Valuation Office Agency

Annual Report and Accounts 2010-11

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The key facts

Status

The Valuation Office Agency (VOA) is an executive agency of HM Revenue & Customs (HMRC)

Core purpose and strategic objectives

Our core purpose is to provide the valuations and property advice required to support taxation and benefits.

Our strategic objectives are:

- 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.

People

3,820 people (average full time equivalent 2010-11).

The VOA has Investors in People Accreditation.

National network

At 31 March 2011 the VOA had 82 offices across England, Wales and Scotland.

Head office

Wingate House
93-107 Shaftesbury Avenue
London W1D 5BU

Website and associated sites

www.voa.gov.uk

www.mybusinessrates.gov.uk/wales

www.businesslink.gov.uk

www.direct.gov.uk

Other links

www.london.gov.uk/rents/
(for which the VOA provides lettings information.)

Services

The work of the VOA encompasses:

- compiling and maintaining lists of rateable values of the 1.7 million non-domestic properties in England, and the 100,000 in Wales, to support the collection of around £25 billion[1] in business rates;
- compiling and maintaining the list of council tax bandings of some 23 million domestic properties in England and 1.3 million in Wales, to support the collection of around £26 billion[2] in council tax;
- determining local housing allowances across some 150 Broad Rental Market areas for housing benefit purposes and registering some 60,000 Rent Act 1977 fair rents in England;
- advising Ministers on property valuation matters;
- providing valuation advice and services to the Scottish Government and Welsh Government;
- providing valuation advice to HMRC in connection with capital gains tax, inheritance tax and other tax compliance work; and
- delivering a range of statutory and non-statutory valuation and surveying services to central and local government departments and the wider public sector.

[1 and 2] Source – HM Treasury estimates for 2011-12 (The Budget)

Latest revaluation of business rates

Effective from 1 April 2010, in both England and Wales.

Next revaluation of business rates

Planned for 1 April 2015, in both England and Wales.

Latest revaluation of council tax

Effective 1 April 2005 in Wales.

Council tax lists introduced 1 April 1993 in England. There has not been a revaluation in England.

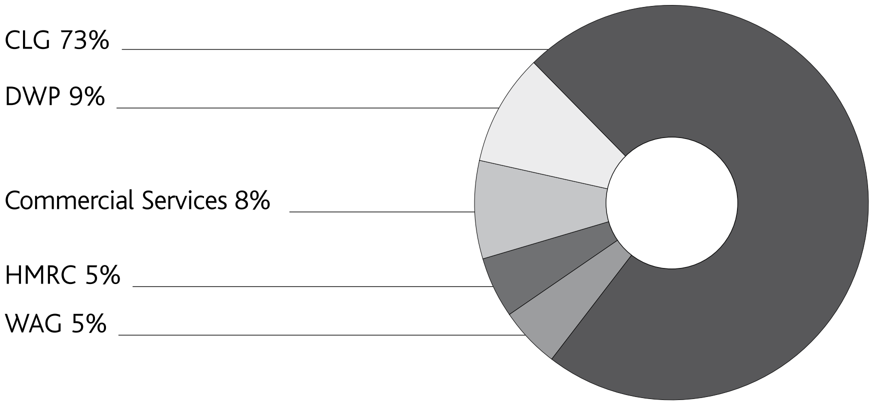
Main clients

- Communities & Local Government (CLG)
- The Welsh Government (WG)
- HM Revenue & Customs (HMRC)
- Department for Work & Pensions (DWP)

The VOA also provides advice and assistance to over 4,000 other public sector bodies.

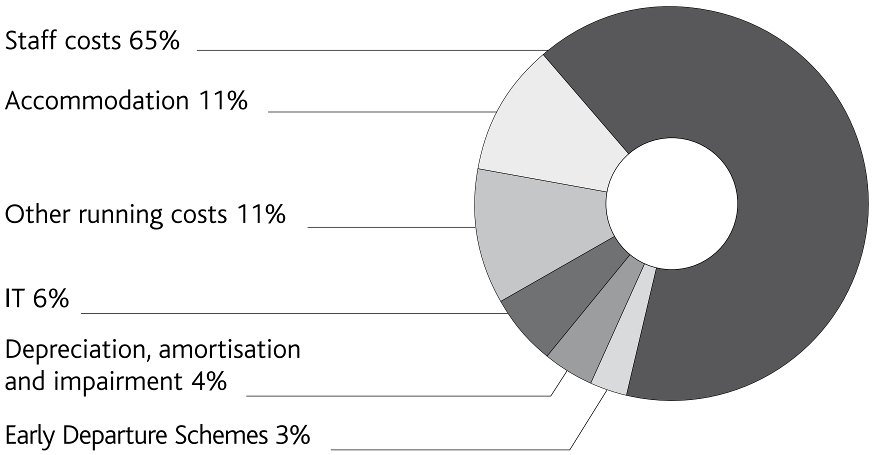
Income

2010-11: £210 million
Income source to cover expenditure – by main client



Expenditure

2010-11: £193 million



Boards and Committees

The Board

The Board provides strategic direction to the VOA, overseeing the breadth of the VOA's programme of work. It approves the overall strategy and vision for the VOA and monitors its implementation, as well as overall performance.

Penny Ciniewicz	Chief Executive
Dyfed Alsop	Director of Strategy, People and Change
Colin Bailey	Chief Finance Officer
Jane Earl	Non-Executive Director
Mary Hardman	Operations Director
Alex Jablonowski	Non-Executive Director [2]
Dawn Johnson	Non-Executive Director
Philip Macpherson	Chief Information Officer[1]
Paul Sanderson	Director of Professional Services
Niall Walsh	Chief Operating Officer & Chief Valuer

Operating and Performance Board

The Operating and Performance Board implements the strategy set out by The Board. It decides on and drives forward the ways and means to achieve the strategy at an operational level and oversees day to day operations across the VOA.

Niall Walsh	Chief Operating Officer & Chief Valuer (Chair)
Richard Browne	Head of Business Partners Group (IT)
Christina Duncan	Head of Human Resources & Learning (interim)
Tim Eden	Director, Council Tax and Housing Allowances
Mary Hardman	Operations Director
Steve Hartnell	Director, National & Central Services
Liz Hirst	Director, Commercial Services
Sean Lloyd	Head of Financial Planning
Paul Sanderson	Director of Professional Services & Head of Profession
David Subacchi	Operations Director
Stephen Wright	Head of Research and Development

Other Committees

The Audit and Risk Committee

The Audit and Risk Committee advises the Accounting Officer and The Board on audit, risk and control issues and makes recommendations to The Board on the management of risk and risk strategy.

Non-executive members of the Audit & Risk Committee:

Dawn Johnson (Chair)
Alex Jablonowski
Alison Porter (until February 2011)
Gary Reader

Workforce Change Committee

The Workforce Change Committee is a decision-making body that oversees the people-related aspects of organisational change.

Investment and Finance Committee

The Investment and Finance Committee oversees the VOA's investment and finance strategies.

Operating Risk Committee

The Operating Risk Committee identifies and manages all aspects of risks in all operating areas including corporate services.

Professional Ethics & Technical Issues Committee

The Professional & Technical Ethics committee keeps abreast of the technical issues impacting on VOA operations and ensures these are recognised and communicated to the Operational and Performance Board and if necessary The Board. The committee also oversees the application of professional ethics in the VOA's business.

1 From 17 January 2011. John Wrennal, Chief Information Officer, until 14 October 2010.
2 From 1 January 2011.

Key performance indicators

		2008-09	2009-10	**2010-11**	
Customer	To achieve overall customer satisfaction of 90%.	93%	15.4%[1]	**90%**	**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.	2.7%	3.2%	**3.5%**	**Met**
	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[2].	N/a	N/a	**0.0%**	**Met**
	To ensure 96% of new council tax bandings are right first time.	97%	98%	**98%**	**Met**
	To determine 95% of Housing Benefit claims where no inspection is required in 3 working days[3].	N/a	99%	**100%**	**Met**
	To review for Local Housing Allowance purposes 25% of Broad Rental Market Areas[3].	N/a	40%	**100%**	**Met**
	To enable prompt issue of tax assessments by clearing all HMRC initial appraisal cases within an average of 5 days.	6.5 days	3.0 days	**3.0 days**	**Met**
Value for money	Improvement on overall value for money on local taxation work by 3% a year over a three year period to 2010-11.	11%	8.5%	**7.3%**	**Met**
	To achieve full cost recovery reflecting a 5% reduction in budget for the year on all work for HMRC.	N/a	N/a	**Met**	**Met**
	To achieve income from non-statutory services of at least £19.0m.	-	19.6	**16.6**	**Not met**
Data Security	To have zero data incidents reportable to the Information Commissioner.	N/a	N/a	**Nil**	**Met**

[1] Revised KPI – in its 2009-10 Annual Report and Accounts, the VOA reported a result of 15.4% against the target 'To achieve overall customer satisfaction within the top 15% of public sector comparators'.

[2] New KPI – the 2010 Rating List came into force on 1 April 2010.

[3] Housing Allowance targets relate to the functions transferred from The Rent Service (TRS) on 1 April 2009.

Results against other targets

		2010-11	
Local Taxation	To achieve at least 90% customer satisfaction for Local Taxation and Housing Allowances work.	**89%**	**Not met**
	To achieve 94% compliance with valuation integrity standards for Local Taxation work.	**94%**	**Met**
	To issue a decision notice on council tax proposals within 2 months of receipt in 98% cases.	**99%**	**Met**
	To provide a considered decision within 2 months of receipt for 95% of rating proposals received on or after 1 April 2010 where evidence is provided with the proposal to show that: - there has solely been a physical change to a property; or - there has been a change to the unit of assessment; or - the property may be exempt from rating. In all other cases, advise the parties of a defined time period when the VOA will deal with the proposal. Priority will be given to cases where significant financial hardship is involved.	**98%**	**Met**
	To enable prompt issue of correct bills by local authorities through clearance of rating reports within an average of 10 working days…	**9 days**	**Met**
	…and council tax reports within an average of 10 working days in England and Wales.	**10 days**	**Met**
Housing Benefit and Allowance	To achieve 95% compliance with valuation integrity standards for Housing Benefit determinations.	**99%**	**Met**
	To achieve 95% compliance with valuation integrity standards for Fair Rent valuations.	**98%**	**Met**
	To determine 95% of Housing Benefit claims with an inspection within 15 working days.	**99%**	**Met**
	To determine 95% of Housing Benefit claims requiring redeterminations within 15 working days.	**99%**	**Met**
	To determine 95% of Fair Rents within 40 working days.	**99%**	**Met**
National & Central Services	To achieve at least 90% customer satisfaction on work for HMRC and other statutory clients.	**95%**	**Met**
	To deliver timeliness targets on all inheritance tax and capital gains tax work as set out in the Service Level Agreement.		
	- Report all formal Agricultural IHT cases within an average of 145 working days.	**136 days**	**Met**
	- Report all capital gains and other not negotiated valuations within an average of 20 working days.	**14 days**	**Met**
	- Report all inheritance tax formal cases within an average of 80 working days.	**68 days**	**Met**
	- Report all Capital Allowances negotiated cases within an average of 170 working days.	**150 days**	**Met**
	- Report all capital gains and other negotiated valuations within an average of 100 working days.	**94 days**	**Met**
	To achieve 94% compliance with quality assurance standards.	**96%**	**Met**

Operating and financial review

Introduction
The Valuation Office Agency (VOA) is an Executive Agency of HM Revenue and Customs (HMRC). Its principal business is the valuation of land and buildings for central government departments and for other public service bodies to whom this service is provided in the wider public interest.

The Valuation Office was formed in 1910 and celebrated its centenary in 2010-11.

The VOA's work
The VOA's main work area is in Local Taxation and the provision of valuations to the Department for Communities and Local Government and the Welsh Government for Council Tax and Non Domestic Rating purposes. This entails the maintenance of valuation lists for all domestic and non domestic properties in England and Wales. This contributes to the collection of some £51 billion in taxation receipts.

In the autumn of 2010 Ministers announced there would not be a Council Tax Revaluation in England in the lifetime of this Parliament. The Council Tax list for England therefore continues to be based on the list that came into force in 1993. The Council Tax List for Wales was revalued in 2003 and came into force in 2005. The VOA maintains these lists and handles any appeals or proposals against the lists.

A revaluation of non-domestic properties across England and Wales (based on values at April 2008) came into force in April 2010 and the VOA now maintains these new lists and handles any appeals against these listings. The next non-domestic revaluation in England and Wales is due to come into effect in 2015 and the VOA has begun early preparation for this.

The VOA's other statutory clients include the Department for Work & Pensions (DWP) in respect of Local Housing Allowance & Housing Benefit work (formerly performed by The Rent Service) and HM Revenue and Customs for valuations in respect of national taxation such as Capital Gains and Inheritance Taxes.

The VOA also has a Commercial Services division which provides non-statutory valuations and associated services to the wider public sector. Clients here include the Highways Agency, Local Authorities, and Health bodies.

Local Taxation work comprises just over 76% of the VOA's income. By comparison the work undertaken for DWP accounts for around 8% and work for HMRC equates to around 5%. Commercial Services accounts for about 8% of income. Other income is made up from valuation services provided to smaller clients.

There have been no major changes in the work of the VOA in the year.

The governance of the VOA was amended in the year to improve accountabilities and clarify roles and responsibilities. Details are provided in the Statement on Internal Control on page 21.

The VOA's work has not been subject to any reviews by the Public Accounts Committee (PAC) and in consequence there are no PAC recommendations to report against.

Investment and Strategic Change
The VOA concluded its Agency Transformation Programme (ATP) in 2010-11 with the roll out of most of its remaining change projects. These included the Electronic Data Records Management (EDRM) system allowing all hardcopy files to be digitised and stored electronically and more securely. The VOA also introduced Electronic Line Drawing Application (ELDA) allowing property plans to be drawn up and stored electronically and entered onto property records directly. The final investment in the Geographical Information System (GIS) is ready for deployment and will be implemented in 2011-12.

At the same time the VOA carried out a review of its strategy to match the challenges and demands on its work and performance in the future. This was also aligned with the VOA's planning and negotiations with clients for the Spending Review 2010 (SR10).

The core purpose of the VOA is "To provide the valuations and property advice required to support taxation and benefits".

Within this the VOA has set four strategic objectives:

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

A new change programme, VOA2015, has been initiated to co-ordinate the change activities arising from delivery of the strategic objectives, and which will enable the VOA to continue to evolve and adapt to new circumstances.

The strategy and early strategic choices have been discussed and agreed with the VOA's minister, the Exchequer Secretary to the Treasury, and with clients.

Operational Performance

Operational performance against the VOA's Key Performance Indicators and Targets is set out on pages 7 and 8. Overall performance has been very good.

The VOA met all of its Key Performance Indicators with the exception of one measure.

This reflects a strong and consistent performance across the VOA and the various business streams. The measure that was missed related to the income targeted for Commercial Services of achieving at least £19m turnover – the outturn was £16.6m. This result reflected both the short term downturn in public sector spending across Commercial Services' clients and uncertainty surrounding some longer term investment projects that require valuation work.

The VOA responded during the year by successfully reducing its cost base to ensure full cost recovery and by aligning the Commercial Services' strategy to reflect the likely trend of suppressed demand for these services over the next few years.

The VOA also met the majority of its other operating targets (23 out of 25) which again reflects strong overall performance.

The VOA did not achieve its targets for staff engagement and customer satisfaction in Local Taxation and Housing Allowance. Whilst the VOA achieved the overall customer satisfaction of 90% it narrowly missed the target for this particular business stream achieving 89%. The VOA will be working with customers to understand the trends and underlying causes of this.

The staff engagement target was 55% and overall the VOA achieved 48%. This is measured through the Civil Service wide staff survey carried out each autumn. This is a disappointing result as The Board places great importance on staff engagement. The fall in staff engagement reflects both VOA specific concerns about pay, wider issues and changes to operating processes and procedures. Although the overall result was disappointing there were parts of the VOA where engagement was in the top quartile of the Civil Service and The Board are using lessons learned from these areas to improve engagement across the rest of the organisation.

Clients (both statutory and commercial) remain satisfied with the VOA's operating performance.

Complaints

In 2010-11 the VOA had one case referred to the Parliamentary Ombudsman. This was reported on during the year and partially upheld.

Before cases are referred to the Ombudsman complaints are dealt with by the Adjudicator's Office which handles both HMRC and VOA complaints. In 2010-11 the Adjudicator's Office accepted 35 cases for investigation. They also resolved 45 cases of which three were upheld fully and two were upheld in part.

People

The VOA employed 4,063 staff during 2009-10 and 3,820 in 2010-11 (staff numbers quoted at average full time equivalent). This will decrease further as a result of the Early Departure Scheme run by the VOA at the end of 2010-11. Staff who were successful in applying for this scheme will leave the VOA no later than the 30 June 2011. See note on page 39 for a detailed analysis of staffing numbers.

Overall the VOA is, broadly, at the level of staffing that it needs to fulfil its work over the SR10 period. However the VOA will need to continue to align its staffing profile in terms of location and grades to match its future needs determined through the VOA2015 change programme mentioned above. This will mean the closure of offices in some locations to rationalise the VOA's estate and also create critical mass in terms of the skills and capabilities in the locations the VOA does continue to occupy. A Workforce Change team has been created to support this work and the wider changes across the VOA.

The VOA intends, as part of the VOA2015 change programme, to develop and enhance the capabilities of its staff; this may include some flexible working across business streams and locations. Developing and sustaining the right capabilities will mean investing in some new roles and new skills as well as training and development of staff.

The VOA's sickness absence has improved with the average of short term sick absence being 3.7 days (against a target of 4.0 days per person per year) and long term sick absence being 6.8 days (against a target of 7.0 days per person per year).

The VOA has strong diversity and equal opportunity policies and is committed to the employment and development of people with disabilities. To demonstrate its commitment the VOA has signed up to 'The Positive About Disabled People' two ticks' Symbol awarded by the Employment Service. As a Symbol user, the VOA 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 the VOA has delivered diversity awareness training to managers on its Management development Programme, to supervisors and at other be-spoke training events. Training has also been delivered to the appropriate staff undertaking Equality Impact Assessments, to ensure Diversity and Equality is embedded into everything we deliver within the VOA.

Environmental and Sustainability Issues

During 2010-11 the VOA undertook a review of its environmental management arrangements and also commissioned Internal Audit to critically review its environmental reporting arrangements.

The VOA reports against many of its environmental targets as part of the departmental monitoring and reporting arrangements within HMRC. This report therefore reflects this context.

In May 2010 the Prime Minister announced a target to reduce central government emissions by 10% by May 2011. HMRC, including the VOA, is on track to meet that target.

HMRC and the VOA are also targeted under the Sustainable Operations of Government Estate (SOGE) arrangements for 2010-11 with reducing its environmental footprint and emissions and are on target to achieve this.

The Government also announced that SOGE would be replaced in 2011-12 with Greening Government Commitments.

As part of the VOA's specific response to these initiatives it has agreed to set up an Environmental Management System (EMS) with specific capital funding with an aim to reduce energy usage by between 10-15% and help meet the new commitments for 2011-12 and beyond.

To do this the VOA does need to continue its good liaison with HMRC and extend this to other government departments where the VOA is a minor occupier and in doing so improve and clarify accountability. The introduction of the EMS will also help improve data quality and integrity.

Data Security and Protection

The VOA takes its responsibilities for data security and data protection very seriously and recognises the importance of this in its approach to customer trust. In 2010-11 the VOA continued to improve its data and wider security arrangements through early compliance with the Poynter Report and the continuation of its work under the security programme.

The VOA also commissioned an independent audit of its compliance with the Data Protection Act (DPA) in respect of its Council Tax database, using the Information Commissioner's guidance on DPA Audits. The Audit is due to report early in 2011-12.

The VOA had no data security or protection breaches that required reporting to the Information Commissioner in the year.

Key partners and suppliers

The VOA continues to hold a key supplier arrangement for the majority of its IT provision and services through the ASPIRE arrangements under the Private Finance Initiative (PFI) negotiated by HMRC.

During 2010-11 the VOA improved the accountability and governance arrangements with ASPIRE around service delivery and value for money. These new improved arrangements will continue in 2011-12.

The VOA also continues to hold a key supplier arrangement for the majority of its accommodation estate and services through the Mapeley arrangements under the PFI negotiated as part of HMRC.

Discussions with HMRC and Mapeley are ongoing in terms of improving the management information provided by Mapeley and HMRC to the VOA and also as part of the VOA's programme of estate rationalisation.

Transparency

In response to the government's transparency agenda the VOA will in future be reporting information that will enable users of its services to assess its efficiency and productivity and hold it more effectively to account. By publishing transparency (input and impact) indicators including spending data, it will enable the public to make up their own minds about how it is performing. These new indicators will be set out in the VOA's

Forward Plan.

Principal Risks and uncertainties

The VOA operates in a dynamic and changing environment where there is a high level of risk in a number of areas.

The Accounting Officer sets out the changes that have been and are being made to the management of risk across the VOA in the Statement on Internal Control on page 21.

The Board reviews the principal strategic risks each month with named Directors accountable for specific risks and associated remedial or addressing actions. The principal risks and uncertainties facing the VOA are:

- The need to ensure the consistent application of business processes across all parts of the business to continually improve the quality of the VOA's work and the outcomes for customers. To help address this the VOA will be implementing new national business streams in its Local Taxation work, with clearer lines of accountability and will undertake a fundamental review of its business processes informed by customer insight and frontline feedback;
- The need to more closely align funding (negotiated with clients under SR10) with the VOA's cost base and investment profile. The VOA has already achieved a significant cost reduction across the organisation over several years with notable success and is now actively planning within the VOA2015 change programme how its reduced funding may best be deployed to achieve optimum return on investment and support delivery of the agency's strategic objectives;
- Ensuring the VOA has the right leaders in place and developing leadership capability at all levels across the agency to ensure improved engagement, while delivering what customers and clients need during a period of change. This is initially being addressed through the appointment of senior managers to new roles in the national business streams early 2011-12;
- Failure to anticipate changing customer needs so that the VOA responds flexibly to continue to offer value for money and high quality services. To address this the VOA is investing in systematically gathering customer insight to inform operational changes, for instance better channel use;
- Continuing to deliver operational performance to the satisfaction of clients, during a period of change, internally and externally. This including handling non-domestic rating appeals against the 2010 lists in the context of changing working practices implementing the new practice statements issued by the Valuation Tribunal England. In respect of non-domestic rating this risk is being addressed through the flexible programming of appeals, liaison with professional bodies and agents as well as re-deployment of more staffing resources into this area of work.

As set out in the Statement on Internal Control the VOA has improved its approach to risk management this year and in particular has articulated a common risk appetite and approach to managing risk across all of its business areas. More work is planned for 2011-12 and an approach of practical risk improvement is being set across the VOA.

Financial Performance in 2010-11

The financial results for the year ended 31 March 2011 are set out in the attached Accounts.

The VOA's principal financial objective is to recover the full costs of carrying out its work from the fees it charges to clients. In 2010-11 this was achieved whilst significantly reducing its cost base.

The Statement of Comprehensive Net Expenditure shows the VOA's financial performance for 2010-11.

Income for the year was £209.7m compared to £231.1m the previous year. This represents a reduction of some 10% in a single year. This was in part a reduction planned in the previous settlement of the Comprehensive Spending Review 2007 and in part specific reductions agreed with clients as part of the spending reductions announced by the Government in the Emergency Budget in June 2010. An element also reflects the constraints of the operating environment for Commercial Services referred to above.

Details of the composition of the income are shown in Note 2 to the Account.

Expenditure for the year was £193.2m compared to £229.8m in the previous year.

This was driven by a large reduction in staff costs from the previous years as a result of previous early departure schemes for staff. In addition, less was spent on this year's early departure scheme than last year, £5.8m as compared to £12.2m in 2009-10. These schemes reflect the wider workforce changes mentioned in the Strategy and Investment note above.

In addition, other operating costs overall were reduced including on IT spend, accommodation costs and travel and subsistence. At the same time the VOA absorbed a one off cost of £2.5m relating to charges for the new commercial arrangements introduced for the Ordnance Survey through a pan government agreement.

Overall there is a reported operating surplus of £16.4m for the year.

Of this, £5.2m derived from operational activities in the year representing an operating surplus of 2.5%.

The remainder of the surplus, £11.2m, represents a gain deriving from the changes in the benefits of the Local Government Pension Scheme. This gain arose from the announcement by the Chancellor of the Exchequer in May 2010 that future indexation of pension in payment would be aligned to the Consumer Price Index (CPI) rather than with the Retail Price Index (RPI) as before. Since CPI has historically been lower that RPI this has had the effect of reducing the expected future cash flows in respect of pensions. As a result the VOA's liability to fund these pensions is reduced, creating a negative cost, and thus a gain, from the cost of past service.

The VOA does not anticipate this negative cost will re-occur and this is a one-off gain.

The Statement of Financial Position shows the VOA's assets, liabilities and taxpayer's equity as at 31 March 2011.

The non-current assets consist, as last year, of property, plant and equipment as well as internally developed and capitalised software. As reported in previous years the VOA has continued to monitor its asset base closely and this has resulted in a write off of some internal valuation software which is no longer required for its original purpose. Details are at Note 8 to the Accounts.

Work In Progress (work performed but not yet billed) from the VOA's Commercial Services operations remains at low and satisfactory levels and management continue to monitor write offs and movements in provisions for foreseeable losses. These are not significant.

Cash levels continue to be healthy and stand at £8.9m. This continues to be pleasing as the VOA continues to perform well in terms of prompt payments to suppliers including Small and Medium Enterprises. The VOA is committed to the prompt payment of invoices. Payment is regarded as late if made outside agreed terms or, if no terms have been agreed, beyond 30 days following the receipt of the goods and a valid invoice. VOA aims to pay all invoices within 5 days of receipt of the goods and a valid invoice, in line with guidance issued by the Department of Business, Innovation and Skills.

During the year the VOA moved its banking arrangements from the Office of Paymaster General to the Government Banking Service as part of pan-government arrangements on shared banking services.

The VOA's liabilities consist of payables, accruals and provisions.

Total liabilities amount to £50.5m.

Following the adoption of International Financial Reporting Standards (IFRS) last year the VOA recognised and accounted for the leave earned, but not taken, by staff. This amounted to £10.9m at the start of 2010-11 and had been on an increasing trend. This was a result of arrangements allowing staff to bank accumulated leave over several years.

In 2010-11 the VOA decided to suspend these arrangements and the trend of increases in leave has now been stopped and the liability marginally reduced by some £0.5m over the year.

In March 2011 the VOA announced it would close five offices, withdrawing from those locations. Notice has been served on the landlords of the offices concerned and staff have been informed of the key characteristics of the planned closures. A provision of £276k has been made against the estimated costs of these closures. It is expected the provision will be utilised in 2011-12. An announcement regarding the closure of four more offices was made early in 2011-12.

Following the merger with The Rent Service the VOA accounts for the net pension liability which represents its share of the Local Government Pension Scheme. This is a defined benefit scheme and details can be found in Note 16 to the Accounts.

Over 2010-11 the fair value of the scheme assets has improved by £1.1m and the present value of unfunded liabilities has decreased by £21.4m thereby reducing the liability on the Statement of Financial Position from £33.3m to £11.9m.

As part of the VOA's Service Level Agreement with DWP the client accepts that were the pension scheme liability to crystallise then DWP would accept this liability and, insofar as they could fund this themselves, would do so. In the event they could not fund this they would seek additional funding from HM Treasury to address any shortfall. The VOA is effectively therefore indemnified against this liability.

In 2010-11 the VOA engaged PricewaterhouseCoopers through an open commercial tendering process to review the VOA's compliance with the Data Protection Act in respect of its Council Tax work. PwC, VOA and NAO were satisfied that this additional appointment was accepted in accordance with the Auditing Practices Board's Ethical Standards for Auditors. In particular, the requirements of APB Ethical Standard 5 *Non-audit services provided to audit clients* was considered and additional safeguards were adopted in order to avoid threats to the auditor's objectivity or perceived loss of independence. The cost of this work is reflected in the financial statements and was £217k.

In 2010-11 the Directors had no significant outside interests.

Financial Outlook

During the year the VOA negotiated with clients for the funding it is due to receive under the SR10 arrangements.

In most instances clients agreed firm funding levels for 2011-12 and 2012-13 and indicative levels of funding in later years. The overall outcome of these negotiations is that the VOA is likely to need to achieve efficiency savings of about 20% within the SR10 period. As part of its SR10 discussions the VOA has also substantively negotiated funding for the Revaluation in 2015 of Non Domestic Properties in England and Wales.

The profile of funding also reflects support from clients for the early investment in the VOA's VOA2015 change programme.

Achieving further savings of some 20% will be a challenge for the VOA given the savings achieved to date. The financial forward plans now in place will help achieve this and the additional efficiency benefits planned from the VOA2015 change programme will bridge the remaining gap over the next four years.

Adoption of Going Concern

The Accounts are prepared on a Going Concern basis. There is no reason to believe the VOA will not continue in operational existence for the foreseeable future. The risk related to cash flow are considered to be acceptable.

Remuneration report

This report includes the table on page 17, which is subject to audit.

Remuneration of Directors
Directors who are members of the Senior Civil Service are subject to the terms and conditions applicable across the parent department, HM Revenue & Customs. Details of their remuneration are provided on page 17. Remuneration is determined by HMRC in light of the recommendations of the Senior Salaries Review Body. There is no separate remuneration committee within the VOA as the parent department fulfils this function.

The Chief Executive sets specific objectives for executive directors, and their performance is reviewed regularly by her 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 VOA staff, including the executive directors, are employed as permanent staff and are subject to both 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. The VOA employs a small number of staff on short-term contracts.

Awards made to past managers
No awards have been made to past managers in the current or prior years.

Details of non-cash elements of remuneration package
There were no non-cash awards made to board members in the current or prior years.

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

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 2010-11 relate to performance in 2009-10. Performance-related pay and bonuses are paid in line with the scheme applying 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 18 in respect of board members relate to 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.

Details of compensation payable to former senior managers
No compensation payments were made to former senior managers in the current or prior years.

Details of amounts payable to third party entities in respect of director services
No amounts were paid to third party entities during the year (2009-10 £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 pensions with significant employer contribution (partnership pensions 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 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 up (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 pensions quoted is the pension the member is entitled to receive when they reach pensions 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/my-civil-service/pensions/index.aspx

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 18. Except where identified as such, the payments in the table on page 18 do not form part of remuneration.

Board Members' Remuneration and Pensions Information

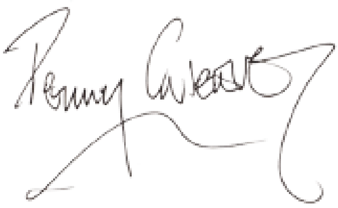
	Year	Salary £'000	Bonus Payments £'000	Benefits in Kind (to nearest £100)	Real increase in pension and related lump sum at pension age £'000	Total accrued pension at pension age at 31/03/11 and related lump sum £'000	Cash Equivalent Transfer Value (CETV)		
							As at 1/03/10 [4] £'000	As at 1/03/11 £'000	Real increase in year £'000
Penny Ciniewicz *Chief Executive*	2010-11	100 - 105	-	-	0 - 2.5 plus 5 -7.5 lump sum	17.5 - 20 plus 55 - 57.5 lump sum	223	270	26
	2009-10 (from 1 September 09)	55 – 60 (100 -105 full year equivalent)	-	-					
Dyfed Alsop *Director of Strategy, People & Change*	2010-11	70 - 75	0 - 5	-	0 - 2.5 plus 2.5 - 5 lump sum	7.5 - 10 plus 22.5 - 25 lump sum	54	68	9
	2009-10	-	-	-					
Colin Bailey *Chief Finance Officer*	2010-11	80 - 85	5 - 10	-	0 - 2.5 plus 2.5 - 5 lump sum	25 - 27.5 plus 77.5 - 80 lump sum	327	367	11
	2009-10	75 - 80	5 - 10	-					
Jane Earl *Non-Executive Director*	2010-11	10 - 15	-	-	- [2]	- [2]	-	-	-
	2009-10	10 - 15	-	-					
Mary Hardman *Operations Director*	2010-11	65 - 70	5 - 10	10,300 [5]	0 - 2.5 plus 0 - 2.5 lump sum	22.5 - 25 plus 70 - 72.5 lump sum	351	385	2
	2009-10	-	-	-					
Alex Jablonowski *Non-Executive Director (from 1 January 2011)*	2010-11	0 - 5 (10 - 15 full year equivalent)	-	-	- [2]	- [2]	-	-	-
	2009-10	-	-	-					
Dawn Johnson *Non-Executive Director*	2010-11	10 - 15	-	-	- [2]	- [2]	-	-	-
	2009-10	10 - 15	-	-					
Philip Macpherson *Chief Information Officer (from 17 January 2011)*	2010-11	10 - 15 (70 - 75 full year equivalent)	-	-	0 - 2.5 plus 0 - 2.5 lump sum	15 - 17.5 plus 45 - 47.5 lump sum	173	175	1
	2009-10	-	-	-					
Paul Sanderson *Director of Professional Services*	2010-11	80 - 85	-	-	-2.5 - 0 [3] less -2.5 - 0 lump sum	40 - 42.5 plus 122.5 - 125 lump sum	854	914	-6
	2009-10	80 - 85	5 – 10	-					
Niall Walsh *Chief Operating Officer & Chief Valuer*	2010-11	80 - 85	5 - 10	20,300 [5]	0 - 2.5 plus 5 - 7.5 lump sum	17.5 - 20 plus 52.5 - 55 lump sum	177	212	18
	2009-10	60 – 65	-	-					
Jon Wrennall *Chief Information Officer (from 1 April 2010 to 14 October 2010)*	2010-11	90 - 95 (135 - 140 full year equivalent)	-	-	0 - 2.5 [1]	15 - 17.5 [1]	127	144	2
	2009-10	135 - 140	5 - 10	-					

[1] Member of the Premium Scheme – lump sum not applicable.
[2] Fee paid consultant – not in civil service pension scheme.
[3] Real Decrease in Pension.
[4] The actuarial factors used to calculate CETVs were changed in 2010/11. The CETVs at 31/03/10 and 31/03/11 have both been calculated using the new factors, for consistency. The CETV at 31/03/10 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.
[5] 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.

The information in the table 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 2010-11 (£)
Penny Ciniewicz	485.55	-	485.55
Dyfed Alsop	1,646.83	-	1,646.83
Colin Bailey	1,043.20	-	1,043.20
Mary Hardman	6,985.71	6,987.00	13,972.30
Dawn Johnson	347.30	-	347.30
Philip Macpherson	81.88	-	81.88
Paul Sanderson	2,132.47	-	2,132.47
Niall Walsh	5,746.74	12,559.28	18,306.02



Penny Ciniewicz
Chief Executive
28 June 2011

Statement of the Agency's and Chief Executive'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 accounts are 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 accounts, 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 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 2011

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About these Accounts

The Valuation Office Agency is an executive agency of HM Revenue & Customs. These accounts will be consolidated as part of the HM Revenue & Customs resource accounts, which are audited separately by the Comptroller and Auditor General and presented to Parliament annually.

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.

Statement on Internal Control

Introduction

This Statement on Internal Control seeks to explain how risk is managed in the VOA. I have divided it into the following parts:

- An explanation of my responsibilities;
- An explanation of the purpose of VOA's system of Internal Control;
- A description of VOA's capacity to handle risk;
- A description of the VOA's risk and control framework;
- A review of the framework's effectiveness including significant risk areas which have been or are being addressed; and
- A review of proposed improvements to the system of internal control.

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Valuation Office Agency's (VOA) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

I carry out this responsibility in conjunction with the HMRC Principal Accounting Officer, the Chief Executive of Her Majesty's Revenue & Customs (HMRC). The relationship between the VOA and HMRC is set out in the VOA's Framework Document, and in a separate Memorandum of Understanding between the Chief Executive of HMRC and me.

The Chief Executive of HMRC is my direct line manager and the Chief Finance Officer of HMRC is the HMRC Executive Committee (ExCom) member responsible for the VOA. Both are kept apprised of the risks and issues in the VOA and have regular meetings with me. Other VOA Directors also have close working relationships with other ExCom members, particularly the Chief Finance Officer (CFO) and the Chief Information Officer (CIO).

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to an acceptable level, rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable, and not absolute, assurance.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the VOA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the VOA throughout the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

The Agency's capacity to handle risk

The approach to risk management involves both a top down strategic view of risks facing the VOA and upward reporting and escalation of risks through operational business streams. During the year The Board reviewed both the approach to, and contents of, the VOA's strategic risk register resulting in a refocusing and reprioritisation of the key risks. Recognising the dynamic changes facing the organisation, strategic risk management is a standing item for each Board meeting.

Risks are identified, evaluated and controlled by a named Director and the strategic risk assessment is discussed and agreed, collectively, by The Board.

This year has seen continued improvements in the VOA's Risk Management Framework with the development of a comprehensive risk management strategy and policies. These have been coupled with a clear and concise risk appetite statement that sets out The Board's appetite for risk across all key areas of the business.

Work is ongoing to embed the new risk management approach during the coming financial year. Risk registers are in place at Directorate and operational level and are regularly reviewed in liaison with Directors to ensure escalation and to drive mitigating actions.

The VOA has also implemented the Security Management System, which captures the way security is managed within the VOA through a set of combined policies, controls, procedures and documentation.

The Risk and Control Framework

The Risk and Control Framework is entwined within the management structure of the VOA and its management reporting system.

As outlined in last year's Statement on Internal Control, the Governance structure has been reviewed and significantly strengthened this year by the setting up of a bicameral board structure with The Board and the Operating and Performance Board (OPB), together with several Committees that focus on key issues. Both Boards derive their authority directly from me; the OPB is not a subset of The Board.

The Board assists me in setting the strategic direction of the VOA by approving the overall strategy and vision for the VOA and monitoring its implementation, monitoring overall performance, including approving the key performance indicators agreed with clients, and approving annual budget allocations. It met formally each month during the year except August and December, and comprises senior Executive Directors and three Non-Executive Directors. My office holds a Register of Members' Interests and maintains a record of continuing professional development undertaken by members of The Board.

The Operating and Performance Board was set up this year to drive forward and implement the strategy set out by The Board at an operational level, looking at ways to improve performance in all areas. This includes allocation of resource and setting operational targets. It will in turn delegate, where relevant, decision making to operational managers.

To support both Boards the following Committees have been set up to scrutinise and comment on specific issues:

- Audit and Risk Committee;
- Operating Risk Committee;
- Investment and Finance Committee;
- Workforce Change Committee (previously People Committee);
- Professional Ethics and Technical Issues Committee.

The Audit & Risk Committee reviewed its terms of reference this year. It continues to be chaired by a Non-Executive Director (who also sits on The Board), has three other Non-Executive Members, and meets quarterly. It has a particular focus on risk management, governance and assurance and takes advice from internal audit and the VOA's external auditors. It has access to key staff at all times.

The Operating Risk Committee has been set up as a short to medium term measure to ensure all the operational risks facing the organisation are being effectively identified and managed, until the new risk management arrangements are fully embedded across the VOA and a culture of effective risk management is working successfully.

The Investment and Finance Committee is responsible for overseeing investment decisions and finance strategies on behalf of The Board. It sets the investment criteria, delegated authorities and a control framework for investment decisions ensuring compliance with HMT guidance as well as the VOA strategy and vision. It also oversees and makes recommendations to The Board for the annual budget and planning round.

A Professional Ethics and Technical Issues Committee oversees the VOA's professional ethics and the impact of technical issues on the VOA's operations, ensuring where necessary they are escalated to the OPB.

The Workforce Change Committee has recently replaced the People Committee. Its focus is to oversee the people-related aspects of organisational change, for both business as usual and VOA2015 workforce changes.

Beneath Board and Committee level there is a clear management structure and VOA objectives are cascaded throughout the business so that each member of staff's work is tied into the achievement of the VOA's goals. A forward plan is updated annually and all staff are briefed on it.

Certain areas of risk are addressed by comprehensive guidance issued to staff. Paramount amongst these is the guidance provided for the maintenance of both the National Non-Domestic Rates and Council Tax Lists. This is undertaken through mapped and documented uniform processes with regular monitoring and reporting of workflows and outcomes.

Other areas of guidance issued to staff relate to HR issues, finance matters including procurement, and information management.

Information management is discussed in more detail below but all staff have undertaken data security training emphasising the importance of secure management of information, which is regularly reinforced.

In addition to the above I also gain personal assurance over risk management by way of my direct line management of key staff and regular meetings with staff at all levels including during visits to local offices. I also take assurance from the work of several internal and external bodies in particular:

- Internal Audit, with which I meet regularly, and which undertakes a number of reviews of perceived risk areas; in accordance with an agreed annual plan;
- The VOA's Governance, Assurance and Procurement team which carries out cyclical reviews across the VOA focusing on particular risk areas such as asset recording and management and Commercial Services' case management including charging. Issues arising are reported to me via the Head of Governance, Assurance and Procurement;
- The National Audit Office and their appointed auditors PricewaterhouseCoopers who via their external audit provide both independent assurance and advice on a variety of matters. They have access to me at all times.

Review of effectiveness of system of Internal Control and Risk Management
As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of Internal Control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the VOA who have responsibility for the development and maintenance of the internal control framework and comments made by external auditors in their management letters and other reports.

Overall, I judge the system of Internal Control to have been generally sound and several improvements have been implemented during the financial year, including:

- The implementation of the Security Management System, in line with International Standards Organisation 27001. A set of combined policies, controls, procedures and documentation that together demonstrates the way security is managed within the VOA. Under the SMS Assurance Certification process, checks are undertaken for all team members throughout the year to include:
  - Security awareness;
  - Fraud awareness;
  - Business continuity planning; and
  - Asset management.
- The development of a new risk management process and the implementation of new risk appetite requirements further enhance the assurance;
- Business continuity and disaster recovery plans are now clearly articulated for all offices throughout the VOA and a programme of business continuity desk top exercises have been carried out to test the robustness of the plans, leading to an improved understanding by all.

However I believe that further improvements are needed. There are certain control issues which I wish to discuss below and I will also set out my proposed improvements at the end of the Statement.

Internal Control Issues

Strategy and Forward Look
This year the VOA has focused on the initial development of the overall business strategy (VOA2015) needed to move the organisation forward over the next few years. Key decisions have already been made to re-organise Local Taxation work area in the autumn into national business streams for Non-Domestic Rating and Council Tax and away from existing smaller geographical units. Current staffing levels have also been reduced through early retirement and early severance schemes and I have recently announced the closure of several offices in the coming year.

The move to business streams outlined above will help create greater accountability and consistency in key areas of the VOA's work. A new leadership structure at senior level is required to deliver this model and ensure its success and this will be implemented early in 2011-12.

Information Risk and Security
The VOA has focused this year on implementing the remedial work arising from the Agency Security Programme building on the recommendations made by the Poynter Report in 2008. This has improved information assurance awareness, capability and practices. At the same time the VOA has made great strides in bringing its customer records into a consolidated electronic environment with controlled access.

The VOA is required to provide input to HMRC's Security and Risk Management Overview, mandated by Cabinet Office. In accordance with the HMRC approach, this has been based on the Information Assurance Maturity Matrix, the Security Policy

Framework and top information risks. HMRC Internal Audit, as providers of the independent challenge function, have reviewed evidence supporting the internal assessment in the Information Assurance Maturity Matrix.

In order to baseline the maturity of its Information Assurance, VOA is undertaking a more extensive Security Risk Management Overview (SRMO) exercise which is expected to be completed in the early part of 2011-12. This will provide a formal assessment of the wider maturity of Information Assurance within the VOA.

A new Chief Information Officer (CIO) joined the VOA in January 2011. This post holder acts as Senior Information Risk Owner (SIRO) at Board level with Executive Directors nominated as Information Asset Owners for their individual Directorates and systems. A mandatory e-learning package for all staff is also in place and compliance with the training is monitored centrally to ensure all staff complete the training.

The provision of the majority of VOA's IT services is via the ASPIRE outsource contract. The contract is formally governed by HMRC, however VOA has recently restructured and strengthened the governance arrangements with Aspire regarding programme leadership, decision-making and communication.

IT Delivery follows the HMRC Programme Governance Framework which provides a formal gated delivery process for each stage of IT Delivery with several formal checkpoints and these are aligned to Aspire contractual milestones.

Key security and information risks consist of:

- Potential copyright infringement – there is a risk of copyright infringement as the VOA does not presently hold a Copyright Licensing Agency (CLA) licence. The VOA is currently engaged, along with other government departments and agencies, in negotiations with the CLA to secure a pan-government licence/licence fee that adequately reflects the type and quantity of copying that now takes place in the VOA;
- Document disposal – the VOA risks contravention of legislation if disposal of documents does not occur in a timely manner. Work has commenced on an information asset register which will incorporate the retention and disposal schedule;
- Many key applications do have robust disaster recovery arrangements in place and the VOA will continue to test these plans and service levels to ensure the optimum solutions are in place for business needs. However there is a lack of sufficiently comprehensive disaster recovery arrangements for a number of business critical applications including those developed internally – a tactical solution is in place to use backup tapes and a strategic solution is being considered as part of a wider IT development programme. More work and investment is planned in this area which will be judged against the VOA's risk appetite;
- Potential security issues with Local Housing Allowance (LHA) systems – although all significant security issues are fixed, this remains a tactical solution and a longer term strategic solution is needed.

I am pleased to report that VOA experienced no losses of protected data reportable to the Information Commissioner's Office in 2010-11. However I recognise there is no room for complacency in this area, hence the actions outlined above.

In February 2011 VOA commissioned an independent audit of the VOA's compliance with the Data Protection Act (DPA) in relation to VOA's council tax database. In line with the Information Commissioner's guidance this included both an Adequacy Audit and Compliance Audit. The audits reported in April 2011. No breaches of the DPA were identified. The report recommended the consolidation, clarification and formalisation of the VOA's data protection guidance, a refresh of the data protection training and the adoption of a formalised data protection audit regime. The VOA accepted all these recommendations in full.

Non-domestic Rating Valuations
A new system of peer review has been introduced to ensure the methodology used for Non- Domestic Review rating assessments is correctly applied and also to mitigate the risk of fraud through deliberate under-valuation of high value properties.

The VOA introduced new risk escalation procedures for all business areas in 2010-11. In many cases these have worked well and have allowed senior managers and clients early sight of the nature of the risk and the ability to handle/manage the risk to avoid the risk materialising.

However in a small number of limited instances the escalation protocols have not been fully understood or applied. This created some circumstances that were outside the formalised Risk Appetite – whilst these risks did not in fact materialise there is a need to reinforce the training provided to staff and the understanding of accountabilities in the new organisational structure.

Equal Pay issues

The VOA faces a number of risks associated to Equal Pay. There are several pending claims that have been brought by staff in relation to different aspects of the VOA's pay system. The VOA has taken, and continues to take, independent legal advice on all these issues and acts in accordance with that legal advice as well as taking wider advice from HM Treasury and Cabinet Office. The VOA has been successful at initial litigation stages in some cases but legal processes are ongoing for most claims. The Board continues to excercise its fiduciary duty when making decisions in these instances and reflects the legal advice in making those decisions.

Economic Conditions and Public Sector Spending Risk

The VOA is alert to additional factors that may impact upon the delivery of its functions as a result of the wider economic position, including the potential for an increase in workloads, for example as ratepayers and tax payers consider and possibly challenge their liability for which the VOA provides the relevant assessments or bandings. We are maintaining close monitoring of workloads and have flexible staffing and IT systems to allow for resources to be redeployed in response to changing pressures and priorities; and in its non-statutory work the VOA is setting its business and income plans at what is believed to be realistic levels.

In the current public spending round the VOA continues to adapt to reductions in income by taking down costs through reducing use of estate, driving down corporate overheads and by managing staff and pay costs tightly, whilst so far as possible maintaining or enhancing service.

Performance Management

As part of the new VOA2015 strategy the use of business intelligence and management information will need to improve, including through the development of a new set of performance measures and systems, to enable us to deploy resources more flexibly in response to operational need and in a risk based way. Progress has been made but not as far as desirable and resources are limited in this area. A remedial plan is being developed to align with the development of the VOA2015 programme next year.

Proposed improvements to the system of Internal Control

All of the improvements I had planned for this year have been implemented, as outlined above. However there are still risks facing the organisation and I will be further strengthening governance through:

- Putting in place a clear accountabilities framework and operating model that takes account of Government changes to the governance requirements, the impacts on the Statement on Internal Control and links with the SRMO;
- Rollout and embedding of the new organisation Risk Management Framework that ensures a cohesive and consistent approach to risk and risk appetite is applied across the VOA and risks are managed and mitigated at the appropriate level. In particular it is essential that the VOA continues to reinforce the training and development of all staff in the early identification and escalation of risks which might impact customers or be sensitive for stakeholders;
- Moving the VOA to a new structure based on business streams as part of the VOA2015 change programme, creating greater accountability and consistency in the key areas of work. A new leadership structure at senior levels will deliver this model and ensure its success;
- An enhanced internal audit programme to reflect the forthcoming organisational changes.

There are no other significant internal control issues to report.

Penny Ciniewicz
Chief Executive

28 June 2011

I certify that I have audited the financial statements of Valuation Office Agency for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows 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 Agency's and Chief Executive's Responsibilities, the Chief Executive 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 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 Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the 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.

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2011, and of the net income 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 key facts, Boards and Committees and Operating and financial review 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit.
- the Statement on Internal Control 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
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

30 June 2011

Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

	Note	2010-11 Excluding Pension Past Service Cost £'000	2010-11 Pension Past Service Cost £'000	2010-11 Total £'000	2009-10 Restated £'000
Administration Costs:					
Income	5	209,669	-	209,669	231,104
Staff costs	3a, 16	(137,602)	11,190	(126,412)	(147,605)
Early departures	3b	(5,837)	-	(5,837)	(12,249)
Depreciation and amortisation	4	(7,057)	-	(7,057)	(7,160)
Other operating costs	4	(53,940)	-	(53,940)	(62,796)
Gross operating cost		(204,436)	11,190	(193,246)	(229,810)
Net Operating Surplus		**5,233**	**11,190**	**16,423**	**1,294**
Other Comprehensive Net Expenditure:					
Net gain on revaluation of property, plant and equipment	6	187	-	187	943
Net gain/(loss) on revaluation of intangible assets	7	(135)	-	(135)	49
Actuarial gain/(loss) on pension fund	16	9,411	-	9,411	(14,423)
Contributions to Local Government Pension Scheme by DWP	16	8	-	8	953
Total Comprehensive Net Income (Expenditure)		**14,704**	**11,190**	**25,894**	**(11,184)**

'Pension Past Service Cost' is a one-off negative cost 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.

Operating costs for 2009-10 have been restated to reflect changes to accounting policy, as described in Note 1.

There were no Programme Costs in the current or prior year.

Notes 1 to 23 form part of these accounts.

Statement of Financial Position as at 31 March 2011

	Note	31 March 2011 £'000	31 March 2010 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	12,180	10,609
Intangible assets	7	29,490	31,951
Prepayments	9	504	715
Total non-current assets		**42,174**	**43,275**
Current assets			
Trade and other receivables	9	6,378	8,815
Work in progress	10	2,573	2,703
Cash and cash equivalents	11	8,903	11,548
Total current assets		**17,854**	**23,066**
Total assets		**60,028**	**66,341**
LIABILITIES			
Current liabilities			
Trade and other payables	12	(8,072)	(13,539)
Amounts payable to the Consolidated Fund	15	(5,585)	(3,607)
Total current liabilities		**(13,657)**	**(17,146)**
Total assets less current liabilities		**46,371**	**49,195**
Non-current liabilities			
Provisions	14	(24,385)	(26,273)
Pension liability	16	(11,872)	(33,307)
Liability in respect of PFI assets	12	(567)	(604)
Total non-current liabilities		**(36,824)**	**(60,184)**
Total assets less total liabilities		**9,547**	**(10,989)**
TAXPAYERS' EQUITY			
General Fund		7,643	(13,161)
Revaluation Reserve		1,904	2,172
Total taxpayers' equity		**9,547**	**(10,989)**

Notes 1 to 23 form part of these accounts.

Penny Ciniewicz
28 June 2011

Statement of Cash Flows for the year ended 31 March 2011

	Note	2010-11 £'000	2009-10 £'000
Net operating surplus		**16,423**	**1,294**
Adjustments for:			
Depreciation of property, plant and equipment	6	3,035	2,829
Amortisation of intangible assets	7	4,022	4,331
Net loss on disposal of non-current assets	4	81	648
Net loss on revaluation of non-current assets	4	45	-
Net loss on impairment of non-current assets	8	1,174	6,578
Creation of provisions	14	4,606	6,279
Use of provisions	14	(6,518)	(5,056)
Unwinding of the discount on provisions	14	117	199
Change in the discount rate on provisions	14	(93)	202
National auditor's remuneration	4	82	139
Movements on pension liability charged to operating costs	16	(8,723)	4,136
Cash contributions to pension fund not charged to operating costs	16	(3,293)	(1,178)
Decrease in trade and other receivables	9	2,648	2,262
Decrease in work in progress	10	130	1,650
Increase/(Decrease) in trade and other payables		(3,526)	562
less movements in payables relating to items not passing through operating costs		(1,705)	(3,711)
Net cash inflow from operating activities		**8,505**	**21,164**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(4,462)	(3,287)
Purchase of intangible assets	7	(3,194)	(9,243)
Net cash outflow from investing activities		**(7,656)**	**(12,530)**
Cash flows from financing activities			
Cash received from the Consolidated Fund		-	2,700
Receipts on behalf of the Consolidated Fund		145	190
Payments to the Consolidated Fund		(3,607)	(2,415)
Capital element of payments in respect of on balance sheet PFI assets		(32)	(27)
Net cash inflow/(outflow) from financing activities		**(3,494)**	**448**
Net increase/(decrease) in cash and cash equivalents in the period		**(2,645)**	**9,082**
Cash and cash equivalents at the beginning of the period	11	**11,548**	**2,466**
Cash and cash equivalents at the end of the period	11	**8,903**	**11,548**

Statement of Changes in Taxpayer's Equity for the year ended 31 March 2011

	Note	2010-11 General Fund £'000	2010-11 Revaluation Reserve £'000	2010-11 Total Reserves £'000	2009-10 (Restated) General Fund £'000	2009-10 (Restated) Revaluation Reserve £'000	2009-10 (Restated) Total Reserves £'000
Opening balance		**(13,161)**	**2,172**	**(10,989)**	**(4,197)**	**4,970**	**772**
Changes in Taxpayers' equity for the period							
Comprehensive Net Expenditure							
Net gain on revaluation of property, plant and equipment		-	187	187	-	944	944
Net gain/(loss) on revaluation of intangible assets		-	(135)	(135)	-	48	48
Operating surplus for the year		16,423	-	16,423	1,294	-	1,294
Actuarial gain/(loss) on pension fund	16	9,411	-	9,411	(14,423)	-	(14,423)
Contributions to Local Government Pension Scheme by DWP	16	8	-	8	953	-	953
Total Other Comprehensive Net Expenditure		25,842	52	25,894	(12,176)	992	(11,184)
Transfers and other reserve movements							
Realised and transferred to General Fund		320	(320)	-	3,789	(3,789)	-
Notional charges – auditor's remuneration	4	82	-	82	139	-	139
Transactions with Consolidated Fund							
Repayable to the Consolidated Fund	15	(5,440)	-	(5,440)	(3,417)	-	(3,417)
Received from the Consolidated Fund		-	-	-	2,700	-	2,700
Total recognised income and expense for the year		**20,804**	**(268)**	**20,536**	**(8,964)**	**(2,797)**	**(11,761)**
Balance carried forward		**7,643**	**1,904**	**9,547**	**(13,161)**	**2,172**	**(10,989)**

Changes to Taxpayer's Equity for 2009-10 have been restated to reflect changes in accounting policy, as described in Note 1

1. Statement of accounting policies

As a government entity, the VOA has prepared these financial statements in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the VOA has selected the accounting policy which is most appropriate for giving a true and fair view. The VOA's accounting policies are described below.

Changes in accounting policy
The following changes in accounting policy have been applied in 2010-11. All changes in policy are as the result of changes in the interpretations of IFRS in the FReM.

- The Operating Cost Statement presented previously has been replaced by the Statement of Comprehensive Net Expenditure. This new statement is identical to the Operating Cost Statement down to 'Net Operating Surplus' but additionally shows further gains and losses of Taxpayers' Equity that were previously only shown on the Statement of Changes in Taxpayers' Equity;
- A new adaptation of IAS 36 on impairments has been made in the 2010-11 FReM. Impairment losses can now only be applied against existing revaluation reserve balances where the impairment does not result from loss of economic or service benefit. More detail can be found in paragraph 1.4. As a result the VOA's 2009-10 operating costs are increased by £2,146k in the restated comparatives within these accounts;
- Previously the VOA has included a notional cost of capital charge within its operating costs. The 2010-11 FReM withdraws the requirement to make this charge. The restated comparatives for the VOA's operating costs are reduced by £221k.

In accordance with the requirements of IAS 8, these changes in policy have been applied retroactively. Therefore 2009-10 balances have been restated to reflect the changed policies. The combined effect of these changes has been to reduce the VOA's Net Operating Surplus from £3,219k as published in 2009-10 to £1,294k as restated in these accounts. The Statements of Financial Position at 1 April 2009 and 31 March 2010 are not affected by the changes.

1.1 Accounting convention

The VOA has prepared the accounts 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, the VOA recognises its 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.

The VOA carries 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, the VOA accounts 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 the VOA calculates 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
The VOA recognises 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 paragraph 1.4.

When the VOA disposes 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
The VOA depreciates 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.

The VOA reviews the assets' residual values, useful lives and method of depreciation at each financial reporting year end, and adjusts 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	£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 31/3/2011)	Estimated useful life at 31/3/2011
Colchester	20 years (10 years)	30 years
Alnwick	20 years (10 years)	18 years
Shrewsbury	20 years (10 years)	15 years
Edinburgh	42 years (2 years)	35 years
Ulverston	42 years (2 years)	15 years

1.3 Intangible assets

The VOA's intangible assets consist of developed software and software assets under construction. The VOA recognises an intangible asset only if:

- it is technically and economically feasible to complete the asset;
- the VOA intends to complete the asset; and
- the VOA is able to use the asset generated by the project.

Initial Recognition
On initial recognition, the VOA values intangible assets at the directly attributable costs incurred to bring them into use.

Subsequent measurement
In subsequent periods, the VOA accounts for its intangible assets on a fair value basis using modified historical cost. This involves applying a revaluation index to each class of asset using an appropriate indices from the Office for National Statistics. The treatment of changes in valuation is the same as that used for property, plant and equipment (see Note 1.2 above).

Amortisation
The VOA amortises its 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.

The VOA reviews its intangible assets' residual values, useful lives and methods of amortisation at each financial reporting year end, and adjusts 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 the VOA's assets under construction are accumulated until the asset is completed and 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

The VOA reviews property, plant and equipment and intangible assets for potential impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 and 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 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

The VOA recognises a financial asset when it gains a contractual right to the asset. The exception is where the financial asset is consideration from customers for services provided. In these cases the VOA recognises the financial asset when the revenue recognition criteria are met (set out in paragraph 1.14). The VOA removes a financial asset from its Statement of Financial Position when it no longer has a contractual right to the asset, or when the asset is transferred to another party.

The VOA's financial assets are classified as loans and receivables and on initial recognition are measured at fair value. Subsequent to initial recognition the VOA's loans and receivables are measured at amortised cost.

The VOA's financial assets consist of trade and other receivables, accrued income and work in progress.

1.6 Impairment of financial assets

The VOA assesses, at each reporting date, whether there is objective evidence that its 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.
The VOA measures 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 VOA's Statement of Comprehensive Net Expenditure in the period of impairment.

1.7 Work in progress

The VOA's work in progress is classed as a financial asset. It is valued at the lower of cost and net realisable value. The cost reflects the VOA's hourly charge rate which represents the full costs of the service calculated in accordance with the requirements of Managing Public Money.

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

The VOA recognises a financial liability when it becomes 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 the VOA's business. In these cases the financial liability is recognised when, and to the extent that, the goods or services are provided. The VOA removes a financial liability from its Statement of Financial Position when it is extinguished, i.e. when the obligation in the contract is paid, is cancelled or expires. The VOA's financial liabilities are its trade payables and accruals. On recognition they are measured at fair value.

1.10 Other liabilities

The VOA's other liabilities consist of PFI related liabilities, provisions and statutory obligations, as well as any accruals or deferred income that are not financial liabilities. On initial recognition they are measured at fair value. Subsequently accruals are measured at amortised cost and deferred income is measured at cost. The treatment of PFI related liabilities is described at 1.12.
The VOA's statutory obligations 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.

The VOA makes 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 the VOA discloses them as contingent liabilities in Note 20.

1.11 Employee benefits

Pensions
Following its merger with The Rent Service the VOA operates 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. This is because, due to the largely unfunded multi-employer nature of the scheme, it is not possible to identify the individual assets and liabilities associated with any one employer. Actual contributions are used as the basis for the charge to the Statement of Comprehensive Net Expenditure. The VOA does not recognise any PCSPS assets or liabilities.

Local Government Pension Scheme (LGPS)
The VOA's merger with The Rent Service in April 2009 brought staff on board who are members of the LGPS. This is a funded defined benefit scheme.

The VOA therefore recognises its 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.

The VOA charges 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.

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

Annual leave and other short-term employee benefits
The VOA recognises employee entitlements to untaken annual leave and other short-term employee benefits when they accrue to employees. The VOA provides for the estimated liability of leave earned but not taken by employees at 31 March each year.

Early departure costs
Costs of early departures are recognised when the VOA is committed to the departure and 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' as service concession arrangements where:

- the VOA controls the service provided using the infrastructure; and
- 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 the VOA's Statement of Financial

Position. The VOA has 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. The VOA continues to treat 'off balance sheet' PFI-procured assets as operating leases and does not recognise assets and liabilities in respect of them.

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

– payment for the fair value of services received; and
– payment for the PFI asset, including finance costs.

The same treatment is used for PFI costs, assets and liabilities as we do for other similarly classified transactions.

1.13 Leases

The VOA's 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 2011 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.

The VOA recognises revenue when:

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

1.15 Administration and programme expenditure

The VOA analyses its operating costs between administration and programme expenditure. The classification of expenditure as administration or as programme follows the definition set out in the FReM by HM Treasury. 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 Commercial Services income, most of the activities of the VOA 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, the VOA recovers a portion of the VAT on its inputs calculated to reflect the portion of its output services which are within the scope of VAT. The VOA charges Irrecoverable VAT to the relevant expenditure category or includes it in the capitalised purchase cost of fixed assets.

1.17 Civil penalties

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

1.18 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent liabilities. Although management bases these estimates on its best knowledge of current events and actions, actual results may differ from those estimates. The most significant estimates and areas of management judgement made in the accounts relate to:

- the provisions for legal claims, early departures and restructuring (see Note 14);
- the estimation of recoverability and foreseeable losses on work in progress (see Note 10);
- the measurement of developed software assets no longer in use and therefore impaired (see Note 8); and
- the treatment of the STEPS and ASPIRE contracts (see Note 19); and
- the measurement of the LGPS pension liability (see Note 16).

2 Operating segments for the year ended 31 March 2011

In accordance with IFRS 8, the VOA has identified four key factors to distinguish its reportable operating segments. These are:

- That the reportable operating segment engages in activities from which the VOA earns revenues and incurs expenses;
- That the reportable operating segment's financial results are regularly reviewed by the VOA's 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.

The VOA considers its chief operating decision maker to be its Operating and Performance Board (OPB). The segmental information below is based on the information presented to the OPB. The OPB reviews financial information based on four reportable segments:

Ratings and Council Tax	Compilation and maintenance of the rating and council tax lists that support the collection of council tax and business rates.
National & Central Services	Delivery of valuation advice for national taxes, principally inheritance tax and capital gains tax to HMRC; for the operations of 'Right to Buy' provisions and for the assessment and entitlements to benefits from DWP.
Commercial Services	Delivery of valuation services and property advice to other public sector bodies.

Local Housing Allowance & Fair Rents — Rent assessment services which are used for assessing Housing Benefit claims and for determining fair rents in accordance with the Rent Act 1977. Its principal client is the Department for Work and Pensions.

Financial information presented to the OPB is issued before all adjustments made for financial reporting purposes have been completed. Assets are not normally reported to the OPB. A reconciliation of the differences between the segmental information presented to the OPB and the results shown on the primary financial statements is presented below.

2010-11

	Ratings & Council Tax	National & Central Services	Commercial 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 Ratings and Council Tax segment. All the impaired assets were related to this segment. The Local Housing Allowance and Fair Rent 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.

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	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 by the Local Government Pension Scheme actuary (see Note 16.)

Segmental information for 2009-10 is as shown below:

2009-10

	Ratings & Council Tax	National & Central Services	Commercial Services	Local Housing Allowance & Fair Rents	Total
	£'000	£'000	£'000	£'000	£'000
Income from external customers	174,428	12,852	19,634	24,190	**231,104**
Reportable segment surplus/(deficit)	2,841	111	919	(440)	**3,431**

Reconciliation of operating segment results to entity results

	Total reported by operating segment £'000	*Adjustments during financial reporting process* *£'000*	*Restatement adjustments*	**As reported for entity in primary financial statements (restated) £'000**
Income from external customers	231,104	-	-	**231,104**
Net surplus/(cost)	3,431	(212)	(1,925)	**1,294**

Operating surplus for 2009-10 has been restated to reflect changes to accounting policy, as described in Note 1.

3 Staff numbers and related costs

(a)

	2010-11			2009-10		
	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:						
Rating and Council Tax	3,077	3,025	52	3,125	3,109	16
Commercial, National and Central Services	478	468	10	612	599	13
Local Housing Allowances and Fair Rents (former TRS)	262	262	-	323	323	-
Payment of Local Authority Rates	3	3	-	3	3	-
	3,820	**3,758**	**62**	**4,063**	**4,034**	**29**

It is not possible to split staff numbers within Commercial, National and Central Services as the work is performed by one department.

Staff costs comprise:

	2010-11			2009-10		
	Total **£'000**	**Permanently employed staff** **£'000**	**Others** **£'000**	Total £'000	Permanently employed staff £'000	Others £'000
Wages and salaries	108,469	107,019	1,450	116,950	114,326	2,624
Social security costs	7,867	7,827	40	8,373	8,340	33
Other pension costs	21,266	21,186	80	22,282	22,214	68
	137,602	**136,032**	**1,570**	**147,605**	**144,880**	**2,725**
Pension past service cost	(11,190)	(11,190)	-	-	-	-
Total staff costs	**126,412**	**124,842**	**1,570**	**147,605**	**144,880**	**2,725**

A number of the VOA's employees 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' is a one-off negative cost in respect of changes to benefits due to members of the Local Government Pension Scheme. This negative cost is discussed in Note 16.

The majority of VOA employees are members of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a largely unfunded multi-employer defined benefit scheme. The VOA is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found at www.civilservice-pensions.gov.uk

For 2010-11, employers' contributions of £19,159,525 (2009-10: £19,941,718), 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 2010-11 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 £75,661 (2009-10: £81,312) were paid to one or more of the panel of three appointed stakeholders pension providers. Employer's contributions are age-related and range from 3% to 12.5% of pensionable pay. The VOA also matches employee contributions up to 3% of pensionable pay. In addition, employer's contributions of £5,550, 0.8% (2009-10: £5,860, 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.

Two employees have retired on ill-health grounds during 2010-11 with a total accrued pension liability of £3,474 (2009-10: five employees, with total addition accrued pension liabilities of £9,599).

More detailed information on the pension benefits earned by the VOA's senior managers can be found within the Remuneration Report, on page 15.

(b). Early departure costs

	2010-11 £'000	2009-10 £'000
Additional provisions made	5,940	6,478
Costs during the year	710	5,370
Unwinding of one year's discount	117	199
Change in the discount rate	(93)	202
Unused amounts reversed	(837)	-
Total in-year costs	**5,837**	**12,249**

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 on unused amounts provided 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 agreed exit packages in the year, divided into bands of cost to the VOA.

	2010-11			2009-10		
Exit package cost by band	**Number of compulsory redundancies**	**Number of other departures**	**Total number of exit packages by band**	**Number of compulsory redundancies**	**Number of other departures**	**Total number of exit packages by band**
< £10,000	-	23	23	-	46	46
£10,001-£25,000	-	154	154	-	28	28
£25,001-£50,000	-	39	39	-	35	35
£50,001-£100,000	-	28	28	-	52	52
£100,001-150,000	-	4	4	-	16	16
Total no. exit packages by type	**-**	**248**	**248**	**-**	**177**	**177**
Total operating cost (£'000s)	**-**	**6,650**	**6,650**	**-**	**11,848**	**11,848**

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 of departure. Where the VOA has agreed early retirements, the additional costs are met by the VOA 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.

4 Other administrative costs for the year ended 31 March 2011

	Notes	2010-11 £'000	2009-10 Restated £'000
Finance charges – PFI related		148	150
Accommodation excluding business rates		17,137	19,210
Accommodation – business rates		3,492	3,676
HM Revenue & Customs service charges		5,240	3,970
Capgemini IT service charges	19	10,424	8,967
Other computing costs		1,090	2,024
Management and IT consultancy		1,369	1,663
Telephone charges		1,834	1,799
Travel and subsistence		4,548	5,613
External training		593	1,159
Printing, stationery and distribution		573	690
Data capture		-	134
Subscriptions		894	888
Postage and couriers		701	928
Rentals under operating leases		386	931
Legal claims and services (excluding movement in provision)		253	(96)
Legal claims and compensation (movement in provision)		(276)	(1,463)
Establishment of provision for office closure costs	14	276	-
Auditors' notional remuneration – annual accounts		82	82
Auditors' notional remuneration – IFRS restatement		-	57
Net loss on impairment of non-current assets	8	1,174	6,578
Net loss on revaluation of non-current assets	6 & 7	45	-
Net loss on disposal of non-current assets		81	648
Increase/(decrease) in provision for doubtful debt		(121)	196
Sundry costs		3,997	4,992
Other operating costs		**53,940**	**62,796**
Depreciation of property, plant and equipment	6	3,035	2,829
Amortisation of intangible assets	7	4,022	4,331
Depreciation and amortisation		**7,057**	**7,160**
Total non-staff costs		**60,997**	**69,956**

The VOA is audited by the Comptroller and Auditor General, who has not carried out any non-audit work for the VOA and whose remuneration for such work is therefore £nil (2009-10: £nil). However, the Comptroller and Auditor General has subcontracted elements of the VOA's audit to PwC LLP. The management consultancy costs disclosed above include £217k (2009-10: £nil) in respect of non-audit services provided by PwC LLP.

Operating costs for 2009-10 have been restated to reflect changes to accounting policy, as described in Note 1.

5 Operating income for the year ended 31 March 2011

	2010-11 £'000	2009-10 £'000
Rating and Council Tax	160,844	174,428
National and Central Services	12,786	12,852
Commercial Services	16,599	19,634
Local Housing Allowances and Fair Rents (former Rent Service)	19,440	24,190
	209,669	**231,104**

The VOA must disclose performance results for the areas of its 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 the VOA's fees and charges is to recover the full cost of providing the service, in accordance with *Managing Public Money* (http://www.hm-treasury.gov.uk/psr_mpm_index.htm). Where the VOA charges for access to its information, it complies with Treasury and National Archives guidance.

	Ratings & Council Tax £'000	National & Central Services £'000	Commercial Services £'000	Local Housing Allowance & Fair Rents £'000	Total £'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/(deficit)	4,087	108	2	12,226	**16,423**

The surplus on the Local Housing Allowance and Fair Rents segment includes an £11.2m negative past service cost in respect of the Local Government Pension Scheme, as discussed in Note 16.

6 Property, plant and equipment

	Buildings	Accommodation refurbishments	Assets under construction	Information technology hardware	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**

The VOA's Buildings (£706k) are PFI financed. All remaining property, plant and equipment are owned. The VOA held no donated assets during the year (2009-10: nil).

The VOA's buildings were valued by DVS, a unit of the VOA, on the 31 March 2009. Two of the five buildings on the VOA's Statement of Financial Position were valued by DVS at 31 March 2010. An interim valuation was obtained at 31 March 2011 and did not result in any revaluation in 2010-11. 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.

The majority of disposals are in respect of nil net book value furniture, office fittings and office equipment which reached the end of its operational life.

	Buildings	Accommodation refurbishments	Assets under construction	Information technology hardware	Furniture, fittings and office equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:						
At 1 April 2009	2,689	1,747	1,829	5,185	6,260	**17,710**
Additions	-	463	3,245	1,082	465	**5,255**
Disposals	-	(33)	-	(2,883)	(289)	**(3,205)**
Impairments (see Note 8)	-	-	-	-	-	**-**
Reclassifications	-	2,652	(3,008)	-	356	**-**
Revaluations	(31)	205	-	950	72	**1,196**
At 31 March 2010	**2,658**	**5,034**	**2,066**	**4,334**	**6,864**	**20,956**
Depreciation:						
At 1 April 2009	1,788	865	-	3,050	4,488	**10,191**
Charged in the year	99	1,032	-	1,312	386	**2,829**
Disposals	-	(31)	-	(2,708)	(186)	**(2,925)**
Impairments (see Note 8)	-	-	-	-	-	**-**
Revaluations	(30)	36	-	202	44	**252**
At 31 March 2010	**1,857**	**1,902**	**-**	**1,856**	**4,732**	**10,347**
Net Book Value:						
At 31 March 2010	**801**	**3,132**	**2,066**	**2,478**	**2,132**	**10,609**
At 31 March 2009	**901**	**882**	**1,829**	**2,135**	**1,772**	**7,519**

7 Intangible assets

	Developed Software £'000	Assets Under Construction £'000	Total £'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**

	Developed Software £'000	Assets Under Construction £'000	Total £'000
Cost or valuation:			
At 1 April 2009	49,930	4,509	**54,439**
Additions	1,670	8,151	**9,821**
Disposals	(7,181)	-	**(7,181)**
Impairments (see Note 8)	(13,090)	-	**(13,090)**
Reclassifications	2,073	(2,073)	**-**
Revaluations	71	-	**71**
At 31 March 2010	**33,473**	**10,587**	**44,060**
Amortisation:			
At 1 April 2009	21,083	-	**21,083**
Charged in the year	4,331	-	**4,331**
Disposals	(6,817)	-	**(6,817)**
Impairments (see Note 8)	(6,511)	-	**(6,511)**
Reclassifications	-	-	**-**
Revaluations	23	-	**23**
At 31 March 2010	**12,109**	-	**12,109**
Net book value:			
At 31 March 2010	**21,364**	**10,587**	**31,951**
At 31 March 2009	**28,847**	**4,509**	**33,356**

8 Impairments

	Impairment charged to operating costs £'000	Total £'000
Intangible assets	1,140	1,140
Property, plant and equipment	34	34
Impairment charged for the year ended 31 March 2011	**1,174**	**1,174**
Intangible assets	6,578	6,578
Property, plant and equipment	-	-
Impairment charged for the year ended 31 March 2010 (Restated)	**6,578**	**6,578**

All impairments have been charged to operating costs, rather than against existing revaluation reserve amounts. Impairments for 2009-10 have been restated to reflect changes to accounting policy, as described in Note 1.

Impaired intangible assets consist 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 are 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 is impaired by £1,140k.

Impaired tangible assets consist of furniture and fittings in five offices that the VOA has announced it will be closing in the coming year. Assets have therefore been impaired to reflect their reduced recoverable amount.

9 Trade receivables and other current and non-current assets

(a)

	31 March 2011 £'000	31 March 2010 £'000
Trade receivables and other current assets:		
Trade receivables	4,785	7,656
Allowance for doubtful debt	(75)	(196)
Other receivables	570	297
Prepayments and accrued income	1,098	1,058
	6,378	**8,815**
Non-current financial assets:		
Prepayments	**504**	**715**
	6,882	**9,530**

(b)

	Receivables: Current £'000	Receivables: Non-current £'000
Balances with other central government bodies	2,356	-
Balances with local authorities	1,502	-
Balances with NHS Trusts	647	-
Balances with bodies external to government	1,873	504
At 31 March 2011	**6,378**	**504**
Balances with other central government bodies	4,511	-
Balances with local authorities	1,297	-
Balances with NHS Trusts	1,390	-
Balances with bodies external to government	1,617	715
At 31 March 2010	**8,815**	**715**

10 Work in progress

	31 March 2011 £'000	31 March 2010 £'000
Opening	2,703	4,353
Written-off	(74)	(55)
Movement in WIP	(24)	(1,396)
Movement in provision for foreseeable losses and irrecoverable amounts	(32)	(199)
Closing	**2,573**	**2,703**

(i) As at 31 March 2011 the VOA's management has an operating policy of not invoicing for work in progress where a period of thirty-six months has elapsed since the VOA 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 the VOA has written off £74k for the year ending 31 March 2010 (2009-10: £55k).

(ii) As at 31 March 2011 the VOA 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, the VOA has recognised a provision for future losses on these contracts of £281k (2009-10: £153k).

(iii) At 31 March 2011 the VOA 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. VOA has estimated that £225k of this balance may not be recoverable and has recognised this sum as impairment in the year (2009-10: £321k).

11 Cash and cash equivalents

	31 March 2011 £'000	31 March 2010 £'000
Balance at 1 April	11,548	2,466
Net change in cash and cash equivalent balances	(2,645)	9,082
Balance at 31 March	**8,903**	**11,548**
The following balances as at 31 March were held at:		
Office of HM Paymaster General	-	11,527
Government Banking Service	8,863	-
Commercial banks and cash in hand	40	21
Balance at 31 March	8,903	11,548

The cash balance disclosed above includes £145k (2009-10: £190k) of civil penalties which have been collected on behalf of the Consolidated Fund (see Note 1.17). The VOA has no claim on these receipts and will pay them over to the Consolidated Fund in due course.

During 2010-11, the Office of the Paymaster General ceased to offer banking services to the public sector. The Government Banking Service has been set up in its place and during the year the VOA has adopted this service as its principal provider of banking services.

12 Trade payables and other current and non-current liabilities

(a)

	31 March 2011 £'000	31 March 2010 £'000
Current financial and other liabilities		
Trade payables	436	3,749
Accruals and deferred income	7,525	9,192
VAT	74	566
Current liability in respect of on balance sheet PFI assets	37	32
	8,072	**13,539**
Amounts payable to the Consolidated Fund	5,585	3,607
	13,657	**17,146**
Non-current financial and other liabilities:		
Non-current liability in respect of on balance sheet PFI assets	567	604
	567	**604**
	14,224	**17,750**

(b)

	Payables Current £'000	Payables Non-current £'000
Balances with other central government bodies	7,138	-
Balances with local authorities	115	-
Balances with NHS Trusts	22	-
Balances with Public Corporations	80	-
Balances with bodies external to government	6,302	567
At 31 March 2011	**13,657**	**567**
Balances with other central government bodies	8,534	-
Balances with local authorities	249	-
Balances with NHS Trusts	-	-
Balances with Public Corporations	-	-
Balances with bodies external to government	8,363	604
At 31 March 2010	**17,146**	**604**

13 Financial instruments risk management

The VOA's 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. The majority of the VOA's trade receivables are due from other Government Departments and Agencies, therefore the risk of counterparty default is low and the VOA's exposure to credit risk is minimal. There is higher risk associated with the VOA's £2.1m of Trade Receivables due from NHS Trusts and Local Authorities. With regards to risk concentration, 9%, (£445k) of the VOA's 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 the VOA's strategy to manage its trade receivables, it has put in place policies and practices to ensure that it accurately invoices its clients and that this is done in a timely manner.

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

The VOA's financial assets (trade receivables, work in progress and cash deposits) that are neither past due nor impaired are of high credit quality. This is because they are principally due from other UK government bodies. The VOA has assessed its trade receivables for possible impairment and has recognised a £75k (2009-10: £196k, figure net of VAT) provision for debts which may not be recoverable. The VOA has performed a similar assessment of its work in progress and recognised a £506k (2009-10: £474k) 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 2011

	<2 months £'000	<6 months £'000	6-12 months £'000	>12 months £'000	**Total £'000**
Trade receivables	530	380	24	15	**949**

Receivables past due but not impaired at 31 March 2010

	<2 months £'000	<6 months £'000	6-12 months £'000	>12 months £'000	**Total £'000**
Trade receivables	1,378	420	2	3	**1,803**

The VOA's policy is to recover all of its work in progress costs. The VOA's work in progress, gross of provisions for impairments, as at 31 March 2011 is presented in the table below, aged by the date the work began. Fifty per cent of the VOA's work in progress relates to contracts that commenced over twelve months ago. A significant proportion (£1,340k or 77% of the balance older than one year) of this is due to transport sector cases, which have a lengthy resolution process between the VOA (on behalf of the Highways Agency) and the third party.

Work in progress at 31 March 2011, gross of impairment and aged by commencement date

	<3 months £'000	3-6 months £'000	6-12 months £'000	12-18 months £'000	>18 months £'000	**Total £'000**
Work in progress (gross)	557	337	390	243	1,503	**3,030**

Work in progress at 31 March 2010, gross of impairment and aged by commencement date

	<3 months £'000	3-6 months £'000	6-12 months £'000	12-18 months £'000	>18 months £'000	**Total £'000**
Work in progress (gross)	448	310	429	332	1,659	**3,178**

The tables below are an analysis of the VOA's 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 twelve months account for only 0.2% of the VOA's work in progress balance.

Work in progress at 31 March 2011, gross of impairment and aged by date last worked on

	<3 months £'000	3-6 months £'000	6-12 months £'000	12-18 months £'000	>18 months £'000	**Total £'000**
Work in progress (gross)	2,536	269	224	1	-	**3,030**

Work in progress at 31 March 2010, gross of impairment and aged by date last worked on

	<3 months £'000	3-6 months £'000	6-12 months £'000	12-18 months £'000	>18 months £'000	**Total £'000**
Work in progress (gross)	2,510	304	210	110	44	**3,178**

The table below presents the age of the work in progress balance, net of a £225k (2009-10: £321k) provision for possibly irrecoverable amounts and a £281k (2009-10: £154k) provision for foreseeable losses on fixed price contracts.

Work in progress at 31 March 2011, net of impairment and aged by date last worked on

	<3 months £'000	3-6 months £'000	6-12 months £'000	12-18 months £'000	>18 months £'000	**Total £'000**
Work in progress (net)	2,304	269	-	-	-	**2,573**

Work in progress at 31 March 2010, net of impairment and aged by date last worked on

	<3 months £'000	3-6 months £'000	6-12 months £'000	12-18 months £'000	>18 months £'000	**Total £'000**
Work in progress (net)	2,411	292	-	-	-	**2,703**

Liquidity risk

Liquidity risk is the risk that the VOA will not be able to meet its financial obligations as they fall due. Over 85% of the VOA's income and receipts 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 the VOA's agreement with these clients, they are required to make specific payments on a regular basis and by a specified date. The VOA 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 the VOA's 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 would nevertheless force the VOA to delay some payments.

The objective of the VOA's liquidity risk management policy is for the VOA to maintain sufficient financial resources to be able to meet its obligations as they fall due. Key aspects of the risk management policy include having an agreement with the VOA's key clients for payments to be made to the VOA on a bi-monthly basis. The VOA ensures that it invoices its major clients accurately and timeously and the process is under constant review by a senior member of the finance department. In addition the VOA has an adequately staffed credit control function, which has the responsibility for ensuring that debtors adhere to the agreed credit terms.

The VOA has in place a cash management process that is managed by a senior member of the finance function as well as the active management of its creditors payment days. In addition its 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 2011 is as follows:

	< 1 year £'000	> 1 year £'000	Total £'000
2010-11			
Trade payables	337	-	337
Accruals	7,204	-	7,204
Total	**7,541**	**-**	**7,541**
2009-10			
Trade payables	3,749	-	3,749
Accruals	8,977	-	8,977
Total	**12,726**	**-**	**12,726**

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. The VOA has an insignificant exposure to market risk as its cash balances are held in the Government Banking Service and interest is not paid on these deposits.

Classification of financial assets and liabilities
In accordance with IAS 39, the VOA's financial assets 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 2011 £'000	31 March 2010 £'000
Work in progress	2,573	2,703
Trade receivables	4,710	7,232
Other receivables	540	526
Cash and cash equivalents	8,903	11,548
Loans and receivables	**16,726**	**22,009**

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

	31 March 2011 £'000	31 March 2010 £'000
Trade payables	337	3,749
Accruals	7,204	8,977
Financial liabilities at amortised cost	**7,541**	**12,726**

14 Provisions

(a) Movements in provisions

	Accrued employee benefits £'000	Early departure and additional pension commitments £'000	Provision for legal claims and compensation £'000	Provision for restructuring costs £'000	Total £'000
Balance at 1 April 2010	10,915	13,061	2,297	-	26,273
Increase/decrease in provision	(497)	5,940	588	276	6,307
Provisions not required written back	-	(837)	(864)	-	(1,701)
Provisions utilised in the year	-	(5,549)	(969)	-	(6,518)
Change in the discount rate	-	(93)	-	-	(93)
Unwinding of discount	-	117	-	-	117
Balance at 31 March 2011	**10,418**	**12,639**	**1,052**	**276**	**24,385**

Accrued employee benefits
The provision for accrued employee benefits represents the VOA's 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 VOA approved 248 staff to leave under early departure schemes during 2010-11. The VOA has made a provision of £5,529k for the scheme in the current year. This provision covers the full cost of departure for 236 staff who are either members of the Principal Civil Service Pension Scheme or who have opted out of pension provision. The remaining 12 departing employees are members of the Local Government Pension Scheme. Severance costs for these staff are included within the provision. The costs and liability associated with augmenting their pensions are shown in Note 16. Beyond the amounts provided for the current year's scheme the additional provision made above 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 1.11, the costs are expected to fall due as shown below in Note 14b, and the total in-year costs are detailed in Note 3b.

The write back on unused amounts provided of £837k was due to the discovery that the provisions for early departures at 31 March had included in error severance pay amounts already paid over at the reporting date.

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 the VOA does 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 of £864k is as a result of more cases than expected being resolved without cost, or being resolved at smaller cost than expected. In particular, one case outstanding at 31 March 2010, estimated to cost the VOA £1.2m, was settled at a cost of £0.8m.

Provision for office closure costs
In the year to 31 March 2011, the VOA made the decision to close five of its offices. Notice has been given to the landlords of the properties concerned and staff have been informed of the key characteristics of the plan. The provision includes estimated costs of the closures, 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 cease. This provision is expected to be utilised within 2011-12.

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

	31 March 2011 £'000	31 March 2010 £'000
Early retirement and pension commitments fall due:		
Within one year	8,799	6,559
Between one and two years	1,683	2,580
Between two and five years	1,803	3,304
After five years	354	618
	12,639	**13,061**

15 Amounts payable to the Consolidated Fund at 31 March 2011

	31 March 2011 £'000	31 March 2010 £'000
Operating receipts payable to the Consolidated Fund	5,440	3,417
Civil Penalties receipts payable to the Consolidated Fund	145	190
	5,585	**3,607**

The VOA holds sums payable to the Consolidated Fund in respect of its operating receipts in excess of expenditure and of civil penalties.

In accordance with the requirements of *Managing Public Money*, the VOA returns its operating surplus to the Consolidated Fund. The sum of £5,440k disclosed above differs from the operating surplus on the Statement of Net Comprehensive Expenditure for two reasons:

- Of the operating surplus, £11,190k is in respect of the non-cash item of negative expenditure relating to changes to pension scheme benefits, as discussed in Note 16. This does not qualify as an operating receipt and, with the agreement of HM Treasury, does not need to be paid to the Consolidated Fund.
- By agreement with its parent department HM Revenue and Customs, the VOA pays to the Consolidated Fund the operating surplus that is shown for it in the department's consolidated accounts. The operating surplus reported for the VOA in HMRC's consolidated accounts is £203k higher than presented in these Agency Accounts, due to a difference in the accounting treatment for the ASPIRE contract between the VOA and its parent. The contract is described in Note 19c.

The VOA's Valuation Officers impose civil penalties for failure to submit Forms of Return deemed essential for assessment of rateable value. The VOA collects these penalties as an agent of the Consolidated Fund and has no claim on the amounts received (see Note 1.17).

16 Pension benefit obligations

Introduction

The VOA merged with The Rent Service on 1 April 2009, taking on staff 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 the VOA. The Local Government Scheme is accounted for as a defined benefit scheme.

The accounting entries in respect of the year ended 31 March 2011 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 the VOA's 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 2010-11, the VOA made contributions at a rate of 18.8% (2009-10: 18.8%) of pensionable salary. In 2011-12 the VOA will make contributions at 22.2% of pensionable salary. This rate includes a 3.5% deficit contribution rate. The total cash contribution that the VOA expects to make to the LGPS scheme in the year to 31 March 2012 is £963,000.

Transactions relating to the Local Government Pension Scheme

	2010-11		2009-10	
	£000s	**% of pay**	**£000s**	**% of pay**
Recognised as operating costs				
Current service cost	1,291	27.7%	801	13.6%
Interest cost on scheme liabilities	6,643	142.6%	5,949	101.0%
Expected return on scheme assets	(5,864)	-125.9%	(4,506)	-76.5%
Past service cost	(11,190)	-240.3%	-	0.0%
Losses on curtailments and settlements	397	8.5%	1,892	32.1%
	(8,723)	-187.3%	**4,136**	70.2%
Actual return on scheme assets	**6,140**		**20,567**	

The current service cost is the increase in scheme liabilities as a result of employees' service within the year. Past service costs are costs arising due to current year decisions, but pertaining to past years' service. 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 the VOA – further details of this are given below. Losses/gains on curtailments and settlements are costs incurred in relieving the VOA of liabilities, or the results of changes which affect expected future service or benefits.

Past service cost above includes a negative cost of £11,190k. This has arisen 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 the VOA's liability to fund these pensions is reduced, creating a negative cost of past service.

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

Recognised in Statement of Changes in Taxpayer's Equity

	2010-11 £000s	2009-10 £000s	2008-09 £000s	2007-08 £000s	2006-07 £000s
Actuarial gains/(losses)	9,411	(14,423)	(16,456)	3,112	3,714
Increase/(decrease) in irrecoverable surplus from membership	-	-	-	-	-
Actuarial gains/(losses) recognised in Statement of Changes in Taxpayer's Equity	9,411	(14,423)	(16,456)	3,112	3,714
Cumulative Actuarial Gains and Losses	**(21,916)**	**(31,327)**	**(16,904)**	**(448)**	**(3,560)**

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 2011 £000s	31 March 2010 £000s
Fair value of scheme assets	91,188	90,041
Present value of funded liabilities	(102,798)	(123,016)
	(11,610)	(32,975)
Present value of unfunded obligations	(262)	(332)
Unrecognised past service cost	-	-
Net Liability in the Statement of Financial Position	**(11,872)**	**(33,307)**

Reconciliation of fair value of the scheme liabilities

	31 March 2011 £000s	31 March 2010 £000s
Fair value of liabilities at 1 April	123,348	87,372
Current service cost	1,291	801
Interest cost	6,643	5,949
Contributions by scheme members	307	387
Actuarial (gains)/losses	(12,154)	30,484
Past service costs	(11,190)	-
Losses/(gains) on curtailments	397	1,892
Liabilities extinguished on settlements	-	-
Estimated unfunded benefits paid	(15)	(14)
Estimated benefits paid	(5,567)	(3,523)
Estimated fair value of scheme liabilities at 31 March	**103,060**	**123,348**

Reconciliation of fair value of the scheme assets

	31 March 2011 £000s	31 March 2010 £000s
Fair value of assets at 1 April	90,041	70,493
Expected return on assets	5,864	4,506
Contributions by scheme members	307	387
Contributions by the employer	3,286	2,131
Contribution in respect of unfunded benefits	15	-
Actuarial gains/(losses)	(2,743)	16,061
Assets distributed on settlements	-	-
Unfunded benefits paid	(15)	(14)
Benefits paid	(5,567)	(3,523)
Estimated fair value of scheme assets at 31 March	**91,188**	**90,041**

Employer contributions shown above include £8k (2009-10: £953k) 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 2011 £000s	31 March 2010 £000s	31 March 2009 £000s	31 March 2008 £000s	31 March 2007 £000s
Fair value of employer assets	91,188	90,041	70,493	83,784	51,472
Fair value of defined benefit obligations	103,060	123,348	87,372	85,066	55,671
Deficit in the scheme	**(11,872)**	**(33,307)**	**(16,879)**	**(1,282)**	**(4,199)**
Experience gains/(losses) on assets	(3,166)	16,061	(24,515)	27,687	449
Experience gains/(losses) on liabilities	11,071	14,845	10	(35,949)	(105)

Financial assumptions

	31 March 2011 % per year	31 March 2010 % per year
RPI Increases	3.5%	3.9%
CPI Increases	2.7%	N/a
Rate of increase of salaries	4.5%	5.4%
Expected return on assets	6.7%	6.8%
Discount rate	5.5%	5.5%

The scheme guarantees that pensions will increase by the rise in the Consumer Prices Index. This is a change from previous years, when the Retail Prices Index was used for pension increases. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index at 31 March 2011. Salary increase assumptions take into account the pay freeze until March 2012 on salaries for employees earning more that £21,000 per year.

Composition of scheme assets and expected returns

	31 March 2011		31 March 2010	
	£000s	%	£000s	%
Equities	62,920	69.0%	63,029	70.0%
Target return funds	10,943	12.0%	9,004	10.0%
Alternative assets	12,766	14.0%	12,606	14.0%
Cash	2,736	3.0%	4,502	5.0%
Corporate Bonds	1,823	2.0%	900	1.0%
	91,188		**90,041**	

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 2011	31 March 2010
Equities	7.4%	7.5%
Target return funds	4.5%	4.5%
Alternative assets	6.4%	6.5%
Cash	3.0%	3.0%
Corporate Bonds	5.5%	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 2011	31 March 2010
Retiring today:		
Males	21.3	19.6
Females	23.8	22.5
Retiring in 20 years:		
Males	23.3	20.7
Females	25.7	23.6

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 2011 £'000	31 March 2010 £'000
At 31 March the following future capital commitments had been authorised and contracted:		
Property, plant and equipment	127	-
Intangible assets	82	679
	209	679

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 2011 £'000	31 March 2010 £'000
Obligations under operating leases comprise:		
Land and buildings		
Not later than one year	4,669	4,123
Later than one year and not later than five years	4,890	6,557
Later than five years	2,348	1,926
	11,907	**12,606**
Other		
Not later than one year	367	388
Later than one year and not later than five years	351	668
Later than five years	-	-
	718	**1,056**

A number of the VOA's land and buildings leases increase with the Retail Prices Index (RPI). From this year, the VOA is including a forecast of RPI increases in its commitments for these leases. Prior year comparatives have also been adjusted to include RPI increases.

The commitments presented in this note do not include the VOA's 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 costs

The VOA has entered into a PFI contract with Strategic Transfer Estate to Private Sector (STEPS) for the provision of office accommodation and facilities management. The VOA has entered into this contract alongside its parent department, HMRC. 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.

(a) On balance sheet

Five of the VOA's office buildings under its PFI contract with Strategic Transfer Estate to Private Sector (STEPS) for the provision of office accommodation and facilities are treated as assets of the VOA in accordance with IFRIC 12 and IAS 17. For three of these buildings, the VOA has 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 assets of the VOA. For the two additional buildings accounted for on the VOA's Statement of Financial Position, the arrangement constitutes a finance lease under IAS 17.

	31 March 2011 £'000	31 March 2010 £'000
Total obligations under on-balance sheet PFI contracts for the following periods comprises:		
Not later than one year	174	179
Later than one year and not later than five years	634	690
Later than five years	768	1,083
	1,576	1,952
Less interest element	(972)	(1,316)
Liability on Statement of Financial Position (Note 12)	**604**	**636**

Upon transfer, the VOA received a consideration from the PFI provider of £1.5m in respect of the transferred assets. This resulted in a PFI prepayment of £921k which 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, the VOA is committed to further operating costs in respect of service charges and variable components of rent as follows:

	31 March 2011 £'000	31 March 2010 £'000
Total further commitments relating to on balance sheet PFI contracts, analysed by period due		
Not later than one year	346	349
Later than one year and not later than five years	313	544
Later than five years	-	-
	659	**893**

(b) Off balance sheet
The payments to which the VOA is committed during 2011-12, analysed by the period during which the commitment expires are set out below. The total payments the VOA is committed to make, analysed by the period in which they are due, are also set out below:

	31 March 2011 £'000	31 March 2010 £'000
Total commitments, analysed by period in which they are due:		
Not later than one year	7,715	8,857
Later than one year and not later than five years	6,110	9,226
Later than five years	1,015	1,691
	14,840	**19,774**

The VOA's STEPS lease payments increase with the Retail Prices Index (RPI). From this year, the VOA is including a forecast of RPI increases in its commitments for these leases. Prior year comparatives have also been adjusted to include RPI increases.

In the year to 31 March 2011, the VOA paid £10,140k (2009-10: £9,990k) to the STEPS contractor in respect of off balance sheet properties and service charges. In addition to the STEPS scheme described above, the VOA occupies 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) The ASPIRE contract for the provision of IT services and equipment
The VOA outsourced the management of some of its IT services as part of a HMRC-wide arrangement in 2004. This Public Private Partnership (PPP) agreement, known as ASPIRE, involved the VOA selling some of its IT hardware to a consortium who would then provide a managed service using these assets. The initial term of the arrangement was 10 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 the VOA's assets became fungible elements of a much larger asset pool which is almost entirely devoted to the activities of HMRC. The VOA has estimated its 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 the VOA has 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.

The VOA has 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 2011, the VOA paid £10,506k in service charges in respect of the ASPIRE contract. While the VOA currently plans to incur £11,174k in operating expenditure for ASPIRE services during 2011-12 there is no commitment to expend these sums.

20 Contingent liabilities at 31 March 2011

There are several activities which may generate contingent liabilities for the VOA:

a) The VOA is involved in many legal actions arising from its statutory activities. If the VOA loses these cases it is 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.

The VOA is confident of success in those cases which are not accounted for within its provisions. This is often because the VOA has already won in a lower court or because it has received legal advice confirming the strength of its position. The VOA cannot easily assess third party costs in these cases should it become liable for them at some point. Due to all these factors, it would be misleading to quantify these contingent liabilities though the VOA acknowledges the potential for them to crystallise.

b) The VOA is occasionally liable to compensate staff for dismissal for health related issues under the PCSPS. Also on occasion current or former staff may sue the VOA for discrimination or unfair dismissal. At present there are several cases where there is a potential liability which is estimated to be £123k.

c) The VOA occupies eleven properties where, under the terms of their leases, it 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. Consequently these items are disclosed as contingent liabilities but are not provided for in the accounts. At 31 March 2011 the liabilities to make good two offices have reached the point of being sufficiently certain and able to be estimated with sufficient reliability to be recognised as operating costs. A sum of £60k has therefore been recognised within the VOA's operating costs for 2010-11 in respect of these liabilities.

21 Related Party Transactions for the year ended 31 March 2011

The Valuation Office Agency is an Executive Agency of HM Revenue and Customs (HMRC). HMRC is regarded as a related party with which the VOA had a significant number of material transactions during the year. Reported income in the year includes £10,681k earned from HMRC and expenditure includes £26,143k invoiced to us by HMRC.

In addition the VOA has a significant number of material transactions with other Government Departments. Most of these transactions have been with the Department for Work and Pensions, the Department for Communities and Local Government and the Welsh Government. To 31 March 2011 approximate income was invoiced to these parties as follows:

Department for Work and Pensions	£17,986k	(2009-10: £22,885k)
Department for Communities and Local Government	£153,564k	(2009-10: £166,240k)
Welsh Government	£10,232k	(2009-10: £10,170k)

The VOA had material transactions with pension schemes providing benefits to its employees, 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, none of The Board Members or other related parties have undertaken any material transactions with the VOA. No Board Member had any interest significant enough to create a related party relationship with the VOA.

22 Events after the Reporting Period

On 4 May 2011, the VOA's Board decided to close a further four offices during 2011-12. This is a non-adjusting event. The VOA holds accommodation refurbishment assets with a net book value of approximately £100k which will be impaired to nil. In addition, one of the properties concerned is held on balance sheet under IFRIC 12 (see Note 19). The associated asset, held at a value of £135k at 31 March 2011 will be disposed of. The associated creditor, £103k at 31 March 2011, will be extinguished on the termination (without penalty) of the lease, and the resultant gain offset against the loss on disposal of the asset.

The VOA will also incur workforce change costs as a result of these closures but sufficiently reliable estimates of these costs are not yet available.

As outlined in Note 16, the decision to uprate public service pensions using the Consumer Prices Index rather than the Retail Prices Index has been recognised in these accounts. This decision is currently before the courts in judicial review proceedings. The government is robustly defending the case and therefore no adjustment has been made to the accounts for this matter. The financial implications consequent on the review finding against the Government have not been assessed.

These accounts were authorised for issue on 30 June 2011.

23 Standards in issue but not yet effective

These accounts have been prepared according to the 2010-11 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 standard may affect the VOA's account when they are adopted by the Financial Reporting Manual:

- IFRS 9 Financial Instruments

The impact of these new and revised standards will not be known until they have been interpreted in the Financial Reporting Manual.

In addition, the several changes will be made to the Financial Reporting Manual for 2011-12. The only change that is relevant to the VOA is the reintroduction of the true and fair override, to be applied in line with the principles set out in IAS 1. This is not expected to materially impact the VOA's accounts.

Payment of Local Authority Rates (POLAR)

Introduction
The CEO of the VOA is also 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. Following a review in 2009-10 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 and the missions. The VOA pays the rates due to the billing authorities and then seeks to recover the Beneficial Portion from the mission.

Most diplomatic occupiers are keen to pay the Beneficial Portion and payment rates are very high. In cases of arrears the Foreign and Commonwealth Office writes to the relevant Missions encouraging them to pay.

However since there is no legal obligation for the Missions to pay the Beneficial Portion the VOA disburses 100% of the rates liability to the billing authorities. The beneficial Portion collected is then retained by central government.

Facts and Figures
In 2010-11 there were 193 diplomatic missions in the UK covering 455 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 2010-11 the POLAR scheme required £42m of funding (2009-10 £34.2m). The net Beneficial Portion collected was £2.27m (2009-10 £2.15 million). This constitutes 96% of the total due.

The inherent risk of the POLAR scheme is low. The main area of uncertainty relates to changes in the rateable value of properties due to refurbishments etc. These can sometimes take several years to come to light and can lead to sudden demands for backdated rates or indeed refunds.

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