Valuation Office Agency Annual Report and Accounts 2011-12

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A Quick Read…

This summarises the main points in our report and accounts.

- We work mainly in the field of local taxation but also work in support of national taxation and benefits as well as providing other property valuation and advice services across the wider public sector.
- We have over 25 million customers.
- We work primarily in England and Wales based in 72 offices.
- We have income of over £200m and made a small financial surplus in 2011-12.
- We radically reorganised ourselves in 2011-12 and have embarked upon an ambitious change journey over the next few years to help deliver our vision and our strategic objectives.
- We employ 3,564 people.
- Over 90% of our people are in front line jobs serving our customers directly.
- We want our customers to be confident in our valuations and advice, and to trust us.
- We continue to deliver good value for money to the taxpayer but we are committed to improving this further.
- We aim to act fairly, consistently and efficiently and we are committed to constantly improving our performance.

About Us

Who we are

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

Why we are here

We are here to deliver our "core purpose" which is to provide the valuations and property advice required to support taxation and benefits.

To help us achieve this purpose we have four strategic objectives which are to:

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

These objectives run through all of our work in our day to day business as well as in our change and transformational work. This report aims to show how we are delivering these.

What we want to achieve

Our vision is that our customers have confidence in our valuations and advice. As a modern professional organisation with expert and committed people, we act fairly, consistently and efficiently.

Our People

In 2011-12 we employed 3,564 people – based on average full time equivalents, including agency staff.

We have accreditation with Investors in People.

Where we are

Our head office is in Wingate House 93 – 107 Shaftesbury Avenue London W1D 5BU and we have 72 offices in England, Wales and Scotland.

Our website can be found at www.voa.gov.uk and there is information about our work on www.direct.gov.uk and www.businesslink.gov.uk. You can also read about and see our work at www.business.wales.gov.uk.

Our customers can contact us by telephone using the two numbers below:

Tel: 03000 501501 for England
Tel: 03000 505505 for Wales

Details of our local offices can be found under 'Contact the VOA' on our main website at www.voa.gov.uk/corporate/contact/index.html.

What we do

Our main work supports the determination and collection of Council Tax and Non-Domestic Rates in England and Wales by Local (Billing) Authorities.

For Non-Domestic Rates we compile the valuations of business properties in the rating lists every five years. This involves about 1.8 million properties in England and approximately 100,000 properties in Wales. Having compiled the list we then maintain it - making changes where necessary.

For Council Tax we compile and maintain the valuation lists for about 23 million properties in England and around 1.3 million properties in Wales. We also make any changes to these lists too.

The Department for Communities and Local Government (DCLG) and the Welsh Government fund us to deliver this work.

We support the Department for Work and Pensions (DWP) in Housing Benefit and Local Housing Allowance by:

- Determining allowances in over 150 market areas;
- Dealing with nearly 300,000 Housing Benefit referrals a year; and
- Determining some 60,000 Fair Rent cases.

We support HMRC in 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.

Finally we provide property and valuation advice to Ministers in Westminster as well as the devolved authorities in Wales and Scotland.

How we are organised

Over 90% of our people are in front line jobs delivering our services with the remainder in corporate support roles.

The two main parts of our business are Non-Domestic Rates, and Council Tax and Housing Allowance. This year we have organised this work in separate national business streams each covering England and Wales. Within each business stream we have smaller regional business units.

Our new national business stream structure came into effect in autumn 2011 as the first part of a phased change programme for the Agency. This new operational structure creates the platform for changes we will make over the coming years. This will help deliver our vision by:

- Focussing more on our customer groups - understanding their needs better and adjusting what we do in response;
- Making the best and most flexible use of our skills, ensuring we have people with the right skills in the right place; and
- Providing a consistent service to our customers across the whole of our network.

In addition we have four Network Support Offices where we are centralising our processing work to improve customer service and consistency whilst at the same time becoming more efficient and delivering better value for money.

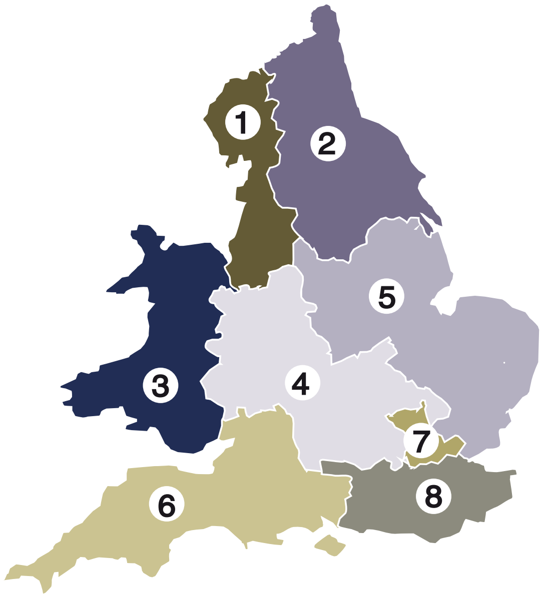
Other teams are managed on a national basis, with people located throughout England and Wales, and in Scotland. They provide:

- Valuation advice for Inheritance and Capital Gains Taxes; and
- Other property valuation and surveying advice.

Our corporate services are also organised nationally, with staff located mainly in our Head Office but also in some local offices.

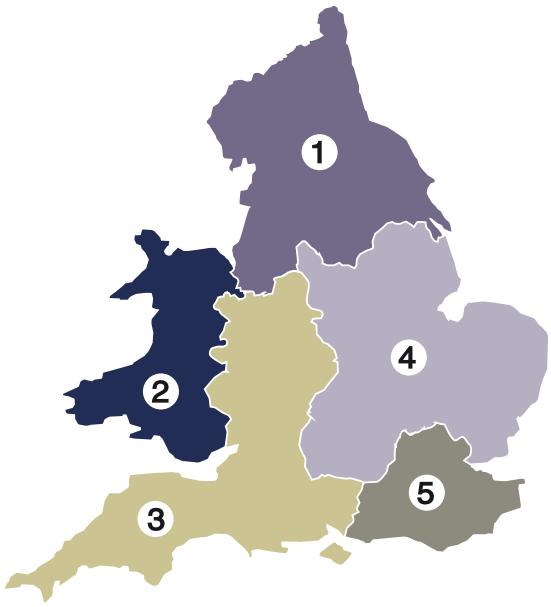
NDR Business Stream Structure

1 Non-Domestic Rates North West
2 Non-Domestic Rates North East
3 Non-Domestic Rates Wales
4 Non-Domestic Rates Central
5 Non-Domestic Rates East
6 Non-Domestic Rates South West
7 Non-Domestic Rates London
8 Non-Domestic Rates South East



CT Business Stream Structure

1 Council Tax North
2 Council Tax Wales
3 Council Tax West
4 Council Tax East
5 Council Tax South



Who our Directors are

Penny Ciniewicz
Chief Executive

Dyfed Alsop
Director, Strategy, People and Change

Colin Bailey
Chief Finance Officer

Christina Duncan
Director, People and Engagement

Mary Hardman
Director, Non-Domestic Rates

Helen Kettlewell
Director, Non-Domestic Rates – Operations

Philip Macpherson
Chief Information Officer

Guy Richardson
Director, Council Tax and Housing Allowance

Chris Sharp
Director, Property Services

David Subbachi
Director, National Specialist Unit

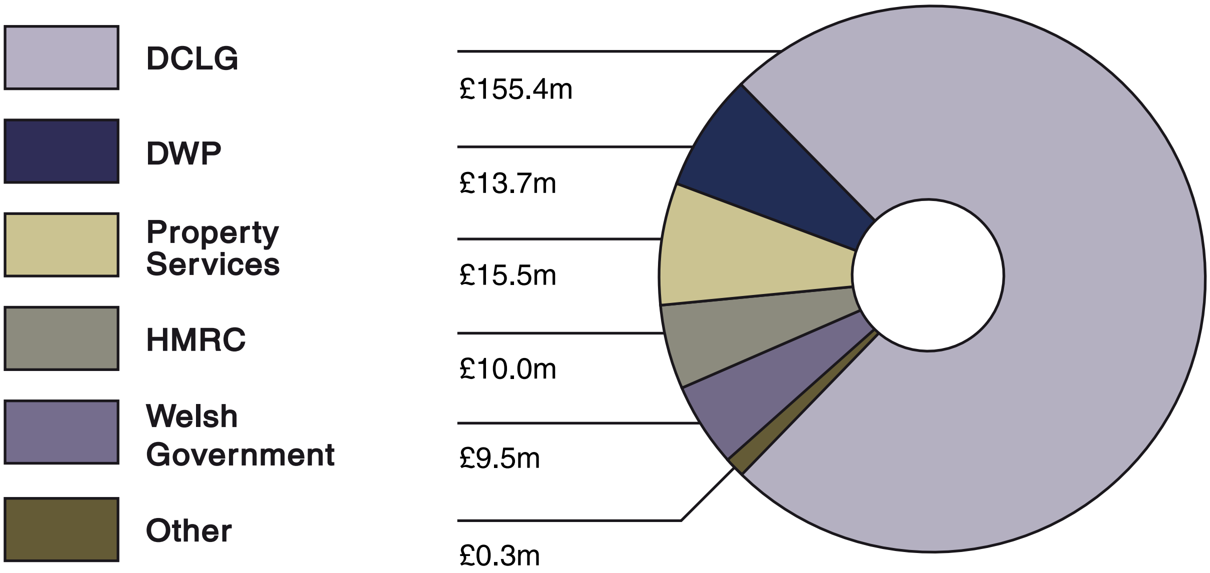
Niall Walsh
Chief Operating Officer and Chief Valuer

Alex Jablonowski
Non-Executive Director

Elizabeth McLoughlin
Non-Executive Director

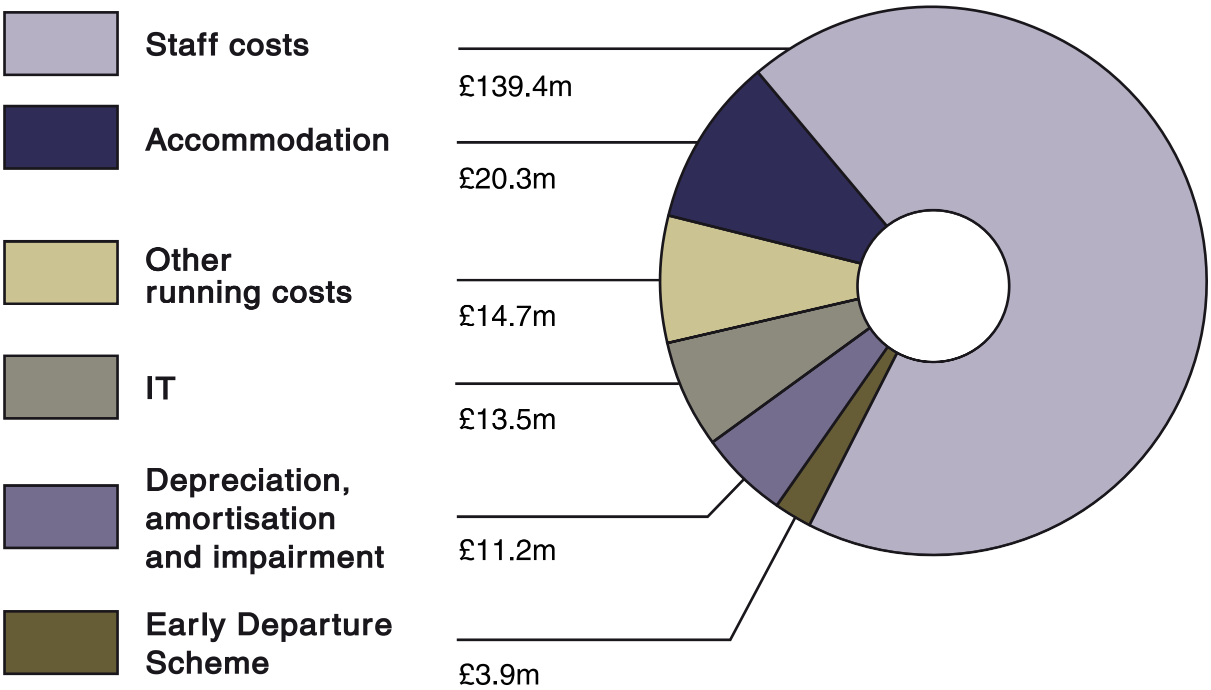
Our income in 2011-12 was

In 2011-12 we earned the following funding from our clients.



Our spending in 2011-12 was

In 2011-12 we spent that funding on the following, finishing the year with a small surplus of £1.4m.



The Chief Executive's Review

It has become something of a cliché to say that the pace of change is increasing and that the ability to manage change well is what characterises successful organisations. Like all other parts of the public sector we have embarked on a significant change programme, the first stage of which we delivered this year. This programme will transform the way we deliver our services to support our clients and delivery partners. We need to deliver that change while maintaining the professional standards which will inspire the trust of our customers.

As an organisation we count among our customers:

- Every council taxpayer and every business in England and Wales;
- Housing benefit recipients;
- National taxpayers;
- Those in regulated tenancies; and
- Over 2,200 organisations in the wider public sector.

We are therefore better placed than many to understand the importance of continuing to deliver successfully to our diverse customer base during periods of change.

That is why we have put customers first in our vision. We have set out to make sure that our "customers have confidence in our valuations and advice". We believe that if we can increase customer trust we will be delivering more successfully, and doing so more effectively and efficiently.

The Agency is built on a century of professionalism. We are the largest employer of surveyors in England and Wales. To deliver successfully we rely on the skills of many other professions, from finance to information management. So we emphasised in our vision the importance of professionalism in all we do. We aim to bring our skills and values into a twenty first century context through having a diverse and skilled workforce. We are committed to delivering a good service to our customers, ensuring that "as a modern professional organisation with expert and committed people, we act fairly, consistently and efficiently".

We plan and implement change against a backdrop of external and internal challenges. In common with all public sector bodies we need to set ourselves the task of delivering more for less. We must work within wider public sector spending constraints yet seek to meet our customers' increased expectations. We support the government to deliver key policy objectives, whether through the introduction of Universal Credit, or the localism agenda. Internally we face the challenge of engaging our people while transforming our organisation and our ways of working.

“We are committed to delivering a good service to our customers, ensuring that as a modern professional organisation with expert and committed people, we act fairly, consistently and efficiently”.

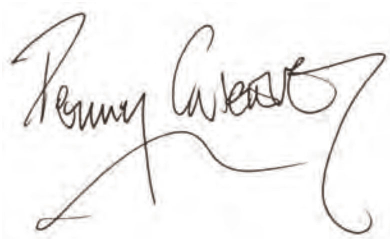
2011-12 was a significant year for our change journey. We radically reformed our organisational structure to create national business streams for Non-Domestic Rates, and Council Tax and Housing Allowance. In doing so we streamlined delivery and changed our management structure, moving from 22 Groups to eight Non-Domestic Rates units and five Council Tax units each brought together in business streams. This of course had a significant impact on those of our people whose roles changed. We also closed nine offices in the year, with the vast majority of staff affected moving to other locations or to homeworking, although a small number left the Agency through exit schemes. It is a testament to the commitment of our people, in the front line and in corporate services, that despite these changes the Agency delivered another strong set of results.

These changes create a new platform for many of the future changes we will be making by giving us greater visibility of best practice, and enabling us to deliver more consistently and cost effectively across the network. And by ensuring we have people with the right skills in the right place we can focus more on our different customer groups to understand their needs better.

Following this first phase of the change programme, it is reassuring to know that the strategic objectives we set out a year ago remain good. They act as a strong anchor for the changes we plan to deliver in the future. We also believe these objectives create a virtuous circle of improvement, each supporting the other, as we outline in our Financial Commentary.

Inevitably change also brings risk and I set out in my Governance Statement how we are managing these risks. On the whole we do that effectively but in one instance we did not meet the standards we set ourselves in terms of maintaining delivery for our customers. Our switchboard suffered a significant prolonged failure in March 2012, and I would like to take this opportunity to apologise to our customers affected by this failure.

This makes me even more determined to manage our risk more robustly. I will make sure we do all we can in the coming years to realise our vision and achieve our strategic objectives, while continuing to deliver successfully for customers and clients.



Penny Ciniewicz

Chief Executive

Input and Impact Indicators

Input Indicators (Annual Measures)	2011-12 Result
Average staff cost of dealing with a case for Business Rates	£116.30
Average staff cost of dealing with a case for Council Tax	£51.60
Average staff cost of dealing with a Housing Benefits referral	£5.30
Average staff cost per case for Capital Taxes casework	£350.10

Impact Indicators (Annual Measures)	2011-12 Result
Compiling and maintaining lists to support overall Council Tax and Business Rates receipts (£bn)	£52bn
Proportion of VOA Service meeting timeliness service levels	97.4%
Proportion of VOA Service meeting quality standard levels	99.9%
Proportion of VOA Service meeting accuracy levels	100.0%
The Agency will operate within its budget reduction of 20% (in real terms) over the Spending Review period	5.8%
Customers are satisfied with the overall experience of VOA services	87.5%

Our performance against these Input and Impact Indicators is set out in the commentary below. This is the first year we have reported against these measures following the publication of our Business Plan in May last year.

Operating and Performance Commentary

Introduction
Our overall operating performance continued to be very strong throughout 2011-12. During a period of considerable change, both internally and externally, we have met or exceeded all but one of our former key performance indicators. The one we missed was customer satisfaction on which we will comment later in this report.

We also met the majority of our other operating targets some, 28 out of 30, which demonstrates our strong overall operating performance.

At the same time as delivering this performance we've successfully reduced our costs. This supports our strategic objective of sustainably reducing our cost and improving value for money. In some instances we have recycled our efficiencies to meet the emerging priorities for our customers and departmental clients. For example we:

- Recruited more front line people to meet the high volume of Non-Domestic Rating appeals;
- Re-aligned our strategy in Property Services to respond to the suppressed demand for some of our services;
- Were still able to successfully meet the growing and changing demand for other services from within existing cost bases.

In managing these often competing challenges, we have tried to maintain our strong focus on assuring the quality of our work and the outcomes for our customers.

The Board was disappointed that we did not achieve our employee engagement target, where the result fell from 48% to 44%, as measured in the Civil Service wide People Survey carried out each autumn. The survey took place during our restructuring of the Local Taxation business areas, which was unsettling for the large numbers of people impacted. And issues with the operation of our pay system under the pay freeze were also being felt. These factors undoubtedly impacted on the results, but we are in no way complacent about the position and are working hard with our people to address the issues. Directors are spending much more time in local offices, are holding face to face meetings with all line managers, and are in dialogue about the key issues, through innovations such as The Hot Seat, where people can post questions for Directors to answer online. We also have a Reward and Recognition Review under way which aims to address, over time and within public sector pay policy, the problems with our pay system.

Our sickness absence rates have improved with the average short term sick absence being 3.6 days (against a target of 4.0 days per person per year) and long term sick absence being 6.9 days (against a target of 7.0 days per person per year).

Diversity and Equality
We have strong diversity and equal opportunity policies and we are committed to the employment and development of people with disabilities. To demonstrate our commitment we have signed up to the 'Positive about Disabled People' symbol awarded by the Employment Service. As a symbol user we guarantee to interview anyone with a disability whose application meets the minimum criteria for the post. Continuing to build on the successful delivery of our recent e-learning package we have delivered diversity awareness training to all our managers.

Training has also been delivered to the appropriate staff undertaking Equality Impact Assessments, to ensure Diversity and Equality is embedded into everything we deliver.

Customers

Customers' satisfaction with the service they received remained strong in Property Services and Statutory Valuations. We are respected for the integrity and impartiality of our approach. This has seen us emerge increasingly as the supplier of choice for property valuation and advice services for the public sector. This is demonstrated:

- Through our newly created roles in relation to land transfers between public bodies in Wales, within the Community Infrastructure Levy legislation; and
- In supporting the delivery of the annual charge on certain qualifying residential properties valued at over £2m recently announced in the Budget.

This reflects the confidence placed in the Agency to maintain and build upon the trust that its clients and taxpayers have in it.

Customers' satisfaction fell slightly in Local Taxation and Housing Allowance, resulting in a failure to meet the target of 90% of our customers being either 'very satisfied' or 'fairly satisfied' with the service they received. We believe that falling success rates on Non-Domestic Rating appeals combined with wider pressures on customers have resulted in these lower satisfaction scores.

As part of a wider drive to improve our research capability, we have made a number of improvements to the way feedback from our customers is collected. A new 'Customer Survey' will be introduced in 2012-13. This will better align with our strategic objective to "target and achieve greater customer trust". We want to provide more meaningful measures and information on how we presently meet the needs of our customers and how we can change to meet them better. Based on these survey results we will develop revised measures and indicators for use in 2013-14.

As we have adopted and begun to put in practice our strategic objectives we have started to see the impact of these emerging in our operational work and performance.

People

One of our strategic objectives is to develop and sustain the right capabilities. For us to build the capability to meet our clients' and customers' changing needs, we must attract, retain and invest in our people and infrastructure. This is why we have:

- Recruited graduate and qualified surveyors into our Non-Domestic Rates business stream; and
- Created the National Specialist Unit, with additional roles, to deal with our most technically complex work.

We also supported our Chief Operating Officer and Chief Valuer, as Head of Profession for surveying in the Agency, to make sure that we:

- Have the highest standards of professionalism in the various surveying disciplines;
- Develop a strong pipeline of talent; and
- Are able to play a full role in supporting the surveying profession across all government departments.

Of course being a modern professional organisation is not just about having highly skilled and professional property professionals. We apply the same rigour to making sure that we attract and retain the necessary skills across all our key strategic business areas. These include Information Technology, Analysis, Communications and Operational Delivery. We have continued to invest in building these professional skills, to make sure that we have the appropriate resources to give our customers the services they need.

Reorganisation

Creating national business streams for Non-Domestic Rates and Council Tax and Housing Allowance allowed us to make significant steps towards our strategic objective to drive quality and consistency through improved processes. Having fewer units with a clearer national end-to-end focus on delivery has helped identify areas where local practices are not conforming to our best practices. By addressing these we have been able to improve the consistency of our service to customers on a national and local basis. For example, improving the speed at which we provide 'considered decisions' on rating appeals concerning factual and physical property alterations. Prior to the reorganisation our least satisfactory Group performance was an 85.5% clearance rate within two months. Following the reorganisation this has improved significantly to 94.8%, almost at our target of 95%.

Being more consistent and compliant with our process has enabled us to narrow significantly the performance ranges and variations between units in other areas too. For example the hours taken to deal with a case in Council Tax ranged from 2.5 hours to 20.7 hours before the changes. This range is now between 1.5 hours and 4.6 hours. We have also taken the opportunity to review our processes. One of the first changes was to streamline our Council Tax procedures and provide new process maps to our teams. We have begun to reduce or eliminate unnecessary steps. The new Council Tax Policy, Process and Assurance team, together with colleagues in Finance, have started to work closely to ensure that units are working in this standardised and consistent way. They are also analysing any wide variations between the performances of the units to understand and identify best practice or non-adherence to the processes.

Our Focus For 2012-13

This will be centred on a number of key priorities.

- We will look at ways to use the new Council Tax Process Maps to further enhance our processes to achieve improvements in quality, consistency and value for money. Key to this will be having our teams actively engage in bedding these in to their day-to-day work and contributing ideas to improve the way we do things.
- In Non-Domestic Rates we will also follow a similar route to Council Tax with new improved, standardised process maps. We are also trialling a series of pilots to test new ways of handling appeals. Our aim is to increase the number of appeals we clear and the speed at which we do this.
- We will continue to work towards centralising much of our support and processing work into our Network Support Offices. This will improve our consistency and customer service, as well as giving us efficiency gains.
- We will complete the organisation design work we started in 2011-12. We will look in particular at how we can improve our customer service function, our administration and business management teams, and how we provide local corporate support in offices.

Clients (both statutory and non-statutory) remain very satisfied with our overall operating performance.

Our performance indicators, which have previously been reported as Key Performance Indicators, are shown in the table below for information.

Year		2010-11	2011-12	
Customer	To achieve overall customer satisfaction of 90%.	90%	87.5%	Not Met
Operations	To contain reductions in the 2005 rating lists to a maximum of 4.2% of the total compiled list rateable value, over the entire life of the lists.	3.5%	N/A	No longer applies
	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.	0.0%	0.44%	On Target
	To ensure 96% of new council tax bandings are right first time.	98%	98%	Met
	To determine 95% of Housing Benefit claims where no inspection is required in 3 working days.	99%	99.9%	Met
	To review for Local Housing Allowance purposes 25% of Broad Rental Market Areas.	40%	N/A	No longer applies
	To enable prompt issue of tax assessments by clearing all HMRC initial appraisal cases within an average of 3 working days.	3.0 days	3.0 days	Met
Value for Money	Improvement on overall value for money on local taxation work by 3% for 2011-12 [Previously - Improvement on overall value for money on local taxation work by 3% a year over a three year period to 2010-11.]	7.3%	5.4%	Met
	To achieve full cost recovery reflecting a 5% reduction in budget for the year on all work for HMRC.	Met	Met	Met
	To achieve income from non-statutory services of at least £14.8m.	16.6	15.5	Met
Data Security	To have zero data incidents reportable to the Information Commissioner.	Nil	Nil	Met

Complaints

We take all complaints seriously and where those complaints are justified we seek to resolve them quickly to help customer service and improve trust. We also use the lessons learnt from complaints to improve our services. We handle hundreds of thousands of cases each year from our customers and most of these don't lead to complaints. However we did have some more significant complaints and these are set out below.

In 2011-12, we referred 22 cases to the Adjudicator's Office. In the year the Adjudicator investigated 11 cases, of these:

- 1 was substantially upheld;
- 3 were partially upheld; and
- 7 were not upheld at all.

In the year we also referred four cases to the Parliamentary Ombudsman, of these:

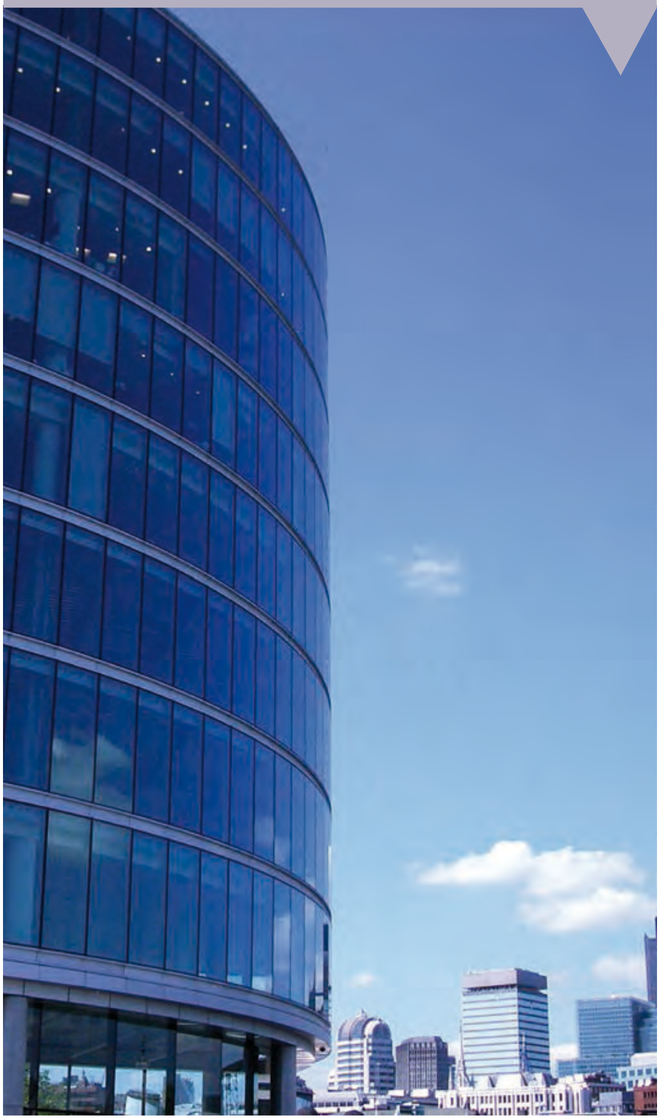
- 2 were investigated; and
- 2 were upheld.

There are no major trends to report from these cases but given the diverse nature of our entire customer base this is perhaps not surprising.

In Non-Domestic Rates complaints increased due to the economic changes between the dates the valuations are made and when the list became live. We also received more complaints about the length of time it takes us to deal with some Non-Domestic Rates appeals.

In Council Tax the areas of customer complaints included being banded more highly than neighbours. This may or may not be appropriate depending on individual properties and their attributes and on whether improved properties have been sold since improvements were made. We also received complaints about the non-disclosure of comparative sales data in Council Tax reviews.

"During a period of considerable change, both internally and externally, we have met or exceeded all but one of our former key performance indicators".



Financial Commentary

Our financial results for 2011-12 are set out in the accounts attached to this report.

Our principal financial objective is to break even by recovering the full costs of undertaking all our work from the fees we charge to clients. We achieved this, with an operating surplus of £1.4m (0.7%) of our operating income.

The Statement of Comprehensive Net Expenditure shows our overall financial performance for the year.

Income for the year was £204.4m, a reduction of £5.3m from the previous year of £209.7m. This was in line with our expectations following funding negotiations with our clients for the spending review period. This total for the year also reflects £15.5m from our work across the public sector in Property Services, which changed its name in year to reflect a new strategy. While income shows a further fall from the previous year, caused by the reduction in wider public sector spending, it was modestly above our forecast for the year. We also broke even on this work. These results reflect sensible cost reductions in Property Services and the benefit of targeting more value adding work for clients in areas like strategic asset management.

Our total spending for 2011-12 was £203.0m, down from the previous year, but reflective of the overall decrease in income. Pay costs continue to be the principal operating cost. Pay increases were limited to those of our people earning under £21,000 a year as part of the wider public sector pay freeze so the year on year pay increase on a like-for-like basis was relatively small.

However our expenditure does reflect a substantial settlement and scheme to address issues arising from a number of claims we faced under Equal Pay legislation. These claims centred on a relatively small number of lead cases and had been lodged with the Agency for some time. Following updated legal advice and with the approval of HM Treasury we entered into discussions with the claimants and their representatives to negotiate a settlement. In addition to this settlement, we put in place a one-off scheme to compensate others in similar circumstances who had not made a claim. The

"Our principal financial objective is to break even by recovering the full costs of undertaking all our work from the fees we charge to clients. We achieved this, with an operating surplus of £1.4m (0.7%) of our operating income".

one-off compensation cost in the settlement was £7.8m and is reflected in the Statement of Comprehensive Net Expenditure.

As a result of the settlement we also agreed to adjust the pay of those people affected on an ongoing basis – effectively adjusting their salaries to the position that they ought to have been in, in line with legal advice. This created an additional in year cost in 2011-12 of just over £3m and an annualised amount estimated at £4m per annum going forward.

To help fund the settlement we have made reductions in other operating areas such as accommodation and service charges.

In 2011-12 we closed nine offices and the cost savings from these will give us substantial benefits in 2012-13 and beyond.

We have also managed to contain costs in areas such as travel and subsistence. We made better use of more economical travel tickets especially train tickets and more efficient use of desk-based inspection data while recognising the need to incur some degree of cost in order to maintain quality and consistency and meet customer needs and build trust.

Following the re-organisation of our local taxation work into national business streams, we incurred some costs in running a variety of exit schemes. These schemes allowed some of our people, who no longer had roles, to leave the Agency. In addition, following the office closures where we were unable to successfully re-locate people elsewhere within the Agency or the wider Civil Service we ran a series of exit schemes for those affected. The total cost of all these schemes was £2.6m. We have also made a provision of just under £1m to cover the possible redundancy costs of those remaining people who have yet to find a permanent role following the restructuring.

“we closed nine offices and the cost savings from these will give us substantial benefits in 2012-13 and beyond

In addition to our operating costs we also incurred a full impairment charge on our Geographical Information System. This is also shown in the Statement of Comprehensive Net Expenditure. Having extensively tested the system and its application we came to the view that we might not realise the benefits that had been intended at the time of the investment decision. Further analysis of this revealed the intended benefits were indeed not realisable and having adjusted the cash flows this identified a full impairment at a charge of £3.1m.

In terms of financial transparency each month we publish details of our spending on items over £25,000. We also publish details of all of our transactions where we use the Government Procurement Card.

The Statement of Financial Position shows our assets, liabilities and taxpayers’ equity as at 31 March 2012.

The non-current assets consist of property, plant and equipment as well as capitalised software.

Work in progress (work performed but not yet billed) in our Property Services operations is now £2.2m. This is the lowest level for many years and represents a significant improvement over the last three years in terms of ensuring that interim billing permits cash receipts to flow in more quickly. It also reflects greater control of losses on fixed term contracts and aged work in progress.

Cash levels remain healthy with £16.5m at the year end. We have fully established cash forecasting which is working effectively. This is pleasing as we continue to perform well in terms of prompt payments to our suppliers including small and medium sized enterprises. 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 and Skills.

This year we managed to pay 89% of our invoices within five days and our trade creditor days was eight.

Our liabilities consist of payables, accruals, provisions and pension.

Total liabilities amount to £66.1m.

Following the adoption of International Financial Reporting Standards we recognised and accounted for the leave earned but not taken by our people. We decided to suspend the arrangements for "banking" some of this leave in 2010-11. The previous trend of this liability increasing has continued to reverse with another reduction of £500,000 in 2011-12.

In 2009 we merged with The Rent Service (formerly an executive agency of the Department for Work and Pensions, DWP). We now account for the net pension liability which represents our share in the Local Government Pension Scheme.

Over 2011-12, the fair value of the scheme assets has fallen by £2.0m. The present value of the unfunded liabilities has increased by £14.9m thereby increasing the liability on the Statement of Financial Position from £11.9m to £28.8m.

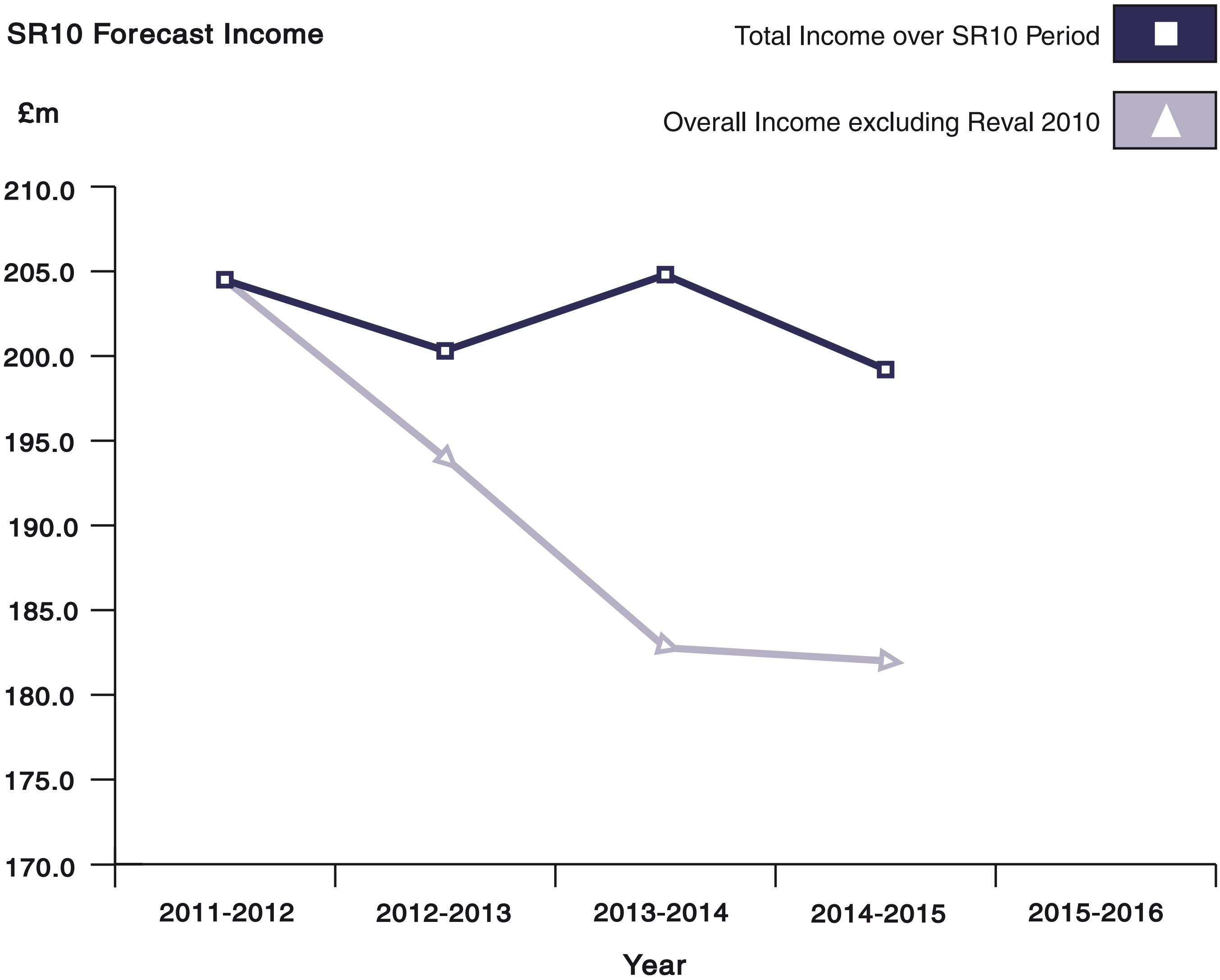
As part of our service level agreement, the DWP have accepted that if the pension scheme liability was to crystallise then they would be liable. They also accept that if the DWP could fund this, they would. If the DWP cannot meet these costs they will seek additional funding from HM Treasury to address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

In 2011-12 the Directors had no significant outside interests.

Financial Outlook

2011-12 was the first year of the 2010 Spending Review (SR10) settlement. We continue to have firm income figures for 2012-13 and indicative levels of funding for the two remaining years of the SR10 period: 2013-14 and 2014-15.

Based on these profiles our income would drop to around £199m in 2014-15. However this includes the cost of the 2015 Non-Domestic Revaluation which is estimated at £17m in 2014-15. So while high level funding remains relatively static over the next few years this does not fully show the principal financial challenge we face. We need to deliver the Revaluation, with associated funding, match our spending to this overall funding and prepare for the post-revaluation defence of the new list. In doing this we need to change our cost base to one which is much more flexible. The chart below demonstrates these forecasts and our challenges.



Achieving this flexibility is core to delivering our strategic objective of improving value for money and sustainably reducing our costs.

The ability to do this is also intrinsically linked to our other strategic objectives. For example, we aim to improve quality and consistency in our processes and ensure performance across the business meets the levels of our highest performing units. By doing this we can realise efficiencies and improve value for money while delivering the quality and consistency of service which engender customer trust.

In 2011-12 the Board adopted an Investment and Finance Strategy defining our aims as:

- Live within the SR10 funding settlement;
- Improve our capability to satisfy clients' requirements;
- Match our spending rate and underlying funding within SR10 time frame;
- Allow for a sustainable exit from SR10; and
- Make sure our Property Services are financially sustainable.

The strategy also confirms the following principles:

- We break even, recover our full costs, and don't overspend;
- Our investment and financial choices meet the Agency's business needs, and are consistent with VOA2015 strategy and design principles;
- The costs of what we do and who we do that for are transparent and clear;
- The financial consequences of changing what we do are transparent and understood;
- We have the optimal balance between fixed and flexible costs.

To support these objectives we will develop the optimal finance capability, skills and processes for the Agency.

While developing a long term strategy during 2012-13 we have embarked on a financial plan and cost profile to help us meet our challenges and prepare for the next spending review.

Adoption of Going Concern

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

Governance Statement

Introduction

As Accounting Officer and Chief Executive I place great importance on our governance and our control environment. We must deliver our business and operational requirements while meeting the standards of integrity, regularity and propriety expected of us.

This statement sets out the details of how we are controlled through our formal governance, how we manage risk and how we comply with the Code of Good Practice on governance published last summer. I have also set out - as required by the Code - the reasons why we have departed from the Code in some instances.

This statement is divided into eight sections:

- Our framework for governance;
- How the Board has performed;
- Highlights from the work of our committees;
- How we fit with the new code of governance with an explanation of areas of non-compliance and the reasons why we are different;
- How we manage information and maintain the integrity of our data;
- How we manage data on our performance;
- How we manage risk; and
- A forward look for the work of our Board and wider governance for the next year.

1. Our framework for governance

I believe that the highest standards of corporate governance are central to delivering our core purpose and our strategic objectives. In 2011-12 we put in place a management structure with clearer and more specific lines of accountability alongside delegations of authority that cascade down throughout our new business streams. This framework helps ensure that appropriate controls are in place and that there are mechanisms to monitor how these controls operate. However along with the Board I am fully aware that any such system can only manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance.

Governance Review
On the back of the enhanced Code of Good Practice (2011) and the changes we have introduced in our organisational structure as part of our business strategy we took the opportunity to review our existing governance arrangements across the Agency. Building on the experience of our last review of governance we now have an improved and clearer Accountabilities Framework for Directors. This has a revised Delegated Authority Framework that sets out the authorities at all levels. We have also strengthened the role of the Board and Committee Secretariat. We have reinforced and streamlined the linkages between the Board and its committees. This resulted in the Board Operating Framework and revised committee structure outlined below.

Board Operating Framework
The effective and efficient running of the Agency requires appropriate governance and internal controls to be properly and diligently exercised. Our Board Operating Framework sets out the purpose of the Board and how the Board supports me (as the Accounting Officer) in areas of business such as:

- Strategic Clarity;
- Efficiency;
- Capabilities;
- Performance; and
- Risk.

It details my responsibilities as Chair, those of the Non-Executive Board Members and outlines expected behaviours for all members of the Board and committees, included in the Civil Service Code and the Nolan Principles for Public Life. It also summarises the issues explicitly governed by the Board.

Board Composition and Attendance

Our Board meets every month (except for August) and consists of me (as Chair), six Executive Directors and up to three Non-Executive Directors. During 2011-12 there were a number of changes in both Executive and Non-Executive Director membership of the Board and these are set out below. In terms of gender balance the Board is made up of 33% women and 67% men.

Director	Position	Attendance at Meetings
Penny Ciniewicz	Chief Executive	11 out of 11
Dyfed Alsop	Director, Strategy, People & Change	10 out of 11
Colin Bailey	Chief Finance Officer	8 out of 11
Jane Earl[1]	Non-Executive Director	10 out of 10
Mary Hardman	Director, Non-Domestic Rates	9 out of 11
Alex Jablonowski	Non-Executive Director	11 out of 11
Dawn Johnson[2]	Non-Executive Director	2 out of 3
Philip Macpherson	Chief Information Officer	11 out of 11
Elizabeth McLoughlin[3]	Non-Executive Director	3 out of 4
Guy Richardson[4]	Director, Council Tax & Housing Allowance	6 out of 6
Paul Sanderson[5]	Director, Professional Services	4 out of 4
Niall Walsh	Chief Operating Officer & Chief Valuer	11 out of 11

[1] Retired 29 February 2012
[2] Retired 30 August 2011
[3] Appointed 21 November 2011
[4] Appointed 28 September 2011
[5] Stepped down 8 September 2011

Committee Governance Structure
We have revised our committee structure and membership to improve governance, develop talent and succession planning for senior staff, and strengthen the linkages between the committees. The Board also sees all the committee minutes for information. Committees meet on average every month. Others, like the Workforce Change Committee, meet more frequently, while the Senior Appointments, Remuneration and Talent Committee meet as and when required.

The revised committee structure is:

Audit and Risk Committee	Advises the Accounting Officer on the strategic processes for the management, reporting of risk and internal controls and the wider governance of the Agency
Performance Committee	Reviews and controls performance against operational targets
Information Committee	Reviews, challenges and ensures the effective management of data and information across the Agency
Design Committee	Ensures Agency design is consistent with our Design Principles and strategic objectives
Programme Board	Assures the delivery of the 2015 Programme's outcomes
Investment and Finance Committee	Approves major investments and financial decisions
People and Engagement Committee	Approves or advises the Board on people related policies and processes
Workforce Change Committee	Approves decisions on workforce change where surpluses apply and advises on application of Cabinet Office recruitment controls
Senior Appointments, Remuneration and Talent Committee	Advises on senior talent management, succession planning and senior appointments, and Directors' performance

Other outcomes from the review of governance

Following our previous review of governance in 2010 and the new Code of Good Practice we have now strengthened our Secretariat, which provides professional support to the Board and all committees (except the Audit and Risk Committee which has its own independent Secretariat). This centralised Secretariat ensures consistency and provides a focal point for independent advice and guidance on the conduct of business, governance and compliance with standards. It also ensures timely information flows.

As a direct consequence of the governance review the Secretariat has put in place a formal induction programme for Non-Executive Directors. Recent results from a Board self-evaluation show that this programme is proving helpful to new Non-Executives.

While implementing our new governance structure we took the opportunity to bring all new Board and Committee members together for a governance workshop. At this event we explained the rationale for changing our governance structure and the Board's Operating Framework. We gave members the opportunity to discuss and provide feedback as to how we could make our governance effective including consensually establishing Board and committees' behavioural standards.

We have formalised our Conflict of Interest policy which is approved by the Board and is administered and monitored by the Secretariat. The policy provides guidelines for identifying and disclosing interests and procedures to manage conflicts of interests if they arise. Interests are reviewed at least once a year and the chairs of the Board and Committees ask members to disclose their interests at the start of every meeting. This allows us to take the appropriate action and record the details in the minutes of meetings. Within the last reporting year, we have not needed to take any action in respect of declared conflicts of interest.

2. How the Board has performed

To ensure that we have an effective Board, we have structured Board agendas that we agree through formal agenda setting meetings. Strategic topics discussed at the Board during 2011–12 include:

- Performance;
- Finance;
- VOA 2015 Programme;
- Risk;
- Pay (including Equal Pay);
- Accommodation;
- IT;
- Strategy;
- People; and
- Governance.

We have an active culture of encouraging constructive challenge at meetings while demonstrating collective ownership for decisions and delivery. Reviewing our effectiveness is an ongoing process. For example, we recognised that the Board needed a stronger understanding to provide more effective scrutiny of our IT stabilisation and strategy implementation, so we arranged a one day training event.

The Board comprises a mix of diverse skills and experiences appropriate to fulfil its responsibilities. We recruited our Non-Executive Directors on their merit ensuring they have the behavioural attributes and wider competence to fulfil their roles on the Board. On reviewing the Code of Good Practice and our wider succession planning we decided that we should provide a more formal structure to support Director succession planning and appointments. To this end we established a Senior Appointments, Remuneration and Talent Committee. This is chaired by a Non-Executive Director and its remit includes reviewing the Agency's talent management and succession planning for Director roles.

Just as we are committed to reviewing our governance structure regularly we are also committed to reviewing the Board's effectiveness. The Secretariat facilitated an internal Board Evaluation from which Members agreed the following three areas for improvement in 2012-13:

- Performance Management – putting in place a new Agency Performance Framework;
- Risk Management – looking at ways to improve the integration of risk management with operational and financial performance;
- The Boardroom – looking at ways of exploiting the Board's collective skills and knowledge more effectively.

This approach is supported by effectiveness reviews of our committees. For example an Audit and Risk Committee self-evaluation was recently undertaken led by the Non-Executive Director Chair using the framework from the National Audit Office.

3. Highlights from the work of our committees

I have set out the principle issues discussed by the committees in 2011-12.

Audit & Risk Committee
This committee has looked at a variety of risks and financial issues this year including our Fraud Risk Assessment and our Financial Systems Risk Review. The committee has also looked at specific risk areas such as our arrangements for disaster recovery, business continuity and our VOA2015 change programme. The committee also reviewed our Annual Report and Accounts for 2010-11 and scrutinised the follow-up work to the Data Protection Audit we did last year. The committee has closely examined our delivery of the programme of assurance from Internal Audit for the year as well as recommending the plans for 2012-13.

Audit & Risk Committee composition and attendance

Member	Position	Attendance at meetings
Dawn Johnson[1]	Non-Executive Director (Chair)	2 out of 2
Alex Jablonowski	Non-Executive Director (Chair)[2]	5 out of 5
Alison Hewett	Non-Executive Member	5 out of 5
Gary Reader	Non-Executive Member	5 out of 5
Mike Reardon[3]	Non-Executive Member	2 out of 2

[1] Retired 30 August 2011
[2] Became Chair on 21 September 2011
[3] Appointed 12 December 2011

The Audit & Risk Committee meets at least four times a year. The Committee invites the Chief Executive and Chief Finance Officer to attend along with other senior managers.

Information Committee
The committee has principally focussed on reviewing policies on security, information and records management as well as other areas of data protection and retention.

Performance Committee
The committee reviews and monitors performance across all operating areas in the Agency especially the new business streams. It also considers the major risks to operational delivery and the possible impacts of policy changes on operational performance.

Design Committee
The main focus has been approving the design for the new business streams and other organisational design changes that we have implemented.

People & Engagement Committee
This committee has been examining ways to improve our talent management and staff development, and identifying ways to improve staff engagement.

Investment & Finance Committee
The committee has reviewed the business cases for the major investments in our VOA2015 programme alongside approvals of operating and capital budgets with resource allocations.

Programme Board
This board focussed on the delivery of the changes in phase 1 of our change programme for VOA2015, in particular the organisational design changes for business streams.

Workforce Change Committee
This committee has focussed on setting out our approach to the workforce change arising from our organisational design changes, and handling the subsequent re-deployment and redundancy/exit scheme.

Senior Appointments, Remuneration and Talent Committee
The committee has looked at the performance of Directors and the approach to talent management at Director level.

4. How we fit with the new Code of Good Practice

The new code requires us to “comply or explain”. I have set out the areas where we are not following the code with our reasons why. The Board and the Audit & Risk Committee have discussed and agreed these appropriate exceptions.

Code:	Requirement:	Our Response:
1.4	The Board should ensure there are plans in place for talent management and succession planning for Board membership.	We are doing this through the Senior Appointments, Remuneration and Talent Committee (rather than the Board itself) with a view to identifying talent in the Agency for the next generation of Board members.
1.7	The Chair will be the Secretary of State.	Not applicable to us.
1.8	A lead Non-Executive Director (NED) should be appointed.	As we have only three Non-Executive Directors and the Board meets monthly with the Non-Executives having frequent and unfettered access to the Chief Executive we take the view that a lead NED is not necessary to act as a liaison point.
1.12	The Non-Executives should have their own formal report within the Annual Report.	The Non-Executives have input to and challenge the Annual Report and if there were areas of concern, they would be accommodated by publishing a statement to that effect in the Annual Report.
1.13	The Lead Non-Executive Director will report on the Permanent Secretary.	Non-Executives provide feedback annually on the Chief Executive’s performance to HMRC Permanent Secretary, to whom the Chief Executive reports.
4.5	There should be a Nominations and Governance Committee.	Nominations covers talent management, succession planning etc for senior staff and this is covered by the Senior Appointments, Remuneration and Talent Committee. Governance is best dealt with by the Board given the Agency’s size and scope.
6.5	Head of Internal Audit ought to be invited to discuss governance of risk management.	This is done via Executive meetings between the Chief Executive, Chief Finance Officer and Head of HMRC, Internal Audit, and through the attendance of Internal Audit at Audit & Risk Committee.

5. How we manage information and the integrity of our data

This year we have focused on enhancing our systems for information and security management. The Information Committee has overseen:

- Migrating our Security Programme into business as usual with notable strengthening of our resources and skills in data security and management. (This shows the progress we have made alongside our sponsor department in HMRC and the completion of the residual actions in the Poynter Report);
- Setting an Information Management Strategy for different classes of information which has been approved and will lead to a business case for further investment and resource;
- Finalising an Information Asset Register with formal retention and disposal decisions recorded against those assets listed and in line with legislation, including a disposal schedule – this addressed one of our key risks I mentioned in last year's report;
- Providing additional guidance and training to improve staff awareness and supplement security policy and standards for data loss or unauthorised disclosure;
- Completing the recommendations from the Data Protection Audit last year;
- Continuing a programme for the accreditation or re-accreditation of all systems; and
- Implementing comprehensive disaster recovery arrangements which are being tested as part of a wider IT strategic development programme. Work on this will continue and be fully tested in 2012-13.

As an executive agency of HMRC we are required to input into their Security Risk Management Overview, which we have done. This year we decided to undertake a full review for ourselves which will include a complete assessment of compliance against the Information Assurance Maturity Matrix, the Security Policy Framework and Information Assurance Standard 6. Internal Audit will provide us with an independent assessment of this review.

However there remain some security and information risks including:

- Potential risks of copyright infringement – there is a risk of copyright infringement as we do not presently hold a Copyright Licensing Agency (CLA) licence. We are in a similar risk position to many other departments and agencies on this so we are engaged, along with these other bodies, in negotiations with the CLA to secure a pan-government licence. This will adequately reflect the type and quantity of copying that we now undertake;
- Lack of transparency on information assurance metrics from our IT partner ASPIRE to monitor and assure delivery – along with HMRC we are taking forward joint efforts to obtain fit for purpose security reporting metrics under the contract.

6. How we manage data on our performance

Performance information comes from a wide variety of sources and formats. This is collated and verified by the Performance team within Finance. This team then provide data in a number of ways to meet the needs of the relevant audience. For example they provide summary performance packs to the Board and more detailed performance analyses to the Performance Committee, as well as Operational Digests for the main business streams. They receive feedback from the users which they use to make amendments. We check and update the usefulness of the data annually, as we do with Unit Scorecards to ensure our focus is on the main operational needs of the Agency.

The input and impact indicators are a blend of operational targets and financial costs per case in the main business streams. We also publish these in our Business Plan and they are open to scrutiny by Internal Audit.

In the year we started work on a new Agency Performance Framework which will be much more closely aligned to our strategic objectives and bring a clear line of sight from senior management to all our people showing their contributions to our performance and objectives. Delivering this successfully is a priority for us in 2012-13.

We also made significant investments in building specialist analytical capability. This enables us to meet our obligations in terms of the publication of data sets to support transparency and policy making. It also supports development of options for future change and operational policy options and choices. We have invested in resources and skills to help us gain better operational insight. For example, to help us manage the volumes of Non-Domestic Rating appeals we have trialled ways to improve our productivity that allows us to make informed decisions. We aim to enhance our customer trust by delivering a reliable and consistent service which gives value for money. Our appetite for building our analytical capability remains high. One of our priorities for 2012-13 is to make sure that we have the skills to enable us to manage performance better and create robust and evidence-based high level and operational strategies.

In addition to starting to improve quantitative information we have begun to improve the range of qualitative insight we have into issues across the Agency. For example we have introduced ‘Hot Seat’ sessions where Directors answer questions from anyone across the Agency on any work related topic. This is proving helpful in understanding the concerns and opinions of our people. It also helps us to build trust between senior management and our people and supports improvements in engagement.

We have started to look at how we can better link operational performance, risk and financial performance at the Board, committees and in business streams. At the moment this is not entirely integrated. Whilst in some instances this is productive we would like to standardise this and make this approach more consistent across all business streams.

7. How we manage risk

At our Board meetings we regularly discuss our strategic risks and every six months we review our risk appetite. This allows us to maintain alignment with our strategies and the changing environment we operate in. We have moved our risk management systems into our new structures and continue to improve the way we manage our risks. But as I set out below there is room for further improvement.

I consider that overall our internal control mechanisms are sound and contain an effective set of policies, controls and procedures. These cannot however eliminate risk in its entirety. We design these to minimise the risks that we face and to manage these as effectively as we possibly can.

The policies, controls and procedures we implement and use include:

- Mandatory e-learning for all our people on Security, Fraud Awareness and their responsibilities under the Bribery Act;
- Business continuity and disaster recovery plans for all offices;
- Asset management checks and year-end verification exercises for these assets;
- Risk registers and risk assessments/reviews that start at the lowest operating level and work progressively through to our Strategic Risk Register which the Board reviews each month;
- 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 Civil Service recruitment policies;
- Independent peer quality assurance sample checks on cases where we make adjustments to the rateable values in the Non-Domestic Rating Lists;
- Regular quality checks and sample audits of Property Services reports and valuations and of our people’s time recorded work to pick up on any unusual patterns;
- Close monitoring and effective cash flow forecasts and controls of our Property Services’ work in progress;
- Completing a Data Protection Audit of our Council Tax database in the early part of 2011-12. This resulted in an overall compliant opinion with some modest areas for improvement; we have nearly completed implementing the recommendations;

- Successfully applying the Cabinet Office spending controls for procurement, recruitment, and technology spend throughout 2011-12;
- Maintaining and updating our whistleblowing arrangements for anyone to flag concerns. We are not aware of any issues;
- An extensive programme of work from Internal Audit covering our principal areas of risk with independent reports and assurances provided to the relevant Director. Along with the Chief Finance Officer I receive copies of every report and the Audit & Risk Committee consider the reports which identify material risk;
- Carrying out a series of Bribery Act compliance reviews through the year as well as a detailed Fraud Risk Assessment.

Additionally, this year we have adopted an HM Treasury toolkit as part of our Financial Systems Risk Review project. This is a self-use toolkit that includes an assessment of our capability to manage risk of financial loss and of the relevant end-to-end financial process. At the outset of the review we chose to adopt the “Gold Standard” which is the highest level of assurance involving an independent internal review. It provides the most reasonable level of assurance without costly external assurance. In 2011-12 we focussed on our largest business streams:

- Non-Domestic Rating;
- Council Tax and Housing Allowance; and
- Property Services.

The relevant Executive Directors carried out the assessment. They considered whether our capacity to manage the risk of financial loss is appropriate given the level of inherent risk which it carries. We completed these in 2011-12 and found no significant causes for concern. Our Finance team and Internal Audit scrutinised the assessment.

We have plans to take remedial action for the non-significant elements that we identified, which we will implement in 2012-13. We will also extend the review to include the remainder of our business in 2012-13 to make sure we cover the whole Agency.

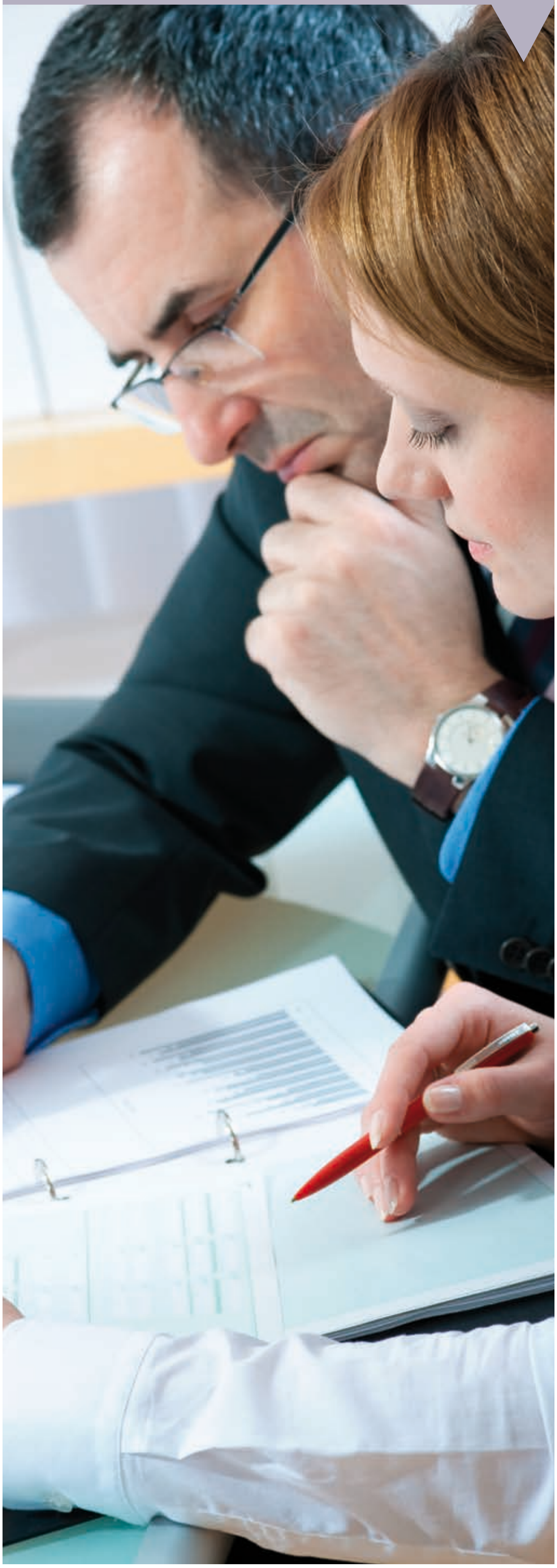
Like all organisations in a dynamic environment we face a variety of risks. These risks evolve and change over time so we need to be flexible when we identify and manage them.

The principal risks that we faced in 2011-12 and continue to face

Handling pressures on the volumes and times to clear appeals against entries in the Non-Domestic Rating Lists continues to be a primary concern to us. This is to some extent a feature of the five year cycle in which we assess Non-Domestic Rates. However we recognise how important it is to our business customers that we resolve their appeals as soon as possible, especially in the current economic climate. We also recognise the reputational risk to the Agency if we don’t process appeals as quickly as is possible. To help mitigate this risk we prioritise appeals where the appellant is suffering financial hardship. We have also recycled efficiency savings to recruit more people to handle more appeals more quickly. We are looking at ways we can improve productivity of our people and are aiming for a 20% improvement in 2012-13. We are also running pilots in the business including on better ways to segment and triage cases to match our resources more effectively.

In a period of change and increasing demands on our people and resources, we need to be very careful how we introduce new systems and processes. This will mitigate the risks to services for our customers. For example, we aim to deliver more centralised services in our Network Support Offices and re-engineer our business processes. As we do this we need to ensure that the timing is right and that the delivery of support and training to ensure the necessary skills are in place are all as robust and effective as possible. We have re-directed resources and deployed more of our people into these areas but we need to have effectively managed implementation plans and engage our people in these changes.

While we are handling the cycle of Non-Domestic Rates appeals, we are also entering a critical period for the next Revaluation due in April 2015. Although we have experience of delivering this over a number of revaluations, this time we are doing it with less overall resource than in previous



revaluations. We also face the challenging economic environment especially in the property market where rentals are volatile and data harder to identify. The public and media scrutiny of financial matters like business rates adds another factor that we need to manage.

We are also planning to support the requirements of Local (Billing) Authorities arising from the introduction of Business Rates Retention as part of the Localism Bill. This may create significant work pressures on us if Local (Billing) Authorities:

- Send us more property reports; and
- Request more analytical and data sets to calculate possible impacts on revenue flows.

We are working closely with the Department for Communities and Local Government and interested parties to understand and plan for the impacts of this change. Combined with the demands of handling appeals and the revaluation we are testing all scenarios and variables as much as we can. This will allow us to understand and as far as possible mitigate potential risks.

Against these significant operational risks we also have a relatively new senior leadership team across our main business streams. While many have been in senior roles previously, the different leadership demands on them create risk - as does the wider geographical spans of management at all levels. We are actively supporting and helping the new Unit Heads and our Directors are more pro-actively engaging with people in local offices. We are supporting middle management with more direct and open communications. We are providing supporting material to help managers understand and communicate priorities, handle choices and be able to escalate risks more effectively.

Our final principal risk relates to employee engagement. We measure this through the Civil Service People Survey, and our engagement index dropped last autumn from 48% to 44%, although this includes varying differentials across various parts our business. In the context of wider issues in the public sector such as pay freezes, spending reductions, and pension changes, we expected some of these results. However we face specific challenges.

Firstly, 18 months ago after extensive legal advice we decided that our long standing arrangements for pay progression were not in fact contractual. As a result they were not exempted under the Civil Service pay freeze. That meant that a substantial number of our people who had expected to move significantly up their pay scales (after several years of being at the bottom of the scale) did not in fact achieve that jump. That meant a very large number of our people felt the Board had acted in bad faith. This resulted in a significant breach of trust between our people and the Board which we are working hard to bridge.

Secondly, the settlement we negotiated in 2011-12 to address an Equal Pay issue in the Agency, compounded the issue in some parts of the business.

We negotiated and settled this after extensive legal advice, and with the agreement of HM Treasury and Cabinet Office. But as these Equal Pay issues affected our senior pay bands this has left our people in junior pay bands in a difficult position. To mitigate the impact on trust, we have used a variety of means to explain the background to our decision.

We will continue to do that as well as working to improve engagement by other means such as:

- Putting in place a Directors' action plan;
- Putting in place Engagement Champions across the business; and
- Making sure that our priorities for the coming year address key drivers of engagement.

The latter includes having career development opportunities available to our people. And over the longer term updating and improving our IT to support our people in doing their job more efficiently.

In January the Board commissioned a Reward and Recognition Review, to report in time for the Agency exiting the public sector pay freeze in August 2012. This meets our trade union agreement and will enable us to introduce a new pay system this year.

While I am pleased we have made progress in managing our risks, we need to do more. We will continue to further educate our people about risks and support all parts of our business to actively manage risk at all levels.

There have been two risk areas where I believe we could have significantly improved our risk management.

Firstly, telephony. In March we suffered a significant technical failure in our centralised telephone call handling centre in Durham. This was a hardware/software problem but the immediate impact was that for some days we were unable to offer any reasonable telephone service to our customers. This led to a significant increase in call waiting time for our customers. This in turn led to a significant number of abandoned calls and subsequent attempts to then call back, compounding delays. We have mitigated this risk by using alternative telephony hardware and software from elsewhere in the Agency. We also deployed people from other areas of work to handle calls. We continue to work with our supplier to re-establish a robust and sustainable service that meets our customers' needs.

Secondly, under the Agency's previous World Class transformation programme we invested in a number of IT tools to support our business, including Electronic Data and Records Management and an Electronic Line Drawing Application, both of which were successfully delivered and are now embedded in our business. A Geographical Information System, to take mapping data and overlay this with property data to help improve our understanding of property values and thus improve the efficiency of our valuations, was also part of the World Class Programme.

Despite extensive testing we have not been able to fully deploy the Geographical Information System from our previous transformation programme, as we had intended. The Board decided this just after the year end so it appears in our accounts as an event after the reporting period. Such decisions are never welcome especially if they occur after the year end and require material amendment to the accounts. We could have improved our processes and identified this risk earlier in order that we might have made the decision in better time. I have commissioned a lessons learnt exercise to improve our understanding and to help avoid any possible repetition. Full accounting disclosures are shown in the accounts.

I am able to report that there have been no significant data security losses in 2011-12. Nor have we received any Ministerial Directions. We do not have any Public Accounts Committee or Treasury Select Committee recommendations to implement.

8. Forward Look of our Board and our governance

We continue to review our governance arrangements from a strategic and risk perspective. We will continue to work on the following areas in 2012-13 as part of our drive for continuous improvement:

- We will look for further improvements in the way the Board and committees work together. We will in particular look for the new Agency Performance Framework to provide better insight into how well we are working towards our strategic objectives.
- The Board is already focussed on developing a longer term strategy for the Agency's future. We will produce a corporate plan for the changes we need to make over the next few years to meet our strategic objectives and deliver our vision.
- We will make sure that our VOA2015 change programme delivers benefits. We are addressing this by improving investment decisions and benefits realisation plans, having greater accountability and transparency on benefits and improving the integration of financial, benefits and operational planning.
- We will continue to embed our risk management processes and escalation routes across our work areas with further training and support for all key people.

9. Assurance from Internal Audit

Government Internal Audit Standards (GIAS) 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.

Overall Opinion
In the areas of governance, risk management, and controls, Internal Audit base their opinion on four levels of assurance:

- Strong assurance;
- Reasonable assurance;
- Limited assurance; and
- Weak assurance.

Governance
During the year we improved our governance arrangements. We have a new business strategy, a clearer accountabilities framework for Directors, and a revised delegated authority framework that sets out the authorities at all levels.

Internal Audit gave *strong assurance* in this area. However employee engagement, workforce change and organisational change will remain challenges for some time. But they will validate this as part of the 2012-13 audit plan.

Risk Management
We have continued to make significant progress on risk management with the Board discussing strategic risks and reviewing levels of risk at appropriate intervals. We continue to discuss and challenge our Strategic Risk Register at each Audit & Risk Committee meeting.

Internal Audit gave *reasonable assurance* in this area and there is still work to do to embed risk management fully into our processes and culture.

Controls
Internal Audit gave *reasonable assurance* in this area.

Penny Ciniewicz
25 June 2012

Sustainability

We recognise the vital importance of adapting to climate change. We have been reviewing options to improve our sustainability results and meet the Government's environmental targets.

Minimising our estates footprint via office closures in 2011-12 has helped reduce our Carbon Dioxide emissions. We have put greater emphasis on the use of public transport where at all possible and we limited the engine size of hire cars that we use in order to reduce emissions. The Board considered the effects of greenhouse gas emissions, waste minimisation and management, and finite resource consumption when deciding on office closures as part of our VOA2015 change programme.

In 2012-13 we will identify key policy change areas in line with the Government's green commitments for IT, travel, major capital projects and procurement. Our business policy owners will provide options for easing the impact on climate change.

We are committed to ensuring that the rural aspects are routinely considered as part of the making and implementation of our policies and operations. The Board and our committees will consider whether the policies we develop will have any impacts on rural areas. We assess the significance of any impact and, where appropriate, adjust the policy to make sure that we fairly address the needs of those who live in rural areas.

Sustainability Data

This is our first sustainability report incorporating our non-financial and financial environmental data - this is also supplied to HMRC for government wide reporting. We prepared this report in accordance with guidelines laid down by HM Treasury in 'Public Sector Sustainability Reporting' published at www.financial-reporting.gov.uk. Our accounting includes all Scope 1 and 2 emissions along with separately identified emissions related to official travel. We have used Defra conversion rates to account for greenhouse gas emissions.

Our aim is to improve sustainability in our organisation and its impacts externally. Over the next year we will be sighted on the delivery of Greening Government Commitments and demonstrating our performance in next year's report.

As reported earlier our estate covers 72 offices and 3,564 people.

The performance is set out in the tables below:

<table>
<tr><th colspan="2">Greenhouse Gas Emissions</th><th>2011-12</th></tr>
<tr><td rowspan="4">Non-Financial Indicators (000's tCO2e)</td><td>Total gross emissions</td><td>5,613</td></tr>
<tr><td>Total net emissions</td><td>5,348</td></tr>
<tr><td>Gross emissions Scope 1 (direct)</td><td>194</td></tr>
<tr><td>Gross emissions Scope 2 & 3 (indirect)</td><td>5,419</td></tr>
<tr><td rowspan="5">Related Energy Consumption (000's kWh)</td><td>Electricity: Non-Renewable</td><td>4,546</td></tr>
<tr><td>Electricity: Renewable</td><td>505</td></tr>
<tr><td>Gas</td><td>2,668</td></tr>
<tr><td>Oil</td><td>917</td></tr>
<tr><td>Whitehall District Heating</td><td>-</td></tr>
<tr><td rowspan="4">Financial Indicators (£'000)</td><td>Expenditure on Energy</td><td>850</td></tr>
<tr><td>CRC License Expenditure</td><td>-</td></tr>
<tr><td>Expenditure on accredited offsets (e.g. GCOF)</td><td>-</td></tr>
<tr><td>Expenditure on official business travel</td><td>5,367</td></tr>
</table>

<table>
<tr><th colspan="3">Waste</th><th>2011-12</th></tr>
<tr><td rowspan="6">Non-Financial Indicators (tonnes)</td><td colspan="2">Total waste</td><td>350</td></tr>
<tr><td>Hazardous waste</td><td>Total</td><td>-</td></tr>
<tr><td rowspan="4">Non-hazardous waste</td><td>Landfill</td><td>173</td></tr>
<tr><td>Reused/Recycled</td><td>176</td></tr>
<tr><td>Incinerated with energy recovery</td><td>-</td></tr>
<tr><td>Incinerated without energy recovery</td><td>-</td></tr>
<tr><td rowspan="6">Financial Indicators (£'000)</td><td colspan="2">Total disposal cost</td><td>21</td></tr>
<tr><td colspan="2">Hazardous waste</td><td>-</td></tr>
<tr><td rowspan="4">Non-hazardous waste</td><td>Landfill</td><td>15</td></tr>
<tr><td>Reused/Recycled</td><td>6</td></tr>
<tr><td>Incinerated with energy recovery</td><td>-</td></tr>
<tr><td>Incinerated without energy recovery</td><td>-</td></tr>
</table>

Finite Resources Consumption – Water			2011-12
Non-Financial Indicators (m3)	Water Consumption (Office Estate)	Supplied	20,722
		Abstracted	-
		Per FTE	13.8
Financial Indicators (£'000)	Water Supply Costs (Office Estate)		78

Alongside HMRC we have met the milestone set by Government to reduce water consumption.

Over the next year we will identify our key policy change areas in line with government commitments for information technology, finance, travel, major capital projects and procurement. The owners of these business policies will be required to provide options for improvement by the degree to which these will ease the impact on climate change.

Resource Consumption – Paper		2011-12
Non-Financial Indicators (A4 reams equivalent)	Copier Paper	35,305
Financial Indicators (£'000)	Copier Paper	82

We have identified potential sites where we have control over green areas in support of biodiversity and the natural environment – these are Colchester and Shrewsbury. There are no sites of scientific interest within our estate and these sites with green areas account for less than 5% of our estate. While the steps we can take towards supporting and promoting biodiversity are limited, we are committed to exploring opportunities for promoting it. We also support the projects introduced by HMRC where we have joint occupation.

We share many of our sustainable procurement commitments with HMRC and across government through a number of shared and centralised contracts. We are committed to the adoption and continued improvement of sustainable procurement to support our wider strategic objectives. Our Procurement Team were involved with the development and initial pilots of Sustainable Procurement and the Flexible Framework, and have incorporated such principles into our Procurement Plan for 2012-13. We are also increasing the use of whole life costing to determine the sustainable impact of our procurements. Our evaluation and award criteria now include sustainable considerations as standard. We are reviewing our procurement documents and templates to include sustainable considerations within the tender process and ensure we establish any eventual contract on the back of sustainable assessment. Where appropriate we also assess products and services for targeted/specific environmental impacts and accreditation - such as ethically sourced food supplies, or energy efficient IT equipment.

We will increase focus on our tracking procedures, to clearly highlight where we have achieved social, economic and environmental improvements and benefits. This will ensure our procurement delivers both tangible and quantifiable benefits. A proactive approach to tracking benefits will also influence our sustainable development going forward. Through our use of centralised frameworks and collaborative procurements we also benefit from relevant government buying standards and we are exploring the use of our commercial contracts to support the small and medium-sized enterprises agenda through sub-contracting at regional levels.

In line with the government property unit targets, we are rationalising and improving our estate as we sustainably influence the design and specifications of the Agency's capital projects. Our energy efficiency has resulted in financial savings through reduced spend and improved capital return on investment. We achieved this through improving efficiencies of mechanical, electrical and building fabric installations.

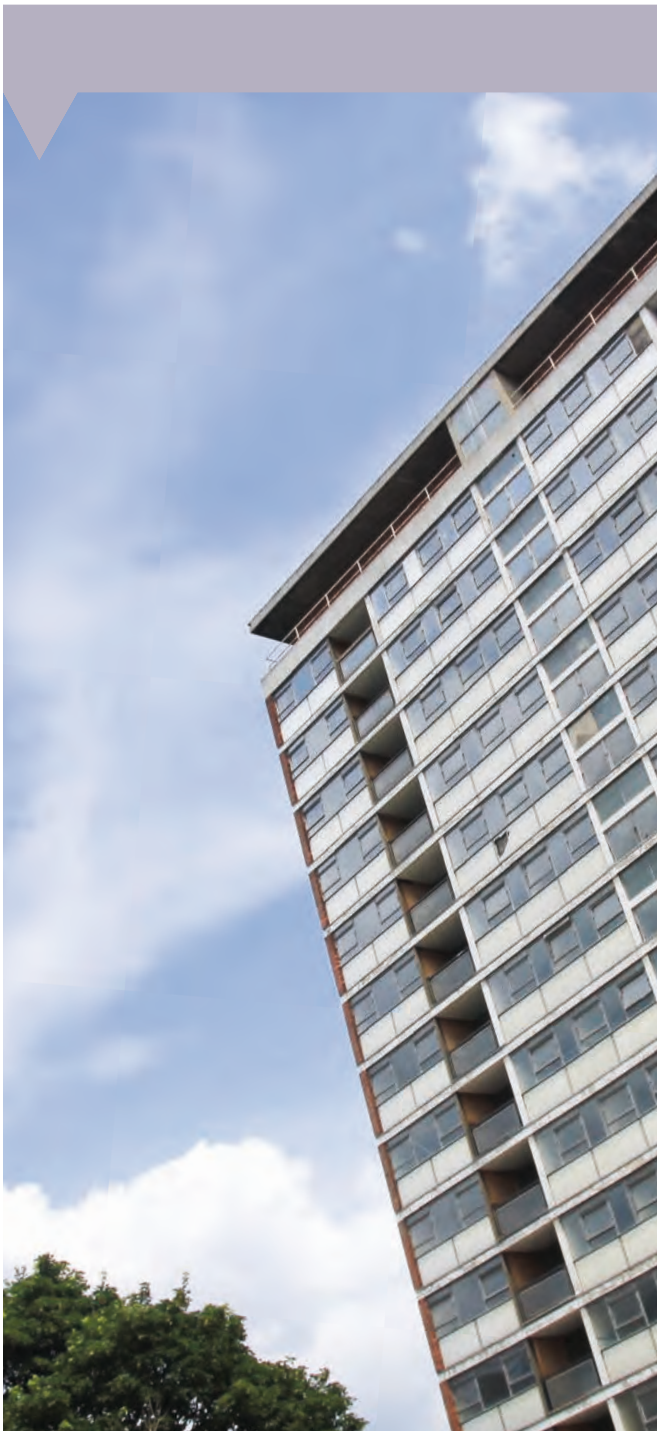
In terms of sustainable construction our PFI agreement with Mapeley confirms compliance with departmental environmental requirements. Upon receipt of a brief from us, Mapeley's contractors prepare an outline proposal in respect of the scope of works and submit this for approval. The PFI arrangements enable sustainable construction by ensuring all records are fully auditable and freely available to support ISO 14001; all wood is from an independently-verified sustainable source; no peat is used at any of our sites; all spent fluorescent tubes and rechargeable batteries are recycled; there is a system to ensure legal compliance with all duty of care legislation for all waste streams; all procurement follows environmental procurement guidelines (PUG177/97) and that service providers comply equally; when alternative facilities are acquired subject to agreement with the Departments, or existing buildings are refurbished over a value of £250,000 that these works are carried out to achieve a "very good" or "excellent" Building Research Establishment Environment Assessment Method rating; and there is no venting of recoverable ozone-depleting or global warming substances from any equipment used on our behalf, and that these substances are recovered for recycling or destruction using appropriate technology.

At all other times the Mapeley contractor will also, so far as is reasonably practicable:

- Conserve resources;
- Reduce pollution;
- Protect biodiversity, and,
- Support the Government's vision of sustainable development.

We are also committed to promoting our people's wellbeing by enhancing the working environment, with better finishes, improved heating, cooling and lighting controls. We are working to deliver reduced space in accordance with the Government Property Unit standards whilst retaining a balanced and comfortable space through good space planning and sensible ergonomic design. Best practice and environmental design and sustainability are a key deliverable in all office refurbishments/refits and space rationalisation projects.

We are aiming to deliver an Environmental Management System and provide an overall framework to establish systems and processes necessary for the systematic management of energy. This will ultimately ensure improvements to our energy efficiency and reductions in costs and greenhouse gas emissions.



Remuneration Report

This report includes the tables on pages 43 and 44, which are subject to audit.

Remuneration of Directors
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). Their remuneration is determined by HMRC in light of the recommendation of the Senior Salaries Review Body. There is a separate remuneration committee within the Agency but the Main Pay Committee in HMRC make final decisions.

Executive Directors are set specific objectives which 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. Her own performance against objectives is reviewed by the Chief Executive of HMRC.

Contracts, notice periods and termination periods
The majority of our people, including the Executive Directors, are employed as permanent staff 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 being that they will not be renewed more than once. We employ a small number of our people on short-term contracts.

Awards made to past managers
We did not make any awards to past managers this year or in previous years.

Details of non-cash elements of remuneration package
We did not make non-cash awards to Board members this year or in previous years.

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

Salary
Salary includes:

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

Bonus payments
Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2011-12 relate to performance in 2010-11. 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 provided by the employer and treated by HMRC as a taxable emolument. The benefits in kind disclosed in the table on page 43 in respect of 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. These are chargeable to tax under s339 (2) Income Tax, Earnings and Pensions Act 2003.

One Board member receives childcare vouchers, paid for through a salary sacrifice scheme.

Details of compensation payable to former senior managers

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

Details of amounts payable to third party entities in respect of director services

We did not pay any amounts to third party entities during the year (2010-11 £nil).

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 nuvos, a whole career scheme. 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 changes in the Pension Increases Legislation. Members who joined from October 2002 can opt for either the appropriate defined benefit arrangement or a good quality money purchase stakeholder pension with significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus, and nuvos. 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 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 October 2002 worked out as in premium. In nuvos a member builds up a pension based on pensionable earnings during the period scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of the pensionable earnings in that scheme year and, immediately after the scheme year-end, the accrued pension is up rated in line with Pension Increases Legislation. In all cases members may opt to give (commute) pension for 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 choice 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 capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure 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. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are 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.

Real increase in CETV

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

Travel and Subsistence reimbursements

Board members received payments as reimbursement for out of pocket expenses incurred in carrying out their duties as set out in the table on page 45. Except where identified as such, the payments in the table on page 45 do not form part of remuneration.

Pay multiples

The pay multiple of the remuneration of the highest-paid Board member compared to the median remuneration of workforce is disclosed in the table on page 43.

The banded remuneration of the highest-paid Board member in the Agency in the financial year 2011-12 was £120-125k (2010-11: £135-140k). This was 4.50 times (2010-11: 5.80) the median remuneration of the workforce, which was £27,248 (2010-11: £23,693).

Total remuneration includes salary, non-consolidated performance-related pay, benefits in kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The ratio of the remuneration of our highest-paid Board member to the median remuneration of our people has fallen since 2010-11, for three principal reasons:

- In 2010-11, the highest-paid Board member was our Chief Information Officer, who was paid £135-140k per year and left in October 2011. In 2011-12, the highest-paid Board member was our Chief Operating Officer and Chief Valuer, who earned the lower amount of £120-125k in the year, including benefits in kind.
- During 2011-12, we addressed an Equal Pay issue. To resolve the on-going issue, certain people in affected pay bands had their salaries increased to the maximum for those pay bands. This change increased the median salary of our people by approximately £1,500 per year, lowering the ratio.
- In both years, remuneration included severance payments, but in 2011-12 a greater percentage of total severance pay was paid to employees in pay bands otherwise below the median compared to 2010-11. The severance payments thus increased the median pay for 2011-12 by approximately £2,200, as compared to a £200 increase in 2010-11.

In 2011-12, 18 (2010-11: 10) employees received remuneration in excess of the highest-paid director. All earned salary below that of the highest-paid Board member, but had larger total remuneration in the year due to one-off severance payments.

Remuneration ranged from £13,000 to £230,000-235,000 including severance pay and £13,000 to £120,000-125,000 excluding it (2010-11: £12,000 to £220,000-225,000 including severance pay, £12,000 to £135,000-140,000 excluding severance pay).

Note that for comparison purposes we have estimated equivalent contractor salaries from their day rates, where practical, taking into account the different terms that contractors work under compared to civil servants.

Board Members' Remuneration Information

	2011-2012				2010-2011			
	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	-	-	100-105	100-105	-	-	100-105
Dyfed Alsop Director, Strategy, People & Change	70-75	-	-	70-75	70-75	0-5	-	75-80
Colin Bailey Chief Finance Officer	80-85	5-10	-	90-95	80-85	5-10	-	90-95
Jane Earl Non-Executive Director (until 29 February 2012)	10-15	-	-	10-15	10-15	-	-	10-15
Mary Hardman Director, Non-Domestic Rates	70-75 [1]	5-10	33,100 [2]	110-115	65-70	5-10	10,300	85-90
Alex Jablonowski Non-Executive Director (from 1 January 2011)	10-15	-	-	10-15	0-5 (10-15 full year equivalent)	-	-	0-5 (10-15 full year equivalent)
Dawn Johnson Non-Executive Director (until 30 August 2011)	5-10 (10-15 full year equivalent)	-	-	5-10 (10-15 full year equivalent)	10-15	-	-	10-15
Elizabeth McLoughlin Non-Executive Director (from 21 November 2011)	5-10 (10-15 full year equivalent)	-	-	5-10 (10-15 full year equivalent)	-	-	-	-
Philip Macpherson Chief Information Officer (from 17 January 2011)	70-75	-	-	70-75	10-15 (70-75 full year equivalent)	-	-	10-15 (70-75 full year equivalent)
Guy Richardson Director, Council Tax and Housing Allowance (from 28 September 2011)	25-30 (60-65 full year equivalent)	-	13,200 [2]	40-45 (75-80 full year equivalent)	-	-	-	-
Paul Sanderson Director, Professional Services (until 8 September 2011)	35-40 (80-85 full year equivalent)	-	-	35-40 (80-85 full year equivalent)	80-85	-	-	80-85
Niall Walsh Chief Operating Officer & Chief Valuer	80-85	-	37,300 [2]	120-125	80-85	5-10	20,300	110-115
Jon Wrennall Chief Information Officer (until 14 October 2010)	-	-	-	-	90-95 (135-140 full year equivalent)	-	-	90-95 (135-140 full year equivalent)
Band of Highest Paid Director's Total Remuneration (£'000)	120-125				135-140			
Median Total Remuneration (to nearest £1)	27,248				23,693			
Ratio	4.50				5.80			

[1] Mary Hardman's salary includes a one-off payment of £2,350 in respect of untaken annual leave. Her annual contracted salary has not increased compared to 2010-11.

[2] Benefits in kind disclosed above consist of reimbursed travel and subsistence expenses incurred for necessary attendance at a second or more permanent place of work and is chargeable to tax under s339 (2) Income Tax, Earnings and Pensions Act 2003. The quoted benefit included the resulting income tax and National Insurance liabilities, which the VOA settles on behalf of the affected employees under a PAYE Settlement Agreement. Also included in the benefits in kind disclosed above is the cost of childcare vouchers received by one Board member, paid for through a salary sacrifice scheme.

Board Members' Pensions					
	Real increase in pension and related lump sum at pension age £'000	**Accrued pension at pension age as at 31/3/12 and related lump sum** £'000	**CETV at 31/3/11 [3]** £'000	**CETV at 31/3/12** £'000	**Real increase in CETV** £'000
Penny Ciniewicz Chief Executive	0 – 2.5 plus 0 – 2.5 lump sum	17.5 – 20 plus 57.5 – 60 lump sum	292	321	4
Dyfed Alsop Director, Strategy, People & Change	0 – 2.5 plus 0 – 2.5 lump sum	7.5 – 10 plus 25 – 27.5 lump sum	86	99	5
Colin Bailey Chief Finance Officer	- [2]	25 – 27.5 plus 80 – 82.5 lump sum	403	431	-
Jane Earl Non-Executive Director (until 29 February 2012)	- [1]	- [1]	-	-	-
Mary Hardman Director, Non-Domestic Rates	- [2]	22.5 – 25 plus 72.5 – 75 lump sum	401	429	-
Alex Jablonowski Non-Executive Director (from 1 January 2011)	- [1]	- [1]	-	-	-
Dawn Johnson Non-Executive Director (until 30 August 2011)	- [1]	- [1]	-	-	-
Elizabeth McLoughlin Non-Executive Director (from 21 November 2011)	- [1]	- [1]	-	-	-
Philip Macpherson Chief Information Officer (from 17 January 2011)	0 – 2.5 plus 0 – 2.5 lump sum	15 – 17.5 plus 47.5 – 50 lump sum	204	224	2
Guy Richardson Director, Council Tax and Housing Allowance (from 28 September 2011)	0 – 2.5 plus 0 – 2.5 lump sum	15 – 17.5 plus 47.5 – 50 lump sum	210	231	9
Paul Sanderson Director, Professional Services (until 8 September 2011)	- [2]	42.5 – 45 plus 125 – 127.5 lump sum	902	939	-
Niall Walsh Chief Operating Officer & Chief Valuer	2.5 – 5 plus 12.5 – 15 lump sum	22.5 – 25 plus 67.5 – 70 lump sum	245	326	57

[1] Fee paid consultant – not in civil service pension scheme.
[2] Real decrease in pension.
[3] The actuarial factors used to calculate CETVs were changed in 2011-12. The CETVs at 31/03/11 and 31/03/12 have both been calculated using the new factors, for consistency. The CETV at 31/03/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

The information in the tables above is subject to audit.

The information in the following table has not been subject to audit.

	Non-taxable expenses not a part of remuneration (£)	Taxable expenses included in remuneration (£)	Total expenses reimbursed during 2011-12 (£)
Penny Ciniewicz	264.25	-	264.25
Dyfed Alsop	1,080.00	25.00	1,105.00
Colin Bailey	357.77	-	357.77
Jane Earl	72.80	-	72.80
Mary Hardman	780.18	18,148.74	18,928.92
Dawn Johnson	454.00	-	454.00
Philip Macpherson	15.20	43.93	59.13
Paul Sanderson	2,798.53	-	2,798.53
Niall Walsh	993.39	21,779.72	22,773.11
Guy Richardson	1,903.81	6,944.62	8,848.43
Alex Jablonowski	-	-	-
Elizabeth McLoughlin	-	-	-

Penny Ciniewicz
25 June 2012

Statement of the 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 Direction. 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 Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- 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 2012

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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 Valuation Office Agency for the year ended 31 March 2012 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 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 to identify material inconsistencies with the audited financial statements. 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 Valuation Office Agency's affairs as at 31 March 2012 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 About Us, Operating and Performance Commentary and Sustainability 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 offices 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
25 June 2012

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

Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

		2011-12			2010-11 Restated		
		Excluding Equal Pay settlement scheme	Equal Pay settlement scheme	Total	Excluding Pension Past Service Cost	Pension Past Service Cost	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Programme Costs:							
Income	5	204,402	-	204,402	209,669	-	209,669
Staff costs	3a	(131,616)	(7,800)	(139,416)	(138,142)	11,190	(126,952)
Early departures	3b	(3,875)	-	(3,875)	(5,837)	-	(5,837)
Impairment of non-current assets	8	(3,241)	-	(3,241)	(1,174)	-	(1,174)
Depreciation and amortisation	4	(7,960)	-	(7,960)	(7,057)	-	(7,057)
Other operating costs	4	(48,466)	-	(48,466)	(52,226)	-	(52,226)
Gross operating cost		(195,158)	(7,800)	(202,958)	(204,436)	11,190	(193,246)
Net Operating Surplus / (Cost)		**9,244**	**(7,800)**	**1,444**	**5,233**	**11,190**	**16,423**
Other Comprehensive Expenditure:							
Net gain on revaluation of property, plant and equipment		146	-	146	187	-	187
Net gain/(loss) on revaluation of intangible assets		238	-	238	(135)	-	(135)
Actuarial gain/(loss) on pension fund	16	(17,760)	-	(17,760)	9,411	-	9,411
Contributions to Local Government Pension Scheme by DWP	16	11	-	11	8	-	8
Total Comprehensive Net Income/(Expenditure)		**(8,121)**	**(7,800)**	**(15,921)**	**14,704**	**11,190**	**25,894**

The notes on pages 54 to 99 form part of these accounts.

'Equal Pay settlement scheme' is the one-off cost to the VOA of settling historical Equal Pay issues. These transactions are explained in more detail in Note 3a.

'Impairment of non-current assets' includes impairment costs of £3,141k for our Geographical Information System, a software development which has been abandoned and thus fully impaired. More detail can be found in Note 8.

'Pension Past Service Cost' is a one-off negative cost in 2010-11 in respect of changes to benefits due to members of the Local Government Pension Scheme. This negative cost is discussed in more detail in Note 16. There is no pension past service cost in 2011-12.

The prior year comparatives have been adjusted to reclassify certain contingent labour costs that were classified as consultancy costs in the published 2010-11 accounts, as discussed in Note 1.

Statement of Financial Position as at 31 March 2012

	Note	31 March 2012 £'000	31 March 2011 £'000
Assets			
Non-current assets			
Property, plant and equipment	6	11,341	12,180
Intangible assets	7	24,661	29,490
Prepayments	9	286	504
Total non-current assets		**36,288**	**42,174**
Current assets			
Trade and other receivables	9	5,846	6,378
Work in progress	10	2,175	2,573
Cash and cash equivalents	11	16,509	8,903
Total current assets		**24,530**	**17,854**
Total assets		**60,818**	**60,028**
Liabilities			
Current liabilities			
Trade and other payables	12	(20,587)	(8,072)
Amounts payable to the Consolidated Fund	15	(131)	(5,585)
Total current liabilities		**(20,718)**	**(13,657)**
Total assets less current liabilities		**40,100**	**46,371**
Non-current liabilities			
Provisions	14	(16,059)	(24,385)
Pension liability	16	(28,810)	(11,872)
Liability in respect of PFI assets	12	(525)	(567)
Total non-current liabilities		**(45,394)**	**(36,824)**
Total assets less total liabilities		**(5,294)**	**9,547**
Taxpayers' Equity			
General Fund		(7,061)	7,643
Revaluation Reserve		1,767	1,904
Total taxpayers' equity		**(5,294)**	**9,547**

The notes on pages 54 to 99 form part of these accounts.

Penny Ciniewicz
25 June 2012

Statement of Cash Flows for the year ended 31 March 2012

	Note	2011-12 £'000	2010-11 £'000
Cash flows from operating activities			
Net operating surplus		**1,444**	**16,423**
Adjustments for:			
Depreciation of property, plant and equipment	6	3,510	3,035
Amortisation of intangible assets	7	4,450	4,022
Net loss on disposal of non-current assets	4	20	81
Net loss/(gain) on revaluation of non-current assets	4	(15)	45
Net loss on impairment of non-current assets	8	3,241	1,174
Creation and reversal of provisions	14	508	4,606
Use of provisions	14	(8,950)	(6,518)
Unwinding of the discount on provisions	14	111	117
Change in the discount rate on provisions	14	5	(93)
Notional auditor's remuneration	4	80	82
Movements on pension liability charged to operating costs	16	418	(8,723)
Cash contributions to pension fund not charged to operating costs	16	(1,230)	(3,293)
Decrease in trade and other receivables		750	2,648
Decrease in work in progress		398	130
Increase/(Decrease) in trade and other payables		7,020	(3,526)
Less movements in payables relating to items not passing through operating costs		5,921	(1,705)
Net cash inflow from operating activities		17,681	8,505
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(3,542)	(4,462)
Purchase of intangible assets	7	(2,042)	(3,194)
Net cash outflow from investing activities		**(5,584)**	**(7,656)**
Cash flows from financing activities			
Cash received from the Consolidated Fund		1,000	-
Receipts on behalf of the Consolidated Fund	15	131	145
Payments to the Consolidated Fund		(5,585)	(3,607)
Capital element of payments in respect of on balance sheet PFI assets		(37)	(32)
Net cash outflow from financing activities		**(4,491)**	**(3,494)**
Net increase/(decrease) in cash and cash equivalents in the period		**7,606**	**(2,645)**
Cash and cash equivalents at the beginning of the period	11	**8,903**	**11,548**
Cash and cash equivalents at the end of the period	11	**16,509**	**8,903**

The notes on pages 54 to 99 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

		2011-12			2010-11		
		General Fund	Revaluation Reserve	Total Reserves	General Fund	Revaluation Reserve	Total Reserves
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance		**7,643**	**1,904**	**9,547**	**(13,161)**	**2,172**	**(10,989)**
Changes in Taxpayers' Equity for the period							
Comprehensive Net Expenditure							
Net gain on revaluation of property, plant and equipment		-	146	146	-	187	187
Net gain/(loss) on revaluation of intangible assets		-	238	238	-	(135)	(135)
Operating surplus for the year		1,444	-	1,444	16,423	-	16,423
Actuarial gain/(loss) on pension fund	16	(17,760)	-	(17,760)	9,411	-	9,411
Contributions to Local Government Pension Scheme by DWP	16	11	-	11	8	-	8
Total Other Comprehensive Net Expenditure		(16,305)	384	(15,921)	25,842	52	25,894
Transfers and other reserve movements							
Realised and transferred to General Fund		521	(521)	-	320	(320)	-
Notional charges - auditor's remuneration	4	80	-	80	82	-	82
Transactions with Consolidated Fund							
Repayable to the Consolidated Fund	15	-	-	-	(5,440)	-	(5,440)
Received from the Consolidated Fund		1,000	-	1,000	-	-	-
Total recognised income and expense for the year		**(14,704)**	**(137)**	**(14,841)**	**20,804**	**(268)**	**20,536**
Balance carried forward		**(7,061)**	**1,767**	**(5,294)**	**7,643**	**1,904**	**9,547**

The notes on pages 54 to 99 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 2011-12 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.

Application of new standards
An amended version of IAS 24 Related Parties was issued in November 2009. Its changes became effective for periods beginning after 1 January 2011 and have been adopted in these accounts.
The amended standard clarifies the definition of a related party and introduces simplified reporting requirements for entities which are related through being controlled or significantly influenced by the same government.

Restatement of prior year comparatives
In 2011-12 we have changed our classification of costs to follow the Cabinet Office's definitions of consultancy, specialist contractors and interim managers. We have made this change retrospectively in the comparatives. As a result £540k that was presented as Management and IT consultancy within other operating costs in the 2010-11 accounts is now shown as non-permanent wages and salaries within staff costs. These costs are associated with contractors who were involved in project delivery or held VOA positions temporarily and do not meet the Cabinet Office definition of consultancy. The Statement of Net Comprehensive Expenditure and Notes 3a and 4 have been affected by this change.

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 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. These are calculated by professionally valuing land and buildings 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.

For assets other than land and buildings, we estimate fair value by using modified historical cost. This involves applying a revaluation index to each class of asset using appropriate indices from the Office for National Statistics.

Treatment of changes in valuation
We recognise increases in asset value in the Revaluation Reserve within Taxpayers' Equity. Any subsequent devaluations 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 & 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 31/3/2012)	Estimated useful life at 31/3/2012
Colchester	20 years (9 years)	29 years
Alnwick	20 years (9 years)	17 years
Shrewsbury	20 years (9 years)	14 years
Edinburgh	42 years (1 year)	35 years
Ulverston	42 years (15 months)	14 years

1.3 Intangible assets

Our intangible assets consist of developed software and software assets under construction. We recognise an intangible asset 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 intangible assets on a fair value basis using modified historical cost. This involves applying a revaluation index to each class of asset using appropriate indices from the Office for National Statistics. 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.

We review intangible assets' residual values, useful lives and methods of amortisation at each financial reporting year end, and adjust them if appropriate.

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

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 other than cash and equivalents are classified as loans and receivables and on initial recognition are measured at fair value. Subsequent to initial recognition they are measured at amortised cost.

Our financial assets consist of cash and equivalents, trade and other receivables, accrued income and work in progress.

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 10).

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 20.

1.11 Employee benefits

Pensions
Following our merger with The Rent Service, 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 LGPS members. This is a funded defined benefit scheme. Entitlement to benefits is based on a scheme member's final salary.

We therefore recognise an LGPS pension liability. The value of the liability 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 current service costs, interest on the scheme liabilities, gains and losses on settlements or curtailments and the expected return on assets as operating costs on the Statement of Comprehensive Net Expenditure in the period in which they occur. Past service costs are charged to the Statement of Comprehensive Net Expenditure immediately after they arise.

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 provide 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, and forms the majority of our leave liability. As a result there is substantial uncertainty as to the timing and value of the outgoing future economic benefits that will settle this liability. We therefore record the liability as a provision.

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 16). 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 five ‘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 disclosed in the appropriate section of the Statement of Cash Flows. The final two elements are charged to the Statement of Net Comprehensive 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 19.

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 2012 are disclosed in Note 18.

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 Statement of Cash Flows.

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 14)**

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. From past experience cash flows can typically vary from forecast by approximately 15%. Cash flows are also subject to a discount factor. We apply the Treasury pensions discount rate, currently 2.8%. 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. At 31 March 2012 £972k of costs are provided where judgement has been used to determine that a constructive obligation exists.

- **Estimation of recoverability and foreseeable losses on work in progress (Note 10)**

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 12 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 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 19)**

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 19.

- **Measurement of the LGPS pension liability (Note 16)**

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 increase the net liability by £5.3m; a one year decrease would reduce it by £4.0m.

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

The Office for National Statistics' index series apply to classes of products and transactions which do not perfectly match our asset categories. Nor does the mix of assets within the published series match the mix of assets we hold in a category. Judgement is therefore being employed in assessing the movements on an index series to be a useful proxy for movements on asset value. Further judgement is required in selecting an appropriate index series for an asset category.

We use the following series to revalue our assets:

Asset class	Series used
Accommodation Refurbishments	CHMK: Consumer Price Indices - RPI indices
Office Equipment	K342: M22 Producer Price Indices – Other Machinery
IT Hardware	JV5A: M22 Producer Price Indices - Computers & Peripheral Equipment
Developed Software	K5EX: Employment and Earnings – Average Weekly Earnings - Information & Communication
Furniture & Fittings	K342: M22 Producer Price Indices - Office & Shop Furniture
Telecommunications Equipment	JV5J: M22 Producer Price Indices - Communication Equipment

All index series are published on the Office for National Statistics website at: http://www.statistics.gov.uk/statbase/tsdtimezone.asp. For each index series, we take the latest month for which a value has been published, and use the value as at the second last working day of the reporting period.

- **Measurement of the provision for employee leave liability (Note 14)**

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 2012

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 Rates and Council Tax
Responsible for compilation and maintenance of the rates 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, which contributes £152m, or 94%, of the segment's income. The Department for Communities and Local Government is also a major customer of other segments, as described below, contributing overall £155.5m, or 76%, of our total income.

Statutory Valuation Team
Delivers valuation advice for national taxes, principally inheritance tax and capital gains tax, to HMRC. Responsible for the operation of Right To Buy and Community Infrastructure Levy provisions for the Department of Communities and Local Government (£1m) and for the assessment of entitlements to benefits from the Department for Work and Pensions.

Property Services
Delivers valuation services and property advice to other public sector bodies.

Local Housing Allowance & Fair Rents
Provides 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 Department for Work and Pensions with additional work done for the Department of Communities and Local Government (£2.5m).

We restructured in 2011-12. The number and composition of the segments reported to the Board will not change until the 2012-13 financial year but the names of segments have been changed to reflect the new structure. The Statutory Valuation Team and Property Services segments above broadly correspond to the National & Central Services and Commercial Services segments presented in the 2010-11 accounts.

Financial information presented to the Board is issued before all adjustments made for financial reporting purposes have been completed. Assets and liabilities are not normally reported to the Board.

A reconciliation of the differences between the segmental information presented to the Board and the results shown on the primary financial statements is presented below.

	Non-Domestic Rates & Council Tax	Statutory Valuation Team	Property Services	Local Housing Allowance & Fair Rents	Total
	£'000	£'000	£'000	£'000	£'000
Income from external customers	161,801	11,933	15,429	15,190	**204,353**
Reportable segment surplus/ (deficit)	1,258	(211)	(29)	434	**1,452**

We do not recognise revenue for goods or services provided by one segment to another. Transactions of this sort are accounted for in segmental information through adjustments to the allocation of costs to the segments. The £3,141k impairment loss on IT software described in Note 8 has been charged to the Non-Domestic Rates & Council Tax segment.

Reconciliation of operating segment results to entity results			
	Total reported by operating segment	Adjustments during financial reporting process	As reported for entity in primary financial statements
	£'000	£'000	£'000
Income from external customers	**204,353**	49	**204,402**
Net surplus/(cost)	**1,452**	(8)	**1,444**

Adjustments during the financial reporting process consist of minor errors corrected after management reports had been issued.

Segmental information for 2010-11 is as shown below:

2010-11	Non-Domestic Rates & Council Tax	Statutory Valuation Team	Property Services	Local Housing Allowance & Fair Rents	Total
	£'000	£'000	£'000	£'000	£'000
Income from external customers	160,844	12,824	16,599	19,440	**209,707**
Reportable segment surplus/ (deficit)	3,360	147	2	6,842	**10,351**

The impairment charge of £1,174k (see Note 8) is included within the costs allocated to the Non-Domestic Rates and Council Tax segment. All the impaired assets were related to this segment. The Local Housing Allowance and Fair Rents segment result includes a £5.9m negative cost in respect of the Local Government Pension scheme (see Note 16). This was a preliminary estimate and was revised in the final accounts, as discussed below.

2010-11 Reconciliation of operating segment results to entity results			
	Total reported by operating segment	Adjustments during financial reporting process	As reported for entity in primary financial statements (restated)
	£'000	£'000	£'000
Income from external customers	**209,707**	(38)	**209,669**
Net surplus/(cost)	**10,351**	6,072	**16,423**

Adjustments during the financial reporting process relate principally to changes made on receipt of the final IAS 19 report from the Local Government Pension Scheme actuary (see Note 16). The actuary revised his assumptions on the average level of pension increases for the final report, leading to a much higher negative cost of £11.2m.

3. Staff numbers and related costs

(a) Staff costs and numbers

	2011-12			2010-11		
Average number of persons employed:	**Total**	**Permanently employed staff**	**Others**	**Total**	**Permanently employed staff**	**Others**
The average number of full-time equivalent persons (including senior management) employed during the year was as follows:						
Non-Domestic Rates and Council Tax	2,937	2,910	27	3,079	3,025	54
Property Services and Statutory Valuation Team	396	395	1	478	468	10
Local Housing Allowance and Fair Rents (former Rent Service)	230	230	-	262	262	-
Payment of Local Authority Rates	1	1	-	3	3	-
	3,564	**3,536**	**28**	**3,822**	**3,758**	**64**

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:						
	2011-12			2010-11		
	Total	Permanently employed staff	Others	Total	Permanently employed staff	Others
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	104,779	103,057	1,722	109,009	107,019	1,990
Social security costs	7,878	7,848	30	7,867	7,827	40
Other pension costs	18,959	18,894	65	21,266	21,186	80
	131,616	**129,799**	**1,817**	**138,142**	**136,032**	**2,110**
Pension past service cost	-	-	-	(11,190)	**(11,190)**	-
Equal Pay settlement scheme	7,800	**7,800**	-	-	-	-
Total staff costs	**139,416**	**137,599**	**1,817**	**126,952**	**124,842**	**2,110**

Prior year comparative figures have been adjusted to include contingent labour that was classified as consultancy costs in the published 2010-11 accounts (see Note 1).

Equal Pay settlement scheme
We identified that our pay system had, unintentionally, led to some men and women at the same pay band being at different points on the pay scale. We commissioned a review of our historic pay data which confirmed that the possibly unfair impact of our pay system in Equal Pay terms affected some pay bands.

Based on this review, and legal advice, we decided that we had a fiduciary duty to address the issue immediately, and made an exceptional case to HM Treasury and Cabinet Office to seek their approval to do so. This case was approved. We developed a one-off settlement and scheme applying to anyone affected by this Equal Pay issue.

The settlement and scheme were composed of up to two payments, made according to individual circumstances:

- The first was moving people who had been in affected pay bands for at least five years as of 1 August 2011 to the current maximum pay point for their pay band. This fully resolved the underlying cause of the Equal Pay problem. The cost of this element is included within the 'Wages and salaries', 'Social security costs' and 'Other pension costs' lines above.

- The second was a lump sum payment in recognition of the possibly unfair impact that had been caused historically (prior to 1 August 2011), for those people who had been in affected pay bands for at least five years up to 1 August 2011. This lump sum payment was discounted to reflect the litigation risk particular to each pay band. The cost of this element was £7.8m, including £0.6m in social security costs. It is shown as 'Equal Pay settlement scheme' above.

We believe that, having made these payments, we have fully addressed our historical Equal Pay issues.

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 16 to these accounts. 'Pension past service cost' was a one-off negative cost in 2010-11 in respect of changes to benefits due to members of the Local Government Pension Scheme. This negative cost is discussed in Note 16.

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 2011-12, employer's contributions of £18,487,798 (2010-11: £19,159,525) 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 2011-12 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's contributions of £71,463 (2010-11: £75,661) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer's 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's contributions of £4,988, 0.8% (2010-11: £5,550, 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.

No employees have retired on ill health grounds during 2011-12 (2010-11: two employees, with total addition accrued pension liabilities of £3,474).

Senior managers' remuneration

More detailed information on the pension benefits earned by our senior managers can be found within the Remuneration Report, on page 40.

(b) Early departure costs

	2011-12	2010-11
	£'000	£'000
Additional provisions made	1,022	5,940
Costs during the year - new schemes	2,608	-
Costs during the year - previous schemes	129	710
Unwinding of one year's discount	111	117
Change in the discount rate	5	(93)
Unused amounts reversed	-	(837)
Total in-year costs	**3,875**	**5,837**

Details of the opening and closing balances of the provision for early retirement and pension obligations can be found in Note 14. The write back of unused amounts provided in 2010-11 of £837k was due to the discovery that the provision for early departures at 31 March 2010 had included in error severance pay amounts already paid over at the reporting date.

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

	2011-12			2010-11 (Restated)		
Exit package cost by band	No. compulsory redundancies	No. other departures	Total no. exit packages by band	No. compulsory redundancies	No. other departures	Total no. exit packages by band
< £10,000	-	1	1	-	23	23
£10,001 - £25,000	11	18	29	-	154	154
£25,001 - £50,000	4	20	24	-	39	39
£50,001 - £100,000	-	13	13	-	28	28
£100,001 - 150,000	-	4	4	-	4	4
Total no. exit packages by type	**15**	**56**	**71**	-	**248**	**248**
Total operating cost (£'000s)	**328**	**2,424**	**2,752**	-	**5,940**	**5,940**

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 16.

The costs above include no ex gratia payments, but the 2011-12 figures include one special severance payment of £100k made with the approval of HM Treasury and one further payment of £44k made under the terms of the 2010-11 departure scheme.

4. Non-staff programme costs for the year ended 31 March 2012

	Note	2011-12 £'000	2010-11 (Restated) £'000
Accommodation costs			
PFI finance charges	19	137	148
Accommodation excluding non-domestic rates		16,716	17,137
Accommodation - non-domestic rates		3,482	3,492
		20,335	20,777
Running costs			
HM Revenue & Customs service charges		4,289	5,240
Capgemini IT service charges	19	10,734	10,424
Other computing costs		1,313	1,090
Management and IT consultancy		65	829
Telephone charges		1,344	1,834
Travel and subsistence		4,807	4,548
External training		332	593
Printing, stationery and distribution		560	573
Subscriptions		808	894
Postage and couriers		920	701
Rentals under operating leases		368	386
Legal claims and services (excl movement in provisions)		46	253
Contracted-out services		644	455
Losses and special payments	21	276	175
Sundry costs		1,380	3,367
		27,886	31,362
Non-cash costs			
Legal claims and compensation (movement in provisions)		-	(276)
Establishment of provision for office closure costs	14	-	276
Auditors' notional remuneration		80	82
Net loss/(profit) on revaluation of non-current assets	6 & 7	(15)	45
Net loss/(profit) on disposal of non-current assets		20	81
Increase/(decrease) in provision for doubtful debt		160	(121)
		245	87
Other operating costs		**48,466**	**52,226**
Impairment of non-current assets	8	**3,241**	**1,174**
Depreciation and amortisation			
Depreciation of property, plant and equipment	6	3,510	3,035
Amortisation of intangible assets	7	4,450	4,022
		7,960	**7,057**
Total non-staff programme costs		**59,667**	**60,457**

We are audited by the Comptroller and Auditor General, who has not carried out any non-audit work for us and whose remuneration for such work is therefore £nil (2010-11: £nil). However, in 2010-11 the Comptroller and Auditor General subcontracted elements of our audit to PwC LLP. The 2010-11 management consultancy costs disclosed above include £217k in respect of non-audit services provided by PwC LLP.

The prior year comparative figure for Management and IT consultancy has been adjusted to exclude contingent labour classified as consultancy costs in the published 2010-11 accounts (see Note 1).

5. Operating Income for the year ended 31 March 2012

	2011-12	2010-11
	£'000	£'000
Non-Domestic Rates and Council Tax	161,801	160,844
Statutory Valuation Team	11,933	12,786
Property Services	15,478	16,599
Local Housing Allowance and Fair Rents (former Rent Service)	15,190	19,440
	204,402	**209,669**

We must disclose performance results for the areas of our activities where fees and charges are made. 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.

2011-12	Non-Domestic Rates & Council Tax	Statutory Valuation Team	Property Services	Local Housing Allowance & Fair Rents	Total
	£'000	£'000	£'000	£'000	£'000
Income from fees and charges	161,801	11,933	15,478	15,190	**204,402**
Full cost of providing services	160,524	12,144	15,458	14,832	**202,958**
Surplus	1,277	(211)	20	358	**1,444**

2010-11	Non-Domestic Rates & Council Tax	Statutory Valuation Team	Property Services	Local Housing Allowance & Fair Rents	Total
	£'000	£'000	£'000	£'000	£'000
Income from fees and charges	160,844	12,786	16,599	19,440	**209,669**
Full cost of providing services	156,757	12,678	16,597	7,214	**193,246**
Surplus	4,087	108	2	12,226	**16,423**

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 2011	2,658	6,503	1,998	7,057	3,560	**21,776**
Additions	-	-	1,771	881	-	**2,652**
Disposals	-	(4)	-	(10)	(22)	**(36)**
Impairments (see Note 8)	-	-	-	(101)	-	**(101)**
Reclassifications	-	1,343	(2,363)	416	596	**(8)**
Revaluations	-	211	-	5	39	**255**
At 31 March 2012	**2,658**	**8,053**	**1,406**	**8,248**	**4,173**	**24,538**

Depreciation:						
At 1 April 2011	1,952	3,449	-	2,907	1,288	**9,596**
Charged in the year	96	1,716	-	1,313	385	**3,510**
Disposals	-	(2)	-	(7)	(8)	**(17)**
Impairments (see Note 8)	-	-	-	-	-	-
Revaluations	-	95	-	3	10	**108**
At 31 March 2012	**2,048**	**5,258**	-	**4,216**	**1,675**	**13,197**

Net Book Value:						
At 31 March 2012	**610**	**2,795**	**1,406**	**4,032**	**2,498**	**11,341**

At 31 March 2011	**706**	**3,054**	**1,998**	**4,150**	**2,272**	**12,180**

Our buildings (£610k) are PFI financed. All remaining property, plant and equipment are owned. We held no donated assets during the year (2010-11: nil). Our buildings were valued by Property Services, a unit of the VOA, on the 31 March 2009. Two of the five buildings on our Statement of Financial Position were valued by Property Services at 31 March 2010. An interim valuation was obtained at 31 March 2012 and did not result in any revaluation in 2011-12. 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.

	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 2010	2,658	5,034	2,066	4,334	6,864	**20,956**
Additions	-	56	2,851	1,650	41	**4,598**
Disposals	-	-	-	(182)	(3,654)	**(3,836)**
Impairments (see Note 8)	-	(42)	-	-	(31)	**(73)**
Reclassifications	-	1,202	(2,919)	1,126	591	-
Revaluations	-	253	-	129	(251)	**131**
At 31 March 2011	**2,658**	**6,503**	**1,998**	**7,057**	**3,560**	**21,776**
Depreciation:						
At 1 April 2010	1,857	1,902	-	1,856	4,732	**10,347**
Charged in the year	95	1,529	-	995	416	**3,035**
Disposals	-	-	-	(164)	(3,604)	**(3,768)**
Impairments (see Note 8)	-	(19)	-	-	(20)	**(39)**
Revaluations	-	37	-	220	(236)	**21**
At 31 March 2011	**1,952**	**3,449**	-	**2,907**	**1,288**	**9,596**
Net Book Value:						
At 31 March 2011	**706**	**3,054**	**1,998**	**4,150**	**2,272**	**12,180**
At 31 March 2010	**801**	**3,132**	**2,066**	**2,478**	**2,132**	**10,609**

7. Intangible assets

	Developed Software	Assets Under Construction	Total
	£'000	£'000	£'000
Cost or valuation:			
At 1 April 2011	40,230	3,214	**43,444**
Additions	40	2,462	**2,502**
Disposals	-	-	-
Impairments (see Note 8)	(3,660)	-	**(3,660)**
Reclassifications	2,752	(2,744)	**8**
Revaluations	387	-	**387**
At 31 March 2012	**39,749**	**2,932**	**42,681**

Amortisation:			
At 1 April 2011	13,954	-	**13,954**
Charged in the year	4,450	-	**4,450**
Disposals	-	-	-
Impairments (see Note 8)	(518)	-	**(518)**
Reclassifications	-	-	-
Revaluations	134	-	**134**
At 31 March 2012	**18,020**	-	**18,020**

Net Book Value:			
At 31 March 2012	**21,729**	**2,932**	**24,661**
At 31 March 2011	**26,276**	**3,214**	**29,490**

	Developed Software	Assets Under Construction	Total
	£'000	£'000	£'000
Cost or valuation:			
At 1 April 2010	33,473	10,587	**44,060**
Additions	529	2,288	**2,817**
Disposals	(1,079)	-	**(1,079)**
Impairments (see Note 8)	(1,906)	-	**(1,906)**
Reclassifications	9,661	(9,661)	-
Revaluations	(448)	-	**(448)**
At 31 March 2011	**40,230**	**3,214**	**43,444**
Amortisation:			
At 1 April 2010	12,109	-	**12,109**
Charged in the year	4,022	-	**4,022**
Disposals	(1,066)	-	**(1,066)**
Impairments (see Note 8)	(766)	-	**(766)**
Reclassifications	-	-	-
Revaluations	(345)	-	**(345)**
At 31 March 2011	**13,954**	-	**13,954**
Net book value:			
At 31 March 2011	**26,276**	**3,214**	**29,490**
At 31 March 2010	**21,364**	**10,587**	**31,951**

The Developed Software assets above are held at revalued amounts. If they had been held at historic cost their carrying value would have been £23,832k (2010-11: £25,384k).

The following material assets are included within developed software:

Central Database (CDB)
CDB is the suite of applications, interfaces and tools which support the data access, retention and processing needs of our core valuation activities. The carrying value of these assets at 31 March 2012 is £5.2m (2011: £7.2m). We have also capitalised a set of upgrades and enhancements to existing CDB systems designed to support the development and maintenance of the non-domestic rates and council tax lists. The carrying value of these enhancements is £6.4m at 31 March 2012 (2011: £7.3m). The estimated remaining useful lives of CDB assets are between six and nine years.

Enterprise Resource Planning
These assets represent the customisation and implementation costs of moving our organisation onto an integrated Finance and HR IT system shared with our sponsor department, HMRC. Subsequent enhancement costs are also included. The carrying value of £3.3m at 31 March 2012 (2011: £3.9m) includes only costs borne by us. Estimated remaining useful lives of component assets range from five to ten years.

8. Impairments

	Impairment charged to operating costs
	£'000
Intangible assets	3,141
Property, plant and equipment	100
Impairment charged for the year ended 31 March 2012	**3,241**
Intangible assets	1,140
Property, plant and equipment	34
Impairment charged for the year ended 31 March 2011	**1,174**

All impairments have been charged to operating costs, rather than against existing Revaluation Reserve amounts.

Intangible assets impaired in the current year relate to a Geographical Information System (GIS) that we commissioned to be developed by our IT suppliers. The system was intended to give fast and effective access to geo-spatial information in our property database by visualising it on maps. However, after extensive development effort and a pilot across parts of the Agency, we have decided that the system will not deliver the intended benefits and cost savings, and that further expenditure on the project is not an effective use of taxpayers' money. The project has therefore been abandoned. This decision was made by our Board on 2 April 2012. This has been treated as an adjusting event after the reporting period (see Note 23). All assets associated with the system have been fully impaired, at a cost of £3,141k.

Impaired intangible assets in 2010-11 consisted of developed software designed to assist with the valuation of property for local taxes. A review of this software during the year identified that there were no plans to utilise it for any local tax revaluations and that it was no longer in a condition to be used for its intended purpose without substantial rework. As a result the software was impaired by £1,140k.

The impairment of tangible assets in the current year related to telephony equipment which was capitalised in 2010-11 at an estimated value. The accurate final costs are now known and are £100k less than the estimate. The assets have therefore been impaired to their actual value. Impaired tangible assets in 2010-11 consisted of furniture and fittings in five offices that we had announced would be closing. Assets were therefore impaired to reflect their reduced recoverable amount.

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

	31 March 2012	31 March 2011
	£'000	£'000
(a)		
Trade receivables and other current assets:		
Trade receivables	4,563	4,785
Other receivables	346	570
Allowance for doubtful debt	(235)	(75)
Prepayments	1,172	1,098
	5,846	**6,378**
Non-current financial assets:		
Prepayments	**286**	**504**
	6,132	**6,882**

	Receivables: Current	Receivables: Non-current
	£'000	£'000
(b)		
Balances with other central government bodies	2,132	-
Balances with local authorities	1,156	-
Balances with NHS Trusts	710	-
Balances with public corporations and trading funds	24	-
Balances with bodies external to government	1,824	286
At 31 March 2012	**5,846**	**286**
Balances with other central government bodies	2,356	-
Balances with local authorities	1,502	-
Balances with NHS Trusts	647	-
Balances with public corporations and trading funds	-	-
Balances with bodies external to government	1,873	504
At 31 March 2011	**6,378**	**504**

10. Work in progress (WIP)

	31 March 2012	31 March 2011
	£'000	£'000
Opening	2,573	2,703
Written-off	(130)	(74)
Movement in WIP	(508)	(24)
Movement in provision for foreseeable losses and irrecoverable amounts	240	(32)
Closing	**2,175**	**2,573**

(i) As at 31 March 2012 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 £130k for the year ending 31 March 2012 (2010-11: £74k).

(ii) As at 31 March 2012 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 £212k (2010-11: £281k).

(iii) As at 31 March 2012 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 £54k of this balance may not be recoverable and we have recognised this sum as impairment in the year (2010-11: £225k).

More information about the nature and profile of WIP can be found in Note 13.

11. Cash and cash equivalents

	31 March 2012	31 March 2011
	£'000	£'000
Balance at 1 April	8,903	11,548
Net change in cash and cash equivalent balances	7,606	(2,645)
Balance at 31 March	**16,509**	**8,903**

The following balances as at 31 March were held at:		
Government Banking Service	16,484	8,863
Commercial banks and cash in hand	25	40
Balance at 31 March	**16,509**	**8,903**

The cash balance disclosed above includes £131k (2010-11: £145k) 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.

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

	31 March 2012	31 March 2011
	£'000	£'000
(a)		
Current financial and other liabilities:		
Trade payables	5,215	436
Accruals and deferred income	15,234	7,525
VAT	95	74
Current liability in respect of on balance sheet PFI assets	43	37
	20,587	**8,072**
Amounts payable to the Consolidated Fund	131	5,585
	20,718	**13,657**
Non-current financial and other liabilities:		
Non-current liability in respect of on balance sheet PFI assets	525	567
	525	**567**
	21,243	**14,224**

	Payables: Current	Payables: Non-current
	£'000	£'000
(b)		
Balances with other central government bodies	13,901	-
Balances with local authorities	125	-
Balances with NHS Trusts	27	-
Balances with public corporations and trading funds	53	-
Balances with bodies external to government	6,612	525
At 31 March 2012	**20,718**	**525**
Balances with other central government bodies	7,138	-
Balances with local authorities	115	-
Balances with NHS Trusts	22	-
Balances with public corporations and trading funds	80	-
Balances with bodies external to government	6,302	567
At 31 March 2011	**13,657**	**567**

13. Financial instruments risk management

Our financial risk is categorised as follows:

- Credit risk;
- Liquidity risk; and
- Market risk.

Credit risk
Credit risk is the risk of loss of value of financial assets due to counterparties failing to meet all or part of their obligations. Of our trade receivables balance of £4.6m, £2.1m is due from other Government Departments and Agencies. Therefore the risk of counterparty default is low and our exposure to credit risk is minimal. There is higher risk associated with our £2.5m of trade receivables due from other bodies. With regards to risk concentration, 13% (£625k), of our trade receivables balance is due from one specific counterparty. However due to the fact that this counterparty is a Central Government agency, the credit risk associated with this concentration is very limited. As part of our strategy to manage our trade receivables, we have put in place policies and practices to ensure that we accurately invoice our clients and that this is done in a timely manner.

The majority of our cash balances are held with the Government Banking Service and are available on demand. The probability of default is insignificant.

Our financial assets (trade receivables, work in progress and cash deposits) that are neither past due or impaired are of high credit quality. This is because they are principally due from other UK government bodies. We have assessed our trade receivables for possible impairment and have recognised a £181k provision (2010-11: £75k) for debts which may not be recoverable. We have performed a similar assessment of our work in progress and recognised a £266k (2010-11: £506k) provision.

The following table provides information regarding the ageing of trade receivables that are past due at the financial reporting date but that are not impaired.

Receivables past due but not impaired at 31 March 2012					
	< 2 months overdue	2 - 6 months overdue	6 - 12 months overdue	> 12 months overdue	Total
	£'000	£'000	£'000	£'000	£'000
Trade receivables	**853**	**568**	-	**3**	**1,424**

Receivables past due but not impaired at 31 March 2011					
	< 2 months overdue	2 - 6 months overdue	6 - 12 months overdue	> 12 months overdue	Total
	£'000	£'000	£'000	£'000	£'000
Trade receivables	**530**	**380**	**24**	**15**	**949**

Our policy is to recover all of our work in progress costs. Our work in progress, gross of provisions for impairments, as at 31 March 2012 is presented in the table below, aged by the date the work began. Forty-five per cent of our work in progress relates to contracts that commenced over 12 months ago. A significant proportion (£838k or 75% of the balance older than one year) of this is due to transport sector cases, which have a lengthy resolution process between us (on behalf of the Highways Agency) and the third party.

Work in progress at 31 March 2012, gross of impairment and aged by commencement date						
	< 3 months	3 - 6 months	6 - 12 months	12 - 18 months	> 18 months	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Work in progress (gross)	**580**	**410**	**338**	**248**	**865**	**2,441**

Work in progress at 31 March 2011, gross of impairment and aged by commencement date						
	< 3 months	3 - 6 months	6 - 12 months	12 - 18 months	> 18 months	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Work in progress (gross)	**606**	**337**	**390**	**243**	**1,503**	**3,079**

The tables below are an analysis of our work in progress based on its monetary value and its ageing since the last time work was undertaken for the client on the specific case. Cases for which there has been no activity for over 12 months account for 0.7% of our work in progress balance.

Work in progress at 31 March 2012, gross of impairment and aged by date last worked on						
	< 3 months	3 - 6 months	6 - 12 months	12 - 18 months	> 18 months	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Work in progress (gross)	**2,163**	**225**	**35**	**16**	**2**	**2,441**

Work in progress at 31 March 2011, gross of impairment and aged by date last worked on						
	< 3 months	3 - 6 months	6 - 12 months	12 - 18 months	> 18 months	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Work in progress (gross)	**2,585**	**269**	**224**	**1**	**-**	**3,079**

The tables below present the age of the work in progress balance, net of a £54k (2010-11: £225k) provision for possibly irrecoverable amounts and a £212k (2010-11: £281k) provision for foreseeable losses on fixed price contracts.

Work in progress at 31 March 2012, net of impairment and aged by date last worked on						
	< 3 months	3 - 6 months	6 - 12 months	12 - 18 months	> 18 months	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Work in progress (net)	**1,950**	**225**	-	-	-	**2,175**

	£'000	£'000	£'000	£'000	£'000	£'000
	2,304	**269**	-	-	-	**2,573**

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Over 85% of our income for the year is from chargeable work for the Department for Communities and Local Government, the Department for Work and Pensions and the Welsh Government. As part of our agreement with these clients, they are required to make specific payments on a regular basis and by specified dates. We would be exposed to severe liquidity risk in the event that the agreed payments from these clients were not received or were received substantially later than agreed.

Additionally, our liquidity is at risk if substantial levels of work in progress are not billed and collected in a timely manner. Though the impact would be less severe than a delay in payment from a major client, it could nevertheless force us to delay some payments.

The objective of our liquidity risk management policy is that we maintain sufficient financial resources to be able to meet our obligations as they fall due. Key aspects of the risk management policy include having an agreement with our key clients for payments to be made to us on a regular basis. We ensure that we invoice our major clients accurately and timeously. The process is supervised by senior members of the finance department. In addition, we have an adequately staffed credit control function, which has the responsibility for recovering balances that are overdue.

We have a cash management process that is overseen by a senior member of the finance function as well as the active management of creditors payment days. In addition our cash balances are on deposit with the Government Banking Service and are available on demand.

The expected payment profile of undiscounted financial liabilities as at 31 March 2012 is as follows:

	< 1 year	> 1 year	Total
	£'000	£'000	£'000
2011-12			
Trade payables	(5,109)	-	(5,109)
Accruals	(11,325)	-	(11,325)
Total	**(16,434)**	-	**(16,434)**
2010-11			
Trade payables	(337)	-	(337)
Accruals	(7,204)	-	(7,204)
Total	**(7,541)**	-	**(7,541)**

Market risk
Market risk is the risk of adverse financial impact due to changes in fair values of future cash flows of financial instruments from fluctuations in interest rates, foreign currency exchange rates, equity prices and property prices. We have an insignificant exposure to market risk as our cash balances are held in the Government Banking Service and interest is not paid on these deposits.

The assets held by the London Pension Fund Authority in our LGPS pension fund (see Note 16) are subject to market risk. However, assets held in the fund are selected with the long-term goal of funding member pensions as they are paid. While short-term market value changes are reflected on our statement of financial position, they do not normally significantly affect the long-term funding of our pension liabilities.

Classification of financial assets and liabilities
In accordance with IAS 39, our financial assets other than cash have been classified as loans and receivables. They are measured at fair value on recognition. An analysis is presented in the table below:

	31 March 2012	31 March 2011
	£'000	£'000
Work in progress	2,175	2,573
Trade receivables	4,381	4,710
Other receivables	346	540
Cash and cash equivalents	16,509	8,903
Financial assets	**23,411**	**16,726**

In accordance with IAS 39, our financial liabilities are measured at amortised cost and an analysis is presented in the table below:

	31 March 2012	31 March 2011
	£'000	£'000
Trade payables	(5,109)	(337)
Accruals	(11,325)	(7,204)
Financial liabilities at amortised cost	**(16,434)**	**(7,541)**

14. Provisions

(a) Movements in provisions

	Accrued employee benefits	Early departure and additional pension commitments	Provision for legal claims and compensation	Provision for office closure costs	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2011	10,418	12,639	1,052	276	24,385
Increase/(decrease) in provision	(514)	1,022	374	-	882
Provisions not required written back	-	-	(374)	-	(374)
Provisions utilised in the year	-	(8,467)	(207)	(276)	(8,950)
Change in the discount rate	-	5	-	-	5
Unwinding of discount	-	111	-	-	111
Balance at 31 March 2012	**9,904**	**5,310**	**845**	-	**16,059**

Accrued employee benefits
The provision for accrued employee benefits represents our liability for paid leave earned by employees but not taken at the reporting date. It is not possible to reliably predict when employees will use their accrued leave. It is not possible to distinguish utilisation of this provision, due to leave being taken, from increases in the provision due to entitlement to leave being accrued. A single net figure is therefore shown above.

Provisions for early departure and additional pension commitments
The increase in provision for 2011-12 includes £972k for the expected redundancy costs of 12 staff who no longer have a permanent role following the restructure during the year. The remaining increase in provision is for adjustments to the estimated liabilities for past years' early departure schemes.

The detailed accounting policy for early departure costs is set out in Note 1.10, the costs are expected to fall due as shown below in Note 14b, 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.

Provision for office closure costs
In the year to 31 March 2011, we made the decision to close five of our offices. Notice was given to the landlords of the properties concerned and staff were informed of the key characteristics of the plan. The provision included estimated costs of the closures, including the costs of making good dilapidations under the leases for the offices and the costs of the uncancellable terms of the leases after operations out of them ceased. This provision was utilised in 2011-12.

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

	31 March 2012	31 March 2011
	£'000	£'000
Early retirement and pension commitments fall due:		
Within one year	2,886	8,799
Between one and two years	1,160	1,683
Between two and five years	1,085	1,803
After five years	179	354
	5,310	**12,639**

15. Consolidated Fund income and amounts payable to the Consolidated Fund at 31 March 2012

	31 March 2012	31 March 2011
	£'000	£'000
Operating receipts payable to the Consolidated Fund	-	5,440
Civil Penalties receipts on behalf of the Consolidated Fund	131	145
Total Payable to the Consolidated Fund	**131**	**5,585**

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).

In 2010-11, as a result of our sponsor department's out-turn for the year, we owed part of our surplus for the year to the Consolidated Fund. We are not required to pay any element of our 2011-12 surplus to the Consolidated Fund.

16. 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 2012 have been made using information supplied by the scheme actuary, Barnet 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 2010 and completed in March 2011. 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. Current service costs have been estimated using contribution information supplied to the actuary.

In 2011-12, we made contributions at a rate of 22.2% (2010-11: 18.8%) of pensionable salary. In 2012-13 we will make contributions at 22.2% of pensionable salary. This rate includes a 3.5% deficit contribution rate. The total cash contribution that we expect to make to the LGPS scheme in the year to 31 March 2013 is £979,000.

Transactions relating to the Local Government Pension Scheme

Recognised as operating costs	**2011-12**		**2010-11**	
	£'000s	**% of pay**	£'000s	**% of pay**
Current service cost	889	20.1%	1,291	27.7%
Interest cost on scheme liabilities	5,580	126.5%	6,643	142.6%
Expected return on scheme assets	(6,051)	-137.1%	(5,864)	-125.9%
Past service cost / (gain)	-	0.0%	(11,190)	-240.3%
Losses on curtailments and settlements	-	0.0%	397	8.5%
	418	**9.5%**	**(8,723)**	**-187.3%**

	2011-12	2010-11
Actual return on scheme assets	**892**	**6,140**

The current service cost is the increase in scheme liabilities as a result of employees' service within the year. Interest cost is the increase in the present value of the scheme's liabilities due to moving one year closer to payment. The expected return on scheme assets is an estimate of the annual investment return attributable to us - further details of this are given below. Past service costs are costs relating to members' service, arising due to current year decisions, but pertaining to past years' service. Losses/ gains on curtailments and settlements are costs incurred in relieving us of liabilities, or the results of changes which affect expected future service or benefits.

Past service cost for 2010-11 includes a negative cost of £11,190k. This arose because of the announcement by the Chancellor of the Exchequer in May 2010 that future indexation of pensions in payment will be in line with the Consumer Price Index (CPI), rather than the Retail Price Index (RPI) as has been past practice. Since CPI has in the past been on average lower than RPI, this has the effect of reducing the expected future cash flows in respect of pensions. As a result our liability to fund these pensions is reduced, creating a negative cost of past service.

Losses on curtailments and settlements shown above for 2010-11 are in respect of the early departure of 12 employees. These costs are included in early departure 'costs in year – new schemes' on Note 3b. The remaining operating costs above are included as 'other pension costs' in Note 3a.

Recognised in Statement of Changes in Taxpayers' Equity	**2011-12**	**2010-11**	**2009-10**	**2008-09**	**2007-08**
	£'000s	£'000s	£'000s	£'000s	£'000s
Actuarial gains / (losses)	(17,760)	9,411	(14,423)	(16,456)	3,112
Increase / (decrease) in irrecoverable surplus from membership	-	-	-	-	-
Actuarial gains / (losses) recognised in Statement of Changes in Taxpayers' Equity	(17,760)	9,411	(14,423)	(16,456)	3,112
Cumulative Actuarial Gains and Losses	**(39,676)**	**(21,916)**	**(31,327)**	**(16,904)**	**(448)**

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

Amounts recognised in the Statement of Financial Position	**31 March 2012**	**31 March 2011**
	£'000s	£'000s
Fair value of scheme assets	89,169	91,188
Present value of funded liabilities	(117,690)	(102,798)
	(28,521)	(11,610)
Present value of unfunded obligations	(289)	(262)
Unrecognised past service cost	-	-
Net Liability in the Statement of Financial Position	**(28,810)**	**(11,872)**

Reconciliation of fair value of the scheme liabilities	31 March 2012	31 March 2011
	£'000s	£'000s
Fair value of liabilities at 1 April	103,060	123,348
Current service cost	889	1,291
Interest cost	5,580	6,643
Contributions by scheme members	291	307
Actuarial (gains) / losses	12,599	(12,154)
Past service costs	-	(11,190)
Losses on curtailments	-	397
Liabilities extinguished on settlements	-	-
Estimated unfunded benefits paid	(23)	(15)
Estimated benefits paid	(4,417)	(5,567)
Estimated fair value of scheme liabilities at 31 March	**117,979**	**103,060**

Reconciliation of fair value of the scheme assets	31 March 2012	31 March 2011
	£'000s	£'000s
Fair value of assets at 1 April	91,188	90,041
Expected return on assets	6,051	5,864
Contributions by scheme members	291	307
Contributions by the employer	1,217	3,286
Contribution in respect of unfunded benefits	23	15
Actuarial gains / (losses)	(5,161)	(2,743)
Assets distributed on settlements	-	-
Unfunded benefits paid	(23)	(15)
Benefits paid	(4,417)	(5,567)
Estimated fair value of scheme assets at 31 March	**89,169**	**91,188**

Employer contributions shown above include £11k (2010-11: £8k) of contributions made to the scheme by the Department for Work and Pensions regarding additional pension costs for employees of The Rent Service who took early retirement before that agency merged with the VOA.

History of surplus or deficit in the scheme

	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
	£'000s	£'000s	£'000s	£'000s	£'000s
Fair value of employer assets	89,169	91,188	90,041	70,493	83,784
Fair value of defined benefit obligations	117,979	103,060	123,348	87,372	85,066
Surplus/(deficit) in the scheme	**(28,810)**	**(11,872)**	**(33,307)**	**(16,879)**	**(1,282)**

Experience gains/(losses) on assets	(5,161)	(3,166)	16,061	(24,515)	27,687
Experience gains/(losses) on liabilities	(6)	11,071	14,845	10	(35,949)

Financial assumptions

	31 March 2012	31 March 2011
	% per year	% per year
RPI Increases	3.3%	3.5%
CPI Increases	2.5%	2.7%
Rate of increase of salaries	4.2%	4.5%
Expected return on assets	5.9%	6.7%
Discount rate	4.6%	5.5%

The scheme guarantees that pensions will increase by the rise in the Consumer Prices Index. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index at 31 March 2012.

Composition of scheme assets and expected returns

	31 March 2012		31 March 2011	
	£'000s	%	£'000s	%
Equities	65,093	73.0%	62,920	69.0%
Target return funds	10,700	12.0%	10,943	12.0%
Alternative assets	12,484	14.0%	12,766	14.0%
Cash	892	1.0%	2,736	3.0%
Corporate Bonds	0	0.0%	1,823	2.0%
	89,169		**91,188**	

The expected return on scheme assets is determined by considering the expected returns available on the assets in the scheme. Expected yields on fixed interest investments are based on gross redemption yields at the reporting date. Expected return on equities reflects the long-term real rates of return experienced in the relevant markets.

Expected return - % per year	31 March 2012	31 March 2011
Equities	6.3%	7.4%
Target return funds	4.5%	4.5%
Alternative assets	5.3%	6.4%
Cash	3.0%	3.0%
Corporate Bonds	n/a	5.5%

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 2012	31 March 2011
Retiring today:		
Males	21.4	21.3
Females	23.9	23.8
Retiring in 20 years:		
Males	23.4	23.3
Females	25.8	25.7

The post retirement mortality is based on the Club Vita mortality analysis, projected using the medium cohort projection and allowing for a minimum rate of improvement of 1%. In addition, it has been assumed that members will exchange half of their commutable pension for cash at retirement and that active members will retire one year later than they are first able to without reduction in pension benefits.

17. Capital Commitments

	31 March 2012	31 March 2011
	£'000	£'000
At 31 March the following future capital commitments had been authorised and contracted:		
Property, plant and equipment	90	127
Intangible assets	330	82
	420	**209**

18. 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 2012	**31 March 2011 (Restated)**
	£'000	£'000
Obligations under operating leases comprise:		
Land and buildings		
Not later than one year	4,393	4,669
Later than one year and not later than five years	9,097	4,821
Later than five years	675	2,100
	14,165	**11,590**
Other		
Not later than one year	237	367
Later than one year and not later than five years	112	351
Later than five years	-	-
	349	**718**

A number of our land and buildings leases are subject to contingent rent in the form of increases 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 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 19.

19. 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 VOA is £2.421m, as measured at the inception of the contract.

(a) On balance sheet

Five of our office buildings under the PFI contract with Mapeley Estates Limited are treated as our assets in accordance with IFRIC 12 and IAS 17. For three of these buildings, we have both control over the services provided using the assets and control of their residual interest. In accordance with IFRIC 12 the assets are treated as our assets. For the two additional buildings accounted for on our Statement of Financial Position, the arrangement constitutes a finance lease under IAS 17.

	31 March 2012	31 March 2011 (Restated)
	£'000	£'000
Total obligations under on balance sheet PFI contracts for the following periods comprises:		
Not later than one year	175	174
Later than one year and not later than five years	614	634
Later than five years	614	768
	1,403	**1,576**
Less interest element	(835)	(972)
Liability on Statement of Financial Position (Note 12)	**568**	**604**

	31 March 2012	31 March 2011
	£'000	£'000
Present value of total obligations under on balance sheet PFI contract for the following periods comprises:		
Not later than one year	44	37
Later than one year and not later than five years	162	152
Later than five years	362	415
Liability on Statement of Financial Position (Note 12)	**568**	**604**

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 2012	31 March 2011
	£'000s	£'000s
Total further commitments relating to on balance sheet PFI contracts, analysed by period due:		
Not later than one year	347	351
Later than one year and not later than five years	44	302
Later than five years	-	-
	391	**653**

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 will quit one of the properties that is held on balance sheet under IFRIC 12 in May 2012. The associated asset, held at a value of £122k at 31 March 2012 will be disposed of. The associated creditor, £102k at 31 March 2012, will be 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 2012	31 March 2011 (Restated)
	£'000s	£'000s
Total commitments, analysed by period in which they are due:		
Not later than one year	7,509	7,715
Later than one year and not later than five years	6,663	5,764
Later than five years	381	856
	14,553	**14,335**

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 Price 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 2012, we paid £7,688k (2010-11: £8,340k) 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 £8,212k (2010-11: £8,828k). Future commitments in respect of these payments are analysed below:

	31 March 2012	31 March 2011
	£'000s	£'000s
Total commitments, analysed by period in which they are due:		
Not later than one year	7,985	8,198
Later than one year and not later than five years	7,159	6,547
Later than five years	632	1,208
	15,776	**15,953**

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

We outsourced the management of some of our IT services as part of a HMRC-wide arrangement in 2004. This Public Private Partnership (PPP) agreement, known as ASPIRE, involved us selling some of our IT hardware to a consortium who then provided a managed service using those assets. The initial term of the arrangement was ten years, but the contract has since been extended until June 2017.

In 2007 the ASPIRE arrangement was amended to allow better use of the overall asset base. Essentially it allowed the provider to allocate asset usage in such a way as to maximise efficiency and deliver savings on the overall contract. The managed service continued but the asset base was no longer specified.

Effectively our former assets became fungible elements of a much larger asset pool which is almost entirely devoted to the activities of HMRC. We have estimated our share of that pool to be less than 2%.

On the introduction of IFRS from 1 April 2008, preparers of accounts were directed to consider assets involved in such arrangements for inclusion on the Statement of Financial Position. However, the structure of the ASPIRE contract is such that it has not been possible to reliably identify the specific assets within the overall pool which are used to provide services to the VOA. Nor has it been possible to gain any assurance that we have a continuing right to the use of particular assets within the pool, as is required by IFRIC 12 if assets are to be included on the Statement of Financial Position.

We have therefore concluded that the accounting treatment that most accurately reflects the substance of the arrangement is to treat the costs of the service provided through the ASPIRE contract as operating costs recognised as the services are consumed. Amounts paid to the ASPIRE consortium for the development and construction of assets are capitalised in accordance with the accounting policies set down in Note 1.

During the year to 31 March 2012, we paid £11,122k (2010-11: £10,506k) in service charges in respect of the ASPIRE contract. While we currently plan to incur £11,895k in operating expenditure for ASPIRE services during 2012-13 there is no commitment to expend these sums.

20. Contingent liabilities at 31 March 2012

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 several cases where there is a potential liability, which we estimate at £54k in total.

c) We occupy several properties where, under the terms of their leases, we may be asked to “make good” the property when the lease expires. This creates a potential liability. However there are circumstances where these clauses cannot be enforced and in all cases the amounts involved are highly uncertain until fairly near the time of the lease expiry. We therefore do not provide for these costs, but consider them to be contingent liabilities.

21. Losses and special payments

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

	2011-12		2010-11	
	No. payments	£'000s	No. payments	£'000s
Losses				
Losses of pay	3	-	8	2
Fruitless payments	1	1	-	-
Claims abandoned	8	2	-	-
Constructive losses	1	4,521	-	-
	13	**4,524**	**8**	**2**

	2011-12 No. payments	2011-12 £'000s	2010-11 No. payments	2010-11 £'000s
Special payments				
Ex-gratia payments	12	3	222	17
Compensation payments	20	86	63	135
Special severance payments	2	184	-	-
	34	**273**	**285**	**152**

Losses and special payments are shown in their own line in Note 4, except for the constructive losses which are charged as described below.

Both special severance payments were made under approvals by HM Treasury.

Constructive losses consists of one loss. We impaired our Geographical Information System developed software assets, at a cost of £3,141k, as described in Note 8. This value is the depreciated value of the asset; its gross value was £3,660k. We also incurred operating costs in 2010-11 and 2011-12 for the running of the project. The total constructive loss associated with this project is analysed as follows:

	£'000s	
Operating costs 2010-11	713	Included in 2010-11 Capgemini IT service charges in Note 4.
Operating costs 2011-12	667	Included in 2011-12 Capgemini IT service charges in Note 4.
Impairment of asset	3,141	Charged as intangible asset impairment in Note 8.
	4,521	

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.

22. Related Party Transactions for the year ended 31 March 2012

The Valuation Office Agency is an Executive Agency of HM Revenue and 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 £10,450k earned from HMRC and expenditure includes £21,908k invoiced to us by HMRC. Current assets include £15k of debt due from HMRC and current liabilities include £934k 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 2012 income was invoiced to these parties under SLAs as follows:

Department for Work and Pensions	£13,657k	(2010-11: £17,986k)
Department for Communities and Local Government	£155,475k	(2010-11: £153,564k)
Welsh Government	£9,515k	(2010-11: £10,232k)

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 16 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 that director of his family member and our procedures do not allow that director to significantly influence the family member's remuneration.

23. Events after the Reporting Period

On 2 April 2012, our Board decided to abandon a developed software application, our Geographical Information System. This event took place after the end of the reporting period. However, the decision was taken on the basis of information about circumstances which were in place at the reporting date. Therefore the resulting impairment has been recognised in the 2011-12 period. More details about this transaction can be found in Notes 8 and 21.

On 30 May 2012 HM Treasury gave formal approval to our pay remit for 2011-12 including authorising additional payments of £247k for some of our staff paid under £21k per annum. We had not reflected this amount in the financial statements as there was no present obligation at 31 March 2012. We have therefore treated this as an event after the reporting period but have not classified this as an adjusting event and have therefore not amended the financial statements.

These accounts were authorised for issue on 25 June 2012.

24. Standards in issue but not yet effective

These accounts have been prepared according to the 2011-12 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 2013, 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 EU. 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 19 Employment Benefits (as amended June 2011)	This revised standard is effective from 1 January 2013 and has yet to be adopted for use in the EU. It revises the treatment of employee benefits, relevant to our accounts as follows: - It changes the recognition criteria for termination benefits for voluntary exits and redundancies so that the expense is incurred when the employer can no longer withdraw the offer. - It increases the level of disclosure required regarding funded defined benefit obligations, such as our liability in respect of the Local Government Pension Scheme (LGPS). In particular, details of the expected maturity profile of the obligation will be required, as will sensitivity analysis for each significant actuarial assumption. - Anticipated return on pension scheme assets will no longer be recognised in net comprehensive expenditure. Instead, interest cost will be calculated on the pension liability net of scheme assets, rather than on the gross liability as now. As our LGPS has a net liability, this will increase the total charge to the Statement of Comprehensive Net Expenditure.

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 CEO 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.

In the cases of arrears the FCO writes to the missions encouraging them to pay the Beneficial Portion – although there is no legal obligation to pay this.

Facts and Figures
In 2011-12 there were 186 diplomatic missions in the UK covering 465 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 2011-12 the POLAR scheme required £50 million of funding (2010-11: £42m). The net Beneficial Portion collected was £2.8 million (2010-11: £2.27m).

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.