Homes England

Making homes happen

Annual Report & Financial Statements

2020/21

HC 456

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Homes England[1] Annual Report & Financial Statements 2020/21

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 21 July 2021.

HC 456

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 2020/21 Financial Year for the group of entities of which Homes England is the parent.

The Homes England Group is consolidated into the 2020/21 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 978-1-5286-2749-8
CCS0221098302 07/21

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

Chair's foreword

I joined Homes England in October 2020 during a difficult time for many partners and the wider housing sector. After 40 years as a private sector developer and investor, I came to Homes England because of the enormous importance of housing to wellbeing and prosperity in our country and the potential to build better. I am very proud of what Homes England achieved this year in the face of the pandemic and excited by the potential to work alongside the Government and the housing sector to achieve more still.

Peter Freeman
Chair

Homes England's mission and purpose is to help create a housing market that offers suitable homes for all needs across the country by delivering Government policy. I also believe it is vital that we ensure homes are not just built at every price point, but that they are well designed, sustainable and help foster a sense of community and place. To achieve this, the Agency works closely with over a thousand partner organisations across the country, including Local Authorities, housebuilders from the smallest to largest, public bodies and organisations, and more than 300 housing associations.

In addition to these widespread relationships, Homes England works alongside a small number of leaders in the fields of finance and investment to leverage Homes England's own investment on behalf of the Government. Our partners include Barclays, Lloyds Banking Group and M&G. In March 2020, we announced a £10m investment in M&G Investments new Shared Ownership Fund. Homes England's early participation catalysed £177m of initial institutional investment, a first step towards the fund's £825m target capital raise. Over the next five years the fund will develop more than 2,000 new affordable shared ownership homes in partnership with housing associations across England. This deal highlights the commitment Homes England has to supporting the growth and evolution of housing in institutional portfolios and

championing public-private sector partnerships.

The Agency also looks to support innovation in the sector and in the last year has taken significant steps to achieve this through investment in Modern Methods of Construction (MMC). Most recently, Homes England announced an 1,800 homes MMC Research Commission across eight Agency sites. The six-year venture will enable us to learn lessons in this field and drive forward greater uptake of MMC in the sector.

Importantly, the Agency does not compete with the market by directly building homes. Instead, we support our partners to unlock delivery and increase supply, whether this is through enabling land to come forward, providing funding where it is otherwise not available, and brokering relationships to bring skills and capacity together.

By doing so, we have played a key role in the delivery of over 25% of the country's homes each year.

This year we announced a major new regeneration scheme, York Central, in partnership with Network Rail, the National Railway Museum and York City Council. This will see the delivery of 2,500 homes with a focus on design and sustainability, in addition to creating a quality place with new jobs and support for York's economy. York Central is also an important signal that Homes England is taking good design seriously, and we're encouraging this further by putting terms into our land sales.

Affordability pressures remain a barrier to many getting a home of their own, and I am pleased that through our £7.4 billion Affordable Homes Programme and strategic partnerships Homes England is tackling this head on with the delivery of 130,000 homes over five years. This year we granted £53m to Together Housing Group to enable the delivery of 1,152 additional new homes in the North of England by March 2022.

By granting funding for entire development programmes, our long-term strategic partnerships have given housing associations the investment and flexibility to adapt to the changing housing market as a result of the COVID-19 pandemic. To make the strategic partnership model more widely accessible, Homes England has now extended this offer to Local Authorities and for-profit registered

providers. These changes will allow us to create a more diverse market and better support priority places.

As we look to move on from the worst of the pandemic and along a path for recovery, we also find ourselves looking to the future and the longer-term challenges facing the housing sector and wider built environment. This means thinking about how we enable attractive, practical, and sustainable design. It also means thinking about how we can support local partners respond to the issues affecting urban centres across the country. While increasing the supply of new homes remains Homes England's core focus, a key lesson from last year is that we should approach this holistically to ensure we're creating the homes and places that can stand up to the 21st century. As we move into the next financial year, I'm looking forward to tackling these challenges and opportunities as a sector - and in those challenges are opportunities.

I would like to thank Nick Walkley, who stepped down as Chief Executive in February 2021 after four years of immensely hard work to transform Homes England into a mature and ambitious organisation with increased capacity and capability. I am grateful to Gordon More for stepping up as Interim Chief Executive and providing strong leadership at this time.

Finally, a thank you to all Homes England staff and everyone who has worked with the Agency to make homes happen during this incredibly challenging year. Despite the difficulties, productivity has been strong, and the sector has achieved a great deal.

Looking to the year ahead and with a new Chief Executive soon to be at the helm, Homes England's focus will be on working with our many partners to deliver more and better in a way that is open, effective and collaborative. We will continue to drive Government housing ambitions and our pride will be in the delivery of our mission through quality homes and places for communities across the country.

Tilia Homes (formerly Kier Partnership Homes) are developing this surplus public land site, transforming the former Manor and Kingsway Hospitals in Derby as part of a multi-phase development of 700 homes of high environmental standards, of which nearly 330 homes are occupied. Manor Kingsway was one of the first developments in the country to meet the Building for Life 12 standard – achieving 12 'green lights' and Diamond Status.

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.

Interim Chief Executive's statement

The success of Homes England is built on the efforts of our colleagues and partners. Over the course of a year disrupted by COVID-19, we have enjoyed many successes and that is down to the resilience of each and every one of the people that we work with.

Gordon More
Interim Chief Executive

We have all had to adapt quickly and work flexibly, both individually and as a sector, and we have continued to rise to the challenges of delivery against the backdrop of a global pandemic.

Those efforts have seen us continue to perform strongly in the face of the challenges we've all faced. There has been a huge effort to deliver our ambitious targets this year, which has seen us support the market through tough economic conditions, help 56,000 households to buy their own home, enable 35,000 new homes to be built and unlock land that will support the delivery of 170,000 homes.

The impact of the pandemic on the housing market and our partners in 2020/21 was extensive and diverse. Performance was disrupted in the first quarter of the financial year, with a partial shutdown of the construction sector and the closure of the housing market resulting in over 100,000 fewer property transactions and 55% fewer housing completions compared to the previous year. But in spite of this, Homes England's annual performance remained sturdy in comparison to the year on year falls in starts and completions seen in the market. This was, in part, due to our capability of acting counter-cyclically and providing a safety net, which gave our partners the confidence to advance with their development pipelines.

Everyone across our organisation has played a role in supporting partner confidence and delivering on our objectives. From Legal, Finance and Government Relations to colleagues in Investment, Development and our Markets, Partners and Places directorate, every team at Homes England plays a part in making homes happen. Huge recognition is needed for our Digital team, whose sterling efforts have equipped every member of staff with the technology, training and platforms that make delivery possible from our own homes. We successfully onboarded 327 new colleagues over 2020/21, with improved virtual and agile working principles helping make us more effective in delivering on our mission.

This is something we are building on through our Future of Work programme. We've identified five related themes – wellbeing, delivery, inclusion, offices, and team-working – that we are exploring in detail to help us understand how Homes England needs to work in the future, taking the best of our learnings over the past year to strike a balance between short term ideas and longer-term changes that will help us to improve how we work, collaborate and support one another.

At the end of 2020, we virtually moved into our new office at The Lumen, in the heart of Newcastle City Centre. This new location allows us to work under one roof alongside our partners, the North of Tyne Combined Authority, and epitomises our ambition to foster more collaborative ways of working with each other and our partners, be that in person or virtual.

Homes England has come so far in our aim to strengthen our relationships in challenging circumstances, both internally and externally. Our partners face similar issues as we do, and the fact that Homes England colleagues were still doing deals right down to the wire at year end (and completing Help to Buy transactions!) is a credit to the whole Agency. Speaking of which, it's with great pride I can say that at the end of March, Help to Buy broke through to achieve its largest annual spend ever - £4 billion. That means that we helped a record 56,000 households buy their own home in the last year, making a real impact on people's lives.

Our Help to Buy team has well and truly worked their socks off this year and I'm pleased to report that the new Help to Buy: Equity Loan (2021-2023) scheme was delivered on time, with no drop in the quality of service. Described by our partners as a seamless transition from old to new and to put this into context, more than 1,600 homebuilders were fully in contract and 12,000 homebuyers had approved equity loans for the new scheme within days of the launch, an outstanding result.

Our mission has never been more important or clear – this year has highlighted even further the sheer impact our work has on people's lives, with real, tangible social impact. It is vital that we continue to push not just for more homes, but for better ones too. Our new Sustainability and Design Framework is a particular highlight for me: grounded in evidence, the principles that the framework sets out will provide us with a solid platform from which we will be able to put quality at the heart of the Agency's work, helping ensure the sector is delivering new homes that set the standard in terms of design and sustainability.

The past year also saw us make significant strides towards our own transformation. Following the approval of our transformation business case at the start of the financial year, we've made real inroads into building better customer and partner journeys. We're restructuring the Agency's 'front door' on gov.uk, improving our core customer facing services and supporting processes. We are transforming the service and internal process of Help to Buy whilst reviewing and improving access to home buying. And we have also redesigned our affordable housing service to align with Affordable Homes Programme 2021/26. All of these transformation efforts are helping make Homes England a more robust, effective and easier to work with organisation and are helping us deliver on our priorities more efficiently.

Our response to the pandemic was one that understood the impact on partners, and we developed and continue to develop plans to mitigate these impacts. We focused on collating and sharing market intelligence and communications with colleagues across the Agency, allowing us to get to grips with problems faced across the market, leading to a much more collaborative working approach. We were keen to support our partners. So, we did two things; delayed the repayment of loans and moved contractual milestones to allow partners more time to deliver. Recycling funds was also permitted, which helped to provide the liquidity and cash flow needed, reducing administrative demand.

The word unprecedented has now been overused but it's fair to say that the events this year took everyone by surprise. Development support is especially important during a time where people can feel like they're wandering through a desert and we want to continue to help builders bounce back stronger. We've been seeking new ways to build on this available support and this year we've had several big additions, including our new 7 year partnership and a £25m revolving fund to allow non-bank lending platform, Invest & Fund, to support small builders with construction loans of between £400k and £2.5m and let's not forget our 5-year £250m lending alliance with United Trust Bank, which will support small and medium-sized developers to deliver thousands of new homes at pace in areas of greatest need.

We also understand that in many cases, knowledge and capacity are the power tools needed to scale and build efficiently and effectively which is why I'm appreciative of the effort our Markets, Partners and Places (MPP) team have put into getting the Local Government Capacity Centre of Excellence up and running. We now have that clear vision for how we balance the need to support everyone against the need to support some people in a much more intense way. We have also added this capacity to market partners at a sub-regional level with ongoing support of the Thames Estuary Growth Board and the Homes England commissioned pan Estuary Spatial study that will help drive a new pipeline of opportunities for us and our work in Manchester and Essex to form a new support model at a sub-regional functional market area level is also well underway.

Another highlight was within Affordable Housing. Homes England extended the deadlines on expenditure and works completed, reducing the burden on Local Authorities and Registered Providers. In turn, this allowed them to focus resources on responding to the direct consequences of the pandemic. Our Strategic Partnerships model offered partners the necessary assurance and flexibility, allowing them to move funding to different schemes if there were issues with Local Authority capacity, for example. All of these efforts have helped our partners keep delivering throughout a challenging year like no other.

Looking ahead, the industry still needs to undertake significant research and development to be able to meet the huge challenge we face of delivering the Future Homes Standard and 300k homes per year. The ground-breaking action research project AIMCH (Advanced Industrialised Methods for the Construction of Homes) into MMC recently passed the two-year mark in its three-year lifespan and is reporting significant and encouraging progress. The project is looking not just at MMC, but what and how we build to achieve higher standards. We are involved both as a member of the Stakeholder Panel and one of the key sites is our Pewterspear site in Warrington. We have also aligned our own MMC Pilot research data collection with this so that we are able to build a more consistent body of evidence.

Our desire to adapt and innovate has not dwindled. To achieve our ambitions and transform the housing market, we must continue to evaluate, reflect, and streamline. Our mission to intervene, where the market will not, was stronger than ever in 2020/21. In challenging circumstances, faced with the exceptional economic and operational obstacles arising from the pandemic, we have continued to support both the market and our partners. I'd like to thank everyone we've worked with for the commitment you have shown towards our mission of making homes happen.

Homes England are acting as master developer to create the new town Northstowe on a former airfield close to Cambridge. Delivery includes 8,500 new homes, with forward funded infrastructure accelerating delivery on public sector, brownfield land. Urban Splash House are on site delivering their first phase of 406 homes that will comprise high levels of MMC including fully volumetric off site construction.

Organisational overview

Who we are

Homes England was established by Government in 2018 to increase the supply of quality homes, improve affordability and help create stronger, more liveable places. We are a national Agency with experts based across the country.

Constitutionally, 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're governed by a Board, appointed by the Secretary of State for Housing, Communities and Local Government, and led by chair Peter Freeman. Our interim Chief Executive and Accounting Officer, Gordon More, leads an executive team that includes specialists in land, investment, finance and risk management.

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

These 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 October 2018, in addition to our statutory objects, we launched a new Mission and Strategic Objectives, 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'll make this sustainable by creating a more resilient and diverse housing market.

Our strategic objectives are:

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.

In light of the evolution of Government policy priorities since the Strategic Plan was written, the Agency is supporting Government's new and emerging ambitions. There are a number of areas where we will plan to go beyond the strategic objectives in pursuit of these ambitions. These actions include further support to the Small to Medium size Enterprise (SME) sector, an ambitious agenda to drive improvements in the sustainability and design quality of the homes we enable, supporting additional place-based interventions, working with partners to develop a pipeline for new settlements, supporting building safety and exploring options to support the levelling-up agenda through regeneration.

We will be reviewing the Strategic Objectives in 2021 to further support the Government's 'Build Back Better' ambitions for the country. We aim to become an even stronger institution that can galvanise a housing-led recovery, connecting other ambitious organisations and using our resources to work strategically across the country to create homes, economic growth and long-term partnerships in places, to drive the sector to deliver more homes.

Market disruption and managing risks

As an organisation, Homes England has an ethos of delivering for the public good in the long term. Our organisation is required to be active in areas of the residential market which are considered unattractive by commercial organisations.

A substantial portion of activity in delivering our Strategic Delivery Plan carries an inherently higher risk than commercial organisations in the broader market. The nature of our approach to the market is underpinned by our risk management strategy. This means we should adopt best practice in managing risk, even if we are taking risk to fulfil public policy objectives over superior private sector returns.

In financial year 2019/20 Homes England underwent significant organisational design change to support a new operating model and ensure we are an efficient and effective team. This design change has continued to be implemented throughout 2020/21.

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.

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. The 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.

See our Governance Report to understand how we manage risk and a description of our key risks.

Impact of COVID-19 in 2020/21

COVID-19 has continued to have an impact on the Agency throughout financial year 2020/21.

The housing market has performed resiliently thanks to additional Government intervention and both the property and construction sector remaining open despite recurring lockdowns. However, there remains ongoing uncertainty about the future and longer-term impact of COVID-19 in the coming months and years.

Values for many of the Agency's assets are estimated with reference to key market indicators, such as house price growth, economic growth and unemployment; namely financial assets measured at fair value and land assets. Furthermore, expected credit loss forward looking models for assets held at amortised cost are calculated with reference to these same economic metrics.

The value of our Help to Buy Portfolio is particularly susceptible to market risk from house prices. Analysis showing the sensitivity of the valuation of these assets to changes in market prices is shown in Note 17a.

The Office for Budget Responsibility (OBR) develop scenarios to reflect potential economic outcomes. In the OBR's worst-case scenario for 2021/22, the value of our Help to Buy portfolio would fall by £1.7bn should this outcome occur. See note 2 for further detail.

Average growth in houses prices has been 2.4% per annum over the past 15 years. Overall growth in house prices in the year to January 2021 was 7.5% (per Office for National Statistics). While this percentage is higher than the recent average, this does not apply equally across all property types in all locations, with the pandemic causing many house buyers to reassess their preferences. As a result, over the past year, the pandemic has acted as a brake on increases in values for some elements of the portfolio.

This highlights the importance of the Help to Buy intervention in the market in assisting prospective homeowners to get on, and stay on, the property ladder by enabling them to obtain a mortgage, or obtain a lower Loan to Value product than would have otherwise been available to them. The latter, reducing and sharing the potential risk of negative equity.

We will continue to closely monitor the impact of housing market movements and the House Price Index on our Help to Buy portfolio along with the continued potential impact of COVID-19.

Details of the measurement of the Agency's assets can be seen below:

Asset type	Valued with reference to observed evidence of conditions & prices which existed at 31 March 2021	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		✓

The assumptions used, and judgements made, feed into the preparation of our annual accounts. See Note 2 for details of the accounting judgements made for each significant asset type.

The majority of the Agency's assets are valued with reference to market values as at 31 March 2021. For the Agency's commercial lending, where the impact of alternative future scenarios is considered in determining Expected Credit Losses, please see Note 14h and the sensitivity analysis performed in Note 17b.

Future impact of COVID-19

COVID-19 has the potential to have a long-lasting effect on the sector in 2021/22 and beyond as lockdown eases and various support initiatives are withdrawn. With HPI forecast to fall, and unemployment to increase modestly to 5.5%, ongoing macro-economic issues will 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 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. Partner delivery represents an additional factor that can impact our performance and requires the Agency's proactive management.

We continue to work closely with MHCLG and other stakeholders to gather and share market intelligence to understand the emerging challenges the sector faces and respond appropriately.

Looking forward to 2021/22 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 and disclosed below. Here, alternative future scenarios are considered to determine the financial impact we might reasonably expect to see if they occurred. The most significant observation to note from this analysis is the range surrounding the trajectory of the economic recovery, with a £2.3bn 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). This has reduced from £4.3bn range in the prior year, reflecting a lower uncertainty within the market.

£m	2020/21	Upside		Central	Downside	
	March 2021	March 2022	Low	March 2022 = Low point	March 2022	Low
Home equity loans	17,285	17,450		16,989	15,979	15,372
Loans at amortised cost	1,498	1,522		1,497	1,480	
Loans at FVTPL	434	438		429	413	
Land	1,111	1,117	1,111	1,100	1,064	1,029
Other financial assets at fair value	184	186		181	173	
Total value of assets analysed	**20,512**	**20,713**	**20,707**	**20,196**	**19,109**	**18,467**
Change in asset values	**-**	**201**	**195**	**(316)**	**(1,403)**	**(2,045)**

Going concern

Our net assets reflect the inclusion of liabilities falling due in future years. If they are not met from alternative 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 2022, taking into account the amounts required by our liabilities falling due in that year, has already been approved by Parliament.

Homes England and MHCLG have a formally 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 the financial statements of Homes England.

2020/21 Performance summary

Leading the sector by building our capacity and living our values

New chair announced

We announced Peter Freeman as our new Chair. Co-founder of the property developer Argent, Peter has a track record of planning and delivering the regeneration of local areas and creating places that are both socially and economically vibrant.

Research Commission **into MMC**

We published the research design of our **6 year, 1,800 home Research Commission** into MMC, in partnership with **Atkins, Faithful+Gould, BRE** and **UCL**. Through data, we aim to improve construction productivity and encourage greater uptake of MMC.

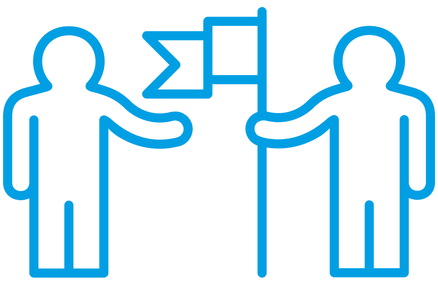
Published **The Homebuyers' Guide**, showing customers how the **new Help to Buy** scheme works, how to apply, and how to repay their equity loan.

Since the launch of the **Help to Buy** Equity Loan Scheme in 2013, **328,493 households** have been helped into home ownership.

We signed up to the **Tech Talent Charter**

A non-profit organisation leading a movement to address inequality in the UK tech sector and drive inclusion and diversity in a practical and uniquely measurable way. By fulfilling commitments within the Tech Talent Charter, collaborating across the sector and continuing to work with our Digital Shadow Leadership team we will work to ensure our recruitment processes and day to day procedures are inclusive.

Launched our **Key Account Managers programme**



Delivering a more coordinated and joined up approach to the Agency's engagement with just over 100 of our Key Industry Partners across a range of sectors including housing associations, developers, housebuilders financial institutions, landowners, consultants and innovators.

Launched our **new look Land Hub**, an interactive tool to **advertise sites Homes England is bringing to market**. Incorporating new features and functionality, the tool is now easier for our partners to navigate and find sites suited to them.

Unlocking development across the country

New **7-year partnership** with **Invest & Fund**

Announced a new 7-year partnership with Non-Bank lending platform Invest & Fund to increase the amount of finance available to small builders, to help them grow and deliver more homes at pace. The partnership has created a £25m revolving fund to allow Invest & Fund to support small builders with construction loans of between £400k and £2.5m, funding schemes of 2 homes and upwards, at up to 80% of development costs.

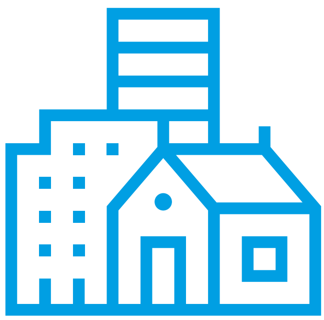
The **Festival Gardens site in Liverpool**, stalled for over 30 years, is now being brought forward as the first co-funded project between Homes England and with Liverpool City Region, creating **1,500 new homes**.

Over **70 transactions** closed across the **Home Building Fund Short** and **Long Term Funds**, which will deliver **6,458 new homes**

We agreed **£309m of funding** from the **Home Building Fund** to accelerate construction of **20,000 homes** at three major London housing developments in **Brent Cross, Silvertown Quays** and **Barking Riverside**.

Agreed a **£83m package of funding to** accelerate the delivery of **3,000 homes** at Fairham,

a 606-acre mixed use development on the edge of Nottingham. The funding will support the delivery of the infrastructure needed to bring Fairham forward, accelerating the creation of new homes and jobs for the area.



We acquired **two stalled development sites** in Harrogate, unlocking land for over

800 new family homes

at West Lane in Ripon and Bluecoat Park in Harrogate.

We agreed a

£61m

Home Building Fund loan with **Urban&Civic**

to accelerate the delivery of **6,500 new homes** at Waterbeach in Cambridgeshire. The loan will fund key strategic infrastructure for the site, including **road, drainage** and **utility works** and the **first primary school** and **health centre**.

New 5-year £250m lending alliance with **United Trust Bank**

Launched a new 5-year £250m lending alliance with United Trust Bank to support small and medium sized developers to deliver thousands of new homes at pace in areas of greatest need. We are contributing £17.5m towards the £250m fund, which will provide construction loans between £1m and £10m and up to 87.5% Loan-To-Cost and 70% Loan-To-Value.

Launched the new **£7.5bn Affordable Homes Fund.**

Performance analysis

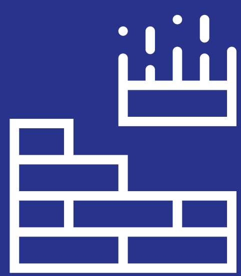
The purpose of the performance analysis section is to highlight Homes England's performance against both key indicators and prior year results. We also outline any factors which may have limited our ability to achieve our targets both internally to Homes England and within the market and economy.

A resilient performance in unique circumstances. Our performance during 2020/21 maintained the trend of effective delivery in recent years.

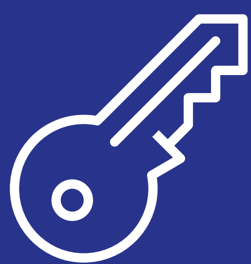
Despite the pandemic and recession, we supported the market in challenging economic conditions, helping 56,000 households buy their own home, enabling 35,000 new homes to be built, and unlocking land that will support the delivery of 170,000 homes. Whilst performance lagged the initial business plan targets in some areas, in comparison to the year-on-year falls in starts and completions seen across the market, our performance was resilient. This was in part due to our ability to act counter-cyclically and provide a safety net, which gave partners the confidence to continue to develop their development pipelines.

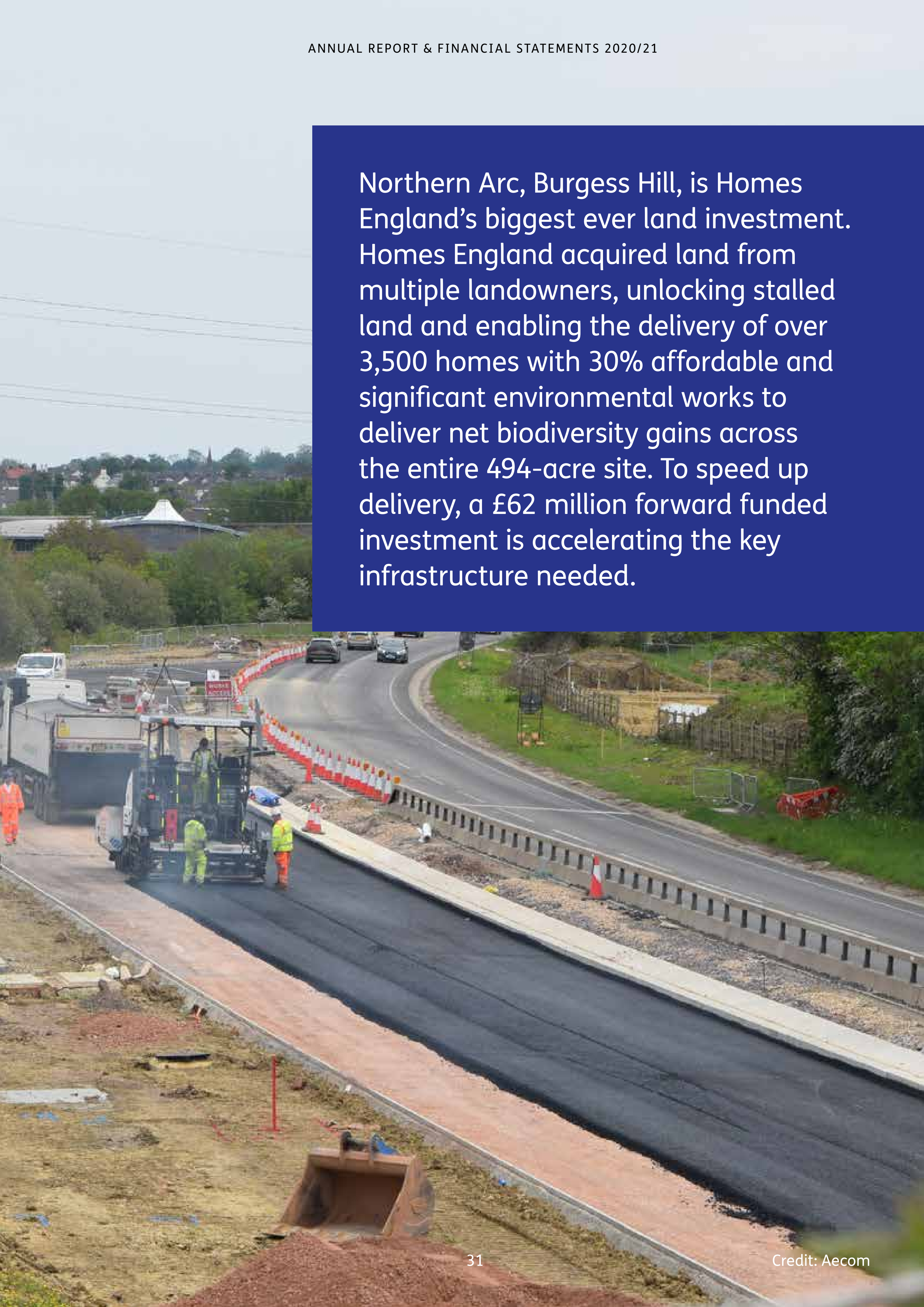
We helped
56,000
households buy their own home

We enabled
35,000
new homes to be built



We unlocked land that will support the delivery of
170,000
homes





Northern Arc, Burgess Hill, is Homes England's biggest ever land investment. Homes England acquired land from multiple landowners, unlocking stalled land and enabling the delivery of over 3,500 homes with 30% affordable and significant environmental works to deliver net biodiversity gains across the entire 494-acre site. To speed up delivery, a £62 million forward funded investment is accelerating the key infrastructure needed.

Credit: Aecom

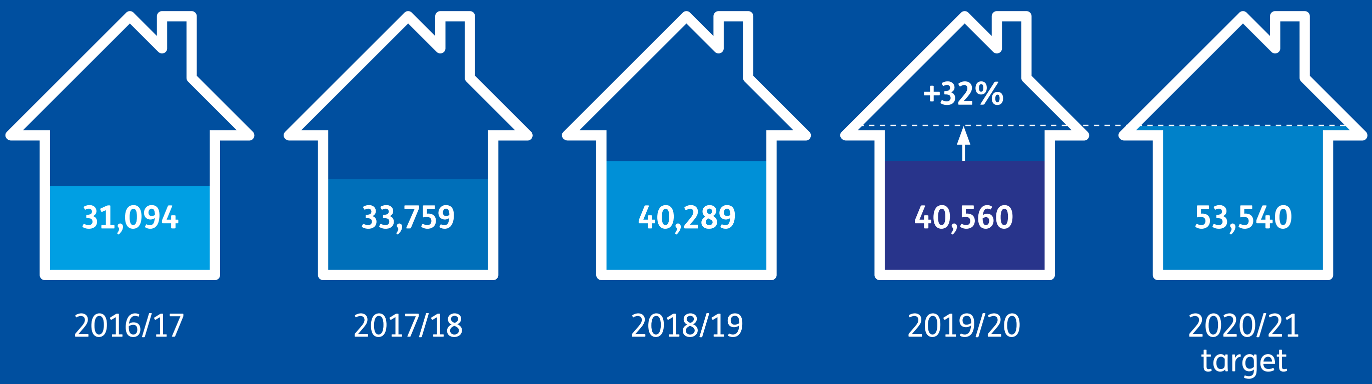
Performance review

A 'lost' quarter

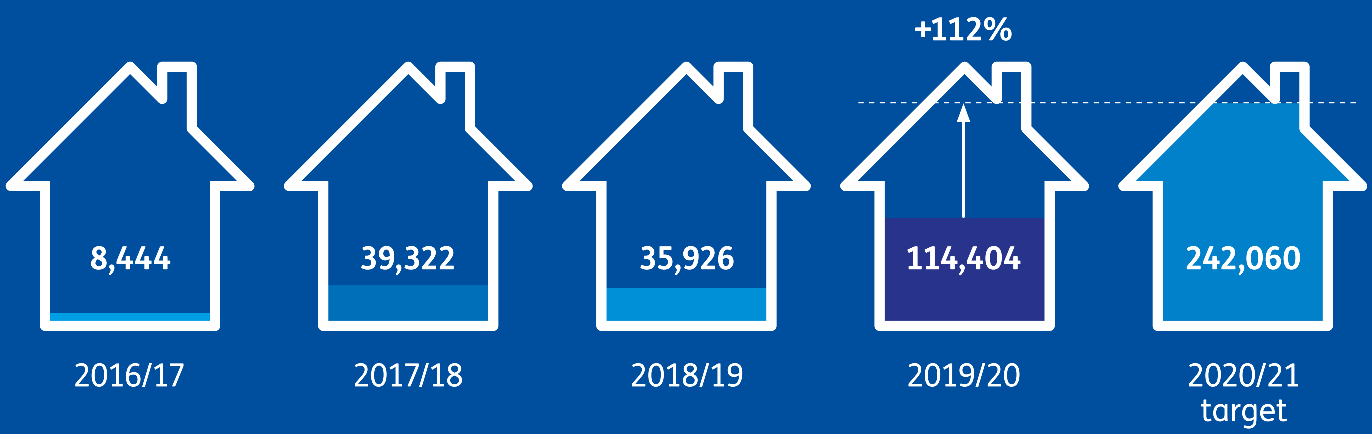
Initial performance targets

We set stretching performance targets for 2020/21. This included increasing completions by over 30%, with affordable housing completions expecting an increase of circa 13,000 units from 2019/20. Unlocked housing capacity was set to double, driven by the plans to contract 117 schemes announced by the Secretary of State in 2017.

Completions supported by Homes England (KPI 1)



Housing capacity unlocked (PIs 10 & 11)

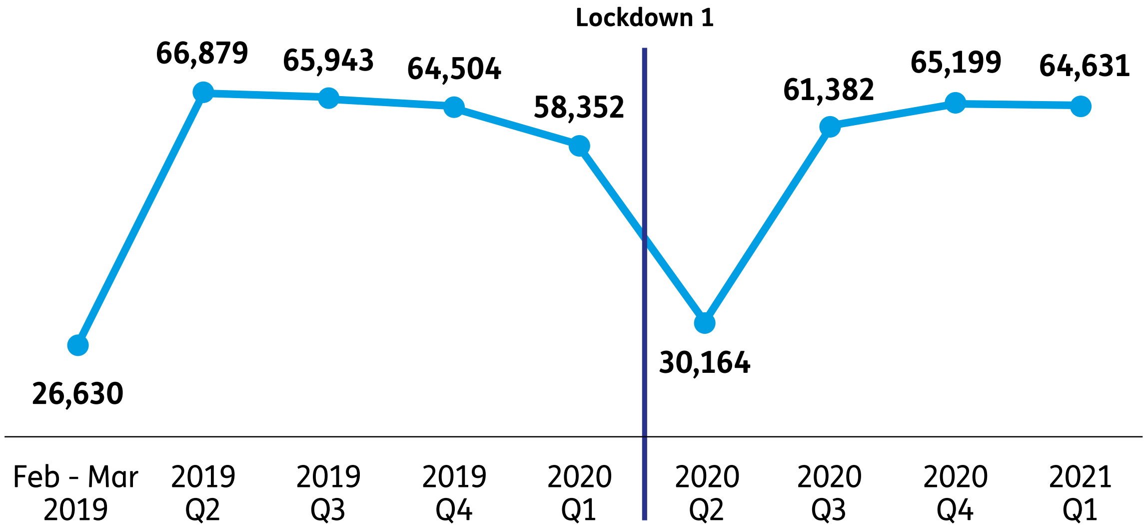


The impact of the pandemic

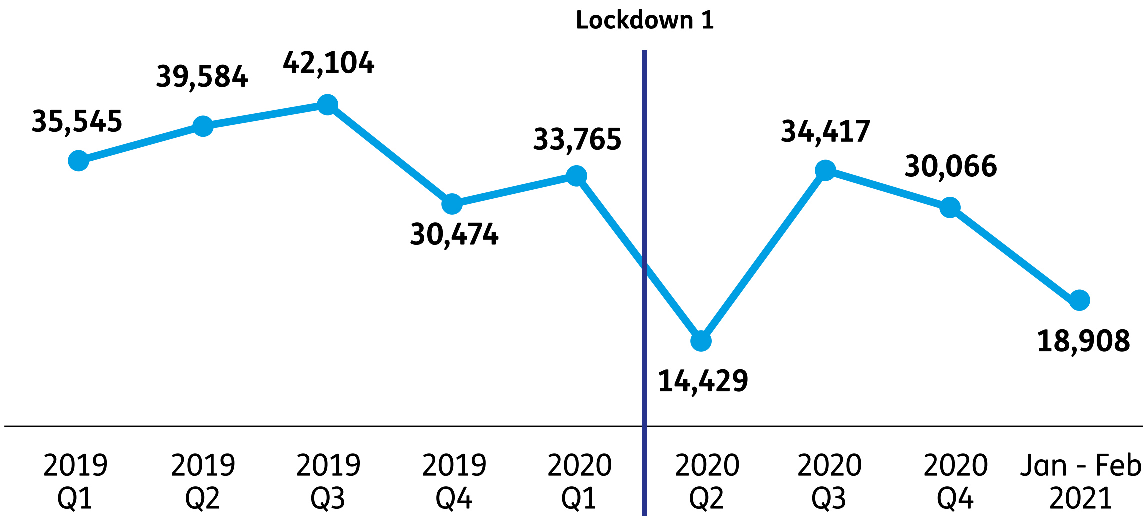
In the first quarter of the financial year, performance was disrupted by the onset of the pandemic and an unprecedented lockdown. During this period, there was a partial shutdown of the construction sector, and the housing market was closed.

As a result, there were over 100,000 fewer property transactions[1] and 55% fewer housing completions in this quarter compared to the previous year.[2] Starts on site also experienced a 24% reduction in 2020 compared to 2019, as housebuilders sought to conserve cash.[3]

Number of housing completions in England 2019/2020 Energy Performance Certificate (EPC)



Number of starts in England 2019/2020 National House Building Council (NHBC)



[1] HMRC data - Monthly property transactions completed in the UK with value of £40,000 or above - GOV.UK (www.gov.uk)
[2] EPC data - Live tables on Energy Performance of Buildings Certificates - GOV.UK (www.gov.uk)
[3] NHBC data (membership access required)

At the height of the pandemic, our partners faced multiple challenges. Common themes amongst housebuilders included concerns over cashflow, limited access to materials, reduced capacity, increased costs, and extended delivery timescales. Lower levels of sales and rental income created a challenge for several developers and difficulties in the mortgage market created a challenging sales environment. There were also concerns about ‘pent up’ demand waning. A significant number of developers cited challenges posed by social distancing on site, and the resulting impact on capacity. This was noted as a particular challenge for urban high-rise sites. The capacity of the labour market was also affected by the pandemic, particularly towards the end of the year, as increased infection rates led to localised outbreaks on site and lost productivity as construction workers had to self-isolate.

Lead times for materials lengthened, and supply chain restrictions required developers to amend build programmes and delivery timescales, particularly LMVBs (Low and Medium Volume builders). The economic uncertainties brought about by the pandemic led many traditional lenders to place a moratorium on new business lending whilst trying to fully understand the impact on their portfolios. Banks retrenched and focused on core lending, leading to concerns by non-bank lenders and larger developers that schemes would stall without access to liquidity. The major banks also withdrew almost all high LTV (Loan-to-value) mortgages due to economic uncertainty, meaning prospective buyers with little or no deposit were effectively no longer able to access the housing market.

In a number of cases, Local Authority resources were re-prioritised in order to deal with COVID-19 and maintain critical services including adult social care and homelessness provision. Delays occurred to housing provision due to this loss of resource, which led to the deferment or cancellation of cabinet/planning meetings, public consultation, and traffic and environment surveys.

For Housing Associations, supporting tenants, especially those who were shielding, took on a new urgency. They were also impacted by surveyors being unable to attend sites for valuations and difficulties in acquiring supplies, with concerns about future supply chain and potential future price increases. There was also a lack of certainty around the future of grant funding impacting future pipeline.

Resetting expectations

As a result, at the end of the first quarter, our performance expectations were reset to reflect the impact of the pandemic and performance targets were revised downward by 18%-32%. This reflected the construction progress that had been ‘lost’ during the first lockdown, along with the latest market and partner intelligence on the ongoing impact of the pandemic.

Government response

The Government introduced several fiscal measures to support the economy and in particular the housing market. The introduction of furlough helped stave off redundancies and an increase in the rate of unemployment, which have both historically led to a downturn in housing transactions and stalled housing development. Following the complete closure of the housing market in the first quarter, demand rebounded quickly, in part supported by the introduction of the stamp duty holiday. This boosted demand with monthly transaction volumes exceeding 2019/20 volumes in the latter part of the year and incentivised developers to complete homes.

Revised performance targets

Completions supported by Homes England (KPI1)

53,540
Initial 2020/21 target

-29%

37,771
Quarter 1 reset

Affordable completions supported by Homes England (KPI6)

40,760
Initial 2020/21 target

-32%

27,692
Quarter 1 reset

Households supported into homeownership (KPI7)

66,180
Initial 2020/21 target

-32%

45,137
Quarter 1 reset

Starts on site (PI1)

34,510
Initial 2020/21 target

-20%

27,668
Quarter 1 reset

Housing capacity unlocked (PIs10 & 11)

242,060
Initial 2020/21 target

-18%

199,430
Quarter 1 reset

Our response

Our response to the pandemic was to understand the impact on partners and develop plans to mitigate these impacts. We focused on collating and sharing market intelligence and communications with colleagues across the Agency. This allowed us to get to grip with the problems facing the market.

In reaction to the pandemic, many partners requested deferrals and extensions. We maintained a consistent position across the business and carefully considered requests for contract variations and payment flexibility. Through our actions, we were able to keep every site in production, keep every developer on board, secure planning consents in a challenging context, deliver all our own infrastructure contracts, contract land disposals when others had paused and secure, via acquisitions, partnering, options, funding and promotion, land for future delivery.

The uncertainty within the market meant that many banks and private equity firms pulled back from schemes they had originally funded. As a result, we took on a role as 'lender of last resort', supporting the market in places where traditional methods of funding had disappeared. We supported customers who would not normally work with us, for example non-bank lenders and more established developers. We also allowed partners to recycle funds, which helped to provide liquidity and supported cash flow.

Within Affordable Housing, we extended the deadlines on expenditure and works completed. This reduced the pressure on Registered Providers, allowing them to focus resources to respond to the pandemic. The announcement of the Affordable Homes Programme 2021/26 further mitigated risks and provided reassurance to providers to stabilise their delivery pipeline, and work on building up a new pipeline. This will encourage a continued supply of Affordable Housing stock in future years, as can be seen by the 28,181 Affordable Housing starts, 34% over target. However, the time lag between the confirmation of funding and the launch did fuel some uncertainty.

Payment holidays on monthly interest fees were offered to Help to Buy customers and whilst this was not a new policy it was made available more openly than previously. Despite this, only 564 customers took this option, which is approximately only 1% of live fee-paying accounts.

Our employees were equipped to meet the challenge of working from home due to the Agency's digital systems and equipment roll out in 2019. This allowed colleagues to continue working at pace, although challenges remained related to childcare and other caring responsibilities. The strong emphasis and consistent messaging on prioritising wellbeing and flexible working was welcomed across the Agency, enabling colleagues to better manage their mental health, workload, and other commitments.

The impact of Brexit

The impact of Brexit has been difficult to separate from the consequences of COVID-19. The BCIS (The Building Cost Information Service) Materials Cost Index has risen significantly since the UK exited the EU, with a provisional forecast of 6% year-on-year rises in March.[4] Firms have noted further pressure on supply chains as demand for products and materials has continued to exceed supply, particularly since the turn of the year. There have been reports of developers placing ghost orders and stockpiling, to try to safeguard against future shortages.

[4] BCIS data (membership access required)

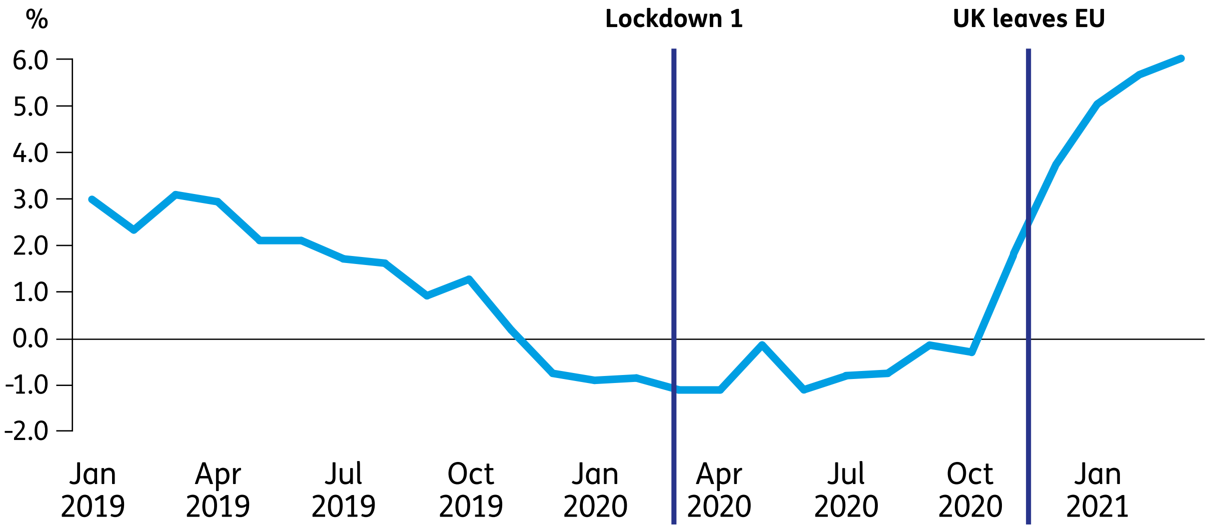
A £35.5 million Home Building Fund loan from Homes England is accelerating the delivery of 6,200 homes on this brownfield, surplus public land by enabling a new road into Rugby. Funding infrastructure to the site has unlocked the land, opening it up as an opportunity for both large and SME housebuilders.

Credit: Urban&Civic plc

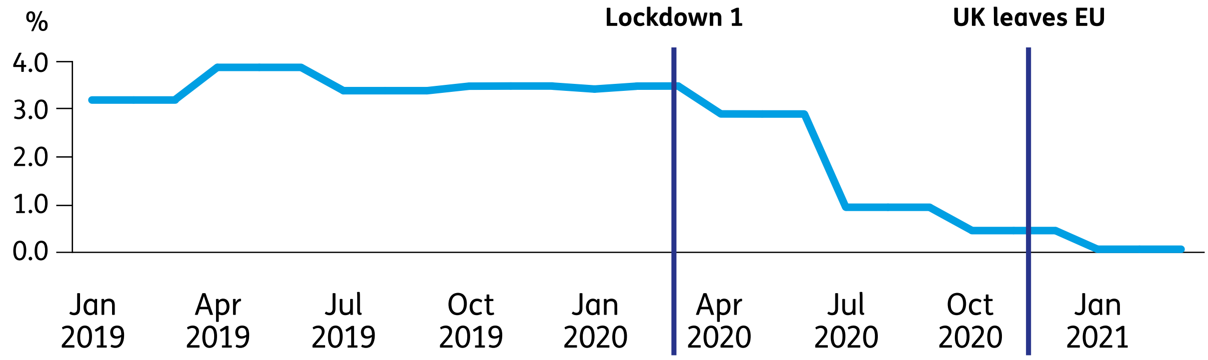
Larger developers prepared for supply chain pressures, however LMVBs were less able, as they lack the capital and space to store excess.

There is anecdotal evidence that some construction workers without British citizenship left the country before Christmas and have not returned. However, there has not been a significant increase in construction labour costs.[5]

BCIS materials cost index Jan 19-Apr 21 % change year on year



BCIS labour cost index Jan 19-Apr 21 % change year on year



Resilient performance

When set in the broader context, and the performance of the wider sector, we demonstrated resilient performance. Across the construction sector, outputs are expected to decline by approximately 25% this year, with the largest house builders experiencing a c.27% drop in completions on average.

In comparison Homes England ended 2020/21 with starts and households supported into homeownership close to the initial target. The number of completions and units of housing capacity unlocked fell short of the target. The shortfall in completions was principally for affordable housing, with other completions only slightly behind target.

[5]BCIS data (membership access required)

Key performance indicators

For the 2020/21 reporting cycle, four key performance measures were agreed with our sponsoring department and we include analysis below which reflects our progress against them.

In addition, the Agency has been reporting data against four further metrics:

- → The number of new homes completed that have been built because of Homes England's intervention at an earlier stage of the development lifecycle (KPI3).
- → The share of funding from several of our financial transaction programmes that was invested in the top 50% of Local Authorities by the price: earnings ratio (KPI4).
- → The economic benefit attributed to Homes England's intervention in the housing market (KPI5).
- → The average Building for Life 12 score for programmes where this was a criteria for support (KPI10).

Following the publication of the MMC definition framework and definition of Low Medium Volume Builders, we have been working with partners to embed the framework and will be reporting a further two key performance indicators in 2021/22:

- → Share of transactions with low/medium volume housebuilders (KPI8).
- → Share of supported completions using MMC (KPI9).

	Actuals	Original targets	Variance (%)	Q1 revised targets	Variance (%)
Total completed new homes directly supported by Homes England (KPI1)	35,183	53,540	(34%)	37,771	(7%)
Total completed new homes directly supported by Homes England, which are additional to the market (KPI2)	23,047	36,500	(37%)	25,514	(10%)
Total completed homes supported indirectly (KPI3)	2,495	-	-	-	-
Share of funding to top 50% Local Authorities by the median house price to median workplace-based income ratio (KPI4)[6]	73%	-	-	-	-
Total economic benefit of Homes England programmes (KPI5)	£3.97Bn*	-	-	-	-
Total affordable completed homes supported by Homes England (KPI6)	24,245	40,760	(41%)	27,692	(12%)
Total households supported into home ownership (KPI7)	64,793	66,180	(2%)	45,137	44%
Average Building for Life 12 score for supported completions (KPI10)	9	-	-	-	-

*This relates to the economic benefit delivered through investments made in 2019/20

[6] The 50% least affordable Local Authorities are determined using the ratio of median house price to median workplace-based income, published by the Office for National Statistics (ONS) on an annual basis. The metric is calculated by deriving a median affordability ratio from each of the 326 local authorities in England, with those with a ratio greater than or equal to the median defined as the least affordable.

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

	Actuals	Original targets	Variance (%)	Q1 revised targets	Variance (%)
Starts (PI1)	37,224	34,510	8%	27,668	35%
Unlocked housing capacity (PIs10 & 11)	170,276	242,060	(30%)	199,430	(15%)

Completions

COVID-19 had a significant impact on completions with the initial lockdown leading to a 3-month hiatus in construction. The introduction of social distancing requirements also slowed down the pace of completion, as multiple trades were unable to work side by side. Supply chain issues impacted completion timeframes, although these have eased.

At the start of 2020/21, the target anticipated growth in completions because of our investment at the earlier stages of the development cycle e.g. starts on site and unlocking land for housing development, in prior years. The ambition was to achieve a 32% year on year increase in completions, primarily driven by the Affordable Homes Programme. Although completions finished 34% down on target (and 7% below expectations), our performance tracked market trends with a 13% year on year decline, even as completions delivered through the private sector responded to a buoyant market, with housebuilders accelerating completions to generate cash flow.

Whilst housing transactions have bounced back, a significant proportion of our completions are delivered through the Affordable Homes Programme, which is less influenced by consumer demand and has seen a significant drop in housing completions, impacting overall results.

There are several other drivers. Many Housing Association Boards took a cautious approach to development plans in response to the pandemic, re-prioritising resources towards building safety and supporting existing tenants.

Starts

With the Shared Ownership Affordable Homes Programme 2016-2021 coming to a natural end, the profile of starts on site was expected to drop in 2020/21 from circa 48,000 in 2019/20 to circa 34,500, with the new Affordable Homes Programme announced in Budget 2020 not expected to be up and running until April 2021.

With respect to starts and the number of households supported into home ownership, we were able to act counter-cyclically. A positive performance in starts (with actuals 8% greater than the target, and 35% higher than expectations) was principally due to affordable housing, which benefited from the in-year extension to the Affordable Homes Programme and financial incentives to claim starts.

In response to market and partner intelligence, we introduced specific measures to support and give confidence to the sector, such as a cash injection to enable us to invest in viable schemes that cannot access sufficient commercial finance. Funding was also deployed to support borrower liquidity

Homes England have forward funded infrastructure works to unlock over 1,000 homes, up to 20% will take advantage of MMC. The Gedling development will include services for new residents and the wider community, with green corridors linking to existing residential areas within this part of Nottinghamshire.

where sales receipts were no longer expected to come forward as quickly as planned to enable delivery of new schemes. We were also approached by many clients beyond our usual base, such as non-bank lenders and larger developers.

Within Affordable Housing, we extended deadlines on expenditure and works completed. This provided funding certainty to Registered Providers and maintained a pipeline of delivery. We also gave extensions to programme end dates to allow us to operate within a wider time horizon and grant extensions to partners where such an action is the most effective route to secure supply.

Although not all the actions and funding packages such as Follow on Funding were utilised, the safety net they provided and the certainty of future funding bred confidence within the market, particularly the Affordable Housing sector, which contributed to targets being exceeded.

Unlocked housing capacity

The 2020/21 target for unlocked housing capacity doubled, driven primarily by plans to contract 117 schemes announced by the Secretary of State in 2017. The number of housing units unlocked through infrastructure and land finished 50% ahead of last year's performance, although 30% below target. Whilst the initial lockdown brought construction activity to a halt, many of these projects, which are outside of urban conurbations and primarily relate to civils work, were less impacted by the subsequent introduction of stringent social distancing measures introduced by the Government. The projects were also less impacted by the difficulties in accessing materials, such as timber products and plasterboard.

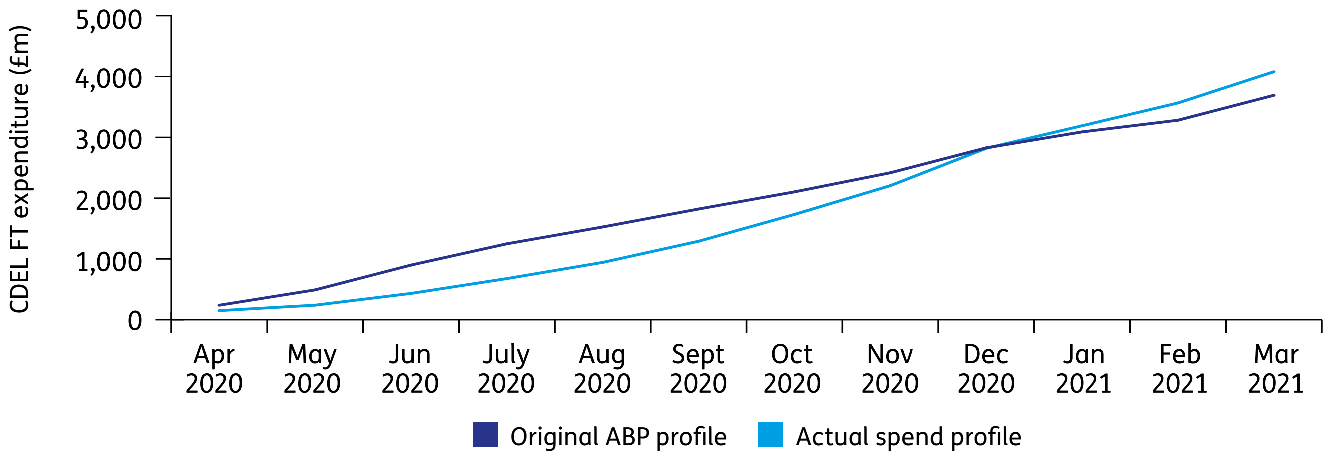
Housing Infrastructure Fund projects, the main contributor to the target, were significantly impacted by Local Authority capacity. Local Authority housing development resources were re-prioritised to focus on delivering front-line services. This was further complicated by deferment and/or cancellation of Cabinet/planning meetings (impacting infrastructure projects at Kings Lynn and Purfleet), delays to public consultations, and inability to complete basic traffic and environment surveys. In response many Local Authorities asked for greater flexibility around grant funding timescales in relation to the Housing Infrastructure Fund. Despite these challenges the team have been able to contract 26 of the 28 remaining Housing Infrastructure Fund schemes. We would like to thank the Local Authorities for continuing to work with us in this difficult period.

Our land programmes rely on income from disposals and deferred sales payments to fulfil existing commitments and fund new investment in land to unlock housing development. As a direct consequence of COVID-19 developers adapted business plans, focussing on progressing schemes with a strong buyer market and mothballing projects that required significant financial investment. This led to an initial drop in land receipts that have now recovered due to the buoyant market and the additional safety net of COVID-19 clauses provided by us.

Households supported into home ownership

The target for Help to Buy completions forecast was developed using the Office for Budget Responsibility's March 2019 release of private enterprise completions. This resulted in circa 5,000 more legal completions anticipated in 2020/21 compared to the previous year. Despite the 3-month closure of the housing market, we saw a 6% year-on-year increase in households supported into home ownership enabled by the rapid recovery in transactions which followed the first lockdown.

Cumulative Help to Buy spend 2020/21



This was along with the increasing attractiveness of the product in the market, as market lenders responded to economic uncertainty by reducing mortgage choice and raising interest rates. 56,000 households were supported via Help to Buy, nearly 10% higher than initially targeted. The proportion of these homes delivered by Low Medium Volume Builders was 16%, the largest proportion in the programme's history.

As well as the furlough scheme and stamp duty holiday noted above, this indicator was also supported by the Government's forbearance announcement. Existing reservations have been given until 31 May 2021 for legal completion. This, coupled with the extension of the stamp duty holiday, led to circa 2,000 completions slipping into 2021/22.

The final year of the original Help to Buy scheme has had great success, and although Help to Buy 2 will be available to fewer customers, it is expected to see continued high levels of demand. Overall, the importance of Help to Buy as acting countercyclically to the market has been demonstrated throughout 2020/21. Where high LTV mortgages disappeared from the market, we were able to step in and support customers in their goal of buying their own property, even with a small deposit.

Other achievements

We also facilitated the Next Steps Accommodation Programme, supporting Local Authorities and Registered Providers in their provision of accommodation for rough sleepers in response to the pandemic. We were able to share our expertise to help provide value for money and deliverability assessments, allocating £43.1m to 93 Local Authorities and Registered Providers to support 949 starts and 496 units of accommodation for rough sleepers.

Following the successful remediation of high-rise buildings in the social and student accommodation sector, the launch of the Building Remediation Fund, in partnership with MHCLG, also secured the next phase of the Government's building safety programme.

Further notable achievements include progress on our MMC pilot sites, work on biodiversity and the introduction of new requirements on design.

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; and our fraud action plan underpins our activities.

To support these objectives, we have revised and published a five-year counter-fraud and anti-bribery and corruption strategy, which is delivered by our Financial Crime Compliance Team (FCC).

Our activity is supported by our policies and procedures, which are reviewed annually and updated accordingly. All reported cases of fraud are triage actioned accordingly and progress monitored. Additionally, and as part of our reporting function, all cases of confirmed fraud or loss are escalated and reported periodically to MHCLG.

Following a series of counter fraud workshops, we have developed an internal fraud risk register. This will assist us understand and monitor the landscape in relation to internal and external fraud events and the effectiveness and adequacy of our fraud prevention controls. These assessments form part of a rolling programme of improvements, including mandatory fraud awareness training for all staff and the procurement of a new e-learning supplier to measure training effectiveness.

We continuously examine our existing internal fraud control environment to improve them wherever necessary.

Reporting of fraud and gifts and hospitality is a now a centralised electronic function managed by FCC. This ensures that all cases reported to FCC can be analysed, managed and as necessary investigated.

We fully support the Government's objectives to eradicate modern slavery and human trafficking. Annually we publish our Modern Slavery Statement setting out the steps taken to assess the risk and mitigate modern slavery across our activities and supply chains.

In the financial year 2020/21 we have again reviewed 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 in relation to identifying modern slavery risks. 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.

Following demolition and de-risking, Homes England has enabled the redevelopment of the former Runwell hospital site in Essex. Unlocking opportunities to create affordable homes and increase biodiversity, as well as overseeing works to the Grade II listed St Luke's Chapel.

Financial summary

For the financial year 2020/21, Homes England's performance is summarised below, highlighting that the Agency's activity remains within the programme financial control totals set by MHCLG:

Financial programme performance £m		**2020/21**			**2019/20**	
	Target	**Outturn**	**Variance**	**Target**	**Outturn**	**Variance**
Capital Financial Transactions	4,346	4,201	(145)	3,826	3,762	(64)
of which: Expenditure	4,685	4,587	(98)	4,309	4,219	(90)
Receipts	(339)	(386)	(47)	(483)	(457)	26
Capital Grant	1,756	1,615	(141)	1,805	1,723	(82)
of which: Expenditure	1,977	1,818	(159)	2,076	1,951	(125)
Receipts	(221)	(203)	18	(271)	(228)	43
Resource[1]	66	(147)	(213)	42	(47)	(89)
of which: Expenditure	300	79	(221)	281	138	(143)
Receipts	(234)	(226)	8	(239)	(185)	54
Total Programme	6,168	5,669	(499)	5,673	5,438	(235)
of which: Expenditure	6,962	6,484	(478)	6,666	6,308	(358)
Receipts	(794)	(815)	(21)	(993)	(870)	123

Note: 1) 2020/21 Resource results have been adjusted. Expenditure has been increased by Expected Credit Losses and budget write off charges. Receipts have been increased to include relevant 'Admin' income budgets. These adjustments allow a consistent comparison between actual and target results.

The Agency's net programme results at £5,669m were c8% less than the net programme target of £6,168m. However, the results show a continued increase in delivery of 4% compared to 2019/20. Homes England manages its budgets independently across Capital Financial Transactions, Capital Grant and Resource, and to a net budget position.

Financial performance in 2020/21

At the beginning of the year, programme delivery slowed significantly in the light of the first lockdown, but there was a strong recovery towards the end of the year as the housing market rebounded strongly.

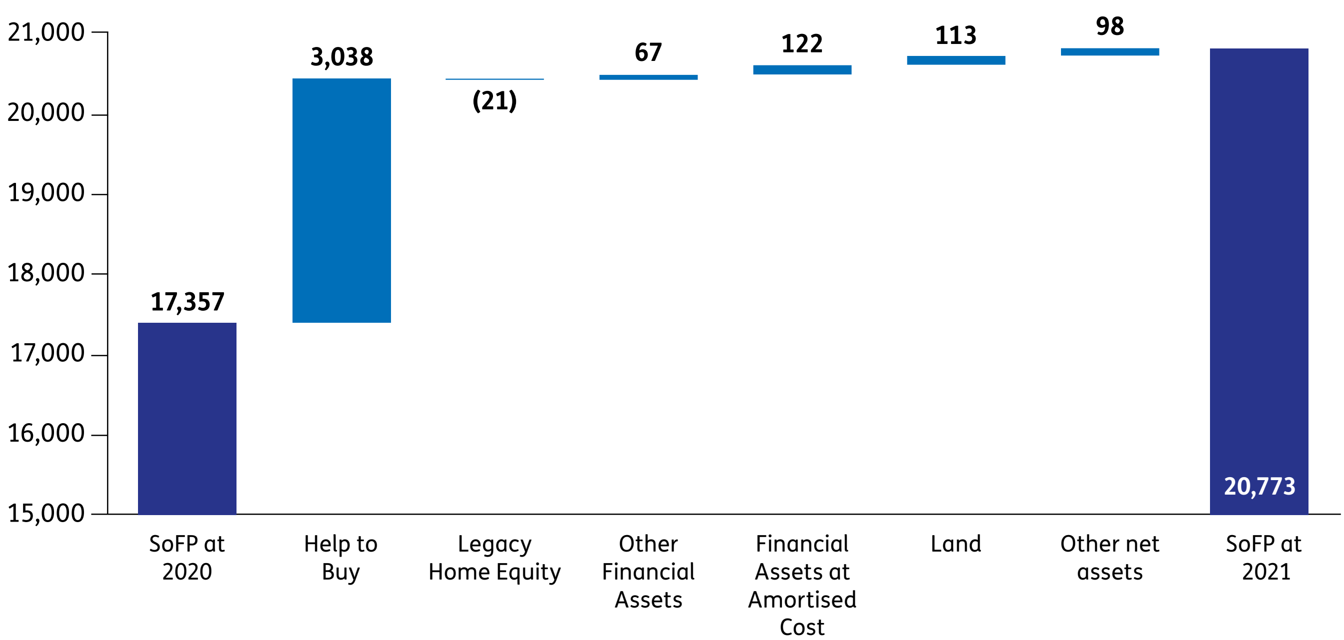
In particular:

- The Help to Buy programme advanced in excess of £4bn equity loans in the year, the highest level of investment made in a single year since the programme began.
- The pandemic caused a number of delays to the rate of construction of new homes, with some sites shutting down in response to virus outbreaks, and the slower pace of construction required to ensure workers could maintain safe social distancing. As a consequence, investment loans made in the year reduced by c£99m compared to 2019/20, and loans repaid reduced by c£72m compared to 2019/20.
- A slow down of construction across Affordable Homes schemes reduced expenditure by £228m compared to 2019/20. Despite the difficulties faced by our Local Authority partners to respond locally to the pandemic, while also honouring their commitment to manage and contract major Housing Infrastructure schemes, significant progress has made in the year with expenditure increasing by £127m compared to 2019/20.
- Land Development income forecasts fell sharply early in the year as private sector partners looked to preserve cash reserves by adopting a more cautious approach to the purchase of our sites. The sale of our sites has recovered well as the year progressed, and income generated is broadly in line with prior year results.

Growth of assets in 2020/21

In 2020/21 the Agency's balance sheet continued to grow significantly, driven mainly by a £3bn net growth in Help to Buy, which now represents 82% of net assets (2019/20: 81%).

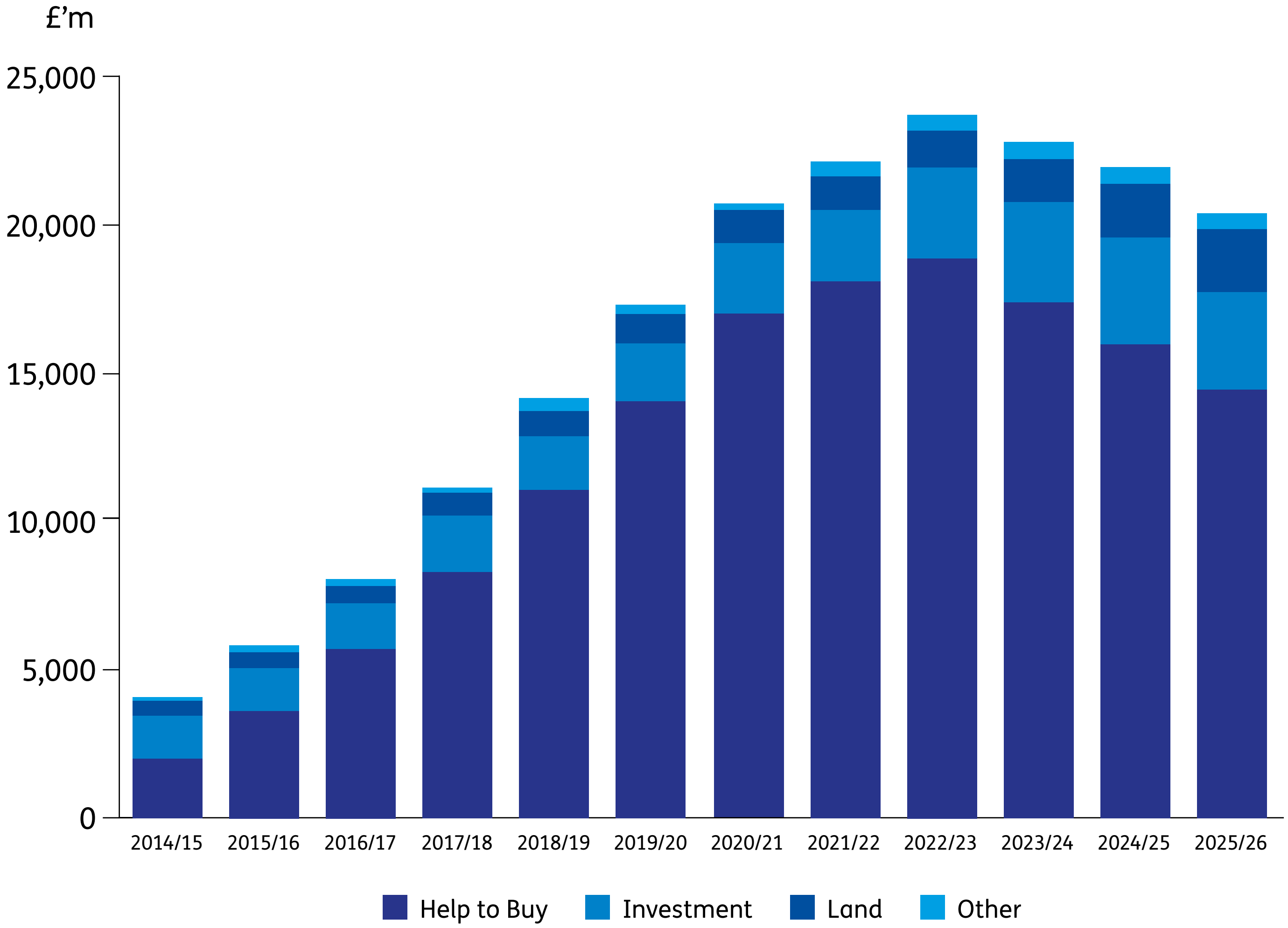
Chart: Change in net assets during 2020/21 (£m)



Future growth of net assets

Over the next five years, based on programme expenditure predicted in the Agency's Annual Business Plan, the Agency's net asset position and the relative proportions of the key components are predicted to change as illustrated below, peaking at £23.8bn in 22/23.

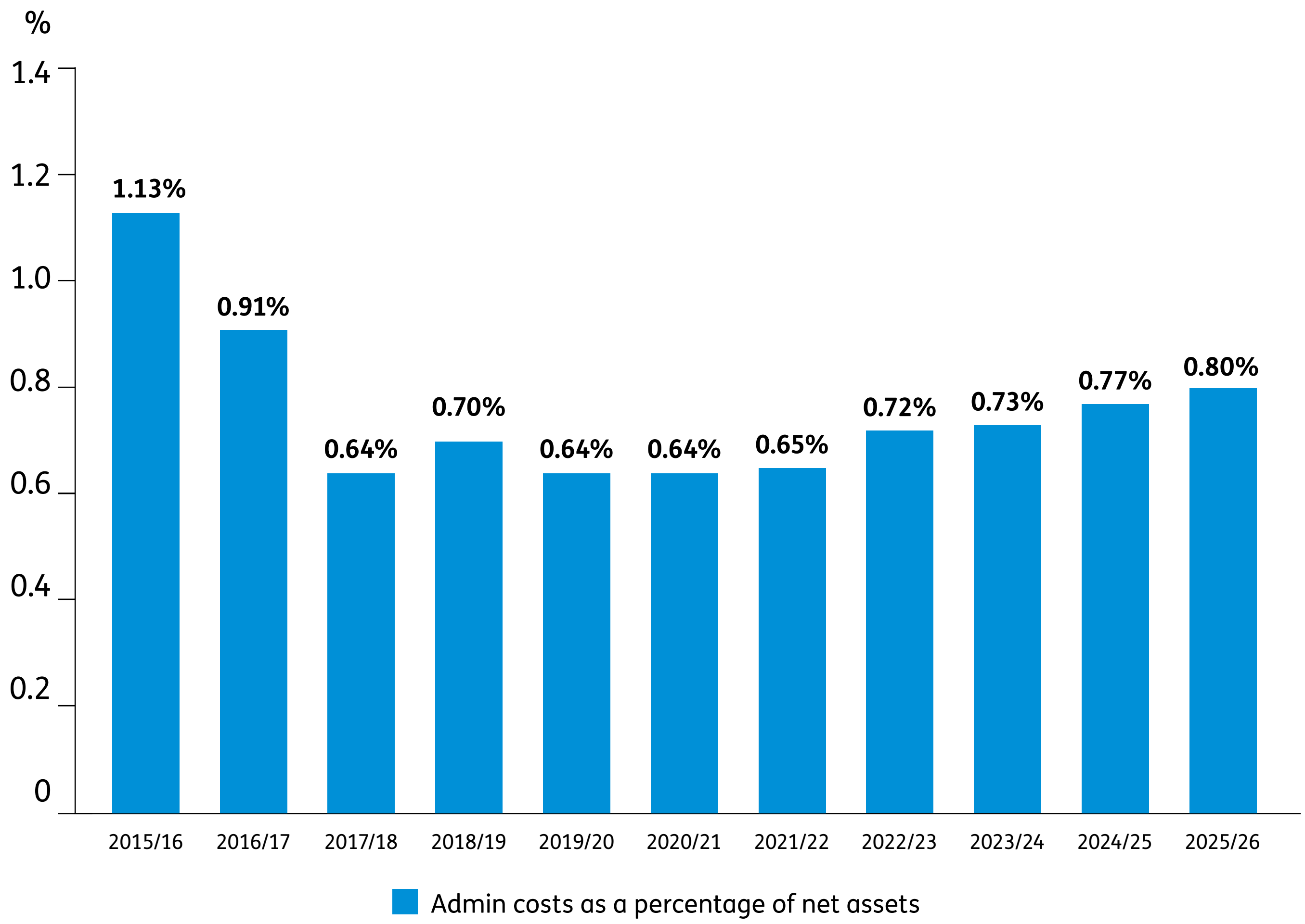
Chart: Projected change in net assets over time, based on the Agency's Annual Business Plan



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

The Agency's administrative costs expressed as a percentage of net assets managed are currently almost half the level observed in 2015/16 and are expected to remain at below 0.8% of net assets through until 2025/26. The running costs (pay and non-pay costs) of the Agency are not expected to significantly increase over this timeframe, with the gradual increase in percentage terms over the next five years driven largely by two factors: 1) an increase in depreciation charges due to past and current activity; 2) the Help to Buy equity-loan programme ending, with ongoing redemptions driving a reduction in net assets from a peak of almost £24bn in 2022/23.

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



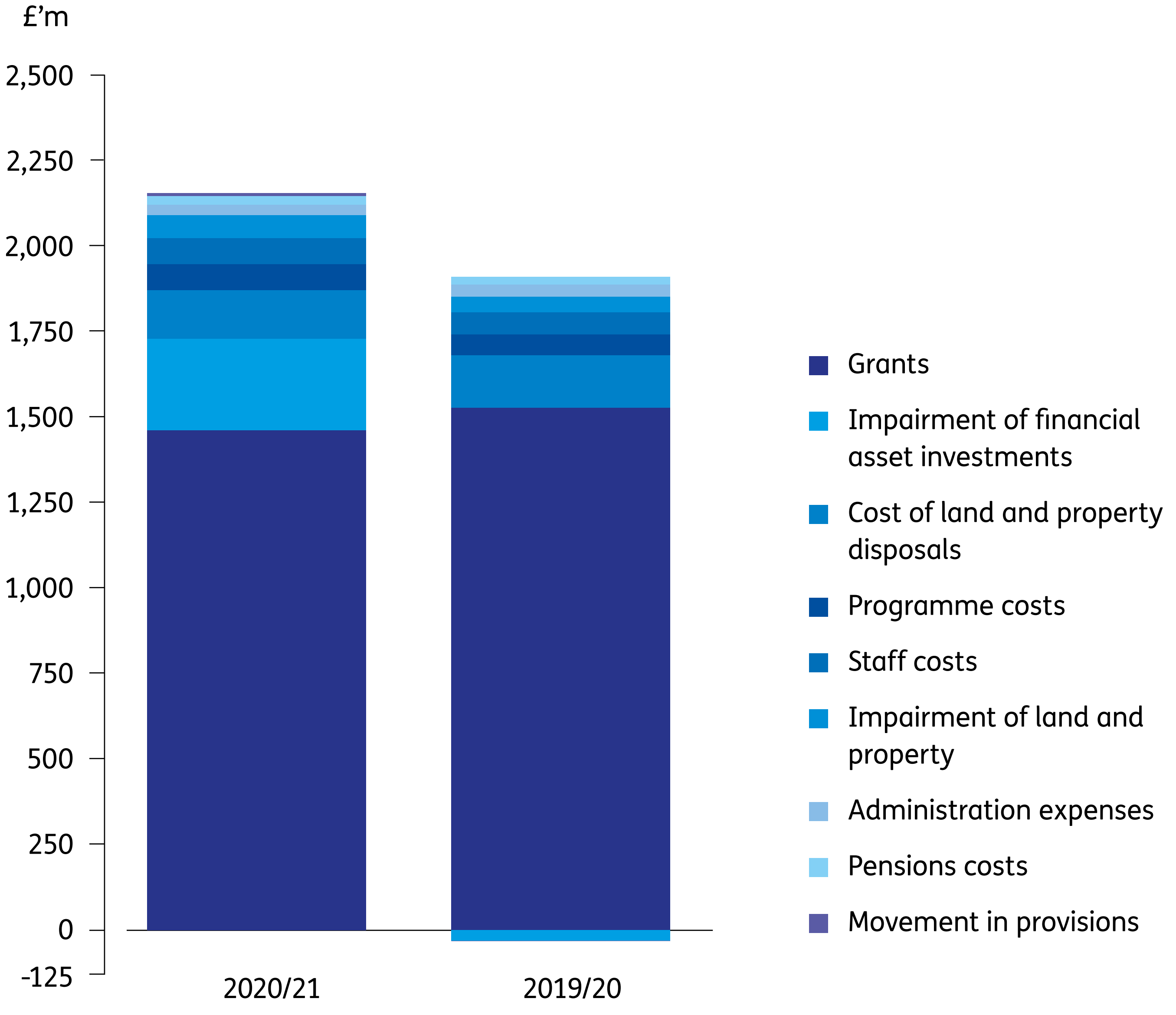
Operating Expenditure

Operating Expenditure of £2,154m in 2020/21 is an increase of £276m (15%) from £1,878m incurred last year. The key drivers for this are impairment of financial asset investments which has increased by £298m since last year, and the impairment of land and property which has increased by £21m since last year. The increase in the impairment of financial asset investments is largely driven by the Help to Buy portfolio, by impairments arising in relation to the valuation of some elements within the Help to Buy portfolio, particularly in the London region. The increase in the Land and Property impairment charge relates to a variety of complex factors across the portfolio but generally where the valuation of land has decreased from previous years - including where the scheme introduces greater planning requirements including affordable housing, additional abnormal costs, or the re-basing of the valuation approach, to name a few - or where new capital expenditure has not yet resulted in increased value. Grant spend decreased in the year by £65m as a result of the impact of COVID-19 on the Affordable Homes Grant programme. The current programmes have been extended to allow for this however, and the spend has been reforecast into future years.

Admin expenditure has reduced by £4m since last year, from £35m to £31m. The biggest single reason for the decrease is the reduction in the administration expenditure associated with the Homes England Development Programme. This programme was set up to ensure the Agency had 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 feasibility administration phase of the programme was completed in 2019/20 with a series of strategic options identified. From 2020/21, the Agency has begun to implement these options and all costs are now captured as Programme costs.

Within programme costs, Housing Infrastructure Fund spend decreased by £8m from 2019/20 as a reflection of future uncertainty, however this has been counteracted by an increase in spend across Development, Help to Buy, Transformation, Financial Investment programmes and the introduction of Markets, Partners and Places - leading to an overall increase in programme costs of £17m since 2019/20.

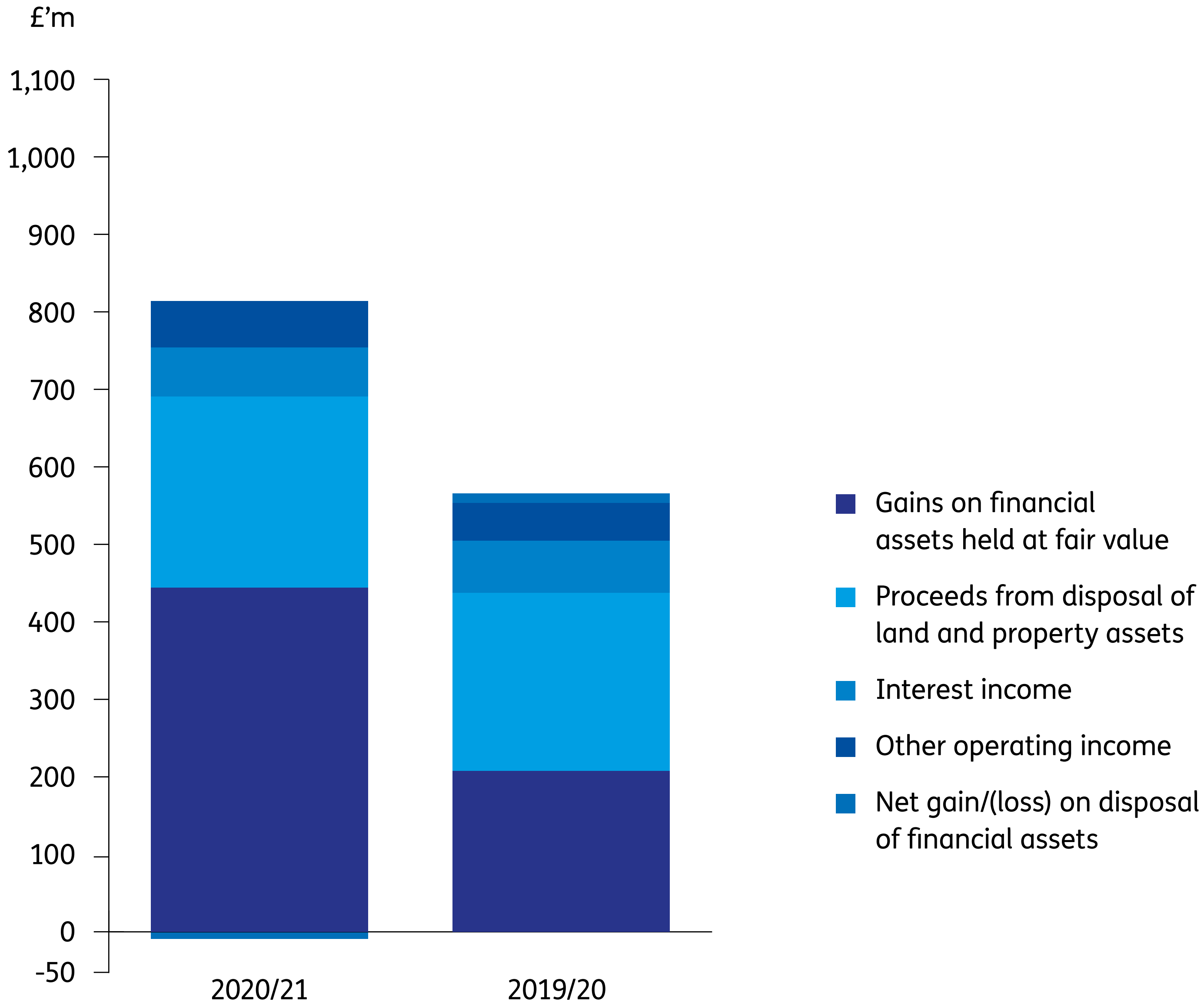
Chart: Analysis of the components of Operating Expenditure



Operating Income

Operating Income for 2020/21 is £807m which is an increase of £241m (43%) from 2019/20. This has been driven mainly by valuation gains on financial assets held at fair value which have increased from £208m in 2019/20 to £444m in the current year. This mainly reflects increases in house prices which have been observed across most regions in England resulting in valuation increases for the Agency's Help to Buy and other Home Equity portfolios.

Chart: 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 2020/21:

		Cumulative equity loans repaid 2020/21			Cumulative equity loans repaid 2019/20		
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)
2020/21	55,682	15	0.9	0.9	n/a	n/a	n/a
2019/20	51,449	551	32.8	33.2	28	1.4	1.4
2018/19	52,467	2,783	156.6	157.4	516	28.4	28.1
2017/18	47,587	6,355	357.8	360.9	3,147	175.6	175.4
2016/17	39,807	11,096	582.9	605.9	6,262	326.4	337.8
2015/16	33,873	18,221	851.0	931.4	11,127	522.9	569.9
2014/15	27,874	18,174	791.9	898.9	15,747	690.4	780.4
2013/14	19,754	13,422	548.2	646.0	12,193	504	588
All years	**328,493**	**70,617**	**3,322.1**	**3634.6**	**49,020**	**2,249.1**	**2,481.0**

The repayment statistics show that between April 2013 and March 2021 a total of 328,493 households bought homes with a Help to Buy: Equity Loan. By March 2021 a total of 70,617 households (21%) had repaid their loan. The repayment statistics also show that Homes England received £3,634.6m from these 70,617 households, when the original cost of the loans was £3,322.1m. The realised gain on disposal of £312.5m is due to the increase in the value of homes between the time the loan was issued and repaid.

Located close to the M18 motorway, 94 hectare Carr Lodge site is part of Doncaster Council's development plan. Homes England helped to unlock this brownfield land through forward funding infrastructure, including drainage and link road to create capacity for up to 1600 homes, local centre and community facilities on this multi-phase site.

Sustainability report

Sustainability lies at the heart of what we do. We are committed to creating sustainable and well designed places and reducing the environmental impacts associated with our day to day operations.

We have a key role in delivering the Government's ambitions for sustainability, including delivering on the UK's net zero carbon commitments.

Strategic approach

In 2020, we committed to adopt a broad definition of sustainability that incorporates environmental, social and governance responsibilities, and to clearly articulate how it would support the housing sector to deliver more sustainable homes and places.

We commissioned Design Council and BRE (Building Research Establishment) to support us to develop a Sustainability and Design Framework. Incorporating research and input from Agency colleagues, Government and across the housing sector the Framework aims to further embed Sustainability and Design considerations across the Agency's activities to help create the homes and places the country needs.

We recognise the commitments of an increasing number of our delivery partners who are showing ambition to create more sustainable and well-designed homes and places. We will work with them across all of our activities - master development, investments and market shaping - to achieve these aims and deliver the net zero targets of society, business and Government.

Sustainability leadership and governance

At Homes England Board level we have a dedicated champion for Sustainability and Design, Sadie Morgan.

The Agency's Safety, Health and Environment (SHE) Committee, chaired by Board Member Duncan Sutherland, regularly reviews our sustainable operations performance and compliance with our environmental policies.

Our Executive are committed to taking forward our Sustainability and Design ambitions focusing on deepening sustainability in our operations, activities and decision-making and playing our full part in the Government's climate change agenda.

Sustainability activities

Within Homes England, our activities can be considered through three perspectives:

- Contributing to achieving the UN Sustainable Development Goals (SDGs).
- Government Greening Commitments, including sustainable procurement.
- Delivering sustainable homes and communities in line with the Government's ambition for net zero carbon by 2050 and environmental policies.

Contributing to UN Sustainability 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. Our activities can be mapped against 6 of the 17 goals.

1 NO POVERTY

End poverty in all its forms, everywhere.

Our contribution

Through greater access to affordable housing and programmes aimed at reducing homelessness we contribute to increasing purchasing power for all and creating shelter, particularly for 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;
- supported the Government's initiative to reduce homelessness through the Next Steps Accommodation Programme;
- support the building of homes 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 MMC and ensure that it is compatible with Smart Technology and energy efficient systems. Our investment is helping our partners to deliver these innovations.

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 to support sustainable economic development in emerging industry locations and innovation hubs; 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 to working with our delivery partners on developments, we are committed to ensuring our operations are aligned with UK Government commitments. 54% of our fleet is made up of Ultra Low Emissions Vehicles, (ULEV). Our goal is to convert our entire fleet to ULEV by 2024.

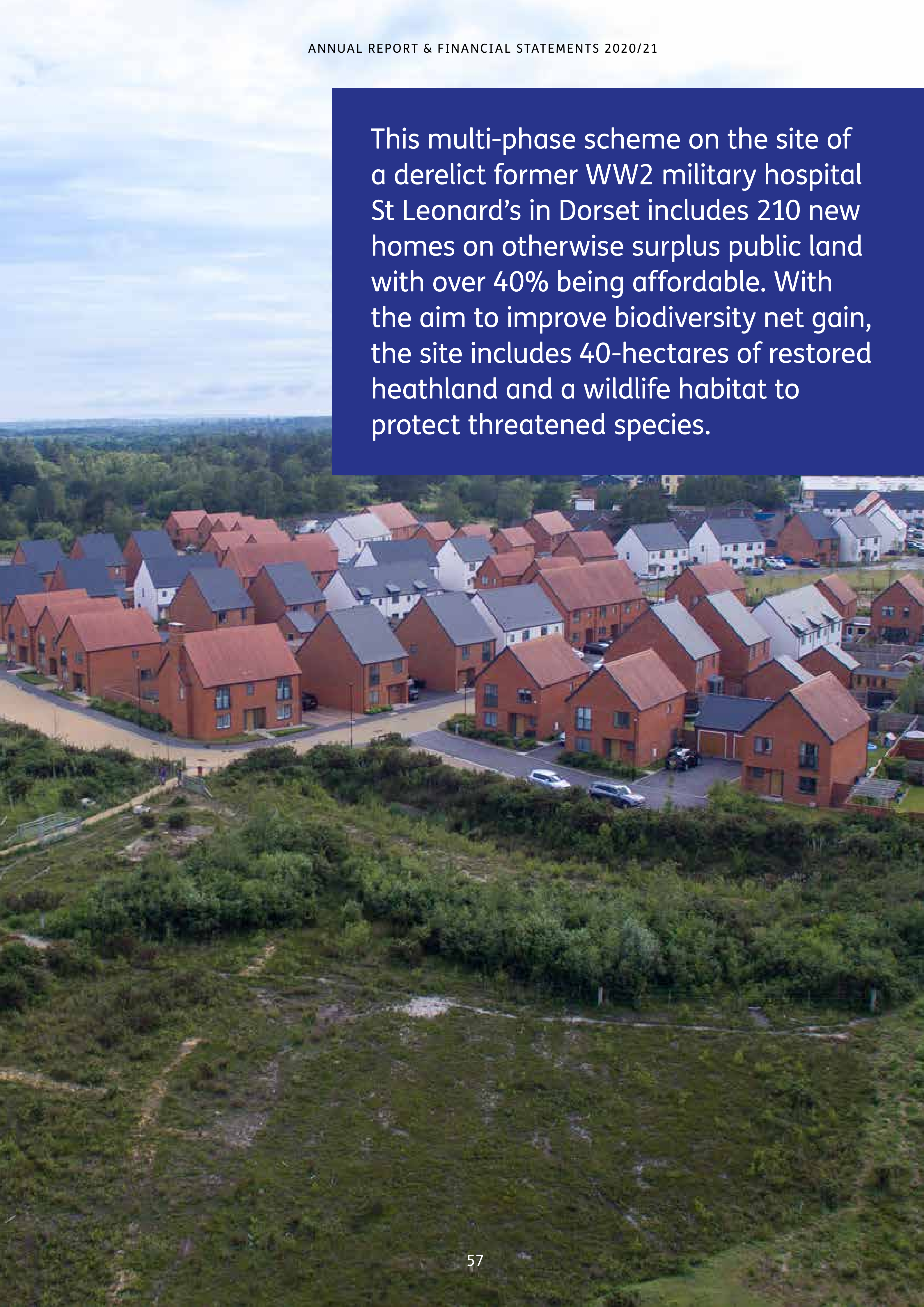
15 LIFE ON LAND

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:

- act as responsible stewards of protected sites within our ownership;
- progress developments towards delivering biodiversity net gain, at a level of 10% where appropriate;
- engage with local wildlife 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.



This multi-phase scheme on the site of a derelict former WW2 military hospital St Leonard’s in Dorset includes 210 new homes on otherwise surplus public land with over 40% being affordable. With the aim to improve biodiversity net gain, the site includes 40-hectares of restored heathland and a wildlife habitat to protect threatened species.

Greening Government Commitments (GGC)

We subscribe to the GGCs to drive reductions and continually improve our environmental performance across our office estate and business operations, including official business travel. Progress against the GGC targets over the past 12 months compared to 2019/20 and the 2009/10 baseline is set out below. We also highlight our broader activities including those relevant to our wider estate, in line with current public sector sustainability reporting guidance from HM Treasury.

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

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.

Environmental sustainability performance data 2020/2021

Data Omissions Note:

Electricity, water and waste generated from our Crawley office is not available for the period of April 2020 to 31 March 2021. This office became part of our estate in 2020 and is managed by a third party. Following a period of delays in receiving the data due to COVID-19 and supplementary audits of the data we are not confident in the accuracy and completeness. Homes England will be working closely with our supply chain building manager to ensure that accurate and regular reporting is readily available from this part of our estate.

Environmental sustainability performance data

Greenhouse gas emissions		2017/18	2018/19	2019/20	2020/21
Non-financial indicators (tonnes CO_2e)	Total Scope 1 (direct) emissions	386.8	349	232	**84.7**
	Total Scope 2 (indirect) emissions	303.3	222.1	223.9	**176.4**
	Total Scope 3 (official business travel) Greenhouse gas emissions	352.7	439.7	231	**33.6**
	Total emissions: Scopes 1, 2 and 3	1,043	1,011	813	**297.7**
Related energy consumption (KWh)	Gas consumption	550,000	516,000	729,000	**383,000**
	Electricity consumption	789,000	723,000	703,000	**393,000**
Related energy consumption ('000s km)	Business travel distance total	6,572	8,157	8,313	**561**
	Distance per full time equivalent (FTE) staff	8	8	9	**0.4**
Related energy consumption (number)	Domestic Business Flights	95	130	246	**0**
Financial indicators (£'000)	Energy consumption	132	134	130	**105**
	Expenditure on accredited offsets CRC	74	3	0	**0**
	Allowances	0	0	0	**0**
	Official Business Travel	1,772	2,433	3,164	**437**
Resources, waste and recycling		**2017/18**	**2018/19**	**2019/20**	**2020/21**
Non-financial indicators (tonnes)	Total waste generated	26.07	37.39	43.0	**62.6**
	Hazardous waste: landfill	0.03	0.02	0	**0**
	Non-hazardous waste: landfill	1.11	0.91	1.0	**3.7**

Resources, waste and recycling		2017/18	2018/19	2019/20	2020/21
Non-financial indicators (tonnes)	Non-hazardous waste: incineration with energy recovery	2.74	2.53	2.0	**3.9**
	Non-hazardous waste: recycled	16.49	32.90	40.0	**55.0**
	Non-hazardous waste: ICT reused / recycled	6.34	1.03	0	**0.0**
Non-financial indicators (%)	Recycling rate (%)	85	91	98	**94**
	Landfill Rate %	4	2	2	**6**
Non-financial indicators (No.)	No of A4 reams consumed	5,542	5,287	**8,755**	**234**
	No. of reams per FTE staff	7.1	6.1	9.5	**0.2**
Financial indicators (£'000)	Landfill/ Incineration	15	11	1.4	**0.42**
	Recycling	9	18	29	**19.8**
	Paper Procurement	19	21	26	**0.96**
Water consumption		**2017/18**	**2018/19**	**2019/20**	**2020/21**
Non-financial indicators (m^3)	Water consumption - supplied (none abstracted)	1,553	1,689	**3,439**	**3,131**
	Consumption per FTE staff (Homes England owned offices)	4.2	4.3	3.4	**2.2**
Financial indicators (£'000)	Water supply and sewerage costs	19	20	24	**20.6**

Greenhouse gas emissions

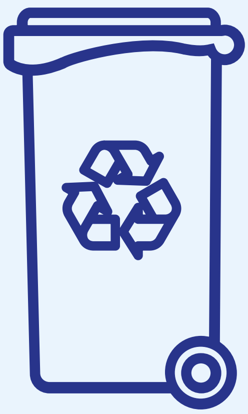
→ In responding to COVID-19 'Stay at Home' messaging we have seen a 63% reduction in our greenhouse gas emissions compared to last year.

→ Since the baseline year, (2009/10) we've reduced our emissions by 89%. This is a direct result of the response to the pandemic.

- The use of our office estate has been restricted throughout 2020/21 reducing gas consumption by 47% and electricity consumption by 44% in comparison to last year.
- In response to COVID-19 business travel has significantly reduced throughout 2020/21. There have been no domestic flights taken this year.
- We recognise that this is a temporary reduction that will reverse when our offices re-open. Through our Future of Work initiative we are redefining office working, building on the flexibility and learning we have gained throughout the pandemic. As we re-invent our ways of working, we anticipate that over time this will have a positive effect on limiting the reverse in GHG emissions.

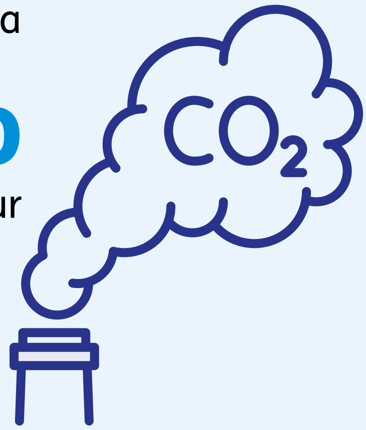
Waste management

- We've produced 45% 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. This year our recycling rate is 94%.
- The increase in waste was primarily due to the closure of our offices generating surplus furniture.



94%
of our office waste was recycled this year.

We have seen a
63%
reduction in our greenhouse gas emissions compared to last year.



Finite resource consumption: paper

- We have reduced paper consumption by 96% compared to 2009/10, exceeding the GGC target of 50%.
- During 2020/21 paper use has decreased by 97% in comparison to 2019/20. This is a direct result of the periodic office closures and restrictions that have been in place throughout the pandemic.

Finite resource consumption: water

- The commitment to continue to reduce total estate water consumption beyond 49% has been met with an overall reduction of 76% from the 2009/2010 baseline year.
- Throughout 2020/21 water consumption across our estate has decreased by 9%. This reflects the increase in home working in response to COVID-19.

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.

Delivering sustainable homes and communities

We have a statutory objective of ‘contributing to the achievement of sustainability and good design in England’ and will take this forward through our levers, powers and funding support. We have taken a holistic approach to sustainability and design and over the past year have brought the technical expertise from across the Agency into a single business unit which will support our delivery teams to embed our sustainability (and design) standards into day to day work. Below we set out our material achievements and our expectations for the year ahead.

Biodiversity and the natural environment

On the land in our ownership, 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.

Homes England aims for biodiversity net gain on its housing sites, and are planning, and delivering significant ecological improvements illustrated by the examples below:

Green-winged orchids at Victory Oak, a species which is pollinated by bumble bees

Credit: Sovereign

The Victory Oak scheme at the former St Leonard’s Hospital in Dorset has brought forward new homes on a former NHS site, part of which included rare habitats in poor condition. The site was home to five species of reptile including small populations of sand lizards, as well as rare birds such as nightjars. Through close working with environmental partners, 18ha of priority habitat has been restored, including heathland and acid grassland. We also created a new bespoke bat maternity roost created from an existing brick building and a substantial number of new bat boxes.

Credit: Animex

The Northern Arc scheme at Burgess Hill in West Sussex where planned new woodland buffer planting, an extension to the adjoining nature reserve and the creation of new parks will contribute to a 23% biodiversity net gain. The scheme will also deliver 3,500 new homes, employment space, schools and community facilities.

In situations where it is not possible to deliver all biodiversity improvements on the housing site, the Agency is exploring use of its existing land portfolio to identify opportunities for off-site ecological improvements to contribute to biodiversity net gain.

We are promoting biodiversity good practice externally through involvement in industry and Government working groups, such as:

- The British Standards Institute's Biodiversity Committee BDY / 1 which is responsible for the development of national standards in the area of biodiversity management.
- The Land Trust's Biodiversity, Ecology and Environment Advisory Group. The Trust is a Charity that undertakes long term sustainable management of open space for community benefit, including some Homes England schemes. The Advisory Group supports the Trust's aims by advising on best practice and providing thought leadership.
- The National Framework of Green Infrastructure Standards Steering Group convened by Natural England to oversee the development of these Standards, in line with Government commitments set out in the 25 Year Environment Plan.

District Level Licensing (DLL) at Burtree Garden village

This year we have proactively engaged with other Government agencies to explore opportunities to obtain greater planning certainty and accelerate housing delivery using the Natural England District Level Licencing (DLL) scheme for Great Crested Newts (GCN).

Working with Natural England to accelerate the introduction of the Durham and Northumberland DLL scheme we were able to bring forward the delivery of an important strategic development, Burtree Garden village, Darlington which will deliver 800 new homes. DLL provides an opportunity for Homes England to support a strategic, landscape-scale approach that affords greater protection for GCN. Fourteen GCN ponds will be created and restored for Burtree Garden village through District Level Licensing.

Example of ponds created through District Level Licensing in Norfolk.

Image source: Natural England


Before - Autumn 2019


After - Spring 2020


Established - Autumn 2020

Embedding and delivering sustainability

As the Government's housing delivery Agency enabling the housing sector to deliver new homes, 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.

Delivering on our Sustainability and Design ambitions will be a priority for us and in the coming period we shall be identifying and implementing a range of interventions such as exemplar sites to demonstrate low/net zero carbon technologies and high levels of design quality and placemaking with access to green spaces.

Alconbury Weald is an emerging new town in Cambridgeshire, being developed by Urban and Civic. Features such as sustainable urban drainage ponds with dipping platforms and outdoor table tennis provide valuable amenity space for residents.

A key component of our efforts will be promoting sustainability practices and the adoption of sustainable building materials. We expect this becoming more prominent with the expected changes to Building Regulations – changes to Parts F and L later this year, and the upcoming Future Homes Standard expected in 2025. During this past year we have been part of the Future Homes Taskforce, established by the House Builders Federation (HBF). We have identified and will be exploring in greater detail multiple opportunities to work collaboratively with the housing sector to deliver on the Government's sustainability and net zero carbon agenda.

Biodiversity net gain is expected to become a legal requirement and in advance of this we are continuing to develop resources to increase our understanding and operational practices. This year we have produced and issued detailed guidance and accompanying set of good practice case studies of Agency schemes in order to increase awareness of biodiversity net gain and to integrate this within our processes and decision-making. We have established dedicated forums for colleagues to share experience and learning within the Agency, and with other organisations, including Natural England.

We aim to build upon and take forward several existing initiatives and housing delivery programmes.

Homes England is, alongside UK Green Building Council and recent joiner Lloyds Bank, an Executive Committee member of the NextGeneration Initiative. NextGeneration enables homebuilders, Government, registered providers (RPs), investors, employees and the public to understand the sustainability of homebuilders' operations and the new homes they build.

Homes England was also involved in the Home of 2030 competition that aimed to drive innovation in the provision of affordable, efficient and healthy green homes for all.

Supporting the sector to develop widely applicable commercial solutions that make our homes better, and help develop low carbon technology so our homes can play their part in combating climate change.

Homes England is committed to working in rural areas to deliver growth and create thriving, sustainable rural communities. Since 2011 Homes England's affordable homes programme has delivered around 25,000 affordable homes in rural areas. The new affordable homes programme has an expectation that at least 10% of homes delivered will be in rural areas.

Residents at Eastington village, near Stroud, Gloucestershire

Image courtesy of Aster Housing Association, December 2020.

Homes England provided £1.3m to Aster Housing Association to take forward in partnership with Eastington Community Land Trust 23 affordable homes on a rural exception site. Funds came from the Agency's Community Housing Fund Infrastructure Fund and the Affordable Homes Programme.

100% of the homes were rented to people with a strong local connection to Eastington village.

We have worked with partners to ensure that in the delivery of these affordable homes we have taken into account rural proofing policies, and we have also set up a cross Agency internal rural group to ensure we are maximising our efforts in rural areas.

Our newly-formed Markets, Partners & Places directorate encompasses development of thematic responses to failures within different markets, including rural markets.

We will continue to harness the power of the planning system, including through reforms and our use of the Building for Healthy Living Design Principles to deliver the right infrastructure and housing for rural areas while protecting and enhancing our countryside.

Homes England's work to promote MMC positions the Agency well to champion innovative lower carbon approaches to housing development, exploring opportunities to not only reduce the emissions from homes once they have been built but also reduce embodied carbon in the construction phase.

During this year we took delivery of the first Urban Splash modular homes on the Agency's Northstowe site, marking the start of one of the largest modular neighbourhoods in the UK. These 406 Town House homes use approximately 67% less energy to build than an equivalent traditional built project. They will contain energy-saving features, including high-quality insulation, super energy-efficient windows and LED lighting, a hot water cylinder with an integrated air source heat pump and clean, emission-free electric heating.

Over the coming year, we will be seeking further opportunities to work with investment partners who can demonstrate a shared purpose with Homes England to support the market for the long term. We expect them to share their plans regarding decarbonization and to increasingly deliver a positive impact for the good of the wider community.

We support the green economy and those who seek to achieve environmental, social and governance outcomes alongside financial ones. We are working together with banks to provide funding to support the building activities of small and medium-sized developers on residential projects in England through our range of lending products.

Securing new institutional capital to increase the delivery of new affordable homes is a priority for Homes England. Over the last year, we invested to support the growth and evolution of housing in pension fund investment portfolios. This provides institutional investors with greater confidence in affordable housing, encouraging sustainable long-term investment to meet the needs of communities across the country.

Our funding provides developers, including SMEs and Housing Associations, with the capital to grow their development ambitions and build additional homes in the areas they serve.

To us, sustainability also encompasses homes that have longevity and are safe. Homes England signed up to the Building Safety Charter in December 2020 and will be taking forward a series of actions as part of the Early Adopters Group.

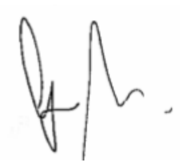
We shall also work across Government, notably the Infrastructure and Projects Authority to share learning around embodied carbon targets and reporting and continue to share examples of sustainable construction practices.

Sustainable employer

It's important that everyone at Homes England is able to bring their whole self to work and in doing so help us to deliver meaningful and inclusive changes within the organisation and the wider housing sector. That's why our colleagues have established staff networks that help us to define and shape the way we do things.

Homes England strives to be an employer of choice, recognising diversity through our values. We know that a diverse and inclusive organisation empowers teams to perform better and that diversity of backgrounds, perspectives, thoughts and ideas will provide a richer platform for us to do things differently and challenge the status quo.

The Performance report is signed on 14 July 2021



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Gordon More
Interim Chief Executive and Accounting Officer

Once one of the most polluted sites in Western Europe, the former coking works at The Avenue in Derbyshire has been transformed. With the help of Homes England, significant historic pollution has been removed and new roads provided by forward funding multi-million-pound infrastructure for the site.

The Accountability report

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

Contents:

Corporate Governance report

Our Board and committees have responded to the biggest challenge to our organisational resilience in the form of COVID-19 this year.

We have been meeting virtually since 16 March 2020, and have adjusted to this new way of working and maintained effective decision making, to enable the Agency to continue to deliver our 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:

- Board Members' report;
- Statement of Accounting Officer's responsibilities; and
- Governance statement.

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.
- Recommending to MHCLG the Agency's overall strategic direction, within the policy and resources framework agreed and set out in the Framework Document.
- Approving the Agency's periodic draft Corporate Plans, including output targets, for submission to Ministers for approval.

- Agreeing the Agency's Annual Budget, consistent with the Corporate Plan, for approval by MHCLG.
- Agreeing the Annual Report and Accounts, for submission to Parliament.
- Approving 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.
- Ensuring 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.
- Appointing or dismissing the Chief Executive, subject to MHCLG approval.
- Approving overall arrangements for the delivery of Homes England's strategic objectives.
- Receiving reports from Board Committees and Advisory Groups and considering any key issues that they raise.
- Considering any matters that the Board Committees wish to refer up to the Board, particularly where issues of principle are involved.
- Approving any Compulsory Purchase Orders recommended by the Investment Committee.
- Ensuring that the Agency's Health and Safety processes are effective and fulfil Homes England's obligations under Health and Safety legislation.
- Ensuring that the Agency's strategic objectives and obligations to its stakeholders are understood outside and throughout the organisation.
- Receiving and reviewing 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.
- Approving Homes England's Risk Appetite Statement and Risk Management Framework, assessing the periodic risk evaluations, and overseeing mitigation strategies on the recommendation of the Audit & Risk Committee.
- Considering property, litigation, legal and other corporate issues.
- Considering the annual Money Laundering Reporting Officer (MLRO) Report.
- Ensuring 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 comprised of Non-Executive members and the Chief Executive who also serves as the Accounting Officer. The Board is led by the Chair. In 2020/21, Simon Dudley was the interim Chair, until he was replaced by Peter Freeman as permanent Chair on 23 October 2020. 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.

Our Board

We are governed by Board Members appointed by the Secretary of State for Communities and Local Government, who have particular responsibility for providing effective strategic leadership.

Peter Freeman
Board Chair

After qualifying as a lawyer, Peter formed the Argent Group of property companies with his brother in 1981. Argent is particularly known for major mixed-use projects like Brindleyplace in Birmingham, and King's Cross and Brent Cross Town in London. Peter has also been a Non-Executive Director on several other property companies and a trustee of a number of charities connected with education, combatting intolerance, and public performance art.

Simon Dudley
Senior Independent Director

Independent Director of Homes England and the Chair of the Ebbsfleet Development Corporation. Simon is a 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. Simon also has a keen interest in education having founded two free schools.

Stephen Bell

Stephen has substantial experience in banking and financial services. He has been involved in property, consumer and asset finance across numerous jurisdictions and has held many senior roles leading risk management, restructuring and transformation. He has held the role of Group Chief Risk Officer and Board Director 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 OBE

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

Duncan Sutherland

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.

Involved in setting up and operating a £1 billion Private Rented Sector (PRS) fund investing in the UK and the UK's first successful PRS housing Real Estate Investment Trust (REIT).

Duncan has worked closely with the Government promoting innovative and long-term investment approaches to achieving sustainable regeneration. He served as a Non-Executive Director of the British Waterways Board and Scottish Canals and has recently completed a six-year term on the board of HS2 Ltd, the new high-speed railway to be built between London and the North. He also serves on the Capital Investment Advisory Board in the Government's Department of International Trade (DIT).

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.

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.

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.

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.

Conflicts of Interest

We have a detailed policy and guidance on conflicts of interest in place for all staff, which complies with the requirements of the Civil Service Management Code and includes the requirement to make an annual declaration of interests as well as record any changes. We carried out an online annual refresh of the policy guidance in autumn 2020 for all staff. We review all recorded interest returns to ensure that they are permitted and they are managed as part of our assurance. We carried out a further refresh of Executive and Corporate Director declarations on 24 April 2021, and our officer returns have also been recently reviewed.

We also have a policy in place for Board Members, which is contained in their Code of Practice, and based on Cabinet Office guidelines. The section setting out the handling of conflicts confirms that members must declare interests at any meeting and withdraw from a meeting before discussion of any matter in which they have an interest.

It has come to our attention this year that our former Chair made a declaration at the Investment Committee meeting in May 2019 that he had acted as a consultant for Delancey and did not make clear that this was still ongoing. It was also not made clear in the former Chair's declaration in regard to Dream Ltd that this was a connection to Delancey Real Estate Management Ltd. The former Chair has issued a statement confirming that he should have left the meeting. Delancey are a shareholder in two Joint Ventures in receipt of funding, both funding arrangements were agreed prior to the former Chair joining the Agency, however, a guarantee in regard to the Government private sector rental loan scheme was recommended by the Agency at the 2019 meeting in respect of one of the sites.

We intend to review the guidance for Board Members, conduct any necessary training and improve our diligence on the interests recorded.

Register of members' interests

The Register of Member's Financial Interests is a public record published on the website in which members list all direct or indirect financial interests and non-financial interests where they have a direct bearing on the business of the Agency. Board Members are reminded regularly to keep the Register of Interests up to date and the current register has been recently published. Our Executive Directors' Register of Interests is published alongside the Board Member declarations. As part of our additional assurance we will be recording interests in a way that allows Secretariat and project officers to review member and officer interests more readily when they are bringing reports to committees.

The Register of Member's Financial Interest 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 2020/21, there were no personal data breaches that met the threshold for mandatory reporting.

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 2020/21 was £400,000 (2019/20: £350,000), with some of 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 an NAO report during the year as summarised below.

Starter homes

Homes England attended the rescheduled Public Accounts Committee (PAC) session that looked at the Government's Starter Homes programme. This session had been due to take place in March 2020, but was cancelled due to COVID-19. The Agency's Chief Executive, Nick Walkley, represented Homes England alongside colleagues from MHCLG at an oral evidence session of the PAC in October 2020.

The PAC published their report in December 2020. Their report recommended that Homes England should write to the Public Accounts Committee every 6 months to update them on the number of affordable units created, and of what type and tenure. The report made several recommendations to MHCLG, including that the Department should set out a clear definition of 'affordable housing', as well as outlining how the Government's various housing schemes will help the Government achieve their ambition of building 300,000 new homes per year by the mid-2020s.

ALB study

The National Audit Office (NAO) began a study in early 2021 which looks at the Government's delivery through Arm's-Length Bodies (ALBs). This report builds on the work of a previous NAO study in 2016 which studied Government Department's oversight of ALBs. Homes England was asked to form one of the ten case studies which made up the final report. As such, colleagues from Homes England met with the NAO in an interview format to discuss the study and the key areas that the NAO are examining. The NAO published their final report in June 2021.

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 considers new development and investment proposals and reviews business cases in support of new investment policies or expanded funding programmes for inclusion within the Agency's remit. It also monitors portfolio performance and progress on major schemes and approves certain aspects of the Agency's procurement arrangements directly related to site or programme delivery.

During the year, in addition to transaction approvals, the committee approved an updated equity investment strategy and procurement framework covering project delivery, site security, site management and monitoring, and economic research and analysis. It also reviewed a number of business cases in support of new initiatives including First Homes, Help to Build and the Housing Delivery and Diversification fund.

The committee has overseen the re-procurement of administration services that support the Help to Buy portfolio.

Significant transactional approvals included land acquisitions and infrastructure investment in South Oxfordshire, Medway, Norfolk, and Surrey, as well as further land and enabling infrastructure investments in two ongoing major developments of new housing stock in Northstowe in Cambridgeshire and Burgess Hill in Surrey. Development finance approvals for major home construction sites in Upton near Northampton and Harker near Carlisle were also granted. Finally, the committee approved a number of equity investments primarily designed to support and encourage private sector investment into residential construction and the private rented sector.

The committee's portfolio monitoring activities included regular reviews of the equity portfolio, the guarantees portfolio and actions taken in response to the pandemic, including waivers and flexibilities afforded to construction partners and developers due to delays in both completions and sales.

The members of the Investment Committee as of 31 March 2021 were Mark Rennison (Chair); Peter Freeman (joined 26 November 2020); Simon Dudley; Duncan Sutherland; Sadie Morgan; Olivia Scanlon (4 March 2021); Gordon More, interim Chief Executive Officer (or nominated deputy); Harry Swales, Chief Investments Officer (or nominated deputy); and Stephen Kinsella, Chief Land and Development Officer (or nominated deputy).

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:

- approving a Pay and Grading review; and
- advancing our succession planning analysis.

The members of the Nominations and Remuneration Committee as of 31 March 2021 were Simon Dudley (Chair); Stephen Bell; Duncan Sutherland; Andy Hobart (MHCLG representative), Peter Freeman (joined 26 November 2020) and Vanessa Murden.

Board and Committee attendance 2020/21

Board[7]	NRC[8]	IC[9]
Peter Freeman 4 (4)	Peter Freeman 1 (1)	Peter Freeman 3 (4)
Duncan Sutherland 9 (9)	Duncan Sutherland 4 (4)	Duncan Sutherland 10 (10)
Keith House 5 (5)		Keith House 5 (5)
Mark Rennison 9 (9)		Mark Rennison 9 (10)
Olivia Scanlon 7 (9)		Olivia Scanlon 1 (1)
Andy Hobart 9 (9)	Andy Hobart 4 (4)	
Sadie Morgan 9 (9)		Sadie Morgan 8 (10)
Simon Dudley 9 (9)	Simon Dudley 4 (4)	Simon Dudley 10 (10)
Stephen Bell 9 (9)	Stephen Bell 4 (4)	
Teresa O'Neill 9 (9)		
Vanessa Murden 8 (9)	Vanessa Murden 3 (4)	
Nick Walkley 7 (7)		Nick Walkley 8 (9)
Gordon More 2 (2)		Gordon More 1 (1)

[7]The Board also held a further 5 Special meetings, and 21 catch-up phone calls during the pandemic.
[8]The NRC also held a further 6 Special meetings.
[9]The Investment Committee also held a further 6 Special meetings.

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:

- Developing and beginning to use the "Three Lines of Defence" papers. ARC has completed deep dives on all the main risk-taking areas and, combined with risk reviews, the maturity of conversations about the control environment is improving.
- ARC has been asked to take on a similar role in relation to Transformation as it did for Help to Buy. We have agreed to run a series of additional meetings over the first half of the calendar year 2021 which will focus on Benefit Realisation, Resourcing and Change Readiness, and Forward Planning.

- At the same time, the Committee has identified four other areas where it wants to focus its discretionary time – these being a refresh of Risk Appetite; ongoing focus on the closure of actions related to improvements in the Control Environment; specific focus on Help to Buy given the significance of activity facing the team; and further development of appropriate management information.

The members of Audit and Risk Committee as of 31 March 2021 were Stephen Bell (Chair); Teresa O'Neill, Mark Rennison (joined 23 June 2020) and Vanessa Murden.

Safety Health and Environmental Committee (SHE)

This Committee ensures that the Board were 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.

The Committee has also taken a role 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, and increased its frequency over the past year to ensure proper oversight. Other notable business this year included:

- Reviewing our approach to Health and Safety and implementing proposals from external and independent advisors.
- Evaluating the Hackitt Report into Building Safety, discussing this with stakeholders and producing a strategy for Homes England to take a leadership role in the housing sector to assist the implementation of Hackitt recommendations and subsequent legislation.
- Implementing a Health and Safety training regime through all levels of the organisation including Board and Senior Managers.

The members of Safety Health & Environmental Committee as of 31 March 2021 were Duncan Sutherland (Chair); Olivia Scanlon; Simon Dudley (joined 30 April 2020); Andy Hobart (MHCLG representative, joined 30 April 2020); Stephen Kinsella, Chief Land and Development Officer (or nominated deputy) and Lynda McMullan, Chief Financial Officer (or nominated deputy).

Committee attendance 2020/21

Transformation ARC[10]	ARC[11]	SHE[12]
Stephen Bell 2 (2)	Stephen Bell 6 (6)	Duncan Sutherland 4 (4)
Teresa O'Neill 2 (2)	Teresa O'Neill 6 (6)	Simon Dudley 4 (4)
Mark Rennison 2 (2)	Mark Rennison 4 (5)	Olivia Scanlon 4 (4)
Vanessa Murden 1 (2)	Vanessa Murden 5 (6)	Andy Hobart 4 (4)

[10] ARC also agreed to run a series of 6 additional meetings to consider Transformation. Non-ARC members have an open invite to attend.
[11] ARC also held a further 2 Special meetings.
[12] SHE Committee held additional monthly catch-up meetings during the pandemic to consider staff safety and welfare.

The Executive

The Executive is our principal executive decision-making group for implementing strategies, operational policies and procedures. As at 31 March 2021 the Executive comprised of:

- Gordon More, interim Chief Executive and Accounting Officer (from 1 March 2021).
- Amy Casterton, Chief of Staff.
- Stephen Kinsella, Chief Land and Development Officer.
- Harry Swales, Chief Investments Officer (from 08 March 2021).
- Lynda McMullan, Chief Finance Officer.
- Paul Kitson, Executive Director of Markets, Partners & Places (from 08 March 2021).

Gordon More
Interim Chief Executive

Gordon has spent over 30 years in the banking sector with Lloyds Bank, HBOS and Bank of Scotland in a number of roles with a focus on the real estate and general corporate sectors.

In May 2014 Gordon joined the HCA (now Homes England) as Head of Investments (on secondment from Lloyds Banking Group). Gordon took on the permanent role of Chief Investment Officer in 2017, a position held until March 2021 when he took on the role of interim Chief Executive.

Gordon is a Fellow of the Chartered Institute of Bankers and a Fellow of the Royal Institution of Chartered Surveyors. Prior to joining Bank of Scotland he worked as a graduate engineer with Balfour Beatty after studying for a degree in Civil Engineering at the University of Strathclyde.

Harry Swales
Chief Investments Officer

Harry has been with Homes England since 2015 and is the Chief Investment Officer. Prior to this role, Harry was Executive Director of Markets, Partners and Places at Homes England having previously held roles in the Investment directorate.

Harry has over 18 years' experience in housing and the building environment as a developer, investor and funder. He is a chartered surveyor with a background delivering strategic investment programmes across both the public and private sector.

Lynda McMullan
Chief Financial Officer

Lynda has been with Homes England since July 2019. As well as being the CFO, she manages the Corporate Resources Directorate which consists of: Finance, HR, Legal, Digital, Risk, Business Planning and Performance, as well the Building Remediation Team.

Prior to this, Lynda worked for 5 years with the Metropolitan Police Service helping deliver significant change and financial savings as Director of Commercial and Finance, having already spent a year overseeing the service from the GLA. This built on two years working as an Executive lead at the National Audit Office, responsible for the Education, Health and the (then) Communities and Local Government departments. Before this Lynda spent some 20 years in Local Government, mainly in senior financial roles, latterly with Kent County Council as the Director of Finance and Procurement.

Lynda is a member of CIPFA and sits on their Board.

Amy Casterton
Chief of Staff

As Chief of Staff at Homes England, Amy leads the Executive Office responsible for Government relations, governance and communications. Working closely with the CEO, she is part of the leadership team building a new approach to the delivery of new homes with our partners.

In 2017 Amy led a Government review into UK Anti-Doping (UKAD), and before that spent six years in Brazil leading PR and trade campaigns for the FCO and then establishing a successful business, winning temporary infrastructure contracts for the Rio 2016 Games. She also has run Ministerial offices, was the first Head of Public Policy at the Premier League and worked in Local Government.

Stephen Kinsella
Chief Land and Development Officer

Stephen is Chief Land and Development Officer for Homes England. Stephen has strong commercial and professional skills built up over nearly thirty years in housing across a variety of roles in the public, private and voluntary sectors. He joined the Homes and Communities Agency in 2017 from Barratt Developments where he was Growth and Partnerships Director for 11 years. Stephen also spent twelve years in the housing association sector, most latterly in senior regeneration and business development roles.

Paul Kitson
Interim Executive Director of Markets, Partners and Places

Paul is the Executive Director of Markets, Partners and Places at Homes England having previously held the role of Director of High Growth and New Settlements in MPP and before that General Manager responsible for projects and investment across the South East.

Prior to this Paul was responsible for the Agency's work at Northstowe in Cambridgeshire, securing planning permission for the first 3,500 homes. Before joining Homes England, Paul held delivery roles with Thurrock Thames Gateway Development Corporation and with Moat Homes in Kent and Essex, and first started working in development and regeneration on SRB funded programmes in West London and Hertfordshire.

In addition to the above, the following served on the leadership team throughout the year; Nick Walkley served as CEO until 28 February 2021, Gordon More served as Chief Investments Officer until 01 March 2021, and Harry Swales served as Executive Director, MPP until 07 March 2021.

On 09 June 2021 we announced that Peter Denton will be joining Homes England as CEO and Accounting Officer later on in the year.

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 performance

We are committed to ensuring that our Board and its Committees are continually improving. To assist with this, the Board undertook an annual Board effectiveness evaluation in July 2020.

A report detailing findings and suggested improvements was accepted by our Board and an action plan was established for implementing key recommendations during 2020/21. These included an enhanced role for Committee Chairs in determining forward plans, improved reporting from Committees to Board, increasing the membership of key Committees, and a progressive reigning back of operational updates to Board, which had intensified during the Agency's COVID response.

The remaining actions were considered by the incoming Chair, and have been rolled forward into the action plan arising from his 2021 Chair's Review. This was an extensive piece of work carried out at the request of the Secretary of State, and his recommendations for further actions to improve Board oversight of key Agency decision making will be reflected in the Board Effectiveness Action Plan for 2021/22.

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.

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 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.

Governance statement

We are a Non-Departmental Public Body sponsored by MHCLG. Our relationship 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.

Homes England has complied with the Corporate Governance in central Government Departments: code of good practice.

Risk management and internal control

Homes England is frequently active in areas of the residential market which are considered unattractive by commercial organisations. A substantial portion of our activity within our Strategic Delivery Plan is therefore exposed to 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 we have an appropriately approved risk appetite in place against which to measure these risks. Our risk management systems have been in place for the year under review and up to the date of approval of the Annual Report and accounts.

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 its 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.

Risk culture

As stated in our new Risk Management Framework, a robust organisational risk culture is demonstrated through the tone from the top. All colleagues are encouraged to actively engage in risk management.

Acting as role models, our Board and Executive lead by example to encourage and motivate others to do the same. Risk is incorporated into decision making at all levels and is not an afterthought.

As a public sector organisation that exists to accelerate the delivery of housing across England, we have the capacity, capability and relationships needed to disrupt and rebalance the housing market.

Although a substantial portion of our activity is inherently higher risk than the broader market, we are committed to our ethos of being innovative, brave and using effective mitigation to offset risks to achieve our mission and objectives. This is reflected in our Risk Appetite Statement.

We believe that a positive risk culture exists when everyone understands our approach to risk, takes personal responsibility to manage risk in everything they do and encourages others to follow their example.

There is a no blame culture which recognises the need to learn and evolve through experience and practice, using risk management as one of the tools to help us achieve our strategic objectives.

In their annual opinion, our internal auditors highlighted issues in relation to the operation of risk management processes across the organisation, the lack of infrastructure and systems to support effective risk management, limitations in the use of risk data, visibility and consideration of the most significant risks by the Board. Assurance activities and consensus around roles and responsibilities and the application of the three lines of defence model were also identified as areas for improvement.

Actions to address these issues are cross-Agency and reflect the priority areas identified as the focus for 2021/22 by our Audit and Risk Committee. Progress in strengthening these areas will be reported in next year's Annual Report and accounts.

More widely, risk culture remains a focus of continuous improvement. A new Risk Management Framework has recently been introduced and features risk culture in far more detail than previous versions. The Risk education plan also includes training and education tools to support a shift in culture; and our Risk Events and Near Miss Policy is specific on the Agency operating a 'no blame' culture to support risk maturity.

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.

Detailed risk information is provided on a regular basis to MHCLG as part of the Agency's comprehensive management information package. This is the same level of risk 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 committee papers submitted 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 is a categorisation structure to support the analysis and assessment of risk exposure across the organisation. The seven primary risk categories detailed in the following table are segmented into secondary risk categories for analytical purposes.

Our Risk Appetite 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 Board's 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.

Following a comprehensive review, in May 2021 our Board approved a revised Risk Taxonomy and Risk Appetite Statement for implementation over the coming Financial Year.

Taxonomy	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 countercyclical 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 and/or risk of sub-optimal delivery of change initiatives or interventions related to strategic objectives.	**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 changes 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	Risk of Homes England's credit / investment decisions leading to a financial loss or sub-optimal recovery outside agreed tolerance, 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	Risk of Homes England processes, resources or systems being ineffective, leading to operational failures.	**AVERSE:** Homes England is averse to operational risks and expects there to be a resilient control environment for key systems and processes.
Fiduciary Risk	Risk of failing to comply with regulation or prevent financial crime or misconduct with the customers, leading to losses / censure.	**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	Risk of reputational damage due to adverse public or stakeholder perception of activities that are fully aligned to Homes England's strategic objectives and policy requirements; insufficient mitigation through communication / public perception management.	**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.

Risks outside the Agency's Risk Appetite

We measure our Risk Appetite for each of our seven primary taxonomy risks to determine whether we are within or outside appetite. The Chief Risk Officer's report to our Board includes a Risk Appetite Position Statement. During the last 12 months we were within appetite for all primary taxonomy risks except for the following specific areas of Operational and Fiduciary Risk.

Operational Risk – The two main areas of Operational Risk currently outside risk appetite are longstanding issues in relation to legacy digital systems and data quality, integrity, availability and reporting.

We have a Service Transformation Programme (STP) underway which will address system deficiencies which contribute to these core operational risk issues. However, this is a long-term programme of improvement, with a four to five-year delivery timetable. Furthermore, for these system improvements to materially impact the underlying operational risks we need to see a stronger level of business grip across a range of day to day activities. This is particularly the case within the Help to Buy programme where increased executive and board focus is being applied to improving the controls within their operating environment.

During this year, STP prioritised digital improvements for our Help to Buy programme. Elsewhere process and structure improvements have been completed across a wide range of digital services; and system resilience has been strengthened. The parallel work required to improve operational grip is taking place with enhanced oversight from the executive introduced during the year. However, we remain outside appetite.

Fiduciary Risk – We remained outside appetite for Fiduciary Risk at the commencement of the year due to specific issues identified within the Help to Buy programme. This included risks associated with financial promotions, customer due diligence (for new and existing consumers and developers), the screening of politically exposed persons, sanction compliance and wider financial crime due diligence for developers.
Last year the Executive agreed funding that will support the Agency to reduce our risk exposure to within our fiduciary risk appetite. Progress is underway to improve our current investigative and detective control environment using external suppliers to address these issues; however, timescales for project completion have slipped due to procurement delays. We anticipate this risk will be within risk appetite in early 2021/22.

Principal Risks

During the year key issues which could impact on the strategic objectives of our organisation were discussed and agreed by our Executives. Nine strategic risks were identified for further assessment and discussion with our Audit and Risk Committee. It was agreed that whilst some overlap was identified, the following risks would be recorded as our current ‘principal risks’. These risks will be reviewed by our Board in July 2021.

Principal Risk	Theme	Details	Primary risk alignment	Risk Appetite
1 Mission & Objectives	Strategic intent	Risk that Government policy decisions could reverse Homes England’s direction of travel from a ‘mission led’ to a ‘programme focused’ Agency.	Policy	Open
2 Relationship with Sponsor department	Strategic intent	Risk of failing to maintain a productive and effective relationship with the Sponsor department.	Policy	Open
3 Stakeholder relationships - Government	Strategic intent	Risk that Homes England is unable to maintain a productive relationship across Government.	Policy	Open
4 Funding	Resources	Risk that there is a misalignment between Homes England’s budget settlement and Government policy.	Policy	Open
5 Capacity & Capability	Resources	Risk that the Agency does not have sufficient resources to deliver strategic objectives.	Operational	Averse
6 Value for Money	Resources	Risk that we are unable to demonstrate Value for Money.	Strategic Delivery	Open
7 Macro-economic Conditions	Economy	Risk that the Agency is not prepared to respond agilely to market needs by taking countercyclical decisions to support the housing market.	Economic	Open
8 Stakeholder Relationships - Commercial Partners	Commercial	Risk of ineffective management of commercial stakeholders.	Strategic Delivery	Open
9 Change management	Transformation	Risk that the Agency is not prepared and unable to execute organisational change.	Strategic Delivery	Open

Two Principal Risks currently fall outside our stated appetite.

Change Management – this is outside our appetite due to the interdependencies between key strategic change projects and the requirement to manage these within clear strategic objectives.

Capacity and Capability – this is the risk that we have insufficient capacity and/or skills, or are not utilising them effectively. This is due to gaps in skills and capability along with limited flexibility in the resourcing model to prioritise and allocate resources in areas of business need.

In May 2021 our Executives appointed control improvement owners to specifically deliver a series of cross-organisation mitigation plans to return these risks to appetite. Progress will be reported each quarter as each Principal Risk is reviewed.

Significant organisational design change has continued over the last 12 months to support a new operating model and ensure we are an efficient and effective team. This change is ongoing and we have developed and are implementing a Service Transformation Plan to address those areas where we are outside our operational risk appetite.

The potential impact of COVID-19 on our workforce and on the delivery of our strategic objectives has been continually assessed over the last 12 months across the following key areas:

- The health, safety and wellbeing of our colleagues and delivery partners.
- Disruption to our corporate services (including digital resilience).
- Short to medium-term strategic delivery risks.
- Medium to long-term strategic delivery risks.

At the onset of the pandemic, early and effective changes to the way we work helped to significantly mitigate disruption to our corporate services and maintain wellbeing across our workforce.

At the beginning of this financial year, nearly all residential construction activity in England had halted; however, within weeks of the initial lockdown the Government encouraged builders and developers to resume operations where effective social distancing could be maintained on site.

A number of unprecedented Government interventions were also introduced to stimulate economic growth, including reduced rates of Stamp Duty Land Tax for residential properties for part of the year.

Our risk management strategy during this unprecedented period has been to maintain continuous engagement with our partners to understand their ongoing delivery risks and to discuss whether targeted support was required.

Risks associated with the UK's transition period from the EU and the new trade agreement were also closely monitored for potential impact on our delivery partners; and especially issues which could affect the smaller builders and developers with whom we engage.

Although we noted there were transition issues reported by trade bodies in relation to labour shortages, material delays and increased construction costs, the impact on our delivery partners was minimal during this period.

In addition to COVID-19 and transition risks our 'business as usual' risks have not been ignored. This includes risks associated with:

- 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 will 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 our achievements.

- Progressing the organisation's monitoring, management and reporting of risks against its stated risk appetite.

Risk Management Framework

In line with the principles set out in HMT's Orange Book guide to risk management 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 the ongoing Risk Enhancement Plan, referred to earlier, which looks at business engagement, risk processes, education and training within its multiple 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 wider organisation.

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

We reviewed the Framework during 2020/21 to ensure it meets the organisation's strategic and operational risk management needs and aligns with current best practice. This revised Framework was approved by our Executive and Board in May 2021.

Integrated Assurance Framework

In 2020/21 Homes England developed and is implementing an Integrated Assurance Framework to organise, plan, deliver and report on assurance activities.

Internal Audit opinion

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 myself as the Accounting Officer to provide this overall assurance opinion.

The overall assurance provided for 2020/21 was a "Limited" opinion. This means that there are significant weaknesses in the frameworks of governance, risk management and control such that it could be or could become inadequate and ineffective.

The drivers of this opinion were the output of Internal Audit's assurance work; their assessment of the operation and effectiveness of Risk Management processes; current key influencing factors (i.e. continued lockdown, environmental factors, operational constraints and the current pace of internal and external change); and the effectiveness of the organisation in remediating key issues over the year.

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 completed 28 assignments for the workplan period ended May 2021 which have raised recommendations for control improvements in key areas. Internal Audit have also highlighted a number of underlying key themes for the organisation to address to improve the control environment. These include areas such as management of the service chain for the Help to Buy loan book, effective prioritisation and targeting of the organisations transformation programme, improvements to risk management processes and culture, more effective data and decision making processes as well as effective use of organisational capacity and resource.

We have reflected upon this Limited opinion, which shows the cumulative effect of the many changes and pressures affecting the Agency this year. Our annual performance has remained sturdy in comparison to the year on year falls in starts and completions seen in the market, even as the world has changed. We have also managed to grow our workforce by 30% in one year, to meet the expanded remit given to us by the Government, and have launched new programmes and expanded the scope for others. However, as these audit findings made clear, we are an organisation under strain, and we have been hampered by instability at senior level, and inefficiencies resulting from legacy systems, with limited data quality, which expose us to undue risk.

So, this opinion is not surprising. We are determined that, now we have been able to fill our senior vacancies and re-focus our transformation programme upon system and data improvements, and have benefited from the perspectives of our new Chair, we can address them, and will improve in all these areas in 2021/22.

The Chair joined us in October 2020 and spent his initial months at the Agency getting to know what drives our work, how we go about it and the valuable things we achieve. He wrote a Review for the Secretary of State which gave a positive view of the Agency, but with recommendations covering what more the Agency can do to work with partners and deliver more homes; and how the Agency's internal performance and operations can be improved.

We also know that the Government has yet more significant ambitions for us, which we will need to take on in future, and more work will be needed to meet those expectations.

Whistleblowing

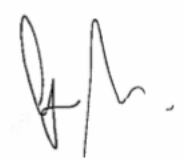
Homes England's 'Whistleblowing Policy' includes contact details for our colleagues. The Nominated Board Champion and external bodies (e.g. Prescribed Persons such as the NAO and the independent whistleblowing charity Public Concern, Protect) can be contacted by a colleague who wishes to make a disclosure under our Policy. Colleagues are encouraged to raise concerns informally to their line managers first (if they wish). As an organisation that has been through significant change, we continue to ensure that colleagues are able to escalate risks and concerns as they are identified. A review of our Policy is currently underway, including benchmarking to assess effective engagement and communication of our Policy. Protect, the UK's whistleblowing charity, has been contacted as part of this assessment. There was 1 case reported in relation to whistleblowing. This case was received, investigated, and sent to an

Executive Director for review. There was no evidence to substantiate the allegations made and the case was closed.

Conclusion

Based on assurances received from senior management and from reporting covering the three lines of defence, we believe that we have complied appropriately with governance requirements, such as the Governance code as set out by HM Treasury. The Board recognises the Limited Assurance opinion, which reflects weaknesses in some of the arrangements for risk management and the system of internal control across the Agency. These areas for necessary improvement are subject to approved improvement plans for 2021/22, as set out elsewhere in this statement.

The Corporate Governance report is signed on 14 July 2021



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Gordon More
Interim Chief Executive and Accounting Officer

Remuneration and staff report

Nominations and Governance Committee

The Nominations and Governance Committee has the following responsibilities:

- Advise the Chair, 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.
- Annually review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes.
- Keep under review the leadership needs of the organisation, both executive and non-executive. Ensuring the systems of succession planning are in place to support the continued ability of the organisation to deliver the outcomes in corporate strategy.
- Consider and advise the Board on broader staffing issues, such as recruitment and retention, overall pay levels and performance awards, and any other staffing matters that are referred to the Committee by the Executive.
- 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.
- Ensure Policies and Procedures are in place consistent with the Cabinet Offices Model Code for Staff of Executive Non-Departmental Public bodies.

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.

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 exception to this is Christopher Kinsella, who was contracted through an employment Agency. Christopher left the Agency on 3 April 2020.

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 3 days per month in 2019/20 and 2020/21.

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 2021. Sections that are subject to audit are listed as such.

Board Members' emoluments (subject to audit)

	2020/21 £'000	2019/20 £'000
Chair		
Peter Freeman (from 23 October 2020)[1]	**42**	n/a
Simon Dudley (Interim from 14 August 2019 to 22 October 2020)[2]	**34**	44
Sir Edward Lister (to 6 August 2019)[3]	**2**	18
Board Members		
Keith House (to 31 October 2020)[4]	**15**	25
Stephen Bell[5]	**42**	42
Simon Dudley (from 23 October 2020)[2]	**11**	12
Teresa O'Neill	**25**	25
Duncan Sutherland	**25**	25
Olivia Scanlon (from 22 July 2019)[6]	**25**	17
Vanessa Murden (from 22 July 2019)[6]	**25**	17
Sadie Morgan (from 22 July 2019)[6]	**25**	17
Mark Rennison (from 22 July 2019)[7]	**33**	20
Richard Blakeway (to 31 August 2019)[6]	**n/a**	10
Ceri Smith (to 12 March 2020)[8]	**n/a**	-
Andy Hobart (from April 2020)[9]	**-**	n/a

1 Full year equivalent emoluments in 2020/21 were £95,000.

2 Simon Dudley was a Board Member until his appointment as the Interim Chair from 14 August 2019 to 22 October 2020. Full year equivalent emoluments were £69,000 for this role. From 23 October 2020 Simon resumed his duties as a Board Member. Full year equivalent emoluments for this role were £25,000.

3 In 2020/21, Sir Edward Lister received £2,400 in relation to an underpayment of salary from 2019/20. Full year equivalent emoluments in 2019/20 were £69,000.

4 Full year equivalent emoluments in 2020/21 were £25,000.

5 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, Risk and Assurance Committee (ARAC).

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

7 In addition to being a Board Member, Mark Rennison is the Chair of the Investment Committee. Full year equivalent emoluments for 2019/20 were £33,000.

8 Ceri Smith, Director of 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.

9 Andy Hobart, a Director at MHCLG, was appointed to the Board as MHCLG's shareholder representative member from 30 April 2020. Although Andy's term completed on 31 July 2020, he will be staying in the role until a new appointment is made. He did not receive a salary for his duties.

Chief Executive's emoluments (subject to audit)

Single total figure of remuneration										
	Salary received in year (£'000)		Bonus payments (£'000)[7]		Benefits in kind (to nearest £100)		Pension benefits (£'000)*		Total (£'000)	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Nick Walkley (to 28 February 2021)[1]	290-295	215-220	20-25	nil	nil	nil	63	46	375-380	260-265
Gordon More Interim Chief Executive Officer (from 1 March 2021) & Chief Investments Officer (to 28 February 2021)[2]	210-215	210-215	nil	15-20	nil	nil	nil	nil	210-215	225-230

Key Managers' emoluments (subject to audit)

Single total figure of remuneration										
	Salary received in year (£'000)		Bonus payments (£'000)[7]		Benefits in kind (to nearest £100)		Pension benefits (£'000)*		Total (£'000)	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Harry Swales, Chief Investments Officer (Interim from 8 March 2021; Permanent from 14 June 2021) & Director of Markets, Partners & Places (from 3 February 2020 to 7 March 2021)[3]	165-170	20-25	nil	nil	5,200	6,200	55	4	225-230	35-40
Stephen Kinsella Chief Land and Development Officer	200-205	200-205	nil	15-20	5,200	6,300	38	39	245-250	260-265
Amy Casterton Chief of Staff	115-120	105-110	nil	10-15	nil	nil	24	24	140-145	140-145
Lynda McMullan Chief Finance Officer (from 30 June 2019)[4]	165-170	125-130	nil	nil	nil	nil	37	29	205-210	155-160
Lou Downe Director of Service Design & Transformation (from 28 June 2019 to 30 November 2020)[5]	115-120	95-100	nil	nil	nil	nil	19	22	135-140	115-120

Key Managers' emoluments (subject to audit)

Single total figure of remuneration	Salary received in year (£'000)		Bonus payments (£'000)[7]		Benefits in kind (to nearest £100)		Pension benefits (£'000)*		Total (£'000)	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Paul Kitson Interim Director of Markets, Partners & Places (from 8 March 2021)[6]	5-10	n/a	nil	n/a	8,700	n/a	nil	n/a	15-20	n/a
Christopher Kinsella Interim Executive Director of Markets Places & People and Help to Buy (from 15 July 2019 to 3 April 2020)	0-5	250-255	nil	nil	nil	nil	nil	nil	0-5	250-255
Tracie Langley Interim Corporate Services Director (from 25 February 2019 to 20 December 2019)	n/a	140-145	n/a	n/a	n/a	n/a	n/a	n/a	n/a	140-145
Tom Walker Deputy Chief Executive and Executive Director of Strategy (to 30 June 2019)	n/a	30-35	n/a	nil	n/a	nil	n/a	nil	n/a	30-35
Mark Gray Chief Risk Officer (from 25 February 2019 to 31 March 2020)	n/a	215-220	n/a	nil	n/a	nil	n/a	40	n/a	255-260

* 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 Remuneration received during the year includes unused holiday entitlement (£20,000-£25,000), a pay award for the period 1 July 2020 to 31 January 2021 (£10,000-£15,000) and a payment in lieu of notice of £55,000-£60,000. The bonus received in year related to 2018/19, having been approved by the Secretary of State in June 2020. The notice period foregone covered 3 months from the date of departure. Full year equivalent emoluments for 2020/21 were £230,000-£235,000.

2 Gordon More was appointed Interim Chief Executive Officer on 1 March 2021. Prior to this appointment he was the Chief Investments Officer. His full year equivalent emoluments for 2020/21 for both roles were £210,000-£215,000.

3 Harry Swales was appointed Interim Chief Investments Officer on 8 March 2021 which became permanent on 14 June 2021. Prior to this appointment, he was the Director of Markets, Partners & Places. His full year equivalent emoluments for 2020/21 for both roles were £160,000-£165,000. Remuneration received during the year includes a backdated salary adjustment relating to 2019/20 of £0-£5,000. His full year equivalent emoluments for 2019/20 were £160,000-£165,000.

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

5 Remuneration includes a payment in lieu of notice of £30,000-£35,000. Full year equivalent emoluments for 2019/20 and 2020/21 were £125,000-£130,000.

6 Full year equivalent emoluments for 2020/21 were £130,000-£135,000.

7 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 Chair 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 until 28 February 2021. He was a member of the Homes & Communities Agency Pension Scheme. Gordon More was appointed as the Interim Chief Executive on 1 March 2021. He is not a member of any of the Agency's pension schemes.

Key managers

	Accrued annual pension at 31 March 2021 (£'000)	Real increase in accrued annual pension (£'000)	Accrued lump sum at 31 March 2021 (£'000)	Real increase / (decrease) in accrued lump sum (£'000)	CETV 31 March 2021 (£'000)	CETV 31 March 2020 (£'000)	Real increase/ (decrease) in CETV (£'000)
Nick Walkley[1]	**10-15**	2.5-5	**35-40**	10-12.5	**392**	233	**100**
Stephen Kinsella	**5-10**	0-2.5	**25-30**	5-7.5	**282**	174	**63**
Amy Casterton	**0-5**	0-2.5	**5-10**	2.5-5	**93**	37	**39**
Lou Downe[2]	**0-5**	0-2.5	**5-10**	2.5-5	**68**	31	**26**
Lynda McMullan	**0-5**	0-2.5	**10-15**	5-7.5	**123**	45	**60**
Paul Kitson[3]	**15-20**	-	**55-60**	-	**631**	615	**-**
Harry Swales	**10-15**	2.5-5	**35-40**	7.5-10	**417**	239	**91**

1 Nick Walkley left the Agency on 28 February 2021. Pension figures have been calculated to the date of departure.

2 Lou Downe left the Agency on 30 November 2020. Pension figures have been calculated to the date of departure.

3 Paul Kitson was appointed as a Key Manager on 8 March 2021. 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 Chair 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, all Key Managers in post at 31 March 2021 are active members of the Homes & Communities Agency Pension Scheme.

Accrued pension at 31 March 2021

The accrued pension entitlement is the pension which would be paid annually on retirement, based upon pensionable service to 31 March 2021.

Cash Equivalent Transfer Value (CETV) 31 March 2021

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.

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

Termination payments (subject to audit)

Termination payments to Key Managers in 2020/21 were £nil (2019/20: £nil).

Staff costs (subject to audit)

Staff costs	2020/21 (£'000)	2019/20 (£'000)
Permanent staff employed directly by the Agency		
Salaries and wages	**66,378**	52,445
Social security costs	**7,558**	6,038
Other Pension costs	**25,578**	21,606
Sub total	**99,514**	80,089
Temporary staff	**9,520**	6,120
Seconded staff	**557**	545
Less staff costs capitalised: Land and Property	**(7,153)**	
Less staff costs capitalised: PPE and intangible assets	**-**	(9)
Less staff costs transferred to programme costs	**(2,010)**	-
Total net costs	**100,428**	86,745

Redundancy costs are disclosed within administration expenditure in note 9 to the Financial Statements. An analysis of exit packages is shown below.

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:

	2020/21 Number	2019/20 Number
Permanent UK staff	**1,088**	914
Fixed term UK staff	**81**	69
Temporary staff	**80**	55
Seconded staff	**4**	4
	1,253	1,042

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

	2020/21 Number	2019/20 Number
£0 - £25,000	**95**	115
£25,001 - £50,000	**450**	397
£50,001 - £75,000	**505**	397
£75,001 - £100,000	**129**	73
£100,001 - £125,000	**42**	25
£125,001 - £150,000	**21**	17
£150,001 - £175,000	**6**	9
£175,001 - £200,000	**1**	2
£200,001 - £225,000	**3**	6
£225,001 - £250,000	**0**	0
£250,001 - £275,000	**0**	0
£275,001 - £300,000	**1**	1
	1,253	1,042

Gender analysis

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

	2020/21 Number	2019/20 Number
Key Managers – Male	**5**	6
Key Managers – Female	**2**	2
Key Managers – Non-binary/ Other gender non-conforming	**1**	1
Key Managers	**8**	9
Other employees – Male	**644**	526
Other employees – Female	**601**	507
Other employees	**1,245**	1,033
	1,253	1,042

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 our colleagues as male and female. At Homes England, we recognise that gender identity is broader than simply male and female, and we know 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 at Homes England, and are looking at ways in which the way we report on gender in the future can be improved.

At March 2021 our mean gender pay gap was 13.2% and our median gap was 7.9%. This is a positive improvement from March 2020, where our mean pay gap was 16.9% and our median gap was 15.3%.

Our full gender pay gap report will contain a more detailed analysis on the reasons for our gap, and why we have seen an improvement. We will also set out our commitments on closing the gap further.

Median salary (subject to audit)

Homes England is required to disclose the relationship between the remuneration of its highest-paid director and the median remuneration of its workforce.

The banded remuneration of the highest-paid director in Homes England, Nick Walkley, in the financial year 2020/21, was £310,000-£315,000 (2019/20: Christopher Kinsella £250,000-£255,000). This figure includes remuneration earned during the year of £290,00-£295,000 plus a non-consolidated bonus of £20,000-£25,000. The mid-point of this band was 5.8 times (2019/20: 4.8 times) the median remuneration of the workforce, which was £53,419 (2019/20: £52,455).

The increase in the ratio from 4.8 last year to 5.8 this year relates to the increase in the remuneration of the highest paid Director. Specifically, Nick Walkley received a payment in lieu of notice of £55,000-£60,000 and a payment for unused holiday entitlement accrued to the date of departure of £20,000-£25,000. Excluding these other payments, the median pay ratio for the year was 4.4.

Remuneration ranged from £15,000-£20,000 to £310,000-£315,000 (2019/20: £15,000-£20,000 to £250,000-£255,000). In 2020/21, no employees (2019/20: nil) 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. There have been no Exit packages made in 2020/21.

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

	2020/21 Departures agreed Number	2019/20 Departures agreed Number
£0 - £10,000	-	-
£10,001 - £25,000	-	-
£25,001 - £50,000	-	-
£50,001 - £100,000	-	2
£100,001 - £150,000	-	-
Total number of exit packages	-	2
Total cost of exit packages (£'000)	-	188

Loans to employees

The Agency has provided travel season ticket loans and cycle scheme loans to employees during the year. The total amount outstanding in respect of these at 31 March 2021 was £19,863. There were no other loans to employees.

Staff turnover percentage

Staff turnover for 2020/21 was 5.85% (2019/20: 10.14%). This can be split between voluntary staff turnover (where staff have left the Agency for a role elsewhere or have retired) and involuntary staff turnover (where staff have left the Agency due to the end of a contractual period or dismissal). Voluntary staff turnover was 4.01% (2019/20: 6.5%). Involuntary staff turnover was 1.84% (2019/20: 3.64%).

Expenditure on consultancy

During the year, the Agency incurred expenditure of £498,588 (2019/20: £173,199) on consultancy, as defined by the Cabinet Office. This is due to vacancies in our operating model. The increase in expenditure this year relates to the additional costs incurred in connection with the preparation of the Annual Business Plan and the Spending Review.

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 contributed £303,000 to the apprenticeship levy to support apprenticeship training and assessment (2019/20: £245,000). The Agency makes use of this Scheme by employing apprentices across teams, creating opportunities for apprentices to forge a career path with Homes England. Apprentices gain real ‘on the job’ experience and are supported through professional qualifications. During the year, the Agency claimed £32,000 from the levy to support apprenticeships.

Off-payroll arrangements

In accordance with the requirements of the Government Financial Reporting Manual (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.

Temporary off-payroll worker engagements at 31 March 2021

	2020/21 Number
No. of existing engagements as of 31 March	**66**
of which:	
No. that have existed for less than one year at time of reporting	**30**
No. that have existed for between one and two years at time of reporting	**25**
No. that have existed for between two and three years at time of reporting	**4**
No. that have existed for between three and four years at time of reporting	**1**
No. that have existed for four years or more at time of reporting	**6**

All temporary off-payroll workers engaged at any point during the year ended 31 March 2021

	2020/21 Number
No. of off-payroll workers engaged during the year ended 31 March 2021	**178**
of which:	
No. determined as in scope of IR35	**171**
No. determined as out-of-scope of IR35	**7**
No. of engagements reassessed for compliance or assurance purposes during the year	**5**
Of which: No. of engagements that saw a change to IR35 status following review	**5**
No. of engagements where the status was disputed under provisions in the off-payroll legislation	**-**
Of which: no. of engagements that saw a change to IR35 status following review	**-**

Off-payroll engagements of Board Members, and/or, senior officials with significant financial responsibility, between 1 April 2020 and 31 March 2021

	2020/21 Number
No. of off-payroll engagements of Board Members, and/or senior officials with significant financial responsibility during the financial year	**1**
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	**19**

Christopher Kinsella, who left the Agency on 3 April 2020, was off-payroll and was considered to have significant financial responsibility.

He was employed on an interim basis whilst permanent recruitment took place. Details of his remuneration, start and end dates and positions held, are included within the Key Managers emoluments table above.

Employee matters

Equality and diversity in employment and occupation

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 our first annual Equality Diversity and Inclusion report. However, we know that meeting our statutory obligations is not enough and we are going beyond compliance to ensure that equality, diversity and inclusion are engrained into all that we do.

We know that advancing all elements of diversity and inclusion (D&I) plays a part in our wider ambitions to challenge outdated norms and stereotypes throughout the Agency and the sector. We are on a journey of building belonging together and creating an environment where individuality of all kinds are valued. In July 2020 we launched our first Annual Equality, Diversity and Inclusion (ED&I) report, setting out our commitment to create an inclusive organisation and sector that reflects the communities we serve.

The report sets out five key objectives that we aim to collectively achieve by 2024. Our objectives are ambitious and cover the whole reach of our impact, aiming to deliver systematic organisational and cultural change, as well as positively impact the industry and our communities.

We're focusing on the following five core areas of change:

- → Objective 1 (systems focus) – Create a more inclusive colleague experience.
- → Objective 2 (internal focus) – Work together to create acceptance and build an inclusive culture.
- → Objective 3 (leadership focus) – Leadership commitment and action.
- → Objective 4 (external focus) – Work with our partners and suppliers to help create a more inclusive industry.
- → Objective 5 (customer focus) – Deliver homes for the communities we serve.

Since the publication of our report in 2020, progress has been made against all objectives, and full details of our progress and our priorities for the next year will be published in our next Annual Equality, Diversity & Inclusion Report.

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.

This year we have launched our Workplace Adjustment Passport, which is the culmination of a lot of hard work from our Disability and Carers Network and is something that will be a great support to colleagues with disabilities and their line managers, enabling them to have meaningful conversations and access to the support that they need.

We have made it our mission to make sure that 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 ensuring that we stand out as an employer of choice.

Sickness absence

During the year, 1.08% (2019/20: 1.6%) of working days were lost to sickness absence. According to the Office of National Statistics, in the UK labour market as a whole, 1.8% of days were lost due to sickness absence, split 1.6% private sector and 2.7% public sector.

Health and Safety

Home England's safety performance has remained strong through 2020/21 and its key achievements are set out below.

For the third 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 2020/21. The AIR for all accidents involving employees was calculated at 143 which is below national Labour Force Survey (LFS) AIR rate of 2,160 injuries per 100,000 employees for 2019/20.

Homes England sets annual corporate health and safety targets for completing risk assessments, training and site inspections and audits. Out of the 20 targets set, 15 were met or exceeded and 5 were missed. Three of the targets that were missed were due to COVID-19 restrictions and the two other targets missed were due to three new employees not completing their health and safety induction training within the required timeframe.

This financial year 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. The following measures were also introduced:

- We made sure that our employees had access to the necessary workstation equipment, guidance and training at home so they could work safely and comfortably;
- Introduced a permit system to allow employees to leave the home environment to carry out essential work on site or in the office or for genuine wellbeing reasons;
- Made our offices COVID secure through the introduction of one-way systems, signage, screening and desk booking systems to facilitate safe working in the office; and
- Provided ongoing support to colleagues through the wellbeing hub and other initiatives, such as, the employee assistance programme (EAP) and our network of mental health first aiders.

Looking forward to 2021/22, the priorities for Homes England centres around the safe return to the office following the lifting of national restrictions introduced in response to COVID-19.

There will also be continued focus on construction health and safety in our supply chain, not only for projects where we are the client but the wider development, investment and grant portfolio of projects.

Employee engagement

Homes England previously participated in the annual Civil Service people survey, until 2020, when the Civil Service restricted participation. This enabled us to pilot an alternative provider and utilise a digital solution that compliments our Digital First strategy across Homes England. The survey pilot provided us with the opportunity to baseline questions to the areas of focus from the 2019 survey. The new survey approach gave us the opportunity to move to a digital solution and the autonomy to determine the length, frequency, timing, themes and question structure of our survey. We have secured budget approval for a two-year contract with an engagement partner.

We have taken the decision to measure colleague engagement through the employee Net Promoter Score (eNPS). The eNPS was +14 which is in the range of typical/normal. This equates to an average 'score' of 7.6 and is slightly higher than the engagement score of 64% in 2019.

This will be a measurement that we will seek to improve over the next two years. We engaged widely with leaders and supported leaders with the results through presentations from our partner provider and engagement tool kits for leaders and Directorates. Each Directorate will deliver their own action plan focused on a few core areas of priority. We will be reassessing our overall employee engagement strategy in 2021 and making the transition to shorter, more focused surveys that enable us to hear and respond to feedback in a more 'real-time' approach to continually improve the colleague experience.

Trade union relationships

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

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

Relevant union officials	2020/21
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	2020/21 Number
0%	-
1 - 50%	7
51% - 99%	-
100%	-

Percentage of pay bill spent on facility time	2020/21
Total cost of facility time (£'000)	39
Total pay bill (£'000)	64,959
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	2020/21
Percentage of paid facility time spent on paid trade union activities:	0%

Parliamentary Accountability and Audit report

Losses and Special payments (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:

	2020/21		2019/20	
	Cases	£'000	Cases	£'000
Total of all losses and special payments	**26**	**3,615**	77	54,338
Cases over £300,000:				
Loans written off or impaired	**2**	**2,517**	6	53,447

Under International Financial Reporting Standard 9: Financial Instruments (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.

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.

There are also 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. 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. 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.

For assets measured at Amortised Cost, 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.

During 2020/21 there were two cases of loan losses recognised where the amount written-off or impaired for accounting purposes was in excess of £300,000. The table below details these losses. There were no write-offs of Loans measured at FVTPL which exceeded £300k.

Accounting write-offs or impairments / reversals in 2020/21 (£'000)	
Loans measured at Amortised Cost	**Comments**
1,794	The Agency provided infrastructure loan funding under the Home Building Fund, which included funding for land assembly, infrastructure works and s106 obligations, to support delivery of 5,750 homes. There were initial delays experienced in the programme and, following a revised valuation undertaken in 2019/20, this indicated there had been a significant decrease in the market value of the site. As a result, a loss of £32.0m was recognised in 2019/20. During the year, the Agency corrected its approach to accounting for deferred income recognised as a result of fees recharged to borrowers. This is now fully unwound and written-off at the point of an initial write-off being recognised against the investment with the carrying amount then being adjusted to reflect the recoverable amount of the investment. An additional £1.8m was written off in relation to this investment at 31 March 2021 mainly as a result of this change. **As at 31 March 2021, total losses recognised were £33,809k.**
723	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 owning 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. During the year, the Agency corrected its approach to accounting for deferred income recognised as a result of fees recharged to borrowers. This is now fully unwound at the point of a write-off being recognised against the investment, with the carrying amount then being adjusted to reflect the recoverable amount of the investment. An additional £0.7m was written off in relation to this investment at 31 March 2021 mainly as a result of this change. **As at 31 March 2021, total losses recognised were £16,237k.**
2,517	**Total write-offs and impairments recognised on Loans and Receivables which exceed £300k**

Included in the 2020/21 accounts are further write-offs of loans measured at Amortised Cost totalling £374k, further impairments of loans measured at FVTPL of £315k, and losses on trade receivables of £253k, which individually are below the reporting threshold and therefore have not been included in the table above. In addition to this, the 2020/21 accounts reflect the reversal of previously disclosed losses totalling £203k 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 £109.8m at 31 March 2021.

Fees and charges (subject to audit)

Regulator of Social Housing

Homes England and the Regulator of Social Housing (RSH) are party to a Service Level Agreement (SLA) under which Homes England provides services to RSH. 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. Service income charged to RSH during the year was £1,123,000.

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 £211,000. 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 £50,000 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 14 July 2021

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Gordon More
Interim 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) and its group for the year ended 31 March 2021 under the Housing and Regeneration Act 2008. The financial statements comprise: Group Statement of Comprehensive Net Expenditure, 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

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 2021 and of the group's net expenditure for the year then ended;
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of Homes England in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that Homes England's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Homes England's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for Homes England is adopted in consideration of the requirements set out in International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

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 certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- 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; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of Homes England and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability reports. 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

- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; 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.

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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing Homes England's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by Homes England will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- inquiring of management, Homes England's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Homes England's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Homes England's controls relating to Managing Public Money, Secretary of State Accounts Direction, and Housing and Regeneration Act 2008 (as amended by the Localism Act 2011, Infrastructure Act 2015 and Housing and Planning Act 2016).

- discussing among the engagement team and involving relevant internal and external specialists, including in relation to the valuation of land and property assets, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals and the payment of grants on the basis of self-certification by recipients that grant conditions have been met;
- obtaining an understanding of Homes England's framework of authorities as well as other legal and regulatory frameworks that Homes England operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Homes England. The key laws and regulations I considered in this context included the Housing and Regeneration Act 2008, Managing Public Money, Employment Law, and Tax Legislation; and
- undertaking specific risk assessment procedures relating to fraud, non-compliance with laws and regulations and regularity including: risk-based review of manual journals to identify those presenting higher risk of fraud, informed by planning risk assessment; review of estimates presented within the accounts; analysis of individual income streams to address the potential risk of fraud in revenue recognition; and review of the control framework in place for significant grant streams.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance, the Board and Board Committees;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- reviewing estimates in the accounts and challenging underlying assumptions and methodologies; review of the litigation report; substantive testing of grant expenditure streams, investment and land & property additions and disposals to address risk of irregularity.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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.

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

16 July 2021

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

Financial statements

Group statement of comprehensive net expenditure – Year ended 31 March 2021

	Note	2020/21 £'000	Represented* 2019/20 £'000
Expenditure			
Grants	5	**1,460,903**	1,526,189
Cost of land and property disposals	6	**141,878**	154,515
Programme costs	7	**77,107**	60,103
Staff costs	8a	**74,850**	65,139
Pension costs	8a	**25,578**	21,606
Administration expenses	9	**30,924**	35,321
Impairment of land and property	18	**67,013**	45,514
Impairment/(impairment reversal) of financial assets measured at FVTPL	14f	**285,270**	(94,859)
Impairment/(impairment reversal) of financial assets measured at amortised cost	14f	**(17,880)**	64,628
Increase/(decrease) in provisions	20	**8,127**	(47)
		2,153,770	1,878,109
Income			
Proceeds from disposal of land and property assets	6	**246,285**	229,511
Valuation gains on financial assets measured at FVTPL	14f	**444,173**	207,654
Net (loss)/gain on disposal of financial assets	14f	**(7,010)**	12,749
Interest income	14f	**63,543**	67,460
Other operating income	10	**59,697**	48,593
		806,688	565,967
Net operating expenditure		**1,347,082**	1,312,142
Interest payable		**342**	343
Share of (profits)/losses of associates and joint ventures	11	**1,673**	(4,707)
Pension fund finance costs	22d	**(2,277)**	(2,453)
Net expenditure before tax		**1,346,820**	1,305,325
Income tax charge	12a	**5,303**	8,669
Net expenditure for the year		**1,352,123**	1,313,994
Other comprehensive expenditure			
Actuarial (gain)/loss from pension fund	22e	**(25,957)**	4,959
Income tax charge/(credit) on items in other comprehensive expenditure	12b	**4,932**	(843)
		(21,025)	4,116
Total comprehensive expenditure for the year		**1,331,098**	1,318,110

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

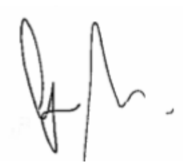
* Impairment/(impairment reversal) of financial assets was disclosed as a single line in prior years, but has been split out in 2020/21 between assets held at FVTPL and assets held at amortised cost to provide increased transparency regarding the source of impairments.

Group statement of financial position – At 31 March 2021

	Note	2020/21 £'000	2019/20 £'000
Non-current assets			
Intangible assets		**2,355**	2,412
Property, plant and equipment		**6,690**	11,174
Investments in associates and joint ventures	13b	**45,732**	70,936
Pension assets	22a	**155,335**	94,438
Trade and other receivables	14b	**224,120**	201,048
Financial assets held at amortised cost	14c	**1,012,875**	825,392
Financial assets held at FVTPL	14c	**17,701,316**	14,704,755
		19,148,423	15,910,155
Current assets			
Non-current assets held for sale		**2,250**	-
Land and property assets	18	**1,110,886**	998,074
Trade and other receivables	14b	**319,576**	98,041
Financial assets held at amortised cost	14c	**485,068**	550,946
Financial assets held at FVTPL	14c	**229,008**	142,787
Cash and cash equivalents	14a	**262,541**	218,868
		2,409,329	2,008,716
Total assets		**21,557,752**	17,918,871
Current liabilities			
Trade and other payables	19	**(632,273)**	(426,167)
Provisions	20	**(1,372)**	(234)
		(633,645)	(426,401)
Non-current assets plus net current assets		**20,924,107**	17,492,470
Non-current liabilities			
Trade and other payables	19	**(95,718)**	(115,828)
Provisions	20	**(19,270)**	(12,455)
Pension liabilities	22a	**(36,325)**	(7,478)
		(151,313)	(135,761)
Assets less liabilities		**20,772,794**	17,356,709
Reserves			
Income and Expenditure Reserve		**20,772,794**	17,356,709
Taxpayers' equity		**20,772,794**	17,356,709

The accompanying Notes are an integral part of these Financial Statements.

Approved by the Board on 14 July 2021 and signed on their behalf by:



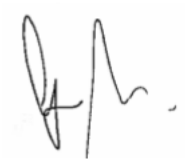
Gordon More
Interim Chief Executive and Accounting Officer

Agency statement of financial position – At 31 March 2021

	Note	2020/21 £'000	2019/20 £'000
Non-current assets			
Intangible assets		**2,355**	2,412
Property, plant and equipment		**6,690**	11,174
Investments in subsidiaries	13a	**50,000**	50,000
Investments in associates and joint ventures	13b	**20,615**	20,615
Pension assets	22a	**155,335**	94,438
Trade and other receivables	14b	**224,120**	201,048
Financial assets held at amortised cost	14c	**1,012,875**	825,392
Financial assets held at FVTPL	14c	**17,701,316**	14,704,755
		19,173,306	15,909,834
Current assets			
Non-current assets held for sale		**2,250**	-
Land and property assets	18	**1,110,886**	998,074
Trade and other receivables	14b	**319,576**	98,041
Financial assets held at amortised cost	14c	**485,068**	550,946
Financial assets held at FVTPL	14c	**229,008**	142,787
Cash and cash equivalents	14a	**262,541**	218,868
		2,409,329	2,008,716
Total assets		**21,582,635**	17,918,550
Current liabilities			
Trade and other payables	19	**(662,563)**	(433,896)
Provisions	20	**(1,372)**	(234)
		(663,935)	(434,130)
Non-current assets plus net current assets		**20,918,700**	17,484,420
Non-current liabilities			
Trade and other payables	19	**(95,718)**	(115,828)
Provisions	20	**(19,270)**	(12,455)
Pension liabilities	22a	**(36,325)**	(7,478)
		(151,313)	(135,761)
Assets less liabilities		**20,767,387**	17,348,659
Reserves			
Income and Expenditure Reserve		**20,767,387**	17,348,659
Taxpayers' equity		**20,767,387**	17,348,659

The accompanying Notes are an integral part of these Financial Statements.

Approved by the Board on 14 July 2021 and signed on their behalf by:



Gordon More
Interim Chief Executive and Accounting Officer

Statement of cash flows – Year ended 31 March 2021

Group and Agency	Note	2020/21 £'000	2019/20 £'000
Net cash outflow from operating activities	a)	**(4,722,510)**	(4,502,855)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,921)**	(5,214)
Disposal of property, plant and equipment		**21**	-
Purchase of intangible assets		**(1,631)**	(1,395)
Investment made in group companies	13b	**23,531**	(19,080)
Net cash outflow from investing activities		**18,999**	(25,689)
Cash flows from financing activities			
Grant-in-Aid from sponsor department	SoCTE*	**4,747,183**	4,480,586
Net cash inflow from financing activities		**4,747,183**	4,480,586
Increase/(decrease) in cash and cash equivalents in the period		**43,673**	(47,958)
Cash and cash equivalents at 1 April	14a	**218,868**	266,826
Cash and cash equivalents at 31 March	14a	**262,541**	218,868

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

	Note	2020/21 £'000	2019/20 £'000
Net operating expenditure	SoCNE**	**(1,347,082)**	(1,312,142)
Financial assets:			
Financial asset investments made by the Agency	14	**(4,590,520)**	(4,187,505)
Proceeds from disposal of financial asset investments	14	**1,607,138**	1,460,937
Loss on disposal of financial assets	14f	**7,010**	(12,749)
Valuation gains on financial assets held at FVTPL	14f	**(444,173)**	(207,654)
Increase in impairment of financial assets	14f	**267,390**	(30,231)
Interest added to financial assets held at amortised cost	14	**(54,815)**	(57,518)
Land and property:			
Gain on disposal of property, plant and equipment		**(3)**	-
Additions to land and property assets	18	**(317,730)**	(357,311)
Cost of land and property assets disposed	6	**137,905**	152,807
Increase in impairment of land and property	18, 9	**69,856**	45,176
Depreciation and amortisation	9	**3,981**	4,309
Pension costs	22	**(3,816)**	5,544
Payments of income tax		**(4,000)**	(5,962)
		(4,668,859)	(4,502,299)
Decrease in receivables		**(241,022)**	(57,765)
Increase in payables		**179,418**	57,316
Increase in provisions		**7,953**	(107)
Net cash outflow from operating activities		**(4,722,510)**	(4,502,855)

* SoCTE: Statement of Changes in Taxpayers' Equity
** SoCNE: Statement of Consolidated Net Expenditure

Group statement of changes in taxpayers' equity – Year ended 31 March 2021

	Note	Income and expenditure £'000	Total reserves £'000
Balance at 1 April 2019		**14,194,233**	**14,194,233**
Changes in taxpayers' equity 2019/20			
Net expenditure for the year		(1,313,994)	(1,313,994)
Actuarial loss from pension fund	22e	(4,959)	(4,959)
Income tax on items in other comprehensive expenditure	12b	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**
Changes in taxpayers' equity 2020/21			
Balance at 1 April 2020		**17,356,709**	**17,356,709**
Net expenditure for the year		(1,352,123)	(1,352,123)
Actuarial gain from pension fund	22e	25,957	25,957
Income tax on items in other comprehensive expenditure	12b	(4,932)	(4,932)
Total comprehensive expenditure for the year		**(1,331,098)**	**(1,331,098)**
Grant-in-Aid from sponsor department	1e	4,747,183	4,747,183
Balance at 31 March 2021		**20,772,794**	**20,772,794**

Agency statement of changes in taxpayers' equity – Year ended 31 March 2021

	Note	Income and expenditure reserve £'000	Total reserves £'000
Balance at 1 April 2019		**14,190,620**	**14,190,620**
Changes in taxpayers' equity 2019/20			
Net expenditure for the year		(1,318,431)	(1,318,431)
Actuarial loss from pension fund	22e	(4,959)	(4,959)
Income tax on items in other comprehensive expenditure	12b	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**
Changes in taxpayers' equity 2020/21			
Balance at 1 April 2020		**17,348,659**	**17,348,659**
Net expenditure for the year		(1,349,480)	(1,349,480)
Actuarial gain from pension fund	22e	25,957	25,957
Income tax on items in other comprehensive expenditure	12b	(4,932)	(4,932)
Total comprehensive expenditure for the year		**(1,328,455)**	**(1,328,455)**
Grant-in-Aid from sponsor department	1e	4,747,183	4,747,183
Balance at 31 March 2021		**20,767,387**	**20,767,387**

Notes to the financial statements year ended 31 March 2021

1. Statement of accounting policies

a) Statutory basis

The Homes and Communities Agency, trading as Homes England (hereafter, 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 (MHCLG).

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, FReM and in HM Treasury's Fees and Charges Guide. The Financial Statements have been prepared in accordance with the 2020/21 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 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, wherein an investment is initially recorded at cost and subsequently adjusted to reflect the investor's share of the net assets of the associate. 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 2021 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 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.

f) Critical accounting judgements and key sources of estimation uncertainty

COVID-19

As at 31 March 2021 there remains significant uncertainty over the short and medium-term future as a result of the ongoing COVID-19 pandemic. 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 are set out in Note 2. Impact of COVID-19.

UK withdrawal from the EU and future trading relationship

As of 1st January 2021, Trade and Cooperation Agreement, signed between the United Kingdom and the European Union has come into effect. This has reduced the macro-economic uncertainty surrounding the UK's withdrawal from the EU, however, there remains areas of material uncertainty, such as the pending agreement on financial services which could still impact the UK housing market.

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 14d. 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. These adjustments are required as house price indices are based on all market activity whereas 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. Together, these provide a reasonable estimate of the fair value of these assets because house price indices alone 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 adjustments 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. Further details are provided in Note 17a).

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 16a. In addition, Note 2 sets out valuation judgements made by the Agency in response to the COVID-19 pandemic and Note 17a outlines the Agency's analysis of the sensitivity of the valuation of the Help to Buy portfolio to key modelling assumptions. Varying the chosen modelling assumptions within possible bounds generates a spread in estimated fair value of £1.85bn at current market prices. The majority of this spread results from applying market adjustments that are between 2% lower and 2% higher than the base assumption and assuming transactions are 100% sales or 100% staircasing.

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, and the Agency's investment into an unlisted shared ownership fund managed by M&G Real Estate which is measured using Net Asset Values (NAV).

More information on the Agency's application of IFRS 13 to support fair value measurement is set out in Note 14c and Note 15.

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 IFRS 9.

The Expected Credit Loss Allowance at 31 March 2021 is analysed in Note 14h. 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, notably with reference to the ongoing COVID-19 pandemic and the United Kingdom's departure from the European Union. The Probability of Default values are applied to each investment in relation to their individual 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, these scenarios consist of an upside, downside, and base case (for further details of the scenarios see Note 2). For each identified scenario, variations are made to the Probability of Default values applied based on an individual investment's Credit Risk Rating. The amount of change applied is dependent on the scenario. Weightings are applied to the Expected Credit Loss calculations for each scenario, determined in relation to the 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 2020 and 31 March 2021, 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.

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 17b. Accounting judgements made by the Agency in response to the COVID-19 pandemic are set out in Note 2.

Note 14h provides an analysis of the movements in the Expected Credit Loss allowance between 1 April 2020 and 31 March 2021, 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 independent qualified valuation experts. The majority of land and property assets, by value, are assessed by these independent valuation specialists. However, as the assets are held under the historic cost convention, the judgement and estimation uncertainty involved in property valuations only affects carrying value where an impairment is identified.

Firms supporting the year end valuation exercise at 31 March 2020 were 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 encountered in forming a judgement about valuations. This direction was removed during September 2020 and this remains the case at 31 March 2021. 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 £988.7m employer assets at 31 March 2021 disclosed in Note 22, only £55.4m (5.6%) 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 2021.

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. While judgement is involved in the calculation of the recoverable amount, this is not deemed to be material to the financial statements.

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 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 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 are stated at historic cost less accumulated depreciation and impairment losses. Management views historic cost less depreciation to be a materially accurate approximation 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, including the capitalisation of staff time where appropriate. 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 reflects Homes England's 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, 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 last assessment. However, during the year and in light of the potential for uncertainty arising from the COVID-19 pandemic, a decision was made at the outset of the valuation process that all assets with a net realisable value of £150,000 or more would require a valuation for the 2020/21 financial statements.

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 historic 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 at 31 March 2020 were 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 encountered in forming a judgement about valuations. This direction was removed during September 2020 and this remains the case at 31 March 2021.

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 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 Help to Buy 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 14c and Note 15, 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 (known as "staircasing"). 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 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 (FVTOCI) 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 14c and 15, with detail regarding the key assumptions which support the Agency's most significant fair value estimate set out in Note 17a.

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 anticipated within the next 12 months based on unbiased forward-looking information. Where a significant increase in credit risk is identified the Agency is required to recognise total lifetime expected credit losses.

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

As aforementioned, 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 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 2020/21 are derived from the macro-economic forecast scenarios provided by the OBR. A sensitivity analysis with regard to this judgement is provided in Note 17b.

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 of individual agreements. For modelling purposes, this is restricted to the maximum contractual life of investments. Potential future modifications of contracts are not considered 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 17b.

Write-offs

Homes England manages distressed Financial Assets through a specialist team with experience in restructuring and insolvency.

Most 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 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 £988.7m employer assets at 31 March 2021 disclosed in Note 22, only £55.4m (5.6%) 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 2021.

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 2022/23 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 be immaterial 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 2023 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 financial impact of COVID-19 and scenarios of our recovery on asset values;

b) The United Kingdom's current position in relation to COVID-19 including high-level accounting considerations;

c) Critical accounting judgements which have been applied in producing the 2020/21 financial statements and key sources of estimation uncertainty; and

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

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

Applying metrics from possible alternative macro-economic scenarios to model changes to asset values allows us to estimate the potential future effect of market uncertainty, due mainly to COVID-19, for 95.5% of the Agency's assets as at 31 March 2021, 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 2021/22. 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 the ongoing pandemic and the United Kingdom's recovery from it.

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 using a probability-weighted sum of outputs under different scenarios and so a single measure can be extracted from this methodology to use for each economic scenario here.

<table>
<tr><th>£m</th><th>2020/21</th><th colspan="2">Upside</th><th>Central</th><th colspan="2">Downside</th></tr>
<tr><th></th><th>March 2021</th><th>March 2022</th><th>Low</th><th>March 2022 = Low point</th><th>March 2022</th><th>Low</th></tr>
<tr><td>Home equity loans</td><td>17,285</td><td colspan="2">17,450</td><td>16,989</td><td>15,979</td><td>15,372</td></tr>
<tr><td>Loans at amortised cost</td><td>1,498</td><td colspan="2">1,522</td><td>1,497</td><td colspan="2">1,480</td></tr>
<tr><td>Loans at FVTPL</td><td>434</td><td colspan="2">438</td><td>429</td><td colspan="2">413</td></tr>
<tr><td>Land</td><td>1,111</td><td>1,117</td><td>1,111</td><td>1,100</td><td>1,064</td><td>1,029</td></tr>
<tr><td>Other financial assets at fair value</td><td>184</td><td colspan="2">186</td><td>181</td><td colspan="2">173</td></tr>
<tr><td>Total value of assets analysed</td><td>20,512</td><td>20,713</td><td>20,707</td><td>20,196</td><td>19,109</td><td>18,467</td></tr>
<tr><td>Change in asset values</td><td>-</td><td>201</td><td>195</td><td>(316)</td><td>(1,403)</td><td>(2,045)</td></tr>
</table>

As indicated in the table above, the Agency's central scenario sees the aggregate value of the portfolio of assets fall by £0.3bn (1.5%) during 2021/22, with March 2022 being the point when asset values are lowest. This contrasts with the Agency's downside, where asset values reduce through the year and are estimated to be £1.4bn lower at March

2022 (7% down), with further falls of around £0.6bn expected under this scenario during 2022/23. Finally, under the Agency's upside scenario, overall asset values are expected to be £0.2bn (1%) up at 31 March 2022 compared to March 2021. 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 market on asset values, with a £2.2bn range in anticipated values across the three scenarios, modelled based on the market conditions associated with each scenario at March 2022.

b) Background to COVID-19

The United Kingdom's position in relation to COVID-19 is much improved from year-end 2019/20. While it has experienced a once in 300-year economic shock, the advent of numerous effective vaccines coupled with an effective rollout mean that the economy is forecast to rebound strongly in 2021/22 and 2022/23.

Since the start of the pandemic, the Agency has directed significant work to monitor market conditions, this has informed our forward assumptions and modelling.

Central guidance

When calculating 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 published in March 2020) 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 PRA reaffirmed the pertinence of this guidance in August 2020. The Agency has taken this guidance into account in preparing the 2020/21 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 due to 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 will have put 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 economic scarring, such as higher unemployment and lost GDP may impede an entity's ability to continue to operate.

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 agreed a rolling five-year business plan and Grant-in-Aid for the year ending 31 March 2022, 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 continuing effects of 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 2020/21.

c) Critical accounting judgements and key sources of estimation uncertainty

The following disclosures provide information which allows users of the Agency's 2020/21 financial statements to understand the key judgements made in preparing the financial statements and sources of uncertainty as a result of COVID-19.

It is important to note that some estimates are based on market information as at 31 March 2021 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 2021	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		✓

There is ongoing material uncertainty as to the future performance of the housing market, and therefore the value of the Help to Buy Portfolio as reported at 31 March 2021. Users of the accounts may wish to consider the future risks to the portfolio from changes in the economic environment as the United Kingdom recovers from COVID-19. 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. £17.3bn and the residual portfolio of legacy equity loan assets valued at just over £232m, this is the most significant area of the Agency's Statement of Financial Position.

As outlined in Note 1f 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 ONS resumed regular publication of HPI following the first lockdown, however there is still uncertainty over the future performance of the housing market as a result of forecast higher unemployment and the ending of the Stamp Duty holiday.

The Agency performs a market risk analysis (Note 16) which considers how the valuation of this portfolio would change with movements in house prices and a further sensitivity analysis (Note 17a) which looks at the key modelling assumptions and illustrates the effect of varying them.

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).

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 is applied (this is currently 35%, 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 2021 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, the Agency varies 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 derived from the Office for Budget Responsibility (hereafter, OBR) macro-economic scenario forecasts. They are used for stress testing and sensitivity analysis and reflect a plausible range of economic outcomes. The Agency's Economics Team then provide relevant metrics and assess these scenarios based upon their likelihood to determine our scenarios weightings.

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

Base scenario	Downside scenario	Upside scenario
70%	15%	15%

- 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, however these reflect a more benign economic environment. The Agency's Risk team then have adjusted these PDs to determine the central, downside and upside PD tables to reflect the scenarios noted above which were developed by the Agency's Economics team. 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 17b) 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). However, during the year and in light of the potential for uncertainty arising from the COVID-19 pandemic, a decision was made at the outset of the valuation process that all assets with a net realisable value of £150,000 or more would require a valuation. 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 ongoing COVID-19 pandemic, and strong house price growth in the residential market, with difficulties in the commercial sector. To ensure that the Agency has a portfolio valuation as at 31 March 2021, valuation assessments have been made on the evidence available to valuers at the time. During 2019/20, it was acknowledged that there was uncertainty attached to the valuations. Reflecting this, firms supporting the Agency's year-end valuation exercise were directed by the Royal Institute of Chartered Surveyors (RICS) to include a disclaimer highlighting 'material valuation uncertainty'. However, during 2020/21, this direction was removed by RICS.

During the current financial year, activity resumed within the housing market and there is sufficient evidence to provide valuations no longer subject to this uncertainty. House prices have performed strongly over the last year. However, there remains some ongoing uncertainty around the future performance of the housing market, with the risk of inflation necessitating higher interest rates or the withdrawal of demand-side support cooling the market. These factors do not impact on the current valuations as valuations are conducted at a 'point in time' and are materially correct as at the 31 March 2021.

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 £74m reduction in portfolio values would arise.

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, and HtB Equity Loans/Other legacy equity loans which are valued with reference to a wider market, 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 the ongoing pandemic has surfaced in the period after 31 March 2021 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. £184m (1.0% of all financial asset investments) have been recognised on the Statement of Financial Position as at 31 March 2021. 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 to share risk in an underlying development.

The assessment of the performance of these loans now includes a year of data from the COVID-19 pandemic, however given the nature of the valuation there remains a degree of uncertainty in the forecast future cashflows. 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.

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 than other balances disclosed in the Agency's Financial Statements. Of the £989m employer assets at 31 March 2021 disclosed in Note 22c, only £55.4m (6%) 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 the ongoing did not create significant additional uncertainty for the calculation of the scheme liabilities as at 31 March 2021.

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 OBR to inform the 2020/21 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 ongoing market uncertainty due to the pandemic on assets disclosed in the 2020/21 Financial Statements.

Home Equity Loans (including Help to Buy)

For home equity loans the principal drivers influencing changes to the valuation of assets 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 2021) is:

	Scenario changes to house prices (March 2022)	Scenario changes to house prices (low point modelled)	Adjustment to proportion of accounts in arrears	Adjustment to anticipated repossessions rate
Upside scenario	+0.92%	+0.92%	-0.88%	-0.44%
Central scenario	-1.61%	-1.61%	0.93%	0.46%
Downside scenario	-5.56%	-8.88%	5.20%	2.62%

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 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 downside scenario producing an increased ECL of £121m under these assumptions.

	ECL as applied in the financial statements (15:70:15 ratio) (£m)	ECL if SICR stages are adjusted to stage 2 for 100% of portfolio (15:70:15 ratio) (£m)
Upside scenario	17	45
Central scenario	42	84
Downside scenario	59	121

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.

	Valuation adjustment (March 2022)	Changes to house prices (March 2022)
Upside scenario	+0.92%	+0.92%
Central scenario	-1.61%	-1.61%
Downside scenario	-6.48%	-5.56%

Land

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

	Land valuation adjustment (March 2022)	Land valuation adjustment (low point modelled)
Upside scenario	+0.92%	No fall predicted
Central scenario	-1.61%	-1.61%
Downside scenario	-6.48%	-10.89%

Other level 3 financial assets measured at fair value

Other level 3 financial assets are held across both our investment and land portfolios. We have applied land and house price indexes to forecast our balance sheet growth under our three scenarios, applying 100% scenario weighting to each individual case.

This will provide indicative development returns, projected as at March 2022.

	Valuation adjustment (March 2022)	Changes to house prices (March 2022)
Upside scenario	+0.92%	+0.92%
Central scenario	-1.61%	-1.61%
Downside scenario	-6.48%	-5.56%

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.

Some of the figures in 2019/20 have been reanalysed to account for changes in the way programmes are reported to board, in particular the splitting of Direct Commissioning and Accelerated Construction.

	2020/21			Represented 2019/2020		
Programme	**Expenditure £m**	**Receipts £m**	**Total £m**	**Expenditure £m**	**Receipts £m**	**Total £m**
Help to Buy	**4,079.1**	**(22.1)**	**4,057.0**	3,606.8	(12.5)	3,594.3
Investment:						
Long Term Fund	**223.3**	**(65.9)**	**157.4**	279.6	(71.8)	207.8
Short Term Fund	**286.1**	**(298.1)**	**(12.0)**	333.5	(249.2)	84.3
Build to Rent	**67.6**	**(54.7)**	**12.9**	56.3	(137.1)	(80.8)
Estate Regeneration	**8.5**	**(1.2)**	**7.3**	13.5	(23.1)	(9.6)
Legacy	**2.2**	**(46.3)**	**(44.1)**	3.6	(57.4)	(53.8)
PRS Guarantees	**0.1**	**-**	**0.1**	0.2	-	0.2
	587.8	**(466.2)**	**121.6**	686.7	(538.6)	148.1
Housing Infrastructure Grants						
Housing Infrastructure Fund	**203.6**	**-**	**203.6**	82.6	-	82.6
Accelerated Construction	**66.6**	**-**	**66.6**	23.5	-	23.5
	270.2	**-**	**270.2**	106.1	-	106.1
Land:						
Public Sector Land	**118.7**	**(195.0)**	**(76.3)**	172.9	(191.4)	(18.5)
City Growth Deals	**11.1**	**(11.5)**	**(0.4)**	5.6	(8.6)	(3.0)
Land Assembly Fund/Starter Homes	**177.8**	**(15.3)**	**162.5**	179.0	(48.2)	130.8
Direct Commissioning	**51.8**	**(94.5)**	**(42.7)**	84.0	(57.2)	26.8
Small Sites	**-**	**-**	**-**	0.7	-	0.7
	359.4	**(316.3)**	**43.1**	442.2	(305.4)	136.8
Affordable Housing:						
Affordable Housing Programme	**1,149.3**	**(9.9)**	**1,139.4**	1,367.5	(13.9)	1,353.6
Community Housing Fund	**4.4**	**-**	**4.4**	14.4	-	14.4
Move on Fund	**13.8**	**(0.2)**	**13.6**	13.9	-	13.9
	1,167.5	**(10.1)**	**1,157.4**	1,395.8	(13.9)	1,381.9
Programme Administration						
Markets People Places	**4.1**	**-**	**4.1**	-	-	-
Rough Sleepers	**0.1**	**-**	**0.1**	-	-	-
Building Safety	**1.9**	**-**	**1.9**	-	-	-
Private Sector Cladding	**0.5**	**-**	**0.5**	-	-	-
	6.6	**-**	**6.6**	-	-	-
Transformation	**13.2**	**-**	**13.2**	3.7	-	3.7
Total programme expenditure and receipts	**6,483.8**	**(814.7)**	**5,669.1**	6,241.3	(870.4)	5,370.9
Administration	**137.0**	**-**	**137.0**	121.9	-	121.9
Total expenditure and receipts reported to Board	**6,620.8**	**(814.7)**	**5,806.1**	6,363.2	(870.4)	5,492.8
DEL not reported to the Board in respect of Expected Credit Loss charges, write off charges and DEL impairments	**(15.7)**		**(15.7)**	67.5	-	67.5
Total Net DEL	**6,605.1**	**(814.7)**	**5,790.4**	6,430.7	(870.4)	5,560.3

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	2020/21 £m	2019/20 £m
Total net DEL expenditure above		**5,790.4**	5,560.3
Reconciling items:			
Increase in impairment of land assets	18	**65.1**	42.6
Decrease in impairment of PPE and intangible assets		**2.8**	(0.3)
Increase/(decrease) in impairment of assets measured at fair value passing through the SoCNE	14	**285.5**	(94.9)
Valuation gains on financial assets held at FVTPL	14	**(423.5)**	(191.3)
Decrease in provisions	20	**8.1**	-
Utilisation of provisions	20	**(0.2)**	(0.1)
Share of (losses)/profits of associates and joint ventures	13	**1.7**	(4.7)
Investment in joint venture	13b	**23.5**	(19.1)
Pension movements	22	**(6.1)**	3.1
Book value of land and property assets disposed	18	**137.9**	152.8
Book value of assets measured at fair value disposed	14	**1,281.2**	1,034.6
Help to Buy and FirstBuy receipts not included within net DEL expenditure*	14	**(1,184.9)**	(945.5)
Loan repayments (for loans measured at amortised cost)	14	**332.9**	413.6
Capital items recorded as programme expenditure:			
Additions to assets measured at fair value	14	**(4,220.8)**	(3,775.3)
Additions to land and property assets	18	**(317.7)**	(357.3)
Loans advanced, including interest added to loans measured at amortised cost	14	**(424.5)**	(469.3)
Additions to PPE and Intangible assets		**(4.6)**	(6.6)
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		**1,346.8**	1,305.3

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

	Note	2020/21 £m	2019/20 £m
Total receipts reported to the Board		**814.7**	870.4
Reconciling items:			
Clawback of grants recorded as income but shown net within expenditure in Board reporting		**20.2**	17.9
Other income shown net within expenditure in Board reporting		**1.4**	1.6
Expenditure shown net within income in Board reporting		**4.0**	1.7
Valuation gains on financial assets held at FVTPL not reported to Board	14	**423.5**	191.3
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	14	**(1,281.2)**	(1,034.6)
Loan repayments (for loans measured at amortised cost)	14	**(332.9)**	(413.6)
Joint venture disposal proceeds	13b	**(27.6)**	(3.2)
Help to Buy and FirstBuy receipts not included within DEL receipts*		**1,184.6**	945.5
Income as stated in the Statement of Comprehensive Net Expenditure		**806.7**	566.0

* 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 (2019/20: nil).

4. Principal/Agent relationships

Homes England is party to a number of significant arrangements where it acts as an Agent for another entity. In these arrangements, Homes England uses its skills and expertise to help bring forward programmes and initiatives. These programmes and initiatives are in addition to the core business of the Agency. It therefore would not be appropriate to show income or expenditure in respect of these transactions or to report on assets and liabilities. The below sets out these arrangements.

Managing programmes for other Government departments

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 £10.5m (2019/20: £22.3m) 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 Voluntary Right to Buy (VRTB), Next Steps Accommodation, Cladding Fund, and Building Safety Fund programmes:

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 £13.3m (2019/20: £103.4m) were paid by the Agency and reimbursed by MHCLG.

Next Steps Accommodation: Homes England are supporting MHCLG, leading housing associations and Local Authorities to deliver the ambitious plans which will fast-track thousands of long-term homes for rough sleepers. During the year, grants of £43.1m (2019/20: £nil) were paid out by the Agency and reimbursed by MHCLG.

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 £30.0m (2019/20: £9.8m) were paid out by the Agency and reimbursed by MHCLG.

Building Safety Fund: This fund is focused on unsafe non ACM cladding systems – high pressure laminates, other metal composite materials etc – on both social and private sector buildings over 18m in height. Ministerial targets are that building owners should have made full applications by the end of the calendar year and that work should have started on site by 31 March 2021. During the year, grants of £37.6m (2019/20: £nil) were paid out by the Agency and reimbursed by MHCLG.

Managing assets for third parties

The Agency manages home equity portfolios on behalf of the Greater London Authority (GLA), Ministry of Defence (MoD) and multiple housing developers via our Mortgage Administrator. At the year end the Agency managed 7,145 assets on behalf of these parties. During the year the Agency also collected 1,023 disposal receipts with total proceeds of £26.3m. The Mortgage Administrator collects and distributes disposal receipts to the GLA and housing developers on behalf of the Agency. The Agency receives disposal receipts on behalf of the MoD and subsequently transfers the receipts to the MoD. At the year end the Agency held £1.49m which is due to be paid to the MoD.

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 £1m (2019/20: £0.1m) and collected income of £0.2m (2019/20: £0.5m) as a result of day to day management of the sites. The net spend of £0.8m is due to the Agency from BEIS.

MHCLG Guarantee Programme

Homes England acts as Concession Manager on behalf of MHCLG for a number of Guarantee programmes. It employs the commercial and financial expertise in its Investments division to provide an effective interface between MHCLG and the programme delivery partners. These Guarantee Programmes are as follows:

Affordable Housing Guarantee Scheme:

A £3.5bn programme to support the delivery of additional new-build affordable homes by enabling registered providers to raise debt with a Government guarantee, where they commit to delivering additional new build affordable homes.

Private Rented Sector Guarantee Scheme:

A £3.5bn programme to support the building of new homes for the private rented sector by enabling housing providers to raise debt with a Government guarantee, where they commit to providing additional new homes for private rent.

Affordable Homes Guarantee Scheme:

A £3bn programme to provide cost-effective long-term loans to registered providers of homes for affordable social rent, affordable rent and shared ownership. The scheme is complementary to the Affordable Homes Programme.

Homes England also acts as a programme partner to MHCLG in connection with the Enable Build programme. This is a scheme to increase the availability of development finance for small and medium-sized enterprise housebuilders.

Provision of shared services

In addition to the above, the Agency continues to have a close working relationship with the Regulator of Social Housing (RSH). A service level agreement sets out the services provided by Homes England to RSH. 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 year, Homes England has charged RSH a fee of £1.1m for these services, credited to other operating income. Invoices are raised and paid monthly. In addition, due to this close working relationship, the systems and processes of Homes England are an important part of the control environment of RSH, and as such, the annual statutory audit of RSH covers a review of the systems and processes. Further disclosure regarding this relationship is provided in the Fees and Charges section of the Annual Report.

5. Grants

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

	2020/21 £'000	2019/20 £'000
Affordable Housing	**1,182,748**	1,398,311
Housing Infrastructure Fund	**197,828**	71,238
Local Authority Accelerated Construction	**66,022**	22,596
Community Housing Fund	**4,065**	12,982
City Deals	**8,224**	2,639
Other	**2,016**	18,423
	1,460,903	1,526,189

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 fall in the Affordable Housing Grant programme spend since last year is largely due to COVID. The current programmes have been extended to allow for this.

The Strategic Partnership programme is a significant part of the Affordable Housing Grant programme, and totals £670m. (2019/20: £700m). These partnerships provide additional support to Registered Providers for the construction of affordable homes.

The Housing Infrastructure Fund aims to unlock house building by funding Local Authorities to build vital physical infrastructure projects, including the construction of roads, bridges, energy networks and other utilities.

Affordable Housing grant

Affordable Housing grants covers both Strategic Partnership grants and Affordable Housing grants. During the year, Strategic Partnership grants totalled £669m (2019/20: £700m) and Affordable Housing Grant totalled £513m (2019/20: £698m). Both types are paid to partners across England. The table below shows the geographical split.

Of the total Strategic Partnership grants paid of £669m, the top 10 recipients by value totalled £443m (66%). Of the total Affordable Housing Grant paid of £513m, the top 10 recipients by value totalled £143m (28%).

Region	Total Grant £'000	%
Midlands	**330,593**	28%
South West	**281,308**	24%
North West	**258,066**	22%
North East and Yorkshire	**169,183**	14%
East and South East	**143,598**	12%
	1,182,748	100%

6. Disposal of land and property assets

	Note	2020/21 £'000	2019/20 £'000
Proceeds from disposals		**246,285**	229,511
Cost of disposals:			
Book value of disposals	18	**137,905**	152,807
Direct costs of sale		**3,973**	1,708
		141,878	154,515
Gain on disposal		**104,407**	74,996

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

	Note	2020/21 £'000	2019/20 £'000
Disposals of land (freehold disposal/building lease)		**149,441**	172,264
Direct Commissioning (market sales)		**88,667**	44,078
Direct Commissioning (affordable contracts)		**8,177**	13,102
Option payments/non refundable deposits paid in respect of land		**-**	67
Proceeds from disposals		**246,285**	229,511

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.

7. Programme costs

	2020/21 £'000	Represented 2019/20 £'000
Land	**26,788**	22,943
Help to Buy	**18,772**	13,887
Homes England Transformation Programme	**14,786**	3,726*
Financial Investment Programmes	**8,440**	5,878
Markets, Partners and Places	**3,954**	-
Housing Infrastructure Fund	**2,987**	11,409
Affordable Homes	**1,279**	2,260
Other programmes	**101**	-
	77,107	60,103

*In 2019/20, Homes England Transformational Programme costs were classified as Other programmes costs.

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.

Land costs include £10.6m (2019/20: £10.4m) in relation to the management of the Agency's land portfolio.

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 Homes England Transformation Programme covers the costs of 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. In 2019/20, these costs were categorised as 'Other programme' costs. Given the significance of the costs incurred, costs have been reallocated to the 'Homes England Transformation Programme' line above.

8. Staff costs

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

a) Total staff costs

	2020/21 £'000	2019/20 £'000
Staff costs charged to net expenditure comprise:		
Staff costs	**74,850**	65,139
Pension costs	**25,578**	21,606
Total staff costs	**100,428**	86,745

The costs above can be further analysed as follows:

	2020/21 £'000	2019/20 £'000
Salaries and wages	**66,378**	52,445
Social security costs	**7,558**	6,038
Pension costs - current service cost*	**23,639**	19,355
Pension costs - past service cost and losses on curtailments and settlements	**16**	520
Pension costs - expenses	**1,923**	1,731
	99,514	80,089
Temporary staff	**9,520**	6,120
Seconded staff	**557**	545
	109,591	86,754
Less staff costs capitalised: Land and Property	**(7,153)**	-
Less staff costs capitalised: PPE	**-**	(9)
Less staff costs transferred to programme costs	**(2,010)**	-
	100,428	86,745
Non-Executive Board Member expenses	**6**	20

*The current service pension cost does not include costs relating to early retirements, which are included within Administration costs, Note 9.

During the year, £7,153,000 of staff costs were capitalised (2019/20: £nil) against Land and Property assets. The costs relate to direct labour involved in the enhancement of land and property assets. During the year, £nil (2019/20: £9,000) was capitalised in relation to systems development.

In addition, £2,010,000 (2019/20: £nil) of staff costs, in relation to the Homes England Transformation Programme, the Building Safety Fund and the Next step Accommodation Fund, were reclassified to programme costs. These programmes are partly funded by the Agency's programme budget. The Homes England Transformation Programme covers ongoing work involved in transforming the services, processes and infrastructure of Homes England, and is described more fully in Note 7.

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 £320,000 (2019/20: £282,000).

During the year, Directors received bonuses of £22,000 (2019/20: £45,000). 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.

c) Staff composition

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

	2020/21 £'000	2019/20 £'000
Permanent UK staff	**1,088**	914
Fixed term UK staff	**81**	69
Temporary staff	**80**	55
Seconded staff	**4**	4
Total staff costs	**1,253**	1,042

d) Loans to employees

The Agency has provided travel season ticket loans and cycle scheme loans to employees during the year. The total amount outstanding in respect of these at 31 March 2021 was £19,863. There were no other loans to employees.

9. Administration expenditure

	2020/21 £'000	Represented 2019/20 £'000
Accommodation and office running costs	**12,928**	**12,859**
Tax and depreciation	**9,504**	7,503
Professional fees	**4,806**	1,841
Learning, development and staff	**1,602**	1,961
Travel and subsistence	**1,315**	4,662
Auditor's remuneration (Statutory Audit)	**400**	350
Other	**369**	613
Homes England Development Programme	**-**	5,532
	30,924	35,321

The Homes England Development Programme was set up to ensure the Agency had 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. From 2020/21, these choices have been implemented and the charges incurred are considered to be Programme in nature. They have been allocated to the line ‘Homes England Transformation Programme in Note 7.

Administration costs in 2019/20 have been reanalysed and where appropriate reclassified from other headings, in order to better reflect the nature of transactions. In particular amounts disclosed in 2019/20 as Taxation Not Recoverable (£3.5m), Depreciation and amortisation (£4.3m), and Property, plant and equipment impairment reversals (£0.3m credit) have been reclassified to the Tax and Depreciation Line. Additionally, amounts disclosed in 2019/20 as Learning and Development (£1.4m), Restructuring Costs (£0.1m), and Board Member’s remuneration (£0.3m) have been reclassified to the Learning, Development and Staff line.

Included above are restructuring costs totalling £98,000 (2019/20: £137,000).

10. Other operating income

	Note	2020/21 £’000	2019/20 £’000
Homeowner fees	14f	**27,043**	18,213
Grant clawback		**19,625**	19,548
Rent and property income		**6,384**	6,545
Other		**6,645**	4,287
		59,697	48,593

Homeowner fees represent income due from homeowners who have acquired a home via the Help to Buy loan equity scheme. At the fifth anniversary of ownership, a fee is due, calculated as 1.75% of the loan outstanding. As more Help to Buy homeowners reach the 5 year anniversary, fees will continue to increase.

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.

Other includes income from investments, income charged to the Regulator of social housing (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).

11. 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:

	2020/21 £'000	2019/20 £'000
Share of results of associates	**(3,240)**	4,138
Share of results of joint ventures	**1,567**	569
Share of profits/(losses) of associates and joint ventures	**(1,673)**	4,707

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.

12. Income tax

a) Tax charge/credit in net expenditure comprises

	Note	2020/21 £'000	2019/20 £'000
Corporation Tax on the results of the year at 19%		**9,434**	8,364
Adjustment to current tax of prior years		**801**	(538)
Deferred tax relating to the origination and reversal of temporary differences	21	**(4,932)**	843
Tax charge/(credit) for the period recognised in Net Expenditure		**5,303**	8,669

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:

	2020/21 £'000	2019/20 £'000
Deferred tax relating to:		
Actuarial gain from pension fund	**4,932**	(843)
Deferred tax charge/(credit) recognised in Other Comprehensive Expenditure	**4,932**	(843)

c) Reconciliation of tax charge

	2020/21 £'000	2019/20 £'000
Net expenditure before tax	**1,346,820**	**(1,305,325)**
Income tax on net expenditure at 19%	**(255,897)**	(248,012)
Effects of:		
Non-taxable income	**(3,944)**	(3,898)
Expenditure not deductible for tax	**268,509**	253,002
Depreciation and amortisation	**1,296**	819
Capital allowances on property, plant and equipment	**(510)**	(570)
Losses utilised	**(4,952)**	-
Losses carried forward	**-**	7,866
Adjustment to current tax of prior years	**801**	(538)
Tax charge/(credit) for period	**5,303**	8,669

13. Investments in subsidiaries, associates and joint ventures

a) Subsidiary undertakings – Agency

Cost	2020/21 £'000	2019/20 £'000
At 1 April	**50,000**	25,000
Investments in the year	**-**	25,000
Redemptions	**-**	-
At 31 March	**50,000**	50,000

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 and 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 2020/21 £'000	Group 2019/20 £'000	Agency 2021/21 £'000	Agency 2019/20 £'000
At 1 April		**70,936**	**47,149**	**20,615**	**22,790**
Investments in the year		**4,110**	22,267	**-**	-
Redemptions		**(27,641)**	(3,187)	**-**	(2,175)
Share of profits/(losses) of associates and joint ventures	11	**(1,673)**	4,707	**-**	-
At 31 March		**45,732**	70,936	**20,615**	20,615

In 2020/21 £4.1m (2019/20 £3.2m) was received in dividends from group companies and treated as redemptions under the equity method per IAS 28.

In 2020/21 £4.1m (2019/20: £3.8m) was re-invested by the Group into English Cities Fund from amounts previously repaid to the group and a further £nil (2019/20: £18.5m) invested from the additional £25.0m commitment which was made available in 2017/18. There have been £23.5m repayments of this funding made during 2020/21 (2019/20: £nil).

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

	2020/21 £'000	2019/20 £'000
Group share of net assets of associates	**21,222**	47,993
Group share of net assets of joint ventures	**24,510**	22,943
Group share of net assets of associates and joint ventures	**45,732**	70,936

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

Name of undertaking	Group/Agency	Interest	Nature of business
English Cities Fund Limited Partnership	Group	46%	Property development
Countryside Maritime Limited ^	Agency	50%	Development of land
Kier Community Living LLP ^ *	Agency	26%	Property development
Temple Quay Management Limited	Agency	24%	Property management company
Kings Waterfront (Estates) Limited	Agency	50%	Property management company
Pride in Camp Hill	Agency	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 2021, 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 (2019/20: £5.0m) working capital facility available to Countryside Maritime Limited, of which £nil (2019/20: £nil) was drawn at 31 March 2021. In 2017/18, the Group committed to invest a further £25.0m into English Cities Fund. During 2020/21, £16.4m has been drawn down from this additional commitment (2019/20 £18.5m).

14. Financial assets

		2020/21			2019/20		
	Note	Fair value £'000	Amortised cost £'000	Total £'000	Fair value £'000	Amortised cost £'000	Total £'000
Cash and cash equivalents	a)	-	**262,541**	**262,541**	-	218,868	218,868
Trade & other receivables	b)	**208,379**	**335,317**	**543,696**	171,411	127,678	299,089
Financial asset investments	c)	**17,930,324**	**1,497,943**	**19,428,267**	14,847,542	1,376,338	16,223,880
		18,138,703	**2,095,801**	**20,234,504**	15,018,953	1,722,884	16,741,837

a) Cash and cash equivalents – Group and Agency

	2020/21 £'000	2019/20 £'000
Cash held with Government Banking Service	**221,636**	202,881
Cash held with commercial banks	**250**	495
Cash held with third parties	**40,655**	15,492
	262,541	218,868

The Agency draws Grant-in-Aid from MHCLG on a monthly basis, being received on the 8th working day. 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 2021 to settle short-term liabilities, but not cleared by 31 March 2021. These payments totalled £53.9m (2019/20: £55.7m) and cleared the bank in early April 2021. There were no cash equivalents at any of the reporting dates shown.

Cash held with third parties covers amounts retained by external legal firms and a loan collection Agency. Cash is held to Homes England's order.

b) Trade & other receivables – Group and Agency

	2020/21			2019/20		
Gross balances	**Fair value £'000**	**Amortised cost £'000**	**Total £'000**	**Fair value £'000**	**Amortised cost £'000**	**Total £'000**
Land sale receivables	**199,765**	**10,660**	**210,425**	164,681	2,613	167,294
Direct Commissioning	**-**	**156,735**	**156,735**	-	57,957	57,957
Other receivables and prepayments	**8,614**	**168,474**	**177,088**	6,730	67,378	74,108
	208,379	**335,869**	**544,248**	**171,411**	**127,948**	**299,359**
Expected Credit Loss allowances		**(552)**	**(552)**	-	(270)	(270)
Net balances	**208,379**	**335,317**	**543,696**	**171,411**	**127,678**	**299,089**
Of which:						
Non-current assets	**153,490**	**70,630**	**224,120**	123,514	77,534	201,048
Current assets	**54,889**	**264,687**	**319,576**	47,897	50,144	98,041
	208,379	**335,317**	**543,696**	**171,411**	**127,678**	**299,089**
Of which:						
Balances with Private Sector counterparties	**207,986**	**248,736**	**456,722**	171,032	96,804	267,836
Balances with Public Sector counterparties	**393**	**86,581**	**86,974**	379	30,874	31,253
	208,379	**335,317**	**543,696**	**171,411**	**127,678**	**299,089**

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 £208.4m.

c) Financial asset investments – Group and Agency

		2020/21			2019/2020		
	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	**26,144**		**26,144**	22,857		22,857
Help to Buy Equity Loans	Level 2	**17,053,549**	**-**	**17,053,549**	14,016,314	-	14,016,314
Legacy Equity Loans	Level 2	**232,011**	**-**	**232,011**	253,254	-	253,254
Development Loans	Level 3	**135,304**	**519,981**	**655,285**	112,366	514,977	627,343
Infrastructure Loans	Level 3	**260,765**	**926,908**	**1,187,673**	197,779	825,493	1,023,272
Other Loans	Level 3	**38,339**	**51,054**	**89,393**	15,948	35,868	51,816
Development Equity	Level 3	**85,460**	**-**	**85,460**	103,170	-	103,170
Infrastructure Equity	Level 3	**2,251**	**-**	**2,251**	23,531	-	23,531
Managed Funds	Level 3	**52,420**	**-**	**52,420**	59,448	-	59,448
Overage	Level 3	**7,243**	**-**	**7,243**	5,260	-	5,260
City Deals	Level 3	**29,137**	**-**	**29,137**	28,985	-	28,985
Other Equity	Level 3	**7,701**	**-**	**7,701**	8,630	-	8,630
		17,930,324	**1,497,943**	**19,428,267**	14,847,542	1,376,338	16,223,880
Of which:							
Non-current assets		**17,701,316**	**1,012,875**	**18,714,191**	14,704,755	825,392	15,530,147
Current assets		**229,008**	**485,068**	**714,076**	142,787	550,946	693,733
		17,930,324	**1,497,943**	**19,428,267**	14,847,542	1,376,338	16,223,880
Of which:							
Balances with Private Sector counterparties		**17,864,351**	**1,487,200**	**19,351,551**	14,760,649	1,364,573	16,125,222
Balances with Public Sector counterparties		**65,973**	**10,743**	**76,716**	86,893	11,765	98,658
		17,930,324	**1,497,943**	**19,428,267**	14,847,542	1,376,338	16,223,880

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 15. 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 2036. Other loans include £26.2m of loans made to utility companies (2019/20: £26.8m) in respect of water infrastructure for new town developments (due for redemption by 2053), £5.4m loans made to Local Authorities (2019/20: £8.1m) which are repayable during periods ranging up to 2034 and loans made of £4.1m in respect of City Deals (2019/20: £1.2m) which are repayable within 12 months.

d) Movements in financial asset investments measured at Fair Value – Group and 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 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
(Impairment)/reversal of impairment	(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**
Additions	-	4,059,942	-	147,152	13,694	4,220,788
Reclassifications	-	-	-	(11,503)	-	(11,503)
Disposals	-	(1,181,623)	(29,194)	(32,060)	(38,332)	(1,281,209)
Fair value adjustment	-	401,421	6,504	16,534	15,364	439,823
(Impairment)/reversal of impairment	3,287	(242,505)	1,447	(11,811)	(35,537)	(285,119)
Balances as at 31 March 2021	**26,144**	**17,053,549**	**232,011**	**434,405**	**184,213**	**17,930,322**

* 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.

Significant reclassifications

During the year, there were three loan investments identified which were classified as fair value through profit or loss in the prior year but which would be more appropriately measured on an amortised cost, as a result of the assets meeting the definitions of Solely Payments of Principal and Interest (SPPI) under IFRS 9. This was treated as an in-year adjustment in 2020/21 as a result of the reclassification not being material to the Agency's financial statements. The total remaining cost of these assets at 31 March 2020 was £11.99m, with net fair value uplifts to 31 March 2020 of £0.5k having been adjusted through fair value movements in 2020/21. In 2019/20, there were two assets reclassified from loans measured at amortised cost to fair value through profit or loss. The total remaining cost of these assets at 31 March 2019 was £9.6m. There was also interest capitalised to 31 March 2019 of £0.4m which was adjusted through capitalised interest in 2019/20.

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 16. The sensitivity of the Help to Buy valuation to the Agency's modelling assumptions is analysed in Note 17a. 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 15, 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 16a 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:

	2020/21 £'000	2019/20 £'000
Loans measured at Fair Value through Profit or Loss (FVTPL)		
Infrastructure Loans measured at FVTPL	**260,765**	197,779
Development Loans measured at FVTPL	**135,304**	112,366
Other Loans measured at FVTPL	**38,339**	15,948
	434,408	**326,093**
Other Investments		
Development Equity	**85,460**	103,170
Managed Funds	**52,420**	59,448
City Deals	**29,137**	28,985
Other	**7,701**	8,630
Overage	**7,243**	5,260
Infrastructure Equity	**2,251**	23,531
	184,212	229,024
Total financial asset investments in the Level 3 category of fair value measurement	**618,620**	555,117

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 2021 in relation to these investments is £471.1m.

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

	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**

	Development Loans £'000	Infrastructure Loans £'000	Other Loans £'000	Total £'000
Gross balances as at 1 April 2020*	**542,073**	**857,051**	**36,143**	**1,435,267**
Additions	255,144	106,631	7,957	369,732
Reclassifications	(5,544)	6,703	10,344	11,503
Repayments	(273,269)	(56,139)	(3,531)	(332,939)
Interest added to loans	21,389	32,282	1,094	54,765
Amounts written-off loans / modification losses	(171)	(2,517)	-	(2,688)
Gross balances as at 31 March 2021*	**539,622**	**944,011**	**52,007**	**1,535,640**
Interest accrued but not yet added to loans at 31 March 2021 **	471	2,550	65	3,086
Expected Credit Loss Allowances	(20,112)	(19,653)	(1,018)	(40,783)
Net balances as at 31 March 2021*	**519,981**	**926,908**	**51,054**	**1,497,943**

* 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 £nil was written off during 2020/21 (£1k in 2019/20) and contributes to the overall impairment charge recognised (Note 14f).

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, the Agency varies 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 2021, a sensitivity analysis has been performed in Note 17b, 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	2020/21 £'000	2019/20 £'000
Movements in Net Expenditure in relation to assets held at fair value			
Valuation gains on financial asset investments held at FVTPL	14d	**439,823**	203,270
Valuation gains on receivables held at FVTPL		**4,350**	4,384
(Impairment)/Impairment reversal of financial asset investments held at FVTPL	14d	**(285,119)**	95,252
(Impairment)/Impairment reversal of receivables held at FVTPL		**(151)**	(393)
Gain/(loss) on disposal against fair value		**(7,010)**	12,749
Monthly Fees recognised on Help to Buy equity loans		**22,065**	12,521
Monthly Fees recognised on other legacy equity loans		**4,978**	5,692
Movements in Net Expenditure in relation to assets held at amortised cost			
Interest on loans		**63,493**	67,091
Interest on receivables		**50**	369
Credit impairment loss reversals / (charges) (including modification gains/losses)		**17,880**	(64,628)
		260,359	336,307

There have been net fair value gains on financial assets measured at FVTPL and impairments of financial assets measured at FVTPL. This is because movements in fair value are assessed and disclosed at an individual asset level.

Gain / (loss) on disposal of financial asset investments

2020/21	Help to Buy Equity Loans £'000	Other Legacy Equity Loans £'000	Loans at FVTPL £'000	Other Investments £'000	Total £'000
Proceeds from disposals	1,176,904	26,903	32,060	38,332	1,274,199
Fair value of assets disposed	1,181,623	29,194	32,060	38,332	1,281,209
Gain/(loss) on disposal against fair value	**(4,719)**	**(2,291)**	**-**	**-**	**(7,010)**

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**

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

	2020/21 £'000	2019/20 £'000
Net movements in Expected Credit Loss Allowances	**(20,840)**	13,538
Amounts written-off loan balances	**2,688**	51,263
Modification gains	**-**	(82)
Amounts written-off interest accrued but not yet added to loan	**-**	1
Amounts written-off/(written-back) on receivable balances	**272**	(92)
Total credit impairment loss charges/(credits)	**(17,880)**	64,628

g) Write-offs at the reporting date

Movement in write-off allowances during 2020/21

	Allowances at 1 April 2020 £'000	Recognised £'000	Written-back £'000	Utilised £'000	Allowances at March 2021 £'000
Financial asset investments at amortised cost	59,479	2,891	(203)	(3,306)	58,861
Trade & other receivables	137	289	(17)	(34)	375
	59,616	**3,180**	**(220)**	**(3,340)**	**59,236**

Further details of how the Agency identifies assets for which a write-off is required are disclosed in the Annual Report on page 105. 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 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**

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 2020	**51,301**	**10,671**	**58**	**145**	**62,175**
New credit-risk exposures in the reporting period	15,437	-	-	-	15,437
Movements from Stage 1 to Stage 2	(55)	55	-	-	-
Movements from Stage 1 to Stage 3	-	-	-	-	-
Movements from Stage 2 to Stage 1	357	(357)	-	-	-
Movements from Stage 2 to Stage 3	-	-	-	-	-
Movements from Stage 3 to Stage 1	-	-	-	-	-
Movements from Stage 3 to Stage 2	-	58	(58)	-	-
ECL utilised when written-off*	-	-	-	-	-
Movements as a result of modifications*	-	-	-	-	-
Released on repayment	(2,848)	(1,525)	-	-	(4,373)
Movements on reclassification***	91	-	-	-	91
Changes in risk parameters and risk models**	(26,046)	(6,403)	184	270	(31,995)
Net movements in Expected Credit Loss Allowances	**(13,064)**	**(8,172)**	**126**	**270**	**(20,840)**
Expected Credit Loss allowance as at 31 March 2021	**38,237**	**2,499**	**184**	**415**	**41,335**

*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 2020/21, there were three loan investments which were previously measured on a fair value basis which were reclassified in year and are now measured at amortised cost. On reclassification, the Expected Credit Loss allowance of £0.1m was recognised.

Expected Credit Loss allowance analysed for disclosure against loan categories

2020/21	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Simplified approach £'000	Total £'000
Development Loans	17,429	2,499	184	-	20,112
Infrastructure Loans	19,653	-	-	-	19,653
Other Loans	1,018	-	-	-	1,018
Trade & other receivables	137	-	-	415	552
Total ECL allowances at 31 March 2021	**38,237**	**2,499**	**184**	**415**	**41,335**

2019/20	£'000	£'000	£'000	£'000	£'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**

During 2020/21, the Economic Scenarios, Weightings and Probability of Default values applied in the Agency's Expected Credit Loss model were revised with reference to current market conditions and future expectations.

The change in assumptions has resulted in a decrease in the Expected Credit Loss allowance of £32.0m during the year. Details of the assumptions adopted are set out in Note 2.

15. 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 which consider geography, age and property type. 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. With the exception of one equity investment which is measured using Net Asset Values (NAV) (this relates to the Agency's investment into an unlisted shared ownership fund managed by M&G Real Estate. The carrying value of this investment was £2.9m at 31 March 2021), the fair value of all other level 3 assets 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. 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 14c. 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 2020/21 (2019/20: 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	2020/21 £'000	2019/20 £'000
At 1 April	**5,671**	**5,220**
Gain deferred on recognition	-	857
Released	**(3,529)**	(406)
At 31 March	**2,142**	5,671

Comparison of cost and carrying value – Group and Agency

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

	Note	2020/21 Original cost £'000	2020/21 Carrying value £'000	2019/20 Original cost £'000	2019/20 Carrying value £'000
Assets measured at amortised cost					
Cash and cash equivalents	14a	**262,541**	**262,541**	218,868	218,868
Trade and other receivables	14b	**287,241**	**286,314**	110,902	110,495
Financial asset investments	14c	**1,597,587**	**1,497,943**	1,497,722	1,376,338
Assets measured at Fair Value					
Trade and other receivables	14b	**228,661**	**208,379**	189,358	171,411
Financial asset investments	14c	**17,570,295**	**17,930,324**	14,554,023	14,847,542
Total financial assets		**19,946,325**	**20,185,501**	16,570,873	16,724,654

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	2020/21 £'000	2019/20 £'000
Other financial liabilities			
Trade and other payables	19	**710,435**	519,536
Provisions	20	**20,642**	12,689
Total financial liabilities		**731,077**	532,225

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

16. Financial risk management

The Group and Agency's financial assets and liabilities are detailed in Notes 14 & 19. The statements in this note apply to both the Agency itself and the Group, except where indicated.

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

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

a) Market price risk

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

In particular, the Agency is exposed to significant market price risk in its equity-loan mortgage portfolio and land portfolio. Any market price movements are reflected in net expenditure 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 2021, 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%	20,740.5	3,455.2	20.0%
10.0%	19,014.1	1,728.8	10.0%
0.0%	17,285.5	-	0.0%
-5.0%	16,416.4	(868.9)	-5.0%
-10.0%	15,495.4	(1,789.9)	-10.4%
-20.0%	12,866.9	(4,418.4)	-25.6%
-30.0%	9,165.9	(8,119.4)	-47.0%

Private sector developments, overage and infrastructure

At 31 March 2021, 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 £21.0m/£21.0m from that stated.

Land portfolio

The table below shows the effect on net expenditure at 31 March 2021, before the effects of tax, if at 31 March 2021 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%	1,214.5	(103.6)	9.3%
10.0%	1,171.3	(60.4)	5.4%
0.0%	1,110.9	-	0.0%
-5.0%	1,075.1	35.8	-3.2%
-10.0%	1,036.5	74.4	-6.7%
-20.0%	949.7	161.2	-14.5%
-30.0%	850.7	260.2	-23.4%

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 (0.11% as at 31 March 2021).

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 2021, the Agency's net expenditure for the year, before the effect of tax, would have been £17.1m/£17.1m 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 19) 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 14.

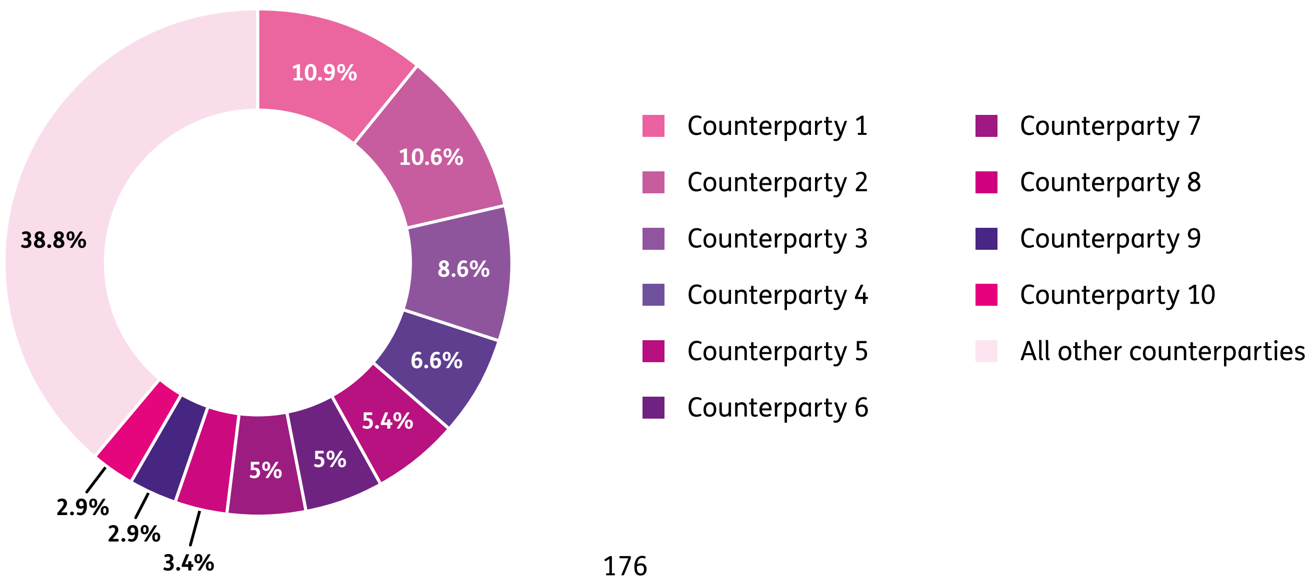
The nature and concentration of the credit risk arising from the Agency's most significant financial assets is demonstrated in the tables below:

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.

Analysis of Development Loan Exposure by Counterparty at 31 March 2021

	Exposure £'000	Percentage of Total Development Loans
Counterparty 1	**73,306**	10.9%
Counterparty 2	**71,195**	10.6%
Counterparty 3	**57,417**	8.6%
Counterparty 4	**44,451**	6.6%
Counterparty 5	**35,913**	5.4%
Counterparty 6	**33,870**	5.0%
Counterparty 7	**33,296**	5.0%
Counterparty 8	**22,849**	3.4%
Counterparty 9	**19,179**	2.9%
Counterparty 10	**19,179**	2.9%
Total Exposure of Top 10 Counterparties at 31 Mar 2021	**410,655**	61.2%
Total Development Loans Balance at 31 Mar 2021*	670,786	

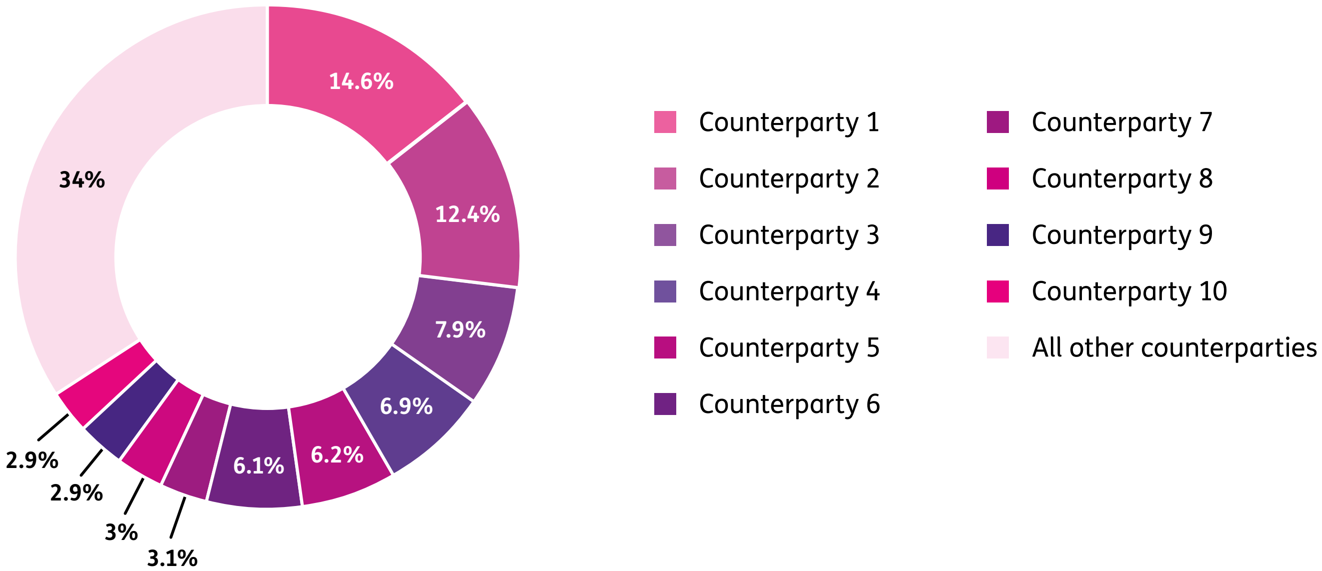
Percentage of Total Development Loans



Analysis of Infrastructure Loan Exposure by Counterparty at 31 March 2021

	Exposure £'000	Percentage of Total Infrastructure Loans
Counterparty 1	**177,988**	14.6%
Counterparty 2	**150,256**	12.4%
Counterparty 3	**96,558**	7.9%
Counterparty 4	**83,983**	6.9%
Counterparty 5	**75,140**	6.2%
Counterparty 6	**73,558**	6.1%
Counterparty 7	**37,479**	3.1%
Counterparty 8	**36,083**	3.0%
Counterparty 9	**35,461**	2.9%
Counterparty 10	**35,461**	2.9%
Total Exposure of Top 10 Counterparties at 31 Mar 2021	**801,967**	66.0%
Total Infrastructure Loans Balance at 31 Mar 2021*	1,215,304	

Percentage of Total Infrastructure Loans

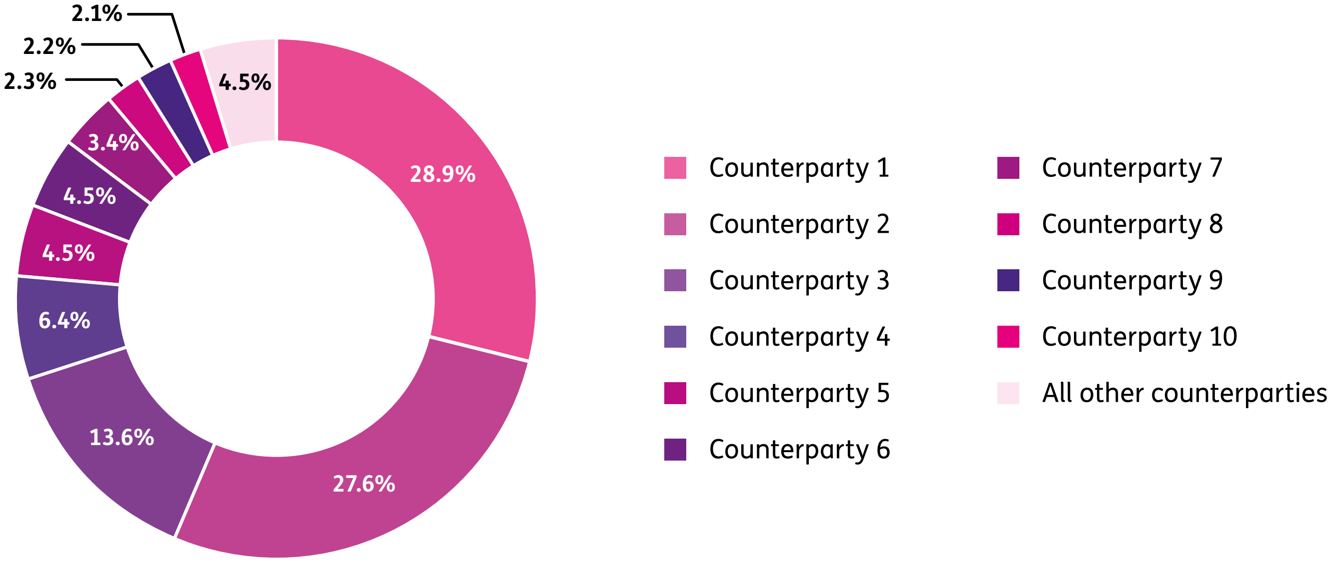


*The balances analysed above for Development Loans, Infrastructure Loans and Other Loans include both loans measured at amortised cost and loans measured on a fair value basis. The exposures are before the application of the Expected Credit Loss allowance. The balances do not include capitalised fees and the effects of unwinding deferred income in relation to fees recharged to developers, with a net effect of £15.1m.

Analysis of Other Loan Exposure by Counterparty at 31 March 2021

	Exposure £'000	Percentage of Total Other Loans
Counterparty 1	**26,184**	28.9%
Counterparty 2	**24,929**	27.6%
Counterparty 3	**12,300**	13.6%
Counterparty 4	**5,758**	6.4%
Counterparty 5	**4,105**	4.5%
Counterparty 6	**4,076**	4.5%
Counterparty 7	**3,070**	3.4%
Counterparty 8	**2,054**	2.3%
Counterparty 9	**1,977**	2.2%
Counterparty 10	**1,879**	2.1%
Total Exposure of Top 10 Counterparties at 31 Mar 2021	**86,332**	95.5%
Total Other Loans Balance at 31 Mar 2021*	90,446	

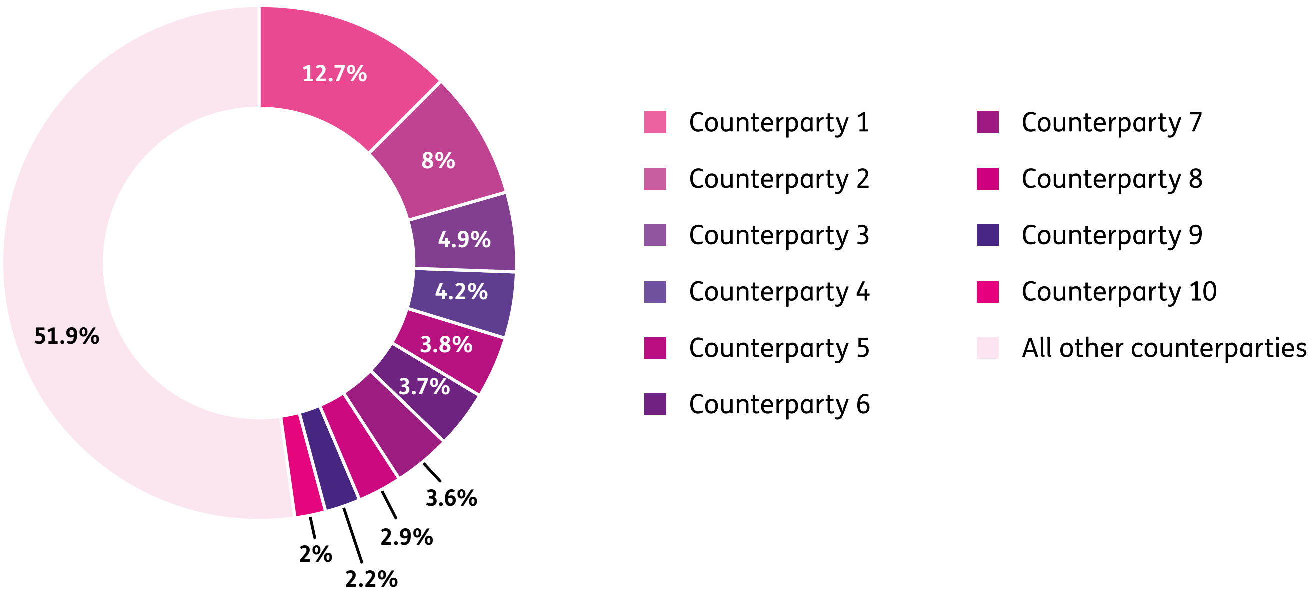
Percentage of Total Other Loans



Analysis of Total Loan Exposure by Counterparty at 31 March 2021

	Exposure £'000	Percentage of Total Loans
Counterparty 1	**251,294**	12.7%
Counterparty 2	**158,669**	8.0%
Counterparty 3	**96,558**	4.9%
Counterparty 4	**83,983**	4.2%
Counterparty 5	**75,140**	3.8%
Counterparty 6	**73,558**	3.7%
Counterparty 7	**71,195**	3.6%
Counterparty 8	**57,417**	2.9%
Counterparty 9	**44,451**	2.2%
Counterparty 10	**38,983**	2.0%
Total Exposure of Top 10 Counterparties at 31 Mar 2021	**951,248**	48.1%
Total Loans Balance at 31 Mar 2021*	1,977,361	

Percentage of Total Loans

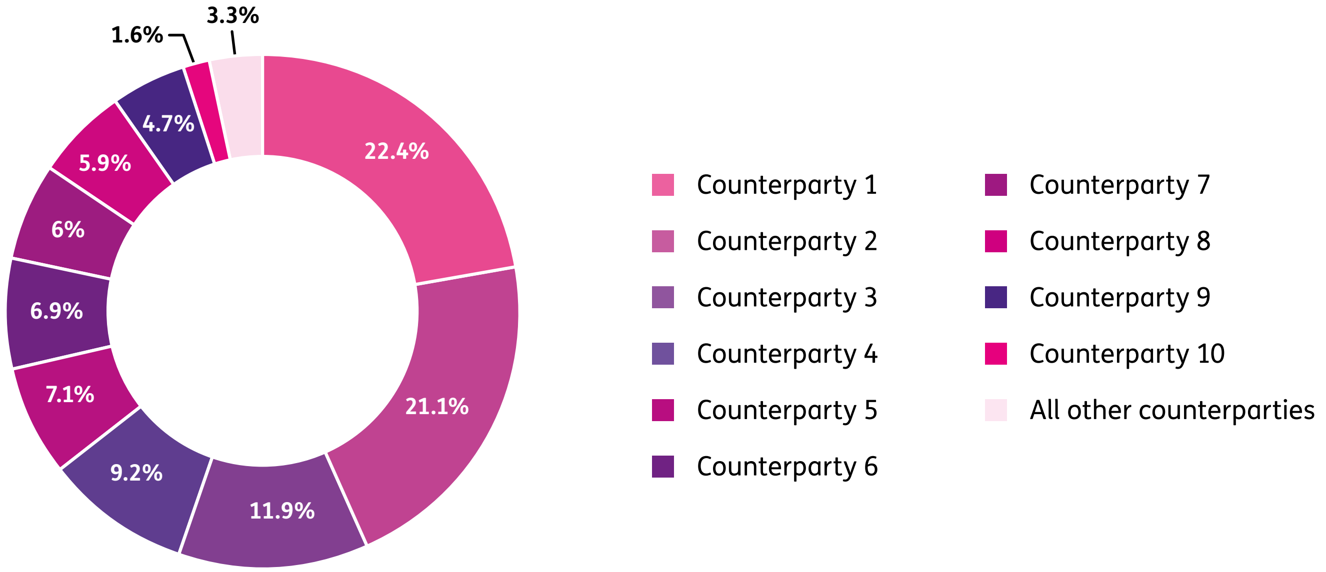


*The balances analysed above for Development Loans, Infrastructure Loans and Other Loans include both loans measured at amortised cost and loans measured on a fair value basis. The exposures are before the application of the Expected Credit Loss allowance. The balances do not include capitalised fees and the effects of unwinding deferred income in relation to fees recharged to developers, with a net effect of £15.1m.

Analysis of Receivables due from Disposal of Land and Property Exposure by Counterparty at 31 March 2021

	Exposure £'000	Percentage of Total Land and Property Receivables
Counterparty 1	**40,683**	22.4%
Counterparty 2	**38,372**	21.1%
Counterparty 3	**21,524**	11.9%
Counterparty 4	**16,755**	9.2%
Counterparty 5	**12,870**	7.1%
Counterparty 6	**12,498**	6.9%
Counterparty 7	**10,873**	6.0%
Counterparty 8	**10,666**	5.9%
Counterparty 9	**8,487**	4.7%
Counterparty 10	**2,828**	1.6%
Total Exposure of Top 10 Counterparties at 31 Mar 2021	**175,556**	96.7%
Total Receivables due from Disposal of Land and Property Balance at 31 Mar 2021	181,553	

Percentage of Total Land and Property Receivables



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

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

For all financial assets excluding cash, the maximum exposure to a single counterparty at 31 March 2021 was £251.3m (2019/20: £212.4m), and the five largest counterparties accounted for 3.3% of the total financial assets balance of £20,202m (2019/20: 3.6% of £16,506m).

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.

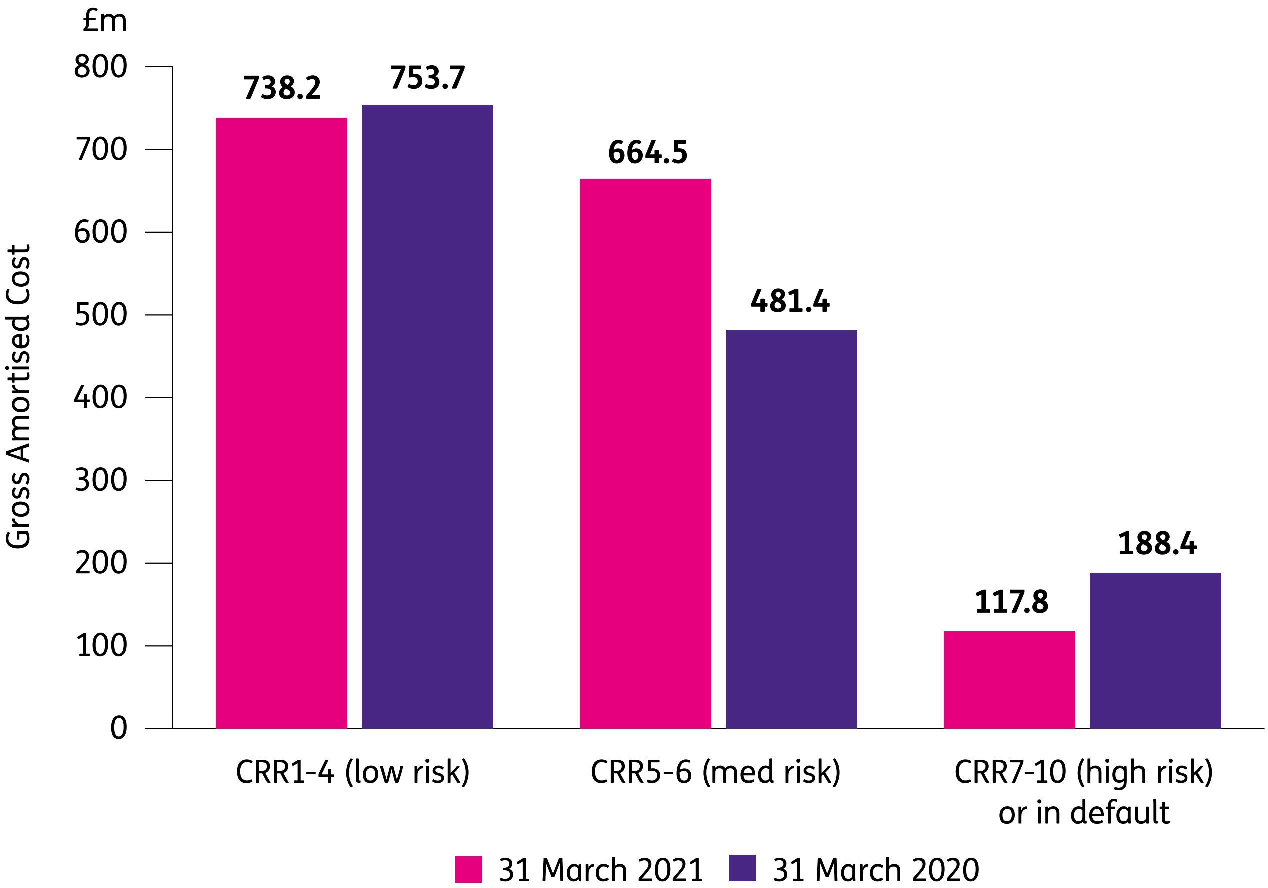
All assessments and approvals are operated within a structured approval delegation matrix from HM Treasury and MHCLG.

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 £1,521m at 31 March 2021 (£1,423m at 31 March 2020) excluding capitalised fees and the effects of unwinding of deferred income, with the net effect of £15.1m, £738m (2019/20: £754m) were categorised with a Credit Risk Rating (CRR) between 1 to 4 (low risk), with £665m (2019/20: £481m) of exposures being categorised as CRR 5 to CRR 6 (medium risk). £118m (2019/20: £188m) of loan exposures were categorised as CRR 7 or above (high risk or in default).

Chart: Credit profile of investments



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 base MSV adjustment of 53% for land and property applied to reflect reduced values which might reasonably be expected in a distressed sale. Because security values often relate to land under development, security values are modelled based on up-to-date information to take account of factors such as site expenditure and realised sales.

The Agency held gross collateral values against loans totalling £7,756m at 31 March 2021 (£8,054m at 31 March 2020), the majority of which related to security over land and property assets held by third parties (£7,486m). The modified value of this security value after applying Marginalised Security Value adjustments under the central economic scenario was £3,844m at 31 March 2021 (£3,495m at 31 March 2020).

Of the total exposures relating to loans measured at amortised cost of £1,520m, £1,304m (85.8% of agreements) were fully covered by gross land and property security values held in relation to those investments. There were 39 exposures (14.2% of agreements) totalling £216m at 31 March 2021 where gross security values held were less than the exposure at that date. The total gross security values held for these investments was £52m at 31 March 2021 (£28m after applying Marginalised Security Value adjustments under the central economic scenario). Of these 39 investments, there were 25 investments (10.2% of agreements) with a gross exposure value of £154.7m 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 2021 was £37.5m. The Agency held gross land and property security values of £77.7m (£35.7m of net security values after applying Marginalised Security Value adjustments under the central economic scenario) against these assets at 31 March 2021. The Agency held total gross land and property security values of £695.1m (£357.0m of net security values after applying Marginalised Security Values) against loan assets measured at Fair Value at 31 March 2021.

17. Sensitivity of Significant Valuation Modelling Assumptions

a) Help to Buy

Homes England models the fair value of Help to Buy on the basis of the estimated proceeds that would be achieved were all homeowners to redeem their equity loans on the reporting date. Homes England considers these estimated proceeds to be a significant accounting estimate, because the fair value of the portfolio is highly sensitive to market price risk as set out in Note 16. 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 and property type 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	16,698.0	(355.3)	(2.1%)
1% increase in market adjustment	16,876.2	(177.1)	(1.0%)
Base assumption	17,053.5	-	0.0%
1% decrease in market adjustment	17,232.3	179.0	1.0%
2% decrease in market adjustment	17,410.2	356.9	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	16,628.4	(424.9)	(2.5%)
10% increase in the rate of staircasing	16,940.3	(113.0)	(0.7%)
Base assumption (a blend of sales and staircasing)	17,053.5	-	0.0%
10% increase in the rate of sales	17,168.3	115.0	0.7%
All redemptions are sales	17,768.4	715.1	4.2%

Combined impact of assumptions

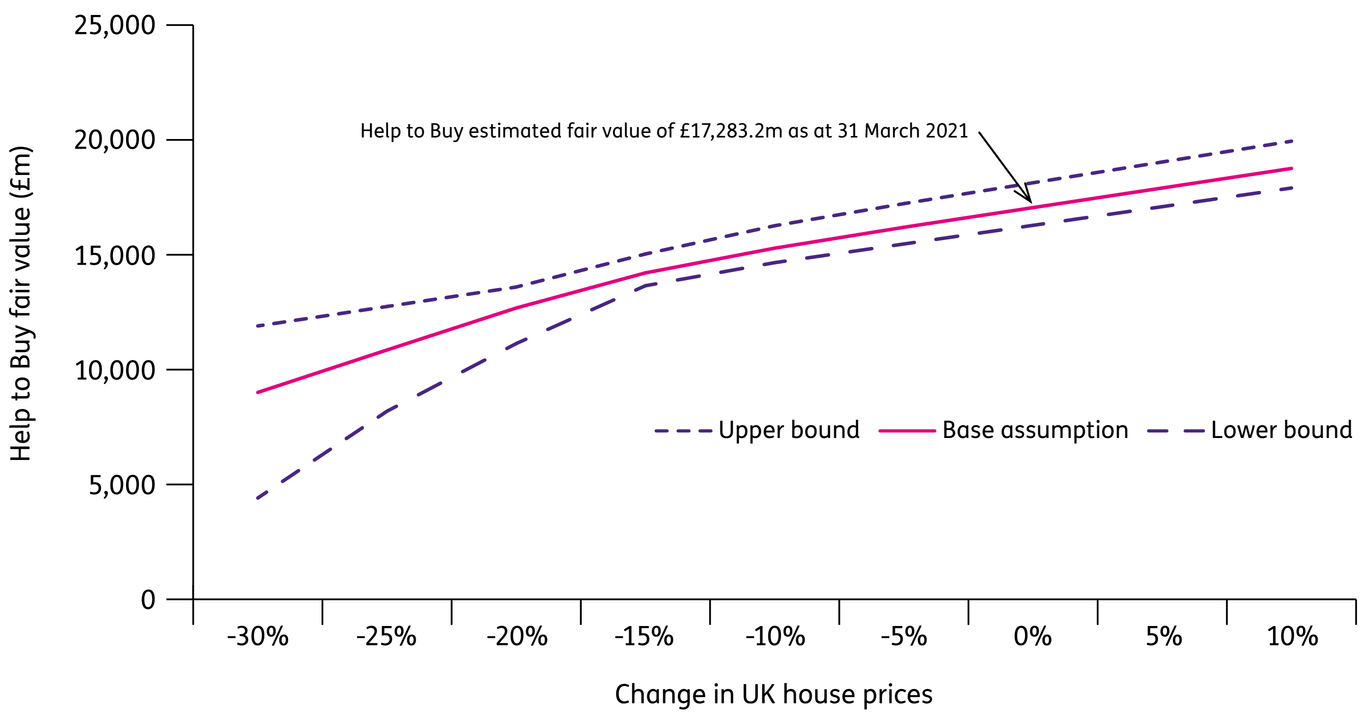
The assumptions applied by Homes England will interact with each other in different economic scenarios. For example, a 15% point fall in house prices might lead to both a 10% point increase in staircasing transactions (relative to sales) and a 7.5% increase in accounts in arrears (of which 1.5% might be an increase in accounts likely to be reposessed) . In this situation the Agency would model a fair value of £14,051m: a reduction of £3,002m or 17.6% on the base assumption.

The graph below 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 £1.85bn at current market prices. This spread would increase in a falling market, reaching approximately £7.5bn 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 14e. 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 2021 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 £923k (2.3%).
- → Profile 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 decreased the loss allowance by £414k (1.0%) at 31 March 2021.

Estimates of the impact of key assumptions on the Expected Credit Loss allowance calculation at 31 March 2021 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 2021, the Agency applied three economic scenarios: a base case central scenario, a downside scenario and an upside scenario. Further details in relation to these scenarios are summarised in Note 1 & Note 2. At 31 March 2021, a 70% weighting was applied to the base case scenario, a weighting of 15% to the downside scenario and a 15% weighting to the upside 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 60% : 30% : 10% applied	44,697	3,777	9.2%
Weighting of 70% : 20% : 10% applied	43,003	2,083	5.1%
Base assumption of 70% : 15% : 15% applied	40,920	-	0.0%
Weighting of 70% : 10% : 20% applied	38,836	(2,084)	-5.1%
Weighting of 60% : 10% : 30% applied	36,362	(4,558)	-11.1%

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	86,225	45,305	110.7%
Base assumption	40,920	-	0.0%
PD values upgraded one level	17,723	(23,197)	-56.7%

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	41,860	940	2.3%
Base assumption	40,920	-	0.0%
MSV percentages increased by ten percentage points	39,268	(1,652)	-4.0%

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 2020 and 31 March 2021 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%	70,319	29,399	71.8%
Increase in loss floor to 50%	50,897	9,977	24.4%
Base assumption of 35%	40,920	-	0.0%
Reduction in loss floor to 0%	20,433	(20,487)	-50.1%

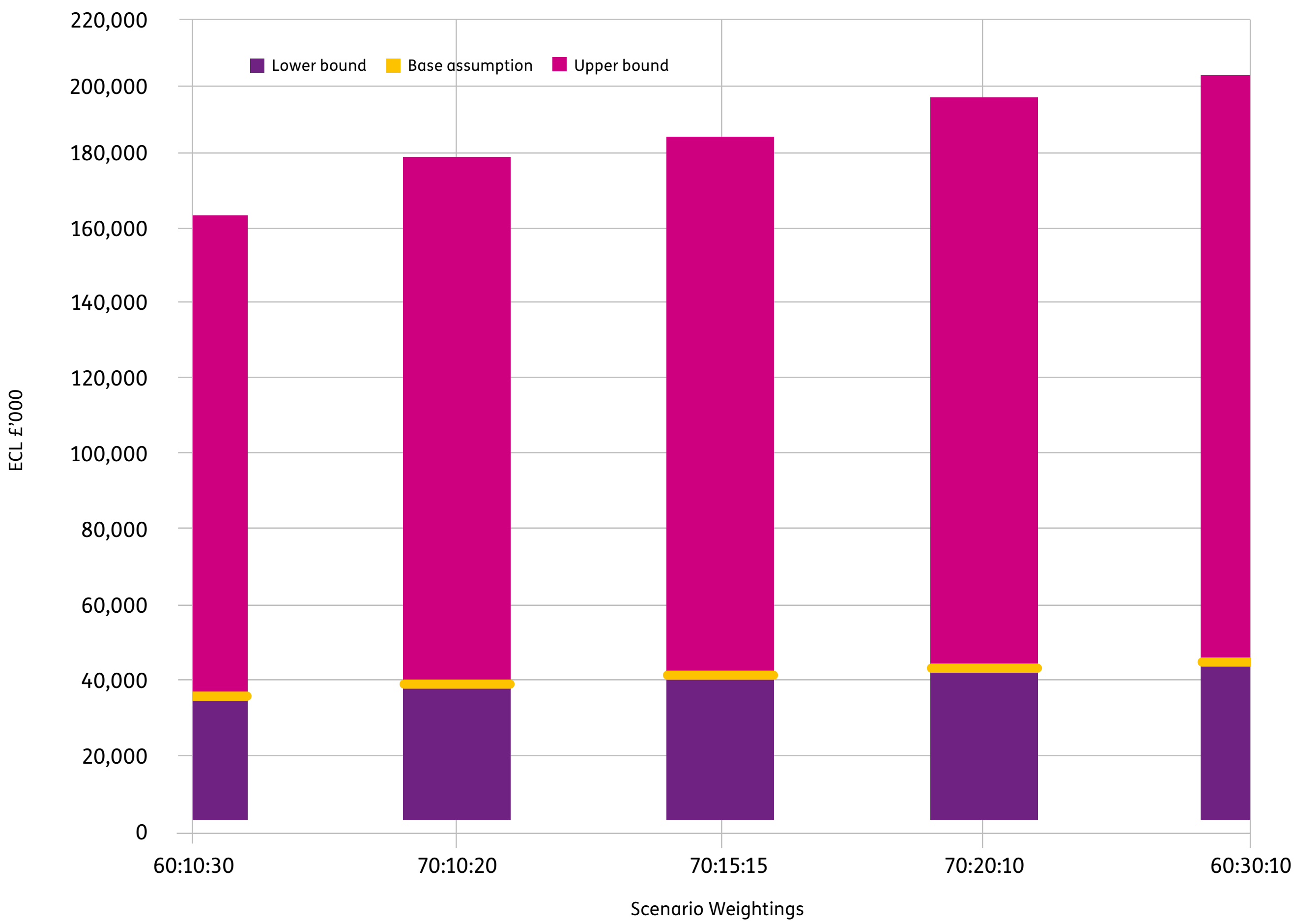
Combined impact of assumptions

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 2021.

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 75% (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).
- Assuming all spend occurs at the beginning of the year and all receipts at the end of the year (upper bound) and assuming all spend occurs at the end of the year and all receipts at the beginning of 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.



18. Land and property assets – Group and Agency

	Note	2020/21 £'000	2019/20 £'000
Net book value at 1 April		**998,074**	839,084
Additions		**317,730**	357,311
Disposals	6	**(137,905)**	(152,807)
Impairments		**(67,013)**	(45,514)
Net book value at 31 March		**1,110,886**	998,074

The above includes land and property assets with a net book value of £58.0m (2019/20: £81.0m), managed under the Direct Commissioning programme where the Agency acts as a 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 £807.3m (2019/20: £872.3m).

Impairment of land and property assets

Impairments in 2020/21 include charges of £88m (2019/20: £66m) and reversals of £21m (2019/20: £20m).

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. The valuation applied reflects the specific intentions Homes England has for the site and its particular disposal strategy. As the portfolio includes many assets which may be deemed unviable without the intervention of Homes England, it is not unusual for assets to be impaired. Some assets may require significant investment which may not readily translate to increased value, at least in the short-term. Valuations for development land are highly sensitive to changes in input assumptions, some of which are subjective in nature, small changes can therefore lead to impairments or reversals. Impairments may be temporary in nature and values may increase in following years, resulting in Impairment reversals.

Valuation

Land and property assets had a combined net realisable value of £1,419m (2019/20 £1,333m).

As described in Note 1m 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 1m 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 16a to provide an indication of the potential effect of a range of variations in land and property prices on the financial statements.

COVID-19

In 2019/20, firms supporting the year end valuation were directed by the Royal Institution of Chartered Surveyors (RICS) to attach a 'material valuation uncertainty' comment in light of the COVID-19 pandemic and the difficulties they had encountered in forming a judgement about valuations Consequently, firms had advised that less certainty and a higher degree of caution should be attached to valuations at 31 March 2020 than would normally be the case. This direction was removed during September 2020 and this remains the case at 31 March 2021. Note 16 provides an analysis of the sensitivity of the land portfolio to changes in land and property prices. 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.

19. Trade and other payables – Group and Agency

	Group 2020/21 £'000	Group 2019/20 £'000	Agency 2020/21 £'000	Agency 2019/20 £'000
Trade payables	**532,592**	392,801	**532,592**	392,801
Direct Commissioning	**154,291**	100,095	**154,291**	100,095
Deferred income	**12,908**	9,039	**12,908**	9,039
Taxes and social security	**4,649**	13,420	**4,649**	13,420
Due to subsidiary	**-**	-	**30,290**	7,729
Other	**23,551**	26,640	**23,551**	26,640
Balance at 31 March	**727,991**	541,995	**758,281**	549,724
Of which:				
Current liabilities	**632,273**	426,167	**662,563**	433,896
Non-current liabilities	**95,718**	115,828	**95,718**	115,828
Balance at 31 March	**727,991**	541,995	**758,281**	549,724

20. Provisions – Group and Agency

	2020/21 £'000	2019/20 £'000
Balance at 1 April	**12,689**	12,796
Charge to net expenditure	**7,972**	47
Unused provisions credited to net expenditure	**(37)**	(96)
Unwinding of discount/change in discount rate	**192**	2
Expenditure against provisions	**(174)**	(60)
Balance at 31 March	**20,642**	12,689
Of which:		
Current liabilities	**1,372**	234
Non-current liabilities	**19,270**	12,455
Balance at 31 March	**20,642**	12,689
Total recognised in Net Expenditure		
Increase/(decrease) in provisions recognised in Net Expenditure	**8,127**	(47)

Provisions include £13.6m environmental liabilities (2019/20: £12.2m) and £6.7m other liabilities (2019/20: £0.5m). Of the net £192k 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 0.51% in 2019/20 to 0.02% in 2020/21 with the balance due to the expected timing of the underlying cost moving back by one year.

21. Deferred tax – Group and Agency

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

2020/21	At 31 March 2020 £'000	Charged to net expenditure £'000	Charged to OCE* £'000	At 31 March 2021 £'000
Unused tax losses	(64,728)	(4,915)	-	**(69,643)**
Arising from IFRS 9 transition **	52,103	(1,149)	-	**50,954**
Provisions	(2,158)	(1,765)	-	**(3,923)**
Pensions	14,783	2,897	4,932	**22,612**
Deferred tax liability / (asset)	-	(4,932)	4,932	-

* 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 £184m (2019/20: £175m) 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.

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.

22. Pension arrangements and liabilities – Group and Agency

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

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

All three schemes are multi-employer defined benefit schemes as described in paragraph 7 of IAS 19 Employee Benefits. 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 (k) below.

Valuations of the Agency's assets and liabilities in each scheme as at 31 March 2021 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
2020/21				
Fair value of employer assets	481,326	416,764	90,589	988,679
Present value of funded liabilities	(509,729)	(287,540)	(64,478)	(861,747)
Net funded scheme assets	**(28,403)**	**129,224**	**26,111**	**126,932**
Present value of unfunded liabilities	(1,218)	(3,545)	(3,159)	(7,922)
Adjusted net scheme assets/(liabilities)	**(29,621)**	**125,679**	**22,952**	**119,010**
Total of net pension assets				155,335
Total of net pension liabilities				(36,325)
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**
Impact of asset ceiling	-	-	-	-
Adjusted 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)

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, 20% (2019/20: 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 25% (2019/20: 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 2021, the Scheme had an interest rate hedge ratio of 49% (2019/20: 50%) and an inflation hedge ratio of 51% (2019/20: 40%) relative to the gilts-flat 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

	2020/21	2019/20
Inflation and pension increases rate (CPI)	**2.8%**	2.0%
Salary increases	**3.5%**	3.2%
Discount rate	**2.0%**	2.3%

ii) Mortality assumptions

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

	2020/21 Years	2019/20 Years
Male - current pensioners	**22.3**	22.5
Male - future pensioners	**23.6**	23.9
Female - current pensioners	**24.5**	24.6
Female - future pensioners	**26.1**	26.3

c) Fair value of employer assets

	2020/21 £'000	2019/20 £'000
Equities - quoted	**499,560**	338,646
Equities - unquoted	**7,591**	20,920
Bonds - quoted	**294,368**	307,194
Property	**55,360**	42,453
Other assets - quoted (incl cash)	**131,748**	103,548
Other assets - unquoted	**52**	67
Total	**988,679**	812,828
Actual return/(loss) on employer assets	**166,541**	44,102

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

	2020/21 £'000	2019/20 £'000
Amounts charged to Net Operating Expenditure		
Current service costs	**23,294**	19,389
Past service costs and losses on curtailments and settlements	**16**	520
Expenses	**1,923**	1,731
	25,233	21,640
Amounts charged to finance costs		
Interest charged on liabilities	**16,573**	17,773
Expected return on assets	**(18,850)**	(20,226)
Interest on asset ceiling	**-**	-
	(2,277)	**(2,453)**
Total recognised in Statement of Comprehensive Net Expenditure	**22,956**	19,187

The total expected employer contributions to these schemes in the year ending 31 March 2021 are £19m.

e) Amounts recognised in Income and Expenditure Reserve

	2020/21 £'000	2019/20 £'000
Actuarial gains/(losses)	**25,957**	(4,959)

The cumulative amount of actuarial gains recognised in other comprehensive expenditure since the adoption of IAS 19 is £162.6m (2019/20: £136.6m).

f) Reconciliation of fair value of employer assets

	2020/21 £'000	2019/20 £'000
Opening fair value of employer assets	**812,828**	**843,987**
Expected return on assets	**18,850**	20,226
Contributions by members	**3,906**	3,249
Contributions by the employer	**28,501**	15,545
Contributions in respect of unfunded benefits	**548**	551
Actuarial (losses)/gains	**147,691**	(50,939)
Net transfers	**-**	3,290
Expenses	**(2,005)**	(1,804)
Unfunded benefits paid	**(217)**	(551)
Benefits paid	**(21,423)**	(20,726)
Closing fair value of employer assets	**988,679**	812,828

g) Reconciliation of defined benefit obligation

	2020/21 £'000	2019/20 £'000
Opening defined benefit obligation	**725,868**	748,977
Current service cost	**23,294**	19,389
Past service cost and losses on curtailments and settlements	**16**	520
Interest cost	**16,573**	17,773
Contributions by members	**3,906**	3,249
Actuarial (gains)/losses - demographic	**(20,935)**	(10,401)
Actuarial (gains)/losses - financial	**136,279**	(21,434)
Actuarial (gains)/losses - other	**6,390**	(14,145)
Net transfers	**-**	3,290
Expenses	**(82)**	(73)
Unfunded benefits paid	**(548)**	(551)
Benefits paid	**(21,092)**	(20,726)
Closing defined benefit obligation	**869,669**	725,868

h) Five-year history

	2020/21 £'000	2019/20 £'000	2018/19 £'000	2017/18 £'000	2016/17 £'000
Present value of defined benefit obligations	**(869,669)**	(725,868)	(748,977)	(752,798)	(779,191)
Fair value of employer assets	**988,679**	812,828	843,987	844,341	828,887
Impact of asset ceiling	**-**	-	-	(29,007)	(6,506)
Surplus in the schemes	**119,010**	86,960	95,010	62,536	43,190
Experience gains/(losses) on scheme liabilities	**(6,390)**	14,145	5,224	12,320	6,715
Experience gains/(losses) on employer assets	**147,691**	(50,939)	52,151	7,337	127,173

i) 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 22(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 2021 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	**829,560**	869,669	912,097
Movement	**(40,110)**	-	42,428

Adjustment to inflation	+0.25%	Current	-0.25%
Present value of total obligation	**906,537**	869,669	834,843
Movement	**36,868**	-	(34,826)

Adjustment to life expectancy	+1 year	Current	-1 year
Present value of total obligation	**903,679**	869,669	836,313
Movement	**34,010**	-	(33,356)

j) 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	110,562
5-10 years	129,054
After 10 years	630,054
Total defined benefit obligation	**869,669**

k) Funding arrangements

Contribution rates for each of the three schemes are reviewed at least every three years following a full actuarial valuation. The funding strategy in each case is set to target a fully funded position, except for those liabilities which are intentionally unfunded within 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 the Regulator of Social Housing (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 2021, the share of the HCA scheme's assets and liabilities attributed to RSH is approximately 4% 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 Local Government Pension Scheme (LGPS). Assets and liabilities for all employers in LGPS funds are identifiable on an individual employer basis. There are no minimum funding requirements or winding up provisions in the LGPS. Any deficit on withdrawal is required to be paid by the withdrawing employer and any surplus is retained by the fund.

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 2021 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 2021. 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.

23. 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 2021, the Agency had 11 employees (31 March 2020: 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.

24. Financial commitments

	2020/21 £m	2019/20 £m
Not later than one year	**3,445**	4,161
Later than one year and not later than five years	**3,299**	2,764
Later than five years	**105**	127
Total commitments at 31 March	**6,849**	7,052

The Agency has made financial commitments in relation to programmes for investments in loan and equity assets, which had become unconditional at the reporting date, but which had yet to be drawn down by that date. The value of these commitments, excluding those disclosed in Note 13c, was £4,657m at 31 March 2021 (31 March 2020: £3,724m). The increase includes £3,250m additional Housing Infrastructure Fund contracted and approved in the year.

The Agency has entered into financial commitments in relation to affordable housing grant programmes totalling £751m at 31 March 2021 (31 March 2020: £1,783m). 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 2021 was £1,083m (31 March 2020: £1,153m).

In addition to the above, the Agency has entered into financial commitments in relation to land development and building leases totalling £333m and £25m respectively at 31 March 2021 (31 March 2020: £382m and £10m).

25. 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:

2020/21	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	4.1	-	-	-
Sigma PRS Property Investments	-	-	16.6	-
Hyde Housing Association	-	12.3	-	-
Receipts in				
English Cities Fund Limited Partnership	(27.7)	-	-	-
Kier Community Living	-	-	(10.6)	-

2019/20 (Represented*)	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	-
Hyde Housing Association	-	41.5	-	-
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)	-

* The represented balance for prior year relates to the inclusion of Hyde Housing Association (HHA). The Agency and HHA became related parties in February 2020.

In addition to the above, the Agency holds £21.7m (2019/20 £7.7m) on behalf of English Partnerships (LP) Ltd, the Agency's wholly owned subsidiary.

The related party relationship with Hyde Housing Association is due to a close relationship between a member of the senior leadership team at the Agency and a member of the senior leadership team at HHA. The transactions in the year relate to grant funding provided by the Agency.

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 2021 the balance of the loan was £43.5m.

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.

26. 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 Chair 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 had a significant impact on the financial year 2020/21. There still remains some uncertainty over the future effects of the pandemic. Scenario analysis to highlight the potential impact of possible alternative scenarios on the Agency's assets has been carried out and disclosed in Note 2.

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CCS0221098302
ISBN 978-1-5286-2749-8


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