Valuation Office Agency

Annual Report and Accounts 2013–14

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Contents

For the Year Ended 31 March 2014

The VOA's Year in Numbers

£48bn of Non Domestic Rates and Council Tax collected using the Valuation Lists maintained by the VOA.

LEASE

484,000 items of rental data collected by our **Housing Allowances** team to help maintain the UK's most comprehensive source of contractual residential lettings information.

Handled a 40% increase in **Council Tax proposals** (appeals) during the year.

2013

Became an early adopter of the new Civil Service Attendance Management Policy in July 2013 and **reduced our average working days lost due to sickness** from **7.1** to **5.4.**

Provided valuation and surveying services to over **2,200** public sector customers.

7,500m2 reduction in our estate, which will result in a full year's equivalent saving of **£1.6m**

Reductions in the rateable value of the 2010 ratings lists at 1 April 2010 contained to just **1.4%**

6,300 hits on our new website for Local Authorities website, which provides information to support Business Rates Retention.

Over 1m items of post and over 345,000 phone calls handled by our National Support Offices.

1m

345,000

Chief Executive's Foreword

"We aim to deliver improved services to the public in a **more modern, consistent** *and* **cost effective** *way in line with the* **Civil Service Reform Plan**.*"*

I am pleased to introduce the Valuation Office Agency's 2013–14 Annual Report and Accounts. The past 12 months have seen the Agency sustain its delivery of high quality services to a wide range of customers, including homeowners and businesses and over 2,200 public sector clients, working together with colleagues in Local Authorities, other government departments and the Welsh Government. At the same time we have been laying the foundations for our longer term transformation programme, which aims to make the VOA a more modern organisation able to deliver an even more efficient, responsive, and transparent service. This has been challenging for all of us at times and I am proud of what we have achieved.

Our customers are important to us and we are improving our services in response to feedback from them. Working with the Department for Communities and Local Government (DCLG) we are responding to feedback from businesses on the way Non-Domestic Rating (NDR) operates and on the NDR appeals process. We are engaging closely with proposals to reform the NDR appeals process, including the consultation on 'Checking and challenging your rateable value', and are working with DCLG and HM Treasury (HMT) on the longer term review of NDR administration. We have already made good progress in clearing NDR appeals in line with the Chancellor's Autumn Statement commitment that 95% of appeals received before 30 September 2013 will be cleared by July 2015. Outstanding NDR appeals are now at their lowest level since the 2010 NDR valuation lists came into force.

On Council Tax we have listened to customers who found our processes and decision making unclear and are improving how we communicate with them. This has included explaining better our decisions on Council Tax band challenges and improving the consistency and responsiveness of our call handling.

Our analytical function has made an important contribution to our work this year. This progress is demonstrated by our work with the Office for National Statistics to include housing costs in the Consumer Prices Index (CPI). The house price changes we provide are the largest single data source for CPIH, the new measure of consumer price inflation which includes housing costs. This is a major success for the VOA, and is an example of how we aim to deliver Government priorities through effective collaboration with our policy making partners. Our analytical function has also begun to develop a far greater understanding of our customers' needs and is now helping us to test and design more responsive ways of working.

We have begun the journey to transform the Agency. Our ambition is to create an Agency that is dynamic and flexible enough to meet the current and future needs of its customers, clients and Ministers. We aim to deliver improved services to the public in a more modern, consistent and cost effective way in line with the Civil Service Reform Plan. We have been developing our approach to delivering the changes required through our IT, data, estates, approach to contact, as well as understanding the implications for our people. Towards the end of the year we appointed a Change Director to lead the delivery of this transformation programme.

We have made the most progress in our IT modernisation, where we launched a major programme in year which will, over the next few years, deploy improved applications and equipment and will make our services digital by default where possible. This work is key to helping us work more efficiently and effectively by making better use of modern technology to deliver. We also continued to rationalise our estate, reducing its size by a further 7,600m^2 which will result in a full year's equivalent saving of £1.8m. We centralised more of our customer contact into our Network Support Offices to help us respond even more effectively to variable levels of customer demand while further improving the quality and consistency of customer service. To help us manage and deliver the ambitious programme of transformation alongside the other changes required of us we have started to introduce Cabinet Office Major Projects Authority's best practice into our project management function, and supported over 50 of our people who have received accredited qualifications.

While we have seen a number of major successes across the Agency, 2013–14 has not been without its challenges. As with the rest of the public sector we have had to deliver our services with fewer resources and funding our transformation at the same time as delivering our operations remains a significant financial challenge. We continued to improve our financial management of the Agency and, living within our agreed funding, ended the year just 0.5% below our budget. We have also realigned our pay and grading system with the wider Civil Service. Our new system will enable the Agency to recruit and retain the talent necessary to deliver our key objectives whilst being affordable within current financial constraints.

This significant reform to our pay and grading system unfortunately had a negative impact on our people engagement score, which fell from 46% in 2012 to 41% 2013. We have a number of initiatives underway to share good management practice amongst our leaders, to help local areas evaluate their leadership capability, and to improve communication with our people. The VOA will be seeking to build engagement in 2014–15.

I would like to thank everyone in the Agency for their hard work and dedication which has underpinned all we have accomplished in the last year. There remains much more to do if we are to become the organisation that we want to be, but I am confident that we are putting the foundations in place for a more modern, efficient, and transparent VOA.

Penny Ciniewicz
Chief Executive
11 June 2014

Our Purpose, Our Services, Our Organisation

We are an executive agency of HM Revenue & Customs (HMRC).

Our Core Purpose

To provide the valuations and property advice required to support taxation and benefits.

Our Vision

The VOA's customers have confidence in its valuations and advice. As a modern professional organisation with expert and committed people, it acts fairly, consistently and efficiently.

Our Strategic Objectives

To help us achieve our vision, we have four strategic objectives:

- **Target and achieve customer trust**
- **Drive quality and consistency through improved processes**
- **Develop and sustain the right capabilities**
- **Sustainably reduce our costs and improve value for money.**

We work towards these objectives through all our activities. This includes our day-to-day and change and transformational work.

Our Services

We maintain valuation lists of 1.9m commercial properties and 24.7m domestic properties in England and Wales. This enables the collection of approximately £48bn in Non-Domestic Rates (also known as business rates) and Council Tax. The Department for Communities and Local Government (DCLG) and the Welsh Government fund us to deliver this work.

In addition we support the Department for Work & Pensions (DWP) in Housing Benefit and Local Housing Allowances by determining allowances in over 150 Broad Rental Market Areas.

We have also:

- Dealt with over 200,000 Housing Benefit referrals each year for DWP.
- Determined approximately 60,000 Fair Rent cases each year for DCLG.

We support HMRC's work on Capital Gains and Inheritance Tax and other areas of tax compliance.

We also provide:

- A range of valuation and surveying services to over 2,200 other customers in the wider public sector, including central and local government.

- Information and analysis to partners in the public sector, including colleagues in the Office for National Statistics (ONS) who produce the Consumer Prices Index and the Retail Prices Index.
- Advice to Ministers on valuation and property matters.

Our Organisation

We employ around 3,500 people, based on full time equivalents (FTE), in 70 offices across England, Wales and Scotland. Our services are delivered through our four main business streams. These are:

- **Non-Domestic Rating (NDR)**
- **Council Tax and Housing Allowances**
- **Statutory Valuation Team (SVT)**
- **Property Services**

This operational structure allows us to:

- Focus on our customer groups so that we can better understand their needs and adjust what we do accordingly.
- Make the best and most flexible use of our skills, ensuring our people have the right skills and are in the right roles.
- Provide a consistent service to our customers.

We also operate four Network Support Offices, in Durham, Rhyl, Halifax and Plymouth. These offices handle our centralised processing work, including much of our initial telephone, email, and post contact with customers. They provide these services centrally, ensuring consistency and delivering better value for money.

The delivery work of our business streams and our Network Support Offices is supported by the VOA's corporate services. These include our Information and Analysis, HR, IT, Communications, Customer Services, Estates and Finance teams.

Our Role in Delivering the Civil Service Reform Plan (CSRP)

Alongside delivering our vision the VOA also has a role to play in the CSRP and its four key themes. Over the last year we have made a significant contribution in all of these areas and some of the highlights are included below:

More skilled

- Developing our staff remains a priority for the Agency and this year we have supported over 50 of our staff in receiving accredited qualifications in Surveying, Valuation, Estates Management, IT, HR, Records and Information Management, Finance, and Management.
- We have recruited 65 people from outside the Civil Service to develop our capabilities in Project and Programme management, Change Management, Finance, IT, Digital and Analytics.
- We have professionalised our procurement function. This has already helped us agree new IT contracts which provide better value for money. As a result our IT costs have reduced by £2.3m compared to 2012–13.

See page 26 and 27 of the Strategic Report for details.

More digital

- We have initiated major programmes of IT change and modernisation which will improve the experience of our people and customers.
- We have begun developing new remote working tools and technology which will support more flexible ways of working in the future.
- In line with Government Digital Strategy we will make our services digital by default where possible to improve the customer experience.

See page 20 and 23 of the Strategic Report for details.

Unified, open, and accountable

- We have played a key role in the reform of the Government Property Profession, widening participation across government and breaking down barriers between departments.
- We moved seven of our offices into shared accommodation as part of our estates rationalisation programme.

See page 22 and 23 of the Strategic Report for details.

Better policy making

- We have developed the Agency's analytical capability to support policy making by our clients with better evidence and analysis.
- We have worked with HMT and DCLG on a number of major policy issues, including on the Business Rates Administration Review.

See page 12 and 21 of the Strategic Report for details

Our Customers

Our customers are the individuals and organisations whose business and domestic property we value and the colleagues in the public sector who we advise. They are at the heart of everything we do and our plans to develop our organisational capabilities and improve our performance are driven by their needs.

In the last year we have been drawing on our developing analytical capability to identify in more detail how our customers feel about our services and where we can improve. This insight has begun to shape our work to improve customer trust in, and understanding of, our valuations.

What we have learnt from our customers

In June 2013 we published a research report commissioned from Opinion Leader on our customers' understanding of the valuation process and in July 2013 and January 2014 we published the first set of results from our Customer Tracking Survey, commissioned from Ipsos Mori. As set out under 'Our Performance', the findings of this research are already shaping the improvements we are making to our services. All of the quotes from customers included in this document are taken from these reports, both of which can be accessed at www.voa.gov.uk.

"Our contact with the VOA surveyor was excellent – very high quality, a first class response. She helped me understand what she was going to do. The subsequent conversation with a different individual was very helpful and a clear response."

NDR Customer

"Every time I spoke to someone, they were exceedingly helpful. They pointed me in the right direction and were courteous."

Council Tax Customer

"The VOA being more easily contactable is an issue."

NDR Customer

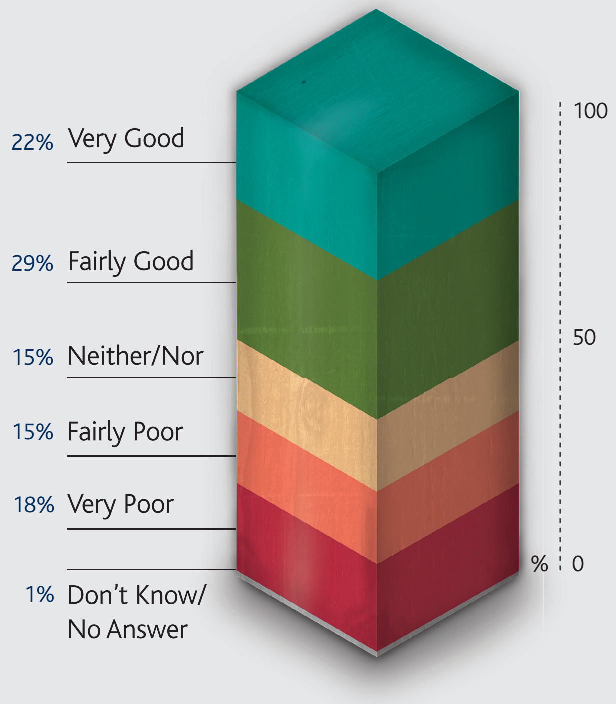
"I didn't get to speak to anyone. They received my letter and wrote that they would look into it, but that was the only correspondence I had with them. Six weeks later I was notified of the outcome."

Council Tax Customer

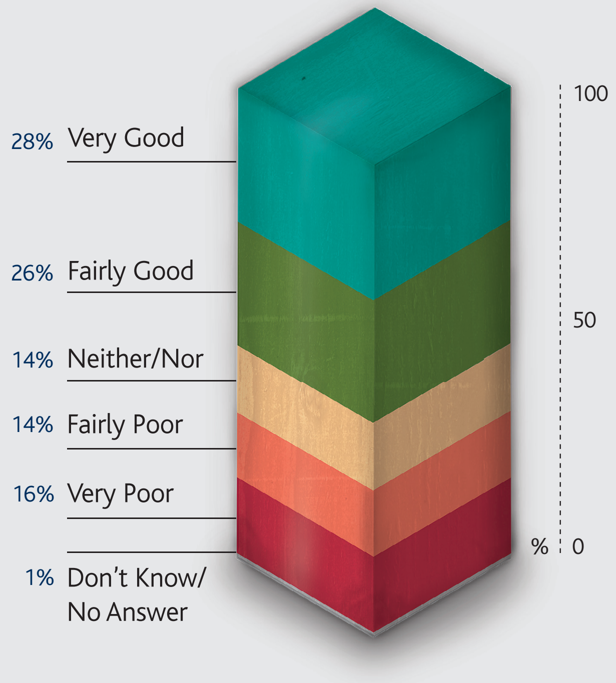
The survey included unrepresented customers who had made an appeal or informal challenge against their rateable value for NDR or their Council Tax band. Around 1,300 interviews were completed for Council Tax customers and 2,000 for NDR customers.

Putting aside the final outcome, and thinking just about the service you received, how would you rate your overall experience of dealing with the VOA?[1]

NDR Appellants' Experience



Council Tax Appellants' Experience



1. These figures are subject to minor change following a review of the methodology used to weight sample data (based on the outcome of cases covered by the survey). These revised results will be published in Autumn 2014.

Some of the key findings were:

- The majority of customers agreed that VOA staff are professional, polite and friendly, respond to queries within an appropriate timeframe and have the knowledge and expertise needed to answer all of their questions.
- Only 38% of NDR customers and 36% of Council Tax customers found the way the VOA values properties easy to understand, and only 45% of NDR customers and 58% of Council Tax customers found the appeals process easy to understand.[2]

We value this feedback and remain committed to improving the services that we provide. As set out in the following sections we have been working hard in both NDR and CT to address the issues that our customers have raised.

2. These figures are subject to minor change following a review of the methodology used to weight sample data (based on the outcome of cases covered by the survey). These revised results will be published in Autumn 2014.

Our Performance

This year we have:

1. Reduced the number of outstanding NDR appeals to the lowest levels since the 2010 valuation lists came in to force and contained reductions in the rateable value of the 2010 ratings lists at 1 April 2010 to just 1.4%.
2. Improved the ways in which we communicate with our Council Tax customers based on feedback from our Customer Tracking Survey.
3. Continued to centralise our customer service functions, improving the quality, consistency, and efficiency of our services to the public.
4. Exceeded our targets on timeliness and quality across all aspects of our Housing Benefit and Fair Rent work.
5. Provided expert property advice on a number of high profile projects, including the proposed HS2 rail link, Clyde Gateway Regeneration for the 2014 Commonwealth Games in Glasgow and the Government's 'Space for Growth' initiative.
6. Worked with the Department for Communities and Local Government (DCLG) on proposals to reform the Non-Domestic Rating appeals process, including the consultation on 'Checking and challenging your rateable value'.
7. Begun work with DCLG and HMT on the longer term review of Non-Domestic Rates administration. This aims to strengthen the system's responsiveness to changes in property values and its simplicity and transparency for business ratepayers.

Non-Domestic Rating (NDR)

This year we have maintained our focus on assisting our customers by reducing the number of outstanding NDR appeals. At 31 March 2014 there were 131,000 appeals outstanding, which is 29% less than at 31 March 2013. This is the lowest level of appeals outstanding since 30 September 2010.

We have made good progress towards delivering the commitment the Chancellor made in his Autumn Statement in December 2013 that 95% of NDR appeals received by 30 September 2013 would be cleared by July 2015. So far we have cleared almost half of these appeals and we are working closely with the Valuation Tribunal Service (VTS) to ensure they continue to be prioritised during the coming year.

We continue to receive in excess of 8,000 appeals per month. To make the process as responsive to businesses as possible we prioritise appeals where the grounds are factual or where financial hardship is identified by the ratepayer. We aim to make a decision on these cases within two months of receipt.

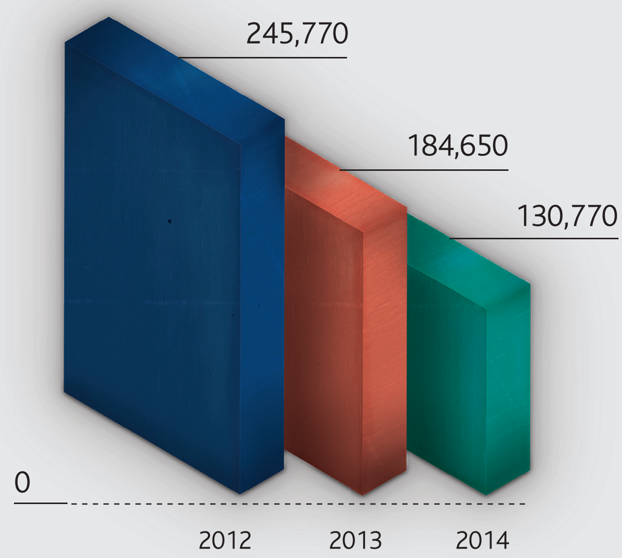
"They were prompt, polite, courteous and helpful within the guidelines."
NDR Customer

At the request of Ministers and in partnership with the VTS and DCLG we have focused over the past year on how we could improve the NDR appeals system. In December 2013 DCLG launched a consultation document on 'Checking and challenging your rateable value'. In line with the CSRP's theme of a more open and accountable Civil Service, this aimed to improve the transparency of the valuation process, clarify the requirements of the appeals process, and allow appeals to be made directly to the VTS if the ratepayer is dissatisfied with the outcome. The consultation closed on 3 March 2014 and we are supporting DCLG in their consideration of the responses.

"I think the process is too long, especially if you write to them and it goes to appeal and to the meeting or wherever it goes. Six months is a long time to wait."
NDR Customer

On 1 April 2013 the Business Rate Retention scheme came into effect in England. The VOA has worked in partnership with Local Authorities to understand their changing needs and to provide support. Our team of Relationship Managers has worked proactively with Local Authority Chief Finance Officers to help them understand and manage the impact of changes in the local NDR lists. The team met with 98% of the 326 Local Authorities in England, handled in excess of 2,750 requests for information, and had over 6,300 hits on their new web page for Local Authorities. This work has been supported by our Information and Analysis function which has provided data to inform Local Authorities' forecasts for rates retention purposes.

Number of NDR appeals unresolved in England and Wales by financial year as of 31 March 2014



Throughout the year the VOA has continued to make sure that the NDR lists reflect changes to properties and include new properties. This year we have reviewed over 276,000 of these cases and have made over 211,000 amendments to rating assessments to maintain the lists. While we aim to make these changes within an average of 10 days this year we only achieved an average response time of 18 days, which has had a significant impact on our overall delivery against our timeliness targets. Although this is disappointing we had anticipated that operations would require some flexibility to manage peaks of work and to maintain the quality of our decisions. Additionally, there are occasions when it is right that particular cases are put on hold, for example pending the outcome of litigation, and this can add significantly to the average elapsed time.

To reflect this we will be moving away from an 'elapsed time' measure in 2014–15.

We have agreed new targets for NDR and Council Tax with DCLG which set out the proportion of cases which we aim to have dealt with within certain periods. In addition to giving our customers a clearer picture of our performance and the service they can expect, this will allow us to better allocate different amounts of time to cases depending on their relative complexity.

The average staff cost of dealing with a NDR case has increased from £112.00 in 2012–13 to £126.20 in 2013–14. This is due in part to a higher than anticipated number of postponements and adjournments of appeals and a lower level of cases listed for hearing by the independent Valuation Tribunal during the year. Together these contributed to the VOA not clearing as many appeals as originally planned.

Council Tax

In Council Tax the VOA has been working to increase the quality of our processes and to address feedback from some of our customers that our banding decisions need to be more transparent. We have introduced revised processes and new quality assurance procedures for these decisions and have begun rolling out new letters which communicate them more clearly. This is part of our wider work to make the VOA more open and accountable in line with the CSRP. We will be conducting further customer insight research to build on these improvements.

"Correspondence, overall experience, communication. They promptly replied. Their letter was easy to understand, friendly and concise. They made it clear that if I had any concerns, I could contact them by phone. They were open to communication."

Council Tax Customer

"We don't understand it to be honest. We can't work out how it works so we don't know if it is fair."

Council Tax Customer

We have also improved the experience of customers who contact us, building the capability of our main switchboards to handle more calls and to resolve more queries at the first point of contact. Our people are now able to resolve the concerns of our customers in a more timely way, reducing the need for them to request an informal band challenge.

"I think if you're on the phone and you're actually speaking to somebody, I think it's a million times better."

Council Tax Customer

"There is actually a process and it looks fairly straightforward."

Council Tax Customer

The VOA has continued to meet its target of responding to proposals (appeals) to alter the banding of a property within two months, well inside the legal requirement of four months. We achieved this performance despite the number of proposals per month increasing by almost 40%, or 7,600, between March 2013 and March 2014. This increase was partially due to the reduction or removal by many Local Authorities of the Council Tax exemption for properties that are empty or in disrepair. This led some of the individuals affected to approach the VOA to request the deletion of their property from a valuation list.

Unfortunately this increased workload affected the speed with which we were able to clear requests to amend the Council Tax lists so that they included new properties and reflected changes to properties. While we aim to make these changes within an average of 10 days this year we only achieved an average response time of 15 days. We will be adopting new targets in 2014–15 which are similar to those being introduced in NDR. The targets will set out the proportion of cases which we aim to have dealt with within certain periods, giving our customers a clearer picture of our performance, the service they can expect, and allowing us to better allocate different amounts of time to cases depending on their relative complexity.

Housing Allowances

Our Housing Allowances team delivered all Local Housing Allowances rates on time and exceeded all its targets on timeliness and quality.

Fair Rent valuations and Housing Benefits referral work has declined further this year. As we require a minimum number of staff to deliver this work and to provide contingency the decline has led to a slight increase in the average cost of dealing with each Housing Benefits referral this year. This is shown in our performance data.

We have taken the opportunity of this declining workload to increase our focus on the acquisition, management and analysis of residential lettings data. Our Rent Officers have now developed the UK's most comprehensive source of contractual residential lettings information. This is primarily produced to allow the VOA's Rent Officers to calculate Local Housing Allowances rates but the information is made publicly available for use by professionals in the housing and private rented sectors. In 2014–15 we will re-organise the Housing Allowances business stream to ensure we have the right capabilities in place to maintain our high performance standards.

We have continued to develop our reputation in the residential lettings market through our programme of engagement with residential lettings groups and we are currently finalising a product that will allow private rented sector sources to provide us with data electronically.

For the second consecutive year our Information and Analysis function has worked with Housing Allowances and colleagues in the Office for National Statistics to extend the Consumer Prices Index (CPI) to include housing costs, drawing on the information we hold. This fulfils a Coalition Agreement commitment to accelerate the inclusion of housing costs in the CPI measure of inflation.

Property Services

The VOA's Property Services team, which provides professional property advice across the public sector, has maintained income levels (£16.0m) in a challenging market and continues to cover its costs.

We have seen sustained demand for this shared service as clients continue to recognise the value for money of using existing property skills and expertise within Government. Our impartiality and specialism in public sector work are highly valued and we continue to make reductions in running costs to provide a cost-effective service for our customers. The property advice we provided during 2013–14 included high profile projects such as the proposed HS2 rail link, Clyde Gateway Regeneration for the 2014 Commonwealth Games in Glasgow and the Government's 'Space for Growth' initiative.

Statutory Valuation Team (SVT)

The SVT's main role is providing advice on valuations and apportionments for inheritance tax, capital gains tax, annual tax on enveloped dwellings and other taxes administered by HMRC. This year the team delivered a 4.5% increase in the volume of valuations provided to HMRC and met or exceeded all of its delivery time targets, including valuing over 7,000 Inheritance Tax appraisals within an average of 3.2 working days.

Support to HMRC also included valuations of properties worth over £2m for the new Annual Tax on Enveloped Dwellings and SVT met its timeliness targets in 100% of cases. This tax was previously called the Annual Residential Property Tax and is payable by companies that own high value residential property. Advice has also been given to HMRC in relation to a number of criminal investigation cases where Restraint and Confiscation of assets have been secured.

Our Community Infrastructure Levy dispute resolution role has continued to develop, with SVT meeting its delivery time targets in every case and publishing all redacted appeal decisions on the Agency website.

The team also delivered a 5.7% increase in the volume of Right to Buy determinations in England and Wales from 1,850 cases received in 2012–13 to 1,950 cases received in 2013–14. The team also delivered a 30.7% increase in the number of Right to Buy valuations provided in Scotland from 2,660 cases received in 2012–13 to 3,480 cases received in 2013–14.

The average staff cost per case for Capital Taxes casework has increased significantly from £338.70 in 2012–13 to £406.00 in 2013–14. This is the result of the VOA receiving more complex cases from HMRC.

Network Support Offices (NSOs)

This year the VOA's NSOs continued to improve the consistency of the service and outcomes our customers receive when they first contact the VOA. They have achieved this by developing their people and by centralising and standardising processes. They have also reorganised their resources to align with Agency priorities and to deliver further efficiency savings.

"They kept in contact with me all the time. If I needed anything they always responded."

NDR Customer

"Every time I spoke to someone, they were exceedingly helpful. They pointed me in the right direction and were courteous."

Council Tax Customer

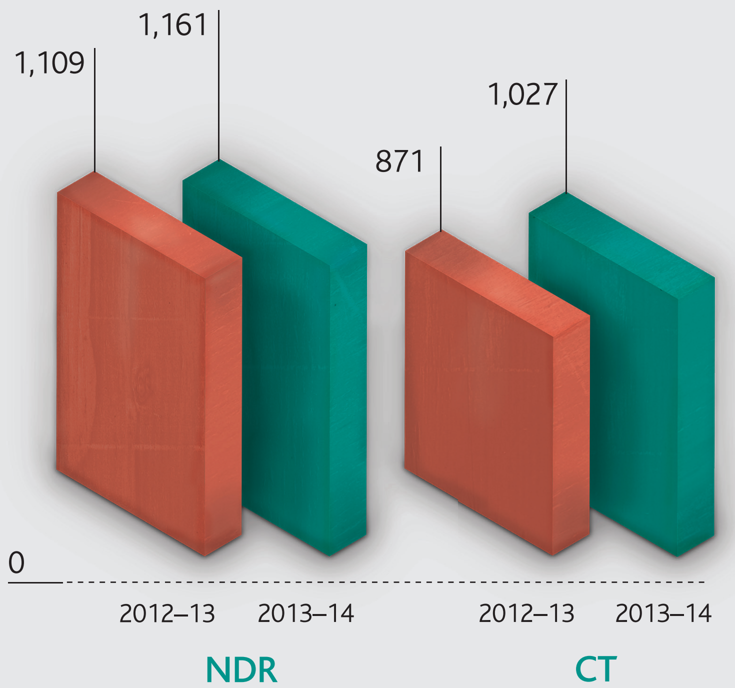
A sustained recruitment programme across all four sites has brought in people with the skills to provide excellent customer service and a number of specialist roles have been created to underpin this. We have also introduced a bespoke induction programme and technical learning and development modules. As a result NSO staff are now able to quickly identify customer needs, allowing them to resolve queries or to refer customers on promptly.

We continue to centralise more of our customer service functions and this year our NSOs developed the capability to handle more straightforward Council Tax telephone queries at first point of contact. We have several projects in development that will further professionalise our telephone service, including the forecasting of call volumes and the introduction of call recording systems. This will enable us to respond even more effectively to variable levels of customer demand while further improving the quality and consistency of customer service.

As well as improving the service they offer, our NSOs have established a truly flexible service by developing multi-skilled people who can deliver work across a number of different roles. This has allowed resources to be switched between work streams and sites on a regular basis, ensuring that we are able to continue to deliver a high quality and timely service despite fluctuations in demand.

The impact of these improvements was demonstrated during the significant spike in calls we received in April 2013 following the issuing of new Council Tax bills, the introduction of local Council Tax Reduction Schemes and increased publicity about the banding review process. We prepared effectively for this by training our front-line telephone operators to resolve the majority of expected customer queries at first point of contact and by offering a prompt call-back response where necessary. As a result we were able to continue to meet our performance targets throughout.

Council Tax and NDR Complaints Received



Complaints

We take great pride in delivering a responsive service which is continuously improving and, as a result, we treat every complaint we receive seriously.

This year we received 1,730 Tier 1 complaints, compared to 1,379 in 2012–13[3]**.** These are the initial complaints we receive which we attempt to resolve locally.

We received 458 Tier 2 complaints, compared to 607 in 2012–13[4]**.** These are submitted by a customer who is unhappy with our initial local response and they are handled by our central Customer Service team.

We received a total of 1,161 complaints about NDR compared with 1,109 during 2012–13. This is an overall **increase** of 5%.

3. In previous years we have reported Tier 1 and Tier 2 complaints as a combined figure. Since the publication of last year's complaints figures we have revised the total complaints received in 2012–13 upwards slightly from 1,980 to 1,986.

4. See footnote above.

The key themes in NDR complaints were about the length of time it takes us to deal with some NDR appeals. We fully understand the concerns of businesses, especially small ones, about the uncertainty an outstanding appeal may bring. We have settled in excess of 163,000 NDR appeals this year and to support ratepayers we have continued to prioritise cases where there is evidence of hardship.

We received a total 1,027 complaints about Council Tax compared with 871 during 2012–13, an **increase** of 18%.

The key themes for Council Tax complaints were the level of banding compared with that of neighbouring properties and the provision of sales information that we use to support our banding decisions. We have therefore taken steps to improve the standard of information we provide to our customers to help explain the reasons for our banding decisions.

Where we have been unable to resolve matters, our customers have the right of further independent scrutiny by the Adjudicator's Office and the Parliamentary Ombudsman.

In 2013–14, the Adjudicator's Office investigated 23 complaints. There were no specific trends to report and of these:

- None were substantially upheld
- Five were partially upheld
- 18 were not upheld.

The Parliamentary Ombudsman can consider a complaint once it has been referred to them for investigation by a Member of Parliament. The Parliamentary Ombudsman would usually expect a complaint to have exhausted the complaint procedure within the VOA and the Adjudicator's Office before they would consider investigating. In 2013–14, four cases were formally referred to the Ombudsman, of which:

- One was partially upheld
- Two were not upheld
- One remains under investigation.

Performance Data 2013–14

Our Input and Impact indicators are set out in our published Business Plan. This is the third year we have reported against these measures. Our performance against them is set out below.

Input Indicators (Annual Measures)	2011–12	2012–13	2013–14
Average staff cost of dealing with a case for NDR	**£139.00**	**£112.00**	**£126.20**
Average staff cost of dealing with a case for Council Tax	**£53.60**	**£52.40**	**£45.00**
Average staff cost of dealing with a Housing Benefits referral	**£5.40**	**£6.60**	**£6.80**
Average staff cost per case for Capital Taxes casework	**£350.10**	**£338.70**	**£406.00**

Impact Indicators (Annual Measures)	2011–12	2012–13	2013–14
Compiling and maintaining lists to support overall Council Tax and NDR receipts (£bn)	**£46bn**	**£47bn**	**£48bn**
Proportion of VOA Service meeting timeliness service levels	**97.4%**	**94.7%**	**69.2%**
Proportion of VOA Service meeting quality standard levels	**99.9%**	**100%**	**99.9%**
Proportion of VOA Service meeting accuracy levels	**100%**	**100%**	**100%**
The Agency will operate within its budget reduction of 20% (in real terms) over the Spending Review period (cumulative figures)	**5.3%**	**10.0%**	**11.1%**

Our performance indicators, which have previously been reported as Key Performance Indicators (KPIs), are shown in the table below for information. A number of previous KPIs are now no longer relevant or reported, and are not shown in the list below.

Year		2012–13	2013–14	
Operations	To contain reductions in the 2010 rating lists to a maximum of 3.6% of the total compiled list rateable value, over the entire life of the lists.	1.0%	1.4%	On Target
	To ensure 96% of new Council Tax bandings are right first time.	98.4%	98.5%	Met
	To determine 95% of Housing Benefit claims where no inspection is required in 3 working days.	99.9%	100.0%	Met
	To enable prompt issue of tax assessments by clearing all HMRC initial appraisal cases within an average of 5 working days.	3 days	3 days	Met
Value for Money	To achieve full cost recovery on all work for HMRC.	Met	Met	Met
	To achieve income from non-statutory services of at least £17.0m.[5]	£15.7m	£16.0m	Not Met
Data Security	To have zero data incidents reportable to the Information Commissioner.	Nil	Nil	Met

5. The target figure of £17.0m was £15.0m for 2012–13.

OUR CAPABILITIES

This year we have:

1. Commenced a major programme of IT modernisation that will deliver efficiencies for the taxpayer and allow us to make more of our services digital by default in due course.
2. Continued to review and reform the way that we collect, process, store and use data. Our aspiration is that this will improve and speed up the valuation process and will improve the support we can offer other government departments in their policy making.
3. Begun to recruit for the future while continuing to reduce costs overall. We are ensuring that we have the skills we need to deliver a modern service, especially in data management and analysis and in programme and project management.
4. Introduced a stronger focus on performance management to monitor and drive performance across the business.

Our IT

We have initiated a programme of IT modernisation to deploy improved applications and equipment and update our approach to interactions with our customers. In line with the CSRP's theme of making the Civil Service more digital we will make our services digital by default where possible to improve the customer experience.

'I think we should have all of the facilities be it online, telephone or in writing.'
Council Tax Customer

Where we can, we are developing these changes responsively around the needs of our IT users, whether they are internal colleagues or external clients. Our planned improvements will allow us to make better use of our people's expertise and will begin work to make our public-facing systems more modern, efficient and intuitive for our customers.

Over the last 12 months we have laid the foundations to support these longer term changes. We have ensured that our existing applications are stable and recoverable, rolled out firewalls and network upgrades to all our offices and set up a central infrastructure to support our core systems. We have also rolled out a new Customer Contact

Application to help us track and respond to customer enquiries in a more effective way. In line with the Civil Service Reform Plan's principles on professional capability we have strengthened our IT and Digital team with training on modern IT systems and recruited over 20 IT professionals from inside and outside the Civil Service. With further recruitment planned we are now building an IT and Digital function that is able to support the Agency in delivering modern, efficient services for our customers.

Our Data Management and Analysis

We have continued investing in our Information and Analysis function to ensure we have the professional skills we need to help drive better decision making and support our customers and delivery partners. By developing this evidence base for our client departments we are making our contribution to the CSRP's government wide theme of improved policy making.

This has included:

- Continuing to provide statistical information to other government departments to inform their policy making and their understanding of the role that property values play in the wider economy. This has included contributing to the Retail and Consumer Prices Indices (RPI and CPI) and the Office for National Statistics' new experimental Index of Private Housing Rental Prices (IPHRP).
- Running consultations with our data users to obtain feedback so that we can improve the frequency, quality and accessibility of our published Official Statistics.
- Improving the data we provide to Local Authorities to help inform their forecasts for rates retention purposes.
- Carrying out primary research to collect feedback from those who come into contact with us, and using that feedback to deliver effective and evidence-based change to the way we deal with taxpayers, their agents, and Local Authorities.

Our Programme and Project Management

To ensure that we are able to deliver the transformational changes we have planned, we have developed our skills and capabilities in Project, Programme, and Change Management. This has included recruiting specialists from outside the organisation.

We are also adopting best practice as set out by the Cabinet Office Major Projects Authority, including setting up a portfolio office and carrying out a detailed skills audit of all project staff to identify our capability strengths and gaps.

In IT we have begun using Agile methodologies where appropriate to support both solutions development and delivery. Agile develops IT solutions iteratively, leading to change being delivered incrementally and earlier benefits realisation.

The Agile approach is being deployed across all technology related change programmes and projects. Staff associated with these programmes have and will continue to receive Agile training and the approach has also been adopted with the suppliers and business representatives involved in the programmes to date.

Our Performance Management and Continuous Improvement

This year the Agency adopted a new methodology for performance management based on the principles of visual management and the 'lean' approach, which aims to eliminate any expenditure of resources which does not create value for the customer.

Our new Performance Hub, chaired by the Chief Finance Officer, has met monthly during 2013–14 to review the Agency's performance against its Key Performance Indicators. This approach has already helped us to refine the data we use to manage performance and has improved our planning and allocation of resources. Local Performance Hubs will be established in 2014–15 by our Chief Finance Officer, Chief Digital and Information Officer, Chief Operating Officer and new Chief People and Chief Strategy Officers.

These Performance Hubs form a key part of our approach to continuous improvement (CI). This approach is about involving all our people in seeking to make the services we provide for our customers more efficient, effective and better value for money. The underlying principle is to achieve improvement through a continuous series of small changes. A small CI team within the Agency is implementing this approach, beginning with trials in our Durham NSO and the Southampton Council Tax team.

CI will help us to:

- Simplify our processes, improve the quality of outcomes and reduce costs so that we can provide the best possible service for our customers and taxpayers.
- Prepare the Agency to work flexibly in the future, enabling the implementation of key parts of our long term change programme, including our planned IT changes.
- Help colleagues develop existing skills or obtain new continuous improvement skills that can be used more widely.

Our Estates and our Ways of Working

We are in the final part of our current Estates Rationalisation programme and during the year we have reduced the size of our estate by 7,600m^2, which will result in a full year's equivalent saving of £1.8m.

By releasing this space and taking occupation of surplus Civil Service estate office space in seven locations we are able to play our part in delivering the CSRP's aim of a smaller and more unified Civil Service. We have reduced our utilisation rate

through the year from 14.8m^2 to 13.0m^2 per FTE and we are now making plans to reach the target of 8m^2 of office space per FTE by 2018–19.

As well as reducing our expenditure on estates we also aim to create the facilities which will support modern and flexible ways of working. We piloted shared desks in our Bristol office and will be making plans to roll this out in additional locations in the future. This will be supported by work by our IT and HR functions who are developing new remote working tools and policies to support our people in working away from the office.

In the coming year we anticipate that we will reduce the estate further by some 3,500m^2 and agree our new delivery plan for estates transformation through to 2018–19.

Our Role in Reforming the Government Property Profession (GPP)

The VOA has played a key role in the restructuring of the Civil Service's GPP. This has contributed to the 'Strengthening the professions' initiative, a key work stream of the Civil Service Reform Plan.

The principal aim of the restructuring is to raise the skills of those who work in the profession across all of the Civil Service, thereby raising the capability of government as a whole. Specifically the restructured GPP aims to:

- Promote the profession and ensure that property expertise is used to inform policy and decision making at the most senior levels of government.
- Ensure that all property professionals continuously develop their capability during their career within central government through learning and development opportunities.

The VOA's Chief Valuer, Niall Walsh, has worked with the GPP to widen membership and participation and to include all disciplines relating to Land, Property and the Built Environment, so that the profession reflects the variety of roles property professionals hold across government. Efforts have also been made to remove departmental boundaries so as to provide the Government with a more fluid pool of property expertise and so that GPP members have access to a broader range of career opportunities. Niall Walsh also acted as Head of Profession from September to November 2013.

Our People

Played our part in the **Civil Service Reform** programme, including becoming an early adopter of the new Civil Service Attendance Management Policy.

Supported **50+** of our people who have received **accredited qualifications** and recruited our first level four apprentice, equivalent to a foundation degree.

VOA Grades — Civil Service Grades

Introduced **a new pay and grading system** that better aligns us with the rest of the Civil Service

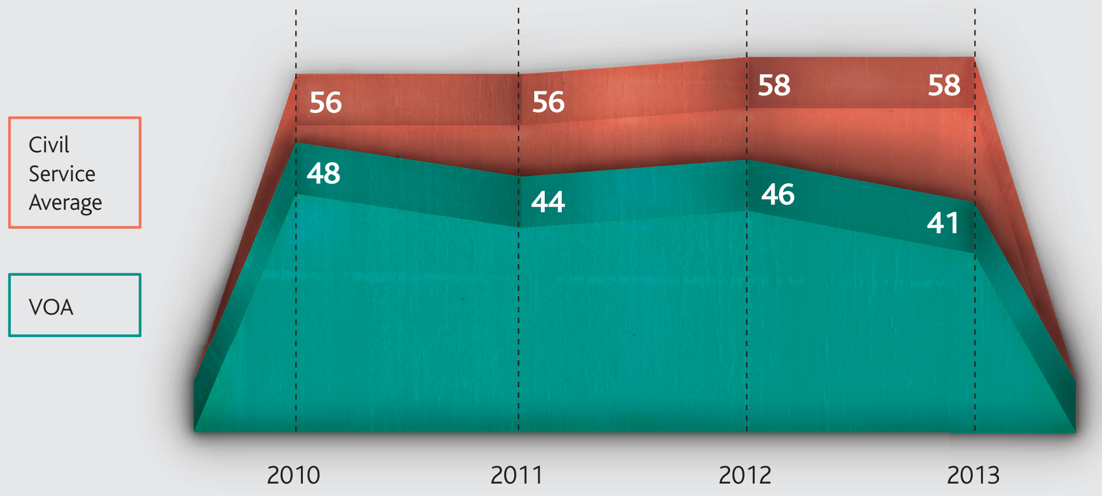
Completed a **baseline skills** review as part of our response to the Civil Service Capabilities Plan and have established a VOA Heads of Profession forum.

Introduced regular leadership community **teleconferences** to share information and good practice across the Agency.

Implemented **28** of the **29** recommendations of a health and safety management review carried out by HMRC's Occupational Health, Safety and Wellbeing team during the year.

Reduced our total average working days to sickness lost rate from 7.2 days per person per year to 5.4 days. For more detail on this see our Directors' Report

People Survey Engagement Index



Engagement

The VOA's engagement score from the 2013 Civil Service People Survey was 41%, a 5% decrease from last year. This reflected some of the difficult issues that we have worked through in 2013, including the review and replacement of our pay and grading system and the impact it had on some of our people.

Our detailed survey results highlighted a need to build our leadership and change management capability. The main actions we are taking to address this are set out under Learning and Development. Additionally we have introduced regular leadership community teleconferences to share information and good practice across the Agency.

While our overall people engagement score decreased there were a number of areas in which we saw continued improvement in 2013:

- Our directors completed over 60 office visits during the year.
- There is increased confidence that our directors have a clear vision for the future of the VOA.
- People feel more involved in the decisions that affect their work.

Through our People Awards we continued to celebrate the achievements of staff members who, individually or as a team, made a significant contribution to the Agency. The Awards also provide a valuable opportunity to learn what we can do to help create an environment where people can make a real difference to improve the work of the Agency.

'The VOA is a good place to put your constructive ideas forward. All my managers have been really supportive of me.'

Sue Hickmore, VOA
Colleague of the Year 2013

We recognise that engagement is an area which we must continue to focus on and that we must continue to listen and act on the feedback we now routinely gather from across the Agency.

Pay and Grading Review

Over the last year the VOA has aligned its grading system with common Civil Service standards and has introduced new pay scales to match these. The principal aim of this exercise has been to deliver a sustainable pay system that rewards our people fairly for the job they do.

There were two main reasons why we undertook a review of our grading:

1. Our former pay band structure was not the same as the grading system used by most other organisations in the Civil Service. By bringing ourselves into line with the rest of the Civil Service we can ensure that our pay is comparable and that people are rewarded at the right level for the job they do.

2. We had not had a full review of grading, or a comprehensive job evaluation exercise, within the Agency for over 12 years. Most existing roles had been created or changed since then.

The grading review assessed every job within the Agency and identified over 450 distinct role types. To facilitate this exercise we used the Job Evaluation and Grading Support system, a computer-based, analytical, job evaluation methodology, which provides a consistent means of evaluating roles. This is the same system that is used across the Civil Service.

Individuals were informed of their new grade and pay scale in September 2013. Whilst the outcomes were positive for the majority of our people, approximately 18% of staff were regraded to a lower Civil Service grade. Despite the challenges this has brought in terms of staff engagement, the Agency is now in a much better position to offer a fair and attractive reward package in line with the rest of the Civil Service.

Our Learning and Development

Investing in the skills of our people has continued to be a key area of focus for the Agency and is an area in which we have made a significant contribution to the CSRP. We have prioritised four areas of activity:

- **Supporting and equipping our leaders to manage change.**
- **Increasing line manager capability to manage performance effectively.**
- **Aligning learning and development to our strategic priorities.**
- **Preparing for our future workforce needs.**

To support this work we have completed a baseline skills review as part of our response to the Civil Service Capabilities Plan and have established a Heads of Profession forum. We are now working within each profession to develop workforce plans and raise professional standards.

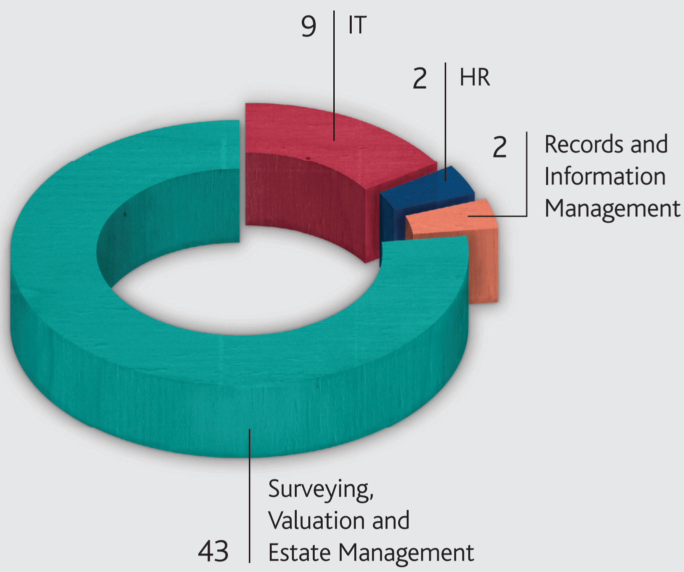
We have been actively involved in cross-government work to develop the Government Property Profession. This will lead to increased opportunities to support our surveying colleagues' professional skills and capability. We have also taken the first steps towards establishing the Operational Delivery profession within the Agency, including piloting relevant Civil Service Learning products and qualifications.

We offer our people the opportunity to gain professional qualifications in Surveying, IT, HR, Records and Information Management, Finance, and Management and over 50 of our people received accredited qualifications in the past year. We continue to develop our ICT professional apprenticeship programme and have recruited over 20 apprentices in the three years the programme has been running. This year we were delighted to see one of our apprentices successfully move on to a permanent role within the VOA and we have also recruited our first ever level four apprentice, equivalent to a foundation degree level qualification.

Our Recruitment

Our organisational design work identified a shortage of key corporate and specialist skills within the business to support our reorganised structure and deliver our strategic objectives. To help fill these the Agency appointed 65 people from outside the Civil Service, focusing on Project and Programme Management, Change Management, Finance, IT, and Analytics, where shortages were particularly acute.

Accredited Qualifications Received in 2013–14

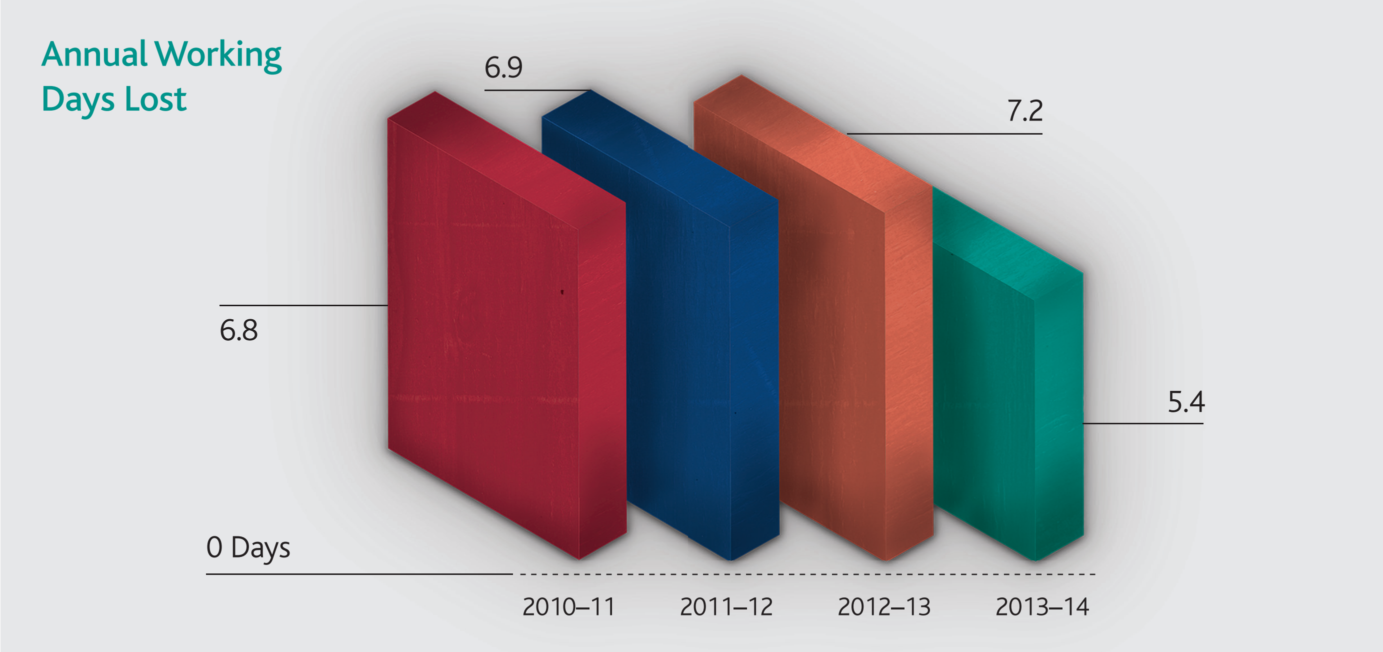


Our Equality and Diversity

We believe that diversity is important to the VOA's success and that organisations which have a range of skills, experiences and approaches are always stronger, fitter and more adaptable than organisations which have a single dominant culture. If we can make the most of the diversity we have and look to attract and encourage a wider range of people we will thrive and we will be able to understand our customers and their needs too.

We are committed to attracting and encouraging a wide range of people and to enable this we follow Civil Service wide policies on equality and diversity. This includes promoting equal opportunities regardless of gender, age, ethnicity, religion, disability or sexual orientation. More detail on the Civil Service approach to diversity can be found at www.civilservice.gov.uk.

As part of our commitment to diversity we operate a guaranteed interview scheme for anyone with a disability whose application meets the minimum criteria for the post. We also ensure that our managers support employees with disabilities and that our HR team provides advice on putting in place



reasonable adjustments. When implementing workplace changes we undertake Equality Impact Assessments to make sure we embed diversity and equality into everything we deliver. We match or exceed statutory requirements in offering our people a range of flexible working contracts and are continuing to review and improve the options that are available to our people.

Our Reward, Recognition and Performance Management

The Agency has aligned its grading system with Civil Service norms so our people are rewarded fairly for the roles they perform. In addition we are aligning our performance management processes with those used across the Civil Service. We adopted the new Civil Service Performance Management System and the Civil Service Competency Framework in April 2012. Our focus over the past year has been on using these to raise performance standards.

This included:

- Training all of our line managers on how to use the Competency Framework to set effective objectives.
- Ensuring effective validation of marking to provide consistency of performance markings.
- Introducing the Civil Service talent identification process for all staff at Grade 7 and above. This has supported the development of succession plans and enabled more targeted development planning and is being extended to other grades.

Our Health and Well-being

This year we have improved our sickness absence levels and our total average working days lost rate has decreased to 5.4 days per person per year from 7.2 in 2012–13. This was well within our target of not exceeding 7.0 days.

Our objectives in this area are to:

- Reduce sickness absence by managing attendance effectively.
- Encourage managers and employees to take action when health and well-being are at risk.

- Take a work-focused approach to minimise the impact of ill-health on an employee's attendance.

To help us to deliver against these we became an early adopter of the new Civil Service Attendance Management Policy in July 2013.

Our Health and Safety

At year end we had successfully implemented 28 of the 29 recommendations[6] of an audit of health and safety management commissioned by the Board and carried out by HMRC's Occupational Health, Safety and Well-being team during the year.

Some of the key measures we have introduced include:

- Appointing a Health and Safety Board Champion.
- Publishing a new framework of responsibilities.
- Ensuring all our people completed the mandatory Health and Safety e-Learning.
- Refreshing our Health and Safety homepage and updating our Personal Protective Equipment guidance.

During the year we also published a number of reminders on the importance of reporting incidents and near misses. In addition, the Agency has recently purchased the Safety Climate Tool from Health and Safety Laboratory, an Executive Agency of the Health and Safety Executive. The tool is an online survey that will help us measure our safety culture during 2014–15 and will provide an evidence base for future improvements.

There were no reportable injuries under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995), although 99 non-reportable injuries were recorded during the year. More detail on how we have managed this risk is included in the Governance Statement.

6. The outstanding recommendation of the health and safety management review was implemented on 7 April 2014.

Our Sustainability

This year we have:

1. Installed modern energy efficient lighting as part of a number of major office refurbishments, following on from the pilots we ran in 2012–13.
2. Improved levels of governance in procurement to ensure we purchase goods and services from suppliers who have demonstrated that they value sustainability.
3. Regularly reviewed our activities to identify and improve their environmental impact.
4. Monitored and reported on progress against the Cabinet Office's cross-government Greening Government Commitments.

This year we have continued to ensure that our activities and operations are, as far as practicable, environmentally, socially and economically sustainable.

To support this we have developed a new working partnership with our sponsor department HMRC to share both resources and best practice. We:

- Ensure that we consider sustainability as part of planning and decision making.
- Support our clients in other departments in developing policies that incorporate sustainability.
- Raise our people's awareness of our sustainable operations agenda across the Agency.

Our Performance

In our Carbon Abatement plan we estimated we could save at least 204 carbon tonnes in energy usage. During 2013–14 we have saved 619 carbon tonnes. This saving is due to estate rationalisation and a reduction in travel emissions.

We have put in place a number of practical measures which will help the VOA to reduce its carbon footprint, including:

- Gathering more detailed travel data which will enable us to target those business units where levels of travel are highest.
- Initiated a project to install programmable timers on our hot water boilers so that they only use electricity during normal office hours.

- Planning to remove portable electric fan heaters and to replace all kettles with modern efficient hot water boilers. These initiatives have not yet been delivered across all of our sites and will be a target carried over into 2014–15.

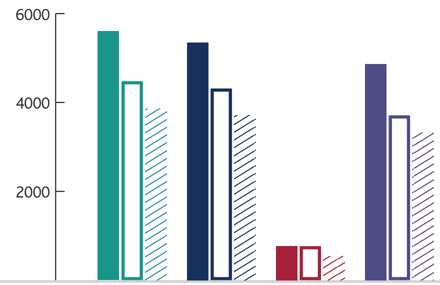
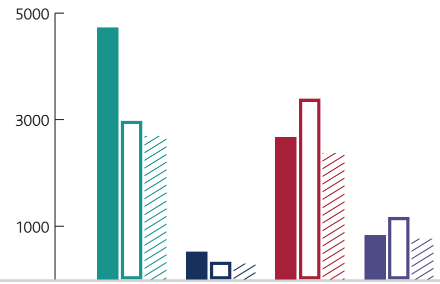
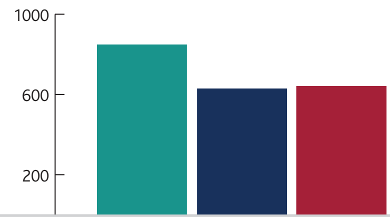
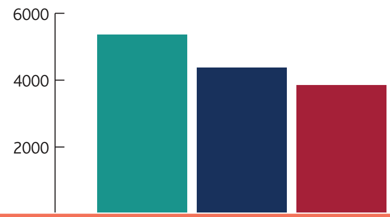
Our Plans for the Future

Our estates transformation will play a large part in enabling us to meet our targets for reducing carbon emissions. At a practical level this will include:

- Implementing a new user-friendly video conferencing system across 19 locations to reduce the need for travel.
- Using the new data that we are capturing on travel within specific business streams to target areas that could be reduced.
- Continuing with our plans to remove kettles and fan heaters.
- Continuing to incorporate sustainable options in our major estates projects.

Greenhouse Gas (GHG) Emissions

The Greening Government Commitment is to achieve a 25% reduction in carbon emissions by 2015, from a 2009–10 baseline.

Greenhouse Gas Emissions		2011–12[7]	2012–13[8]	2013–14	Graphical analysis
Non-Financial Indicators (000's tCO2e)	Total gross emissions	5,604	4,479	3,860	
	Total net emissions	5,346	4,315	3,716	
	Gross emissions Scope 1 (direct)	738	768	538	
	Gross emissions Scope 2 and 3 (indirect)	4,866	3,711	3,322	
Related Energy Consumption (000's kWh)	Electricity: Non-Renewable	4,731	2,980	2,686	
	Electricity: Renewable	525	331	298	
	Gas	2,668	3,395	2,376	
	Oil	835	1,171	758	
	Whitehall District Heating	–	–	–	
Financial Indicators (£'000)	Expenditure on Energy	850	629	643	
	CRC License Expenditure	–	–	–	
	Expenditure on accredited offsets (e.g. GCOF)	–	–	–	
Expenditure on official business travel		5,367	4,370	3,846	

Performance commentary

The Greening Government Commitment is to achieve a 25% reduction in carbon emissions by 2015, from a 2009–10 baseline. By 2013–14 we had reduced emissions by 42.7%. We plan to continue reducing our emissions by rationalising the estate and monitoring travel.

Controllable impacts commentary

The main direct impacts for the Agency are not just related to consumption of electricity, gas and oil. The Agency operations involve a significant amount of travel. We anticipate the future delivery of estates changes will continue to deliver significant savings. To reduce travel emissions the Agency is introducing SMART room video conferencing technology into 19 of our current locations during 2014–15. There are further plans to expand this to all desk top PCs in 2015–16.

Overview of influenced impacts

We are continuing to collaborate with our PFI accommodation provider Mapeley and our sponsor department HMRC to examine opportunities to reduce greenhouse gas emissions and improve our sustainability performance.

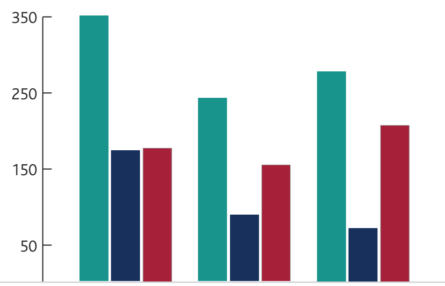
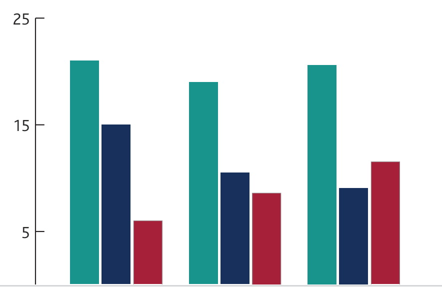
7. The figures for 2011–12 and 2012–13 have been amended due to retrospective changes made to the electricity conversion factors after the end of last year's reporting.
8. See footnote above.

Waste

Our total waste has increased over the year but the volume of reused/recycled waste has increased significantly.

The increase in waste results from our estates rationalisation programme which has driven a review of the storage and subsequent disposal of paper records across a number of sites.

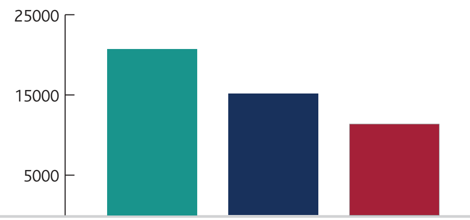
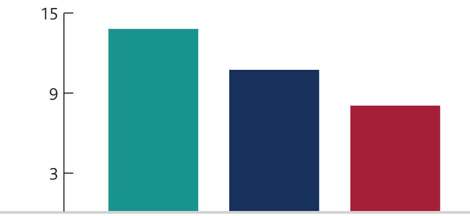
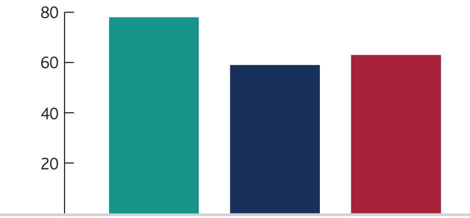
Our total waste output has risen by 14.5% but significantly the landfill percentage has still been reduced by almost 20%. The level of recycling has increased by 34%.

Waste			2011–12	2012–13	2013–14	Graphical analysis
Non-Financial Indicators (tonnes)	Total waste		350	242	277	
	Hazardous waste	Total	–	–	–	
	Non-hazardous waste	Landfill	173	88.2	71	
		Reused/Recycled	176	154	206	
		Incinerated with energy recovery	–	–	–	
		Incinerated without energy recovery	–	–	–	
Financial Indicators (£'000)	Total disposal cost		21	19	20.61	
	Hazardous waste	Total	–	–	–	
	Non-hazardous waste	Landfill	15	10.5	9.08	
		Reused/Recycled	6	8.6	11.53	
		Incinerated with energy recovery	–	–	–	
		Incinerated without energy recovery	–	–	–	

Use of Resources

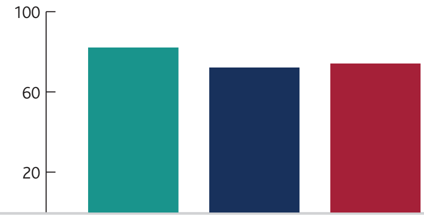
Water

We reduced our water consumption by 25% over the last 12 months. This figure reflects not only savings from our reduced estate but also a repair of a major underground water leak at one of our locations. This year we will be collaborating with HMRC to identify strategies that will support behavioural changes for 2014–15. As part of our aim to improve staff awareness we will target sites with excessive usage with support from our soon to be introduced green volunteers.

Finate Resources Consumption – Water			2011–12	2012–13	2013–14	Graphical analysis
Non-Financial Indicators (m3)	Water Consumption (Office Estate)	Supplied	20,722	15,161	11,373	
		Abstracted	–	–	–	
Non-Financial Indicators (m3)	Water Consumption (Office Estate)	Per FTE	13.8	10.74	8.06	
Financial Indicators (£'000)	Water Supply Costs (Office Estate)		78	59	63	

Paper

After making a significant reduction of 10.9% in our paper usage in 2012–13, we have been unable to maintain this saving in 2013–14. Although our usage of paper has increased by 5.5% our future plans to implement digital by default, our IT modernisation programme and our continuing drive on behavioural change should improve the performance next year.

Resource Consumption – Paper		2011–12	2012–13	2013–14	Graphical analysis
Non-Financial Indicators (A4 Reams Equivalent)	Copier Paper	35,305	31,461	33,191	
Financial Indicators (£'000)	Copier Paper	82	72	74	

Our Procurement

Our Procurement Framework promotes the principles of sustainable procurement to generate social, economic and environmental benefits and opportunities.

The framework:

- Ensures we comply with government sustainability requirements.
- Outlines the minimum standards we expect from all our suppliers.
- Covers our suppliers' approach to a range of sustainability issues relating to their environmental, social and ethical performance.

The framework encourages sustainable considerations as standard, for example environmental accreditations, reductions in costs and use of sub-contractors to support the Small and Medium-sized Enterprise agenda. This will ensure that our procurement and our contract documents all take into account an evaluation of sustainability considerations.

Our Construction

We have an agreement with Mapeley, who manage the majority of our accommodation, which complies with HMRC's environmental requirements and includes a number of conditions which ensure that any new construction or refurbishment is sustainable.

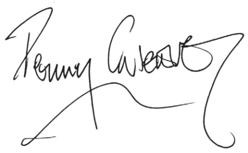
At all times Mapeley will, so far as is reasonably practicable:

- conserve resources;
- reduce pollution;
- protect bio-diversity; and
- support the Government's vision of sustainable development.

Our People

In 2014–15 we will work to improve awareness of the impact our people can have on our sustainability by adjusting their behaviour. We are looking to recruit green volunteers in every location to publicise initiatives our people can support to help reduce their environmental impact.

Our continuing estate rationalisation programme will allow us to begin to meet the accommodation related aspirations in the Civil Service Reform Plan. We aim to introduce improved lighting, better controlled heating levels and better ergonomic design.



Penny Ciniewicz
Chief Executive
11 June 2014

Directors' Report

Our Directors
(as at 31 March 2014)

Penny Ciniewicz
Chief Executive

Dyfed Alsop
Director, Strategy, People and Change

David Ede
Director, People and Engagement

Mary Hardman
Director, Non-Domestic Rating

Helen Kettlewell
Director, Non-Domestic Rating – Operations

Philip Macpherson
Chief Digital and Information Officer

Craig Pemberton
Chief Finance Officer

Thomas Lindie
Director, Council Tax and Housing Allowances

Chris Sharp
Director, Property Services

David Subacchi
Director, National Specialist Unit

Niall Walsh
Chief Operating Officer and Chief Valuer

Adrian Ball
Director, Information and Analysis

Non-Executive Directors

Janet Grossman

Alex Jablonowski

Elizabeth McLoughlin CBE

Directors who left during the year

Christina Duncan – Director, People and Engagement (left 7 June 2013)

Guy Richardson – Director, Council Tax and Housing Allowances (left 30 April 2013)

Directors who started after year end

Janet Alexander – Chief People Officer (started 7 April 2014)

Our Sickness Absence Levels

This year we have improved our sickness absence levels and our total average working days lost rate has decreased to 5.4 days per person per year from 7.2 in 2012–13. For more information on how we achieved this and our objectives in this area, see 'Our People' in the Strategic Report.

Our Pensions

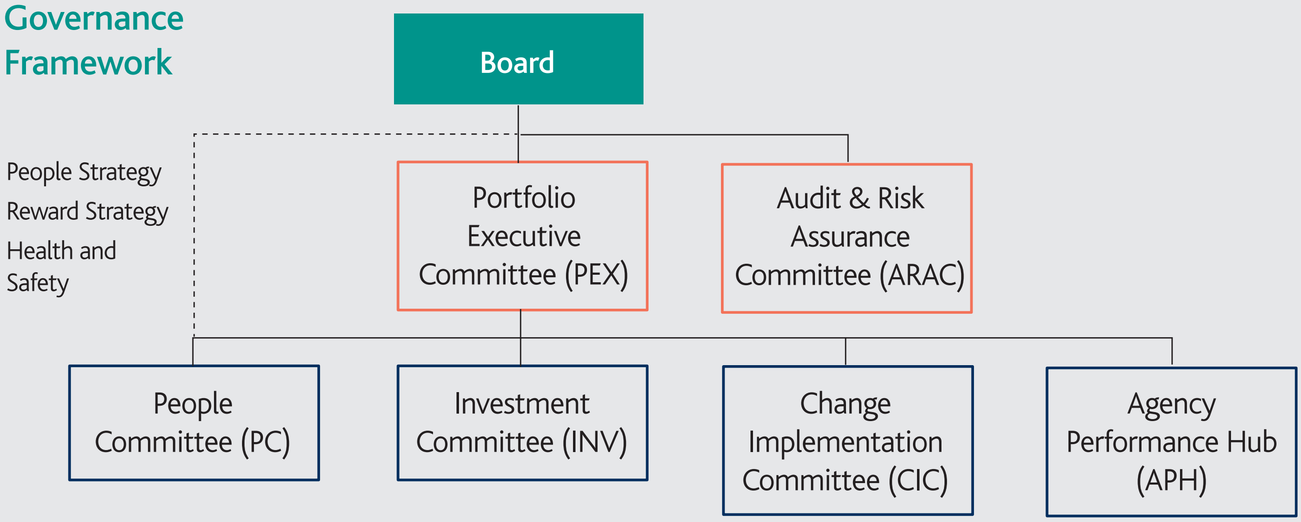
For information on how our pension liabilities are treated in the accounts and more details on the pension schemes we operate, please see the Remuneration Report and the Notes to the Accounts.

Penny Ciniewicz
Chief Executive
11 June 2014

Governance Statement

This governance statement provides a summary of our arrangements for the stewardship of the VOA, including how we manage risk and how we comply with the 2011 Code of Good Practice. This statement also sets out those areas in which we have not been able to follow the Code.

The Agency's Governance Framework



The Board

As Chief Executive and Accounting Officer I have overall responsibility for the VOA and, as we are an executive agency, I am the Chair of the Board. The Board is a decision making body which supports me by scrutinising and advising on the following areas:

- Strategic clarity;
- People (reward and recognition);
- Financial reporting and controls;
- Performance (approving key performance indicators and reviewing performance exceptions);
- Strategic risks;
- External stakeholder relationships;
- Corporate governance; and
- Key policies.

Our Board is supported by six Committees. This was reduced from nine within the year. More details of their work and the reasons for this reduction can be found later in this statement. The VOA Board Operating Framework sets out in full the role of our Board and the responsibilities of its members, including my responsibilities as Chair.

Board Attendance

Name	Position	Attendance
Penny Ciniewicz (Chair)	Chief Executive	10/10
Dyfed Alsop	Director, Strategy, People and Change	10/10
David Ede[9]	Director, People and Engagement	6/6
Janet Grossman	Non-Executive Director	9/10
Mary Hardman	Director, Non-Domestic Rating	10/10
Alex Jablonowski	Non-Executive Director	9/10
Philip Macpherson	Chief Digital and Information Officer	10/10
Elizabeth McLoughlin CBE	Non-Executive Director	10/10
Craig Pemberton	Chief Finance Officer	9/10
Niall Walsh	Chief Operating Officer and Chief Valuer	10/10

Board Composition

Our Board meets every month except for August and December. The other members of the Board are six Executive Directors and three Non-Executive Directors.

I have not appointed a lead Non-Executive Director as all of our Non-Executives have unfettered access to me and they may all feedback on my performance annually to the Chief Executive of HMRC. The Non-Executives have agreed that, as they have adequate opportunities to challenge areas of concern, they will not provide a separate report within this annual report.

The only change to Board membership in-year was the appointment of David Ede as Director, People and Engagement.

Our Board gender balance remains 40% women and 60% men.

Managing Conflict of Interests

At the beginning of every Board meeting all members are asked to declare any potential conflict of interests. These are noted in the minutes, along with the action taken to manage any conflicts. Members are asked to review and update their conflict of interests record annually.

What has the Board focused on during 2013–14?

Our Board agreed that it would focus on the following key areas of business in 2013–14:

- Blueprint – the Agency's long term change programme;
- Major investment decisions, e.g. IT business cases;
- Medium term financial plans;
- Timely and effective resourcing to plans;
- Major people propositions, e.g. pay and grading;
- Estates strategy;
- Strategic risks and issues; and
- Significant risks or issues identified by the Agency Performance Hub.

Within these areas the Board discussed:

- Scrutinising progress on NDR appeal clearances. This included providing a steer on the appropriateness and robustness of the plans to meet the Chancellor's Autumn Statement 2013 commitment to resolve 95% of NDR appeals outstanding as at 30 September 2013 by July 2015.

9. Appointed to the Board on 26 September 2013. Janet Alexander, who joined the VOA on 7 April 2014 as Chief People Officer, replaced David Ede on the Board from 30 April 2014.

- Close monitoring of the Agency's in-year forecasting and taking action where required to ensure that actual spend was not higher than the agreed budgets. This was particularly important as the Agency's 2013–14 agreed budget was reduced by £4m by DCLG just before the commencement of the financial year. This was owing to the Chancellor of the Exchequer's announcement on 20 March 2013 that all government department budgets were being reduced by 1%.
- Approval of the approach to the pay award for 2013–14 and the move from the historic VOA grading system to the Civil Service wide system.
- Approval of the Agency's Location and Accommodation Strategy.
- Approval of a new approach to the Agency's risk appetite which included reducing the number of risk categories and risk appetite levels.

Our Board has continued to hold meetings in locations other than our Wingate House headquarters, incorporating visits to local offices by Board members the day before the Board meeting. In September we visited the North-West, including our Liverpool, Manchester, Crewe, Stoke and Preston offices. In March we visited the VOA's Bromley, Wimbledon, Tower Hamlets, Barking and Enfield offices.

During the year our Board agreed that it should formally recognise and celebrate the success of VOA teams at its meetings and actively learn from their achievements. To date, we have received presentations from Housing Allowances, Network Support Offices, and Information and Analysis teams. Our Board values these opportunities and we will continue to invite teams to celebrate success with the Board in 2014–15.

Our Board's Performance and Effectiveness

The Board agreed focus areas and behaviours for 2013–14 and these are sent out with each Board pack. At the end of every meeting we undertake a review against these two sets of criteria with the aim of continually making improvements to the Board's effectiveness.

To improve the standard of papers presented to Committees, and therefore the decision making process, training has been provided for key staff who write papers for the Board and its Committees. Additionally, a revised submission template has been introduced.

Our collective knowledge and effectiveness as Board members was developed throughout the year through several workshops, such as a workshop on Agile practices and principles in the context of IT development.

When the Board formally assessed its performance and effectiveness against agreed focus areas it concluded that:

- It had made reasonable progress against its actions, focus areas and behaviours.
- Its decision making process could still be further improved by the submission of better quality papers.
- Focus areas for 2014–15 would concentrate on the following five key areas:
  - Blueprint, in particular IT and Estates;
  - Revaluation 2017;
  - NDR Reforms;
  - Key stakeholder management; and
  - Leadership/engagement.

Audit and Risk Assurance Committee (ARAC)

During the year the number of Non-Executive Board Directors sitting on ARAC was increased by one to two in line with the 2011 Code of Good Practice.

ARAC Attendance

Name	Position	Attendance at meetings
Alex Jablonowski (Chair)	Non-Executive Director	5/5
Elizabeth McLoughlin CBE (Deputy Chair)[10]	Non-Executive Director	1/2
Alison Hewett	Non-Executive Member	5/5
Ken Hunt	Non-Executive Member	5/5
Angela Marshall[11]	Non-Executive Member	4/5
Gary Reader[12]	Non-Executive Member	4/5

Changes to our Governance Framework

In 2012–13 we commissioned Internal Audit to review the effectiveness of our Committee structure and governance. Their findings indicated that the number of Committees was excessive in relation to the size of the Agency and that there was some overlap of purpose and remit.

To address this, our Chief Finance Officer led a review of the VOA's Committee structure in early 2013–14. Extensive consultation was carried out and the revised structure (as shown at the beginning of this statement) began to be implemented from September 2013. The new governance structure has three fewer Committees, allowing for clearer governance routes and providing greater clarity around decision making.

During September 2013 and March 2014 further work was undertaken to refine the Terms of Reference for our new Committees.

10. Appointed 17 September 2013.
11. Appointed 1 June 2013.
12. Contract expired 20 February 2014.

Committees' Purpose and Issues Covered (Effective from September 2013)

Sub Committees of the Board			
Committee	**Portfolio Executive**	**People**	**Audit and Risk**
Purpose	The senior executive decision making body overseeing the whole of the Agency's work.	Advises the Board on the design and implementation of the Agency's people and reward strategies, as well as health and safety in the organisation. The Committee also reviews and approves workforce change activity.	Advises and supports the Accounting Officer and Board in their responsibilities for risk, control and governance.
Chair	Dyfed Alsop (Director, Strategy, People and Change)	David Ede (Director, People and Engagement)[13]	Alex Jablonowski (Non-Executive Director)
First meeting	16 October 2013	14 November 2013	17 September 2013
No. of meetings	12	1	3
Highlights	• Agreed how the VOA's long term change programme would be implemented. • Approved organisational designs for Housing Allowances and Finance. • Approved work to complete Health and Safety Internal Audit recommendations. • Approved the Senior Information Risk Owner's report on Information Assurance.	• Reviewed the Organisation Design Strategy (key strand of People Strategy), Talent Management Strategy, and Learning and Development Strategy.	• Undertook deep dives into the Long Term Change Programme and the Strategic Risk Register. • Reviewed the annual Fraud Risk Assessment and Whistle-blowing policy. • Assured the Internal Audit plan for 2014–15 and recommended to the Board for approval. • Reviewed the Risk Management pilot results. • Recommended the 2013–14 Annual Report and Accounts to the Chief Executive for signing.

13. Janet Alexander, Chief People Officer, from 7 April 2014.

Committee	Investment	Change Implementation	Performance Hub
Purpose	Supports the Chief Finance Officer and is responsible for the development, review and monitoring of the Agency investment and finance strategy, recommending it to the Board for approval.	Responsible for implementing and embedding into the business the changes agreed by Portfolio Executive Committee.	Reviews in-year performance against key performance indicators and agrees any required corrective action.
Chair	Craig Pemberton (Chief Finance Officer)	Niall Walsh (Chief Operating Officer and Chief Valuer)	Craig Pemberton (Chief Finance Officer)
First meeting	10 September 2013	20 November 2013	23 September 2013
No. of meetings	8	5	7

Highlights	• Closely monitored in-year forecasting.
	• Considered and challenged 2014–15 Planning bids.
	• Agreed Estates, IT Infrastructure, IT Modernisation and Intranet Refresh Strategic Outline Cases.
	• Approved a revised Investment Appraisal process and various other financial requests, such as for the Housing Allowances Automated Lettings Information Acquisition System.
		• Approval of implementation approaches for Council Tax Quality Assurance and CR15s.
		• Approval of the Housing Allowances Organisational Structure implementation approach and plan.
		• Approval of the Health and Safety Audit Recommendations deployment schedule.
		• Approval of the phased implementation approach to the centralisation of Hard Copy Interested Person Proposals in the Network Support Offices.
		• Approval of the implementation plan for the Continuous Improvement trials.
			• The work of this Committee has evolved since its initiation and began with making sure the right measures were in place to track the Agency's delivery of its vision and strategic objectives.
			• Specific performance items that have been monitored on a monthly basis include:
			  • People elements, e.g. sick absence, Health and Safety, diversity.
			  • Financial performance.
			  • Operational performance, e.g. NDR appeals clearance, NDR and CT elapsed time.

Committee Structure in place from April 2013 to September 2013

The Audit and Risk Committee was renamed the Audit and Risk Assurance Committee in the September 2013 Committee meeting but its purpose and remit remain unchanged and it is not included here. It met twice as the Audit and Risk Committee in 2013.

Committee	Design Committee	Information Committee	Investment and Finance Committee	People and Engagement Committee
Purpose	Approved business designs which are imperative to support the future demands of the Agency.	Set information and data handling policy and strategy.	Approved significant investment proposals and business cases.	Advised the Board on people related strategic policies and processes.
Chair	Dyfed Alsop (Director, Strategy, People and Change)	Philip Macpherson (Chief Digital and Information Officer)	Craig Pemberton (Chief Finance Officer)	Christina Duncan (Director, People and Engagement)[14]
No. of meetings	3	2	4	2

Highlights	• Approval of the move to professionalise telephony management.
	• Approval of changes in the IT Organisation Design.
		• Approval of the plans for the management and storage of the Agency's hard copy records.
		• Approval of a location-specific building security policy.
		• Approval of secure off-site storage of IT back-up tapes.
		• Review of the Agency's Security Incident Reports.
			• Approval of :
			  ◦ The IT Business Applications Strategic Outline Case.
			  ◦ The Estates Strategic Outline Case.
			  ◦ The IT infrastructure Strategic Case.
			  ◦ The procurement of the Automated Lettings Information Acquisition System.
				• Approval of the implementation of the new Civil Service wide Attendance Management policy.

14. Left the VOA on 7 June 2013.

Committee	Performance Committee	Programme Board	Senior Appointments, Remuneration and Talent Committee	Workforce Change Committee
Purpose	Assured operational performance against business objectives.	Assured the delivery of the VOA2015 Change Programme.	Scrutinised Directors' performance and our approach to talent management and succession planning at Director level and feeder grades.	Focused on people-related aspects of organisational change.
Chair	Niall Walsh (Chief Operating Officer and Chief Valuer)	Niall Walsh (Chief Operating Officer and Chief Valuer)	Penny Ciniewicz (Chief Executive)	Dyfed Alsop (Director, Strategy, People and Change)
No. of meetings	4	3	1	6
Highlights	Discussions were held around various Agency business performance areas such as: • NDR appeal clearances • Business Rates Retention • Leadership and engagement • Capability • IT • Finance • Council Tax elapsed times • Council Tax increase in receipt of proposals • NSO productivity.	• Approval of the CT working docket and CT quality assurance projects. • Steer provided around the matching of Stamp Duty Land Tax transactions.	• Discussed and agreed 2012–13 performance markings for SCS, so these could be submitted to HMRC's Main Pay Committee. • Considered talent management for SCS and fed into HMRC.	• Considered requests for external recruitment and recommended whether the Chief Executive should approve recruitment freeze exceptions (or seek approval from HMRC for non-frontline or specialist roles). • Approved the HR approach to office closures in the East of England. • Considered a new loans and secondment policy. • Decided whether redeployment pool staff should formally be offered roles, where they had undergone formal trials.

Governance and Controls

Governance Culture

Our governance culture determines the effectiveness and efficiency of our internal policies, procedures and controls to effectively manage and mitigate our risks. It includes the integrity of our people and systems to:

- Deliver our objectives.
- Comply with Managing Public Money.
- Make sure that we adhere to our propriety, regularity and value for money principles.

Each year I require my Directors to sign a letter of delegated authority. This confirms the resources they are accountable for and their appropriate levels of delegated authority including financial, project and commercial authorities.

Internal Controls and Stewardship

We have further developed our approach to our Risk Assurance Framework. This framework aims to provide a cohesive overview of the organisation's risk profile and the adequacy of sources of assurance and controls. It is supported by the HM Treasury Assurance Frameworks guidance, Three Lines of Defence model which helps identify and understand the different sources of assurance. This year we have started to develop our people's knowledge and expertise by introducing this framework and defence model at senior levels.

The efficiency and effectiveness of our internal controls is essential to maintaining good stewardship of the business. Our continued scrutiny this year includes the following:

- The publishing of all spend data over £25k and all contracts over £10k in accordance with transparency best practice.
- The publishing of a new Agency Whistle-blowing policy that reflects recent legislative changes and improves the clarity of what constitutes a whistle-blowing complaint.
- Aligning all Investment Committee approvals to strategic, critical business or legislative needs.
- The implementation of an Agency Strategic Deployment Matrix and the introduction of an Agency Performance Hub. More detail on our Performance Hub is included under 'Our Capabilities'. This approach is now being rolled out to business stream level.

Near the end of the year Internal Audit provided two reports where significant action was agreed to reduce our risk exposure to within tolerance. One concerned delivery of the Agency's long term change programme, the other Disclosure of Information. In relation to the change programme, we had already taken some action to address some of the issues identified, including developing a single approach to costs and benefits across the programme, establishing programme documentation, embedding Risk Management and producing a dependencies map. We have now acted on the review's recommendations that we appoint programme and sub-programme Senior Responsible Officers and Leads with clear accountabilities and responsibilities and that the sub-programme Leads update their delivery plans for the next two years including expected benefits and costs. In the coming year we will be acting on the third and final recommendation by establishing a Programme Management Office for the programme. Actions linked to strengthening our arrangements for Disclosure of Information have been instigated or delivered.

Managing Risk

This year we have made a number of improvements to the way we manage risk. In line with the amendments to the Board and Committee structure, our Board has reviewed and refined the Strategic Risk Register.

We have simplified our risk appetite statement by rationalising the number of business categories we use and improving the clarity of the category descriptions. This statement defines the amount and type of risk we are willing to pursue, retain or take. The risk register template has been redesigned following a formal review with a number of teams within the Agency. Together these documents provide simplified and more user-friendly guidance to support the management of risk. They have been adopted at all levels.

We have continued to promote improvements in risk management and in quarter three we completed a pilot of a Risk Management Maturity Model (RMMM) in three key areas of the business. The RMMM is a structured methodology for assessing the level of maturity of the Agency against five key criteria in relation to its approach to risk management and controls. The pilot established that the evidence from the RMMM assessment can be used to benchmark the Agency's risk management capability and to develop a targeted improvement plan that builds on our strengths and addresses our weaknesses.

The Annual Assessment of Fraud Risk was presented to ARAC. This assessment considers the adequacy of our systems and controls for identifying and preventing fraud. The Financial Systems Risk Review (FSRR), a cross-government initiative, has also played an essential part in assessing the potential for fraud in our systems. This was completed in February 2014. This FSRR has enabled the Agency to identify a number of issues and has provided the opportunity to improve controls and processes. Each of the Agency's operational and corporate teams reviewed has produced an action plan which is being regularly monitored to ensure that financial risks are mitigated. All future work on financial risks will be incorporated into the ongoing management of the Agency Fraud Risks. All new systems will be reviewed for potential fraud risks.

HMRC Internal Audit undertakes an extensive programme of reviews on my behalf under a Service Level Agreement arrangement. These reviews are based on key risk areas and are agreed with the relevant Director before the final programme is assured by the Audit, Risk and Assurance Committee and approved by the Board. The Chief Finance Officer and I receive copies of all the reports and the Audit and Risk Assurance Committee (ARAC) reviews a quarterly summary report and any red rated reports. Areas of potential higher risk are also reviewed separately by the ARAC as individual deep dives. This year these covered our Long Term Change Programme, IT, and our Strategic Risk Register.

It is not possible to eliminate or entirely mitigate all risk. Compliance with our policies, processes and controls can only provide a reasonable level of assurance and the checks that take place annually include:

- Mandatory e-learning for all our people on Security, Fraud Awareness, Health and Safety and VOA Business Awareness.

- Additional e-learning on the new simplified security classification system.
- Business continuity and disaster recovery plans for all offices.
- Annual programme of asset management compliance audits and a year-end asset verification exercise.
- Controls on the transfer of personal data to outside organisations, for example, pension data to My Civil Service Pension and the Local Government Pension Fund.
- Compliance with the Cabinet Office Spending Controls including procurement, recruitment, marketing and technology.
- Mandatory Non-Domestic Rating (NDR) Transitional arrangements and independent peer quality assurance checks on cases where we make adjustment to the rating list.
- Annual audit assurance programme of Property Services reports and processes in place for monitoring cash flow forecasts and controls for Property Services work in progress.
- Maintaining and updating our Bribery Act and Whistle-blowing arrangements and ensuring all staff are aware of the process.

Information and Security Management

As a result of the streamlining of the Agency's Committee structure, the governance of information assurance now sits with the Portfolio Executive Committee (PEX). The Agency's Senior Information Risk Owner (the Chief Digital and Information Officer) chairs all PEX items relating to information assurance.

Management of information was improved through a programme of role-specific training for all Information Asset Owners, including workshops on the practical application of their role within the Agency. There are now clear processes and controls in place which cover the governance and management of data transfer, proactive incident management and risk-based technical and physical access controls.

During the year Internal Audit carried out a number of reviews into aspects of security and business continuity to provide an independent assessment of the practical application of policy. Following their recommendations a number of changes were made to enhance access controls and improve business continuity and disaster recovery solutions.

We have agreed a new accreditation strategy with HMRC's Security and Information Directorate and in the coming year responsibility for the management of the accreditation of our systems will be moved in-house from HMRC in a phased approach.

Working closely with HMRC and Cabinet Office we will implement the new Government Security Classification Policy from 2 April 2014. This will align us with the Civil Service Reform Plan's aim of a more cost-effective and proportionate approach to security.

In 2013–14 we made use of the Information Assurance Maturity Model (IAMM), the Security Policy Framework and Information Assurance Standard 6 to produce the annual Agency security risk management overview (SRMO) report for inclusion in the HMRC SRMO report for the Cabinet Office. Our approach was endorsed by Internal Audit and our IAMM assessment reflected an improved security maturity level.

The availability of information from ASPIRE (Acquiring Strategic Partners for the Inland Revenue) to monitor and assure delivery continues to be a concern which we monitor, in part through the HMRC IT Security Board.

Performance Data

Following our Committee restructure our Senior Executives now meet monthly at the Agency Performance Hub to discuss progress against the VOA's key performance indicators. In addition, we have developed a Strategic Deployment Matrix that we will use going forward to help link performance to our strategic aims and objectives.

We continue to develop how we use our data and build our analytical understanding to develop a new strategic level Agency Performance Framework. This has required us to enhance our understanding of the business' end to end processes and review our performance measures. Once produced, the new Framework will improve the quality of the information the Board receives.

In 2013–14 we recognised that the Board needs more consistent and relevant data, showing trends and patterns of performance and outcomes, and we are now investing in strengthening our data and our analytical capability, which will include creating a Data Strategy, in line with the Government's published information principles. This Strategy will put in place structures for management information, business intelligence, including analysis to support operations and decision making, and wider access to data for the VOA. The framework will be built around data acquisition (accessing data across diverse sources in a cost-effective way), data management (ensuring data is fit for purpose across multiple uses), data exploitation and analysis (supporting evidence-based decisions) and data sharing (keeping data secure but making data publicly available where possible).

Through our engagement with Billing Authorities during the year we became aware that they have a growing need for more statistical information. We released the first experimental statistics on NDR in April, May and November 2013. These releases include statistics on formal challenges and reports made against properties in both the 2005 and 2010 local rating lists. These are shown at quarterly intervals and are broken down to national, regional and local authority levels.

However, we also understand that Billing Authorities require more granular and detailed levels of data for their rates retention purposes. We set up a taskforce in August 2013 to find alternative ways to supply Billing Authorities with more detailed information and delivered additional datasets for rates retention purposes in September and October 2013.

We have now set up a programme of work to consult all our data users, including academics, industry experts and central and local government bodies, on our official statistics. We want to develop our official statistics to better meet user requirements and to achieve the quality standards of National Statistics, as set out by the UK Statistics Authority.

Business Critical Analysis

This year we have set up a new professional team within our Information and Analysis function bringing together some of our pre-existing functions of analysis and customer strategy and insight, so that we make the best use of our data and we have robust evidence to support decisions.

Information and Analysis have a programme of work to develop a range of analytical products and services, some of which may prove to be business critical and these will be identified as part of the sign-off processes. We are ensuring that each has an accountable owner and quality assurance processes in place, for example, the elementary aggregates provided to the ONS that feed into the CPI and RPI. Formal quality assurance and sign-off processes, including a peer review system are under development but we have some good practice processes in place, including:

- Use of Peer Review.
- All analysis undertaken by qualified analysts with appropriate oversight.
- Clear sign-off procedures in areas such as Official Statistics and Freedom of Information requests/Parliamentary Questions.
- Other areas do have sign-off procedures, but these are not yet documented.

Principal Risks

Our principal risks include:

- We fail to realise the benefits from our IT modernisation programme due to a lack of resources, competing priorities or unclear deliverables. To mitigate this risk we have developed our technical and delivery capabilities, including employing external specialists where we have been unable to recruit from the Civil Service. We have also adopted best practice from across government, for example using Agile methodologies which implement IT improvements iteratively and which will establish an earlier timeline for benefits realisation. We will continue to focus our attention on building our capability in line with Civil Service reform.
- We fail to realise the benefits from our Agency Blueprint (transformation strategy) as a result of a lack of leadership capacity and capability. To mitigate this risk we have re-focused and changed our structure at director level so that we can invest in and strengthen the skills we recognise we need to deliver the change agenda effectively. In addition we are investing in building the leadership capabilities and skills at our most senior leadership levels and this activity will continue during 2014–15. We are maturing our approach to Portfolio Management so that we can effectively manage the breadth of change activity across the Agency.

- We fail to secure adequate resources to deliver the transformation necessary to live within reducing funding; the 2017 revaluation; and the business as usual needs of our clients. We will be negotiating funding for 2015–16 with clients during early 2014–15. Funding for future years cannot yet be agreed as it will fall within the parameters of the next Spending Review. To mitigate this risk we will be focusing on deepening our understanding of our cost drivers and improving financial planning in preparation for the next Spending Review. We will have a focus on the line of sight between inputs to outputs and outcomes and articulating the benefits of our transformation plans.
- We fail to anticipate and manage in a customer-focused way the business impacts from an increased and/or backdated non-domestic rates bill following an alteration to a rating assessment. As time passes from the start date for the current 2010 rating list, there is an increasing risk that historic alterations or new properties will result in some of our customers receiving a significantly backdated bill. In some cases this may go back as far as April 2010. We have no alternative but to maintain fair and accurate rating lists and act on information when it is brought to our attention. To mitigate this risk we are deploying a range of measures which include: actively engaging clients and sector representatives; giving advanced notice of significant changes to rateable values and in these particular cases allowing time for consultation before making the alteration to the rating lists; using risk and issue escalation procedures; and aiming to have clearer and more customer-focused communications.

- We fail to anticipate correctly the impact of the NDR appeals reforms, announced in the Autumn Statement by the Chancellor of the Exchequer, with a proposed implementation date of 1 October 2014. Until the reforms are implemented there understandably remains some uncertainty about the outcome. To mitigate this risk we will continue to work closely with our policy and delivery partners and all stakeholders. The creation of a new Rating Agents' forum is a good example of the steps that we are taking to supplement, refresh and enhance our already well-established liaison meetings and forums.

- We fail to increase our people's engagement which could potentially impact upon productivity or the quality of service for our customers over time, particularly in Council Tax where our people's engagement has been especially influenced by the outcomes of our recent pay and grading review. We will continue to devote a considerable amount of our senior leaders' time and energy to directly engaging with our people. To mitigate this risk we have involved our people in developing new quality and assurance controls to better manage customer outcomes in Council Tax. Additionally, we have begun to pilot Continuous Improvement ways of working in two of our key sites. These changes put improvement suggestions by our people at the core of the approach.
- We fail to continue to build relevant subject matter expertise at the required pace due to market pressures. To mitigate this risk we will continue to build the skills of our professional cadre and monitor our success in filling business critical posts to establish what additional action, if any, we might need to take to attract key individuals to the Agency.
- We fail to keep pace with growing demand for our data which may adversely impact quality and/or our reputation. To mitigate this we are working towards achieving national statistics accreditation which will certify the quality of the data we publish. Additionally, we regularly consult with our data users, including academics, industry experts and central and local government bodies, on their data requirements. This ensures that our resources are targeted at areas where they will provide most benefit to the user.
- We fail to fully comply with current Health and Safety requirements. To mitigate this risk our Chief Operating Officer acts as our Board Health and Safety Champion and he has been responsible for ensuring that the recommendations of a Health and Safety audit commissioned by the Board has been fully implemented in a timely manner. We will also be conducting surveys to better understand our people's attitudes towards Health and Safety and we will be working with them to drive further improvements on the back of the survey findings.

Assurance from Internal Audit

Public Sector Internal Audit Standards require Internal Audit to provide me, as the Accounting Officer, with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of our framework of governance, risk management and control.

Internal Audit base their opinion on four levels of assurance:

- Strong assurance
- Satisfactory assurance
- Limited assurance
- Weak assurance.

Internal Audit gave a satisfactory level of assurance on the Agency's governance, risk management and control, and a limited level of assurance on our overall programme governance and control. Opportunities to strengthen arrangements in this area have been identified and appropriate action is being taken.

Internal Audit are content this Governance Statement is consistent with their opinion.

Penny Ciniewicz
Chief Executive
11 June 2014

Remuneration Report

Directors' Remuneration

Executive Directors are members of the Senior Civil Service and are subject to the terms and conditions applicable across our sponsor department, HM Revenue & Customs (HMRC). HMRC determines their remuneration within Senior Civil Service pay policy guidelines. There is a separate remuneration committee within the Agency which inputs to performance moderation and objective setting but the Main Pay Committee in HMRC makes final decisions.

Specific objectives are set for the Executive Directors using the Senior Civil Service performance management processes. Objectives are regularly reviewed and formally reported on at the end of each year. The Chief Executive also has regular reviews with the Non-Executive Directors. The Chief Executive of HMRC reviews the performance of the Agency's CEO against objectives.

Contracts, Notice Periods and Termination Periods

The majority of our people, including the Executive Directors, are employed on a permanent basis and are subject to statutory and Civil Service conditions of service. The Non-Executive Directors are on renewable three year fixed term contracts, with the assumption that we will not renew their contracts more than once. We employ a small number of our people on short term contracts.

We did not make any awards to past managers this year or in the previous year.

We did not make non-cash awards to Board members this year or in the previous year.

Salary and Pension Entitlements

The following section details the remuneration and pension interest of our most senior people.

Salaries

These include:

- Gross salary;
- Overtime[15];
- Reserved rights to London weighting or London allowances[16];
- Recruitment and retention allowance; and
- Private office allowances and any other allowance to the extent that it is subject to UK taxation[17].

Bonus Payments

These are based on the performance level an individual achieves and are part of our appraisal process. The bonuses reported in 2013–14 relate to performance in 2012–13.

15. No such payments were made during 2013–14.
16. As per footnote above.
17. As per footnote above.

We pay performance-related pay and bonuses in line with the scheme which applies to the Senior Civil Service as a whole.

Benefits in Kind

The monetary value of benefits in kind covers any benefits an employer provides and HMRC treats as a taxable emolument. The benefits in kind in the tables on pages 58 and 59 for Board members relate to travel and subsistence expenses. Members incurred these expenses when it was necessary for them to be at a second or more permanent place of work.

Compensation/Third Party Payments

We did not make compensation payments to former senior managers this year or in the previous year.

We did not pay any amounts to third party entities for Directors' services this year or in the previous year.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 6.25% of pensionable earnings for classic and 3.5% and 8.25% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website:
http://www.civilservice.gov.uk/pensions.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV):

- is the actuarially assessed capital value of the pension scheme benefits which a member accrues at a particular point in time. (The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme); and
- is paid by a pension scheme or arrangement to secure pensions benefits in another pension scheme or arrangement, when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme;
- are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations; and
- do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

The pension figures shown relate to the benefits that individuals accrued as a result of their total membership of the pension scheme, not just their service in a senior capacity, to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement, which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued as a result of the member buying additional pension benefits at their own cost.

Real increase in CETV is the increase that the employer funds. 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.

Travel and Subsistence Reimbursements

Board members received payments to reimburse the out of pocket expenses they incurred in carrying out their duties as set out in the table on page 58.

Except where identified as such, the payments in the table on page 59 do not form part of remuneration.

Pay Multiples

The pay multiple of the remuneration of the highest-paid Board member compared to the average remuneration of workforce is in the table on page 58.

The banded remuneration of the highest-paid Board member in the Agency in 2013–14 was: £135–140k (2012–13: £135–140k).

This was 5.1 times (2012–13: 5.2) the average remuneration of the workforce, which was: £26,750 (2012–13: £26,438).

Total remuneration includes:

- Salary;
- Non-consolidated performance-related pay;
- Benefits in kind; and
- Severance payments[18].

It does not include employer pension contributions and the cash equivalent transfer value of pensions.

18. No such payments were made during 2013–14.

The ratio of the remuneration of our highest-paid Board member to the average remuneration of our people has decreased since 2012–13. This is largely due to the following:

- the total remuneration of our highest-paid Board member (the Chief Operating Officer and Chief Valuer) has remained the same as the previous year, £135–140k; and
- the average remuneration for the workforce has increased from £26,438 in 2012–13 to £26,750 in 2013–14.

In 2013–14:

- no (one in 2012–13) employee received remuneration in excess of the highest-paid Director.
- including severance, remuneration ranged from £14,500 to £135,000–140,000 (2012–13: £14,100 to £165,000–170,000); and
- excluding severance, remuneration ranged from £14,500 to £135,000–140,000 (2012–13: £14,100 to £135,000–140,000).

For comparison purposes we have estimated equivalent contractor salaries from their day rates. Where practical, we have taken into account the different terms that contractors have compared to civil servants.

The information in this table is subject to audit.

Board Members' Remuneration Information

	2013–14				2012–13			
	Salary £'000	Bonus Payments £'000	Benefits in kind (to nearest £100)	Total remuneration £'000	Salary £'000	Bonus Payments £'000	Benefits in kind (to nearest £100)	Total remuneration £'000
Penny Ciniewicz Chief Executive	100–105	10–15	–	115–120	100–105	5–10	–	110–115
Dyfed Alsop Director, Strategy, People and Change	70–75	5–10	–	80–85	70–75	5–10	–	75–80
David Ede Director, People and Engagement (from 3 June 2013)	70–75 (80–85 full year equivalent)	–	–	70–75 (80–85 full year equivalent)	–	–	–	–
Janet Grossman Non-Executive Director	10–15	–	–	10–15	5–10 (10–15 full year equivalent)	–	–	5–10 (10–15 full year equivalent)
Mary Hardman Director, Non-Domestic Rating	70–75	5–10	46,300 [1a]	126–130	65–70	–	34,700	100–105
Alex Jablonowski Non-Executive Director	10–15	–	–	10–15	10–15	–	–	10–15
Elizabeth McLoughlin Non-Executive Director	10–15	–	–	10–15	10–15	–	–	10–15
Philip Macpherson Chief Digital and Information Officer	80–85	–	–	80–85	85–90	–	–	85–90
Craig Pemberton Chief Finance Officer	95–100	–	–	95–100	0–5 (90–95 full year equivalent)	–	–	0–5 (90–95 full year equivalent)
Niall Walsh Chief Operating Officer and Chief Valuer	80–85	–	52,200 [1b]	135–140	80-85	–	54,900	135–140
Band of Highest-Paid Director's Total Remuneration (£'000)				135–140				135–140
Median Total Remuneration (to nearest £1)				26,750				26,438
Ratio				5.1				5.2

[1] The monetary value of benefits in kind covers any benefits provided by the employer and treated by HMRC as a taxable emolument.

[1a] The benefit in kind for the Director, Non-Domestic Rating, is £22,800 (2012-13: £20,500) for the payment of hotel and travel costs travelling to their second permanent workplace incurred from 1 April 2013 to 31 March 2014. Taxation and National Insurance contributions relating to these payments amount to £23,500 (2012-13: £14,200).

[1b] The benefit in kind for the Chief Operating Officer (COO) and Chief Valuer, is £27,800 (2012-13: £27,300) for the payment of hotel and travel costs travelling to their second permanent workplace incurred from 1 April 2013 to 31 March 2014. Taxation and National Insurance contributions relating to these payments amount to £24,400 (2012-13: £27,600).

The information in this table is subject to audit.

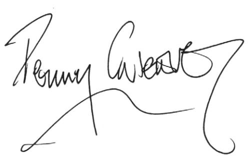
Board Members' Pensions

	Real increase in pension and related lump sum at pension age £'000	Accrued pension at pension age – as at 31-3-14 and related lump sum £'000	CETV at 31-3-13 £'000	CETV at 31-3-14 £'000	Real increase in CETV £'000
Penny Ciniewicz Chief Executive	0–2.5 plus 2.5–5 lump sum	20–22.5 plus 65.0–67.5 lump sum	352	386	8
Dyfed Alsop Director, Strategy, People and Change	0–2.5 plus 3.0–3.5 lump sum	10–12.5 plus 30–32.5 lump sum	112	132	9
David Ede Director, People and Engagement (from 3 June 2013)	0–2.5 plus 0–2.5 lump sum	0–2.5 plus 0–2.5 lump sum	19	20	(6)
Janet Grossman Non-Executive Director	–[1]	–[1]	–[1]	–[1]	–[1]
Mary Hardman Director, Non-Domestic Rating	0–2.5 plus 2.5–5 lump sum	25– 27.5 plus 80.0–82.5 lump sum	457	507	20
Alex Jablonowski Non-Executive Director	–[1]	–[1]	–[1]	–[1]	–[1]
Elizabeth McLoughlin Non-Executive Director	–[1]	–[1]	–[1]	–[1]	–[1]
Philip Macpherson Chief Digital and Information Officer	0–2.5 plus 2–2.5 lump sum	20– 22.5 plus 62.5–65 lump sum	283	306	6
Craig Pemberton Chief Finance Officer	0–2.5 plus 0–2.5 lump sum	12.5–15 plus 0–2.5 lump sum	170	203	16
Niall Walsh Chief Operating Officer and Chief Valuer	0–2.5 plus 3–3.5 lump sum	25–27.5 plus 77.5–80 lump sum	352	387	11

[1] Fee paid Non-Executive Director – not in Civil Service pension scheme.

The information in this table was not subject to audit.

	Non-taxable expenses not a part of remuneration (£)	Taxable expenses included in remuneration (£)	Total expenses reimbursed during 2012–13 (£)
Penny Ciniewicz	356	–	356
Dyfed Alsop	945	–	945
David Ede	604	–	–
Janet Grossman	604	–	604
Mary Hardman	1,068	22,803	23,871
Alex Jablonowski	–	–	–
Elizabeth McLoughlin	982	–	982
Philip Macpherson	288	–	288
Craig Pemberton	358	–	358
Niall Walsh	1,562	27,747	29,309



Penny Ciniewicz
Chief Executive
11 June 2014

Financial Commentary

Our financial performance is set out in the accounts attached to this report.

2013–14 was the third year of the 2010 Spending Review (SR10) and our principal financial objective was to break even. We finished the year with a small surplus of £1.0m, 0.5% of our operating income.

The changes we made during 2012–13 continue to assist in driving future year cost reductions in a sustainable way in 2013–14.

Income

Our income for 2013–14 was £196.0m. This was £4.0m (2.1%) more than the previous year in line with agreed SR10 requirements. At the beginning of the year we were notified by DCLG of a cut to our funding of £4.0m, reducing our income from them from £148m to £144m.

Our 2013–14 income included £16.0m from our Property Services division, which is flat compared to the previous year.

Managing Costs

Our total spending for 2013–14 was £194.9m. Pay costs were 71.5% (£139.1m) of our total costs, which was a 4.1% increase on the previous year (£133.6m). During the year the Agency accrued for the 2013–14 non-consolidated pay award of £770k (0.6%) which is due to be paid in June 2014. There has also been a pay and grading review across the Agency which was an exercise to align staff grades with those used in the wider Civil Service. This process was completed in 2013 at which time all existing roles were reclassified. The financial impact of this exercise was an increase in the 2013–14 pay cost of £1.4m (1.0%). Following the pay and grading results, there have been in excess of 700 appeals which has led to a delay in implementing the 2013–14 pay award. We have therefore accrued £907k for the 1.0% pay award which is effective from August 2013 and thus will be backdated when it is eventually paid.

In 2013–14 we continued our accommodation rationalisation programme, closing a further two offices. Underlying accommodation costs decreased by £800k.

Our IT costs have fallen by £2.3m to £10.5m compared to 2012–13. This was partly due to the introduction of professional procurement capability which has resulted in the transitioning of multiple IT contracts onto better value deals. We have also started to realise savings from technical improvements such as the Public Service Network rollout, a technology refresh programme and the rationalisation of optional services.

Our depreciation and amortisation charge for 2013–14 has also reduced, by £1.1m to £8.3m. This reduction is mainly attributable to the review of estimated useful lives for all our software assets we carried out last year. The effect of the review accelerated our depreciation by £1.6m last year and

£0.7m this year. This accounts for £0.9m of the reduction, the remaining £0.2m is attributable to office closures last year.

Over 2013–14 the fair value of our pension scheme assets rose by £1.3m. The present value of the unfunded liabilities has increased by £6.0m, increasing the liability of the Statement of Financial Position from £33.0m to £37.7m.

We publish details of our spending in line with Cabinet Office requirements.

Controlling Cash Flow

Work in progress (work performed but not yet billed) in our Property Services division increased in 2013–14 to £2.3m at 31 March 2014. This is a 15.1% increase from 31 March 2013, however the 31 March 2013 figure was artificially low since it coincided with the end of NHS Primary Care Trusts (PCT) and therefore all work for such bodies had to be completed and invoiced before the year end. The work previously performed for PCT is now performed for NHS England and NHS Property Services on an ongoing basis.

Our cash levels remain positive with £15.7m at year end.

Our cash forecasting is working effectively. We aim to pay all invoices within five days of receipt of the goods and a valid invoice, in line with guidance issued by the Department of Business, Innovation & Skills. This year we paid 87% of our invoices within five days and our trade creditor days, or the average time it takes us to settle our debts with trade suppliers, were 27.

Investing in Our Services

During 2013–14 we continued to invest in our infrastructure – in IT and accommodation. We invested £7.2m in capital assets in 2013–14 which was £150k below our planned budget. £4.7m of this investment was on IT assets with significant investment being made in Windows 7 licences and the building of infrastructure capability in order to support this new software.

We reduced our accommodation by 7,600m^2, a 14.1% reduction in the size of the estate. We invested £2.5m capital to achieve this reduction.

Financial Outlook

The 2014–15 planning round was challenging. Although we have agreed income for 2014–15 with our clients, the financial outlook remains challenging. We balanced the need to invest in the Agency’s long term transformation, prioritising IT modernisation and building capability in areas where we require relevant skills, with ongoing delivery of services for our clients.

In NDR, the implementation of the NDR Appeal Reforms in October 2014 may lead to increased costs in the short term as we implement any new processes required while still dealing with appeals received pre-reform.

2014–15 is the first significant year of activity in the planned revaluation cycle for NDR revaluation in 2017, although the impact will mainly be towards the end of the financial year in preparation for the main revaluation work in 2015–16 and 2016–17. This will cause significant additional cost pressure in 2015–16 and 2016–17. Funding for future years cannot yet be agreed as it will fall within the parameters of the next Spending Review.

In 2014–15 we will also be focusing on deepening our understanding of our cost drivers and improving financial planning in preparation for the next Spending Review.

Adoption of Going Concern

We have prepared our accounts on a Going Concern basis. There is no reason to believe we will not continue in operational existence for the foreseeable future.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 HM Treasury has directed the Valuation Office Agency to prepare for each financial year a statement of account in the form and on the basis set out in the Accounts Directions. The account is prepared on an accruals basis and must give a true and fair view of the state of affairs of the VOA and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

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

- Observe the Accounts Directions issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis. The Accounts Directions for 2013–14 are available at www.gov.uk.
- Make judgements 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.

The Permanent Secretary and Principal Accounting Officer of HMRC has appointed the Chief Executive of the Valuation Office Agency as Accounting Officer for the VOA. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the VOA's assets, are set out in *Managing Public Money*, published by HM Treasury.

Annual Accounts

For the Year Ended 31 March 2014

Contents

Accounts

The Accounting Officer is not aware of any relevant audit information that the auditor is unaware of, and has taken all steps she ought to have in order to make herself aware of any relevant audit information and ensure that the auditor is aware of it.

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

I certify that I have audited the financial statements of the Valuation Office Agency for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Valuation Office Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Valuation Office Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report including the Director's Report, Strategic Report, Governance Statement, and the Financial Commentary to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Valuation Office Agency's affairs as at 31 March 2014 and of the net operating surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the sections of the Annual Report entitled Our Directors, Our Performance, Our Sustainability and Financial Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
17 June 2014

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

Statement of Comprehensive Net Expenditure for the year ended 31 March 2014

	Note	2013–14 Total £'000	2012–13 Total £'000
Programme Costs:			
Income	5	195,958	191,947
Staff costs	3a	(139,109)	(133,591)
Early departures	3b	(585)	(139)
Depreciation and amortisation	4	(8,278)	(9,361)
Other operating costs	4	(46,953)	(46,699)
Gross operating cost		(194,925)	(189,790)
Net Operating Surplus/(Cost)		**1,033**	**2,157**
Other Comprehensive Expenditure:			
Net gain on revaluation of intangible assets		320	294
Actuarial (loss) on pension fund	15	(2,899)	(3,969)
Total Comprehensive Net (Expenditure)		**(1,546)**	**(1,518)**

The notes on pages 70 to 106 form part of these accounts.

Statement of Financial Position as at 31 March 2014

	Note	31 March 2014 £'000	31 March 2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	6	8,765	9,379
Intangible assets	7	20,181	20,579
Prepayments	8	–	120
Total non-current assets		**28,946**	**30,078**
Current assets			
Trade and other receivables	8	6,589	5,902
Work in progress	9	2,247	1,953
Cash and cash equivalents	10	15,744	11,721
Total current assets		**24,580**	**19,576**
Total assets		**53,526**	**49,654**
Liabilities			
Current liabilities			
Trade and other payables	11	(12,220)	(9,662)
Employee leave accrual	11	(9,491)	–
Amounts payable to the Consolidated Fund	14	(257)	(220)
Total current liabilities		**(21,968)**	**(9,882)**
Total assets less current liabilities		**31,558**	**39,772**
Non-current liabilities			
Provisions	13	(1,903)	(13,071)
Pension liability	15	(37,701)	(33,036)
Liability in respect of PFI assets	11	(157)	(397)
Total non-current liabilities		**(39,761)**	**(46,504)**
Total assets less total liabilities		**(8,203)**	**(6,732)**
Taxpayers' Equity			
General Fund		(9,419)	(8,089)
Revaluation Reserve		1,216	1,357
Total Taxpayers' equity		**(8,203)**	**(6,732)**

The notes on pages 70 to 106 form part of these accounts.

Penny Ciniewicz
Chief Executive
11 June 2014

Statement of Cash Flows for the year ended 31 March 2014

	Note	2013–14 £'000	2012–13 £'000
Cash flows from operating activities			
Net operating surplus		**1,033**	**2,157**
Adjustments for:			
Depreciation of property, plant and equipment	6	3,215	3,887
Amortisation of intangible assets	7	5,063	5,474
Net loss/(gain) on disposal of non–current assets	4	(13)	84
Net loss/(gain) on revaluation of non–current assets	4	–	(16)
Creation and reversal of provisions	13	725	(663)
Use of provisions	13	(2,502)	(2,404)
Unwinding of the discount on provisions	13	31	68
Change in the discount rate on provisions	13	68	12
Notional auditor's remuneration	4	75	80
Movements on pension liability charged to operating costs	15	2,754	1,255
Cash contributions to pension fund not charged to operating costs	15	(988)	(998)
(Increase)/Decrease in trade and other receivables	8	(567)	110
Decrease in work in progress	9	(294)	223
Increase/(Decrease) in trade and other payables	11	2,355	(10,964)
Less movements in payables relating to items not passing through operating costs		219	2,113
Net cash inflow from operating activities		**11,174**	**417**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(2,817)	(2,139)
Purchase of intangible assets	7	(4,343)	(3,114)
Net cash outflow from investing activities		**(7,160)**	**(5,253)**
Cash flows from financing activities			
Cash received from the Consolidated Fund			–
Receipts on behalf of the Consolidated Fund	14	37	89
Payments to the Consolidated Fund		–	–
Capital element of payments in respect of on balance sheet PFI assets		(28)	(41)
Net cash outflow from financing activities		**9**	**48**
Net increase/(decrease) in cash and cash equivalents in the period		**4,023**	**(4,788)**
Cash and cash equivalents at the beginning of the period	10	**11,721**	**16,509**
Cash and cash equivalents at the end of the period	10	**15,744**	**11,721**

The notes on pages 70 to 106 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2014

		2013–14			2012–13		
		General Fund	Revaluation Reserve	Total Reserves	General Fund	Revaluation Reserve	Total Reserves
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance		**(8,089)**	**1,357**	**(6,732)**	**(7,061)**	**1,767**	**(5,294)**
Changes in Taxpayers' Equity for the period							
Comprehensive Net Expenditure							
Net gain/(loss) on revaluation of intangible assets		–	320	320	–	294	294
Operating surplus for the year		1,033	–	1,033	2,157	–	2,157
Actuarial gain/(loss) on pension fund	15	(2,899)	–	(2,899)	(3,969)	–	(3,969)
Total Other Comprehensive Net Expenditure		(1,866)	320	(1,546)	(1,812)	294	(1,518)
Transfers and other reserve movements							
Realised and transferred to General Fund		461	(461)	–	704	(704)	–
Notional charges – auditor's remuneration	4	75		75	80	–	80
Total recognised income and expense for the year		**(1,330)**	**(141)**	**(1,471)**	**(1,028)**	**(410)**	**(1,438)**
Balance carried forward		**(9,419)**	**1,216**	**(8,203)**	**(8,089)**	**1,357**	**(6,732)**

The notes on pages 70 to 106 form part of these accounts.

NOTES TO THE VOA'S ACCOUNTS

1. Statement of accounting policies

As the VOA is a government entity, we have prepared these financial statements in accordance with the 2013–14 Government Financial Reporting Manual (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, we have selected the accounting policy which is most appropriate for giving a true and fair view. Our accounting policies are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

These accounts have been prepared using the historical cost convention, modified to account for the revaluation of property, plant and equipment, and intangible assets (see Notes 1.2 and 1.3).

The accounts have been prepared on a going concern basis.

1.2 Property, plant and equipment

Initial recognition

On initial recognition, we recognise property, plant and equipment assets at cost, including all costs directly attributable to making them available for use. Cost is the amount of cash or cash equivalent paid or the fair value of any consideration given to acquire the asset or during its construction.

We carry the costs of the refurbishment of office accommodation on the Statement of Financial Position as non-current assets where the work results in additional and/or extended service potential to the VOA.

Subsequent measurement

In subsequent periods, we account for these assets using their fair values.

Land and buildings are valued professionally on an existing use basis every five years, supplemented by such interim valuations as are necessary to ensure that the recorded values of the assets materially reflect their fair values.

The fair value of all other assets is assessed annually using a relevant revaluation index. Where the difference between the fair value and carrying value is material we recognise this movement in the Statement of Comprehensive Net Expenditure. The difference in 2013–14 was not material and so no adjustment was made.

Treatment of changes in valuation

We recognise increases in asset value in the Revaluation Reserve within Taxpayers' Equity. Any subsequent revaluations of these assets are matched off against the amount of the reserve relating to the asset. However if the devaluation exceeds the amount in the Revaluation Reserve an impairment results; see Note 1.4.

When we dispose of revalued property, plant and equipment, any remaining value attributable to the asset held in the Revaluation Reserve is transferred to the General Fund.

Depreciation

We depreciate property, plant and equipment over its estimated useful life in order to write it down to its estimated residual value. A straight line method of depreciation is used. The useful lives of property, plant and equipment are detailed in the accompanying table.

We review the assets' residual values, useful lives and method of depreciation at each financial reporting year end, and adjust them if appropriate.

Asset class	Recognition Threshold	Estimated useful life
Accommodation Refurbishments	£15,000	4 years or period of lease, whichever is shorter
Office Equipment	£1,500	3 – 7 years
IT Hardware	£1,500	Up to 5 years
Furniture and Fittings	£1,500	Up to 10 years
Telecommunications equipment	£1,500	5 years

All VOA buildings recorded as assets are held under a PFI contract (see Note 1.12 below). Buildings are depreciated over the shorter of the estimated useful economic life of the building or the remaining lease term. Lease terms and estimated useful lives are set out in the table below.

Office	Lease Term at inception (remaining at 31/3/2014)	Estimated useful life at 31/3/2014
Colchester	20 years (disposed of during 2013–14)	nil
Shrewsbury	20 years (7 years)	12 years

1.3 Intangible assets

Our intangible assets consist of developed software and software assets under construction. We recognise intangible assets under construction only if:

- it is technically and economically feasible to complete the asset;
- we intend to complete the asset; and
- we are able to use the asset generated by the project.

Initial recognition

On initial recognition, we value intangible assets at the directly attributable costs incurred to bring them into use.

Subsequent measurement

In subsequent periods, we account for developed software (intangible assets) on a fair value basis using modified historical cost. This involves applying a revaluation index using appropriate indices from the Office for National Statistics (please see note 1.18). Indices are applied annually on 31 March. The treatment of changes in valuation is the same as that used for property, plant and equipment (see Note 1.2 above).

Amortisation

We amortise intangible assets over their estimated useful lives in order to write them down to their estimated residual value. A straight line method of depreciation is used. The useful lives of intangible assets are detailed in the accompanying table.

Asset class	Recognition Threshold	Estimated useful life
Developed Software – new projects	£15,000	Up to 10 years
Developed Software – enhancements	nil	As per the enhanced asset
Software Licences	£1,500	5 years

We review intangible assets' residual values, useful lives and methods of amortisation at each financial reporting year end, and adjust them if appropriate. During 2012–13 we revised the remaining useful lives for a number of systems to reflect changes to our IT strategy. This resulted in an increase to the amortisation charge in this and the prior year, which is reflected in Note 7.

Assets under construction

The costs of our assets under construction are accumulated until the asset is completed and ready to be brought into service, at which point the asset is transferred to the relevant asset class and depreciation commences.

1.4 Impairment of non-financial assets

We consider events and changes of circumstances annually and review property, plant and equipment and intangible assets for potential impairment losses whenever there is an indication that the carrying amount may not be recoverable. We review intangible assets that are not yet ready for use annually. An impairment loss occurs when the carrying amount of the asset exceeds its recoverable amount. The asset's recoverable amount is the higher of its net selling price or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows or future service potential.

Where an impairment results from a loss in economic value or service potential, the loss is recognised as an operating cost in the Statement of Comprehensive Net Expenditure. Any Revaluation Reserve balance associated with the impaired assets is then released to the General Fund. Impairment losses that do not result from such consumption of economic benefits are first applied against any existing amounts in the Revaluation Reserve before any remaining loss is recognised as an operating cost.

1.5 Financial assets

We recognise a financial asset when we gain a contractual right to the asset. The exception is where the financial asset is consideration from customers for services provided. In these cases we recognise the financial asset when our revenue recognition criteria are met (set out in Note 1.14). We remove a financial asset from our Statement of Financial Position when we no longer have a contractual right to the asset, or when the asset is transferred to another party.

Our financial assets are measured at fair value and consist of trade and other receivables, work in progress, and cash and equivalents.

We regularly review our allowance for doubtful debts. Invoices which are more than six months overdue are provided for unless they are covered by credit balances. We also review our allowance for WIP. Cases which are older than six months, or where a future loss is forecast are provided for.

1.6 Impairment of financial assets

We assess, at each reporting date, whether there is objective evidence that our financial assets are impaired. Assets are impaired if the future cash flows associated with the asset have been reduced by events before the reporting date, and if the effect on future cash flows can be reliably estimated. Events that could trigger impairments include a breach of terms or default by a counter-party on a contract, significant financial hardship of a counter-party or an emerging pattern of lower than expected recovery on a class of assets.

We measure the amount of impairment loss as the difference between the asset's carrying amount and the revised recoverable amount. The amount of the loss is recognised in the Statement of Comprehensive Net Expenditure in the period of impairment.

1.7 Work in progress

Our work in progress is classed as a financial asset. It is valued at amortised cost. It represents income recognised due to progress on work that is not yet complete (see Note 1.14). The cost is calculated using records of time spent on the work and our hourly charge rate which reflects the estimated full cost of the service, as required by *Managing Public Money*. Work in progress is measured net of provisions for foreseeable losses on current contracts and for irrecoverable amounts (see Note 9).

1.8 Cash and cash equivalents

Cash and cash equivalents represent cash balances in hand and cash balances held in the Government Banking Service or with commercial banks.

1.9 Financial liabilities

We recognise a financial liability when we become a party to the contractual provisions of the financial instrument. The exception is any liability related to the purchase of goods or services in the normal course of business. In these cases the financial liability is recognised when, and to the extent that, the goods or services are provided. We remove a financial liability from the Statement of Financial Position when it is extinguished, i.e. when the obligation in the contract is paid, is cancelled or expires.

Our financial liabilities are our trade payables and accruals. On recognition they are measured at fair value.

1.10 Other liabilities

Our other liabilities consist of PFI-related liabilities, provisions and statutory liabilities, as well as any trade payables, accruals or deferred income that are not financial liabilities. On initial recognition they are measured at fair value. Subsequently, accruals and trade payables are measured at amortised cost and deferred income is measured at cost. The treatment of PFI related liabilities is described in Note 1.12.

Our statutory liabilities consist of our obligations to make payments into the Consolidated Fund and to pay over National Insurance and tax relating to our employees. They are short term in nature and are held at fair value until paid. If material, liabilities that fall due after one year of the reporting date are discounted to take account of the time value of money.

We make provisions for liabilities and charges where, at the reporting date, a legal or constructive liability (a present obligation arising from a past event) exists, for a probable transfer of economic benefits and for which a reasonable estimate can be made. Where obligations are less certain, or cannot be reliably estimated, we disclose them as contingent liabilities in Note 19.

1.11 Employee benefits

Pensions

We operate two different pension arrangements.

Principal Civil Service Pension Scheme (PCSPS)

The majority of past and present permanent staff members are part of the PCSPS, to which the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. The PCSPS is accounted for as a defined contribution scheme despite being a defined benefit scheme. Owing to the largely unfunded, multi-employer nature of the scheme, it is not possible to identify the assets and liabilities associated with any one employer. Actual contributions to the scheme are used as the basis for the charge to the Statement of Comprehensive Net Expenditure. We do not recognise any PCSPS assets or liabilities.

Pension scheme members who first joined the Civil Service pensions arrangements by 30 July 2007 have their benefits calculated as a fraction of their final salary. Members first joining the arrangements after this date are entitled to benefits based on career average salary. The Civil Service also offers the option of defined-contribution stakeholder pension arrangements. Employer contributions to these arrangements are expensed in the period in which the employee earns them.

Local Government Pension Scheme (LGPS)

We merged with The Rent Service in April 2009, taking on staff who are members of the LGPS. This is a funded defined benefit scheme. Entitlement to benefits is based on a scheme member's final salary.

This year we have accounted for LGPS in accordance with IAS 19 (2011) – Employee Benefits. The Statement of Financial Position includes an LGPS liability, which is the present value of the defined benefit obligation to staff minus the fair value of the scheme assets attributable to the VOA.

Independent actuaries value the defined benefit obligation using the projected unit method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees.

The scheme managers carry out a formal valuation of the scheme's assets and liabilities for the purpose of setting employers' contributions every three years.

We charge service costs, net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate, and administration expenses as operating costs on the Statement of Comprehensive Net Expenditure in the period in which they occur.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in reserves in the period in which they arise.

Annual leave and other short term employee benefits
We recognise employee entitlements to untaken annual leave when they accrue to employees. We accrue for the estimated liability for leave earned but not taken by employees at 31 March each year.

Until 2010–11 our people were allowed to transfer up to ten days of leave per year into a 'bank'. Such banked leave may be held indefinitely for use at a future time or may result in pay in lieu of the leave when the employee leaves. We have withdrawn the right to add further leave to the bank, but the historical bank balance remains.

These benefits were previously accounted for as a provision but from 2013–14 onwards are being accounted for as an accrual to align with accounting policies of our parent department HMRC.

Early departure costs
Costs of early departures are recognised when we are committed to the departure without reasonable possibility of withdrawal. They are disclosed in Note 3b. The increased pension liabilities in respect of LGPS members due to early departures are recognised within the pension liability (Note 15). Liabilities in respect of other departures are recognised in the provision for early departure and additional pension commitments.

1.12 Private Finance Initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes 'on balance sheet' where:

- we control the service provided using the infrastructure; and
- we control a significant residual interest in the infrastructure at the end of the arrangement; or
- the arrangement meets the definition of a finance lease under IAS 17.

'On balance sheet' means that an asset and corresponding liability appear in our Statement of Financial Position. We have consequently recognised four 'on balance sheet' PFI assets together with liabilities to pay for them. The services received under the contract are recorded as operating expenses. We continue to treat 'off balance sheet' PFI-procured assets as operating leases, and do not recognise assets and liabilities in respect of them. The land elements of all leases are treated as operating leases.

For 'on balance sheet' PFI schemes, we separate the annual payments into the following component parts, using appropriate estimation techniques where necessary:

- repayment of the principal element of the imputed financing arrangement;
- interest charged on the imputed principal outstanding; and
- the remaining expenditure, including contingent rents, rents for land and charges for services associated with the buildings.

The first element is treated as repayment of financing and used to write down the PFI liability in the Statement of Financial Position. The final two elements are charged to the Statement of Comprehensive Net Expenditure. PFI assets are treated in the same way as other Property, Plant and Equipment, as discussed above.

Details of our PFI arrangements can be found in Note 18.

1.13 Leases

Our non-PFI leases are all operating leases (i.e. the risks and rewards of ownership remain with the lessor). Rentals paid under operating lease agreements are charged to the Statement of Comprehensive Net Expenditure over the period of the lease term, in order to reflect the consumption of economic benefit. The future obligations for the lease rentals for the period ended 31 March 2014 are disclosed in Note 17.

1.14 Operating income

Operating income comprises fees and charges for services provided to other government departments, agencies, non-departmental public bodies and external customers and is recorded net of Value Added Tax.

We recognise revenue when:

- the amount of revenue can be reliably measured;
- it is probable that future economic benefits will flow to us; and
- the services for which the revenue is receivable or has been received have been performed.

We set our charges for our statutory and non-statutory work in order to recover the full cost of services from clients. We recognise revenue as we incur the costs of providing the services.

For most statutory work, our service level agreements with our customers are for year-long periods matching our reporting years. We recognise the revenue for an agreement in the year to which the agreement pertains.

For non-statutory services and a small amount of statutory work, we record the time worked on each customer contract and recognise as revenue an amount equal to the estimated fully-absorbed cost of each hour of work as the hour is recorded. Where there is indication that costs incurred on a contract will not be recoverable, for example if costs exceed the value of a fixed price contract, further revenue is not recognised. Revenue is measured net of an estimate of foreseeable losses on current contracts and of an estimate of amounts that we are unlikely to recover from clients.

1.15 Administration and programme expenditure

As a net-funded Agency, the VOA's expenditure does not fall inside the administration budgets set in the 2010 Spending Review. All of our expenditure is therefore classified as programme expenditure.

Operating costs are recognised when, and to the extent that, the goods or services for which they are incurred have been provided.

1.16 Value Added Tax

Apart from some Property Services income, most of our activities are outside the scope of VAT. In general output tax does not apply and input tax on purchases is not recoverable. Some input VAT on a restricted number of services is recovered under Section 41(3) of the VAT Act 1994 and in accordance with the HM Treasury 'Contracting-out Direction'. Section 41(3) is intended to remove any disincentive to government departments of contracting-out activities performed 'in-house' where there is a sound basis for doing so. In addition, we recover a portion of the VAT on our inputs calculated to reflect the portion of our output services which are within the scope of VAT. We charge irrecoverable VAT to the relevant expenditure category or include it in the capitalised purchase cost of non-current assets.

1.17 Civil penalties

We levy civil penalties for the failure to submit Forms of Return deemed essential for the assessment of rateable values. We do not account for receipts of these penalties in the Statement of Comprehensive Net Expenditure as we have no claim on them and must surrender them to the Consolidated Fund. Therefore they are recognised as a liability on the Statement of Financial Position and shown as receipts and payments in the Cash Flow Statement.

1.18 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires the use of estimates and assumptions. Although we base judgements and estimates on our best knowledge of current events and actions, actual results may differ from our assumptions. The most significant estimates and areas of management judgement made in the accounts relate to:

- **Provisions for legal claims and early departures (Note 13)**

  Concerning legal claims, judgement is required to estimate the likelihood of a case being found against us and to estimate the most likely amount that we would be required to pay. Both estimates are made based on past experience and the advice of our legal advisors.

  Regarding early departures, there is not normally any doubt that the liability exists, but it is necessary to estimate the future cash flows based on quotes from our pensions administrator. Cash flows are also subject to a discount factor. We apply the Treasury pensions discount rate, currently 1.8%. In certain cases there may be doubt as to whether past events create an obligation on us to pay early departure costs. We consider the status of our plans, announcements to staff and other factors and use our judgement to determine whether we have an obligation.

- **Estimation of recoverability and foreseeable losses on work in progress (Note 9)**

  We estimate the extent to which work in progress will not be recovered by referring to historical trends which indicate that balances relating to cases that have not been worked on for more than six months are unlikely to be billed and recovered. A 10% error in the estimate of unrecoverable amounts would alter the overall work in progress balance by less than 1%.

  Similarly, an estimate is made for foreseeable losses on fixed term contracts by considering past performance on such contracts. A 10% error in estimating foreseeable losses would alter the overall work in progress balance by 1%.

- **Treatment of the STEPS and ASPIRE contracts (Note 18)**

  Both contracts are complex and it has been necessary for us to use judgement in determining the economic substance of the arrangements.

  A number of judgements have been made regarding the treatment of the STEPS contract. The extent of our residual interest in the properties beyond the end of the contract is a matter of judgement, as the contract gives us some rights. We have judged that for all but three properties these rights do not grant significant control. In addition, the classification of properties between on and off balance sheet requires judgements to be made about the useful lives of the buildings and the extent of the other rights that the leases grant us.

Addressing the ASPIRE contract, the principal judgements are that the contract does not give us the use of particular assets and that it does not give any continuing right to use any assets throughout and beyond the contract period. The contract is therefore not accounted for on balance sheet. More details can be found in Note 18.

- **Measurement of the LGPS pension liability (Note 15)**

  The present value of our net pension obligation under the LGPS depends on a number of factors which are actuarially determined on the basis of a set of assumptions. Key assumptions include the discount rate to be applied, inflation forecasts, long term changes in member salaries, future return on assets and member mortality.

  Assumptions are determined annually with the advice of the scheme actuary. Financial assumptions are made on the basis of market conditions at the reporting date. Mortality assumptions are made using the Club Vita longevity analysis.

  The net liability is particularly sensitive to variations in the discount rate and in mortality. A change in the discount rate assumption by 0.1% would change the net liability by £2.2m. A one year increase in the mortality age would change the net liability by £4.4m.

- **Revaluation of assets using indices (Notes 6 and 7)**

  We only apply indexation to developed software consistent with the approach followed by HMRC. Software has been indexed using the K5EX (Employment & Earnings – Average Weekly Earnings – Information & Communication) which is published on the Office for National Statistics' website at: http://www.statistics.gov.uk/statbase/tsdtimezone.asp. We have used the average of the monthly index across 2013–14.

- **Measurement of the provision for employee leave liability (Note 11)**

  We use an employee-by-employee breakdown of actual leave balance and salary to calculate our liability for employee leave. The principal uncertainty is in respect of when the banked leave balance will be used. In the absence of information on the timing of staff members' future use of their leave, we neither discount the liability nor include any forecast of future salary increases.

2. Operating segments for the year ended 31 March 2014

In accordance with IFRS 8, we have identified four key factors to distinguish our reportable operating segments. These are:

- That the reportable operating segment engages in activities from which we earn revenues and incur expenses;
- That the reportable operating segment's financial results are regularly reviewed by the chief operating decision maker to make decisions about allocation of resources to the segment and assess its performance;
- That the reportable operating segment has discrete financial information; and
- That the reportable operating segment provides a distinct service to its customers.

We consider our chief operating decision maker to be our Board. The segmental information below is based on the information presented to the Board. The Board reviews financial information based on four reportable segments:

Non-Domestic Rating and Council Tax

Compilation and maintenance of the non-domestic rating and council tax lists that support the collection of council tax and non-domestic rates.

The major client for this service is the Department for Communities and Local Government (DCLG), which contributes £144m, or 94% of the segment's income. The DCLG is also a major customer of other segments, as described below, contributing overall £148m, or 76%, of our total income.

Statutory Valuation Team

Delivery of valuation advice for national taxes, principally inheritance tax and capital gains tax to HMRC; for the operation of Right To Buy and Community Infrastructure Levy provisions for the DCLG (£1.6m) and for the assessment of entitlements to benefits from the Department for Work & Pensions (DWP).

Property Services

Delivery of valuation services and property advice to other public sector bodies.

Local Housing Allowances and Fair Rents

Rent assessment services which are used for assessing Housing Benefit claims and for determining fair rents in accordance with the Rent Act 1977. The segment's principal client is the DWP but additional work done is carried out for DCLG (£2.4m).

Segmental information for 2013–14

	Non-Domestic Rating and Council Tax	Statutory Valuation Team	Property Services	Local Housing Allowances and Fair Rents	Total
	£'000	£'000	£'000	£'000	£'000
Income from fees and charges	153,094	11,850	15,974	15,040	**195,958**
Full cost of providing services	(152,257)	(11,902)	(16,064)	(14,702)	**(194,925)**
Surplus	837	(52)	(90)	338	**1,033**

Segmental information for 2012–13

	Non-Domestic Rating and Council Tax	Statutory Valuation Team	Property Services	Local Housing Allowances and Fair Rents	Total
	£'000	£'000	£'000	£'000	£'000
Income from fees and charges	150,475	11,586	16,096	13,790	**191,947**
Full cost of providing services	(150,636)	(10,866)	(14,809)	(13,479)	**(189,790)**
Surplus	(161)	720	1,287	311	**2,157**

3. Staff numbers and related costs
(a) Staff numbers and costs

	2013–14			2012–13		
Average number of persons employed:	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
The average number of full-time equivalent persons (including senior management) employed during the year was as follows:						
Non–Domestic Rating and Council Tax	2,852	103	2,955	2,898	61	2,959
Property Services and Statutory Valuation Team	355	–	355	327	1	328
Local Housing Allowances and Fair Rents (former Rent Service)	201	–	201	193	–	193
	3,408	**103**	**3,511**	**3,418**	**62**	**3,480**

It is not possible to split staff numbers between Property Services and the Statutory Valuation Team as the work is performed by an overlapping pool of staff.

Staff costs comprise:

	2013–14			2012–13		
	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	106,391	2,866	109,257	103,728	2,124	105,852
Social security costs	8,012	88	8,100	7,985	63	8,048
Other pension costs	21,645	259	21,904	19,832	177	20,009
	136,048	**3,213**	**139,261**	**131,545**	**2,364**	**133,909**
Less recoveries in respect of outward secondments	(152)	–	**(152)**	(146)	–	**(146)**
	135,896	**3,213**	**139,109**	**131,399**	**2,364**	**133,763**
Equal Pay settlement scheme	–	–	–	(172)	–	(172)
Total staff costs	**135,896**	**3,213**	**139,109**	**131,227**	**2,364**	**133,591**

Pension past service cost
A number of our people are members of the Local Government Pension Scheme. Details of this scheme can be found in Note 15.

Civil Service pensions
The majority of our people are members of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a largely unfunded multi-employer defined benefit scheme. We are unable to identify our share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found at http://www.civilservice.gov.uk/pensions. The accounts of the scheme will be published on http://www.official-documents.gov.uk, within the Cabinet Office Civil Superannuation Resource Accounts.

For 2013–14, employer contributions of £19,066,875 (2012–13: £18,679,898), were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013–14 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £76,202 (2012–13: £70,173) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. We also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £5,838, 0.8% (2012–13: £4,964, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees.

Three employees have retired on ill-health grounds during 2013–14, with total additional accrued pension liabilities of £7,463 (there were five in 2012–13 with a total additional accrued pension liability of £5,021).

(b) Early departure costs

	2013–14	2012–13
	£'000	£'000
Additional provisions made	366	34
Costs during the year – new schemes	120	446
Costs during the year – previous schemes	–	344
Unwinding of one year's discount	31	68
Change in the discount rate	68	12
Unused amounts reversed	–	(765)
Total in-year costs	**585**	**139**

Details of the opening and closing balances of the provision for early retirement and pension obligations can be found in Note 13.

The table below sets out the number of formally agreed exit packages in the year, divided into bands of cost.

Exit package cost by band	2013–14 No. compulsory redundancies	2013–14 No. other departures	2013–14 Total no. exit packages by band	2012–13 No. compulsory redundancies	2012–13 No. other departures	2012–13 Total no. exit packages by band
< £10,000	–	–	–	–	–	–
£10,001 – £25,000	5	2	7	1	1	2
£25,001 – £50,000	–	3	3	–	–	–
£50,001 – £100,000	–	2	2	–	6	6
£100,001 – £150,000	–	–	–	–	3	3
Total no. exit packages by type	**5**	**7**	**12**	**1**	**10**	**11**
Total operating cost (£'000s)	**119**	**247**	**366**	**14**	**793**	**807**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year they become an obligation on us. Where we have agreed early retirements, the additional costs are met by us and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

The numbers included in the table above include departures of staff who are members of the Local Government Pension Scheme. Their compensation arrangements are outside the scope of the Civil Service Compensation Scheme. The cost of their early retirements reflects the cost of providing any lump sum due on retirement together with the cost associated with the increase in liability to pay future pensions. These latter costs are shown as losses on curtailments in Note 15.

4. Non-staff programme costs for the year ended 31 March 2014

		2013–14	2012–13
	Note	£'000	£'000
Accommodation costs			
PFI finance charges	18	79	85
Accommodation excluding non-domestic rates		15,058	14,187
Accommodation – non-domestic rates		3,163	3,098
		18,300	17,370
Running costs			
HM Revenue & Customs service charges		3,557	3,821
Capgemini IT service charges	18	9,093	11,754
Other computing costs		1,430	1,098
Management and IT consultancy		25	26
Telephone charges		1,806	1,696
Travel and subsistence		5,558	5,161
External training		581	416
Printing, stationery and distribution		376	440
Subscriptions		1,037	982
Postage and couriers		1,399	1,177
Rentals under operating leases		159	329
Legal claims and services (excl movement in provisions)		715	124
Contracted-out services		697	657
Losses and special payments	20	116	101
Sundry costs		1,569	1,204
		28,118	28,986
Non-cash costs			
Legal claims and compensation (movement in provisions)		359	250
Auditors' notional remuneration		75	80
Net loss on revaluation of non-current assets	6 & 7	–	(16)
Net loss/(profit) on disposal of non-current assets		(13)	84
Increase/(decrease) in provision for doubtful debt		114	(54)
		535	343
Other operating costs		**46,953**	**46,699**
Depreciation and amortisation			
Depreciation of property, plant and equipment	6	3,215	3,887
Amortisation of intangible assets	7	5,063	5,474
		8,278	**9,361**
Total non-staff programme costs		**55,231**	**56,060**

We are audited by the Comptroller and Auditor General, who has not carried out any non-audit work for us in either year above.

5. Operating income for the year ended 31 March 2014

	2013–14	2012–13
	£'000	£'000
Non-Domestic Rating and Council Tax	153,094	150,475
Statutory Valuation Team	11,850	11,586
Property Services	15,974	16,096
Local Housing Allowances and Fair Rents (former Rent Service)	15,040	13,790
	195,958	**191,947**

We must disclose performance results for the areas of our activities where fees and charges are made (see Note 2). This information is provided for Fees and Charges purposes and not for IFRS 8 purposes. The financial goal of all our fees and charges is to recover the full cost of providing the service, in accordance with Chapter 6 of *Managing Public Money* (http://www.hm-treasury.gov.uk/psr_mpm_index.htm). Where we charge for access to our information, we comply with Treasury and National Archives guidance.

6. Property, plant and equipment

	Buildings	Accommodation refurbishments	Assets under construction	Information technology hardware and telecommunications equipment	Furniture, fittings and office equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:						
At 1 April 2013	2,388	9,032	845	9,486	4,472	**26,223**
Additions	–	–	2,565	226	26	**2,817**
Disposals	(440)	(576)	–	(24)	(57)	**(1,097)**
Reclassifications	–	983	(1,492)	237	272	**–**
Revaluations	–	–	–	–	–	**–**
At 31 March 2014	**1,948**	**9,439**	**1,918**	**9,925**	**4,713**	**27,943**
Depreciation:						
At 1 April 2013	1,983	7,037	–	5,789	2,036	**16,845**
Charged in the year	49	1,325	–	1,440	401	**3,215**
Disposals	(284)	(553)	–	(19)	(26)	**(882)**
Revaluations	–	–	–	–	–	**–**
At 31 March 2014	**1,748**	**7,809**	**–**	**7,210**	**2,411**	**19,178**
Net Book Value:						
At 31 March 2014	**200**	**1,630**	**1,918**	**2,715**	**2,302**	**8,765**
At 31 March 2013	**405**	**1,995**	**845**	**3,697**	**2,436**	**9,379**

Our buildings (£200k) are PFI financed. All remaining property, plant and equipment are owned. We held no donated assets during the year (2012–13: nil). Our buildings were valued by Property Services, a unit of the VOA, on 31 March 2009. An interim valuation was obtained at 31 March 2012 and did not result in any revaluation in 2011–12.

	Buildings	Accommodation refurbishments	Assets under construction	Information technology hardware and telecommunications equipment	Furniture, fittings and office equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:						
At 1 April 2012	2,658	8,053	1,406	8,248	4,173	**24,538**
Additions	–		1,299	590	2	**1,892**
Disposals	(270)	(105)	–	–	(49)	**(424)**
Write-offs	–	(1)	(390)	–	–	**(390)**
Reclassifications	–	1,084	(1,471)	648	346	**606**
Revaluations	–	–	–	–	–	**–**
At 31 March 2013	**2,388**	**9,032**	**845**	**9,486**	**4,472**	**26,223**
Depreciation:						
At 1 April 2012	2,048	5,258	–	4,216	1,675	**13,197**
Charged in the year	85	1,829	–	1,572	401	**3,887**
Disposals	(150)	(49)	–	–	(41)	**(240)**
Write-offs			–	–	–	**–**
Revaluations	–	–	–	–	–	**–**
At 31 March 2013	**1,983**	**7,037**	**–**	**5,789**	**2,036**	**16,844**
Net Book Value:						
At 31 March 2013	**405**	**1,995**	**845**	**3,697**	**2,436**	**9,379**
At 31 March 2012	**610**	**2,795**	**1,406**	**4,032**	**2,498**	**11,341**

We over accrued for £259k of accommodation costs at 31 March 2012, which were included within assets under construction. This was corrected in 2012–13 by writing the amount off.

There is no material difference between the gross value of buildings disclosed above and open market value. Net book values reflect the remaining periods of the leases. Our accounting policy for revaluation is described in Note 1.2.

7. Intangible assets

	Developed Software	Assets Under Construction	Total
	£'000	£'000	£'000
Cost or valuation:			
At 1 April 2013	43,694	632	**44,326**
Additions	16	4,327	**4,343**
Disposals	–	–	**–**
Reclassifications	894	(894)	**–**
Revaluations	630	–	**630**
At 31 March 2014	**45,234**	**4,065**	**49,299**
Amortisation:			
At 1 April 2013	23,747	–	**23,747**
Charged in the year	5,063	–	**5,063**
Disposals	–	–	**–**
Reclassifications	–	–	**–**
Revaluations	308	–	**308**
At 31 March 2014	**29,118**	–	**29,118**
Net book value:			
At 31 March 2014	**16,116**	**4,065**	**20,181**
At 31 March 2013	**19,946**	**632**	**20,579**

	Developed Software	Assets Under Construction	Total
	£'000	£'000	£'000
Cost or valuation:			
At 1 April 2012	39,749	2,932	**42,682**
Additions	1,249	827	**2,077**
Disposals	(6)	–	**(6)**
Write offs		(388)	**(388)**
Reclassifications	2,133	(2,740)	**(606)**
Revaluations	567	–	**567**
At 31 March 2013	**43,694**	**632**	**44,326**
Amortisation:			
At 1 April 2012	18,020	–	**18,020**
Charged in the year	5,474	–	**5,474**
Disposals	(4)	–	**(4)**
Reclassifications	–	–	–
Revaluations	257	–	**257**
At 31 March 2013	**23,747**	–	**23,747**
Net book value:			
At 31 March 2013	**19,946**	**632**	**20,579**
At 31 March 2012	**21,729**	**2,932**	**24,662**

Assets under Construction at 31 March 2012 included £606k of assets that were incorrectly classified as intangibles. These were reclassified to property, plant and equipment when they were brought into use during 2012–13. There was no impact upon depreciation.

The Developed Software assets above are held at revalued amounts. If they had been held at historic cost their carrying value would have been £19,116k (2012–13: £18,874k).

During 2012–13 we reviewed the estimated useful lives for all our software assets and have revised those for a number of systems to ensure consistency with the Agency's new IT strategy. This resulted in an increase to the amortisation charge for 2012–13 of £1,613k.

8. Trade receivables and other current and non-current assets

	31 March 2014	31 March 2013
(a) Trade receivables and other current assets:	£'000	£'000
Trade receivables	5,455	4,213
Other receivables	254	329
Allowance for doubtful debt	(296)	(182)
Prepayments	1,176	1,542
	6,589	**5,902**
Non-current financial assets:		
Prepayments	–	120
	6,589	**6,022**

	Receivables: Current	Receivables: Non–current
(b) Intra government balances:	£'000	£'000
Balances with other central government bodies	2,582	–
Balances with local authorities	1,500	–
Balances with NHS Trusts	687	–
Balances with public corporations and trading funds	14	–
Balances with bodies external to government	1,806	–
At 31 March 2014	**6,589**	**–**
Balances with other central government bodies	1,938	–
Balances with local authorities	1,182	–
Balances with NHS Trusts	680	–
Balances with public corporations and trading funds	26	–
Balances with bodies external to government	2,076	120
At 31 March 2013	**5,902**	**120**

9. Work in progress (WIP)

	31 March 2014	31 March 2013
	£'000	£'000
Opening balance	1,953	2,175
Written-off	(77)	(66)
Movement in work in progress	261	(174)
Movement in provision for foreseeable losses and irrecoverable amounts	110	17
Closing balance	**2,247**	**1,953**

(i) As at 31 March 2014 we have a policy of not invoicing for work in progress where a period of 36 months has elapsed since we last did work on the specific case and the monetary value of the work-in-progress is less than £100, or the case worker is of the view that the client will not pay if invoiced. In line with this policy and due to other exceptional situations we have written off £77k for the year ending 31 March 2014 (2012–13: £66k).

(ii) As at 31 March 2014 we carried out a review of the current fixed price contracts. The purpose of this review was to ascertain if any of these contracts were likely to realise less than the cost of the work required to complete them and to estimate the potential loss. As a result of this review, we have recognised a provision for future losses on these contracts of £96k (2012–13: £102k).

(iii) As at 31 March 2014 we also carried out a review of work in progress that relates to contracts on which work has not been carried out for more than six months. It is estimated that £45k of this balance may not be recoverable and we have recognised this sum as impairment in the year (2012–13: £147k).

10. Cash and cash equivalents

	31 March 2014	31 March 2013
	£'000	£'000
Balance at 1 April	11,721	16,509
Net change in cash and cash equivalent balances	4,023	(4,787)
Balance at 31 March	**15,744**	**11,721**
The following balances as at 31 March were held at:		
Government Banking Service	15,744	11,721
Balance at 31 March	15,744	11,721

The cash balance disclosed above includes £257k (2012–13: £220k) of civil penalties which have been collected on behalf of the Consolidated Fund (see Note 1.17). We have no claim on these receipts and will pay them into the Consolidated Fund in due course.

11. Trade payables and other current and non-current liabilities

	31 March 2014	31 March 2013
(a) Current financial and other liabilities:	£'000	£'000
Trade payables	3,403	103
Accruals and deferred income	8,501	9,102
VAT	304	429
Current liability in respect of on balance sheet PFI assets	12	27
	12,220	**9,662**
Employee leave accrual	9,491	–
Amounts payable to the Consolidated Fund	257	220
	21,968	**9,882**
Non-current financial and other liabilities:		
Non-current liability in respect of on balance sheet PFI assets	157	397
	157	**397**
	22,125	**10,279**
	Payables:	**Payables:**
	Current	**Non-current**
(b) Intra government balances:	£'000	£'000
Balances with other central government bodies	3,523	–
Balances with local authorities	29	–
Balances with NHS Trusts	23	–
Balances with public corporations and trading funds	–	–
Balances with bodies external to government	18,393	157
At 31 March 2014	**21,968**	**157**
Balances with other central government bodies	4,762	–
Balances with local authorities	41	–
Balances with NHS Trusts	51	–
Balances with public corporations and trading funds	0	–
Balances with bodies external to government	5,028	397
At 31 March 2013	**9,882**	**397**

12. Financial instruments

The following disclosures are made to allow users of the Agency's financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Agency is exposed at the reporting date.

The risks considered are credit risk (the risk of default by a counter-party receivable), liquidity risk (the risk that the Agency will not be able to discharge its financial obligations) and market risk (the risk of loss from fluctuations in market prices).

As the cash requirements of the Agency are largely met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit or market risk. The Agency does not face a liquidity risk as its operations are financed by the Exchequer.

(a) Credit Risk

Due to the nature of trade and other receivables, the Agency views the credit risk associated with these receivables as negligible.

(b) Liquidity Risk

The Agency does not face a liquidity risk as it is financed by the Exchequer.

(c) Market Risk

Market risk includes currency risk and interest rate risk. The Agency is exposed to negligible currency risk and does not face an interest rate risk as it has no investments or borrowings and its operations are financed by the Exchequer.

(d) Collateral and other credit enhancements obtained

The Agency holds no collateral or other credit enhancement in respect of its financial assets.

(e) Embedded Derivatives

The Agency has conducted a review of all its material contracts and has concluded that there are no separable material embedded derivatives which require disclosure.

(f) Fair Value

The value of financial assets and financial liabilities carried at amortised cost is deemed to be a reasonable approximation of their fair value. Assumptions on the recoverability of receivable balances are reviewed on a monthly basis and appropriate adjustments for impairment are made.

13. Provisions

(a) Movements in provisions

	Accrued employee benefits	Early departure and additional pension commitments	Provision for legal claims and compensation	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2013	9,719	2,524	829	13,072*
Increase/(decrease) in provision	–	366	1,037	1,403
Provisions not required written back	–	–	(678)	(678)
Provisions utilised in the year	(228)	(1,463)	(811)	(2,502)
Change in the discount rate	–	68	–	68
Unwinding of discount	–	31	–	31
Reclassified as an accrual	(9,491)	–	–	(9,491)
Balance at 31 March 2014	**–**	**1,526**	**377**	**1,903**

* Due to prior year roundings there was a small casting error in the total balance. This has been corrected from 13,071 to 13,072.

Accrued employee benefits

The provision for accrued employee benefits represented our liability for paid leave earned by employees but not taken at the reporting date. This was previously accounted for as a provision but from 2013–14 onwards is being accounted for as an accrual to align with accounting policies of our parent department HMRC.

Provisions for early departure and additional pension commitments

The detailed accounting policy for early departure costs is set out in Note 1.11, the costs are expected to fall due as shown below in Note 13b, and the total in-year costs are detailed in Note 3b.

Provisions for legal claims and compensation

There is uncertainty regarding the timing of the transfer of economic benefits in relation to the legal claims due to risk of appeals and counter appeals, which delay the final outcome. As many of the cases included in the provision are still undecided we do not provide details in case this prejudices the outcome. These provisions are short term in nature and are expected to be used within the next two years.

The write back of unused amounts is a result of more cases than expected being resolved without cost, or being resolved at smaller cost than expected.

(b) Expected payment profile of early departure and additional pension commitments

	31 March 2014	31 March 2013
	£'000	£'000
Early retirement and pension commitments fall due:		
Within one year	799	1,190
Between one and two years	306	675
Between two and five years	417	524
After five years	5	135
	1,527	**2,524**

14. Consolidated Fund income and amounts payable to the Consolidated Fund at 31 March 2014

	31 March 2014	31 March 2013
	£'000	£'000
Operating receipts payable to the Consolidated Fund	–	–
Civil Penalties receipts on behalf of the Consolidated Fund	257	220
Total Payable to the Consolidated Fund	**257**	**220**

We hold sums payable to the Consolidated Fund in respect of civil penalties. Our Valuation Officers impose civil penalties for failure to submit Forms of Return deemed essential for assessment of rateable value. We collect these penalties as an agent of the Consolidated Fund and have no claim on the amounts received (see Note 1.17).

15. Pension benefit obligations

Introduction

We merged with The Rent Service on 1 April 2009, taking on employees who are members of the Local Government Pension Scheme. The fund is administered by London Pension Fund Authority (LPFA) and the trustees are appointed by the Mayor of London. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for us. The Local Government Scheme is accounted for as a defined benefit scheme. The Annual Report and Accounts of the LPFA can be found on their website, www.lpfa.org.uk.

The accounting entries in respect of the year ended 31 March 2014 have been made using information supplied by the scheme actuary, Barnett Waddingham LLP. The actuary prepared this information by rolling forward the value of the employer's liabilities calculated at the last formal valuation, performed as at 31 March 2013 and completed in March 2014. The actuary allows for the different financial assumptions required by IAS 19. To calculate the asset share, the actuary has rolled forward our share of the scheme's assets at the last formal valuation, allowing for investment returns and the effect of payments in and out of the fund. Service costs have been estimated using contribution information supplied to the actuary.

In 2013–14, we made contributions at a rate of 22.2% (2012–13: 22.2%) of pensionable salary. In 2014–15 we will make contributions at 18.2% of pensionable salary. This rate includes a 3.5% deficit contribution rate. We made total cash contributions to the LGPS during the year of £1m and expect to make £1.6m in the year to 31 March 2015.

Change in accounting standard

IAS19 (2011) has been adopted this year. The main change is the removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate.

The changes do not affect the 2012–13 closing balances. We have not therefore retrospectively accounted for the changes. However to aid comparison we have included revised 2012–13 figures in the tables below.

Transactions relating to the Local Government Pension Scheme

Recognised as operating costs	2013–14		2012–13 revised IAS19		2012–13	
	£000s	% of pay	£000s	% of pay	£000s	% of pay
Service cost	1,271	28.5%	1,102	25.8%	1,102	25.8%
Net interest on defined liability	1,335	29.9%	1,303	30.5%	n/a	n/a
Administrative expenses	148	3.3%	145	3.5%	n/a	n/a
Interest on obligation	n/a	n/a	n/a	n/a	5,336	124.9%
Expected return on scheme assets	n/a	n/a	n/a	n/a	(5,183)	-121.4%
	2,754	61.7%	**2,550**	**59.8%**	**1,255**	29.4%
Actual return on scheme assets	**3,474**		**12,633**		**12,487**	

The service cost is the increase in scheme liabilities as a result of employees' services. Net interest cost is the increase in the present value of the scheme's liabilities due to moving one year closer to payment.

Recognised in Statement of Changes in Taxpayers' Equity	2013–14	2012–13 revised IAS19	2012–13
	£000s	£000s	£000s
Return on plan assets in excess of interest	(505)	8,600	n/a
Other actuarial gains/(losses) on assets Experience gain/(loss) on assets	1,195	–	n/a
Actuarial gains and losses arising from changes in financial assumptions	2,553	(11,246)	n/a
Actuarial gains and losses arising from changes in demographic assumptions	(942)	–	n/a
Experience gain/(loss) on defined benefit obligation	(5,200)	(28)	n/a
Actuarial losses in pension scheme	n/a	n/a	(3,696)
Actuarial losses recognised in Statement of Changes in Taxpayers' Equity	**(2,899)**	**(2,674)**	**(3,969)**

Actuarial gains and losses may arise on both scheme assets and liabilities. For assets, the gains and losses are as a result of the differences between the actual and expected return. This figure may be volatile from year to year because of sensitivity to the market values of scheme assets at 31 March each year.

Actuarial gains and losses on liabilities arise because of differences between actuarial assumptions and actual experience during the period, and the effect of changes in actuarial assumptions.

Assets and liabilities relating to the Local Government Pension Scheme

	31 March 2014	31 March 2013 revised IAS19	31 March 2013
	£000s	£000s	£000s
Fair value of scheme assets	99,965	98,655	98,655
Present value of funded liabilities	(137,361)	(131,371)	(131,371)
Net liability	(37,396)	(32,716)	(32,716)
Present value of unfunded obligations	(305)	(320)	(320)
Net Liability in the Statement of Financial Position	**(37,701)**	**(33,036)**	**(33,036)**

Reconciliation of fair value of the scheme liabilities

	31 March 2014	31 March 2013 revised IAS19	31 March 2013
	£000s	£000s	£000s
Opening defined benefit obligation at 1 April	131,691	117,979	117,979
Service Cost	1,271	1,102	1,102
Interest cost	5,314	5,336	5,336
Remeasurements (gains)/losses arising from changes in financial assumptions	(2,553)	n/a	11,246
Remeasurements (gains)/losses arising from changes in demographic assumptions	941	n/a	–
Experience loss/(gain) on defined benefit obligation	5,200	n/a	28
Actuarial losses	n/a	11,274	n/a
Estimated benefits paid	(4,466)	(4,271)	(4,271)
Contributions by scheme participants	284	287	287
Estimated unfunded benefits paid	(16)	(16)	(16)
Closing defined benefit obligation at 31 March	**137,666**	**131,691**	**131,691**

Reconciliation of fair value of the scheme assets

	31 March 2014	31 March 2013 revised IAS19	31 March 2013
	£000s	£000s	£000s
Opening fair value of assets at 1 April	98,655	89,169	89,169
Expected return on scheme assets	n/a	n/a	5,183
Interest on assets	3,979	4,033	n/a
Return on assets less interest	(505)	8,600	n/a
Other actuarial gains/(losses)	1,195	-	n/a
Total actuarial gains/(losses)	n/a	n/a	7,305
Administration expenses	(148)	(145)	n/a
Contributions by the employer including unfunded	988	998	998
Contributions by scheme participants	284	287	287
Estimated benefits paid plus unfunded net of transfers in	(4,483)	(4,287)	(4,287)
Estimated fair value of scheme assets at 31 March	**99,965**	**98,655**	**98,655**

Indemnity for pension liability from the Department for Work and Pensions (DWP)

We have a service level agreement with DWP who have accepted that if the pension scheme liability was to crystallise then they would be liable. They also accept that if the DWP cannot meet these costs they will seek additional funding from HM Treasury to address any shortfall. We are effectively therefore indemnified against this liability.

Sensitivity analysis

The following is a sensitivity analysis for the key valuation parameters with respect to the present value of pension entitlements.

Sensitivity analysis	£000s	£000s	£000s
Adjustments to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	135,476	137,764	139,910
Projected service cost	1,171	1,195	1.220
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	137,882	137,674	137,467
Projected service cost	1,195	1,195	1,195
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	139,737	137,674	135,645
Projected service cost	1,221	1.195	1,171
Adjustment to mortality age rating assumption	+1 year	None	-1 Year
Present value of total obligation	133,238	137,674	142,110
Projected service cost	1,159	1,195	1,232

History of surplus or deficit in the scheme

	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
	£000s	£000s	£000s	£000s	£000s
Fair value of employer assets	99,965	98,655	89,166	91,186	90,464
Fair value of defined benefit obligations	(137,666)	(131,691)	(117,986)	(103,059)	(123,348)
Net liability arising from defined benefit obligation	**(37,701)**	**(33,036)**	**(28,820)**	**(11,873)**	**(32,884)**

Financial assumptions

	31 March 2014	31 March 2013
	% per year	% per year
RPI increase	3.5%	3.3%
Salary increases	4.5%	4.2%
Pension increases	2.7%	2.5%
CPI increases	2.7%	2.5%
Discount rate	4.4%	4.1%

The scheme guarantees that pensions will increase by the rise in the Consumer Prices Index. The discount rate is the **annualised yield at the 17 year point on the Merrill Lynch AA rated corporate bond curve.**

Composition of scheme assets

	31 March 2014		31 March 2013	
	£000s	%	£000s	%
Equities	72,975	73.0%	72,018	73.0%
Target return funds	9,997	10.0%	9,866	10.0%
Alternative assets	14,995	15.0%	14,798	15.0%
Cash	1,999	2.0%	1,973	2.0%
	99,966		**98,655**	

Demographic and statistical assumptions

The following life expectancy assumptions are used by the actuary in calculating the accounting entries:

Life expectancy from age 65 (years)	31 March 2014	31 March 2013
Retiring today:		
Males	22.5	21.5
Females	25.2	24.0
Retiring in 20 years:		
Males	24.8	23.5
Females	27.4	25.9

The post retirement mortality is based on the Club Vita mortality analysis, projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum. In addition, it has been assumed that members will exchange half of their commutable pension for cash at retirement, that active members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age and no members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

16. Capital commitments

	31 March 2014	31 March 2013
	£'000	£'000
At 31 March the following future capital commitments had been authorised and contracted:		
Property, plant and equipment	928	140
Intangible assets	–	–
	928	**140**

17. Commitments under leases

Operating leases

Total future minimum lease payments under operating leases (excluding PFI contracts), analysed according to the period in which the payments fall due.

	31 March 2014	31 March 2013
	£'000	£'000
Obligations under operating leases comprise:		
Land and buildings		
Not later than one year	4,331	3,939
Later than one year and not later than five years	8,014	5,486
Later than five years	–	69
	12,345	**9,495**
Other		
Not later than one year	39	106
Later than one year and not later than five years	90	5
Later than five years	–	–
	129	**111**

Obligations have increased during the year as a number of leases which were approaching the end of terms were extended.

We have no right to purchase the leased land and buildings above, or to compel the landlord to extend the leases, but may negotiate an extension with the landlord.

The commitments presented in this note do not include our commitments with regard to the STEPS PFI contract for accommodation services or the ASPIRE contract for IT services. These are discussed in Note 18.

18. Commitments under PFI contracts

Our sponsor department, HMRC, has entered into a PFI contract with Mapeley Estates Limited for the provision of office accommodation and facilities management. The VOA is not itself a party to the contract, which was negotiated by HMRC, but, as part of the sponsor department, we are effectively bound by the contract's terms. As such we record liabilities and commitments in respect of the buildings we are responsible for. The contract commenced in April 2001 and ends in March 2021. The estimated capital value of the contract in respect of the Agency is £2.421m, as measured at the inception of the contract.

(a) On balance sheet

One Shrewsbury is under the PFI contract with Mapeley Estates Limited and is treated as our asset in accordance with IFRIC 12. We have control over the services provided using the asset and control of its residual interest.

	31 March 2014	31 March 2013
	£'000	£'000
Total obligations under on balance sheet PFI contracts for the following periods comprises:		
Not later than one year	52	106
Later than one year and not later than five years	207	426
Later than five years	103	319
	362	851
Less interest element	(193)	(426)
Liability on Statement of Financial Position (Note 11)	**169**	**425**

	31 March 2014	31 March 2013
	£'000	£'000
Present value of total obligations under on balance sheet PFI contract for the following periods comprises:		
Not later than one year	12	28
Later than one year and not later than five years	82	169
Later than five years	75	228
Liability on Statement of Financial Position (Note 11)	**169**	**425**

Upon transfer, we received a consideration from the PFI provider of £1.5m in respect of the transferred assets. The remaining capital value of the assets resulted in a PFI prepayment of £921k. This was immediately offset against the opening liability in respect of the relevant properties, rather than being capitalised and amortised over the period of the contract. This prepayment has therefore resulted in reduced interest and capital repayment costs over the life of the contract.

In addition to the commitments disclosed above, we are committed to further expenditure in respect of rent for land, service charges and contingent rent (in the form of past RPI increases) as shown in the table below. In line with a change in our sponsor department's policy, we no longer include future contingent rent amounts in our commitments. Prior year amounts above have been adjusted for this change.

	31 March 2014	31 March 2013
	£'000	£'000
Total further commitments relating to on balance sheet PFI contracts, analysed by period due:		
Not later than one year	–	39
Later than one year and not later than five years	–	–
Later than five years	–	–
	–	**39**

The commitments above consist of the minimum lease payments for each property, over the term running from the reporting date to the earliest date that we can vacate the property without penalty.

For the properties accounted for under IFRIC 12, we have the right to require that a new lease be granted so that it can remain in occupation beyond the end of the STEPS agreement. For the other properties, we have no right to purchase the leased land and buildings above, or to compel the landlord to extend the leases, but may negotiate an extension with the landlord.

We disposed of our Colchester lease in March 2014. This had previously been recognised in the Statement of Financial Position under IFRIC 12. The associated asset, held at a value of £156k at 31 March 2013, was disposed of. The associated creditor, £228k at 31 March 2013, was extinguished on the termination (without penalty) of the lease, and the resultant gain offset against the loss on disposal of the asset.

We disposed of our Edinburgh lease in April 2014. This had previously been recognised in the Statement of Financial Position under IFRIC 12. The associated asset, held at a value of £nil at 31 March 2013, was disposed of. The associated creditor, £nil at 31 March 2013, was extinguished on the termination (without penalty) of the lease, and the resultant gain offset against the loss on disposal of the asset.

(b) Off balance sheet

The total payments we are committed to make in respect of off balance sheet PFI properties, analysed by the period in which they are due, are set out below:

	31 March 2014	31 March 2013
	£'000	£'000
Total commitments, analysed by period in which they are due:		
Not later than one year	5,639	5,485
Later than one year and not later than five years	3,041	3,660
Later than five years	344	–
	9,024	**9,145**

The commitments above consist of the minimum lease payments for each property, over the term running from the reporting date to the earliest date that we can vacate the property without penalty.

Our STEPS lease payments increase with the Retail Prices Index (RPI). In line with a change in our sponsor department's policy, we no longer include these future contingent rent amounts in our commitments. Prior year amounts above have been adjusted for this change.

We have no right to purchase these properties at the end of the STEPS agreement, but may negotiate an extension to the leases if required.

In the year to 31 March 2014, we paid £7,282k (2012–13: £7,281k) to the STEPs contractor in respect of off balance sheet properties and service charges. In addition to the STEPS scheme described above, we occupy space in buildings procured under PFI schemes by HMRC and the Department for Work and Pensions. Lease commitments to other government bodies in respect of these buildings are included in Note 18.

(c) Total charge to the Statement of Net Comprehensive Expenditure and future commitments

The total charge to the Statement of Net Comprehensive Expenditure in respect of:

- service charges;
- rent for off balance sheet land and buildings; and
- interest and contingent rent for on balance sheet properties

was £7,521k (2012–13: £7,805k). Future commitments in respect of these payments are analysed below:

	31 March 2014	31 March 2013
	£'000	£'000
Total commitments, analysed by period in which they are due:		
Not later than one year	5,679	5,603
Later than one year and not later than five years	3,166	3,916
Later than five years	372	91
	9,217	**9,610**

The commitments above consist of the minimum payments for each property, over the term running from the reporting date to the earliest date that we can vacate the property without penalty.

(d) The ASPIRE contract for the provision of IT services and equipment

The IT non-current assets recognised by our IT partners CapGemini and Fujitsu and used in delivering the ASPIRE contract have been capitalised as finance leases under IFRIC 12 and are disclosed at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract. It is not possible to separate these assets between the Agency and HMRC as they are used in common to deliver the service. These joint assets are held by HMRC and are treated as an operating lease by the Agency. Whilst HMRC's consolidated figures will report the correct aggregate position this difference in approach is to be noted. Where related figures are reported separately for HMRC and the Agency, there is no material impact on figures reported.

During the year to 31 March 2014, we paid £9,503k (2012–13: £12,068k) in service charges in respect of the ASPIRE contract. While we currently plan to incur £9,501k in operating expenditure for ASPIRE services during 2014–15 there is no commitment to expend these sums.

19. Contingent liabilities at 31 March 2014

Our contingent liabilities are as follows:

a) We are involved in several legal actions arising from our statutory activities. If we lose these cases we are generally not liable for compensation but could be liable for the other party's costs if the court so decides. Often cases pass through several levels of appeal before final resolution and subsequent hearings to assess costs are not uncommon. Cases are currently under consideration by tribunals ranging from the Valuation Tribunal to the European Court of Justice.

We are confident of success in those cases which are not accounted for within our provisions. This is often because we have already won in a lower court or because we have received legal advice confirming the strength of our position. We cannot easily assess third party costs in these cases. Due to this, it would be misleading to quantify these contingent liabilities though we acknowledge the potential for them to crystallise.

b) We are occasionally liable to compensate staff for dismissal for health related issues under the PCSPS. Also on occasion current or former staff may sue us for discrimination or unfair dismissal. At present there are no cases where there is a potential liability (2012–13: £39K).

20. Losses and special payments

We have incurred losses and made special payments as shown below.

	2013–14		2012–13	
	No. payments	£'000s	No. payments	£'000s
Losses				
Losses of pay	14	2	13	14
Fruitless payments	–	–	2	2
Claims abandoned	20	23	15	10
	34	**25**	**30**	**26**
Special payments				
Special payments	1	0	–	–
Ex-gratia payments	16	3	7	2
Compensation payments	43	88	47	73
Special severance payments	–		–	–
	60	**91**	**54**	**75**

Losses and special payments are shown in their own line in Note 4.

Losses and special payments are defined in Annexes 4.10 and 4.13 to *Managing Public Money,* which can be found at http://www.hm-treasury.gov.uk/psr_mpm_index.htm.

21. Related party transactions for the year ended 31 March 2014

The Valuation Office Agency is an Executive Agency of HM Revenue & Customs (HMRC). HMRC is a related party and we had a significant number of material transactions with it during the year. Reported income in the year includes £9,500k earned from HMRC and expenditure includes £19,638k invoiced to us by HMRC. Current assets include £1k of debt due from HMRC and current liabilities include £1,470k due to HMRC. (These figures exclude transfers of tax, national insurance and pension contributions that result from HMRC acting as our payroll provider.)

We are controlled by the UK Government and have a significant number of material transactions with other UK Government departments. Most of these transactions have been under service level agreements with the Department for Work and Pensions, the Department for Communities and Local Government and the Welsh Government. To 31 March 2014 income was invoiced to these parties under SLAs as follows:

Department for Work and Pensions	£13,370k	(2012–13: £12,192k)
Department for Communities and Local Government	£148,022k	(2012–13: £144,608k)
Welsh Government	£8,826k	(2012–13: £9,151k)

We had material transactions with pension schemes providing benefits to our people, the Principal Civil Service Pension Scheme and the Local Government Pension scheme as administered by the London Pension Fund Authority. These transactions are discussed in Notes 3 and 15 respectively.

During the year, no Board Member has undertaken any material transactions with the VOA. We had no material transactions with any party related to us because of a Board member's interest in it or influence over it. One Board member has a close family member who is also employed by the VOA. The individual concerned is remunerated according to the normal scale and policies for their grade. There is no direct supervision by the Board member of their family member and our procedures do not allow them to significantly influence the family member's remuneration.

22. Events after the reporting period

These accounts were authorised for issue on the date of the C&AG signature.

23. Standards in issue but not yet effective

These accounts have been prepared according to the 2013–14 Financial Reporting Manual. This manual typically applies the standards and interpretations that are effective for the accounting period to which it refers. New and revised standards and interpretations have been issued but are not yet effective, and have not therefore been adopted in this account. The following new standards may affect our accounts when they become effective:

IFRS 9 Financial Instruments	This standard is effective from 1 January 2015, but has not yet been adopted by the EU. If adopted in the future, it will apply to these financial statements in place of the current IAS 39. We do not currently hold assets or liabilities which would be affected by this change and do not anticipate doing so in future.

IFRS 13 Fair Value Measurement	This standard is effective from 1 January 2013, but has not yet been adopted by the FReM. This standard would provide guidance on all fair value measurements across IFRS, discussing measurement techniques and disclosure requirements. Fair value measurement is used in our accounts as follows: • Property, plant and equipment, and intangible assets, are held at their fair values; • Financial assets and liabilities are recorded at fair value on initial recognition; and • The assets and liabilities that form the net LGPS pension liability are held at fair value.
IAS 1 Presentation of Financial Statements (amended by Improvements to IFRS 2010)	The amended standard is effective from 1 June 2012, but has not yet been adopted by the EU. It would require that items of Other Comprehensive Net Expenditure be grouped in the Statement of Comprehensive Net Expenditure according to whether or not they may be reclassified as part of Net Operating Surplus in a future period. None of our Other Comprehensive Net Expenditure is subject to such reclassification.
IAS 17 Leases (replacement)	This effective date of this standard is yet to be determined. The current proposals include the elimination of the current operating lease categorisation for nearly all leases except short term. Instead, assets and liabilities will be recognised on a "right to use" basis. HM Treasury has commenced an analysis of the revised exposure draft and will review the implications with the relevant authorities, following due process once there is a final standard.

Payment of Local Authority Rates (POLAR)

Introduction

The Valuation Office Agency (VOA) is responsible for administering the POLAR scheme for the Foreign & Commonwealth Office (FCO). The Chief Executive Officer of the VOA is the Accounting Officer for POLAR. The POLAR accounts are included within the HMRC consolidated resource accounts and are audited as part of the overall HMRC audit. It does not form part of the VOA accounts and is not audited as part of the VOA audit. Therefore the following information has not been subject to audit.

Background

POLAR is a scheme by which local billing authorities in the UK are compensated by central government for the non-domestic rates due on properties occupied by a mission with diplomatic status. As per the Vienna Convention on Diplomatic Relations 1961 and Diplomatic Privileges Act 1964 all states and other bodies sending diplomatic representatives to another state are exempt from all national, regional or municipal dues and taxes in respect of premises of the mission. Under the scheme, diplomatic missions are encouraged to contribute an amount known as the Beneficial Portion. This is to take account of the extraneous services such as the fire service and street lighting. The Beneficial Portion is currently set at 6% of the overall rates bill.

VOA Responsibilities

The VOA administers the POLAR scheme. Essentially the VOA's role is to liaise with local billing authorities, diplomatic missions and the FCO.

The VOA pays 100% of the rates liability to the billing authorities and then seeks to recover the Beneficial Portion from the mission. If a mission falls into arrears then the FCO will encourage them to pay the Beneficial Portion – although there is no legal obligation to do so.

Facts and Figures

In 2013–14 there were 192 diplomatic missions in the UK covering 401 properties. Of these all were in England except 25 in Scotland, three in Wales and three in Northern Ireland. Rateable values ranged from less than £500 to £7 million and a total of 30 billing authorities are involved in the POLAR scheme, mainly in Greater London. During 2013–14 the POLAR scheme required £63.8 million of funding (2012–13: £56m). The net Beneficial Portion collected was £3.7 million (2012–13: £3.3m). The inherent risk of the POLAR scheme is low. The main areas of uncertainty being vacation of properties without FCO knowledge and changes in the rateable value of properties due to refurbishments etc. These issues can sometimes take several years to come to light and can lead to sudden demands for backdated rates or indeed refunds.

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