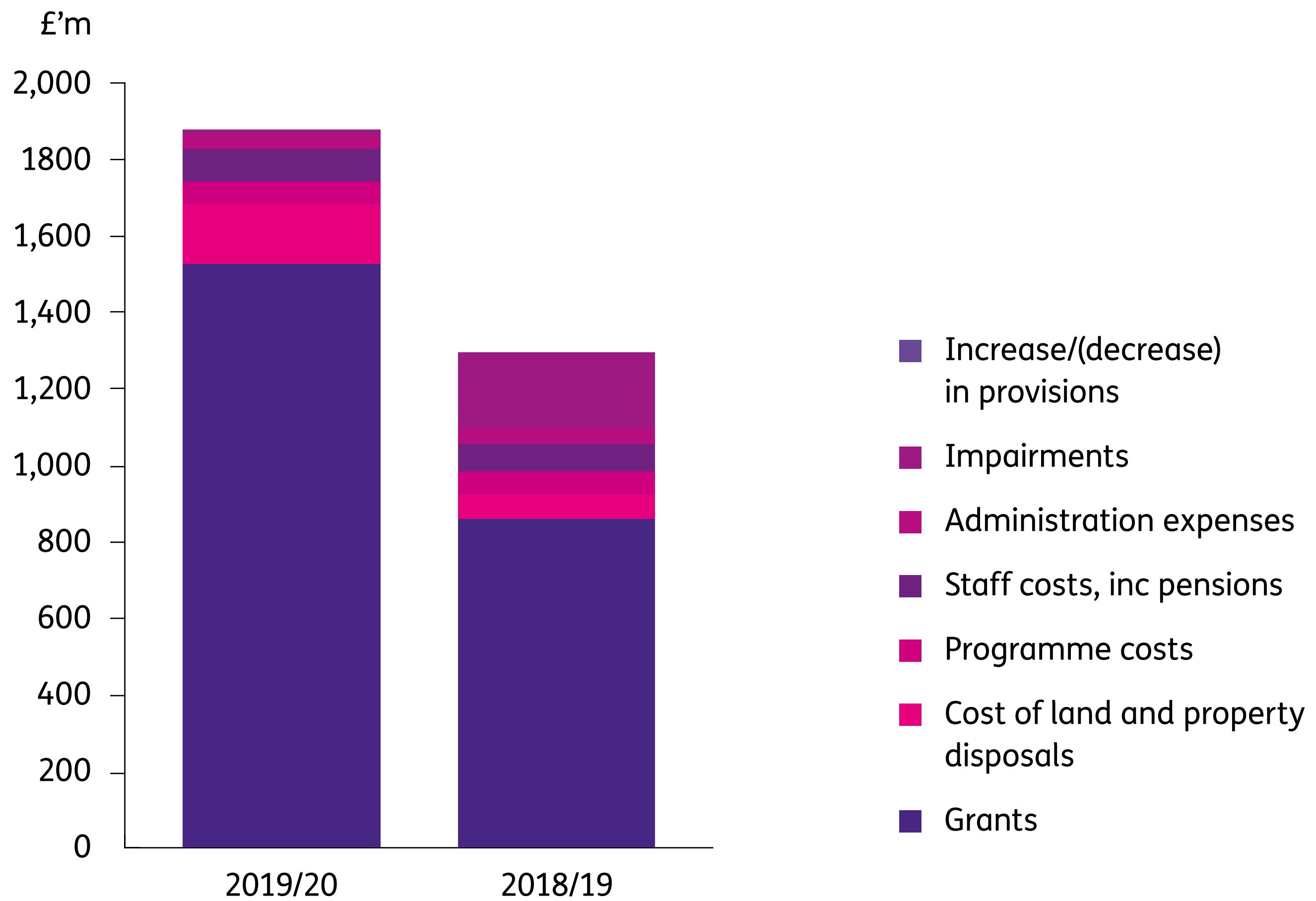
## Operating Expenditure

Operating Expenditure of £1,878m in 2019/20 has gone up from £1,288m last year, an increase of £590m (46%). The key drivers for this are a net increase of £669m in grants (of which Affordable Housing Grants increased by £579m), offset by a decrease of £183m in impairment charges across Land & Financial Asset investments.

Administration expenditure reduced by £7.4m from 2018/19 to 2019/20. This is primarily due to £11.5m reduced costs under the Homes England Development Programme (HEDP), offset by increases in; accommodation and office running costs (£1.4m), travel & subsistence (£0.9m), and depreciation and amortisation (£0.9m). These increases reflect changes to the Agency's level of staffing and associated office and equipment costs as the new operating structure is implemented.

Within programme costs, Help to Buy costs have also fallen, from £21m to £14m. This is primarily driven by new contracts with local agents, which have reduced the average fee per new loan by a third, from just over £300 per transaction to £200 per transaction.

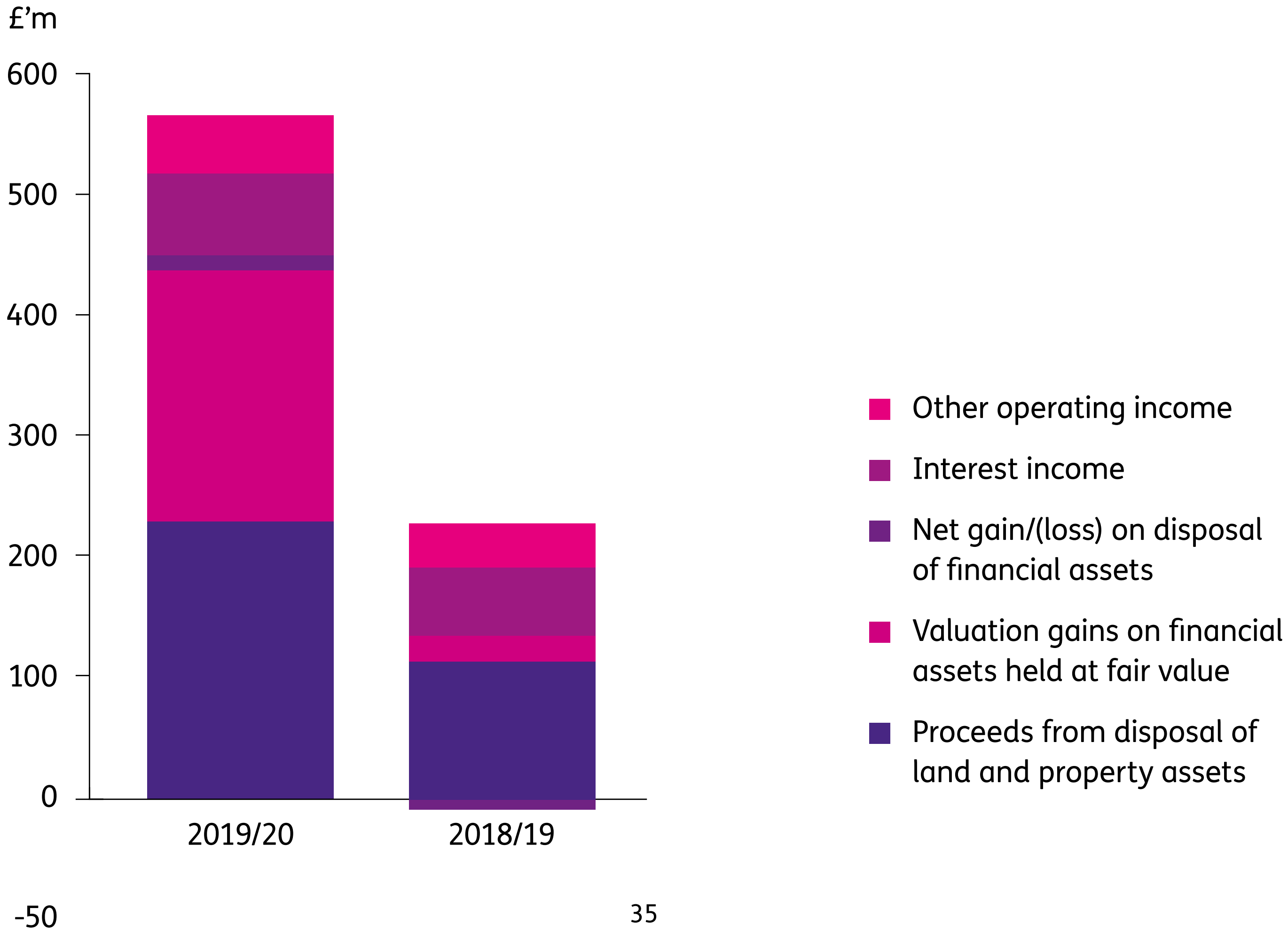
## Chart 6: Analysis of the components of Operating Expenditure



## Operating income

Operating Income for 2019/20 is £566m which is an increase of £346m (157%) from 2018/19, driven mainly by proceeds from the disposal of land and property assets which have doubled from £114m in 2018/19 to £230m in 2019/20 and valuation gains on financial assets held at fair value which have increased from £22m in 2018/19 to £208m in 2019/20. This mainly reflects small increases in house prices which have been observed for most regions of England during this period resulting in valuation increases for the Agency's Help to Buy and other home equity portfolios.

### Chart 7: Analysis of the components of Operating Income



# Help to Buy: Equity Loan repayment statistics

The table below summarises the number of Help to Buy: Equity Loans issued in each financial year and the cumulative repayment of those loans at the end of 2019/20:

| | | Cumulative equity loans repaid 2019/20 | | | Cumulative equity loans repaid 2018/19 | | |
|---|---|---|---|---|---|---|---|
| Financial year | Number of equity loans issued | Number of loans repaid | Original cost of repaid loans (£m) | Receipt from repaid loans (£m) | Number of loans repaid | Original cost of repaid loans (£m) | Receipt from repaid loans (£m) |
| 2019/20 | 51,449 | 28 | 1.4 | 1.4 | n/a | n/a | n/a |
| 2018/19 | 52,467 | 516 | 28.4 | 28.1 | 32 | 1.6 | 1.6 |
| 2017/18 | 47,587 | 3,147 | 175.6 | 175.4 | 358 | 17.9 | 18.1 |
| 2016/17 | 39,807 | 6,262 | 326.4 | 337.8 | 3,460 | 181.5 | 188.1 |
| 2015/16 | 33,873 | 11,127 | 522.9 | 569.9 | 6,543 | 311.6 | 339.5 |
| 2014/15 | 27,874 | 15,747 | 690.4 | 780.4 | 10,006 | 440.4 | 499.1 |
| 2013/14 | 19,754 | 12,193 | 504.0 | 588.0 | 10,246 | 421.3 | 494.0 |
| **All years** | **272,811** | **49,020** | **2,249.1** | **2,481.0** | **21,645** | **1,374.3** | **1,540.4** |

The repayment statistics show that between April 2013 and March 2020 a total of 272,811 households bought homes with a Help to Buy: Equity Loan. By March 2020 a total of 49,020 households (18%) had repaid their loan.

The repayment statistics also show that Homes England received £2,481m from these 49,020 households, when the original cost of the loans was £2,249.1m. The realised gain on disposal of £232m is due to the increase in the value of homes between the time the loan was issued and repaid.

# Sustainability report

## We work towards the Greening Government Commitment (GGC) targets to reduce the environmental impact of our operations.

### Sustainability in Homes England

Sustainability lies at the heart of what we do. We are committed to reducing the environmental impacts associated with our day to day operations whilst encouraging and enabling our delivery partners to do the same.

There are two main strands of work on sustainability within Homes England:

- Contributing to achieving the UN Sustainable Development Goals, (SDG's) and
- The Greening Government Commitments, including sustainable procurement.

### Sustainable Development Goals

In 2015, the UK government, along with 192 other United Nations members, committed to achieving the Sustainable Development Goals. These form part of a global development framework, the UN's Agenda 2030 for Sustainable Development. The 17 goals and 169 indicators cover issues such as poverty, economic opportunity for all, provision of education, access to healthcare, gender equality and environmental problems such as biodiversity loss and climate change. Countries are committed to achieving the goals by 2030.

The UK Government is firmly committed to delivering the Goals both at home and around the world.

SUSTAINABLE DEVELOPMENT GOALS

# As the Government's housing delivery agency, our mission is to intervene in the market to ensure that more homes are built in areas of greatest need. Through the delivery of this mission we contribute to the delivery of several of the Sustainable Development Goals:

**1 NO POVERTY**

## End poverty in all its forms, everywhere.

### Our contribution

Through greater access to affordable housing we contribute to increasing purchasing power for all, particularly the poor and vulnerable. Specifically, we:

- Ensure that a range of investment products are made available to support housebuilding and infrastructure to create more affordable housing;
- Build in areas of greatest need; and
- Deliver home ownership products, providing an industry standard service to consumers.

**7 AFFORDABLE AND CLEAN ENERGY**

## Ensure access to affordable, reliable, sustainable and modern energy.

### Our contribution

We are committed to working alongside our partners and the housing industry to support a low carbon economy that is reliable and effective. We embrace Modern Methods of Construction, (MMC) and ensure that it is compatible with Smart Technology and energy efficient systems.

**9 INDUSTRY, INNOVATION AND INFRASTRUCTURE**

## Build resilient infrastructure, promote sustainable industrialisation and foster innovation.

### Our contribution

Our mission is to increase the supply of housing. Through financial investment and the provision of expert support we:

- Invest in local infrastructure to unlock new homes through the delivery of the Housing Infrastructure Fund;
- Continue to drive housing and economic growth in the Oxford-Milton Keynes-Cambridge corridor; and
- Work with local councils and Enterprise Partnerships.

**11 SUSTAINABLE CITIES AND COMMUNITIES**

## Make cities and human settlements, inclusive, safe, resilient and sustainable.

### Our contribution

We contribute to developing communities that are safe, resilient and sustainable. We make places happen by:

- Increasing homes in the places that need them the most;
- Disposing of land on terms that accelerate development, economic growth and environmental protection;
- As a master developer, influencing the way sustainability is incorporated into design to deliver decarbonisation, biodiversity net gain, sustainable transport, building community resilience, and digital infrastructure;
- Aligning the delivery of housing with major transport infrastructure projects such as HS2 and Northern Powerhouse rail where possible;
- Supporting local authorities' ambitions for growth by providing additional professional skills and capacity;
- Connecting people with the environment to improve health and wellbeing through place making design; and
- Supporting the government in the delivery of new garden communities.

**13 CLIMATE ACTION**

## Climate change and resilience.

### Our contribution

One of our objectives is to create a more resilient market. In response to SDG 13 we work with our delivery partners to ensure that our activities and developments are resilient to climate change through:

- Future proofing the design and planning of developments to ensure that the water infrastructure and water environments can cope with extreme events; and
- Ensuring new homes are low-carbon and energy efficient with sustainable transport links.

In addition, we report annually on progress towards meeting Greening Government Commitments, demonstrating the UK government's determination to operate in an efficient and sustainable manner.

**15 LIFE ON LAND**

## Protect, restore and promote sustainable use of terrestrial ecosystems and halt biodiversity loss.

### Our contribution

In our role as master developer and landowner, we protect, restore and enhance terrestrial habitats. Specifically, we:

- Progress developments, where appropriate, towards the UK's biodiversity net gain targets;
- Collaborate with our partners to retain protected sites and species as a minimum and engage local wildlife partnerships and community groups; and
- Encourage the use of Building with Nature and other recognised nature conservation schemes when engaging developers as we have done at Lea Castle.

## Performance 2019/2020

This report sets out our progress against the GGC targets over the past 12 months compared to 2018/19 and the 2009/10 baselines. It also outlines our broader activities including those relevant to our wider estate, in line with current public sector sustainability reporting guidance from HM Treasury.

## Greening Government Commitments

We subscribe to the GGCs to drive reductions and continually improve our environmental performance across our operational office estate and official business travel.

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

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

We're also committed to:

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

## Notes on sustainability performance data

Utilities and waste data are presented for the operational offices we directly control in each year. Utilities and waste volumes apportioned to non-government tenants are excluded. Travel and paper use data is for the whole organisation.

## Special Note: COVID-19

Where offices could not be accessed at the end of the final quarter to obtain meter readings, the data has been estimated based on the previous quarter. Where Q3 data was not available, (new offices only), the data was estimated based on the consumption of an equivalent office, e.g. size, function etc.

## Summary of 2019/2020 performance against the Greening Government Commitments

| Requirement by 2020 | Overall Achievement 2009/2010 to 2019/2020 | | Commentary (where target has not been met) |
|---|---|---|---|
| Reduce greenhouse gas (GHG) emissions by 60% | - 40% | X | As a growing organisation, there have been several operational changes between 2018 -2020, increasing our built estate and business travel. |
| Reduce domestic business flights by at least 30%<br><br>Note: The baseline year for this commitment is 2013/14 as the data was not readily available and accurate prior to this date. | + 583% | X | Since 2013/2014, the organisation initially reduced in size and then grew, particularly since 2018. Increased headcount and low air fares for internal flights has meant that we did not reduce the number of domestic flights by 30% or more.<br><br>Specifically, this period of growth has been accompanied by an increase in staff numbers, built estate, stakeholders and development sites and a move towards collaborative working. Whilst the flight routes have remained consistent throughout the period being measured, more flights were taken between 2016-20 for meetings, conferences and events reflecting the culture of collaboration. In addition to a changing organisation, a quarter of all flights between 2018 and 2020 were taken as they offered a cheaper fare than the alternative methods such as rail.<br><br>COVID-19 has demonstrated that the digital solutions that were rolled out in 2019/2020 allow us to operate in a collaborative way supporting the case for less air travel. Air travel will continue to require director approval. |
| Continue to reduce overall waste beyond 45% | - 83% | ✓ | |
| Reduce the amount of waste going to landfill to less than 10%. | 2.3% | ✓ | |
| Reduce paper use by 50% | - 52% | ✓ | |
| Continue to reduce total estate water consumption beyond 49% | - 73% | ✓ | |

## Environmental sustainability performance data

| Greenhouse house gas emissions | | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| Non-financial indicators (tonnes $CO_2e$) | Total Scope 1 (direct) emissions | 378.2 | 386.8 | 349 | **232** |
| | Total Scope 2 (indirect) emissions | 377.4 | 303.3 | 222.1 | **223.9** |
| | Total Scope 3 (official business travel) GHG emissions | 390.8 | 352.7 | 439.7 | **231** |
| | Total emissions: Scopes 1, 2 and 3 | 1,146 | 1,043 | 1,011 | **1,083** |
| Related energy consumption (MWh) | Gas consumption | 85.98 | 101.29 | 94.92 | **134.05** |
| | Electricity consumption | 377.41 | 303.32 | 222.11 | **216.02** |
| Related energy consumption ('000s km) | Business travel distance total | 6,655 | 6,572 | 8,157 | **8,313** |
| | Distance per full time equivalent (FTE) staff | 8 | 8 | 9 | **9** |
| Related energy consumption (number) | Domestic Business Flights | 99 | 95 | 130 | **246** |
| Financial indicators (£'000) | Energy consumption | 127 | 132 | 134 | **130** |
| | Expenditure on accredited offsets CRC | 1 | 74 | 3 | **0** |
| | Allowances | 0 | 0 | 0 | **0** |
| | Official Business Travel | 1,585 | 1,772 | 2,433 | **3,164** |
| **Resources, waste and recycling** | | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Non-financial indicators (tonnes) | Total waste generated | 23.03 | 26.07 | 37.39 | **43.0** |
| | Hazardous waste: landfill | 0.05 | 0.03 | 0.02 | **0.0** |
| | Non-hazardous waste: landfill | 1.72 | 1.11 | 0.91 | **1.0** |

| Resources, waste and recycling | | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| Non-financial indicators (tonnes) | Non-hazardous waste: incineration with energy recovery | 2.59 | 2.74 | 2.53 | **2.0** |
| | Non-hazardous waste: recycled | 17.34 | 16.49 | 32.90 | **40.0** |
| | Non-hazardous waste: ICT reused / recycled | 1.33 | 6.34 | 1.03 | **0.0** |
| Non-financial indicators (%) | Recycling rate (%) | 81 | 85 | 91 | **98** |
| | Landfill Rate % | 8 | 4 | 2 | **2** |
| Non-financial indicators (No.) | No of A4 reams consumed | 6,039 | 5,542 | 5,287 | **8,755** |
| | No. of reams per FTE staff | 7.3 | 7.1 | 6.1 | **9.5** |
| Financial indicators (£'000) | Landfill/ Incineration | 12 | 15 | 11 | **1.4** |
| | Recycling | 12 | 9 | 18 | **29** |
| | Paper Procurement | 8 | 19 | 21 | **26** |
| **Water consumption** | | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
| Non-financial indicators ($m^3$) | Water consumption - supplied (none abstracted) | 1,543 | 1,553 | 1,689 | **3,439** |
| | Consumption per FTE staff (Homes England owned offices) | 4.5 | 4.2 | 4.3 | **3.4** |
| Financial indicators (£'000) | Water supply and sewerage costs | 19 | 19 | 20 | **24** |

## Greenhouse gas emissions

We've increased our greenhouse gas emissions by 7% against last year's total. By comparison, we have decreased our greenhouse gas emissions by 40% since 2009/10, against a departmental GGC target of 60%. Given the increase in the number of staff working in our offices, the use per person (FTE) remained broadly similar. Gas consumption from our built estate has increased by 41% during 2019/20 compared to the previous year.

This increase in energy demand reflects the increasing size of our organisation and the increase in the number of offices that we directly control following a period of downsizing between 2015/18.

Travel on official business via road and rail is up by 2% compared to 2018/19. We've continued to make ICT improvements to support agile ways of working which has contributed to us achieving a steady state in terms of business travel despite the increased number of staff within our organisation.

The number of domestic flights has increased by 89% in comparison to 2018/2019 and has more than doubled since the baseline year. This is attributable to the growth in staff numbers and evolving business need to collaborate, such as annual all-staff events and away days. Greenhouse gas emissions from domestic air travel have increased by 80%. Colleagues must obtain director approval before they can travel by air.

## Waste management

We've produced 15% more waste from our offices this year compared to last year. However, we continue to meet the GGC target of less than 10% of waste going to landfill, with 98% of waste recycled this year.

The increase in waste was primarily due to the closure of our offices generating surplus office furniture which was recycled.

## Finite resource consumption: paper

We have reduced paper consumption by 52% compared to 2009/10, against a GGC target of 50%. In part, this is due to the adoption of digital solutions that reduce the need to print. Despite the adoption of these digital solutions, with the increased headcount we have still experienced a significant increase in the amount of paper being consumed.

In 2019/20, paper use has increased by 65% compared to 2018/19. Paper consumption increased significantly during quarter's three and four which reflects a period of growth in staff numbers, suggesting that wasteful behaviours around paper consumption may be responsible for this increase.

## Finite resource consumption: single use plastics

Working with our facilities management (FM) provider, we have reviewed the plastics within our supply chain and phased out many of the single use plastics from across our operations including cutlery, condiments, plastic cups and envelopes with plastic windows.

We'll continue to work with our FM provider throughout 2020/2021 to identify all plastics within our supply chain to find suitable alternatives where they exist. This will include products containing plastic packaging.

## Finite resource consumption: water

Throughout 2019/2020 we have increased the number of operational offices that we directly control and our staff numbers. As a result, we've used more water in our offices during this period, with recorded use up by 103% on 2018/2019. Despite the organisational changes, the use per FTE has reduced by 0.9$m^3$ in the last financial year. Overall, we have reduced our water use by 73% against 2009/10.

## Sustainable procurement

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

## Climate change resilience and adaptation

We've considered climate change adaptation as we have expanded our built estate. Our new head office in Coventry is heated and cooled using a low carbon and low-cost solution; a district heating network. In addition, many of our new offices, like Coventry have been selected to encourage the use of public transport by our colleagues and visitors. In most cases parking is not available on site to further encourage the use of public transport.

In creating a more resilient market, we also work with our delivery partners to ensure that climate resilient designs are incorporated in relevant developments. In managing our estate, we are reviewing our sites and any potential receptors that may be adversely affected by a changing climate. This will allow our robust business continuity plans to be reviewed and updated to ensure that we manage occurrences of extreme weather events.

## Biodiversity and the natural environment

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

On the land we own, we are committed to preventing pollution and where possible, avoiding adverse impacts on soil, water, air and biodiversity, in line with our public safety, health and environmental (SHE) policy statement.

In 2018, we acquired the Lodge Hill site in Kent, which includes a Site of Special Scientific Interest (SSSI). We are actively managing the site to ensure its continued suitability for nightingales, focusing on creating dynamic areas of mixed-age scrub thicket that provides optimal habitat.

In 2019/20, work has included felling areas of secondary plantation woodland within Lodge Hill Training Area affected by ash dieback, to promote the growth of the understorey vegetation which is favoured by the nightingales.

All habitat management work is planned and delivered under the supervision of professional ecologists and with the assent of Natural England. No development is planned on any part of the SSSI and the number of new homes planned by Homes England to the south of the site has been reduced to c500.

## Looking ahead

As the Government's housing delivery agency, we recognise that there is more we can do to ensure sustainability is embedded in our work and reflected in the homes delivered by our partners. Over the last 12 months we have been engaging with our government partners and stakeholders to better understand what part we might play in delivering this agenda and what good practice is being delivered at a national and international level.

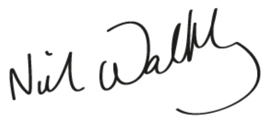
The introduction of the Environment Bill will be an essential part of the new government approach to put environmental protection and accountability at the heart of what it does. We are committed to supporting the sector to embrace this commitment around green governance to address priorities such as the decarbonisation agenda.

We will work with the sector to adopt new delivery mechanisms and grow to meet emerging policies, such as the Future Homes Standard. The sector is responding positively to this challenge however, some will only get there with our help. Housing has a critical role in delivering the UK's target of net zero emissions by 2050. Homes England will help drive the change needed to make this happen.

As a major landowner and master developer, we can directly influence activity on the sites as well as demonstrating to others how sustainability can be incorporated through good design. In addition to supporting the decarbonisation of the homes, we will work, where appropriate, with partners to deliver additional environmental benefits such as increased biodiversity, the encouragement of sustainable transport, and the inclusion of digital infrastructure.

We also recognise the potential for the new homes we enable to help deliver other government sustainability agendas, such as improving public health, growing local economies and helping to meeting the needs of people with specific requirements. We will work with allies across the housing sector to ensure our homes support the creation of sustainable communities whilst supporting the UK Government's long-term approach to improving our natural capital.

**The Performance report is signed on 29 October 2020**



Nick Walkley
Chief Executive and Accounting Officer

# The Accountability report

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

## Contents:

# Corporate Governance report

Our Board has overseen a major programme of change for the Agency over the year in support of its ambitious new mission, set out in its five-year Strategic Plan.

We have established a new governance and operational relationship with the Ministry of Housing, Communities and Local Government (MHCLG); carried out a reorganisation to a new operating model; established a new Markets, Partners and Places function to reset the Agency's relationships with the housing sector and significantly increased our capacity and capabilities. All these changes were necessary to support the ongoing delivery of our Mission, and help Government achieve its housing ambitions.

Our Board and committees have themselves undergone significant transformation, with updated terms of reference, ways of working and delegation of decision making to enable the Agency to deliver our new mission and objectives.

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

## Governance Statement

We are a Non Departmental Public Body sponsored by MHCLG. Our relationships with MHCLG, including how we interact, the parameters within which we operate and the obligations we comply with are formally governed by a Framework Document which:

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

There have been no fundamental changes to this Framework document in the period.

## Board Members Report

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

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

Our Board is specifically responsible for:

- Overall governance, including preservation of the reputation of the Agency, and relationships with MHCLG and other key stakeholders.
- Recommends to MHCLG the Agency's overall strategic direction, within the policy and resources framework agreed and set out on the Framework Document.
- Approves the Agency's periodic draft Corporate Plans, including output targets, for submission to Ministers for approval.
- Agrees the Agency's Annual Budget, consistent with the Corporate Plan, for approval by MHCLG.
- Agrees the Annual Report and Accounts, for submission to Parliament.

- Approves overall governance arrangements including setting the Agency's values and standards to ensure that the Agency's affairs are conducted with probity, and that high standards of corporate governance are observed at all times.
- Ensure that the necessary financial and human resources, including key appointments, are in place to enable the Agency to safeguard its assets and meet its objectives.
- Appoints or dismisses the Chief Executive, subject to MHCLG approval.
- Approves overall arrangements for the delivery of Homes England's strategic objectives.
- Receives reports from Board Committees and Advisory Groups and considers any key issues that they raise.
- Considers any matters that the Board Committees wish to refer up to the Board, particularly where issues of principle are involved.
- Approves any Compulsory Purchase Orders recommended by the Investment Committee.
- Ensures that the Agency's Health and Safety processes are effective and fulfil Homes England's obligations under Health and safety legislation.
- Ensures that the Agency's strategic objectives and obligations to its stakeholders are understood outside and throughout the organisation.
- Receives and reviews monthly performance information, scored against corporate targets and relating to the management and performance of the Agency, and direct executives regarding any required performance improvements.
- Approves Homes England's Risk Appetite Statement and Risk Management Framework, assesses the periodic risk evaluations, and oversees mitigation strategies on the recommendation of the Audit & Risk Committee.
- Considers property, litigation, legal and other corporate issues.
- Considers the annual Money Laundering Reporting Officer (MLRO) Report.
- Ensures that there are appropriate legal, financial and administrative arrangements covering the provision of the Agency's pension schemes in respect of benefits and contributions, the administration of the schemes and the safeguarding and management of the pension fund(s) assets.

## Board and Committee composition

The Board is composed of Non-Executive members and the Chief Executive who also serves as the Accounting Officer. The Board is led by the Chair. In 2019/20, Sir Edward Lister was the Chair until August 2019 when he was replaced by interim Chair, Simon Dudley. Homes England is expected to have a new Chair in place by the time this statement has been signed and published. Membership of the Board and its Committees has changed throughout the year as is confirmed in the Board and Committee Attendance section later in the report. A full list of current Board members and members who served throughout the year is detailed in our Board Members' report.

# Board Members' report

**Simon Dudley**
Interim Chair

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

**Keith House**

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

**Olivia Scanlon**

Olivia has a background in financial services, where she has almost 20 years of experience in general finance and investment as well as real estate development finance. She is currently the Chief Operating Officer at Orchard Global Asset Management LLP.

**Nick Walkley**
Chief Executive

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

**Stephen Bell**

Stephen has substantial experience in banking and financial services. He has been involved in property, consumer and asset finance across numerous jurisdictions. He has held many senior executive business leadership roles with a focus on strategy, transformation, risk management and restructuring.

He has held the role of Chief Executive and Group Chief Risk Officer for a number of institutions over the last decade, including high street banks and in the specialist finance sector. He has served on several Boards, has qualified as a Certified Director and is a Fellow of the Institute of Directors.

## Teresa O'Neill

Teresa has been the Leader of the London Borough of Bexley since 2008 (a Bexley Councillor since 1998) and she is also a Vice-Chair (Leader of the Conservative Group) on London Councils and an LGA Peer.

She was a member of the London Finance Commission under the last two London Mayors, London Health Commission and was Boris Johnson's advisor for Outer London relations. Her career was previously in the finance sector and she was awarded the Order of the British Empire (Officer) in the Queen's Birthday Honours 2015 for service to the community and local government in London.

## Duncan Sutherland

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

## Vanessa Murden

Vanessa has extensive senior executive expertise within the financial services industry, including Travelex, Western Union and Lloyds. She is currently the Chief Operating Officer for Lloyds Banking Group's retail division.

## Mark Rennison

Mark is the former Finance Director for Nationwide Building Society. He also chaired the subsidiary company at Nationwide which managed the Oakfield project to build a new housing community in Swindon. Prior to joining Nationwide he worked for PwC for 25 years including spending time as an audit partner in their banking practice in London.

## Sadie Morgan

Sadie is a founding director of leading architectural practice dRMM. Over her 25-year career she has advocated exemplary design and architecture. She is a Commissioner and Design Group Chair of the National Infrastructure Commission and is the London Mayor's Design Advocate.

## Register of members' interests

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

## Personal data related incidents

Since 25 May 2018, under the General Data Protection Regulation and the Data Protection Act 2018, there has been a mandatory requirement to report any personal data breach if there is a risk to the rights and freedoms of the data subjects whose data has been breached. In the financial year 2019/20, there were no personal data breaches that met the threshold for mandatory reporting.

## Statement of Accounting Officer's Responsibilities

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

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

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

The Secretary of State has delegated Accounting Officer responsibilities to the Chief Executive Officer of Homes England. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Homes England's assets, are set out in Managing Public Money published by the HM Treasury.

As the Accounting Officer I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Homes England's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware. I confirm that the annual report and accounts as a whole are fair, balanced and understandable and. I take responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

## External Auditors

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

The cost of work performed by the auditors for 2019/20 was £350,000 (2018/19: £260,000), with the increase reflecting additional work in response to the COVID-19 pandemic (see disclosure note 2 in the Financial Statements).

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

In addition to the annual audit, Homes England's work was the subject of a NAO report during the year as summarised below.

Investigation Starter Homes (report published November 2019): This report had two aims; to establish the status of the Starter Homes policy and legislation, and to establish the impact of MHCLG's investment in Starter Homes. A Starter Home was defined as a home sold to a first-time buyer, under the age of 40, at a 20% discount to market. The November 2015 spending review provided £2.3bn for the delivery of 60,000 homes. The Housing and Planning Act (2016) set out the legislative framework for Starter Homes.

The report stated that between 2015 and 2018, government policy towards Starter Homes shifted. In May 2018, the Minister of State for Housing and Planning stated that the government had spent an estimated £250m of the Starter Homes Land Fund. In July 2018, MHCLG clarified that £250m was spent buying land to build affordable properties from two funds, the Starter Homes Land Fund and the Land Assembly Fund, with work underway to get the land ready for development but that building had not yet started.

The report also concluded: MHCLG no longer has a budget dedicated to the delivery of Starter Homes; the Starter Homes legislative provisions are not yet in force; no Starter Homes have been built to date.

Observations arising from this investigation are carefully considered by Senior Management and processes introduced or refined where appropriate.

Homes England representatives were due to attend a Public Account Committee (PAC) evidence session to discuss the report, but this was cancelled due to COVID-19 and has now been rescheduled for 22 October 2020.

In addition to the above, the NAO has also written a report into cladding on high rise buildings called Investigation into remediating dangerous cladding on high rise buildings, published in June 2020. Although Homes England is mentioned in the report, it is a delivery partner only for MHCLG. MHCLG retains the budget and authority to make awards to individual applicants, which the Agency then administers for payment on behalf of the Ministry.

Two other reports published by the NAO during the year, Investigation into the Government's land disposal strategy and programme (May 2019) and Help to Buy: Equity Loan Scheme – Progress review (June 2019), were disclosed in last year's annual report.

These documents can all be found on the NAO website.

Observations and recommendations arising from these NAO reports or from reports issued by the Public Accounts Committee, are carefully considered by senior management and processes introduced or refined where appropriate.

## Homes England committees

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

## Investment Committee (IC)

The Investment Committee scrutinises new project and programme business cases, considers guarantees on behalf of MHCLG and monitors performance. Notable business this year included a number of schemes promoting use of Modern Methods of Construction (MMC), such as those at Tattenhoe, Buckinghamshire, or Grappenhall, Cheshire.

The Committee also agreed a collaboration with Japanese modular housebuilder Sekisui House and Urban Splash, which is expected to deliver thousands of new MMC homes across England.

There were also some significant site acquisitions: at Panshanger, Lighthorne Heath, South West Rugby, and West of Ifield, all of which will be brought forward to deliver new homes.

Further key stages in the construction of Northstowe, a sustainable new development in Cambridgeshire, also came to the Committee this year.

The members of the Investment Committee as of 31 March 2020 are Mark Rennison (Chair); Simon Dudley; Keith House; Duncan Sutherland; Sadie Morgan; Nick Walkley, Chief Executive Officer (or nominated deputy); Gordon More, Chief Investments Officer (or nominated deputy); and Stephen Kinsella, Chief Land and Development Officer (or nominated deputy).

## Audit and Risk Committee (ARC)

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

Development of a thematic, rolling agenda for delivering audit assurance, which enabled ARC to have better discussions, combining focus on single reports where the content demands and overall assessments of where the Committee can place reliance on controls.

The Committee, supported by the wider Board, has also undertaken extra work through its Help to Buy meetings to give extra support and attention to the Help to Buy programme while its governance was under development. The Committee benefitted from several non-ARC members joining these meetings. Once programme management had reached sufficient maturity in January 2020 the Help to Buy business was mainstreamed into regular Board and Committee business.

The members of Audit and Risk Committee as of 31 March 2020 were Stephen Bell (Chair); Teresa O'Neill, and Vanessa Murden.

## Nominations and Remuneration Committee (NRC)

This Committee is responsible for advising on overall pay and rewards; the remuneration, contractual and pension arrangements of staff at Director level and above; senior succession planning; key HR policies; and setting and agreeing the annual performance objectives, remuneration terms and other terms and conditions of employment of the

Chief Executive. Notable business this year included:

Consideration of a new People Strategy and a Total Reward Strategy, as part of the implementation of a new operating model that will enable Homes England to brigade its staff and expertise to most effectively meet its objectives.

Agreeing a new Equality and Diversity strategy and Homes England's first annual Equality, Diversity and Inclusion (EDI) statement, for recommendation to Board.

The members of the Nominations and Remuneration Committee as of 31 March 2020 were Simon Dudley (Chair); Stephen Bell; Duncan Sutherland; and Vanessa Murden.

## Safety Health and Environmental Committee (SHE)

This Committee was formed in January 2020 to ensure that the Board was able to provide strong leadership in the development of a positive safety, health and environmental culture. The Committee also has oversight of the Agency's leadership role in influencing the wider housing and construction industry, as a master developer and major construction client.

March 2020 also saw the beginning of a new role for the Committee in giving assurance to the Board that the Agency was responding appropriately to the COVID-19 pandemic and ensuring the safety and well-being of its staff.

The members of Safety Health & Environmental Committee as of 31 March 2020 were Duncan Sutherland (Chair); Olivia Scanlon; Stephen Kinsella, Chief Land and Development Officer (or nominated deputy) and Lynda McMullan, Chief Financial Officer (or nominated deputy).

## The Executive

The Executive replaced the Directors Group in December 2019, as our principal executive decision-making group for implementing strategies, operational policies and procedures. As at 31 March 2020 the Executive comprised of Nick Walkley, Chief Executive and Accounting Officer, and:

- Amy Casterton, Chief of Staff
- Christopher Kinsella, Interim Chief Financial Officer (from 25 February to 30 June 2019) & Interim Executive Director (from 1 July 2019 to 3 April 2020)
- Stephen Kinsella, Chief Land and Development Officer
- Gordon More, Chief Investments Officer
- Lynda McMullan, Chief Finance Officer (from 30 June 2019)
- Harry Swales, Executive Director of Markets, Partners & Places (from 2 February 2020)
- Lou Downe, Director of Service Design & Transformation (from 28 June 2019)

In addition to the above, the following served on the leadership team throughout the year; Mark Gray, Chief Risk Officer (until 31 March 2020), Tom Walker, Deputy Chief Executive (until 30 June 2019); Tracie Evans, Interim Executive Director – Corporate Services (until 20 December 2019).

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

The Executive is supported by a number of corporate groups and specialist boards, which monitor our programmes, help provide strategic direction and deliver standalone projects.

## Board and Committee attendance 2019/20

| Board | NRC | IC |
|---|---|---|
| Duncan Sutherland 8 (10) | Duncan Sutherland 0 (2) | Duncan Sutherland 11 (11) |
| Edward Lister 3 (4) | Edward Lister 2 (3) | Edward Lister 2 (4) |
| Keith House 10 (10) | | Keith House 7 (11) |
| Mark Rennison 5 (6) | Mark Rennison** 1 (1) | Mark Rennison 5 (6) |
| Olivia Scanlon 5 (6) | | |
| Richard Blakeway 4 (4) | | Richard Blakeway 2 (4) |
| Sadie Morgan 4 (6) | | Sadie Morgan 4 (6) |
| Simon Dudley 10 (10) | Simon Dudley 3 (4) | Simon Dudley 10 (11) |
| Stephen Bell 9 (10) | Stephen Bell 5 (5) | |
| Teresa O’Neill 10 (10) | | |
| Vanessa Murden 4 (6) | Vanessa Murden 2 (2) | |
| Nick Walkley 9 (10) | | Nick Walkley 4 (4) |
| Ceri Smith 8 (10) | Ceri Smith 4 (5) | Ceri Smith 3 (5) |

## Board and Committee attendance 2019/20

| HtB ARC*** | ARC | SHE Cttee |
|---|---|---|
| Duncan Sutherland** 1 (1) | | Duncan Sutherland 1 (1) |
| | | Olivia Scanlon 0 (1) |
| Simon Dudley** 1 (1) | Simon Dudley** 4 (4) | |
| Stephen Bell 4 (4) | Stephen Bell 8 (8) | |
| Teresa O'Neill 2 (4) | Teresa O'Neill 7 (8) | |
| Vanessa Murden 0 (2) | Vanessa Murden 3 (5) | |
| Ceri Smith 2 (4) | Ceri Smith 6 (7) | |

Sadie Morgan, Olivia Scanlon, Vanessa Murden and Mark Rennison joined our Board on 22 July 2019.

Sir Edward Lister left our Board on 6 August 2019.

Richard Blakeway left our Board on 31 August 2019.

Ceri Smith left our Board on 12 March 2020.

** Member was nominated to attend to ensure that the meeting was quorate.

*** All available members attended Help to Buy (HtB) ARC in 2019, to support the HtB Programme.

## Board and Committee performance

We are committed to ensuring that our Board and its Committees are continually improving. To assist with this, the Board undertook an externally facilitated Board effectiveness evaluation in May 2019.

A report detailing findings and suggested improvements was accepted by our Board and an action plan was established for implementing key recommendations during 2019/20. This plan included; recruitment and succession to the Board; training and development; enhanced secretariat services; and development of supporting processes and frameworks. Four new Board members were appointed in August 2019 and the Board and Committee structure, Terms of Reference and supporting processes have been revised to reflect all the key recommendations of the Review. The Board is now turning its attention to more strategic improvements in the way it conducts its business, to reflect the new operating model and enable its work as a mission-based agency.

## Board information

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

## Risk management and internal control

Our organisation is required to be active in areas of the residential market which are considered unattractive by commercial organisations.

As an organisation we have an ethos of delivering for the public good in the long term. A substantial portion of our activity in delivering our Strategic Delivery Plan is therefore inherently higher risk than the broader market.

Our risk management is underpinned by the need to transparently and openly discuss and acknowledge the risks we take, while ensuring that we have an appropriately approved risk appetite in place against which to measure these.

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

Our Executive Team is responsible for managing risk in the organisation, overseen by Homes England's Board and specialist Audit and Risk Committee. The Risk and Assurance Corporate Group provide an additional level of risk oversight for the Executive team.

Homes England is aware of the huge responsibility it has, to support housing delivery in areas of greatest need and is transforming itself as an organisation in order to achieve this.

Over the last 12 months Homes England has undergone significant organisational design change to support a new operating model and ensure we are an efficient and effective team. This change is ongoing and the Service Transformation Plan is a key risk mitigation strategy to address those areas where we are outside our operational risk appetite.

Over the last year the organisation has identified, assessed, owned and managed risks across the business, with work continuing on:

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

Please see page 64 for a list of our Key Risks.

## Risk culture

The true foundation of good risk management is having the right culture, where risks and issues are discussed with openness and transparency. This is reinforced by the tone from the top, with communications focused on balancing risk management with achieving objectives while delivering value for money. Our risk culture is one of transparency and open acknowledgement of the risks inherent in our activities. We actively engage on risk matters and seek to ensure that we make decisions within our approved Risk Appetite, with appropriate escalation and proposed remediation where we are outside appetite.

Complementing our work to embed the Homes England Way, we have completed a risk culture review across the organisation, and work is ongoing through a range of activities to ensure that risk management is treated by everyone across the organisation as an integral part of all planning, delivery and decision-making processes.

## Working with our sponsor department

There is a comprehensive range of interaction between Homes England and MHCLG from a risk perspective.

The chair of the Homes England Audit & Risk Committee attends the MHCLG Audit, Risk & Assurance Committee and provides that committee with his independent update of risk matters within the Agency. There is also regular discussion between the Chief Risk Officers of the respective organisations, both scheduled and unscheduled. This facilitates an exchange of risk information and views independent of the delivery teams.

A detailed Risk management information pack is provided on a regular basis to MHCLG as part of the comprehensive management information package which is shared by the Agency. This is the same level of detailed management information as shared with the Agency's executive and Board. In addition, senior MHCLG officials attend all Homes England Audit & Risk Committee meetings and have full access to all papers submitted to that committee and the discussions held therein.

At a working level, the two Risk teams liaise closely with each other wherever MHCLG approval is required for Homes England transactions. They have direct line of sight on various questions and clarifications sought by officials and work closely to address these.

## Risk Taxonomy and Risk Appetite

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

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

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

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

## Risks outside the Agency's risk appetite

We measure our Risk Appetite for each of our seven Key Risks to determine whether we are within or outside appetite. In September 2020, we last presented our Risk Appetite Position Statement to the Audit & Risk Committee which highlighted that we are within appetite for all key risks except Operational Risk and Fiduciary Risk. The reasons for this, as well as the planned actions to bring us back within appetite, are detailed below.

Operational Risk – The two main areas of Operational Risk outside current appetite are longstanding issues in relation to legacy systems and data quality, integrity, availability and reporting. The Service Transformation Programme (STP), which will address operational risk issues and reduce current risk exposure, is underway. It is important to stress that the STP is a long-term programme with a four to five-year delivery timetable. For 2020/21, the Help to Buy digital improvements have been prioritised within the overall plan and we have observed positive incremental process and structure improvements across a wider range of activities over the past six months.

Fiduciary Risk - We are outside appetite for Fiduciary Risk due to specific issues in the Help to Buy (HtB) scheme concerning Financial Promotions, Customer Due Diligence (for new and existing customers), PEPs/Sanction screening and wider financial crime due diligence for Developers. The Executive have agreed funding that will support bringing the Agency back within risk appetite. We are now progressing this work and are engaging with external suppliers to provide the data required to address these issues. The intention is to improve our current investigative/detective environment within Help to Buy and as part of a wider improvement plan in support of other business areas. Timescales for delivery may be impacted by COVID-19 due to 3rd party system dependency, although this is not yet possible to quantify.

## Key Risks

At the time of writing, the UK economy, including the residential development sector, has suffered a severe economic shock caused by the COVID-19 pandemic. While a range of unprecedented government interventions have been deployed to address this, it is still unclear how the economy will react to the continuing impact of the virus. This results in increased uncertainty and enhanced levels of risk for the Agency across a number of areas. In addition to the above, there are a number of key risks which are detailed below and linked to their risk category. Given the passage of time and changes in the external environment, these are being reviewed during 2020/21 to identify and agree the ongoing key risks in light of the Agency's current position and operating environment.

| Key Risks | | |
|---|---|---|
| Financial | 1 | **Economic risk -** We have considerable exposure to the performance of the housing market in the form of loans to developers and equity loans to consumers. Due to COVID-19, the severity and duration of the economic impact is subject to considerable uncertainty and creates financial risks on both cost and revenue for residential development. Build delays and the need to meet changed social distanced regulations have resulted in cost increases on many sites. There is also an increased risk of price reductions in the value of new homes if consumer confidence is weakened and unemployment increases due to the ongoing impact of the pandemic. While house prices are proving robust at the time of writing, there is increased risk around their future movement, particularly on the downside.<br><br>The Agency will continue to consider a range of different economic scenarios and rely on significant historical data and economic projections in its annual stress testing plans to understand the financial impact. The results of these have been shared with MHCLG and they are informing the preparation that is ongoing within the Agency to address the future impact of the pandemic. Currently the results of the stress tests show that under the central COVID scenario the portfolio would continue to perform within the recovery parameters set out by MHCLG and HMT and we therefore remain within our Neutral risk appetite for Financial Risk. The stress tests will be reviewed during the coming year and any changes to the outcome escalated through the appropriate governance. |
| | 2 | **Credit risk -** We continue to monitor the Investment Portfolio on a monthly basis to ensure we operate within risk appetite and perform broadly in line with expectations, albeit noting the emerging risk of deteriorating portfolio credit quality. The impact of COVID-19 filtering through increased requests to amend existing facilities primarily relating to minor milestone and facility extensions within the portfolio, and as lockdown eases, increased new business activity. We have begun to notice an increase in new business activity, with marginally higher new credit paper submissions than average for this time of year. As Banks adopt a more cautious lending outlook, it is conceivable Homes England will be asked to intervene more in the market, particularly to support small and medium SME's. The uncertainty of the impact of COVID-19 on sales continues. |
| Policy | 3 | **Policy & Funding -** Similar to all Arms-Length-Bodies, significant changes in government policy, civil service restructure or departmental intervention could constrain progress and materially impact upon Homes England's structure and objectives. There is a degree of policy uncertainty with the Spending Review and ongoing reactions to COVID-19. Against this uncertain backdrop, the Agency are working on the introduction of Single Housing Infrastructure Fund, Affordable Housing Programme 2 and Housing Diversification and Delivery Fund. These are all large programmes on which Homes England must take a holistic view, rather than implementing them in silos, since their collective impact on the Agency will be significant. |
| Strategic Delivery | 4 | **Programme delivery -** Most developer activity was suspended for a couple of months after lockdown rules were implemented. The majority of developers have now restarted site activities, albeit at a slower rate of progress and with some of their staff remaining on furlough. Social distancing measures and local restrictions mean that the pace of build on many sites has reduced. This will result in delayed completions and the likelihood that housing delivery will be pushed out into later years when compared to previous plans and expectations (and therefore our KPIs). It is not yet clear when (or if) the development market will return to pre-COVID conditions. The Agency faces challenges in delivering its 2020/21 targets from a slowdown of acquisitions, enabling and disposals activity caused by the impact of COVID-19. We continue to receive requests from developers impacted by COVID-19 to amend contractual requirements (milestones, payment terms and amounts etc). A COVID-19 contract variation working group has been established to review the requests from developers robustly and to ensure consistency in the recommendations that are made to approvers. |

| Key Risks cont. | | |
|---|---|---|
| Operational | 5 | **Digital -** The Agency continue to face longstanding issues in relation to legacy systems and data quality, integrity, availability and reporting. Elements of existing IT applications are reaching 'end of life' and lack key functionality leading to the implementation of resource intensive manual workarounds and controls impacting key areas such as Finance. The Service Transformation Programme, which will address operational risk issues and reduce current risk exposure is underway. |
| | 6 | **People -** An over-reliance on key individuals in business-critical areas of the organisation. Our risk strategy includes plans to improve continuity and succession planning, which will protect the long-term resilience of our key functions. |
| Reputational | 7 | **Reputational -** Material issues or delivery failure of Homes England's high-profile programmes may result in significant reputational damage and loss of credibility. The transition to HtB2 has led to negative publicity and pushed our reputation risk appetite towards the upper end of our tolerance. Whilst HtB policy is owned by MHCLG, as the body operating the product, the Agency and our sales agents have received negative feedback from customers who are affected by the changes. |

## Risk management framework

In line with best practice, Homes England has a Three Lines of Defence risk management model across the organisation, enabled by an expansion of Homes England's Risk Directorate. This has continued to be iterated during the course of the current year and further work is required to fully embed these practices across the Agency. This work will continue as part of a Risk Enhancement Plan which is being implemented in the coming year and which looks at business engagement and risk processes within its workstreams.

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

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

The Risk Management Framework is an umbrella document below which other business and activity specific frameworks sit.

Homes England has tailored its approach to developing activity-specific frameworks for the business to concentrate on more relevant risk management policies whilst the organisation goes through continued change. The organisation is reviewing the umbrella Risk Management Framework during 2020/21 to ensure that it meets the organisation's strategic and operational risk management needs under the new operating model, to ensure Homes England's approach is fit-for-purpose and meets best practice standards.

## Integrated Assurance Framework

Homes England is implementing an Integrated Assurance Framework in 2020/21. The Three Lines of Defence Model which is central to the framework aims to provide a systematic approach for the management of risk and to enhance understanding of how different sources of assurance across each line of defence contribute to the overall level of assurance required. A work programme to develop the framework consisting of six workstreams is progressing and these are: a Pilot to test the framework; Governance; Structure and Resources; Risk; Stakeholder Assurance; and Education and Engagement.

## Internal Audit

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

The overall assurance provided for 2019/20 was a “Moderate” opinion. This opinion level is informed through formal Internal Audit reviews as well as ongoing activity, observations and the regular review and validation of control improvement activity and intelligence monitored in relation to risk exposure. Internal audit issued 22 reports for the period June 2019 to August 2020 and these included areas of high assurance in relation to transaction processing and the management of the Affordable Homes Programme. Furthermore, Internal Audit work confirmed an increase in the volume and rate of control improvement implementation compared to previous years and a shortening of the risk exposure period associated with these opportunities for improvement.

Key areas for improvement focus arising from work in year was in relation to regulatory and financial crime compliance, management and transition of the service chain for the equity loan book, systems and digital support for the valuation of the equity loan book, the identification, evaluation and monitoring of the management of Principal Risks and the quality, organisation and effective co-ordination of second line assurance teams.

## Whistleblowing

Homes England’s Whistleblowing Policy includes contact details for our staff, the nominated Board Champion and external bodies (such as the NAO) who can be contacted by an employee to make a disclosure under the whistleblowing policy. Staff are encouraged to raise matters informally to their line managers first (if they wish). As an organisation that has been through significant change, we continue to ensure staff are able to escalate risks and issues as they are identified. There were zero cases in relation to whistleblowing.

## Conclusion

Based on assurances received from senior management and from reporting covering the three lines of defence, I am satisfied that the control framework is operating as intended and that we have complied appropriately with governance arrangements, such as the Governance code as set out by HM Treasury, and that these were effective during 2019/20.

# Remuneration and staff report

## Nominations and Remuneration Committee

The Nominations and Remuneration Committee has the following responsibilities:

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

## Remuneration policy

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

Key managers and employees are entitled to a contribution by Homes England to a defined benefit pension scheme.

Homes England implements an annual pay remit which is approved by the Secretary of State. In 2019/20 the Agency implemented a uniform increase of £545 for all employees, including key management, who were in post at 1 July 2019.

## Service contracts

Our Accounting Officer and key managers have open-ended service contracts with three-month notice periods that do not contain any pre-determined compensation on termination of office. The exceptions to this are Christopher Kinsella and Tracie Langley, who were contracted through an employment agency and had a one-month notice period and Tom Walker who was on secondment from MHCLG. Christopher, Tracie and Tom have all now left Homes England.

## Appointment of Board Members

Board Members are appointed by the Secretary of State, normally for fixed terms of three years. Terms may be extended at the discretion of the Secretary of State. Board members' time commitment was raised from 2 days per month in 2018/19 to 3 days per month in 2019/20.

## Audited remuneration information

The following information provides details of the remuneration and pension interests of Board Members and Key Managers in their capacity as employees of Homes England for the year to 31 March 2020. Sections that are subject to audit are listed as such.

## Board Members' emoluments (subject to audit)

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Chairman** | | |
| Simon Dudley (Interim Chair from 14 August 2019) [1] | **44** | - |
| Sir Edward Lister (to 6 August 2019) [2] | **18** | 68 |
| **Board members** | | |
| Keith House | **25** | 12 |
| Stephen Bell [3] | **42** | 22 |
| Simon Dudley [1] | **12** | 17 |
| Teresa O'Neill | **25** | 12 |
| Richard Blakeway (to 31 August 2019) [4] | **10** | 12 |
| Duncan Sutherland (from 25 October 2018) | **25** | 6 |
| Olivia Scanlon (from 22 July 2019) [4] | **17** | - |
| Vanessa Murden (from 22 July 2019) [4] | **17** | - |
| Sadie Morgan (from 22 July 2019) [4] | **17** | - |
| Mark Rennison (from 22 July 2019) [5] | **20** | - |
| Simon Dow (to 30 September 2018) [6] | **-** | 33 |
| Ceri Smith (from 1 November 2018 to 12 March 2020) [7] | **n/a** | n/a |

## Regulation Committee emoluments (subject to audit)

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Simon Dow (Chair) (from 1 March 2018) | **-** | - |
| Richard Moriarty | **-** | 6 |
| Ceri Richards | **-** | 6 |
| Elizabeth Butler (from 1 September 2017) [8] | **-** | 6 |
| Richard Hughes (from 16 April 2018) [9] | **-** | 5 |
| Paul Smee (from 16 April 2018) [9] | **-** | 5 |

1 In addition to being a Board Member, Simon Dudley was appointed the Chair of the Investment Committee with effect from 1 April 2019, full year equivalent emoluments were £33,000. Simon was appointed as Interim Chair on 14 August 2019, full year equivalent emoluments were £69,000, which also covered duties as Chair of the Investment Committee from 14 August 2019 to 30 November 2019. Excluded from the amount disclosed above is an overpayment to Simon of £5,000 made in error during the year, this has been agreed to be repaid.

2 Full year equivalent emoluments were £69,000.

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

4 Full year equivalent emoluments in 2019/20 were £25,000.

5 In addition to being a Board Member Mark Rennison was appointed Chair of the Investment Committee with effect from 1 December 2019, full year equivalent emoluments for 2019/20 were £33,000.

6 In addition to being a Board, Simon Dow was appointed Chair of the Regulation Committee with effect on 1 March 2018. Full year equivalent emoluments for 2018/19 were £65,000.

7 Ceri Smith, Director or UK Government Investments (UKGI), was appointed to the Board as MHCLG's shareholder representative member from 1 November 2018 to 12 March 2020. He did not receive a salary for his duties.

8 Full year equivalent emoluments in 2018/19 were £12,000.

9 Full year equivalent emoluments in 2018/19 were £11,000.

## Chief Executive's emoluments (subject to audit)

| Single total figure of remuneration | Salary received in year (£'000) | | Bonus payments (£'000) [10] | | Benefits in kind (to nearest £100) | | Pension benefits (£'000) * | | Total (£'000) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| Nick Walkley | 215-220 | 215-220 | nil | nil | nil | nil | 46 | 48 | 260-265 | 260-265 |

## Key Managers' emoluments (subject to audit)

| Single total figure of remuneration | Salary received in year (£'000) | | Bonus payments (£'000) [9] | | Benefits in kind (to nearest £100) | | Pension benefits (£'000)* | | Total (£'000) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| Gordon More Chief Investments Officer | 210-215 | 210-215 | 15-20 | nil | nil | nil | nil | nil | 225-230 | 210-215 |
| Stephen Kinsella Executive Director, Land [2] | 200-205 | 210-215 | 15-20 | nil | 6,300 | 4,700 | 39 | 47 | 260-265 | 260-265 |
| Amy Casterton Chief of Staff [3] | 105-110 | 80-85 | 10-15 | nil | nil | nil | 24 | 1 | 140-145 | 80-85 |
| Mark Gray Chief Risk Officer (from 25 February 2019 to 31 March 2020) | 215-220 | 20-25 | nil | nil | nil | nil | 40 | 4 | 255-260 | 20-25 |
| Christopher Kinsella Interim Chief Financial Officer (from 25 February to 14 July 2019) & Interim Executive Director of Markets Places & People and Help to Buy (from 15 July 2019 to 3 April 2020) | 250-255 | 20-25 | nil | nil | nil | nil | nil | nil | 250-255 | 20-25 |
| Lou Downe Director of Service Design & Transformation (from 28 June 2019) [4] | 95-100 | n/a | nil | n/a | nil | n/a | 22 | n/a | 115-120 | n/a |
| Lynda McMullan Chief Finance Officer (from 30 June 2019) [5] | 125-130 | n/a | nil | n/a | nil | n/a | 29 | n/a | 155-160 | n/a |
| Harry Swales Director of Markets, Places & People (from 3 February 2020) [6] | 20-25 | n/a | nil | n/a | 6,200 | n/a | 4 | n/a | 35-40 | n/a |

# **Key Managers' emoluments** (subject to audit)

| Single total figure of remuneration | Salary received in year (£'000) | | Bonus payments (£'000) [9] | | Benefits in kind (to nearest £100) | | Pension benefits (£'000)* | | Total (£'000) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| Tracie Langley Interim Corporate Services Director (from 25 February 2019 to 20 December 2019) [7] | 140-145 | 20-25 | n/a | nil | n/a | nil | n/a | nil | 140-145 | 20-25 |
| Tom Walker Deputy Chief Executive and Executive Director of Strategy (to 30 June 2019) [8] | 30-35 | 120-125 | nil | 10-15 | nil | nil | nil | nil | 30-35 | 130-135 |
| Jane Castor Interim Finance Director (from 1 April 2018 to 24 February 2019) | n/a | 120-125 | n/a | nil | n/a | 5,400 | n/a | 21 | n/a | 145-150 |
| Bayo Dosunmu Executive Director, Homes England Development Programme (to 17 February 2019) | n/a | 115-120 | n/a | nil | n/a | 4,000 | n/a | 28 | n/a | 150-155 |
| Chantal Geall Chief Risk Officer (to 31 December 2018) | n/a | 160-165 | n/a | nil | n/a | nil | n/a | 30 | n/a | 190-195 |
| Richard Ennis Executive Director, Finance and Corporate Services (to 20 November 2018) | n/a | 110-115 | n/a | nil | n/a | 3,900 | n/a | 6 | n/a | 120-125 |
| Fiona McGregor Director of Regulation of Social Housing (to 1 October 2018) [9] | n/a | 70-75 | n/a | nil | n/a | nil | n/a | 40 | n/a | 110-115 |

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

1 Nick Walkley's bonus for 2018/19 was approved by the Secretary of State in June 2020. The bonus was £20,000 - £25,000. This will be disclosed in Key Manager's emoluments in the 2020/21 Annual Report.

2 Stephen Kinsella's full year equivalent emoluments for 2018/19 were £200,000 - £205,000 although he received salary arrears of £5,000 - £10,000 in 2018/19.

3 Amy Casterton was appointed Chief of Staff on 18 March 2019 following a competitive external recruitment process. Amy had previously been engaged by Homes England through a secondment from the Ministry of Housing, Communities and Local Government (MHCLG).

4 Full year equivalent emoluments for 2019/20 were £125,000-£130,000.

5 Full year equivalent emoluments for 2019/20 were £165,000-£170,000.

6 Full year equivalent emoluments for 2019/20 were £145,000 - £150,000 and will be increased to £165,000 - £170,000 following MHCLG approval with the increase back dated to 3 February 2020.

7 Tracie Langley was employed through Penna PLC. Full year equivalent salary (not eligible for benefits) for 2019/20 was £205,000-£210,000.

8 Tom Walker was on secondment from the Ministry of Housing, Communities and Local Government. Full year equivalent salary for 2019/20 was £120,000-£125,000. The costs disclosed above do not include VAT, pensions or social security costs which are due under the terms of the agreement in place with Tom's employer.

9 Fiona McGregor transferred to the Regulator of Social Housing on 1 October 2018.

10 Bonuses disclosed relate to amounts paid during the year.

## Salary

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

The Secretary of State determines the Board Members' emoluments.

## Performance related pay

The Agency complies with the direction from the Secretary of State on eligibility of a performance related bonus. The Chief Executive and Key Managers benefit from a performance related pay scheme whereby any bonuses are determined with reference to performance against agreed objectives during a performance year running from April to March. The bonus cannot exceed 10% of salary and is the only element of pay that is performance related.

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

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

## Benefits in kind

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

## Pension benefits (subject to audit)

### Chief Executive and Accounting Officer

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

**Key managers**

| | Accrued annual pension at 31 March 2020 (£'000) | Real increase in accrued annual pension (£'000) | Accrued lump sum at 31 March 2020 (£'000) | Real increase / (decrease) in accrued lump sum (£'000) | CETV 31 March 2020 (£'000) | CETV 31 March 2019* (£'000) | Real increase/ (decrease) in CETV (£'000) |
|---|---|---|---|---|---|---|---|
| Nick Walkley | **5-10** | 2.5-5 | **20-25** | 7.5-10 | **233** | 160 | 60 |
| Stephen Kinsella | **5-10** | 0-2.5 | **15-20** | 5-7.5 | **174** | 112 | 51 |
| Amy Casterton | **0-5** | 0-2.5 | **0-5** | 2.5-5 | **37** | 2 | 29 |
| Mark Gray [1] | **0-5** | 0-2.5 | **5-10** | 5-7.5 | **71** | 6 | 54 |
| Lou Downe | **0-5** | 0-2.5 | **0-5** | 2.5-5 | **31** | - | 25 |
| Lynda McMullan | **0-5** | 0-2.5 | **0-5** | 2.5-5 | **45** | - | 37 |
| Harry Swales [2] | **5-10** | 0-2.5 | **25-30** | 0-2.5 | **239** | 231 | 7 |

*Restated using 2020 pension factors.

1 Mark Gray left the Agency on 31 March 2020.

2 Harry Swales was appointed as a Key Manager on 3 February 2020. However, he was an employee of Homes England prior to this and therefore pension figures above cover all periods of employment with the Agency.

The Chief Executive and Key Managers are eligible to participate in the Homes & Communities Agency Pension Scheme, which is a multi-employer defined benefit scheme. The Chairman is not entitled to be a member of any of the Agency's pension schemes. With the exception of Gordon More, who is not an active member of a pension scheme, Christopher Kinsella and Tracie Langley who were employed on a temporary basis and Tom Walker who was on secondment from MHCLG; all remaining Key Managers in post at 31 March 2020 are active members of the Homes & Communities Agency Pension Scheme.

## Accrued pension at 31 March 2020

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2020.

## Cash Equivalent Transfer Value (CETV) 31 March 2020 (subject to audit)

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

## Termination payments (subject to audit)

Termination payments to Key Managers in 2019/20 were £nil (2018/19: £nil).

## Staff costs (subject to audit)

| Staff costs | 2019/20 (£'000) | 2018/19 (£'000) |
|---|---|---|
| Permanent staff: | | |
| Salaries and wages | **52,445** | 44,266 |
| Social security costs | **6,038** | 5,312 |
| Other Pension costs | **21,606** | 17,254 |
| **Sub total** | **80,089** | 66,832 |
| Temporary staff | **6,120** | 2,520 |
| Seconded staff | **545** | 895 |
| Less: Staff costs capitalised | **(9)** | (212) |
| **Total net costs** | **86,745** | 70,035 |

## Staff composition (subject to audit)

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

| | 2019/20 (£'000) | 2018/19 (£'000) |
|---|---|---|
| Permanent UK staff | **914** | 791 |
| Fixed term UK staff | **69** | 45 |
| Temporary staff | **55** | 25 |
| Seconded staff | **4** | 8 |
| | **1,042** | 869 |

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

| | 2019/20 (£'000) | 2018/19 (£'000) |
|---|---|---|
| £0 - £25,000 | **115** | 90 |
| £25,001 - £50,000 | **397** | 362 |
| £50,001 - £75,000 | **397** | 315 |
| £75,001 - £100,000 | **73** | 65 |
| £100,001 - £125,000 | **25** | 21 |
| £125,001 - £150,000 | **17** | 10 |
| £150,001 - £175,000 | **9** | 3 |
| £175,001 - £200,000 | **2** | 0 |
| £200,001 - £225,000 | **6** | 3 |
| £225,001 - £250,000 | **0** | 0 |
| £250,001 - £275,000 | **1** | 0 |
| | **1,042** | 869 |

## Gender analysis

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

| | 2019/20 (£'000) | 2018/19 (£'000) |
|---|---|---|
| Key Managers – Male | **6** | 6 |
| Key Managers – Female | **2** | 2 |
| Key Managers – Non-binary/ Other gender non-conforming | **1** | - |
| **Key Managers** | **9** | 8 |
| Other employees – Male | **526** | 433 |
| Other employees – Female | **507** | 428 |
| **Other employees** | **1,033** | 861 |
| | **1,042** | 869 |

The HMRC definition of gender has been used for this analysis so that it is aligned with our Gender Pay Gap report. This requires us to categorise colleagues as male and female. At Homes England, we recognise that gender identity is broader than simply male and female, and that some of our colleagues do not identify with either category. Whilst we must report in this way, we value, welcome and celebrate colleagues of all gender identities and are looking at ways in which reporting on gender can be improved.

In July 2020, the Agency published its third annual Gender Pay Gap Report (as at 31 March 2020), which is available at the following webpage: https://www.gov.uk/government/publications/gender-pay-gap-report-2020--2.

At March 2020 our mean gender pay gap was 16.9% and our median gap was 15.3%. As an organisation that promotes equality of opportunity and values diversity, and despite showing a small improvement from the previous report, our gender pay gap continues to be unacceptable.

In July 2020 Homes England published its first Equality Diversity and Inclusion report, which can be accessed here https://www.gov.uk/government/publications/equality-diversity-and-inclusion-report--2.

Over the next year we will focus on the following areas where we believe we will see the biggest impact in 2020/21. The areas below will be supported by a detailed action plan with specific, measurable and timely actions and clear ownership:

- → Transparency - We will begin to share our Gender Pay Gap progress with all colleagues on a quarterly basis.
- → Policies - We will consult our Trade Unions and Employee Networks on policies to ensure they are inclusive and support them to develop new policies that improve equality, diversity and inclusion. We will improve our advocacy and promotion of our benefits and policies that support gender equality, for example Shared Parental Leave, Term Time Working and Flexible Working.
- → Recruitment and Attraction - We work with our Employee Networks to undertake a comprehensive review of our end to end recruitment process to improve inclusivity, starting with a recruitment workshop held in August 2020 with network representatives. For senior roles (Head of service and higher grades) we shortlist at least two women providing they meet the essential criteria, to increase the opportunity for women to be appointed.
- → Focusing on Women's Development - We will provide a tailored programme of training and development opportunities to support their career development and progression, including identifying opportunities for mentoring.

- Pay Reform – We are aiming for the pay and grading review to be finalised in 2020 and implemented in 2021, which will provide greater consistency, transparency and fairness across the organisation. We have made provision in our annual budget to enable us to address any specific recommendations identified that will reduce our pay gap further.

The Agency has committed to become an organisation that champions diversity and inclusion and raises the bar in the housing sector by setting out the following objectives:

- Create a more inclusive colleague experience.
- Work together to create acceptance and build an inclusive culture.
- Leadership commitment and action.
- Work with our partners and suppliers to help create a more inclusive industry.
- Deliver homes for the communities we serve.

## **Median salary** (subject to audit)

Homes England is required to disclose the relationship between the remuneration of the highest-paid director in the Agency and the median remuneration of the Agency's workforce.

The banded remuneration of the highest-paid director in Homes England, Christopher Kinsella, in the financial year 2019/20 was £250,000-£255,000 (2018/19, Christopher Kinsella, £235,000-240,000). The mid-point of this band was 4.8 times (2018/19: 4.6) the median remuneration of the workforce, which was £52,455 (2018/19, £51,610). Christopher Kinsella was employed temporarily through a recruitment agency and left Homes England on 3 April 2020. The banded remuneration of the highest-paid Director on a permanent contract in the financial year was £215,000-£220,000 (2018/19, £215,000-£220,000). Excluding Christopher Kinsella, the median pay ratio for the year was 4.1 (2018/19: 4.1).

Remuneration ranged from £15,000-£20,000 to £250,000-£255,000 (2018/19: £15,000-£20,000 to £235,000-£240,000). In 2019/20, no employees (2018/19, none) received remuneration in excess of the highest-paid director.

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.

## **Exit packages** (subject to audit)

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

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

| | 2019/20 Departures agreed (£'000) | 2018/19 Departures agreed (£'000) |
|---|---|---|
| £0 - £10,000 | - | - |
| £10,001 - £25,000 | - | - |
| £25,001 - £50,000 | - | - |
| £50,001 - £100,000 | 2 | 3 |
| £100,001 - £150,000 | - | - |
| **Total number of exit packages** | 2 | 3 |
| **Total cost of exit packages (£'000)** | 188 | 285 |

## Expenditure on consultancy

During the year the Agency incurred expenditure of £173,199 on consultancy as defined by the Cabinet Office (2018/19: £416,871).

The Cabinet Office definition of consultancy can be found at https://www.gov.uk/guidance/consultancy-spend-controls#definitions.

## Apprenticeship Levy

During the year the Agency incurred expenditure of £245,000 on contributions to the apprenticeship levy to support apprenticeship training and assessment for apprentices (2018/19: £191,000).

## Off-payroll arrangements

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

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

| | 2019/20 (£'000) |
|---|---|
| **No. of existing engagements as of 31 March** | 62 |
| **of which have existed for:** | |
| Less than one year at time of reporting | 39 |
| Between one and two years at time of reporting | 12 |
| Between two and three years at time of reporting | 2 |
| Between three and four years at time of reporting | 4 |
| Four years or more at time of reporting | 5 |

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

| | 2019/20 (£'000) |
|---|---|
| No. of new engagements, or those that reached six months in duration, between 1 April and 31 March | 66 |
| of which: | |
| No. assessed as caught by IR35 | 55 |
| No. assessed as not caught by IR35 | 11 |
| No. engaged directly (via Personal Service Company contracted to the Agency) and are on the Agency payroll | - |
| No. of engagements reassessed for consistency / assurance purposes during the year | 1 |
| No. of engagements that saw a change to IR35 status following the consistency review | - |

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

| | 2019/20 (£'000 |
|---|---|
| No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility during the financial year | **2** |
| Total no. of individuals both on and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year | **12** |

Both Christopher Kinsella and Tracie Langley were off-payroll staff and were considered to have significant financial responsibility during the year. Both were employed on an interim basis whilst permanent recruitment took place. Details of their remuneration, start and end dates and positions held, are included within the Key Managers emoluments table above. These two engagements were more than six months tenure which was deemed critical to ensure stability at Executive level during a period of significant growth, transformation and change for the Agency. The Agency was in the process of implementing our new Operating Model and structure whilst key Executive positions were being recruited.

## Employee matters

### Equality and diversity

As a government agency, Homes England must comply with the Public Sector Equality Duty, which supports good decision-making by ensuring public bodies consider how different people will be affected by our activities, helping us to deliver policies and services which are efficient and effective, accessible to all, and which meet different people's needs.

Further information on how we are meeting our Public Sector Equality Duty can be found in Homes England's first annual Equality Diversity and Inclusion report. However, we know that meeting our statutory obligations is not enough and intend to go beyond compliance to ensure that equality, diversity and inclusion are ingrained into everything we do.

'Diverse' is one of Homes England's core values. We are committed to creating an environment where all colleagues can thrive. By embracing differences and fostering inclusive ways of working Homes England will perform better as an organisation. To help us achieve this, we have a number of employee networks which support and address a wide range of equality and diversity issues.

During 2019/20, two new networks were introduced: Faith and Neurodiversity. These added to Homes England's existing and more established networks - Build Together (Lesbian, Gay, Bisexual, Transgender (LGBT)); Build Together Friends (LGBT Allies); Black, Asian and Minority Ethnic (BAME); Gender; Disability and Carers; Graduates and Apprentices, and Future Leaders.

We also have a group of trained Mental Health First Aiders who work hard to support all colleagues and raise awareness of mental health conditions. More information on the activities undertaken by our networks can be found in our Equality, Diversity and Inclusion Report.

We acknowledge that we are on a journey, and still have a lot of work to do in this area. However, 2019/20 has seen some real change.

In January 2020, Homes England made Stonewall's Top 100 Employers list for the first time and was also named a Top Trans Employer. This is a great improvement on previous years, with Homes England's ranking improving by 153 places in the past year.

We are committed to ensuring equality of opportunity for all disabled people who work or apply to work for us. We are a Disability Confident Employer. The Disability Confident scheme aims to help Homes England successfully employ and retain disabled people and those with health conditions. The scheme requires employers to meet several commitments regarding the employment, retention, training and career development of disabled employees. As we make clear in our job application process, we offer disabled people who apply for a post a guaranteed interview provided they meet the minimum criteria for the post.

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

In the event that any employee becomes disabled whilst employed by Homes England, the Health and Safety and Facilities teams, supported by our Occupational Health provider, will make all reasonable and appropriate changes and adjustments to the workplace and working arrangements.
In addition to this, Homes England's 2020 Gender Pay Gap report (March 2020 snapshot) shows a reduction in its Gender Pay Gap. At 31st March 2020, the organisation's mean gender pay gap was 16.9% and its median gap was 15.3%.

The Gender Pay Gap is still unacceptably high; we are moving in the right direction (March 2019's mean and median gap were 18.0 and 15.5 respectively). We will continue to have honest discussions across the organisation and collectively tackle the issue openly, transparently and with a sense of urgency. The actions Homes England is taking are creating working environments that enhances employee experience and the organisation's value proposition.

To fully achieve our diversity and inclusion ambitions Homes England has published its 2020-24 equality, diversity and inclusion objectives for the next four years and the steps that we plan to take to meet them. We will provide an update on our progress each year in our annual equality statement.

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

## Sickness absence

The average working days lost in 2019/20 was 1.37 (2018/19: 1.12).

## Health and safety

Homes England's safety performance has remained strong through 2019/20 and its key achievements are set out below.

For the second year running, the Accident Incident Rate (AIR) for reportable injuries under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) was zero per 100,000 employees as there were no RIDDOR reportable injuries to employees in 2019/20. The AIR for all accidents involving employees was calculated at 913 which is below national Labour Force Survey AIR rate of 2,132 injuries per 100,000 employees for 18/19.

Homes England sets annual corporate health and safety targets for completing risk assessments, training and site inspections and audits. Out of the 15 targets set, 13 were met or exceeded and 2 were missed. One of the targets concerning site audits was missed due to COVID-19 restrictions introduced in March and the other due to one employee not completing their induction training within the required timeframe.

Homes England commissioned an independent comprehensive health and safety review which was completed in May. A health and safety improvement plan was developed setting out how Homes England would address the findings of the review and 67% of the actions were completed by March 2020.

The year saw the appointment of one of our non-executive directors, Duncan Sutherland, to champion health and safety at board level and the establishment of safety, health and environmental committee, chaired by the board champion and attended by executive directors. The purpose of the committee is to satisfy itself of the adequacy and effectiveness of Homes England's safety, health and environment policies, strategies and performance.

March 2020 saw the introduction of social distancing measures to tackle COVID-19. Homes England responded swiftly to protect employees by mandating working from home with immediate effect. Employees have been supported through the provision of equipment, guidance and advice on safe working in the home environment with the mental health and wellbeing of employees being a central focus for Homes England.

Looking forward for 2020/21, the priorities for Homes England centres around the response to COVID-19, specifically the reintroduction of employees back into the working environment which presents some significant logistical challenges with social distancing measures. Another area of focus is construction health and safety in our supply chain, specifically within our wider development and investment portfolio of projects.

## Employee engagement

Homes England traditionally participates in the annual Civil Service people survey. The survey indicates our employee engagement score which was 64% in 2019 (unchanged from 2018) and allows colleagues to feedback on 9 themes linked to engagement. This year, Homes England engaged widely with leaders and implemented agency-wide action planning to improve scores. Each directorate will deliver their own action plan which will be accompanied by organisational actions. We will continue to monitor employee engagement through workshops, roadshows and re-assess our overall employee engagement strategy and surveying approach.

## Trade union relationships

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

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

| Relevant union officials | |
|---|---|
| | **2019/20** |
| Number of employees who were relevant union officials during the relevant period | **7** |
| Full-time equivalent employee number | **7** |

| Percentage of time spent on facility time | |
|---|---|
| | **2019/20** |
| 0% | **-** |
| 1 - 50% | **7** |
| 51% - 99% | **-** |
| 100% | **-** |

| Percentage of pay bill spent on facility time | |
|---|---|
| | **2019/20** |
| Total cost of facility time (£'000) | **38** |
| Total pay bill (£'000) | **65,139** |
| Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100 | **0.06%** |

| Paid trade union activities | |
|---|---|
| | **2019/20** |
| Percentage of paid facility time spent on paid trade union activities: | **0%** |

# Parliamentary Accountability and Audit report

## Regularity of expenditure (subject to audit)

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

| | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| | **Cases** | **£'000** | **Cases** | **£'000** |
| Total of all losses and special payments | **77** | **54,338** | 107 | 11,810 |
| **Cases over £300,000:** | | | | |
| Loans written off or impaired | **6** | **53,447** | 6 | 11,645 |

Under International Financial Reporting Standard 9: Financial Instruments (IFRS 9) for assets which are measured at amortised cost, a write-off amount is recognised in the financial statements when it is considered that there is no realistic prospect of full recovery. This is aligned with the FReM requirement to disclose losses in this note for the attention of Parliament at the earliest point at which a loss is expected.

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

Under the requirements of IFRS 9, the Agency is required to consider whether a financial asset investment meets the definitions of a basic lending arrangement in order to establish whether the investment should be measured at Amortised Cost or at Fair Value. There are a number of loan investments which are managed operationally in line with the Agency's loan management processes however from an accounting point of view are measured at Fair Value through Profit or Loss (FVTPL). Where it has been assessed that there is no realistic prospect of full recovery for such loan investments, these have also been disclosed in this note.

During 2019/20 there were six cases of loan losses recognised where the amount written-off or impaired for accounting purposes was in excess of £300,000. The table opposite details these losses and provides further detail on the split between those which relate to loans measured at Amortised Cost and those measured at FVTPL.

| Accounting write-offs or impairments / reversals in 2019/20 (£'000) | |
|---|---|
| **Loans measured at Amortised Cost** | **Comments** |
| 32,015 | The Agency provided an infrastructure loan facility of £65.6m (including interest) under the Home Building Fund, which included funding for land assembly, infrastructure works and s106 obligations, which would support delivery of 5,750 homes. There have been several delays experienced with the project to date, including significant planning delays. As a result, there have been several breaches of the terms of the facility by the borrower, including several milestones not being met.<br><br>The developer originally secured third-party funding towards infrastructure costs; however this was withdrawn resulting in a shortfall of funds. A valuation exercise was undertaken in 2019/20 which indicated there had been a significant decrease in the market value of the security held by the Agency (to less than the value of the funding provided). It was also noted from the valuation that it is expected that there would be limited interest in the land and the valuation was noted as sensitive to various key inputs which remain uncertain.<br><br>KPMG were instructed to undertake a review of the project which identified a significant potential cash shortfall. It has been concluded that the Agency's financing structure is no longer viable and therefore a full restructure of the facility is now necessary. The Agency has considered various options available however this will evolve to reflect the challenges to delivery and financial stability of the site.<br>As a result of the above, an accounting write-off of £32.0m was recognised in 2019/20. This was determined in reference to the revised valuation of the security. The Agency is continuing to pursue the outstanding debt. The impairment recognised will continue to be reviewed as a future strategy is agreed for the site. **As at 31 March 2020, total losses recognised were £32,015k.** |
| 15,514 | The Agency provided long-term infrastructure loan funding under the Home Building Fund, to support the development of 3,000 homes. A series of delays on site were experienced which impacted on timescales for delivery of the project. Following the entry into liquidation of the investment fund which owns the borrowing entity, the various options available regarding the site were analysed during 2019/20 and an estimate of the expected loss was calculated based on available market data. As a result, a loss of £15.5m was recognised in 2019/20. **As at 31 March 2020, total losses recognised were £15,514k.** |
| 2,052 | The Agency provided loan funding under the Home Building Fund for the development of 73 homes. Following significant cost overruns experienced on the project, the Agency recognised losses of £2,052k during 2019/20. **As at 31 March 2020, total losses recognised were £2,052k.** |
| 786 | In 2019/20, the Agency has recognised a loss of £786k on a loan provided under the Home Building Fund for the development of a 44-unit site, in addition to previous losses recognised of £798k as a result of an increase in overall costs of the development. Following an updated site valuation being undertaken in 2019/20 which highlighted a decrease in expected residual value of the remaining development land as a result of increased construction costs for the project, a further loss was recognised during the year. **As at 31 March 2020, total losses recognised were £1,584k.** |
| 393 | In 2019/20, the Agency has recognised a loss of £393k on a loan provided under the Get Britain Build programme to fund the development of 25 homes. The Agency had recognised previous losses of £367k as a result of a delay in sales and projected reduction in sales values against original estimates. Following an updated valuation being undertaken during 2019/20, an increase in losses have been recognised. **As at 31 March 2020, total losses recognised were £761k.** |
| **50,760** | **Total write-offs recognised on Loans measured at Amortised Cost which exceed £300k.** |
| **Loans measured at FVTPL** | **Comments** |
| 2,687 | The Agency provided loan funding under the Home Building Fund for the development of 29 homes. As a result of cost overruns experienced on the project, the Agency recognised impairments of £2,353k during 2019/20. **As at 31 March 2020, total impairments recognised were £2,687k.** |
| **2,687** | **Total impairments recognised on Loans measured at FVTPL which exceed £300k.** |
| **53,447** | **Total write-offs and impairments recognised on Loans which exceed £300k.** |

**Included in the 2019/20 accounts are further write-offs of loans measured at Amortised Cost totalling £602k, which are below the reporting threshold and therefore have not been included in the table above. In addition to this, the 2019/20 accounts reflect the reversal of previously disclosed losses totalling £37k during the period.**

**The contractual amount due on loan investments for which amounts have been written off or impaired, and which are still subject to enforcement activity was £108.3m at 31 March 2020.**

## **Fees and charges** (subject to audit)

### Regulator of Social Housing

During 2018/19, Homes England, in its capacity as the Regulator of Social Housing Providers in England, charged fees to Registered Providers. This continued until 1 October 2018 at which point the responsibility for regulating Register Providers in England transferred to the Regulator of Social Housing (RSH). At the same time, the net fees collected and unspent, were paid to the RSH.

Fees were charged annually in advance and funded those costs related to regulating all Registered Providers. During the period 1 April 2018 to 30 September 2018, £12,622k of fees were charged. Total costs incurred in the period were £6,086k of which £1,281k related to non-fee charging activities and £4,805k related to fee charging activities. The balance of £7,817k held was transferred to the RSH on 1 October 2018.

From 1 October 2018, Homes England and RSH entered into a Service Level Agreement (SLA) under which Homes England agreed to provide services to RSH for a term of four years. Services provided may include, but are not limited to, the provision of accommodation or facilities, the provision of staff time and expertise, and the provision of technical resources.

During the current year, the SLA has remained in place. Service income charged to the RSH was £1,086,000.

### Other fees

Additionally, Homes England may, from time to time, charge a fee for services provided to other entities. Where applicable, services are charged at full cost and therefore result in no attributable surplus or deficit. During the year, Homes England provided legal and professional services to other parties totalling £175,000. This is included in Other Operating Income.

Other fees include £50,000 charged to the Homes and Communities Agency Pension Scheme for the annual provision of accommodation, staff and professional services, and £100,000 charged to the Department of Business, Enterprise, Innovation and Skills, for the provision of professional services in connection with the administration of three science parks.

## **Remote contingent liabilities** (subject to audit)

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

**The Accountability report is signed on 29 October 2020**

Nick Walkley
Chief Executive and Accounting Officer

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Homes and Communities Agency (Homes England) for the year ended 31 March 2020 under the Housing and Regeneration Act 2008. The financial statements comprise: the Group Statement of Comprehensive Net Expenditure, the Group and Parent Statements of Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of Homes England's affairs as at 31 March 2020 and of the group's net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Housing and Regeneration Act 2008 and Secretary of State directions issued thereunder.

## Emphasis of matter – Valuation of Help to Buy Homes Equity Loans

I draw attention to the disclosures made in notes 1f, 2c, 15d and 18a to the financial statements concerning the uncertainties inherent in the valuation of the Help to Buy home equity loans portfolio. Given the high sensitivity of the valuation of the portfolio to changes in assumptions about market prices and in addition the relatively unknown impact of the COVID-19 pandemic on the housing market, a considerable degree of uncertainty remains over the value of the Help to Buy home equity loan financial assets. Consequently, less certainty and a higher degree of caution should be attached to this valuation. My opinion is not modified in respect of this matter.

## 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 Homes England in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- Homes England's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- Homes England have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Homes England's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## 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 Housing and Regeneration Act 2008.

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.
- conclude on the appropriateness of Homes England'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 Homes England's (or where relevant, the group's) ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause Homes England (or where relevant, the group) to cease to continue as a going concern.

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

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

## Other Information

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

## Opinion on other matters

In my opinion:

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

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

**Gareth Davies**
2 November 2020
Comptroller and Auditor General

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

# Financial statements

## Group statement of comprehensive net expenditure – Year ended 31 March 2020

| | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Expenditure** | | | |
| Grants | 6 | **1,526,189** | 857,159 |
| Cost of land and property disposals | 7 | **154,515** | 62,491 |
| Programme costs | 8 | **60,103** | 61,634 |
| Staff costs | 9a | **65,139** | 52,781 |
| Pension costs | 9a | **21,606** | 17,254 |
| Administration expenses | 10 | **35,321** | 42,705 |
| Impairment of land and property | 19 | **45,514** | 103,956 |
| Impairment/(impairment reversal) of financial assets | 15f | **(30,231)** | 93,963 |
| Decrease in provisions | 21 | **(47)** | (3,890) |
| | | **1,878,109** | 1,288,053 |
| **Income** | | | |
| Proceeds from disposal of land and property assets | 7 | **229,511** | 113,589 |
| Valuation gains on financial assets measured at FVTPL | 15f | **207,654** | 21,731 |
| Net gain/(loss) on disposal of financial assets | 15f | **12,749** | (8,151) |
| Interest income | 15f | **67,460** | 56,155 |
| Other operating income | 11 | **48,593** | 36,492 |
| | | **565,967** | 219,816 |
| **Net operating expenditure** | | **1,312,142** | 1,068,237 |
| Transfer of net liabilities to the Regulator of Social Housing | 4 | **-** | (767) |
| Interest payable | | **343** | - |
| Share of profits of associates and joint ventures | 12 | **(4,707)** | (2,341) |
| Pension fund finance costs | 23d | **(2,453)** | (1,863) |
| **Net expenditure before tax** | | **1,305,325** | 1,063,266 |
| Income tax charge/(credit) | 13a | **8,669** | (1,503) |
| **Net expenditure for the year** | | **1,313,994** | 1,061,763 |
| **Other comprehensive expenditure** | | | |
| Actuarial loss/(gain) from pension fund | 23e | **4,959** | (34,650) |
| Income tax charge/(credit) on items in other comprehensive expenditure | 13b | **(843)** | 5,891 |
| | | **4,116** | (28,759) |
| **Total comprehensive expenditure for the year** | | **1,318,110** | 1,033,004 |

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

## Group statement of financial position – At 31 March 2020

| | Note | 2019/20 £'000 | Represented 2018/19 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **2,412** | 3,198 |
| Property, plant and equipment | | **11,174** | 7,749 |
| Investments in associates and joint ventures | 14b | **70,936** | 47,149 |
| Pension assets | 23a | **94,438** | 103,356 |
| Trade and other receivables | 15b | **201,048** | 102,327 |
| Financial assets held at amortised cost | 15c | **825,392** | 922,532 |
| Financial assets held at FVTPL | 15c | **14,704,755** | 11,684,992 |
| | | **15,910,155** | 12,871,303 |
| **Current assets** | | | |
| Land and property assets | 19 | **998,074** | 839,084 |
| Trade and other receivables | 15b | **98,041** | 135,258 |
| Financial assets held at amortised cost | 15b | **550,946** | 471,668 |
| Financial assets held at FVTPL | 15c | **142,787** | 113,707 |
| Cash and cash equivalents | 15a | **218,868** | 266,826 |
| | | **2,008,716** | 1,826,543 |
| **Total assets** | | **17,918,871** | 14,697,846 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **(426,167)** | (468,948) |
| Provisions | 21 | **(234)** | (384) |
| | | **(426,401)** | (469,332) |
| **Non-current assets plus net current assets** | | **17,492,470** | 14,228,514 |
| **Non-current liabilities** | | | |
| Trade and other payables | 20 | **(115,828)** | (13,523) |
| Provisions | 21 | **(12,455)** | (12,412) |
| Pension liabilities | 23a | **(7,478)** | (8,346) |
| | | **(135,761)** | (34,281) |
| **Assets less liabilities** | | **17,356,709** | 14,194,233 |
| **Reserves** | | | |
| Income and expenditure reserve | | **17,356,709** | 14,194,233 |
| Regulation reserve | | **-** | - |
| **Taxpayers' equity** | | **17,356,709** | 14,194,233 |

The accompanying Notes are an integral part of these Financial Statements. Approved by the Board on 29 October 2020 and signed on their behalf by:

Neil Walkley

**Nick Walkley**
Chief Executive and Accounting Officer

### Represented comparative figures for the 2018/19 financial year-end (Group and Agency)

To support comparability between years on adoption of International Financial Reporting Standard 9: Financial Instruments (IFRS 9) in 2018/19, all financial assets were presented together in the Statement of Financial Position. From 2019/20 a meaningful comparison between the different asset classifications required under the Standard becomes possible and so the Agency has split the comparative figure for Financial Assets out into the two component parts of financial assets held at amortised cost and financial assets held at FVTPL (Fair Value Through Profit or Loss). No changes have been made to the underlying accounts, with the supporting note presenting the same information as in 2018/19.

### Reserves

The only active reserve at 31 March 2020 and 31 March 2019 was the Income and Expenditure Reserve. During 2018/19, the Agency's Regulation Reserve was released when the regulation function transferred to the Regulator of Social Housing (see Note 4), resulting in a nil balance at 31 March 2019. The release of reserves as a result of this transfer is presented in the Statement of Changes in Taxpayers' Equity.

# Agency statement of financial position – At 31 March 2020

| | Note | 2019/20 £'000 | Represented 2018/19 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **2,412** | 3,198 |
| Property, plant and equipment | | **11,174** | 7,749 |
| Investments in subsidiaries | 14a | **50,000** | 25,000 |
| Investments in associates and joint ventures | 14b | **20,615** | 22,790 |
| Pension assets | 23a | **94,438** | 103,356 |
| Trade and other receivables | 15b | **201,048** | 102,327 |
| Financial assets held at amortised cost | 15c | **825,392** | 922,532 |
| Financial assets held at FVTPL | 15c | **14,704,755** | 11,684,992 |
| | | **15,909,834** | 12,871,944 |
| **Current assets** | | | |
| Land and property assets | 19 | **998,074** | 839,084 |
| Trade and other receivables | 15b | **98,041** | 135,258 |
| Financial assets held at amortised cost | 15c | **550,946** | 471,668 |
| Financial assets held at FVTPL | 15c | **142,787** | 113,707 |
| Cash and cash equivalents | 15c | **218,868** | 266,826 |
| | | **2,008,716** | 1,826,543 |
| **Total assets** | | **17,918,550** | 14,698,487 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **(433,896)** | (473,202) |
| Provisions | 21 | **(234)** | (384) |
| | | **(434,130)** | (473,586) |
| **Non-current assets plus net current assets** | | **17,484,420** | 14,224,901 |
| **Non-current liabilities** | | | |
| Trade and other payables | 20 | **(115,828)** | (13,523) |
| Provisions | 21 | **(12,455)** | (12,412) |
| Pension liabilities | 23a | **(7,478)** | (8,346) |
| | | **(135,761)** | (34,281) |
| **Assets less liabilities** | | **17,348,659** | 14,190,620 |
| **Reserves** | | | |
| Income and Expenditure Reserve | | **17,348,659** | 14,190,620 |
| Regulation Reserve | | **-** | - |
| **Taxpayers' equity** | | **17,348,659** | 14,190,620 |

The accompanying Notes are an integral part of these Financial Statements. Approved by the Board on 29 October 2020 and signed on their behalf by:

**Nick Walkley**
Chief Executive and Accounting Officer

# Statement of cash flows – Year ended 31 March 2020

| Group and Agency | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Net cash outflow from operating activities** | (a) | **(4,502,855)** | (4,038,799) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(5,214)** | (4,157) |
| Purchase of intangible assets | | **(1,395)** | (791) |
| Investment made in group companies | 14b | **(19,080)** | (16,219) |
| Transfer of cash to The Regulator of Social Housing | 4 | **-** | (10,043) |
| **Net cash outflow from investing activities** | | **(25,689)** | (31,210) |
| **Cash flows from financing activities** | | | |
| Grant in Aid from sponsor department | SoCTE* | **4,480,586** | 4,094,245 |
| **Net cash inflow from financing activities** | | **4,480,586** | 4,094,245 |
| **Increase/(decrease) in cash and cash equivalents in the period** | | **(47,958)** | 24,236 |
| **Cash and cash equivalents at 1 April** | 15a | **266,826** | 242,590 |
| **Cash and cash equivalents at 31 March** | 15a | **218,868** | 266,826 |

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

| | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| Net operating expenditure | SoCNE** | **(1,312,142)** | (1,068,237) |
| Financial asset investments made by the Agency | 15 | **(4,187,505)** | (4,256,388) |
| Proceeds from disposal of financial asset investments | 15 | **1,460,937** | 1,206,389 |
| Loss/(gain) on disposal of financial assets | 15f | **(12,749)** | 8,151 |
| Additions to land and property assets | 19 | **(357,311)** | (227,904) |
| Cost of land and property assets disposed | 7 | **152,807** | 61,103 |
| Interest added to financial assets held at amortised cost | 15 | **(57,518)** | (47,418) |
| Valuation gains on financial assets held at FVTPL | 15f | **(207,654)** | (21,731) |
| Increase in impairment of land and property | 19, 10 | **45,176** | 103,620 |
| Increase/(decrease) in impairment of financial assets | 15f | **(30,231)** | 93,963 |
| Depreciation and amortisation | 10 | **4,309** | 3,423 |
| Pension costs | 23 | **5,544** | 6,990 |
| Payments of income tax | | **(5,962)** | (696) |
| | | **(4,502,299)** | (4,138,735) |
| Decrease/(increase) in receivables | | **(57,765)** | 31,447 |
| Increase in payables | | **57,316** | 82,279 |
| Decrease in provisions | | **(107)** | (13,790) |
| **Net cash outflow from operating activities** | | **(4,502,855)** | (4,038,799) |

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

## Group statement of changes in taxpayers' equity – Year ended 31 March 2020

| | Note | Income and expenditure reserve £'000 | Regulation reserve £'000 | Total reserves £'000 |
|---|---|---|---|---|
| **Balance at 1 April 2018** | | **11,131,022** | **1,970** | **11,132,992** |
| **Changes in taxpayers' equity 2018/19** | | | | |
| Release of reserve on transfer to the Regulator of Social Housing | 4 | 1,974 | (1,974) | - |
| Net expenditure for the year | | (1,061,767) | 4 | (1,061,763) |
| Actuarial gain from pension fund | 23e | 34,650 | - | 34,650 |
| Income tax on items in other comprehensive expenditure | 13b | (5,891) | - | (5,891) |
| **Total comprehensive expenditure for the year** | | **(1,031,034)** | **(1,970)** | **(1,033,004)** |
| Grant in Aid from sponsor department | 1(e) | 4,094,245 | - | 4,094,245 |
| **Balance at 31 March 2019** | | **14,194,233** | **-** | **14,194,233** |
| **Changes in taxpayers' equity 2019/20** | | | | |
| **Balance at 1 April 2019** | | **14,194,233** | **-** | **14,194,233** |
| Net expenditure for the year | | (1,313,994) | - | (1,313,994) |
| Actuarial loss from pension fund | 23e | (4,959) | - | (4,959) |
| Income tax on items in other comprehensive expenditure | 13b | 843 | - | 843 |
| **Total comprehensive expenditure for the year** | | **(1,318,110)** | **-** | **(1,318,110)** |
| Grant in Aid from sponsor department | 1e | 4,480,586 | - | 4,480,586 |
| **Balance at 31 March 2020** | | **17,356,709** | **-** | **17,356,709** |

## Agency statement of changes in taxpayers' equity – Year ended 31 March 2020

| | Note | Income and expenditure reserve £'000 | Regulation reserve £'000 | Total reserves £'000 |
|---|---|---|---|---|
| **Balance at 1 April 2018** | | **11,130,007** | **1,970** | **11,131,977** |
| **Changes in taxpayers' equity 2018/19** | | | | |
| Release of reserve on transfer to the Regulator of Social Housing | 4 | 1,974 | (1,974) | - |
| Net expenditure for the year | | (1,064,365) | 4 | (1,064,361) |
| Actuarial gain from pension fund | 23e | 34,650 | - | 34,650 |
| Income tax on items in other comprehensive expenditure | 13b | (5,891) | - | (5,891) |
| **Total comprehensive expenditure for the year** | | **(1,033,632)** | **(1,970)** | **(1,035,602)** |
| Grant in Aid from sponsor department | 1(e) | 4,094,245 | - | 4,094,245 |
| **Balance at 31 March 2019** | | **14,190,620** | **-** | **14,190,620** |
| **Changes in taxpayers' equity 2019/20** | | | | |
| **Balance at 1 April 2019** | | **14,190,620** | **-** | **14,190,620** |
| Net expenditure for the year | | (1,318,431) | - | (1,318,431) |
| Actuarial loss from pension fund | 23e | (4,959) | - | (4,959) |
| Income tax on items in other comprehensive expenditure | 13b | 843 | - | 843 |
| **Total comprehensive expenditure for the year** | | **(1,322,547)** | **-** | **(1,322,547)** |
| Grant in Aid from sponsor department | 1e | 4,480,586 | - | 4,480,586 |
| **Balance at 31 March 2020** | | **17,348,659** | **-** | **17,348,659** |

# Notes to the financial statements year ended 31 March 2020

## 1. Statement of accounting policies

### a) Statutory basis

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

The Financial Statements of Homes England are governed under the provisions of the Housing and Regeneration Act 2008 and by the Accounts Direction given by the Secretary of State, with approval of HM Treasury under the Act. The Direction issued on 8 December 2014 reflects government policy that the Financial Statements should, insofar as appropriate, conform to the accounting and disclosure requirements contained in Managing Public Money, Government Financial Reporting Manual (FReM) and in HM Treasury's Fees and Charges Guide. The Financial Statements have been prepared in accordance with the 2019/20 FReM issued by HM Treasury.

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

### b) Accounting convention

The Financial Statements are prepared under the historical cost convention modified by the revaluation of financial assets held at Fair Value Through Profit of Loss (FVTPL) and property, plant and equipment.

### c) Basis of preparation and consolidation

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

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

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

The share of net assets and profit information is based on unaudited financial statements or management information to 31 March 2020 for most associates. Where this information is not available, financial statements with a different reporting date have been used, where this reporting date is within three months of that of the Agency and where this does not produce significantly different results. Adjustments have been made on consolidation for significant transactions following the reporting date of the information used.

English Cities Fund Limited Partnership prepares its annual financial statements up to 31 December, the same reporting date as its investee partner.

Countryside Maritime Limited prepares its annual financial statements up to 30 September, which is the reporting date of the joint venture partner.

Kier Community Living LLP prepares its annual financial statements up to 30 June, which is the reporting date of the joint venture partner.

## d) Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures, as recorded in the Agency's own Statement of Financial Position, are accounted for at cost (subject to annual assessment for impairment).

## e) Funding

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

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

From 1 October 2018, rights under the below paragraphs were transferred to the Regulator of Social Housing. Until that point, they were applicable to Homes England.

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

## f) Critical accounting judgements and key sources of estimation uncertainty

### COVID-19

There is a consensus that, as at 31 March 2020, economic conditions had shifted markedly as a result of the COVID-19 pandemic, and the impact of this change must be reflected appropriately in financial reporting. The Agency's consideration of the effects of changes to market conditions on critical accounting judgements and key sources of estimation uncertainty as a result of the pandemic is set out in detail in Note 2, including consideration of areas where valuation uncertainty is increased by the unavailability of data.

### Financial assets measured at fair value

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

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

The valuation of investments in homes (through equity-loan programmes such as Help to Buy) is highly sensitive to changes in assumptions about market prices. Investments in homes are also the Agency's most significant asset category so the judgement exercised by management, both in the application of indexation to the home equity portfolio and in the experience adjustments applied to this indexation, is a source of material estimation uncertainty in the Agency's financial statements.

Analysis showing the sensitivity of the valuation of these assets to changes in market prices, and therefore to management's judgement in estimating this valuation, is shown in Note 17. In addition, Note 18a outlines the Agency's analysis of the sensitivity of the valuation of the Help to Buy portfolio to key modelling assumptions and Note 2 sets out valuation judgements made by the Agency in response to the COVID-19 pandemic.

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

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

### Expected Credit Losses

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

The Expected Credit Loss Allowance at 31 March 2020 is analysed in Note 15h. There are various key assumptions applied to the Expected Credit Loss model to which the calculation is highly sensitive, therefore the assumptions applied are a key judgement of management.

The key assumptions applied are as follows:

- → Probability of Default: Probability of Default values are determined with reference to current economic conditions. The Probability of Default values are applied to each Investment in relation to their Credit Risk Rating.
- → Economic Scenarios and relative Weightings: The Standard requires the Agency to consider alternative economic scenarios in the calculation of the Expected Credit Loss Allowance. For each identified scenario (please see Note 2), 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 Agency's view of the probability of each scenario occurring, with reference to current market and credit risk expectations.

- Loss Given Default (LGD) Floor: The Agency has determined that available historic default data is insufficient to provide an evidence base for anticipated losses on default. As a result, a minimum percentage value has been applied to the LGD calculation with reference to individual investments. This floor has been derived on the basis of management judgement and interpretation of Prudential Regulation Authority guidance. At 1 April 2019 and 31 March 2020, 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, Moderated Security Value (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.

  In addition, from 2019/20, adjustments have been applied to vary gross security values according to the scenario modelled, before applying the MSV percentage. If applied in 2018/19, this change in methodology would have had an immaterial impact on the values disclosed.

Changes to the above assumptions can have a significant impact on the Expected Credit Loss Allowance calculation. A sensitivity analysis has been performed in relation to the above assumptions in Note 18b. Accounting judgements made by the Agency in response to the COVID-19 pandemic are set out in Note 2.

Note 15h provides an analysis of the movements in the Expected Credit Loss allowance between 1 April 2019 and 31 March 2020, including the impact of changes in Credit Risk assumptions over the period.

### Valuation of land and property assets

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

Firms supporting the year end valuation exercise have been directed by the Royal Institute of Chartered Surveyors (RICS) to attach a 'material valuation uncertainty' comment to valuations in light of the COVID-19 pandemic and the difficulties they have encountered in forming a judgement about valuations. Consequently, firms have advised that less certainty and a higher degree of caution should be attached to valuations at the year end, than would normally be the case. A summary of the accounting judgements made by the Agency in response to the COVID-19 pandemic is set out in Note 2.

### Defined benefit pensions

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

Because assets managed under the Agency's pension schemes are mainly in quoted investments, the pension assets stated at year-end are less susceptible to valuation uncertainty due to COVID-19 than other balances disclosed in the Agency's Financial Statements. Of the £812.8m employer assets at 31 March 2020 disclosed in Note 23, only £42.5m (5%) was investment in property and is subject to the uncertainty outlined above in relation to the Agency's land and property assets.

Similarly, the discount rates used for scheme liabilities are derived from bond markets and so are determined with reference to published figures. This means that COVID-19 did not create significant additional uncertainty for the calculation of the scheme liabilities as at 31 March 2020.

### g) Grants

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

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

- 40% on acquisition (where eligible), 35% on start on site (where eligible; this tranche may increase to 75% if the scheme is not eligible for an acquisition payment), 25% on completion.
- Additionally, for those RPs who have been selected for continuous market engagement, payment flexibility of up to 95% against eligible expenditure can be claimed at acquisition and/or start on site.
- Affordable Housing grant under Strategic Housing Partnerships are paid quarterly in arrears, in line with total eligible development expenditure.

### h) Grant recoveries

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

### i) Revenue recognition

Homes England recognises revenue from its contracts with customers in line with IFRS 15.

Income from the disposal of land and property assets is recognised when there is a legally binding sale agreement, which has become unconditional and irrevocable by the end of the reporting period.

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

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

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

Income from projects where the Agency acts as master developer, where external contractors manage build and sales on behalf of the Agency, is recognised when a performance obligation in the contract is met. This is normally at legal completion and measured at the fair value of the consideration received or receivable for the property. Where income is based on a contract and recognised over time, it is recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by compliance inspector reports of work performed to date. A contract asset is recognised when the Agency has completed a proportion of the contract activity prior to payment being received. A contract liability is recognised where cash has been received in advance of the contract activity being completed.

## j) Income tax

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

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

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

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

## k) Intangible assets

Intangible assets comprise:

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

Assets are capitalised where the cost of a single asset, or group of assets, exceeds £5,000. Intangible assets are stated at historical cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised evenly over the expected useful life, including in the year of initial recognition, as follows:

Software

- Over the licence period, typically between three and five years.

Information technology

→ Four years, including the year of initial recognition.

### l) Property, plant and equipment

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

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

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

Freehold and long leasehold property

→ 50 years, or the remaining lease term if shorter

Information technology

→ Three years

Furniture, fixtures and fittings

→ Five years

Office equipment

→ Five years

### m) Land and property assets

#### Valuation

Land and property assets are shown in the Statement of Financial Position at the lower of cost and net realisable value. Cost comprises direct costs that have been incurred in bringing the land and property to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale including marketing, legal and panel solicitor fees. Net realisable value is an entity specific valuation methodology which takes into account Homes England's particular circumstances, the purpose for which the asset is held and the future disposal strategy for the asset. This is different from fair value methodology which is a market-based measurement technique and which establishes a value based on a price that would be received to sell an asset in an orderly transaction between market participants.

A net realisable value at each reporting period will be obtained for land and property assets if there is evidence of a change in net realisable value, brought about by certain trigger events and in all cases, where the net realisable value of the asset was more than or equal to £5m in the preceding year. Such trigger events include the receipt of planning permission, significant capital expenditure or a change in expected disposal strategy. If no trigger event occurs and the net realisable value of the asset was less than £5m in the preceding year, the asset will retain the net realisable value from the preceding year, or the net realisable value derived in year from a purchase or in year appraisal.

Where a trigger event occurs, an estimate of the net realisable value at the reporting period is obtained in accordance with the current edition of RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors. In establishing a net realisable for each asset, the following will be taken into account: there is a willing buyer and seller; the transaction is at arm's length; each party has acted knowledgeably, prudently and without compulsion; the reasons for Homes England holding the asset and future disposal plans for the asset.

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

Firms supporting the year end valuation exercise have been directed by the Royal Institute of Chartered Surveyors (RICS) to attach a 'material valuation uncertainty' comment to valuations in light of the COVID-19 pandemic and the difficulties they have encountered in forming a judgement about valuations. Consequently, firms have advised that less certainty and a higher degree of caution should be attached to valuations at the year end, than would normally be the case.

Options purchased in respect of land are capitalised initially at cost. Options are reviewed annually for impairment as part of the valuation of the whole portfolio.
The valuation of land on which the Agency acts as master developer, where external contractors manage build and sales on behalf of the Agency is based on the value of the contract and progress to date. The contract value is adjusted to reflect any costs expended and any sales achieved in year.

### Disposal of land and property assets

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

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

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

## n) Provisions in respect of environmental liabilities

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

## o) Financial assets

### Recognition and derecognition

Financial assets are recognised in the Statement of Financial Position when the Agency becomes a party to the contractual provisions of the instrument (this is usually when cash is initially advanced to the counterparty, but for home equity assets this is at the point of legal completion of the underlying property purchase) and measured at fair value on recognition.

Where differences between the fair value at initial recognition, as calculated using the methods described in Note 15c and Note 16, and the price paid by the Agency to acquire the instrument are significant, they are either:

- recognised as grant expenditure where fair value is estimated to be below cost, in accordance with IAS 20 Government Grants; or
- deferred and released over the expected life of the instrument, in accordance with IFRS 9 Financial Instruments.

The Agency fully derecognises a financial asset only when the contractual rights to the cash flows for the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership to another entity. Partial derecognition occurs where part of the contractual cash flows is received – for example where a homeowner chooses to partially redeem their equity loan. Here, the element of the asset which relates to the repayment is derecognised.

### Cash and cash equivalents

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

### Trade and other receivables

Trade and other receivables may be measured at fair value or amortised cost depending on the nature of the individual balance. Where the balance is measured at amortised cost, the carrying value is subject to an expected credit loss calculation. Land sale agreements that contain clauses for the recovery of overage, are measured at FVTPL.

### Financial asset investments

The Agency follows International Financial Reporting Standard 9: Financial Instruments for all investments, subject to interpretations and adaptations for the public sector context as defined in the Financial Reporting Manual (FReM).

### Classification and measurement of financial assets

Two criteria are used to determine how financial assets should be classified and measured under IFRS 9:

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

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

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

The contractual cash flow characteristics are either:

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

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

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

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

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

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

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

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

- contingent and leverage features;
- non-recourse arrangements; and
- features that could modify the time value of money.

### Assets measured at fair value

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

When determining the fair value hierarchy level under which a financial asset should be disclosed under the requirements of IFRS 13, the Agency considers the observable inputs used within the valuation of the asset.

The Agency considers the following factors in determining whether there have been any transfers between levels of the fair value hierarchy:

- For financial assets previously valued using unobservable inputs and therefore disclosed under Level 3 of the fair value hierarchy, if it has been determined that observable inputs are now available to measure the fair value of the asset, the Agency would consider whether the asset should be disclosed within Level 1 or Level 2 of the fair value hierarchy; and

- For financial assets previously valued using observable inputs and therefore disclosed within Level 1 or Level 2 of the fair value hierarchy, if it has been determined only unobservable inputs are now available or observable inputs must be adjusted using unobservable inputs, the Agency would consider whether the asset should be disclosed within a lower level of the fair value hierarchy.

The above factors are considered at least annually for individual assets or particular asset classes.

### Assets measured at amortised cost

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

### Impairment

IFRS 9 requires the Agency to recognise expected credit losses based on unbiased forward-looking information.

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

### Key concepts and management judgements

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

### Determining a significant increase in credit risk since initial recognition

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

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

### Default

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

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

- Whether a significant breach of lending terms and obligations has occurred i.e. a breach in financial covenants, legalisation or litigation has occurred.

- The availability of "Cure", "Remedy" or "Standstill" periods and whether these have lapsed. These provisions, where agreed with the borrower at the outset, provide an opportunity (during a restricted time period) for the Borrower to rectify a default before enforcement action is taken. These provisions are commonly used by lending institutions.
- Whether there is a realistic prospect for any distress to be remedied by the Counterparty or Beneficial Owners without significant lender intervention and contract modification.
- Where relevant, if another lender to the counterparty has recognised a default resulting in a SICR regardless of whether this triggers cross default provisions.

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

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

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

### Forward-looking information

Credit losses are cash shortfalls from what is contractually due over the life of the financial instrument,. Expected credit losses are a measure of unbiased probability-weighted credit losses which might reasonably be expected, determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, a range of forward-looking economic scenarios, currently expected to be a minimum of three, will be considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss.

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

The probability of default values associated with each CRR under the most likely central scenario (the COVID-19 central scenario) have been determined by adjusting the average probability of default values cascaded by MHCLG, to allow for current economic projections by considering historical movements in the various economic indexes. This methodology is then combined with an overall expert subjective opinion to produce estimates of the final adjusted probability of default rates.

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

The alternative economic scenarios adopted during 2019/20 are in reference to the COVID-19 central scenario. The alternative scenarios consider a COVID-19 slow recovery scenario and a COVID-19 rapid recovery scenario. Under the COVID-19 slow recovery scenario, GDP is not expected to recover to pre-COVID-19 levels quickly and the economy would be in a sustained period of low growth. The COVID-19 rapid recovery scenario considers the scenario that GDP returns to pre-COVID-19 levels within the next 12-months, with some of the other key economic indicators taking slightly longer to recover. A sensitivity analysis with regard to this judgement is provided in Note 18b.

The decision on how to weight these scenarios against the central scenario is primarily derived from expert judgement within Homes England. Alternative scenarios and weightings are reviewed on a minimum of a six-monthly basis and scrutinised through the Agency's forums and committees.

### Expected life

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

### Discounting

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

### Modelling techniques

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

### Write-offs

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

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

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

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

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

### p) Financial liabilities

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

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

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

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

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

### q) Pension costs

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

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

Because assets managed under the Agency's pension schemes are mainly in quoted investments, the pension assets stated at year-end are less susceptible to valuation uncertainty due to COVID-19 than other balances disclosed in the Agency's Financial Statements. Of the £812.8m employer assets at 31 March 2020 disclosed in Note 23, only £42.5m (5%) was investment in property and is subject to the uncertainty outlined above in relation to the Agency's land and property assets.

Similarly, the discount rates used for scheme liabilities are derived from bond markets and so are determined with reference to published figures. This means that COVID-19 did not create significant additional uncertainty for the calculation of the scheme liabilities as at 31 March 2020.

### r) Leases

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

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

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

#### International Financial Reporting Standard 16: Leases (IFRS 16)

In 2018/19 the Agency reported that IFRS 16 would be effective from 2020/21. Following the COVID-19 pandemic, which has put additional pressure on some public bodies which have significant lease arrangements, HM Treasury has decided that the implementation of IFRS 16 will be delayed and the standard will now be effective for the Agency's 2021/22 reporting period.

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

The Agency has a low accommodation requirement in relation to its financial size and, as a result, we anticipate that the value of operating or finance leases which will be impacted by the new standard will not be significant to the Agency's financial statements.

#### International Financial Reporting Standard 17: Insurance Contracts (IFRS 17)

IFRS 17: Insurance Contracts replaces IFRS 4 Insurance Contracts. The new standard will apply more standardised and rigorous requirements on accounting for insurance contracts, setting out clearer expectations on the recognition, classification and measurement of assets and liabilities in relation to insurance contracts. The implementation is not planned until 2022 and it may require further adaptation for the Public Sector. We anticipate that the standard will not be significant to the Agency's financial statements.

## 2. Impact of COVID-19

This note sets out:

a) A summary of the potential financial impact of alternative post-COVID scenarios on asset values;

b) The background to COVID-19 including high-level accounting considerations;

c) Critical accounting judgements which have been applied in producing the 2019/20 financial statements and key sources of estimation uncertainty; and

d) The potential impact on asset valuations for individual groups of assets from alternative post-COVID economic scenarios.

## a) Potential financial impact of alternative post-COVID scenarios on asset values

Applying metrics from possible alternative post-COVID scenarios to model changes to asset values allows us to estimate the potential future effect of COVID-19 for 96% of the Agency's assets as at 31 March 2020, giving a good indication of the potential overall effect of the pandemic on asset valuations.

This analysis takes no account of additions or disposals in the next 12-month period and does not seek to forecast the Statement of Financial Position for 2020/21. However, it is a good indication of the risks faced by the Agency and the quantum of movements in asset values which might reasonably be expected as a result of COVID-19.

Details of how this analysis has been performed for each group of assets in the table below are included in section d of this note. For Expected Credit Losses (ECL) on loans at amortised cost, the accounting estimate is produced annually and so a single measure has been estimated under each economic scenario.

| £m | 2019/20 | COVID-19 rapid recovery scenario | | COVID-19 central scenario | COVID-19 slow recovery scenario | |
|---|---|---|---|---|---|---|
| | March 2020 | March 2021 | Low | March 2021 = Low point | March 2021 | Low |
| Home equity loans | 14,270 | 14,184 | 13,731 | 12,854 | 10,220 | 10,071 |
| Loans at amortised cost | 1,376 | 1,424 | | 1,385 | 1,297 | |
| Loans at FVTPL | 326 | 323 | | 314 | 294 | |
| Land | 998 | 1,016 | 998 | 939 | 906 | 795 |
| Other financial assets at fair value | 229 | 234 | 229 | 204 | 187 | 167 |
| **Total value of assets analysed** | **17,199** | **17,181** | **16,705** | **15,696** | **12,904** | **12,624** |
| **Change in asset values** | **-** | **(18)** | **(494)** | (1,503) | (4,295) | (4,575) |

As indicated in the table above, the Agency's COVID-19 central scenario sees the aggregate value of the portfolio of assets fall by £1.5bn (9%) during 2020/21, with March 2021 being the point when asset values are lowest. This contrasts with the COVID-19 slow recovery scenario, where asset values reduce through the year and are estimated to be £4.3bn lower at March 2021 (25% down), with further falls of around £0.3bn expected under this scenario during 2021/22. Finally, under the Agency's COVID-19 rapid recovery scenario, only home equity assets are expected to fall initially in 2020/21 (£0.5bn down at their low-point) and the economy recovers in the second half of the year, with overall asset values expected to be £0.02bn (0.1%) down at 31 March 2021 compared to March 2020. This reflects a position where the market has substantially recovered, but where potential levels of mortgage arrears reduce the returns estimated from home equity assets.

The most significant thing to note from this analysis is the overall uncertainty surrounding the potential future impact of COVID-19 on asset values, with a £4.3bn range in anticipated values across the three scenarios, modelled based on the market conditions associated with each scenario at March 2021.

Within this £4.3bn range, it should be noted that the greatest contributor is the Help to Buy programme, where potential changes in house prices under the COVID-19 slow recovery scenario are estimated to have an impact of over £4bn on portfolio asset values.

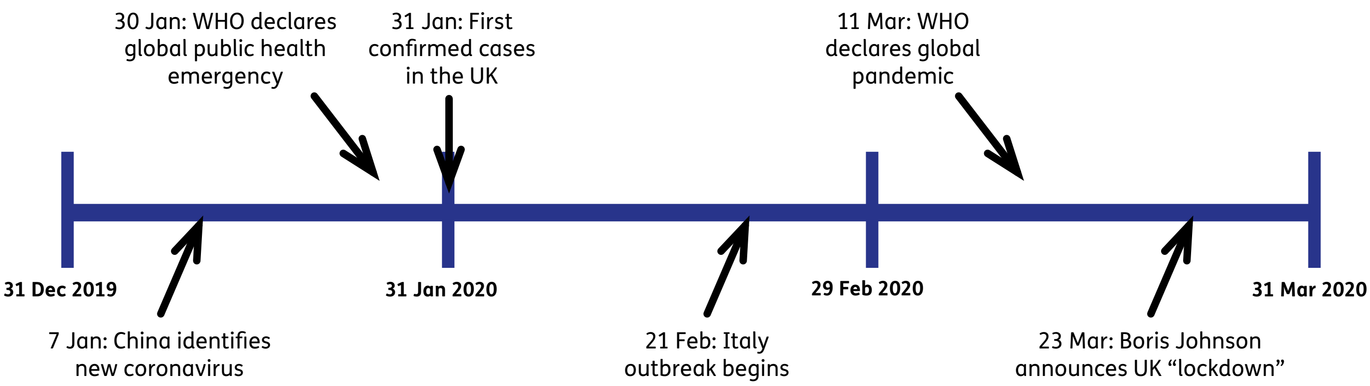
### b) Background to COVID-19

Following confirmation of the first cases in England of Coronavirus (COVID-19) by the Chief Medical Officer for England on 31 January 2020, the virus initially appeared to spread quite slowly, with low numbers of daily new cases reported until 04 March, after which the number of new daily cases increased quickly and a strict lockdown was announced on 23 March by the Prime Minister to bring the spread of the virus under control.

In considering whether the effects of COVID-19 should be reflected in the Agency's Financial Statements, it is important to consider whether events associated with COVID-19 are adjusting or non-adjusting (in accordance with International Accounting Standard 10: Events After the Reporting Period).

- An adjusting event provides evidence of conditions that existed at the end of the reporting period and may require adjustments in the financial statements.
- A non-adjusting event is indicative of conditions that arose after the reporting period. If the effect of these conditions is material, they should be disclosed, but wouldn't require any adjustment of the figures disclosed for 2019/20.

The following timeline details key dates in relation to COVID-19 which are helpful in making this judgement in relation to the Agency's financial year-end of 31 March 2020:




There is a consensus that, as at 31 March 2020, economic conditions had shifted markedly as a result of the COVID-19 pandemic and the interruption to normal business activity due to the lockdown. As a consequence, we consider the COVID-19 pandemic to be an adjusting event and its impact must be reflected appropriately in financial reporting.

Since the start of the pandemic, significant work has been taking place in the Agency to monitor market conditions and to develop scenarios for the future. This has informed our forward assumptions and modelling.

#### Central guidance

When judging how to estimate the impact of COVID-19 on the Agency's Financial Statements, the Agency has considered guidance issued by national and international authorities and professional bodies.

The Financial Reporting Council has issued guidance noting that making forward-looking assessments and estimates when preparing financial statements and providing other corporate reports is particularly difficult at this time. The Council highlights the need for entities to adequately consider the basis of any significant judgements when confirming the preparation of the financial statements on a going concern basis and the increased importance of providing information on significant judgements applied in the preparation of the financial statements, sources of estimation uncertainty and other assumptions made.

Banking regulatory bodies, such as the European Banking Authority, the European Securities and Markets Authority and the Bank of England (in a joint statement with the Prudential Regulatory Authority) have highlighted the need for entities not to make blanket assumptions concerning significant increases in credit risk, with the Prudential Regulatory Authority stating:

The PRA reminds firms that forward-looking information used to incorporate the impact of COVID-19 on borrowers into the expected credit loss (ECL) estimate needs to be both reasonable and supportable for the purposes of IFRS9. Given the sudden onset of the virus, the PRA believes that there is very little such information available as yet, and regards the preparation of reliable and detailed forecasts as very challenging currently. In the event firms believe such forecasts can be made, the PRA expects firms to reflect the temporary nature of the shock, and fully take into account the significant economic support measures already announced by global fiscal and monetary authorities.

In particular, any such forecasts should take into account the relief measures – such as repayment holidays – that will be made available to enable borrowers who are affected by the COVID-19 outbreak to resume regular payments.

The Agency has taken this guidance into account in preparing the 2019/20 Financial Statements, with particular emphasis on the assumptions for expected credit losses, where the estimate is particularly reliant on forward-looking information.

## Going concern

For any entity impacted by COVID-19, it is important to consider whether the economic conditions which have arisen as a result of the pandemic cast significant doubt over its ability to continue as a going concern. This must be considered in both the immediate term, as significantly reduced activity during the lockdown puts pressure on an entity's ability to generate cashflows sufficient to meet liabilities as they become due, and for the longer term, as long-term arrangements to prevent significant levels of infection rates returning may place restrictions on the business which make it unsustainable.

The Agency is funded with Grant-in-Aid by the Ministry of Housing Communities and Local Government (MHCLG) to achieve policy objectives rather than as a commercial entity. Homes England and MHCLG have recently agreed a rolling five-year business plan and Grant-in-Aid for the year ending 31 March 2021, taking into account the amounts required by our liabilities falling due in that year, has already been approved by Parliament. Therefore, the Agency's Board considers that the COVID-19 pandemic has not changed its view that it is appropriate to adopt a going concern basis for the preparation of the Agency's financial statements in 2019/20.

### c) Critical accounting judgements and key sources of estimation uncertainty

The following disclosures provide information which allows users of the Agency's 2019/20 financial statements to understand the key judgements made in preparing the financial statements and sources of uncertainty as a result of COVID-19 19.

It is important to note that some estimates are based on market information as at 31 March 2020 and others are based on expectations of future performance.

Broadly, our valuations fall into these categories as per the table below:

| Asset type | Valued with reference to observed evidence of conditions & prices which existed at 31 March 2020 | Valued with reference to expectations of future performance |
|---|---|---|
| Home equity loans, including Help to Buy | ✓ | |
| Loans measured at amortised cost: **Write-offs** | ✓ | |
| Loans measured at amortised cost: **Expected Credit Losses** | | ✓ |
| Value of land and property assets | | ✓ |
| Other Financial assets measured at fair value | | ✓ |

This means that potential future effects of COVID-19 on the housing market are not reflected in the value of the Help to Buy portfolio reported at 31 March 2020 and users of the accounts may wish to consider the future risks to the portfolio from changes in the economic environment as a result of COVID-19 which may have a significant impact on portfolio values. The sensitivity analysis in section c of this note considers this risk and quantifies the potential impact of alternative scenarios.

#### Home equity loans, including Help to Buy

With the Agency's portfolio of Help to Buy assets valued at c. £14bn and the residual portfolio of legacy equity loan assets valued at just over £250m, this is the most significant area of the Agency's Statement of Financial Position.

As outlined in note 1 f) these assets are valued with reference to regional house price indices (HPI), supplemented by adjustments for the Agency's experience of actual disposals since the inception of the schemes. The effect of the lockdown was that market activity reduced significantly and there were clear concerns that house prices might suffer a reduction in values. The Office for National Statistics (ONS) published HPI data for March in May 2020, which did not show a fall in house prices and which we have used as the basis of our asset valuations at year-end. ONS then temporarily suspended the publication of HPI in anticipation that transaction volumes would be reduced significantly by the market shutdown, making the level of transactions too low to reliably measure changes in prices.

Following the subsequent reopening of the market, ONS recommenced publication of HPI in August, including revisions to indices for previous months. Revisions to the index at March 2020 do not significantly change the index previously published and data for later months shows prices generally increasing. We are therefore content that no additional adjustments are needed to reflect the effect of COVID-19 on home equity asset values as at 31 March 2020.

The Agency performs a market risk analysis (Note 17) which considers how the valuation of this portfolio would change with movements in house prices and a further sensitivity analysis (Note 18a) which looks at the key modelling assumptions and illustrates the effect of varying them.

NOTE: The potential impact of payment holidays on first charge balances has not been factored into valuations as this was initiated late in March 2020 and is unlikely to have had an impact until April 2020.

### Loans measured at amortised cost: Write-offs and Expected Credit Losses

The two components of loans measured at amortised cost which are impacted by COVID-19 are asset-level write-offs, where specific evidence of impairment has been identified, and the Expected Credit Loss allowance, where a portfolio-level estimate of future losses is made in accordance with International Financial Reporting Standard 9: Financial Instruments (IFRS 9).

The Agency's watchlist process continually assesses individual investments for evidence of impairment and, whilst little evidence emerged during the strict lockdown period to support such judgements, the Agency has had significant contact with borrowers since some lockdown restrictions were lifted. The Agency's discussions with developers have mainly centred on short-term liquidity issues. No significant evidence of impairment as a result of COVID-19 requiring the recognition of an accounting write-off has been identified in the period after 31 March 2020 until these Financial statements were produced. In accordance with IAS 10, we have continued to assess new information up until the time at which the financial statements were published and have identified no further instances of distress which would require adjustments to be made prior to publication.

IFRS 9 requires an Expected Credit Loss allowance calculation to be performed with reference to the level of credit risk and performance of each investment. The determination of the risk associated with each asset is a key judgement by management as the result determines whether a 12-month loss allowance or a lifetime loss allowance is calculated for that asset. The Expected Credit Losses are calculated by comparing the estimated balance at the time of default against moderated security values (calculated by applying Modified Security Value percentages (MSVs) to gross security values to estimate the likely value which might be realised from a sale of security in distressed circumstances). In accordance with the requirements of IFRS 9, a minimum loss on default value of 35% is applied (see accounting policies - Loss Given Default (LGD) Floor). The calculated loss on default is then multiplied against an associated Probability of Default percentage value (PD) for the relevant loss calculation period. The PD value applied is determined based on the Credit Risk Rating of the associated asset using industry metrics for default.

Whether a 12-month loss allowance or a lifetime loss allowance is calculated for each asset is determined in accordance with IFRS 9, based on whether there has been a Significant Increase in Credit Risk (SICR) after the investment was first made. In line with the work done to consider whether any specific write-off adjustments are required, the Agency's Watchlist process has also considered whether there is evidence of a Significant Increase in Credit Risk (SICR), taking the guidance issued by the PRA into account. This was only identified in a handful of cases in the period after 31 March 2020 until these Financial statements were produced and was considered in producing the Agency's estimate of Expected Credit Losses. In accordance with IAS 10, we have continued to assess new information up until the time at which the financial statements were published and have identified no further instances of SICR which would require adjustments to be made prior to publication.

In addition to calculating either 12-month or lifetime loss allowances, IFRS 9 also requires consideration of how the calculation would vary under alternative economic scenarios. The Agency achieves this by varying the application of PD assumptions to the same base loan data for each scenario modelled. In addition, during 2019/20 the Agency has varied the MSVs applied to the ECL allowance calculation performed under each economic scenario, to reflect the relative expected discount on gross security values in a distressed situation for each economic scenario. The results calculated for each scenario are then used to calculate an unbiased, weighted-average loss allowance. This is done by using the relative likelihood of each scenario, based on the Agency's view of their relative probability.

Details of key modelling assumptions which have been varied in response to the COVID-19 pandemic are as follows:

- Economic scenarios and relative weightings: The economic scenarios applied to inform the ECL allowance calculation were specifically developed by the Agency's Economics Team in response to the COVID-19 pandemic. They were produced for stress testing and sensitivity testing and reflect a wide range of scenarios produced by expert forecasters, with the resultant COVID-19 central scenario being broadly consistent with scenarios produced by the Bank of England and others. Together, they provide an unbiased range of possible outcomes, as required by IFRS 9.

  The decision on how to weight these scenarios against the central scenario was discussed with colleagues in the MHCLG Finance and Risk teams but is primarily derived from expert judgement within Homes England. The weightings applied for the Financial Statements are as follows:

| COVID-19 central scenario | COVID-19 slow recovery scenario | COVID-19 rapid recovery scenario |
|---|---|---|
| 60% | 30% | 10% |

- Probability of default: Basic values for the probability of default (PD) associated with each credit risk rating score to be applied to investments is provided to the Agency by MHCLG, which obtains this data from Moody's Analytics. This data reflects conditions pre-covid and requires adjustment to be appropriate for the revised economic scenarios determined by the Agency's Economics Team in response to COVID-19. The Agency's Risk Team performed this work, employing the same methodology to determine the PDs that is used for the Agency's annual stress-testing exercise, which is subject to an appropriate level of internal governance and challenge.

→ Moderated security values (MSVs): The economic metrics determined by the Agency's Economics Team for each of the three scenarios include measures which estimate how development land values may change over time in response to each scenario. Because security held against the Agency's investments are mainly land, this enables the Agency to moderate the security values applied to limit losses on default under each scenario, resulting in a more appropriate expectation of likely losses.

The Agency performs a sensitivity analysis (Note 18b) which illustrates the effect of varying these assumptions.

### Valuation of land and property assets

Valuations for land and property assets are performed by internal and external valuers when there is evidence of a change in value but in all cases where the net realisable value of the asset was more than or equal to £5m in the preceding year (see accounting policies). Valuations are required to adhere to the current edition of RICS Valuation – Professional Standards, i.e. Red Book valuations. The valuation methodology reflects the Agency's objectives and conditions for each asset.

The annual valuation exercise has been carried out against the backdrop of the COVID-19 pandemic. To ensure that the Agency has a portfolio valuation as at 31 March 2020, valuation assessments have been made on the evidence available to valuers at the time. It is acknowledged therefore that there is uncertainty attached to the valuations. Reflecting this, firms supporting the Agency's year-end valuation exercise have been directed by the Royal Institute of Chartered Surveyors (RICS) to include the following statement in their valuation report and valuers have issued a material valuation uncertainty disclaimer:

As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is / are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of this property under frequent review.

The inclusion of the 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon. Rather, it highlights that due to the current extraordinary circumstances linked to the COVID-19 pandemic, less certainty can be attached to the valuations then would otherwise be the case.

The valuers have confirmed there was still enough market evidence to value the asset professionally and the valuer stands behind their opinion of value. From June 2020, we have contacted valuers to enquire whether their opinion has changed. The general consensus at the time that these Financial statements were produced was that there was insufficient evidence to determine whether there has been a material change in asset values. We are comfortable that this does not present a material issue in the valuation. In accordance with IAS 10, we have continued to assess new information up until the time at which the financial statements were published and have identified nothing which would require adjustments to land valuations reported at 31 March 2020 to be made prior to publication. Valuers also note that there is significant scope for asset values to be impacted negatively by the effects of COVID-19 in the short-term. To provide an indication of the level of change needed to estimated property values to have a significant impact, our calculations indicate that if average values fell by 10%, a £70m reduction in portfolio values would arise. We are continuing to monitor and stress test both our portfolio and individual projects to understand potential impacts of falls in values.

### Other Financial assets measured at fair value

Other than the PRS Real Estate Investment Trust (PRS REIT), which is measured with reference to published unit prices, all other financial assets measured at fair value are held in the level 3 hierarchy under International Financial Reporting Standard 13: Fair Value Measurement (IFRS 13) and are valued with reference to discounted cashflows.

#### → Loans measured at Fair Value Through Profit or Loss (FVTPL)

Where loans do not meet the requirements under IFRS 9 to be accounted for at amortised cost, they are held at fair value through profit or loss (FVTPL). Despite this, they continue to be managed under the same operational controls as other loans and are subject to the same Watchlist processes, ensuring that any risks to recovery are identified, considered and reflected in forecast cashflows which are then used to inform the valuation of assets at year-end.

As with loans measured at amortised cost, no significant evidence of impairment as a result of COVID-19 has surfaced in the period after 31 March 2020 until these Financial statements were produced. In accordance with IAS 10, we have continued to assess new information up until the time at which the financial statements were published and have identified no further instances of distress which would require adjustments to be made prior to publication.

#### → Other level 3 financial assets measured at fair value

Other level 3 financial assets measured at fair value of c. £230m (1.4% of all financial asset investments) have been recognised on the Statement of Financial Position as at 31 March 2020. These assets are valued with reference to cashflow data maintained for individual assets by project managers and, whilst subject to individual scrutiny, are not subject to the same oversight as loans which are subject to the Agency's regular Watchlist process. This is because the investments are not primarily subject to credit risk but were made on the basis of sharing the risk in an underlying development. The Agency's oversight of these investments requires regular updates to the forecast performance of the underlying development which may not have been refreshed by project managers following the COVID-19 lockdown in time to be used for the accounts. This is because information from the underlying investment may not have been available in the time before these Financial statements were produced. In accordance with IAS

10, we have continued to assess new information up until the time at which the financial statements were published and have identified no changes to forecasts which would require adjustments to be made prior to publication.

To help illustrate the sensitivity of these assets to variation in forecast returns, our calculations indicate that if average values fell by around 10%, this would have an impact of c. £23m on the portfolio.

### Defined benefit pensions

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

Because assets managed under the Agency's pension schemes are mainly in quoted investments, the pension assets stated at year-end are less susceptible to valuation uncertainty due to COVID-19 than other balances disclosed in the Agency's Financial Statements. Of the £812.8m employer assets at 31 March 2020 disclosed in Note 23, only £42.5m (5%) was investment in property and is subject to the uncertainty outlined above in relation to the Agency's land and property assets.

Similarly, the discount rates used for scheme liabilities are derived from bond markets and so are determined with reference to published figures. This means that COVID-19 did not create significant additional uncertainty for the calculation of the scheme liabilities as at 31 March 2020.

## d) Potential impact on asset valuations from alternative economic scenarios during 2020/21

To aid users of the accounts in understanding the potential risks posed by COVID-19 to the assets managed by the Agency, we have used the scenarios developed by the Agency's Economics Team to inform the 2019/20 Expected Credit Loss allowance to estimate what the effect of each scenario might be on the Agency's key asset classes.

By applying relevant metrics from these scenarios to the Agency's key asset categories we can model the potential impact of COVID-19 on assets disclosed in the 2019/20 Financial Statements.

### Home Equity Loans (including Help to Buy)

For home equity loans the principal drivers influencing changes to the valuation of assets under COVID-19 are house prices, the proportion of homeowners who go into arrears with their mortgage (for example as a result of redundancy) and the proportion of homeowners who are potentially repossessed by their first charge lender.

## The impact of the three scenarios (relative to the position as at 31 March 2020) is:

| | Scenario changes to house prices (March 2021) | Scenario changes to house prices (low point modelled) | Adjustment to proportion of accounts in arrears | Adjustment to anticipated repossessions rate |
|---|---|---|---|---|
| COVID-19 rapid recovery scenario | +0.1% | -3% | +2.6% | +1.3% |
| COVID-19 central scenario | -8.6% | -8.6% | +2.8% | +1.4% |
| COVID-19 slow recovery scenario | -19.3% | -19.8% | +3.1% | +1.6% |

### Loans

For loans measured at amortised cost, the Expected Credit Loss allowance (ECL) reflects a weighted average of the outcomes which might be expected under each of the three scenarios. To model the effect of each scenario individually we have considered the outputs from each individual scenario ECL calculation. In addition, we have considered whether the credit-risk stages of assets (based on an assessment of SICR) might change under each scenario.

For each of the first two scenarios, we do not consider it necessary to model an increased proportion of assets in stage 2. However, for the COVID-19 slow recovery scenario it is appropriate to reflect a situation where developers face a more difficult economic outlook and so we have applied calculation outputs with 50% of the population assumed to have experienced a significant increase in credit-risk. (This does not mean that 50% of the portfolio will default.)

In addition, for users' reference we have modelled the impact under each scenario if all assets were moved to stage 2 (indicating a significant increase in credit risk for all assets), with the modelling for the COVID-19 slow recovery scenario producing an increased ECL of £187m under these assumptions.

| | ECL as applied in the financial statements (10:60:30 ratio) (£m) | ECL if SICR stages are adjusted to stage 2 for 50% of portfolio (£m) | ECL if SICR stages are adjusted to stage 2 for 100% of portfolio (£m) |
|---|---|---|---|
| COVID-19 rapid recovery scenario | 14 | 29 | 43 |
| COVID-19 central scenario | 53 | 79 | 105 |
| COVID-19 slow recovery scenario | 95 | 141 | 187 |

For loans measured at fair value through profit or loss (FVTPL), the fundamental contractual nature of these loans and primary exposure to variation in returns is comparable with loans measured at amortised cost and so the ECL percentages estimated for the loans measured at amortised cost are considered to be a suitable measure to estimate how asset values will vary under different economic scenarios.

| | Basic ECL calculated for the scenario (£m) | ECL as a % of gross loans at amortised cost (31 March 2020) |
|---|---|---|
| COVID-19 rapid recovery scenario | 14 | 1.0% |
| COVID-19 central scenario | 53 | 3.7% |
| COVID-19 slow recovery scenario | 141 | 9.8% |

## Land

The scenarios modelled by our Economics Team include specific metrics for changes in development land values.

| | Land valuation adjustment (March 2021) | Land valuation adjustment (low point modelled) |
|---|---|---|
| COVID-19 rapid recovery scenario | +3.2% | No fall predicted |
| COVID-19 central scenario | -8.5% | -8.5% |
| COVID-19 slow recovery scenario | -12.9% | -26.2% |

## Other level 3 financial assets measured at fair value

Because development returns are similar in nature to net development values, which are often used to determine development land values, we have applied the metrics used for development land values to provide indicative adjustments to gross development return expectations for other level 3 financial assets measured at fair value and then added additional adjustments to discount expected receipts by a further period of time, in line with the GDP performance recovery periods modelled by our Economics Team. As they are speculative and have an immaterial effect, these assumptions have not been applied to estimate asset valuations for the 2019/20 financial statements.

| | Valuation adjustment (March 2021) | Valuation adjustment (low point modelled) | Delay modelled to the timing of receipts |
|---|---|---|---|
| COVID-19 rapid recovery scenario | +3.2% | No fall predicted | 6 months |
| COVID-19 central scenario | -8.5% | -8.5% | 12 months |
| COVID-19 slow recovery scenario | -12.9% | -26.2% | 24 months |

# 3. Operating segments

## a) Operating segment analysis

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

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

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

| | 2019/20 | | | Represented 2018/19 | | |
|---|---|---|---|---|---|---|
| **Programme** | **Expenditure £m** | **Receipts £m** | **Total £m** | **Expenditure £m** | **Receipts £m** | **Total £m** |
| Help to Buy | **3,606.8** | **(12.5)** | **3,594.3** | 3,551.7 | (4.2) | 3,547.5 |
| **Investment:** | | | | | | |
| Long term fund | **279.6** | **(71.8)** | **207.8** | 282.4 | (54.9) | 227.5 |
| Short term fund | **333.5** | **(249.2)** | **84.3** | 361.2 | (251.1) | 110.1 |
| Build to Rent | **56.3** | **(137.1)** | **(80.8)** | 112.0 | (55.6) | 56.4 |
| Estate Regeneration | **13.5** | **(23.1)** | **(9.6)** | 14.4 | - | 14.4 |
| Legacy | **3.6** | **(57.4)** | **(53.8)** | 5.2 | (105.6) | (100.4) |
| PRS Guarantees | **0.2** | **-** | **0.2** | 0.1 | - | 0.1 |
| | **686.7** | **(538.6)** | **148.1** | 775.3 | (467.2) | 308.1 |
| Housing Infrastructure Fund | **82.6** | **-** | **82.6** | 15.9 | - | 15.9 |
| **Land:** | | | | | | |
| Public Sector Land | **172.9** | **(191.4)** | **(18.5)** | 136.4 | (176.0) | (39.6) |
| City Growth Deals | **5.6** | **(8.6)** | **(3.0)** | 13.3 | (7.5) | 5.8 |
| Land Assembly Fund/Starter Homes | **179.0** | **(48.2)** | **130.8** | 137.7 | (6.8) | 130.9 |
| Direct Commissioning and Accelerated Construction | **107.5** | **(57.2)** | **50.3** | 23.7 | (1.1) | 22.6 |
| Small Sites | **0.7** | **-** | **0.7** | - | - | - |
| | **465.7** | **(305.4)** | **160.3** | 311.1 | (191.4) | 119.7 |
| **Affordable Housing:** | | | | | | |
| Affordable Housing Programme | **1,367.5** | **(13.9)** | **1,353.6** | 817.5 | (21.7) | 795.8 |
| Community Housing Fund | **14.4** | **-** | **14.4** | 0.9 | - | 0.9 |
| Move on Fund | **13.9** | **-** | **13.9** | - | - | - |
| | **1,395.8** | **(13.9)** | **1,381.9** | 818.4 | (21.7) | 796.7 |
| Transformation | **3.7** | **-** | **3.7** | - | - | - |
| **Total programme expenditure and receipts** | **6,241.3** | **(870.4)** | **5,370.9** | 5,472.4 | (684.5) | 4,787.9 |
| Administration | **121.9** | **-** | **121.9** | 109.6 | (4.8) | 104.8 |
| **Total expenditure and receipts reported to board** | **6,363.2** | **(870.4)** | **5,492.8** | 5,582.0 | (689.3) | 4,892.7 |
| DEL not reported to the Board in respect of Expected Credit Loss charges, write off charges and DEL impairments | **67.5** | **-** | **67.5** | 1.8 | - | 1.8 |
| **Total Net DEL** | **6,430.7** | **(870.4)** | **5,560.3** | 5,583.8 | (689.3) | 4,894.5 |

Some of the figures in 2018/19 have been reanalysed to account for the fact that DEL incurred in respect of write offs was not reported to the Board. This has resulted in a reduction to Investment DEL of £1.8m.

## b) Reconciliations to net expenditure

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

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

| | Note | 2019/20 £m | 2018/19 £m |
|---|---|---|---|
| **Total net DEL expenditure above** | | **5,560.3** | 4,894.5 |
| **Reconciling items:** | | | |
| Increase in impairment of land assets | 19 | **42.6** | 104.0 |
| Decrease in impairment of PPE and intangible assets | | **(0.3)** | (0.3) |
| Increase in impairment allowances for assets measured at amortised cost | 15 | **-** | 19.5 |
| Increase/(decrease) in impairment of assets measured at fair value passing through the SoCNE | 15 | **(94.9)** | 72.6 |
| Valuation gains on financial assets held at FVTPL | 15 | **(191.3)** | (8.2) |
| Decrease in provisions | 21 | **-** | (3.9) |
| Utilisation of provisions | 21 | **(0.1)** | (9.9) |
| Share of profits of associates and joint ventures | 14 | **(4.7)** | (2.3) |
| Investment in joint venture | 14b | **(19.1)** | (16.2) |
| Statutory transfer to RSH | 4 | **-** | (0.8) |
| Pension movements | 23 | **3.1** | 5.1 |
| Book value of land and property assets disposed | 19 | **152.8** | 61.1 |
| Book value of assets measured at fair value disposed | 15 | **1,034.6** | 869.1 |
| Help to Buy and FirstBuy receipts not included within net DEL expenditure* | 15 | **(945.5)** | (729.3) |
| Loan repayments (for loans measured at amortised cost) | 15 | **413.6** | 345.4 |
| Capital items recorded as programme expenditure: | | | |
| Additions to assets measured at fair value | 15 | **(3,775.3)** | (3,661.5) |
| Additions to land and property assets | 19 | **(357.3)** | (227.9) |
| Loans advanced, including interest added to loans measured at amortised cost | 15 | **(469.3)** | (642.8) |
| Additions to PPE and Intangible assets | | **(6.6)** | (4.9) |
| Recovery of long term receivables recorded as programme income | | **11.1** | - |
| Recognition of long term receivables recorded as programme expenditure | | **(48.4)** | - |
| **Net expenditure before tax as stated in the Statement of Comprehensive Net Expenditure** | | **1,305.3** | 1,063.3 |

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

| | Note | 2019/20 £m | 2018/19 £m |
|---|---|---|---|
| **Total receipts reported to the Board** | | **870.4** | 689.3 |
| **Reconciling items:** | | | |
| Clawback of grants recorded as income but shown net within expenditure in Board reporting | | **17.9** | 4.6 |
| Other income shown net within expenditure in Board reporting | | **1.6** | 1.5 |
| Expenditure shown net within income in Board reporting | | **1.7** | 1.4 |
| Valuation gains on financial assets held at FVTPL not reported to Board | 15 | **191.3** | 8.2 |
| Timing differences | | **(11.0)** | - |
| Receipts from disposal of capital items recorded as programme income: | | | |
| Proceeds from the disposal of financial asset investments measured at Fair Value | 15 | **(1,034.6)** | (869.1) |
| Loan repayments (for loans measured at amortised cost) | 15 | **(413.6)** | (345.4) |
| Joint venture disposal proceeds | 14b | **(3.2)** | - |
| Help to Buy and FirstBuy receipts not included within DEL receipts* | | **945.5** | 729.3 |
| **Income as stated in the Statement of Comprehensive Net Expenditure** | | **566.0** | 219.8 |

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

## c) Major customers

During the year, income from individual customers did not exceed 10% of total income. In 2018/19 however, income included £29m from a single private sector developer customer that exceeded 10% of total income.

## 4. Transfer of net assets to the Regulator of Social Housing during 2018/19

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

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

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

| | £'000 |
|---|---|
| Cash | 10,043 |
| Trade and other payables | (8,124) |
| Pension liabilities | (2,951) |
| Other net assets | 265 |
| **Net liability transferred to RSH 2018/19** | **(767)** |

A total of 141 employees transferred to RSH. In addition to the net liability analysed above, the residual regulation reserve of £1.9m was released to the Income and Expenditure Reserve. There have been no similar transfers during 2019/20.

## 5. Principal/agent relationships

The Agency manages three science parks on behalf of the Department for Business, Energy and Industrial Strategy (BEIS). During the year the Agency incurred expenditure of £0.1m (2018/19: £1.3m) and collected income of £0.5m (2018/19: £20.9m) as a result of day to day management of the sites. The net income of £0.4m is payable to BEIS.

The Agency has an agreement with the Department of Health and Social Care (DHSC) in respect of the Care and Support Specialised Housing Fund. Under this programme, DHSC funds specialist housing for older people and adults with disabilities. The programme is delivered and managed by the Agency on behalf of DHSC. During the year grants totalling £22.3m (2018/19: £12.9m) were paid out by the Agency and reimbursed by DHSC.

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

Cladding Fund: the fund was set up to replace aluminium composite material (ACM) cladding panels on large-scale residential social housing and this has been extended to the private sector. During the year, grants totalling £9.8m (2018/19: £33.8m) were paid out by the Agency and reimbursed by MHCLG.

Voluntary Right to Buy: under this programme MHCLG compensate Registered Providers for loss of rent where tenants buy their own property. During the year, grants of £103.4m

(2018/19: £1.6m) were paid by the Agency and reimbursed by MHCLG.

Garden Towns and Villages: under this programme MHCLG aim to build more high quality homes and create more green spaces in locally led developments. During the year, grants of £nil (2018/19: £4.5m) were paid out by the Agency and reimbursed by MHCLG.

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

## 6. Grants

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Affordable Housing | **1,398,311** | 819,186 |
| Housing Infrastructure Fund | **71,238** | 9,051 |
| Local Authority Accelerated Construction | **22,596** | 5,747 |
| Community Housing Fund | **12,982** | 927 |
| City Deals | **2,639** | 7,201 |
| Garden Towns and Villages | **-** | 8,984 |
| Other | **18,423** | 6,063 |
| | **1,526,189** | 857,159 |

The Agency's largest grant programme is the Affordable Housing Grant programme. This aims to increase the supply of new affordable and shared ownership homes in England. The growth in the Affordable Housing Grant programme since last year is largely due to the increase in the strategic partnership element of the programme. These partnerships provide additional support to Registered Providers for the construction of affordable homes. The Strategic Partnership programme, which was launched part way through 2018/19, has grown from £170m last year to £700m this year.

The Housing Infrastructure Fund aims to unlock house building by funding local authorities to enable vital physical infrastructure projects, including the construction of roads, bridges, energy networks and other utilities. Although the fund was announced in 2017/18, the first deals were agreed and paid in 2018/19.

## 7. Disposal of land and property assets

| | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Proceeds from disposals** | | **229,511** | 113,589 |
| **Cost of disposals:** | | | |
| Book value of disposals | 19 | **152,807** | 61,103 |
| Direct costs of sale | | **1,708** | 1,388 |
| | | **154,515** | 62,491 |
| **Gain on disposal** | | **74,996** | 51,098 |

The proceeds from disposals above can be further analysed as follows:

| | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| Disposals of land (freehold disposal/building lease) | | **172,264** | 112,169 |
| Option payments/non refundable deposits paid in respect of land | | **67** | 264 |
| Direct Commissioning (market sales) | | **44,078** | - |
| Direct Commissioning (affordable contracts) | | **13,102** | 1,156 |
| **Proceeds from disposals** | | **229,511** | 113,589 |

Income from the disposals of land (freehold disposal/building lease) is recognised when there is a legally binding sale agreement, which has become unconditional and irrevocable by the end of the reporting period. The income is recognised at the unconditional date and measured at the fair value of the consideration received or receivable for the disposal of land.

Income in relation to option payments/non refundable deposits is recognised on the invoice date.

Income in relation to direct commissioning (market sales) is recognised at legal completion and measured at the fair value of the consideration received or receivable for the property.

Income in relation to direct commissioning (affordable contracts) is recognised over time by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by compliance inspector reports of work performed to date. A contract asset is recognised when the Agency has completed a proportion of the contract activity prior to payment being received. A contract liability is recognised where cash has been received in advance of the contract activity being completed.

## 8. Programme costs

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Land | **22,943** | 26,267 |
| Help to Buy | **13,887** | 21,088 |
| Housing Infrastructure Fund | **11,409** | 6,838 |
| Financial Investment Programmes | **5,878** | 5,039 |
| Affordable Homes | **2,260** | 2,402 |
| Other programmes | **3,726** | - |
| | **60,103** | 61,634 |

Programme costs are the operational costs incurred by Homes England to run the various programmes. They are typically professional fees to cover activities such as due diligence, legal advice, financial investigation, administration of payments, and property servicing. Help to Buy costs mainly relate to transaction fees paid to local agents who administer new equity loans and servicing costs paid to the Agency's mortgage administrator, who manage the equity loan book. The reduction in costs in 2019/20 is primarily driven by revised contracts with local agents, which have reduced the average fee paid by over a third.

Land costs include £10.4m (2018/19: £12.5m) in relation to the management of the Agency's land portfolio.

Other programmes include the costs of the Agency's transformation programme. These costs represent the service design and digital transformation of Homes England. It is a specific programme funded by MHCLG to support the Agency in meeting its mission and objectives by creating new, more efficient services, teams, infrastructure and ways of working.

## 9. Staff costs

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

### a) Total staff costs

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Staff costs charged to net expenditure comprise:** | | |
| Staff costs | **65,139** | 52,781 |
| Pension costs | **21,606** | 17,254 |
| **Total staff costs** | **86,745** | 70,035 |

The costs above can be further analysed as follows:

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Salaries and wages | **52,445** | 44,266 |
| Social security costs | **6,038** | 5,312 |
| Pension costs - current service cost* | **19,355** | 16,231 |
| Pension costs - past service cost and losses on curtailments and settlements | **520** | 123 |
| Pension costs - expenses | **1,731** | 900 |
| | **80,089** | 66,832 |
| Temporary staff | **6,120** | 2,520 |
| Seconded staff | **545** | 895 |
| | **86,754** | 70,247 |
| Less: Staff costs capitalised | **(9)** | (212) |
| | **86,745** | 70,035 |
| **Non-Executive Board Member expenses** | **20** | 25 |

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

On 1 October 2018, 141 members of staff employed within the regulation function transferred to the RSH. Staff costs for 2018/19 therefore include only six months of costs for these employees.

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

During the year, £9,000 of staff costs were capitalised (2018/19: £212,000). The costs relate to work undertaken on systems development.

### b) Staff bonuses

Staff members who are direct employees of the Agency benefit from a Performance Related Pay scheme whereby any bonuses are determined with reference to performance against agreed objectives during the year. Performance Related Pay accrued but not yet paid during the year totalled £282,000 (2018/19: £185,000).

During the year, Directors received bonuses of £45,000 (2018/19: £12,000). The bonuses received during the year relate to 2018/19 performance. The Accountability section of the Annual Report includes further details of bonuses, the average number of staff employed by the Agency, staff numbers by pay band and exit packages.

## 10. Administration expenditure

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Accommodation and office running costs | **12,859** | 11,491 |
| Homes England Development Programme | **5,532** | 16,987 |
| Travel and subsistence | **4,662** | 3,736 |
| Depreciation and amortisation | **4,309** | 3,423 |
| Taxation not recoverable | **3,532** | 3,894 |
| Professional fees | **1,841** | 1,294 |
| Learning and development | **1,382** | 661 |
| Board Members' remuneration (including employers' national insurance) | **310** | 227 |
| Auditor's remuneration (Statutory Audit) | **350** | 260 |
| Restructuring costs | **137** | 307 |
| Property, plant and equipment impairment reversals | **(338)** | (336) |
| Other | **745** | 761 |
| | **35,321** | 42,705 |

The Homes England Development Programme was set up to ensure the Agency has the capability to become a more dynamic and agile organisation, able to respond to the changing priorities of the sector and ultimately to disrupt the housing market. The main components and costs of the programme include: governance; business improvement; people, culture and values; a digital strategy; communications and engagement; and an accommodation review. Costs incurred are administration in nature as they inform the implementation of strategic choices. When these choices are implemented, the charges incurred are considered to be transformation costs and are categorised as a programme cost in note 8.

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

## 11. Other operating income

| | Note | 2019/20 £'000 | Represented 2018/19 £'000 |
|---|---|---|---|
| Homeowner fees | 15f | **18,213** | 10,402 |
| Grant clawback | | **19,548** | 5,621 |
| Rent and property income | | **6,545** | 8,796 |
| Regulator for Social Housing - Income from fees | | **-** | 4,762 |
| Other | | **4,287** | 6,911 |
| | | **48,593** | 36,492 |

Other operating income in 2018/19 has been reanalysed. Grants recovered previously included in 'Other' have been reallocated to 'Grant clawback' and any other amounts previously allocated to 'Grant clawback' which did not relate to the recovery of grant, have been reallocated to 'Other'.

Grant clawback mostly comprises grant recovered from Registered Providers of Social Housing via the Affordable Homes Programme. Clawback may arise where the recipient of grant funding does not meet the conditions set out in the grant agreement resulting in recovery.

In its capacity as the Regulator of Social Housing in England until 30 September 2018, income from fees represents fees charged to cover the costs incurred in regulating Registered Providers. Fees were charged until 30 September 2018, from which point the responsibility for the regulation of social housing providers transferred to The Regulator of Social Housing (RSH). Note 4 sets out the assets, liabilities and staff transferred to RSH in 2018/19.

Other includes income from investments, income charged to the RSH in respect of services provided, planning windfall income (where a developer buys land which subsequently receives planning permission increasing its value and the Agency shares in this uplift in value) and other windfall income (where the legal restriction on land sold is varied resulting in income to the Agency).

## 12. Share of profits of associates and joint ventures

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Share of results of associates | **4,138** | 909 |
| Share of results of joint ventures | **569** | 1,432 |
| **Share of profits of associates and joint ventures** | **4,707** | 2,341 |

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

## 13. Income tax

### a) Tax charge/credit in net expenditure comprises:

| | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| Corporation Tax on the results of the year at 19% | | **8,364** | 3,940 |
| Adjustment to current tax of prior years | | **(538)** | 448 |
| Deferred tax relating to the origination and reversal of temporary differences | 22 | **843** | (5,891) |
| **Tax charge/(credit) for the period recognised in Net Expenditure** | | **8,669** | (1,503) |

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

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Deferred tax relating to:** | | |
| Actuarial gain from pension fund | **(843)** | 5,891 |
| **Deferred tax charge/(credit) recognised in Other Comprehensive Expenditure** | **(843)** | 5,891 |

### c) Reconciliation of tax charge

| | 2019/20 £'000 | 2018/20 £'000 |
|---|---|---|
| **Net expenditure before tax** | **(1,305,325)** | **(1,063,266)** |
| Income tax on net expenditure at 19% | **(248,012)** | (202,021) |
| **Effects of:** | | |
| Non-taxable income | **(3,898)** | (1,963) |
| Expenditure not deductible for tax | **253,002** | 206,366 |
| Depreciation and amortisation | **819** | 650 |
| Capital allowances on property, plant and equipment | **(570)** | (475) |
| Losses utilised | **-** | (3,154) |
| Losses carried forward | **7,866** | (1,354) |
| Adjustment to current tax of prior years | **(538)** | 448 |
| **Tax charge/(credit) for period** | **8,669** | (1,503) |

## 14. Investments in subsidiaries, associates and joint ventures

### a) Subsidiary undertakings – Agency

| Cost | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| At 1 April | **25,000** | 25,000 |
| Investments in the year | **25,000** | - |
| Redemptions | **-** | - |
| **At 31 March** | **50,000** | 25,000 |

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

| Name of undertaking | Share capital | Nature of business |
|---|---|---|
| English Partnerships (LP) Ltd | £50,000,000 | Investment holding company |
| The Estuary Management Company Ltd | £1 | Property management company |
| Bristol & Bath Science Park Estate Management Co Ltd | £200 | Property management company |
| Norwepp (NWDA subsidiary) Ltd | £500 | Investment holding company |
| AWM (Subsidiary) Ltd | £1 | Investment holding company |
| ONE NorthEast General Partner Ltd | £100 | Investment holding company |

The property management companies are held as non-profit making entities to manage shared costs. Other than English Partnerships (LP) Ltd, all of the remaining investment holding companies are dormant.

### b) Associated undertakings and joint ventures – Group & Agency

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

| Cost or valuation | Note | Group 2019/20 £'000 | Group 2018/19 £'000 | Agency 2019/20 £'000 | Agency 2018/19 £'000 |
|---|---|---|---|---|---|
| **At 1 April** | | **47,149** | **17,856** | **22,790** | **-** |
| Investments in the year | | **22,267** | 16,219 | **-** | 12,057 |
| Reclassifications | | **-** | 10,733 | **-** | 10,733 |
| Redemptions | | **(3,187)** | - | **(2,175)** | - |
| Share of profits/(losses) of associates and joint ventures | 12 | **4,707** | 2,341 | **-** | - |
| **At 31 March** | | **70,936** | 47,149 | **20,615** | 22,790 |

In 2019/20 £3.2m (2018/19 £nil) was received in dividends from group companies and treated as redemptions under the equity method per IAS 28.

In 2019/20 £3.8m (2018/19: £4.2m) was re-invested by the Group into English Cities Fund from amounts previously repaid to the group and a further £18.5m (2018/19:

£nil) invested from the additional £25.0m commitment which was made available in 2017/18. There have been no repayments of this funding made during 2019/20 (2018/19: £nil).

The £10.7m reclassification in 2018/19 relates to Countryside Maritime Limited. The amount reclassified represents the value of land which had historically been transferred into the joint venture by the Agency, with the joint venture partners sharing in the subsequent development returns. This investment had been recognised as a financial asset measured at FVTPL (level 3) in previous years. The Agency determined that the nature of the investment was more accurately presented as being part of the Agency's equity investment in the joint venture, rather than as a separate investment.

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Group share of net assets of associates | **47,993** | 22,600 |
| Group share of net assets of joint ventures | **22,943** | 24,549 |
| **Group share of net assets of associates and joint ventures** | **70,936** | 47,149 |

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

| Name of undertaking | Interest | Nature of business |
|---|---|---|
| English Cities Fund Limited Partnership | 46% | Property development |
| Countryside Maritime Limited ^ | 50% | Development of land |
| Kier Community Living LLP ^ * | 26% | Property development |
| 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 |

^ Joint venture
*During the year, Kier Group made the decision to dispose of Kier Living Limited. Kier Living Limited is an investment partner in Kier Community Living LLP. As at 31 March 2020, Kier Living Limited remained part of Kier Group.

The Agency's interest in English Cities Fund Limited Partnership (ECF) represents the partner profit share arrangements, which entitles the Agency to a 45.78% share of the net profits or losses of the Partnership. The Agency's Chief Investments Officer represents the Agency's interest on the Board of ECF.

### c) Commitments for associated undertakings and joint ventures - Group and Agency

The Agency has made a £5.0m (2018/19: £5.0m) working capital facility available to Countryside Maritime Limited, of which £nil (2018/19: £nil) was drawn at 31 March 2020. In 2017/18, the Group committed to invest a further £25.0m into English Cities Fund. During 2019/20, £18.5m has been drawn down from this additional commitment (2018/19 £nil).

## 15. Financial assets

| | | 2019/20 | | | 2018/19 | | |
|---|---|---|---|---|---|---|---|
| | | Fair value £'000 | Amortised cost £'000 | Total £'000 | Fair value £'000 | Amortised cost £'000 | Total £'000 |
| Cash and cash equivalents | a) | **-** | **218,868** | **218,868** | - | 266,826 | 266,826 |
| Trade & other receivables | b) | **171,411** | **127,678** | **299,089** | 153,706 | 83,879 | 237,585 |
| Financial asset investments | c) | **14,847,542** | **1,376,338** | **16,223,880** | 11,798,699 | 1,394,200 | 13,192,899 |
| | | **15,018,953** | **1,722,884** | **16,741,837** | 11,952,405 | 1,744,905 | 13,697,310 |

### a) Cash and cash equivalents – Group & Agency

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Cash held with Government Banking Service | **202,881** | 231,069 |
| Cash held with commercial banks | **495** | 311 |
| Cash held with third parties | **15,492** | 35,446 |
| | **218,868** | 266,826 |

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

The cash figure takes account of BACS payments initiated by 31 March 2020 to settle short-term liabilities, but not cleared by 31 March 2020. These payments totalled £55.7m (2018/19: £68.4m) and cleared the bank in early April 2020. There were no cash equivalents at either of the reporting dates shown. As at 31 March 2019, in addition to the above, the Agency held £290,000 on behalf of third parties. These amounts have been surrendered to the Agency during the year and are included in the figures above.

## b) Trade & other receivables – Group & Agency

| | 2019/20 | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| **Gross balances** | Fair value £'000 | Amortised cost £'000 | Total £'000 | Fair value £'000 | Amortised cost £'000 | Total £'000 |
| Land sale receivables | **164,681** | **2,613** | **167,294** | 148,893 | 3,586 | 152,479 |
| Direct Commissioning | **-** | **57,957** | **57,957** | - | 1,482 | 1,482 |
| Other receivables | **6,730** | **67,378** | **74,108** | 4,813 | 79,042 | 83,855 |
| | **171,411** | **127,948** | **299,359** | **153,706** | **84,110** | **237,816** |
| Expected Credit Loss allowances | **-** | **(270)** | **(270)** | - | (231) | (231) |
| **Net balances** | **171,411** | **127,678** | **299,089** | **153,706** | **83,879** | **237,585** |
| **Of which:** | | | | | | |
| Non-current assets | **123,514** | **77,534** | **201,048** | 78,807 | 23,520 | 102,327 |
| Current assets | **47,897** | **50,144** | **98,041** | 74,899 | 60,359 | 135,258 |
| | **171,411** | **127,678** | **299,089** | **153,706** | **83,879** | **237,585** |
| **Of which:** | | | | | | |
| Balances with Private Sector counterparties | **171,032** | **96,804** | **267,836** | 149,513 | 43,676 | 193,189 |
| Balances with Public Sector counterparties | **379** | **30,874** | **31,253** | 4,193 | 40,203 | 44,396 |
| | **171,411** | **127,678** | **299,089** | **153,706** | **83,879** | **237,585** |

### Land sale receivables

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

### Direct Commissioning

Direct Commissioning receivables represent amounts due from unit sales and accrued income due under contracts to develop multi-unit properties from projects managed under the Direct Commissioning programme. They are measured at amortised cost.

### Other receivables

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

### Credit risk of trade and other receivables classified to FVTPL

The Agency is exposed to credit risk in relation to trade and other receivables measured at FVTPL. The credit risk exposure at the year end is £171.4m.

## c) Financial asset investments – Group & Agency

| | | 2019/20 | | | 2018/19 | | |
|---|---|---|---|---|---|---|---|
| | **Fair value hierarchy** (where relevant) | **Fair value £'000** | **Amortised cost £'000** | **Total £'000** | **Fair value £'000** | **Amortised cost £'000** | **Total £'000** |
| PRS REIT | Level 1 | **22,857** | | **22,857** | 29,520 | | 29,520 |
| Help to Buy Equity Loans | Level 2 | **14,016,314** | **-** | **14,016,314** | 11,083,941 | - | 11,083,941 |
| Legacy Equity Loans | Level 2 | **253,254** | **-** | **253,254** | 284,707 | - | 284,707 |
| Development Loans | Level 3 | **112,366** | **514,977** | **627,343** | 69,508 | 571,648 | 641,156 |
| Infrastructure Loans | Level 3 | **197,779** | **825,493** | **1,023,272** | 128,031 | 775,891 | 903,922 |
| Other Loans | Level 3 | **15,948** | **35,868** | **51,816** | - | 46,661 | 46,661 |
| Development Equity | Level 3 | **103,170** | **-** | **103,170** | 106,548 | - | 106,548 |
| Infrastructure Equity | Level 3 | **23,531** | **-** | **23,531** | 6,226 | - | 6,226 |
| Managed Funds | Level 3 | **59,448** | **-** | **59,448** | 45,793 | - | 45,793 |
| Overage | Level 3 | **5,260** | **-** | **5,260** | 8,195 | - | 8,195 |
| City Deals | Level 3 | **28,985** | **-** | **28,985** | 26,856 | - | 26,856 |
| Other Equity | Level 3 | **8,630** | **-** | **8,630** | 9,374 | - | 9,374 |
| | | **14,847,542** | **1,376,338** | **16,223,880** | 11,798,699 | 1,394,200 | 13,192,899 |
| **Of which:** | | | | | | | |
| Non-current assets | | **14,704,755** | **825,392** | **15,530,147** | 11,684,992 | 922,532 | 12,607,524 |
| Current assets | | **142,787** | **550,946** | **693,733** | 113,707 | 471,668 | 585,375 |
| | | **14,847,542** | **1,376,338** | **16,223,880** | 11,798,699 | 1,394,200 | 13,192,899 |
| **Of which:** | | | | | | | |
| Balances with Private Sector counterparties | | **14,760,649** | **1,364,573** | **16,125,222** | 11,708,020 | 1,370,445 | 13,078,465 |
| Balances with Public Sector counterparties | | **86,893** | **11,765** | **98,658** | 90,679 | 23,755 | 114,434 |
| | | **14,847,542** | **1,376,338** | **16,223,880** | 11,798,699 | 1,394,200 | 13,192,899 |

### Investments measured at Fair Value

Financial assets measured at Fair Value through Profit or Loss are stated at fair value in accordance with International Financial Reporting Standard 13 Fair Value Measurement (IFRS 13) and relate to the following:

- PRS REIT: An investment in shares issued by the PRS REIT plc, supporting the launch of the first quoted Real Estate Investment Trust to focus purely on the private rented sector;
- The Agency's entitlement to future income arising from financial assistance provided to homebuyers to enable them to buy homes, the majority of which arises from the Help to Buy scheme;
- Development, Infrastructure and Other Loans: There are a number of loans which are measured on a fair value basis under the level 3 hierarchy as they do not clearly meet the requirements under IFRS 9 to be described as basic lending arrangements. Development Loans have been made to

private sector developers in order to bring forward the development of housing under the Home Building Fund. Infrastructure Loans have been made to private sector developers and local authorities in order to fund infrastructure on stalled sites, or to unlock potential development sites under the Home Building Fund. Other Loans mainly relate to commercial non-site specific loans, such as corporate type facilities;

- Development, Infrastructure and Other Equity and City Deals: Investments in development and infrastructure projects under which the Agency benefits from variable returns based on income generated by the project funding, including projects with both the private sector and local authorities, some of which have arisen under City Deals entered into to support the government's aim of promoting localism;
- Managed Funds: Investments in Housing Growth Partnership, operated by Lloyds Banking Group;
- Overage: Future receipts due from the disposal of land to third parties, where the Agency includes contractual provisions in line with Managing Public Money to protect the public interest by requiring additional overage payments to be made where developments are more profitable than envisaged when the initial disposal consideration was agreed.

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

### Investments measured at Amortised Cost

These assets are measured at amortised cost where they meet the criteria of Solely Payments of Principal and Interest (SPPI) and therefore meet the requirement to be described as a basic lending arrangement under IFRS 9.

Development Loans have been made to private sector developers in order to bring forward the development of housing under the Agency's programmes, including the Home Building Fund, Get Britain Building, Builder's Finance Fund and Build to Rent. These loans are repayable during periods ranging up to 2033. Infrastructure Loans have been made to private sector developers and local authorities in order to fund infrastructure on stalled sites, or to unlock potential development sites. These loans are repayable during periods ranging up to 2031. Other loans include £26.8m of loans made to utility companies (2018/19: £27.4m) in respect of water infrastructure for new town developments (due for redemption by 2053), £8.1m loans made to Local Authorities (2018/19: £15.5m) which are repayable during periods ranging up to 2034 and loans made of £1.2m in respect of City Deals (2018/19: £3.9m) which are repayable within 12 months.

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

| | Level 1 | Level 2 | | Level 3 | | |
|---|---|---|---|---|---|---|
| | Shares held in The PRS REIT plc £'000 | Help to Buy Equity Loans £'000 | Other Legacy Equity Loans £'000 | Loans at FVTPL* £'000 | Other Investments £'000 | Total £'000 |
| **Balances as at 1 April 2018** | **30,027** | **8,314,304** | **334,939** | **152,613** | **238,230** | **9,070,113** |
| Additions | - | 3,530,582 | - | 102,511 | 33,358 | 3,666,451 |
| Reclassifications | - | - | - | - | (10,733) | (10,733) |
| Disposals | - | (714,925) | (52,576) | (56,560) | (45,026) | (869,087) |
| Fair value adjustment | (27) | (2,667) | 2,841 | 4,244 | 10,132 | 14,523 |
| Impairments | (480) | (43,353) | (497) | (5,269) | (22,969) | (72,568) |
| **Balances as at 31 March 2019** | **29,520** | **11,083,941** | **284,707** | **197,539** | **202,992** | **11,798,699** |
| Additions | - | 3,592,940 | - | 147,322 | 35,067 | 3,775,329 |
| Reclassifications | - | - | - | 9,602 | - | 9,602 |
| Disposals | - | (919,840) | (38,617) | (44,734) | (31,419) | (1,034,610) |
| Fair value adjustment | - | 150,087 | 6,162 | 18,357 | 28,664 | 203,270 |
| Impairments | (6,663) | 109,186 | 1,002 | (1,993) | (6,280) | 95,252 |
| **Balances as at 31 March 2020** | **22,857** | **14,016,314** | **253,254** | **326,093** | **229,024** | **14,847,542** |

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

### Sensitivity of the valuation of assets held at fair value under the level 2 and level 3 hierarchy

The valuation of the Agency's equity-loan mortgage portfolio is highly sensitive to changes in assumptions, in particular about market prices. Analysis showing the sensitivity of the portfolio valuation of these assets to market prices is shown in Note 17. The sensitivity of the Help to Buy valuation to the Agency's modelling assumptions is analysed in Note 18a. In addition, an assessment has been undertaken in relation to the potential impact of COVID-19 on key judgements and assumptions. This is presented in Note 2.

As described in Note 16, the investments categorised under the level 3 fair value hierarchy are not homogeneous in nature, therefore the underlying inputs used within the calculation of fair value vary depending on the nature of the asset. This category of assets is therefore sensitive to a range of underlying inputs which are not necessarily common across the level 3 portfolio. A sensitivity analysis has been performed in Note 17a to demonstrate the impact of an increase or decrease in development returns. In addition, a sensitivity analysis has also been performed to demonstrate the impact of potential movements in development land values as a result of COVID-19 on level 3 asset valuations, which is disclosed in Note 2.

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Loans measured at Fair Value through Profit or Loss (FVTPL) | | |
| Development Loans measured at FVTPL | **112,366** | 69,508 |
| Infrastructure Loans measured at FVTPL | **197,779** | 128,031 |
| Other Loans measured at FVTPL | **15,948** | - |
| | **326,093** | **197,539** |
| Other Investments | | |
| Development Equity | **103,170** | 106,548 |
| Infrastructure Equity | **23,531** | 6,226 |
| Managed Funds | **59,448** | 45,793 |
| City Deals | **28,985** | 26,856 |
| Overage | **5,260** | 8,195 |
| Other | **8,630** | 9,374 |
| | **229,024** | 202,992 |
| **Total financial asset investments in the Level 3 category of fair value measurement** | **555,117** | 400,531 |

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

The Agency is exposed to credit risk in relation to loans classified to Fair Value through Profit or Loss (FVTPL). The credit-risk exposure at 31 March 2020 in relation to these investments is £335.3m.

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

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

| | Development Loans £'000 | Infrastructure Loans £'000 | Other Loans £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross balances as at 1 April 2019*** | **586,504** | **806,882** | **46,917** | **1,440,303** |
| Additions | 251,673 | 159,350 | 1,153 | 412,176 |
| Reclassifications | (3,045) | (6,557) | - | (9,602) |
| Repayments | (314,064) | (87,258) | (12,256) | (413,578) |
| Interest added to loans | 24,739 | 32,081 | 329 | 57,149 |
| Amounts written-off loans / modification losses | (3,734) | (47,447) | - | (51,181) |
| **Gross balances as at 31 March 2020*** | **542,073** | **857,051** | **36,143** | **1,435,267** |
| Interest accrued but not yet added to loans at 31 March 2020 ** | 415 | 2,514 | 47 | 2,976 |
| Expected Credit Loss Allowances | (27,511) | (34,072) | (322) | (61,905) |
| **Net balances as at 31 March 2020*** | **514,977** | **825,493** | **35,868** | **1,376,338** |

* Gross balances exclude Expected Credit Loss Allowances and interest accrued but not yet added to loans, but include the effect of amounts which have been considered to have been written-off as irrecoverable or which have been recognised as modification gains or losses where an agreement has been varied. Net balances include the effect of applying Expected Credit Loss Allowances.

**Interest accrued but not yet capitalised of £1k was written off during 2019/20 (£14k in 2018/19) and contributes to the overall impairment charge recognised (Note 15f).

### Sensitivity of Expected Credit Losses to modelling assumptions

IFRS 9 requires an Expected Credit Loss allowance calculation to be performed with reference to the level of credit risk and performance of each investment. The determination of the risk associated with each asset is a key judgement by management as the result determines whether a 12-month loss allowance or a lifetime loss allowance is calculated for that asset. The Expected Credit Losses are calculated by comparing the estimated balance at the time of default against moderated security values (calculated by applying Modified Security Value percentages (MSVs) to gross security values to estimate the likely value which might be realised from a sale of security in distressed circumstances). A minimum loss on default value of 35% is applied (see accounting policies - Loss Given Default (LGD) Floor). This is then multiplied against an associated Probability of Default percentage value (PD) for the relevant loss calculation period. The PD value applied is determined based on the Credit Risk Rating of the associated asset using industry metrics for default.

In addition to calculating either 12-month or lifetime loss allowances, IFRS 9 also requires consideration of how the calculation would vary under alternative economic scenarios. The Agency achieves this by varying the application of PD assumptions to the same base loan data. In addition, during 2019/20 the Agency has varied the MSVs applied to the ECL allowance calculation performed under each economic scenario, to reflect the relative expected discount on gross security values in a distressed situation for each economic scenario. The results calculated for each scenario are then used to calculate an unbiased, weighted-average loss allowance. This is done by using the relative likelihood of each scenario, based on the Agency's view of their relative probability.

The Expected Credit Loss model is highly sensitive to the modelling assumptions noted above, which are therefore considered to be a key judgement of management. To analyse the impact of the key assumptions applied at 31 March 2020, a sensitivity analysis has been performed in Note 18b, which also provides an overview of the key modelling assumptions and how they are applied.

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

| | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Movements in Net Expenditure in relation to assets held at fair value** | | | |
| Valuation gains on financial asset investments held at FVTPL | 15d | **203,270** | 14,523 |
| Valuation gains on receivables held at FVTPL | | **4,384** | 7,208 |
| (Impairment)/Impairment reversal of financial asset investments held at FVTPL | 15d | **95,252** | (72,568) |
| (Impairment)/Impairment reversal of receivables held at FVTPL | | **(393)** | - |
| Gain/(loss) on disposal against fair value | | **12,749** | (8,151) |
| Monthly Fees recognised on Help to Buy equity loans | | **12,521** | 4,187 |
| Monthly Fees recognised on other legacy equity loans | | **5,692** | 6,215 |
| **Movements in Net Expenditure in relation to assets held at amortised cost** | | | |
| Interest on loans | | **67,091** | 56,577 |
| Interest on receivables | | **369** | (422) |
| Credit impairment loss charges (including modification gains/losses) | | **(64,628)** | (21,395) |
| | | **336,307** | (13,826) |

## Gain / (loss) on disposal of financial asset investments

| 2019/20 | Help to Buy Equity Loans £'000 | Other Legacy Equity Loans £'000 | Loans at FVTPL £'000 | Other Investments £'000 | Total £'000 |
|---|---|---|---|---|---|
| Proceeds from disposals | 933,411 | 37,795 | 44,734 | 31,419 | 1,047,359 |
| Fair value of assets disposed | 919,840 | 38,617 | 44,734 | 31,419 | 1,034,610 |
| **Gain/(loss) on disposal against fair value** | **13,571** | **(822)** | **-** | **-** | **12,749** |

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

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

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Net movements in Expected Credit Loss Allowances | **13,538** | 19,530 |
| Amounts written-off loan balances | **51,263** | 1,801 |
| Modification gains | **(82)** | - |
| Amounts written-off interest accrued but not yet added to loan | **1** | 14 |
| Amounts written-off/(written-back) on receivable balances | **(92)** | 50 |
| **Total credit impairment loss charges** | **64,628** | 21,395 |

## g) Write-offs at the reporting date

### Movement in write-off allowances during 2019/20

| | Allowances at 1 April 2019 £'000 | Recognised £'000 | Written-back £'000 | Utilised £'000 | Allowances at March 2020 £'000 |
|---|---|---|---|---|---|
| Financial asset investments at amortised cost | 23,563 | 51,300 | (37) | (15,347) | 59,479 |
| Trade & other receivables | 496 | 77 | (169) | (267) | 137 |
| | **24,059** | **51,377** | **(206)** | **(15,614)** | **59,616** |

Further details of how the Agency identifies assets for which a write-off is required are disclosed in the Annual Report on page 80. This also includes details of loan balances over £300k which have been considered to be irrecoverable and which are written-off in accordance with IFRS 9, or where the Agency has received authorisation from HM Treasury during the current year to cease pursuing the debt.

### Movement in write-off allowances during 2018/19

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

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

| | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Simplified approach £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Position as at 1 April 2019** | **34,490** | **8,435** | **5,682** | **30** | **48,637** |
| New credit-risk exposures in the reporting period | 4,550 | 1,057 | - | - | 5,607 |
| Movements from Stage 1 to Stage 2 | (1,926) | 1,926 | - | - | - |
| Movements from Stage 1 to Stage 3 | - | - | - | - | - |
| Movements from Stage 2 to Stage 1 | - | - | - | - | - |
| Movements from Stage 2 to Stage 3 | - | - | - | - | - |
| Movements from Stage 3 to Stage 1 | - | - | - | - | - |
| Movements from Stage 3 to Stage 2 | - | - | - | - | - |
| ECL utilised when written-off* | (104) | (7,154) | (5,637) | - | (12,895) |
| Movements as a result of modifications* | - | - | - | - | - |
| Released on repayment | (4,381) | (322) | - | - | (4,703) |
| Released on reclassification*** | (262) | - | - | - | (262) |
| Changes in risk parameters and risk models** | 18,934 | 6,729 | 13 | 115 | 25,791 |
| **Net movements in Expected Credit Loss Allowances** | **16,811** | **2,236** | **(5,624)** | **115** | **13,538** |
| **Expected Credit Loss allowance as at 31 March 2020** | **51,301** | **10,671** | **58** | **145** | **62,175** |

* Where amounts are considered to be irrecoverable they are written-off (or expensed as modification losses where this arises as the result of changes to contractual terms) and the associated Expected Credit Loss allowance is released. As a result, the charge to Net Expenditure at this time is limited to the difference between the actual amount written-off and the Expected Credit Loss allowance carried at the point of write-off.
** For reasons of practicality and efficiency, all movements in the ECL allowance for short-term receivables (which are calculated by applying a simplified approach based on historic losses observed in the population, as allowed under IFRS 9) are disclosed in a single line.
***During 2019/20, there were three loan investments which were previously measured at amortised cost which were reclassified in year and are now measured on a fair value basis. On reclassification, the Expected Credit Loss allowance of £0.3m held for the investments at 31 March 2019 was reversed.

## Expected Credit Loss allowance analysed for disclosure against loan categories

| 2019/20 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Simplified approach £'000 | Total £'000 |
|---|---|---|---|---|---|
| Development Loans | 17,139 | 10,314 | 58 | - | 27,511 |
| Infrastructure Loans | 33,715 | 357 | - | - | 34,072 |
| Other Loans | 322 | - | - | - | 322 |
| Trade & other receivables | 125 | - | - | 145 | 270 |
| **Total ECL allowances at 31 March 2020** | **51,301** | **10,671** | **58** | **145** | **62,175** |

| 2018/19 | £'000 | £'000 | £'000 | £'000 | £'000 |
|---|---|---|---|---|---|
| Development Loans | 14,102 | 668 | 128 | - | 14,898 |
| Infrastructure Loans | 19,845 | 7,767 | 5,554 | - | 33,166 |
| Other Loans | 342 | - | - | - | 342 |
| Trade & other receivables | 201 | - | - | 30 | 231 |
| **Total ECL allowances at 31 March 2019** | **34,490** | **8,435** | **5,682** | **30** | **48,637** |

During 2019/20, the Economic Scenarios, Weightings and Probability of Default values were revised with reference to current market conditions and future expectations. The change in assumptions has resulted in an increase in the Expected Credit Loss allowance of £25.8m during the year.

During 2019/20, 17 investments moved from Stage 1 to Stage 2. These assets had a total calculated Expected Credit Loss allowance of £1.9m at 31 March 2019. The Expected Credit Loss allowance for these 17 assets at 31 March 2020 was £6.1m. This increase is not solely a result of the change in IFRS9 stage, it is also impacted by other factors such as changes in risk parameters.

## 16. Financial assets and financial liabilities: fair value and amortised cost.

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

| | |
|---|---|
| **Level 1** | The fair value of the Agency's shareholding in the PRS REIT plc is calculated with reference to prices quoted on the London Stock Exchange and is therefore categorised as level 1 in the fair value hierarchy as defined by IFRS 13. |
| **Level 2** | The fair values of assets held at Fair Value through Profit or Loss relating to the Agency's equity-loan mortgage portfolio are calculated with reference to movements in the ONS house price index (UK HPI) at a regional level, being the most relevant available observable market data. This is supplemented by adjustments for experience of actual disposals since the inception of the schemes, also at a regional level. These experience adjustments are observable as they are developed using publicly available market and transaction data. Therefore these fair values are categorised as level 2 in the fair value hierarchy as defined by IFRS 13. |
| **Level 3** | The fair values of assets held at Fair Value through Profit or Loss relating to managed funds, equity investments in development / infrastructure projects and overage follow the income approach under IFRS 13 and are calculated using project-level cash flow forecasts, discounted at rates set by HM Treasury, or the effective interest rate of the underlying loan agreement for loans at FVTPL if higher. This approach is as prescribed by the Government Financial Reporting Manual, issued by HM Treasury. This reflects the valuation methodology which would be employed by market participants when pricing the assets and, since the inputs which inform the calculation of fair value are unobservable to users of the accounts, the assets are categorised as level 3 in the fair value hierarchy as defined by IFRS 13.<br><br>The nature of the investments disclosed within this category vary in nature, as the Agency tailors the type of support or funding available to the individual situation. The nature of investments categorised within the level 3 category is summarised in note 15c. In addition, the mechanism by which the Agency obtains returns on these investments are specific to the asset. For example, the agency may be due a share of returns from a development project, or the agency may be due a share of profit which is determined based on the underlying performance of an investment. As a result of this, the inputs used to determine the fair value of each individual asset vary in nature. Input data can include project-level cash flows which are either provided by counterparties and moderated by the Agency's project managers or are obtained via independent valuation or monitoring reports from professional advisers (for individually significant assets). |
| | The fair value of other financial instruments (including liabilities, where significant and long-term) are similar in nature to other level 3 assets and are calculated by discounting their future cash flows using discount rates set by HM Treasury, or the rate intrinsic to the financial instrument if higher. For financial assets, this results in classification as level 3 in the fair value hierarchy as defined by IFRS 13. |

No financial assets have moved between categories during 2019/20 (2018/19: None).

### Measuring fair value on recognition

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

- recognised as grant expenditure where fair value is considered to be below cost, in accordance with IAS 20 Government Grants; or
- deferred and released over the expected life of the instrument in accordance with IFRS 9 Financial Instruments.

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

| Group and Agency | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **At 1 April** | **5,220** | **7,415** |
| Gain recognised on recognition | **857** | - |
| Released | **(406)** | (2,195) |
| **At 31 March** | **5,671** | 5,220 |

## Comparison of cost and carrying value – Group & Agency

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

| | Note | 2019/20 Original cost £'000 | 2019/20 Carrying value £'000 | 2018/19 Original cost £'000 | 2018/19 Carrying value £'000 |
|---|---|---|---|---|---|
| **Assets measured at amortised cost** | | | | | |
| Cash and cash equivalents | 15a | **218,868** | **218,868** | 266,826 | 266,826 |
| Trade and other receivables | 15b | **110,902** | **110,495** | 62,943 | 62,447 |
| Financial asset investments | 15c | **1,497,722** | **1,376,338** | 1,466,169 | 1,394,200 |
| **Assets measured at Fair Value** | | | | | |
| Trade and other receivables | 15b | **189,358** | **171,411** | 167,453 | 153,706 |
| Financial asset investments | 15c | **14,554,023** | **14,847,542** | 11,708,558 | 11,798,699 |
| **Total financial assets** | | **16,570,873** | **16,724,654** | 13,671,949 | 13,675,878 |

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

Prepayments, tax and social security balances are excluded from the table above as these are non-financial assets.

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

| | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Other financial liabilities** | | | |
| Trade and other payables | 20 | **519,536** | 467,805 |
| Provisions | 21 | **12,689** | 12,796 |
| **Total financial liabilities** | | **532,225** | 480,601 |

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

## 17. Financial risk management

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

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

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

### a) Market price risk

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

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

The Agency accepts market price risk as an inherent feature of its operation of Help to Buy and other home equity schemes. It therefore does not attempt to directly mitigate this risk, for example via hedging, but monitors the exposure at a strategic level using a range of scenario analysis techniques such as that described below.

The Agency has performed a sensitivity analysis that measures the change in fair value of the financial assets held for hypothetical changes in market prices. The sensitivity analysis is based on a proportional change to all prices applied to the relevant financial instrument balances existing at the year end. Stress-testing is performed which looks at exposure to adverse scenarios to ensure that the financial risks are understood.

### Home Equity Portfolio

The table below shows the effect on net expenditure arising from movements in the fair value of these portfolios at 31 March 2020, before the effects of tax, if UK house prices had varied by the amounts shown and all other variables were held constant. This illustrates the impact of the mortgage providers' first charge, which disproportionately affects the estimated fair value when house prices reduce.

| Modelled change in house prices (%) | Estimated portfolio value (£m) | Incremental change in fair value recognised in net expenditure (£m) | % Incremental change in fair value (recognised in net expenditure) |
|---:|---:|---:|---:|
| 20.0% | 17,119.9 | 2,850.3 | 20.0% |
| 10.0% | 15,695.6 | 1,426.0 | 10.0% |
| 0.0% | 14,269.6 | - | 0.0% |
| -5.0% | 13,550.3 | (719.3) | -5.0% |
| -10.0% | 12,724.1 | (1,545.5) | -10.8% |
| -20.0% | 10,122.1 | (4,147.5) | -29.1% |
| -30.0% | 7,163.5 | (7,106.1) | -49.8% |

### Private sector developments, overage and infrastructure

At 31 March 2020, if development returns had been 10% higher/lower and all other variables were held constant, the effect on the Agency's net expenditure arising from movements in investments in private sector developments and infrastructure projects, before the effects of tax, would have been an increase/decrease of £25.2m/£25.2m from that stated.

### Land Portfolio

The table below shows the effect on net expenditure at 31 March 2020, before the effects of tax, if at 31 March 2020 average land and property prices had varied by the amounts shown and all other variables were held constant. This illustrates the lower of cost and net realisable value principle whereby impairments will only be recognised when an asset falls below its cost base and impairment reversals will only be recognised to the extent the asset has previously been impaired.

| Modelled change in land and property values (%) | Estimated portfolio value (£m) | Incremental change in land and property impairments recognised in net expenditure (£m) | % Incremental change in land and property value (recognised in net expenditure) |
|---:|---:|---:|---:|
| 20.0% | 1,084.5 | (86.4) | 8.7% |
| 10.0% | 1,046.4 | (48.3) | 4.8% |
| 0.0% | 998.1 | - | 0.0% |
| -5.0% | 964.6 | 33.5 | -3.4% |
| -10.0% | 927.8 | 70.2 | -7.0% |
| -20.0% | 847.9 | 150.2 | -15.0% |
| -30.0% | 760.3 | 237.7 | -23.8% |

### b) Interest rate risk

The Agency's income is exposed to interest rate risk on its financial assets classified as loans and receivables, where these pay interest at a variable rate. For the majority of the Agency's loan portfolio, the variable element is the EC Reference Rate (0.94% as at 31 March 2020).

The going concern of the Agency is not affected by a reduction in interest income in the event of a reduction in variable interest rates and the Agency does not undertake any specific measures to mitigate against the risk of changes in variable interest rates.

If interest rates on the Agency's variable rate loans had been 1% higher/lower throughout the year ended 31 March 2020, the Agency's net expenditure for the year, before the effect of tax, would have been £14.8m/£14.8m lower/higher.

### c) Liquidity risk

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

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

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

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

### d) Currency risk

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

### e) Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations. The Agency's maximum exposure to credit risk, without taking into account any security held, is the same as the carrying amount of financial assets recorded in the Financial Statements, as disclosed in Note 15.

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

- Financial asset investments measured at fair value relate mainly to amounts receivable individually from proceeds generated when the equity-loan mortgage portfolio properties are sold or staircased, or amounts receivable from various private sector developers, resulting in a broad spread of credit risk for these assets. Amounts receivable from the owners of homes are secured by a second charge over their property.
- Four private sector developers accounted for £213m (33%) of a total £653m of development loans (2018/19: 32% of £682m), and four private sector developers accounted for £425m (40%) of a total £1,062m of infrastructure loans (2018/19: 39% of £925m).
- Ten private sector developers accounted for £390m (60%) of the total of £653m development loans (2018/19: 60% of £682m) and ten private sector developers account for £694m (65%) of the total of £1,062m of infrastructure loans (2018/19: 67%). Of the total £1,767m exposure on all loans, ten private sector developers account for £814m (46%) of the balance (2018/19: 46% of £1,654m).
- Loans to the largest single private sector developer account for 11% (£70m) of £653m total development loans (2018/19: 11%) and loans to the largest single private sector developer account for 14% (£148m) of £1,062m total infrastructure loans (2018/19: 12%).
- £27m (52%) of £52m other loans relate to a major public utility company (2018/19: 57% of £47m).
- Receivables arise largely from disposals of land and property assets, generally to major developers and housebuilders in the private sector. These receivables are always secured by the Agency's right to retake possession of the disposed property in the event of a default by the buyer, and in appropriate cases are backed by financial guarantees. Ten counterparties account for 97% of the Agency's £167m receivables balances due from disposal of land and property assets (2018/19: 77% of £152m).
- The Agency's cash is generally held with the Government Banking Service, except where commercial reasons necessitate otherwise, for example when cash is held by solicitors around completion of property sales or purchases or by the Agency's mortgage administrator pending allocation to accounts.

The balances analysed above for Development Loans, Infrastructure Loans and Other Loans include both loans measured at amortised cost and loans measured on a fair value basis. The exposures are before the application of the Expected Credit Loss allowance. The balances do not include capitalised fees and the effects of unwinding deferred income in relation to fees recharged to developers, with a net effect of £11.3m.

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 2020 was £212.4m (2018/19: £155.5m), and the five largest counterparties accounted for 3.6% of the total balance of £16,506m (2018/19: 4.1% of £13,409m).

### Credit policies

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

### Assessment of significant increases in credit risk

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

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

Where term loans are issued, it is often sensible to apply an assumption that any missed monthly repayments which are not remedied within a 30-day timeframe are indicative of a significant increase in credit risk. However, because the Agency does not issue term loans with monthly repayment terms and loans are usually repayable either on development milestones or in full at a contractual long-stop date, the 30-day measure is not considered to be helpful as an indicator of significant increases in credit risk for the Agency's loan portfolio.

### Credit profile of investments

Of the total gross amortised loans cost exposures of £1,423m at 31 March 2020 (excluding capitalised fees and the effects of unwinding of deferred income, with the net effect of £11.8m), £754m were categorised with a Credit Risk Rating (CRR) between 1 to 4 (low risk), with £481m of exposures being categorised as CRR 5 to CRR 6 (medium risk). £188m of loan exposures were categorised as CRR 7 or above (high risk or in default).

### Collateral held as security for financial asset investments

Collateral is usually obtained as security against default. The primary sources of collateral are often land which is being developed with the aid of the investment finance, but they can be other land assets within the control of our counterparties or their parent group. Parent company guarantees are also employed. For the Expected Credit Loss calculation, only land and property security values are included, with an average adjustment of 39% for land and 31% for property applied to reflect reduced values which might reasonably be expected in a distressed sale. Because security values often relate to land under development, security values are modelled based on up-to-date information to take account of factors such as site expenditure and realised sales.

The Agency held gross collateral values against loans totalling £8,054m at 31 March 2020 (£7,513m at 31 March 2019), the majority of which related to security over land and property assets held by third parties (£7,998m). The modified value of this security value after applying Marginalised Security Value adjustments under the central economic scenario was £3,495m at 31 March 2020 (£3,657m at 31 March 2019).

Of the total exposures relating to loans measured at amortised cost of £1,435m, £1,207m (84.1% of agreements) were fully covered by gross land and property security values held in relation to those investments. There were 29 exposures (17.3% of agreements) totalling £208m at 31 March 2020 where gross security values held were less than the exposure at that date. The total gross security values held for these investments was £87m at 31 March 2020 (£27m after applying Marginalised Security Value adjustments under the central economic scenario). Of these 29 investments, there were 16 investments (9.5% of agreements) with a gross exposure value of £109m where no security is held. The majority of these agreements are legacy agreements and relate to loans with other government bodies. The total gross value of loans measured at amortised cost which were credit impaired at 31 March 2020 was £39.7m. The Agency held gross security values of £109.0m (£38.5m of net security values after applying Marginalised Security Value adjustments under the central economic scenario) against these assets at 31 March 2020. The Agency held total gross security values of £673.6m (£226.6m of net security values after applying Marginalised Security Values) against loan assets measured at Fair Value at 31 March 2020.

## 18. Sensitivity of Significant Valuation Modelling Assumptions

### a) Help to Buy

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

### Assumptions of market adjustments

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

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

| | Fair value £m | Movement from base assumption (£m / %) | |
|---|---|---|---|
| 2% increase in market adjustment | 13,724.5 | (291.8) | -2.1% |
| 1% increase in market adjustment | 13,870.4 | (145.9) | -1.0% |
| Base assumption | 14,016.3 | - | 0.0% |
| 1% decrease in market adjustment | 14,162.2 | 145.9 | 1.0% |
| 2% decrease in market adjustment | 14,308.0 | 291.7 | 2.1% |

### Assumptions of expected proportions of transaction types

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

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

| | Fair value £m | Movement from base assumption (£m / %) | |
|---|---|---|---|
| All redemptions are staircasing transactions | 13,790.8 | (225.5) | -1.6% |
| 10% increase in the rate of staircasing | 13,951.6 | (64.7) | -0.5% |
| Base assumption (a blend of sales and staircasing) | 14,016.3 | - | 0.0% |
| 10% increase in the rate of sales | 14,081.1 | 64.8 | 0.5% |
| All redemptions are sales | 14,438.3 | 422.0 | 3.0% |

### Combined impact of assumptions

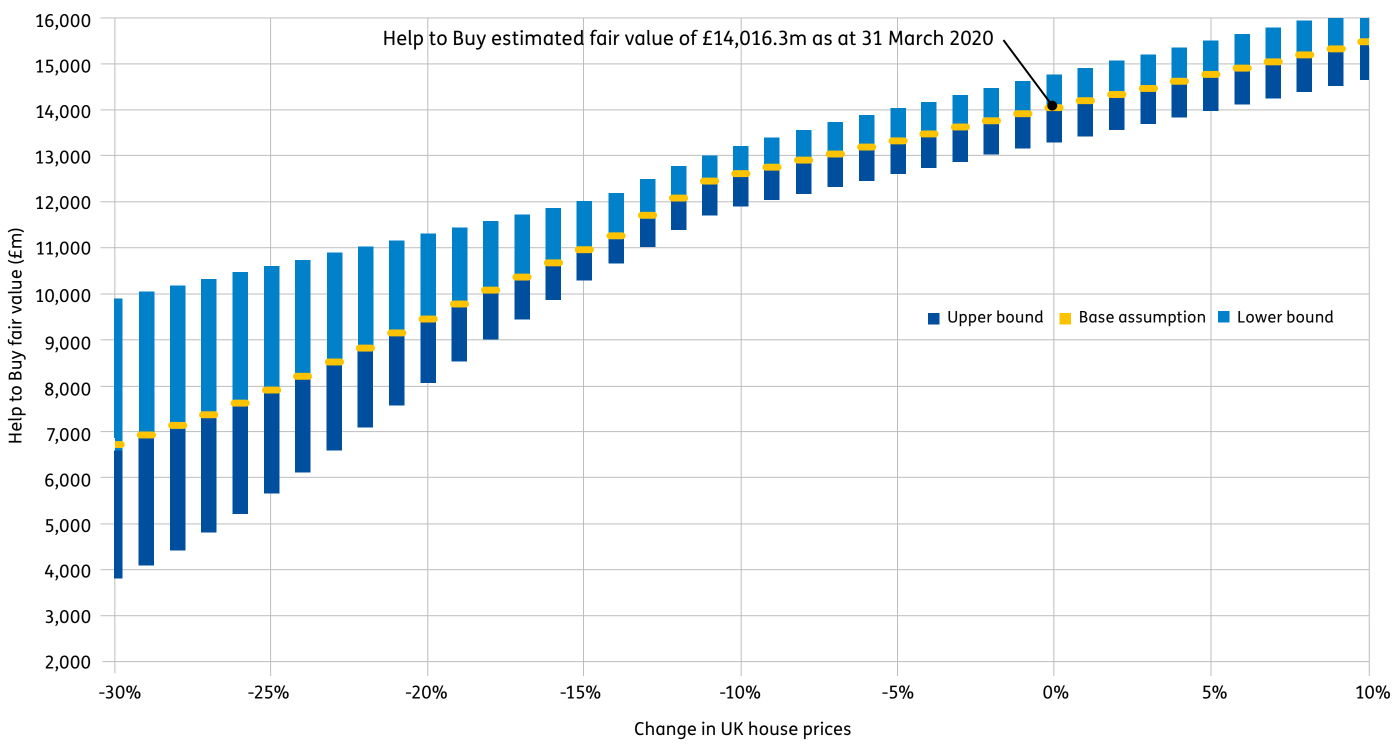
The assumptions applied by Homes England will interact with each other in different economic scenarios. For example, a 15% point fall in house prices might lead to both a 10% point increase in staircasing transactions (relative to sales) and a 7.5% increase in accounts in arrears. In this situation the Agency would model a fair value of £11.2bn: a reduction of £2.8bn or 20% on the base assumption.

The below graph illustrates a potential spread of fair value from the combined impact of assumptions at different market prices. The upper and lower bounds correspond to assumptions within the following ranges:

- market adjustments between 2% lower and 2% higher than the base assumptions
- proportion of transaction types between 100% sales and 100% staircasing
- mortgage arrears rates ranging from no arrears to a 7.5% increase on the base assumption
- discounts on repossession between 15% lower and 15% higher than the base assumption

For example, the lower bound corresponds with a 2% increase in market adjustment, a 7.5% increase in accounts in arrears, and 15% increase in discount on repossession. Each bound has been calculated by selecting the value which is furthest from the base assumption for each of the 100% sales and 100% staircasing scenarios.

The combined impact of assumptions generates a spread in estimated fair value of £1.4bn at current market prices. This spread would increase in a falling market, reaching approximately £6.0bn should market prices fall by 30%. The combined impact of assumptions is therefore more sensitive in a falling market. This is primarily due to the impact of the mortgage providers' first charge, which disproportionately affects the estimated fair value when house prices reduce.



### b) Expected Credit Loss allowance

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

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

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

- Timing of default events: The calculation of the Expected Loss Allowance at 31 March 2020 assumes that default events would occur at a mid-point of the year for each future calculation date, to build in an unbiased assumption that a default could happen at any point during a future year. This creates variation in the estimate because of the effect of discounting, which will be greater for losses modelled at a later point in the year. If a default event were assumed to occur at the beginning or end of a year, this would increase or decrease the loss allowance by 3%.
- Timing of forecast expenditure and receipts within years: Forecast loan balances must be calculated into the future to determine the Loss Given Default (LGD) of each asset (calculated as exposure at default less modified security values). Expenditure and receipts data is available at an annual level for future years within the Agency's systems, whereas future balances are calculated at quarterly intervals. As a result, an assumption has been applied within the model to apportion spend and receipts over all future quarters using historic data on actual expenditure and receipt profiles. If it had been assumed expenditure and receipts were to be profiled equally over the year, this would have increased the loss allowance by 0.3% at 31 March 2020.

Estimates of the impact of key assumptions on the Expected Credit Loss allowance calculation at 31 March 2020 are provided below.

#### Economic Scenarios and Scenario Weighting assumptions

IFRS 9 requires the Agency to consider alternative economic scenarios in the calculation of the Expected Credit Loss allowance. For each identified economic scenario, variations are made to the Probability of Default values applied based on an individual investment's Credit Risk Rating. Weightings are applied to the Expected Credit Loss calculation for each scenario, determined in relation to the probability of each scenario occurring, with reference to current market and credit risk expectations.

At 31 March 2020, the base case economic scenario applied was the COVID-19 central scenario. The alternative economic scenarios applied were the COVID-19 slow recovery scenario and the COVID-19 rapid recovery scenario. Further details in relation to these scenarios are summarised in Note 1 & Note 2.

At 31 March 2020, a 60% weighting was applied to the COVID-19 central scenario a weighting of 30% to the slow recovery scenario and a 10% weighting to the COVID-19 rapid recovery scenario calculation.

The impact of varying these weightings is analysed below:

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

| | Expected Credit Loss £'000 | Movement from base assumption £'000 / % | |
|---|---|---|---|
| Weighting of 30% : 60% : 10% applied | 74,571 | 12,541 | 20.2% |
| Weighting of 40% : 50% : 10% applied | 70,390 | 8,360 | 13.5% |
| Weighting of 50% : 40% : 10% applied | 66,210 | 4,180 | 6.7% |
| Base assumption of 60% : 30% : 10% applied | 62,030 | - | 0.0% |
| Weighting of 70% : 20% : 10% applied | 57,850 | (4,180) | -6.7% |
| Weighting of 60% : 20% : 20% applied | 53,951 | (8,079) | -13.0% |
| Weighting of 70% : 10% : 20% applied | 49,771 | (12,259) | -19.8% |

### Probability of Default (PD) assumptions

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

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

| | Expected Credit Loss £'000 | Movement from base assumption £'000 / % | |
|---|---|---|---|
| PD values downgraded one level | 139,229 | 77,199 | 124.5% |
| Base assumption | 62,030 | - | 0.0% |
| PD values upgraded one level | 28,817 | (33,213) | -53.5% |

### Moderated Security Value (MSV) assumption

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

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

| | Expected Credit Loss £'000 | Movement from base assumption £'000 / % | |
|---|---|---|---|
| MSV percentages decreased by ten percentage points | 65,513 | 3,483 | 5.6% |
| Base assumption | 62,030 | - | 0.0% |
| MSV percentages increased by ten percentage points | 58,316 | (3,714) | -6.0% |

### Loss Floor

A minimum percentage value has been applied to the LGD calculation with reference to individual investments (see accounting policies - Loss Given Default (LGD) Floor). At 31 March 2019 and 31 March 2020 the LGD floor applied was 35%. In order to demonstrate the sensitivity of the calculation of Expected Credit Loss allowances to the LGD floor assumption, alternative floors of 0%, 50% and 75% have been applied to the calculations with results summarised below.

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

| | Expected Credit Loss £'000 | Movement from base assumption £'000 / % | |
|---|---|---|---|
| Increase in loss floor to 75% | 97,928 | 35,898 | 57.9% |
| Increase in loss floor to 50% | 73,517 | 11,487 | 18.5% |
| Base assumption | 62,030 | - | 0.0% |
| Reduction in loss floor to 0% | 43,523 | (18,507) | -29.8% |

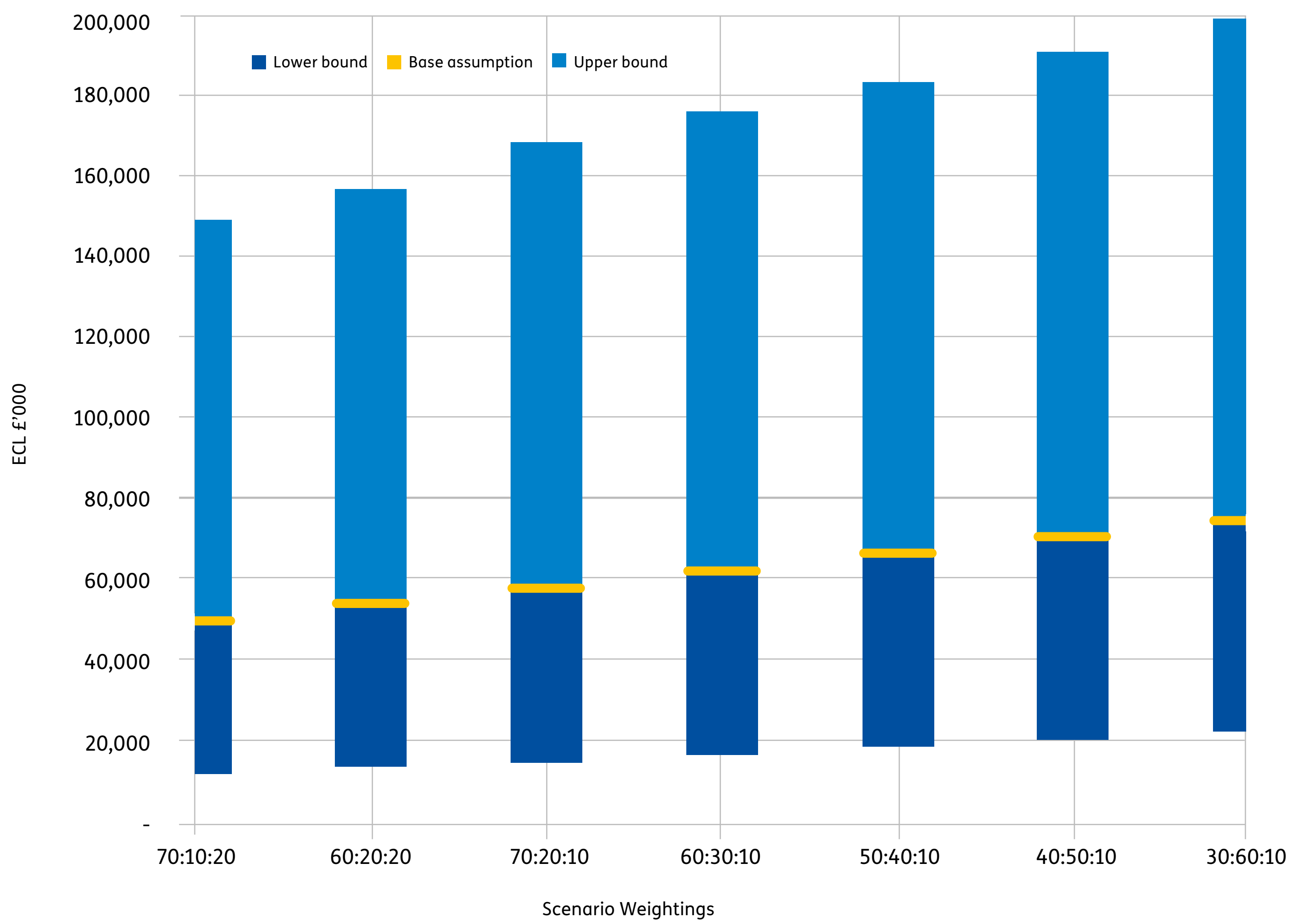
### Combined impact of assumptions

The sensitivity analysis performed above has focused on changing one assumption in turn, with all other metrics remaining in line with the assumptions applied in determining the Expected Credit Loss allowance as at 31 March 2020.

However to consider the impact of several assumptions changing, an analysis has been performed to establish the impact if the key assumptions above (excluding scenario weightings) were changed within reasonable limits to consider the highest and lowest possible Expected Credit Loss allowance. The upper and lower bounds correspond to assumptions within the following ranges:

- PDs downgraded by one level (upper bound) and upgraded by one level (lower bound).
- MSVs decreased by ten percentage points (upper bound) and increased by ten percentage points (lower bound) across all three scenarios.
- Increase in loss floor to 50% (upper bound) and decrease in loss floor to 0% (lower bound).
- Assuming default events occur at the beginning of the year (upper bound) and at the end of the year (lower bound).
- Maintaining the distribution of spend and receipts profiles in line with the base assumption (upper bound) and assuming an equal distribution of spend and receipt profiles over the year (lower bound).

A variation has then been applied to the scenario weightings against the highest and lowest Expected Credit Loss positions in order to consider the impact of these variations in combination with all other assumptions changing.



## 19. Land and property assets – Group & Agency

| | Note | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Net book value at 1 April** | | **839,084** | 776,239 |
| Additions | | **357,311** | 227,904 |
| Disposals | 7 | **(152,807)** | (61,103) |
| Impairments | | **(45,514)** | (103,956) |
| **Net book value at 31 March** | | **998,074** | 839,084 |

The above includes land and property assets with a net book value of £81.0m (2018/19: £40.8m), managed under the Direct Commissioning programme where the Agency acts as a master developer. Under this arrangement, external contractors manage build and sales on behalf of the Agency.

The net book value at 31 March includes land and property assets expected to be realised in more than one year of £872.3m (2018/19: £701.6m).

### Impairment of land and property assets

Impairments include charges of £66m (2018/19: £125m) and reversals of £20m (2018/19: £21m).

### Valuation

Land and property assets had a combined net realisable value of £1,333m (2018/19 £1,205m).

As described in Note 1 (m) the estimated valuation at the reporting period of the portfolio of land and property assets is obtained in accordance with the current edition of RICS Valuation - Professional Standards published by the Royal Institution of Chartered Surveyors. The information provided to the valuers, and the assumptions and valuation models used by the valuers are reviewed internally in accordance with the Agency's ALVVE (Annual Land Validation and Valuation Exercise) guidance.

The valuation models used by the external valuers will vary depending on the Agency's objectives and conditions for each asset, however they will typically include a mixture of the following:

- Residual method - the residual method is based on the concept that the value of land or property with development potential is derived from the value of the land or property after development minus the cost of undertaking that development, including a profit for the developer.
- Market approach - the market approach uses comparable evidence of similar assets, normally in a similar type of location or geographical area.
- Where disposal processes are well advanced e.g. bids received, preferred bidder identified or conditional agreements entered into, the valuer would be expected to have regard to these. The valuer will make a judgement as to the appropriate weight to apply on a case by case basis depending on how advanced the process is and the considered likelihood of the transaction completing as currently structured.

In all cases further allowances for risk will be applied as appropriate, for example planning risk.

The net realisable value of each asset includes a deduction for expected disposal costs, such as estimated marketing and legal costs. The net book value is the lower of cost and net realisable value.

### Sensitivity of the valuation of land and property assets

As described in Note 1 (m) and Note 2, the land and property asset portfolio is not homogeneous in nature as the valuation methodology reflects the Agency's objectives and conditions for each individual asset. Therefore, the underlying inputs used within the calculation for the net realisable value of each asset will vary depending on the nature of the asset, the Agency's objectives in respect of the asset and the conditions of the asset. This category is therefore sensitive to a range of underlying inputs which are not necessarily common across the land and property assets portfolio. A sensitivity analysis has been performed in Note 17a to provide an indication of the potential effect of a range of variations in land and property prices on the financial statements.

### COVID-19

Firms supporting the year end valuation exercise have been directed by the Royal Institute of Chartered Surveyors (RICS) to attach a 'material valuation uncertainty' comment to valuations in light of the COVID-19 pandemic and the difficulties they have encountered in forming a judgement about valuations. Consequently, firms have advised that less certainty and a higher degree of caution should be attached to valuations at the year end, than would normally be the case. The inclusion of the 'material valuation uncertainty' comment does not mean that the valuation cannot be relied upon. Rather, it highlights that due to the current extraordinary circumstances linked to the COVID-19 pandemic, less certainty can be attached to the valuations than would otherwise be the case. In light of this uncertainty analysis showing the sensitivity of the land portfolio to changes in land and property prices is shown in Note 17. In addition, an assessment has been undertaken in relation to the potential impact of COVID-19 on key judgements and assumptions. This is presented in Note 2.

## 20. Trade and other payables – Group & Agency

| | Group 2019/20 £'000 | Represented Group 2018/19 £'000 | Agency 2019/20 £'000 | Represented Agency 2018/19 £'000 |
|---|---|---|---|---|
| Trade payables | **392,801** | 419,158 | **392,801** | 419,158 |
| Direct Commissioning | **100,095** | 16,080 | **100,095** | 16,080 |
| Deferred income | **9,039** | 9,464 | **9,039** | 9,464 |
| Taxes and social security | **13,420** | 5,202 | **13,420** | 5,202 |
| Due to subsidiary | **-** | - | **7,729** | 4,254 |
| Other | **26,640** | 32,567 | **26,640** | 32,567 |
| **Balance at 31 March** | **541,995** | 482,471 | **549,724** | 486,725 |
| **Of which:** | | | | |
| Current liabilities | **426,167** | 468,948 | **433,896** | 473,202 |
| Non-current liabilities | **115,828** | 13,523 | **115,828** | 13,523 |
| **Balance at 31 March** | **541,995** | 482,471 | **549,724** | 486,725 |

In the Agency's 2018/19 financial statements, payables in respect of Direct Commissioning formed part of Other payables. Due to their increased significance, they are now disclosed separately and so the comparative figures for 2018/19 have been represented.

## 21. Provisions – Group & Agency

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Balance at 1 April | **12,796** | 26,586 |
| Charge to net expenditure | **47** | - |
| Unused provisions credited to net expenditure | **(96)** | (2,758) |
| Unwinding of discount/change in discount rate | **2** | (1,132) |
| Expenditure against provisions | **(60)** | (9,900) |
| **Balance at 31 March** | **12,689** | 12,796 |
| **Of which:** | | |
| Current liabilities | **234** | 384 |
| Non-current liabilities | **12,455** | 12,412 |
| **Balance at 31 March** | **12,689** | 12,796 |
| **Total recognised in Net Expenditure** | | |
| **Decrease in provisions recognised in Net Expenditure** | **(47)** | (3,890) |

Provisions include £12.2m environmental liabilities (2018/19: £12.2m) and £0.5m other liabilities (2018/19: £0.6m). Of the net £2k recognised in respect of unwinding of discount/change in the discount rate, £0.1m is due to a change in the discount rate for provisions prescribed by HM Treasury from 0.76% in 2018/19 to 0.51% in 2019/20 with the balance due to the expected timing of the underlying cost moving back by one year.

## 22. Deferred tax – Group & Agency

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

| 2019/20 | At 31 March 2019 £'000 | Charged to net expenditure £'000 | Charged to OCE* £'000 | At 31 March 2020 £'000 |
|---|---|---|---|---|
| Unused tax losses | (72,592) | 7,864 | - | **(64,728)** |
| Arising from IFRS 9 transition ** | 58,616 | (6,513) | - | **52,103** |
| Provisions | (2,176) | 18 | - | **(2,158)** |
| Pensions | 16,152 | (526) | (843) | **14,783** |
| **Deferred tax liability / (asset)** | - | 843 | (843) | **-** |

* Other Comprehensive Expenditure
** Amounts deferred on 1 April 2018 at the point of transition from IAS 39 to IFRS 9 are unwound over a period of 10 years.

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

In addition to the above, the Agency has tax losses to carry forward of £175m (2018/19: £130m) for which no deferred tax asset has been recognised because of the uncertainty over future trading profits, which would enable such losses to be utilised. The primary driver of the increase is the residual element to be unwound in relation to the first adoption of IFRS 9.

| 2018/19 | At 31 March 2018 £'000 | Adjustments on adoption of IFRS 9 £'000 | Charged to net expenditure £'000 | Charged to OCE* £'000 | At 31 March 2019 £'000 |
|---|---|---|---|---|---|
| Unused tax losses | (78,024) | 6,785 | (1,353) | - | (72,592) |
| Arising from IFRS 9 transition ** | 71,913 | (6,785) | (6,512) | - | 58,616 |
| Provisions | (4,520) | - | 2,344 | - | (2,176) |
| Pensions | 10,631 | - | (370) | 5,891 | 16,152 |
| **Deferred tax liability / (asset)** | **-** | **-** | **(5,891)** | **5,891** | **-** |

* Other Comprehensive Expenditure
** Amounts deferred on 1 April 2018 at the point of transition from IAS 39 to IFRS 9 are unwound over a period of 10 years.

## 23. Pension arrangements and liabilities – Group & Agency

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

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

All three schemes are multi-employer defined benefit schemes as described in paragraph 7 of IAS 19 Employee Benefits. The Homes and Communities Agency Pension Scheme is the only scheme open to new employees. The scheme is a final salary scheme but from 1 September 2019, new members will accrue benefits on a career average basis.

The other schemes are Local Government schemes which changed from a final salary to career average basis for benefits accruing from 1 April 2014. Further information on the funding arrangements for the schemes is contained within Note (l) below.

Valuations of the Agency's assets and liabilities in each scheme as at 31 March 2020 have been prepared in accordance with IAS 19 and the results are disclosed in Note (a) below. Note (b) below shows the weighted average of the key assumptions used by each of the scheme actuaries in preparing the valuations, weighted according to each scheme's liabilities. Other information below is shown on a consolidated basis for all three schemes.

### a) Pension assets/(liabilities)

| | HCA Pension Scheme £'000 | Westminster £'000 | West Sussex £'000 | Total £'000 |
|---|---|---|---|---|
| **2019/20** | | | | |
| Fair value of employer assets | 417,045 | 321,431 | 74,352 | 812,828 |
| Present value of funded liabilities | (416,970) | (242,743) | (58,677) | (718,390) |
| **Net funded scheme assets** | **75** | **78,688** | **15,675** | **94,438** |
| Present value of unfunded liabilities | (1,194) | (3,387) | (2,897) | (7,478) |
| **Adjusted net scheme assets/(liabilities)** | **(1,119)** | **75,301** | **12,778** | **86,960** |
| Total of net pension assets | | | | 94,438 |
| Total of net pension liabilities | | | | (7,478) |
| **2018/19** | | | | |
| Fair value of employer assets | 417,082 | 351,566 | 75,339 | 843,987 |
| Present value of funded liabilities | (398,721) | (269,806) | (72,104) | (740,631) |
| **Net funded scheme assets** | **18,361** | **81,760** | **3,235** | **103,356** |
| Impact of asset ceiling | - | - | - | - |
| **Adjusted net funded scheme assets** | **18,361** | **81,760** | **3,235** | **103,356** |
| Present value of unfunded liabilities | (1,189) | (3,770) | (3,387) | (8,346) |
| **Adjusted net scheme assets/(liabilities)** | **17,172** | **77,990** | **(152)** | **95,010** |
| Total of net pension assets | | | | 103,356 |
| Total of net pension liabilities | | | | (8,346) |

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

As principal employer of the HCA Pension Scheme, the Agency continues to monitor the scheme and has a good working relationship with the Trustees. The Trustees review the Scheme's investment portfolio on a regular basis. At present, 25% (2018/19: 25%) of the Scheme's investments are held within liability driven investments which aim to better match the Scheme's liabilities and partially hedge the Scheme against rises in inflation and interest rates. A further 20% (2018/19: 20%) of assets are held in Corporate Bonds.

The liability hedging is managed through Insight Investment (one of the HCA Pension Scheme's investment managers) Enhanced Selection Funds which allow Insight Investment the discretion to select the most attractively priced hedging instruments to hold in the pooled fund which may include gilts, index linked gilts, gilt repossession or swaps. As at 31 March 2020, the Scheme had an interest rate hedge ratio of 50% (2018/19: 59%) and an inflation hedge ratio of 40% (2018/19: 58%) relative to the gilts-flat liabilities.

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

## b) Actuarial assumptions

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

### i) Financial assumptions

| | 2019/20 | 2018/19 |
|---|---|---|
| Inflation and pension increases rate (CPI) | **2.0%** | 2.2% |
| Salary increases | **3.2%** | 3.7% |
| Discount rate | **2.3%** | 2.4% |

### ii) Mortality assumptions

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

| | 2019/20 Years | 2018/19 Years |
|---|---|---|
| Male - current pensioners | **22.5** | 23.2 |
| Male - future pensioners | **23.9** | 24.8 |
| Female - current pensioners | **24.6** | 24.8 |
| Female - future pensioners | **26.3** | 26.7 |

## c) Fair value of employer assets

| | 2019/20 £'000 | Represented 2018/19 £'000 |
|---|---|---|
| Equities - quoted | **338,647** | 385,310 |
| Equities - unquoted | **20,920** | 24,945 |
| Bonds - quoted | **307,194** | 267,663 |
| Property | **42,453** | 43,124 |
| Other assets - quoted (incl cash) | **103,548** | 122,865 |
| Other assets - unquoted | **67** | 80 |
| **Total** | **812,828** | 843,987 |
| **Actual return/(loss) on employer assets** | **(30,713)** | 44,102 |

The classification of assets in 2018/19 has been reanalysed. Multi asset credit investments, previously classified within quoted equities, have been reclassified as unquoted equities and other unit trusts, previously classified within quoted bonds, have been reclassified as other quoted assets.

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

## d) Charge to Net Expenditure

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Amounts charged to Net Operating Expenditure** | | |
| Current service costs | **19,389** | 16,115 |
| Past service costs and losses on curtailments and settlements | **520** | 123 |
| Expenses | **1,731** | 900 |
| | **21,640** | 17,138 |
| **Amounts charged to finance costs** | | |
| Interest charged on liabilities | **17,773** | 19,095 |
| Expected return on assets | **(20,226)** | (21,698) |
| Interest on asset ceiling | **-** | 740 |
| | **(2,453)** | **(1,863)** |
| **Total recognised in Statement of Comprehensive Net Expenditure** | **19,187** | 15,275 |

The total expected employer contributions to these schemes in the year ending 31 March 2021 are £17m.

## e) Amounts recognised in Income and Expenditure Reserve

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| Actuarial gains/(losses) | **(4,959)** | 34,650 |

The cumulative amount of actuarial gains recognised in other comprehensive expenditure since the adoption of IAS 19 is £136.6m (2018/19: £141.6m).

## f) Reconciliation of fair value of employer assets

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Opening fair value of employer assets** | **843,987** | **844,341** |
| Expected return on assets | **20,226** | 21,698 |
| Contributions by members | **3,249** | 2,767 |
| Contributions by the employer | **15,545** | 9,607 |
| Contributions in respect of unfunded benefits | **551** | 541 |
| Actuarial (losses)/gains | **(50,939)** | 22,404 |
| Net transfers | **3,290** | (177) |
| Transfer to RSH | **-** | (35,412) |
| Expenses | **(1,804)** | (957) |
| Unfunded benefits paid | **(551)** | (541) |
| Benefits paid | **(20,726)** | (20,284) |
| **Closing fair value of employer assets** | **812,828** | 843,987 |

## g) Reconciliation of defined benefit obligation

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Opening defined benefit obligation** | **748,977** | 752,798 |
| Current service cost | **19,389** | 16,115 |
| Past service cost and losses on curtailments and settlements | **520** | 123 |
| Interest cost | **17,773** | 19,095 |
| Contributions by members | **3,249** | 2,767 |
| Actuarial (gains)/losses - demographic | **(10,401)** | (15,189) |
| Actuarial (gains)/losses - financial | **(21,434)** | 37,914 |
| Actuarial (gains)/losses - other | **(14,145)** | (5,224) |
| Net transfers | **3,290** | (177) |
| Transfer to RSH | **-** | (38,363) |
| Expenses | **(73)** | (57) |
| Unfunded benefits paid | **(551)** | (541) |
| Benefits paid | **(20,726)** | (20,284) |
| **Closing defined benefit obligation** | **725,868** | 748,977 |

## h) Reconciliation of asset ceiling

| | 2019/20 £'000 | 2018/19 £'000 |
|---|---|---|
| **Opening asset ceiling** | - | 29,007 |
| Interest cost | - | 740 |
| Actuarial movements | - | (29,747) |
| **Closing asset ceiling** | - | - |

## i) Five-year history

| | 2019/20 £'000 | 2018/19 £'000 | 2017/18 £'000 | 2016/17 £'000 | 2015/16 £'000 |
|---|---|---|---|---|---|
| Present value of defined benefit obligations | **(725,868)** | (748,977) | (752,798) | (779,191) | (611,911) |
| Fair value of employer assets | **812,828** | 843,987 | 844,341 | 828,887 | 683,714 |
| Impact of asset ceiling | **-** | - | (29,007) | (6,506) | (16,550) |
| **Surplus in the schemes** | **86,960** | 95,010 | 62,536 | 43,190 | 55,253 |
| Experience gains on scheme liabilities | **14,145** | 5,224 | 12,320 | 6,715 | 2,009 |
| Experience gains/(losses) on employer assets | **(50,939)** | 52,151 | 7,337 | 127,173 | (28,201) |

## j) Sensitivity Analysis

The primary assumptions used in calculating the defined benefit obligation are: discount rate, salary increases, inflation and pension increases and mortality expectations. The assumptions used are specified in Note 23(b). The assumptions are determined by independent professional actuaries whose work is compliant with Technical Accounting Standard 100: Principles for Technical Actuarial Work as issued by the Financial Reporting Council.

IAS 19 sets out the principal underlying the setting of assumptions, that they should be based on the best estimate of future experience, and also gives a clear direction on the basis for calculating the discount rate. Assumptions should also reflect market conditions at the reporting date, including demographic assumptions and the mix of membership of Homes England's Schemes.

The key assumptions are considered to be the discount rate and the rate of future inflation. The discount rate is important in determining the value of liabilities and is based on high quality corporate bonds at the year end. The rate is in line with the AA corporate bond yield curve at the year end. Inflation expectations inform the rate at which current and future pensioner's benefits accrue. It is based on CPI at the year end with an inbuilt allowance for an insurance risk premium. Demographic assumptions, including mortality expectations can also have a bearing on the valuation of liabilities, as can the specific membership mix of our schemes.

To assess the defined benefit obligation, assumptions are used in a forward looking financial and demographic model to present a single scenario, using financial assumptions that comply with IAS19. The valuation of the obligation at 31 March 2020 is a snapshot in time; actual experience over time may differ and the total cost of a scheme will depend on a number of factors including the amount of benefits paid, the number of people who benefits are paid to, scheme expenses and the amount earned on assets. These factors aren't known for certain at the valuation date.

The calculation of liabilities is sensitive to movements in assumptions and even small changes to individual assumptions can have significant impacts. If they were to change, the impact would be as follows:

| Adjustment to discount rate | +0.25% | Current | -0.25% |
|---|---|---|---|
| Present value of total obligation | **692,260** | 725,868 | 757,769 |
| Movement | **(33,608)** | - | 31,901 |

| Adjustment to inflation | +0.25% | Current | -0.25% |
|---|---|---|---|
| Present value of total obligation | **754,990** | 725,868 | 698,362 |
| Movement | **29,122** | - | (27,506) |

| Adjustment to life expectancy | +1 year | Current | -1 year |
|---|---|---|---|
| Present value of total obligation | **751,478** | 725,868 | 700,677 |
| Movement | **25,610** | - | (25,191) |

## k) Maturity profile of the defined benefit obligation

The weighted average duration of the defined benefit obligation of the pension schemes is 18 years.

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

| | £'000 |
|---|---|
| Within 5 years | 84,090 |
| 5-10 years | 88,608 |
| After 10 years | 553,170 |
| **Total defined benefit obligation** | **725,868** |

## l) Funding arrangements

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

The HCA scheme is a multi-employer scheme that does not operate on a segregated basis. Therefore the assets and liabilities are not separately identified for individual participating employers. Benefit obligations are estimated using the Projected Unit Credit Method.

Both Homes England and RSH are members of the HCA Pension Scheme although Homes England is the only significant contributing employer and accounts for the vast majority of the HCA scheme's liabilities. Based on actuarial data at 31 March 2020, the share of the HCA scheme's assets and liabilities attributed to RSH is approximately 2% with the remainder attributed to Homes England. All assets are pooled and a single employer contribution rate is determined as part of the actuarial valuation for the whole scheme. This contribution rate applies for the principal employer, Homes England, along with any other participating employers, including RSH.

Homes England and RSH record the cost of employer contributions in their own Financial Statements and account for their proportionate share of the Scheme's asset and liabilities separately. The assets and liabilities disclosed in Homes England's Financial Statements relates only to its share of the Scheme's assets and liabilities and not to the assets and liabilities of the entire Scheme.

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

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

### l) McCloud judgement

In December 2018, the Court of Appeal ruled against the government in two cases: Sargeant and others v London Fire and Emergency Planning Authority [2018] UKEAT/0116/17/LA and McCloud and others v Ministry of Justice [2018] UKEAT/0071/17/LA. The cases related to the Firefighters' Pension Scheme (Sargeant) and to the Judicial Pensions Scheme (McCloud). For the purposes of the LGPS, these cases are known together as 'McCloud'. The court held that transitional protections, afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. The estimated impact on the total liabilities at 31 March 2020 has therefore been allowed for as a past service cost and has resulted in an increase of c£0.5m in the defined benefit obligation as at 31 March 2020. It should be noted that this allowance is an estimate of the potential impact on the Employer's defined benefit obligation based on analysis carried out by the Government Actuary's Department (GAD) and the Employer's liability profile. It is not yet clear how this judgement may affect LGPS members' past or future service benefits.

## 24. Contingent assets and liabilities

### Contingent assets

The Agency has in certain instances disposed of land or made grant payments with certain conditions attached, which if no longer fulfilled will result in a payment to the Agency. Examples include where there is a subsequent change in use of land sold which materially increases the return to the purchaser, or if the conditions of a grant payment are no longer met. The normal term during which this arrangement remains in force is 21 years. For affordable housing and other community related schemes the term is more usually 35 years. By its nature this income is variable and the timing of receipt is uncertain, therefore it is not possible to quantify the likely income which may ultimately be received by the Agency.

### Contingent liabilities

#### a) Sunderland City Council

The freeholds of several hundred properties on two estates in Washington were transferred to Sunderland City Council on 1 April 1997. The transfer was subject to an Agency indemnity valid for a period of 30 years against costs which may be incurred in remedying shale related defects. This indemnity was issued with the approval of MHCLG. The extent of the potential liability will only be known once any defects are identified. No claims have yet been notified under this indemnity.

#### b) The West Sussex County Council Pension Fund

At 31 March 2020, the Agency had 11 employees who were active members of the West Sussex County Council Pension Fund. When the Agency's last active member leaves the scheme, the obligation to pay an exit debt will be crystallised. The timing and value of any exit debt due in the future is not yet known.

#### c) Other contingent liabilities

The Agency is potentially liable for miscellaneous claims by developers, contractors and individuals in respect of costs and claims not allowed for in development agreements, construction contracts, grants and claims such as Compulsory Purchase Orders. Payment, if any, against these claims may depend on lengthy and complex litigation and potential final settlements cannot be determined with any certainty at this time. As claims reach a more advanced stage they are considered in detail and specific provisions are made in respect of those liabilities to the extent that payment is considered probable.

## 25. Financial commitments

| | 2019/20 £m | Restated 2018/19 £m |
|---|---|---|
| Not later than one year | **4,161** | 2,481 |
| Later than one year and not later than five years | **2,764** | 1,416 |
| Later than five years | **127** | - |
| **Total commitments at 31 March** | **7,052** | 3,897 |

Following a change in the methodology used for the recognition of commitments, prior year figures have been restated.

The Agency has made financial commitments in relation to programmes for investments in loan and equity assets and grants, which had become unconditional at the reporting date, but which had yet to be drawn down by that date. The value of these commitments, excluding those disclosed in Note 15(c), was £3,724m at 31 March 2020 (31 March 2019: £1,429m). The increase includes significant additional Housing Infrastructure Fund and Home Building Fund approved in the year.

The Agency has entered into financial commitments in relation to affordable housing grant programmes totalling £1,783m at 31 March 2020 (31 March 2019: £1,084m). The increase is due to additional commitments through the Strategic Partnership framework.

The Agency has also 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 2020 plus contractual commitments to third-party suppliers who administer individual transactions on behalf of the Agency was £1,153m (31 March 2019: £978m).

In addition to the above, the Agency has entered into financial commitments in relation to land development and building leases totalling £382m and £10m respectively at 31 March 2020 (31 March 2019: £396m and £10m).

## 26. Related party transactions

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

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

| 2019/20 | Capital invested in/ (redeemed from) entity £m | Grants and other payments £m | Loans / equity advanced / (repaid) £m | Loan interest / dividends received £m |
|---|---|---|---|---|
| **Payments out** | | | | |
| English Cities Fund Limited Partnership | 22.3 | - | - | - |
| Sigma PRS Property Investments | - | - | 62.0 | - |
| Eastleigh Borough Council | - | 1.4 | - | - |
| **Receipts in** | | | | |
| Countryside Maritime Limited | - | - | - | (1.8) |
| English Cities Fund Limited Partnership | - | - | - | (1.0) |
| Kier Community Living | - | - | (3.0) | - |
| Sigma PRS Property Investments | - | - | (30.7) | - |

| 2018/19 | Capital invested in/ (redeemed from) entity £m | Grants and other payments £m | Loans / equity advanced / (repaid) £m | Loan interest / dividends received £m |
|---|---|---|---|---|
| **Payments out** | | | | |
| Countryside Maritime Limited | - | - | 3.5 | - |
| English Cities Fund Limited Partnership | 4.2 | - | - | - |
| FutureGov. Limited | - | 2.8 | - | - |
| Kier Community Living | 12.1 | - | 30.0 | - |
| Sigma PRS Property Investments * | - | - | 37.5 | - |
| Eastleigh Borough Council * | - | 2.5 | - | - |
| **Receipts in** | | | | |
| Countryside Maritime Limited | - | - | (3.5) | (0.4) |
| English Cities Fund Limited Partnership | - | - | - | (0.3) |
| Kier Community Living | - | - | (0.2) | - |
| Sigma PRS Property Investments * | - | - | (47.8) | - |

* Restated

In addition to the above, the Agency holds £7.7m (2018/19: 4.3m) on behalf of English Partnerships (LP) Ltd, the Agency's wholly owned subsidiary.

The related party relationship with Sigma PRS Property Investments is due to one member of the Agency's Board also being a Director of Sigma Capital Group PLC, who are the parent company of Sigma PRS Property Investments.

The transactions relate to loan funding provided by the Agency under the Short Term Fund which offers the applicant a revolving facility. The total agreed loan facility that can be drawn at any one time is £44.6m. As at 31 March 2020 the balance of the loan was £37.5m.

The related party relationship with Eastleigh Borough Council is due to one member of the Agency's Board also being Council Leader of Eastleigh Borough Council. The transactions relate to grant funding provided by the Agency under the Local Authority Accelerated Construction programme. The total grant awarded under this agreement is £20.8m and can be drawn down by the Council until 31 March 2021.

The related party relationship with FutureGov. Limited in 2018/19 was due to one member of the Agency's senior management team also being the majority shareholder of FutureGov. Limited. The individual was in post throughout 2018/19 but left the Agency on 31 March 2019.

Please see note 14 for information on the Agency's investments in subsidiaries, associates and joint ventures.

The Agency's internal approval procedures are established so that members of staff nominated to act as Directors or Officers of associated undertakings and joint ventures do not have delegated authority with regard to the relevant undertaking.

There were no other material transactions in which related parties had a direct or indirect financial interest other than those disclosed above.

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

For details of compensation paid to management please see the Remuneration Report.

## 27. Events after the reporting period

The Agency's Financial Statements are laid before the Houses of Parliament by the Secretary of State for Housing, Communities and Local Government. IAS 10 Events After the Reporting Period requires the Agency to disclose the date on which the accounts are authorised for issue.

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

### COVID-19

As detailed in Note 2, the COVID-19 pandemic occurred prior to the reporting date and its effects as at 31 March 2020 have been considered and incorporated by the Agency in determining key accounting judgements (see accounting policy 1f - Critical accounting judgements and key sources of estimation uncertainty). The future effects of the pandemic are not yet known and so we have carried out a scenario analysis to highlight the potential impact of possible alternative scenarios on the Agency's assets. This is set out in Note 2.

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CCS0320330936
ISBN: 978-1-5286-1461-0