FINANCIAL STATEMENTS

Annual Accounts for the year ended 31 March 2016

Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

		2015-16	2014-15
		Total	Total
	Note	£'000	£'000
Income	5	207,873	193,155
Staff costs	3	(150,830)	(138,968)
Accommodation costs	4	(15,300)	(15,658)
Running costs	4	(32,810)	(27,098)
Non-cash costs	4	(1,519)	(1,746)
Depreciation and amortisation	4	(8,932)	(8,295)
Gross operating cost		(209,391)	(191,765)
Net Operating Surplus/(Deficit)		**(1,518)**	**1,390**
Other Comprehensive Expenditure:			
Net gain on revaluation of tangible assets		-	389
Net gain on revaluation of intangible assets		344	408
Actuarial gain/(loss) on pension fund	16	2,048	(17,336)
Total Comprehensive Net Income/ (Expenditure)		**874**	**(15,149)**

In 2015-16, the VOA made an operating deficit of £1.518m. This was due to HM Treasury rules which state that the non-cash transactions relating to the Local Government Pension Scheme, required by accounting standards to be charged to operating costs cannot be offset by income, as the Agency had in prior years.

Although no corresponding income is shown in the Statement of Comprehensive Net Expenditure, these costs are fully funded by the Agency's sponsor department HMRC. They have no impact on the cash flow of the Agency. A breakdown of these costs is in Note 16.

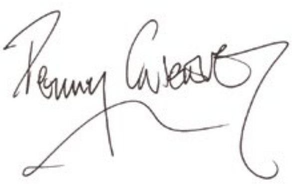
Before these costs are accounted for, the Agency made a surplus of £0.425m.

The notes on pages 92 to 121 form part of these accounts.

Statement of Financial Position as at 31 March 2016

	Note	31 March 2016 £'000	31 March 2015 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	10,861	9,898
Intangible assets	7	15,582	18,160
Total non-current assets		**26,443**	**28,058**
Current assets			
Trade and other receivables	9	10,579	7,380
Work in progress	10	1,953	2,341
Cash and cash equivalents	11	19,485	17,949
Total current assets		**32,017**	**27,670**
Total assets		**58,460**	**55,728**
LIABILITIES			
Current liabilities			
Trade and other payables	12	(12,993)	(11,086)
Employee leave accrual	12	(9,048)	(9,059)
Short term provisions	14	(1,505)	(1,141)
Amounts payable to the Consolidated Fund	15	(286)	(264)
Total current liabilities		**(23,832)**	**(21,550)**
Total assets less current liabilities		**34,628**	**34,178**
Non-current liabilities			
Long term provisions	14	(220)	(635)
Pension liability	16	(7,834)	(8,679)
Liability in respect of PFI assets	12	(125)	(143)
Total non-current liabilities		**(8,179)**	**(9,457)**
Total assets less total liabilities		**26,449**	**24,721**
TAXPAYERS' EQUITY			
General Fund		25,442	23,336
Revaluation Reserve		1,007	1,385
Total Taxpayers' equity		**26,449**	**24,721**

The notes on pages 92 to 121 form part of these accounts.



Penny Ciniewicz
Accounting Officer
5 July 2016

Statement of Cash Flows for the year ended 31 March 2016

	Note	2015-16 £'000	2014-15 £'000
Cash flows from operating activities			
Net operating surplus/(deficit)		**(1,518)**	**1,390**
Adjustments for:			
Depreciation of property, plant and equipment	6	3,084	3,063
Amortisation of intangible assets	7	5,848	5,232
Net loss on disposal of non-current assets	4	542	752
Net loss on impairment of non-current assets	8	58	541
Creation and reversal of provisions	14	954	942
Use of provisions	14	(1,010)	(1,091)
Unwinding of the discount on provisions	14	6	13
Change in the discount rate on provisions	14	(1)	8
Notional auditor's remuneration	4	72	73
Pension fund expenditure passing through the SoCNE	16	1,943	2,987
Movements on pension liability and pension fund income and expenditure not passing through the SoCNE	16	(740)	-
Pension fund contribution not passing through the SoCNE		782	-
Cash contributions to pension fund not charged to operating costs	16	-	(1,375)
(Increase) in trade and other receivables	9	(3,199)	(790)
Increase/(Decrease) in work in progress	10	388	(94)
(Increase)/Decrease in trade and other payables and other liabilities	12	1,901	(1,573)
Less movements in payables relating to items not passing through operating costs		(9)	5
Net cash inflow from operating activities		**9,101**	**10,083**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(2,867)	(3,986)
Purchase of intangible assets	7	(4,706)	(3,887)
Net cash outflow from investing activities		**(7,573)**	**(7,873)**
Cash flows from financing activities			
Receipts on behalf of the Consolidated Fund	15	22	7
Capital element of payments in respect of on-balance sheet PFI assets		(14)	(12)
Net cash (outflow)/inflow from financing activities		**8**	**(5)**
Net increase in cash and cash equivalents in the period		**1,536**	**2,205**
Cash and cash equivalents at the beginning of the period	11	**17,949**	**15,744**
Cash and cash equivalents at the end of the period	11	**19,485**	**17,949**

The notes on pages 92 to 121 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

		2015-16			2014-15		
		General Fund	Revaluation Reserve	Total Reserves	General Fund	Revaluation Reserve	Total Reserves
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance		**23,336**	**1,385**	**24,721**	**(9,419)**	**1,216**	**(8,203)**
Changes in Taxpayers' Equity for the period							
Comprehensive Net Expenditure							
Net gain on revaluation of property, plant and equipment		-	-	-	-	389	389
Net gain on revaluation of intangible assets		-	344	344	-	408	408
Operating surplus/(deficit) for the year		(1,518)	-	(1,518)	1,390	-	1,390
Actuarial gain/(loss) on pension fund	16	2,048	-	2,048	(17,336)	-	(17,336)
Total Other Comprehensive Net Expenditure		530	344	874	(15,946)	797	(15,149)
Transfers and other reserve movements							
Third party pension liability payments	16	782	-	782	48,000	-	48,000
Realised and transferred to General Fund		722	(722)	-	628	(628)	-
Notional charges - auditor's remuneration	4	72	-	72	73	-	73
Total recognised income and expense for the year		**2,106**	**(378)**	**1,728**	**32,755**	**169**	**32,924**
Balance carried forward		**25,442**	**1,007**	**26,449**	**23,336**	**1,385**	**24,721**

The notes on pages 92 to 121 form part of these accounts.

Notes to the VOA's Accounts

1. Statement of accounting policies

As the VOA is a government entity, the financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS), as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the Agency has selected the accounting policy which is most appropriate to provide a true and fair view. The Agency's accounting policies are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

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

The accounts have been prepared on a going concern basis.

1.2 Property, plant and equipment

On initial recognition, the Agency recognises property, plant and equipment assets at cost, including all costs directly attributable to bringing them into working condition. Assets under construction costs are accumulated until the asset is completed and ready to be brought into service when the asset is transferred to the relevant asset class and depreciation commences. Non-property assets are valued on a depreciated historical cost basis as a proxy for value in existing use as they are non-specialised, low value, and of short lives.

The Agency 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.

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

Apart from property and IT developed software, the Agency consider all other assets' fair values to be comparable to their carrying values in the accounts.

Increases in asset values are recognised in the Revaluation Reserve within Taxpayers' Equity. Any subsequent revaluations of the asset are matched off against the amount of the revaluation reserve relating to the asset. However if the devaluation exceeds the amount in the Revaluation Reserve relating to this asset, an impairment results; see Note 1.4.

When the Agency disposes of revalued property, plant and equipment, any remaining amount attributable to the asset held in the Revaluation Reserve is transferred to the General Fund.

Depreciation

Property, plant and equipment is depreciated 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 assets' residual values, useful lives and method of depreciation are reviewed at each financial reporting year end, and adjusted if appropriate.

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

Where appropriate, individual assets falling below the minimum value for capitalisation are grouped and thus capitalised. Individual assets above the recognition threshold are also grouped, usually at the time of purchase, and within asset classes where the estimated useful lives are the same. Intangible assets are also grouped on a similar basis (see 1.3 below).

The Shrewsbury office is recorded as a non-fully depreciated asset, being accounted for as a service concession under IFRIC 12 and is held under a PFI contract (see Note 1.10 below). This building is depreciated over the shorter of its estimated useful economic life or the remaining lease term. The lease term and estimated useful life of the Shrewsbury office is set out in the table below. The estimated useful life was revised at its last revaluation to 12 years.

Office	Lease Term at inception (remaining at 31 March 2015)	Estimated useful life at 31 March 2015
Shrewsbury	20 years (6 years)	12 years

1.3 Intangible assets

Intangible assets consist of developed software and software assets under construction. Intangible assets under construction are only recognised if:

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

On initial recognition, the Agency values intangible assets at the directly attributable costs incurred to bring them into use. In subsequent periods, the Agency accounts for developed software on a fair value basis using modified historical cost. This involves applying a revaluation index, using appropriate indices from the Office for National Statistics (please see Note 1.15). Indices are applied annually on 31 March if there is any material change in the carrying values of the assets. The treatment of changes in valuation is the same as that used for property, plant and equipment (see Note 1.2 above).

Amortisation

Intangible assets are amortised 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 table below.

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

Intangible assets' residual values, useful lives and methods of amortisation are reviewed at each financial reporting year end, and adjusted if appropriate.

1.4 Impairment of non-financial assets

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

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

1.5 Financial assets

A financial asset is recognised when the Agency 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 Agency recognises the financial asset when our revenue recognition criteria are met (set out in Note 1.12). A financial asset is removed from the Statement of Financial Position when there is no longer a contractual right to the asset, or when the asset is transferred to another party.

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

Allowance for doubtful debts is regularly reviewed. Invoices which are more than six months overdue are provided for unless they are covered by credit balances. Allowance for work in progress is also reviewed. Cases which are older than six months, or where a future loss is forecast, are provided for.

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

1.6 Work in progress

Work in progress is classed as a financial asset. It is valued at amortised cost. It represents income recognised due to progress on work that is not yet complete (see Note 1.12). The cost is calculated using records of time spent on the work and our hourly charge rate which reflects the estimated full cost of the service, as required by 'Managing Public Money'. Work in progress is measured net of provisions for foreseeable losses on current contracts and for irrecoverable amounts (see Note 10).

1.7 Cash and cash equivalents

Cash and cash equivalents represent cash balances held in the Government Banking Service.

1.8 Liabilities

A financial liability is recognised 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 business. In these cases the financial liability is recognised when, and to the extent that, the goods or services are provided. A financial liability is removed from the Statement of Financial Position when it is extinguished, i.e. when the obligation in the contract is paid, is cancelled or expires.

Financial liabilities consist of trade payables and accruals. On recognition they are measured at fair value.

Other liabilities consist of PFI-related liabilities, provisions and statutory liabilities, as well as any trade payables, accruals or deferred income that are not financial liabilities. On initial recognition they are measured at fair value. Subsequently, accruals and trade payables are measured at amortised cost and deferred income is measured at cost. The treatment of PFI-related liabilities is described in Note 1.10.

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

Provisions for liabilities and charges are made 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 Agency discloses them as contingent liabilities in Note 20.

1.9 Employee benefits

Pensions

The Agency operates two different pension arrangements.

a) Civil Service pension schemes

Principal Civil Service Pension Scheme (PCSPS)
The majority of past and a large number of present permanent staff members are part of the PCSPS.

The Civil Servants and Others Pension Scheme (alpha)

From 1 April 2015, a new pension scheme for civil servants was introduced - alpha. From that date, all newly-appointed civil servants and the majority of those already in service joined **alpha**. This scheme provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher).

The PCSPS and alpha schemes are accounted for as a defined contribution scheme despite being defined benefit schemes. Owing to the largely unfunded, multi-employer nature of the schemes, it is not possible to identify the assets and liabilities associated with any one employer. Actual contributions to the scheme are used as the basis for the charge to the Statement of Comprehensive Net Expenditure. The Agency does not recognise any PCSPS or alpha assets or liabilities.

Pension scheme members who first joined the Civil Service pension's arrangements by 30 July 2007 have their benefits calculated as a fraction of their final salary. Members first joining the arrangements after this date are entitled to benefits based on career average salary.

b) Local Government Pension Scheme (LGPS)

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

The Statement of Financial Position includes an LGPS liability, which is the present value of the defined benefit obligation to staff minus the fair value of the scheme assets attributable to the VOA.

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

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

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

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

Annual leave

Employee entitlements to untaken annual leave are recognised when they accrue. The estimated liability for leave earned but not taken by employees at 31 March each year is accrued.

Early departure costs

Costs of early departures are recognised when the Agency is committed to the departure. They are disclosed in the Remuneration and Staff Report. 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.

1.10 Private Finance Initiative (PFI) transactions

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

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

'On-balance sheet' means that an asset and corresponding liability appear in our Statement of Financial Position. This year the Agency had one 'on-balance sheet' PFI asset (Shrewsbury office) that meets this criteria. The in-year services received under the contract are recorded as operating expenses. Off-balance sheet PFI-procured assets continue to be treated as operating leases, and assets and liabilities are not recognised in respect of them. The land elements of all leases are treated as operating leases.

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

- repayment of the principal element of the imputed financing arrangement;

- interest charged on the imputed principal outstanding; and
- the remaining expenditure for services associated with the buildings.

The first element is treated as repayment of financing and used to write down the PFI liability in the Statement of Financial Position. The final two elements are charged to the Statement of Comprehensive Net Expenditure.

Details of the Agency's PFI arrangements can be found in Note 19.

1.11 Leases

The Agency's non-PFI leases are all operating leases (i.e. the risks and rewards of ownership remain with the lessor). Rentals paid by the Agency 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. Future obligations for the lease rentals for the period ended 31 March 2016 are disclosed in Note 18.

1.12 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 Agency recognises revenue when:

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

Charges for statutory and non-statutory work are set in order to recover the full cost of services from clients. Revenue is recognised as the costs of providing services are incurred.

For most statutory work, the service level agreements with the Agency's customers are for year-long periods matching the Agency's reporting years. Revenue is recognised for an agreement in the year to which the agreement pertains.

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

1.13 Value Added Tax

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

1.14 Civil penalties

Civil penalties are levied for the failure to submit Forms of Return deemed essential for the assessment of rateable values. The receipt of these penalties is not accounted for in the Statement of Comprehensive Net Expenditure, as the Agency 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.

1.15 Critical accounting judgements and key sources of estimation uncertainty

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

- **Provisions for legal claims and early departures (Note 14)**

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

Regarding early departures, there is not normally any doubt that the liability exists, but it is necessary to estimate the future cash flows based on quotes from the Agency's pensions administrator. Cash flows are also subject to a discount factor. The Treasury pension discount rate is applied, currently 1.37%. In certain cases there may be doubt as to whether past events create an obligation on us to pay early departure costs. The Agency considers the status of its plans, announcements to staff and other factors, and judgement is used to determine whether the Agency has an obligation.

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

The amount of work in progress that will not be recovered is estimated by referring to historical trends. These trends indicate that balances relating to cases that have not been worked on for more than six months are unlikely to be billed and recovered.

Similarly, an estimate is made for foreseeable losses on fixed term contracts by considering past performance on such contracts.

- **Treatment of the STEPS and Capgemini & Fujitsu (formerly ASPIRE) contracts (Note 19)**

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

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

The principal judgements of the Capgemini & Fujitsu contracts are that the contracts do not give the Agency the use of particular assets and they do not give any continuing right to use any assets throughout and beyond the contract periods. The contracts are therefore not accounted for on-balance sheet.

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

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

Assumptions are determined annually with the advice of the scheme actuary. Financial assumptions are made on the basis of market conditions at the reporting date. The post-retirement mortality assumptions have been based on Club Vita analysis.

The net liability is particularly sensitive to variations in the discount rate and in mortality. An increase in the discount rate assumption by 0.1% would reduce the net liability by £2.5m. A one year increase in the mortality age would increase the net liability by £5.0m.

- **Revaluation of assets using indices (Note 7)**

Indexation is applied to developed software on a basis consistent with the approach followed by HMRC. Software has been indexed using the K5EX (Employment & Earnings – Average Weekly Earnings – Information & Communication) which is published on the Office for National Statistics website at: http://www.statistics.gov.uk/statbase/tsdtimezone.asp. The average of the monthly index across 2015-16 has been used.

- **Measurement of the employee leave accrual (Note 12)**

The Agency uses an employee-by-employee breakdown of the actual leave balance and salary to calculate its liability for employee leave. The principal uncertainty is in respect of when the untaken leave balance will be used. In the absence of information on the timing of staff members' future use of their leave, the Agency neither discounts the liability nor includes any forecast of future salary increases.

2. Operating segments for the year ended 31 March 2016

The Agency discloses performance results for the areas of its activities where fees and charges are made in line with the Government Financial Reporting Manual requirements. In accordance with IFRS 8, the Agency has identified four key factors to distinguish our reportable operating segments. These are that:

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

The chief operating decision maker is the Agency's Board. The segmental information below is based on the information presented to the Board. The Board reviews financial information based on four reportable segments:

Non-Domestic Rating and Council Tax
Compilation and maintenance of the non-domestic rating and council tax lists that support the collection of council tax and non-domestic rates.

The major client for this service is the Department for Communities and Local Government (DCLG), which contributes £159.7m (2014-15: £142m), or 94%, of the segment's income. DCLG is also a major customer of other segments, as described below, contributing overall £164.4m (2014-15: £146m), or 79%, of our total income.

Statutory Valuations Team
Delivery of valuation advice for national taxes, principally Inheritance Tax and Capital Gains Tax to HMRC; for the operation of Right To Buy and Community Infrastructure Levy provisions for DCLG £2.2m (2014-15: £1.5m) and for the assessment of entitlements to benefits from the Department for Work & Pensions (DWP).

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

Local Housing Allowances and Fair Rents
Rent assessment services are used for assessing Housing Benefit claims and for determining Fair Rents in accordance with the Rent Act 1977. The segment's principal client is the DWP, but additional work is carried out for DCLG, contributing £2.4m (2014-15: £2.4m).

Corporate Services costs are distributed across all four operating segments.

	Non-Domestic Rating and Council Tax	Statutory Valuations Team	Property Services	Local Housing Allowances and Fair Rents	Total
2015-16	£'000	£'000	£'000	£'000	£'000
Income from fees and charges	169,427	11,795	15,121	11,530	**207,873**
Full cost of providing services	169,273	11,168	15,323	11,684	**207,448**
Surplus	154	627	(202)	(154)	**425**

The operating surplus of £0.425m excludes non-cash LGPS pension costs of £1.943m. These costs are fully financed by HMRC rather than being recovered from the Agency's clients, in accordance with HM Treasury requirements. In 2014-15 these costs were offset by income but in 2015-16 no related income is recognised in the financial statements.

	Non-Domestic Rating and Council Tax	Statutory Valuations Team	Property Services	Local Housing Allowances and Fair Rents	Total
2014-15	£'000	£'000	£'000	£'000	£'000
Income from fees and charges	150,896	11,220	15,999	15,040	**193,155**
Full cost of providing services	150,435	10,742	15,657	14,931	**191,765**
Surplus	461	478	342	109	**1,390**

3. Staff Costs

Total staff costs of £150.83m consist of the following:

(a) Staff Costs

Staff costs comprise :

	2015-16			2014-15		
	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	109,393	6,997	116,390	104,548	3484	108,032
Social security costs	8,333	124	8,457	8,094	56	8,150
Other pension costs	23,140	555	23,695	22,194	177	22,371
	140,866	7,676	**148,542**	134,836	3,717	**138,553**
Less recoveries in respect of outward secondments	(112)	-	(112)	(127)	-	(127)
Total staff costs	140,754	7,676	**148,430**	134,709	3,717	**138,426**

(b) Early departure costs

	2015-16	2014-15
	£'000	£'000
Additional provisions made	1,022	226
Costs during the year	1,517	374
Unwinding of one year's discount	6	13
Change in the discount rate	(1)	8
Unused amounts reversed	(144)	(79)
Total in-year costs	**2,400**	**542**

A further breakdown of these costs, as well as details on pensions and exit packages, can be found in the Remuneration and Staff Report.

Details of the opening and closing balances of the provision for early retirement and pension obligations can be found in Note 14.

4. Non-staff costs for the year ended 31 March 2016

	Note	2015-16 £'000	2014-15 £'000
Accommodation costs			
PFI finance charges	19	37	40
Movement on restructuring provision		(12)	138
Accommodation excluding non-domestic rates		12,398	12,637
Accommodation - non-domestic rates		2,877	2,843
		15,300	15,658
Running costs			
HM Revenue & Customs service charges		1,984	3,470
IT service charges	19	13,271	8,272
Other computing costs		2,362	2,088
Management and IT consultancy		-	16
Telephone charges		2,777	1,448
Travel and subsistence		5,516	4,890
External training		1,310	760
Printing, stationery and distribution		442	531
Subscriptions		527	877
Postage and couriers		1,900	1,351
Rentals under operating leases		105	113
Legal claims and services (excluding movement in provisions)		(175)	868
Contracted-out services		659	974
Losses and special payments		70	63
Sundry costs		2,062	1,377
		32,810	27,098
Non-cash costs			
Legal claims and compensation (movement in provisions)		88	332
Auditors' notional remuneration		72	73
Net loss on disposal of non-current assets		542	752
Increase in provision for doubtful debt		759	48
Impairment of non-current assets	8	58	541
		1,519	1,746
Other operating costs		**49,629**	**44,502**
Depreciation and amortisation			
Depreciation of property, plant and equipment	6	3,084	3,063
Amortisation of intangible assets	7	5,848	5,232
		8,932	**8,295**
Total non-staff programme costs		**58,561**	**52,797**

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

5. Operating Income for the year ended 31 March 2016

	2015-16	2014-15
	£'000	£'000
Non-Domestic Rating and Council Tax	169,427	150,896
Statutory Valuations Team	11,795	11,220
Property Services	15,121	15,999
Local Housing Allowances and Fair Rents (former Rent Service)	11,530	15,040
	207,873	**193,155**

The Agency must disclose performance results for the areas of its activities where fees and charges are made (see Note 2) in accordance with Chapter 6 of 'Managing Public Money' (http://www.hm-treasury.gov.uk/psr_mpm_index.htm). Where the Agency charges for access to its information, it complies with Treasury and National Archives guidance.

6. Property, plant and equipment

	Buildings	Accommodation refurbishments	Assets under construction	Information technology hardware and telecommunications equipment	Furniture, fittings and office equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:						
At 1 April 2015	1,867	10,986	1,571	11,263	5,197	**30,884**
Additions	-	-	2,867	-	-	**2,867**
Disposals	-	(1,365)	(2)	(252)	(631)	**(2,250)**
Reclassifications	-	1,743	(3,601)	2,542	754	**1,438**
Revaluations	-	-	-	-	-	**-**
At 31 March 2016	**1,867**	**11,364**	**835**	**13,553**	**5,320**	**32,939**
Depreciation:						
At 1 April 2015	1,363	8,963	-	7, 993	2,667	**20,986**
Charged in the year	84	1,283	-	1,261	456	**3,084**
Disposals	-	(1,365)	-	(251)	(376)	**(1,992)**
Revaluations	-	-	-	-	-	**-**
At 31 March 2016	**1,447**	**8,881**	**-**	**9,003**	**2,747**	**22,078**
Net Book Value:						
At 31 March 2016	**420**	**2,483**	**835**	**4,550**	**2,573**	**10,861**
At 31 March 2015	**504**	**2,023**	**1,571**	**3,270**	**2,530**	**9,898**

The Agency's buildings are PFI financed. All other property, plant and equipment are owned, and no donated assets were held during the year (2014-15: nil). The Agency's buildings were valued by Property Services, a unit of the VOA, on 31 March 2015. The revaluation related to the Shrewsbury office which is held in the Agency's Statement of Financial Position as the only remaining service concession asset under IFRIC 12. No revaluation of buildings took place during 2015-16.

There is no material difference between the gross value of buildings disclosed above and open market value. The Agency's accounting policy for revaluation is described in Note 1.2.

	Buildings	Accommodation refurbishments	Assets under construction	Information technology hardware and telecommunications equipment	Furniture, fittings and office equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation:						
At 1 April 2014	570	9,439	1,918	9,925	4,713	**26,565**
Additions	-	-	3,986	-	-	**3,986**
Disposals	-	(60)	-	(588)	(316)	**(964)**
Reclassifications	-	1,607	(4,333)	1,926	800	**-**
Revaluations	1,297	-	-	-	-	**1,297**
At 31 March 2015	**1,867**	**10,986**	**1,571**	**11,263**	**5,197**	**30,884**
Depreciation:						
At 1 April 2014	371	7,809	-	7,210	2,411	**17,801**
Charged in the year	84	1,211	-	1,354	414	**3,063**
Disposals	-	(57)	-	(571)	(158)	**(786)**
Revaluations	908	-	-	-	-	**908**
At 31 March 2015	**1,363**	**8,963**	**-**	**7,993**	**2,667**	**20,986**
Net Book Value:						
At 31 March 2015	**504**	**2,023**	**1,571**	**3,270**	**2,530**	**9,898**
At 31 March 2014	**200**	**1,630**	**1,918**	**2,715**	**2,302**	**8,765**

7. Intangible assets

	Developed Software	Assets Under Construction	Total
	£'000	£'000	£'000
Cost or valuation:			
At 1 April 2015	49,045	3,329	**52,374**
Additions	-	4,706	**4,706**
Disposals	-	(284)	**(284)**
Impairments	(58)	-	**(58)**
Reclassifications	2,050	(3,488)	**(1,438)**
Revaluations	824	-	**824**
At 31 March 2016	**51,861**	**4,263**	**56,124**
Amortisation:			
At 1 April 2015	34,214	-	**34,214**
Charged in the year	5,848	-	**5,848**
Revaluations	480	-	**480**
At 31 March 2016	**40,542**	-	**40,542**
Net Book Value:			
At 31 March 2016	**11,319**	**4,263**	**15,582**
At 31 March 2015	**14,831**	**3,329**	**18,160**

The Developed Software assets above are held at revalued amounts. If they had been held at historic cost their carrying value would have been £10.663m (2014-15: £13.808m).

	Developed Software	Assets Under Construction	Total
	£'000	£'000	£'000
Cost or valuation:			
At 1 April 2014	45,234	4,065	**49,299**
Additions	-	3,887	**3,887**
Disposals	(134)	(545)	**(679)**
Impairments	*(1,169)	-	**(1,169)**
Reclassifications	4,078	(4,078)	**-**
Revaluations	1,036	-	**1,036**
At 31 March 2015	49,045	3,329	**52,374**
Amortisation:			
At 1 April 2014	29,118	-	**29,118**
Charged in the year	5,232	-	**5,232**
Disposals	(107)	-	**(107)**
Reclassifications	*(628)	-	**(628)**
Revaluations	599	-	**599**
At 31 March 2015	**34,214**	-	**34,214**
Net Book Value:			
At 31 March 2015	**14,831**	**3,329**	**18,160**
At 31 March 2014	**16,116**	**4,065**	**20,181**

*Net impairments of £0.541m in 2014-15.

8. Impairments

	Note	Impairment charged to operating costs
		£'000
Intangible assets	4	58
Impairment charged for the year ended 31 March 2016		**58**
Impairment charged for the year ended 31 March 2015		**541**

Impairments in 2014-15 of £0.541m affected NDR appeal software within our intangible assets. The impairment was made following a decision by government to fold the reform of NDR appeals into a broader review of business rates administration.

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

	31 March 2016	31 March 2015
Trade receivables and other current assets:	£'000	£'000
Trade receivables	9,575	6,013
Other receivables	209	222
Allowance for doubtful debt	(1,103)	(344)
Prepayments	1,898	1,489
	10,579	**7,380**
Non-current financial assets:		
Other receivables	-	-
Total	**10,579**	**7,380**

10. Work in progress

	31 March 2016	31 March 2015
	£'000	£'000
Opening balance	2,341	2,247
Written-off	(15)	(22)
Movement in work in progress	(278)	2
Movement in provision for foreseeable losses and irrecoverable amounts	(95)	114
Closing balance	**1,953**	**2,341**

11. Cash and cash equivalents

	31 March 2016	31 March 2015
	£'000	£'000
Balance at 1 April	17,949	15,744
Net change in cash and cash equivalent balances	1,536	2,205
Balance at 31 March	**19,485**	**17,949**
The following balances as at 31 March were held at:		
Government Banking Service	19,485	17,949
Balance at 31 March	**19,485**	**17,949**

The cash balance disclosed above includes £0.286m (2014-15: £0.264m) of civil penalties which have been collected on behalf of the Consolidated Fund (see Note 1.15). The Agency has no claim on these receipts and will pay them into the Consolidated Fund.

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

	31 March 2016	31 March 2015
Current financial and other liabilities:	£'000	£'000
Trade payables	197	887
Accruals and deferred income	12,561	9,122
VAT	217	1,063
Current liability in respect of on-balance sheet PFI assets	18	14
	12,993	**11,086**
Employee leave accrual	9,048	9,059
Amounts payable to the Consolidated Fund	286	264
	22,327	**20,409**
Non-current financial and other liabilities:		
Non-current liability in respect of on-balance sheet PFI assets	125	143
	125	**143**
Total	**22,452**	**20,552**

13. Financial instruments

As the cash requirements of the Agency are largely met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements. The Agency is therefore exposed to little credit or market risk. Nor does it face a liquidity risk, as its operations are financed by the Exchequer.

14. Provisions

(a) Movements in provisions	Early departure and additional pension commitments	Provision for legal claims and compensation	Provision for accommodation costs	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2015	**1,055**	**583**	**138**	**1,776**
Increase in provision	1,022	228	-	1,250
Provisions not required written back	(144)	(140)	(12)	(296)
Provisions utilised in the year	(471)	(499)	(40)	(1,010)
Change in the discount rate	(1)	-	-	(1)
Unwinding of discount	6	-	-	6
Balance at 31 March 2016	**1,467**	**172**	**86**	**1,725**
Short term (under 1 year)	1,247	172	86	1,505
Long term (over 1 year)	220	0	0	220
	1,467	**172**	**86**	**1,725**

Provisions for early departure and additional pension commitments

The detailed accounting policy for early departure costs is set out in Note 1.9, the costs are expected to fall due as shown below in Note 14b, and the total in-year costs are detailed in the Remuneration Report.

Provisions for legal claims and compensation

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

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

(b) Expected payment profile of early departure and additional pension commitments	31 March 2016	31 March 2015
	£'000	£'000
Early retirement and pension commitments fall due:		
Within one year	1,247	573
Between one and two years	128	279
Between two and five years	90	198
After five years	2	5
	1,467	**1,055**

15. Consolidated Fund income and amounts payable to the Consolidated Fund

	31 March 2016	31 March 2015
	£'000	£'000
Operating receipts payable to the Consolidated Fund	-	-
Civil Penalties receipts on behalf of the Consolidated Fund	286	264
Total Payable to the Consolidated Fund	**286**	**264**

The Agency holds sums payable to the Consolidated Fund in respect of civil penalties. Valuation Officers impose civil penalties for failure to submit Forms of Return deemed essential for assessment of rateable value. These penalties are collected by the Agency as an agent of the Consolidated Fund and the Agency has no claim on the amounts received (see Note 1.15).

16. Pension benefit obligations

Introduction

The Agency merged with The Rent Service on 1 April 2009, taking on employees who are members of the Local Government Pension Scheme. The fund is administered by the 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 while working for the Agency. The Local Government Scheme is accounted for as a defined benefit scheme. The Annual Report and Accounts of the LPFA can be found on their website, www.lpfa.org.uk.

The accounting entries in respect of the year ended 31 March 2016 have been made using information supplied by the scheme actuary, Barnett Waddingham LLP. The actuary prepared this information by rolling forward the value of the employer's liabilities calculated at the last formal valuation, performed as at 31 March 2013, and completed in March 2014. The actuary allows for the different financial assumptions required by IAS 19. To calculate the asset share, the actuary has rolled forward our share of the scheme's assets at the last formal valuation, allowing for investment returns and the effect of payments in and out of the fund. Service costs have been estimated using contribution information supplied to the actuary.

The actuarial gain on the pension fund of £7.9m has resulted in the pension fund liability reducing from £8.7m in 2014-15 to £7.8m in 2015-16. The actuarial gain has occurred because of changes in the financial assumptions used by the actuary to calculate the value of the VOA's portion of the scheme assets and liabilities, including an increase in the discount rate from 3.2% to 3.5%. This was largely offset by a negative return on assets of £5.9m.

In March 2015, the Department for Work and Pensions paid £48m into the scheme to actively manage and reduce the liability. There was no such payment in 2015-16.

In 2015-16, the Agency made contributions at a rate of 18.2% (2014-15: 18.2%) of pensionable salary. The total cash contribution that the Agency expects to make to the LGPS scheme in the year to 31 March 2017 is £0.782m.

Transactions relating to the Local Government Pension Scheme

Recognised as operating costs	2015-16		2014-15	
	£'000	% of pay	£'000	% of pay
Service cost	1,451	30.6%	1,208	25.5%
Net interest on defined liability	265	5.6%	1,629	34.4%
Administrative expenses	227	4.8%	150	3.2%
	1,943	41.0%	**2,987**	63.1%
Actual return on scheme assets	**(1,162)**		**6,621**	

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

Recognised in Statement of Changes in Taxpayers' Equity

	2015-16	2014-15
	£'000	£'000
Return on plan assets in excess of interest	(5,950)	2,290
Actuarial gains and (losses) arising from changes in financial assumptions	7,999	(19,624)
Experience gain/(loss) on defined benefit obligation	(1)	(2)
Actuarial gain/(loss) recognised in Statement of Changes in Taxpayers' Equity	**2,048**	**(17,336)**

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 amount may be volatile from year to year because of sensitivity to the market values of scheme assets at 31 March each year.

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

Assets and liabilities relating to the Local Government Pension Scheme

	31 March 2016	31 March 2015
	£'000	£'000
Fair value of scheme assets	146,496	151,342
Present value of funded liabilities	(154,013)	(159,688)
Net liability	(7,517)	(8,346)
Present value of unfunded obligations	(317)	(333)
Net liability in the Statement of Financial Position	**(7,834)**	**(8,679)**

Reconciliation of fair value of the scheme liabilities

	31 March 2016	31 March 2015
	£'000	£'000
Opening defined benefit obligation at 1 April	160,021	137,666
Service Cost	1,451	1,208
Interest cost	5,053	5,960
Remeasurements (gains)/losses arising from changes in financial assumptions	(7,939)	19,624
Experience loss/(gain) on defined benefit obligation	1	2
Estimated benefits paid	(4,542)	(4,710)
Contributions by scheme participants	302	287
Estimated unfunded benefits paid	(17)	(16)
Closing defined benefit obligation at 31 March	**154,330**	**160,021**

Reconciliation of fair value of the scheme assets

	31 March 2016	31 March 2015
	£'000	£'000
Opening fair value of assets at 1 April	151,342	99,965
Interest on assets	4,788	4,331
Return on assets less interest	(5,950)	2,290
Administration expenses	(227)	(150)
Contributions by the employer including unfunded	782	49,370
Contributions by scheme participants	302	287
Estimated benefits paid plus unfunded net of transfers in	(4,541)	(4,751)
Estimated fair value of scheme assets at 31 March	**146,496**	**151,342**

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

The VOA has a service level agreement with DWP, which has accepted that if the pension scheme liability was to crystallise then it would be liable for these costs. DWP also accepts that if it cannot meet these costs, it will seek additional funding from HM Treasury to address any shortfall.

In line with HM Treasury accounting guidance, DWP cannot fund the VOA for the amounts recognised as operating costs above. These costs totalling £1.943m for 2015-16 are instead fully financed by our sponsor department HMRC.

The VOA is effectively therefore indemnified against this liability.

Sensitivity analysis

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

	£'000	£'000	£'000
Adjustments to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	151,844	154,330	156,858
Projected service cost	1,319	1,347	1,375
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	154,548	154,330	154,112
Projected service cost	1,348	1,347	1,346
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	156,667	154,330	152,030
Projected service cost	1,375	1,347	1,320
Adjustment to mortality age rating assumption	+1 year	None	-1 year
Present value of total obligation	159,319	154,330	149,500
Projected service cost	1,381	1,347	1,313

History of surplus or deficit in the scheme

	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012
	£'000	£'000	£'000	£'000	£'000
Fair value of employer assets	146,496	151,342	99,966	98,655	89,166
Fair value of defined benefit obligations	(154,330)	(160,021)	(137,666)	(131,691)	(117,986)
Net liability arising from defined benefit obligation	**(7,834)**	**(8,679)**	**(37,700)**	**(33,036)**	**(28,820)**

Financial assumptions

	31 March 2016	31 March 2015
	% per year	% per year
RPI increases	3.2%	3.1%
CPI increases	2.3%	2.3%
Salary increases	4.1%	4.1%
Pension increases	2.3%	2.3%
Discount rate	3.5%	3.2%

The discount rate is the annualised yield at the 17 year point on the Merrill Lynch AA rated corporate bond yield curve.

Composition of scheme assets

	31 March 2016		31 March 2015	
	£'000	%	£'000	%
Equities	68,053	46.4%	65,659	43.4%
Target return funds	31,162	21.3%	43,751	28.9%
Alternative assets	28,759	19.6%	24,556	16.2%
Cash	18,522	12.7%	17,376	11.5%
	146,496		**151,342**	

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 2016	31 March 2015
Retiring today:		
Males	22.7	22.6
Females	25.4	25.3
Retiring in 20 years:		
Males	25.1	24.9
Females	27.7	27.6

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

17. Capital commitments

	31 March 2016	31 March 2015
	£'000	£'000
At 31 March the following future capital commitments had been authorised and contracted:		
Property, plant and equipment	145	220
Intangible assets	917	215
	1,062	**435**

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 2016	31 March 2015
	£'000	£'000
Obligations under operating leases comprise:		
Land and buildings		
Not later than one year	4,038	4,349
Later than one year and not later than five years	4,138	5,482
Later than five years	-	-
	8,176	**9,831**
Other		
Not later than one year	91	91
Later than one year and not later than five years	89	168
Later than five years	-	-
	180	**259**

The obligations have reduced during the year as the Agency has vacated a number of properties where the leases or Memorandum of Terms of Occupation have expired. This was in line with the Agency's estates rationalisation strategy.

The Agency has no right to purchase the land and buildings leased under operating leases.

The commitments presented in this note do not include the Agency's commitments with regard to the STEPS PFI contract for accommodation services or the Capgemini & Fujitsu contracts for IT services. These commitments are detailed in Note 19.

19. Commitments under PFI contracts

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

(a) On-balance sheet

The Shrewsbury office is included in the PFI contract with Mapeley Estates Limited and is treated as the Agency's asset in accordance with IFRIC 12. The Agency has control over the services provided, use of the asset and control of its residual interest.

	31 March 2016 £'000	31 March 2015 £'000
Total obligations under on-balance sheet PFI contracts for the following periods comprise:		
Not later than one year	52	52
Later than one year and not later than five years	207	207
Later than five years	-	51
	259	310
Less interest element	(116)	(153)
Liability on Statement of Financial Position (see Note 12)	**143**	**157**

	31 March 2016 £'000	31 March 2015 £'000
Present value of total obligations under on-balance sheet PFI contract for the following periods comprises:		
Not later than one year	18	14
Later than one year and not later than five years	125	101
Later than five years	-	42
Liability on Statement of Financial Position (see Note 12)	**143**	**157**

Upon transfer, a consideration from the PFI provider of £1.5m was received in respect of the transferred assets. The remaining capital value of the assets resulted in a PFI prepayment of £0.921m. This was immediately offset against the opening liability in respect of the relevant properties, rather than being capitalised and amortised over the period of the contract. This prepayment has therefore resulted in reduced interest and capital repayment costs over the life of the contract.

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

The Shrewsbury office is accounted for under IFRIC 12. The Agency has the right to require that a new lease be granted so that it can remain in occupation beyond the end of the STEPS agreement. It is unlikely the Shrewsbury office will remain open, as it has been excluded from the list of properties the VOA intends to retain under the estates rationalisation strategy.

(b) Off-balance sheet

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

	31 March 2016 £'000	31 March 2015 £'000
Total commitments, analysed by period in which they are due:		
Not later than one year	4,466	4,247
Later than one year and not later than five years	829	1,561
Later than five years	-	110
	5,295	**5,918**

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

The STEPS lease payments increase with the Retail Prices Index (RPI). The Agency does not include these future contingent rent amounts in our commitments.

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

In the year to 31 March 2016, the Agency paid £4.967m (2014-15: £6.296m) to the STEPS contractor in respect of off-balance sheet properties and service charges. In addition to the STEPS scheme described above, the Agency 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) Total charge to the Statement of Net Comprehensive Expenditure and future commitments

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

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

was a total of £5.536m (2014-15: £6.348m).

Future commitments in respect of these payments are analysed below:

	31 March 2016 £'000	31 March 2015 £'000
Total commitments, analysed by period in which they are due:		
Not later than one year	4,500	4,284
Later than one year and not later than five years	911	1,667
Later than five years	-	120
	5,411	**6,071**

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

(d) The Capgemini & Fujitsu (formerly ASPIRE) contracts for the provision of IT services and equipment

The IT non-current assets recognised by the Agency's IT partners Capgemini and Fujitsu, and used in delivering the Capgemini & Fujitsu (formerly ASPIRE) contracts, have been capitalised (in HMRC's accounts) as finance leases under IFRIC 12 and are disclosed at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract. It is not possible to separate these assets between the Agency and HMRC, as they are used in common to deliver the service. These joint assets are held by HMRC and are treated as an operating lease by the Agency. While HMRC's consolidated figures report the correct aggregate position, where related amounts are reported separately by HMRC and the Agency these will differ in aggregate to the consolidated position, but the difference will not be material.

During the year to 31 March 2016, the Agency paid £13.271m (2014-15: £8.272m) in service charges in respect of the Capgemini & Fujitsu contracts. The Agency currently plans to incur £7.887m in operating expenditure for Capgemini and Fujitsu services during 2016-17. There is no commitment to expend these funds. The ASPIRE contract was novated to Capgemini & Fujitsu.

20. Contingent liabilities at 31 March 2016

Our contingent liabilities are as follows:

a) The Agency is involved in several legal actions arising from its statutory activities. If the Agency 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 typically under consideration by tribunals ranging from the Valuation Tribunal to the European Court of Justice.

The Agency is confident of success in those cases which are not accounted for within the Agency's provisions. This is often because the Agency has already won in a lower court or because it has received legal advice confirming the strength of its position. The Agency cannot easily assess third party costs in these cases but it is estimated that there is £1.2m (2014-15: £2.4m) of contingent liabilities as at the end of the financial year.

b) The Agency is occasionally liable to compensate staff for dismissal for health-related issues under the PCSPS or alpha. Also on occasion current or former staff may sue us for discrimination or unfair dismissal. At present there are no cases where there is a potential liability (2014-15: £nil).

21. Related Party Transactions for the year ended 31 March 2016

The Valuation Office Agency is an executive agency of HM Revenue and Customs (HMRC). HMRC is a related party and the Agency had a significant number of material transactions with it during the year. Reported income in the year includes £9.038m (2014-15: £9.003m) earned from HMRC and expenditure includes £11.655m (2014-15: £13.036m) invoiced to the Agency by HMRC. Current assets include £5k (2014-15: £27k) of debt due from HMRC and current liabilities include £0.116m (2014-15: £0.124m) due to HMRC. (These figures exclude transfers of tax, national insurance and pension contributions that result from HMRC acting as our payroll provider.)

The Agency is controlled by the UK government and has a significant number of material transactions with other UK government departments. Most of these transactions have been under service level agreements with the Department for Work and Pensions, the Department for Communities and Local Government and the Welsh Government. To 31 March 2016 income was invoiced to these parties under service level agreements as follows:

Department for Work and Pensions	£9.613m	(2014-15: £13.255m)
Department for Communities and Local Government	£164.35m	(2014-15: £145.975m)
Welsh Government	£9.386m	(2014-15: £8.561m)

The Agency had material transactions with pension schemes providing benefits to the Agency's people: the Principal Civil Service Pension Scheme, alpha and the Local Government Pension scheme as administered by the London Pension Fund Authority. These transactions are discussed on page 76 of the Remuneration Report and in Note 16.

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

22. Events after the reporting period

The Accounting Officer authorised these financial statements for issue on 14 July 2016.

The Agency has considered the result of the referendum held on 23 June which was in favour of the UK leaving the European Union and whether the vote has any impact on these financial statements. The Agency has concluded that this is a non-adjusting event. There are no other reportable non-adjusting events after the reporting period.

23. Standards in issue but not yet effective

These accounts have been prepared in accordance with the Treasury's Financial Reporting Manual 2015-16. 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 these accounts. The following standards may affect our accounts when they become effective:

IFRS 9 Financial Instruments	This standard was published on 24 July 2014 and is effective from 1 January 2018. It will apply to these financial statements in place of IAS 39. The Agency does not currently hold assets or liabilities which would be affected by this change and does not anticipate doing so in future.
IFRS 15 Revenue from Contracts with Customers	Effective for years ending on or after 31 December 2017, this new standard issued on 24 May 2014 replaces existing IFRS guidance in a single standard. Although there may be a significant impact for some organisations on how and when they recognise revenue under the new standard, it is not likely to have a major impact on the Agency's revenue recognition. All organisations will however be subject to extensive new disclosure requirements.
IFRS 16 Leases	IFRS 16 Leases, effective from 1 January 2019 (not yet EU adopted). IFRS 16 will provide a single model for all leases that will bring all leases on-balance sheet, unless the lease term is 12 months or less, or the underlying asset has a low value. HM Treasury will review the implications of this amendment nearer to the EU adoption date with a view to including it in the 2018-19 FReM.

Payment of Local Authority Rates

Introduction

The Valuation Office Agency (VOA) is responsible for administering the POLAR scheme for the Foreign & Commonwealth Office (FCO). The Chief Executive Officer of the VOA is the Accounting Officer for POLAR. The POLAR accounts are included within the HMRC consolidated resource accounts and are audited as part of the overall HMRC audit. They do not form part of the VOA accounts and are 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 extraneous services such as the fire service and street lighting. The Beneficial Portion was set at 6% of the overall rates bill in 2015-16.

VOA responsibilities

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

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

Facts and figures

In 2015-16, there were 240 diplomatic missions in the UK covering 387 properties. Of these, all were in England except 19 in Scotland, one in Wales and two in Northern Ireland. Rateable values ranged from less than £500 to £7m. A total of 28 billing authorities are involved in the POLAR scheme, mainly in Greater London. During 2015-16, the POLAR scheme required £70.8m of funding (2014-15: £72.6m). The net Beneficial Portion collected was £3.8m (2014-15: £4.1m). The inherent risk of the POLAR scheme is low, the main areas of uncertainty being, for example, vacation of properties without FCO knowledge and changes in the rateable value of properties due to refurbishments. These issues can sometimes take several years to come to light and can lead to sudden demands for backdated rates or indeed refunds.

Glossary to the Financial Statements

Amortisation – this is the method of spreading the cost of using a non-current intangible asset over its useful life.

Annually managed expenditure (AME) – the Agency is allocated a separate annually managed spending limit called AME, which does not fall within Departmental Expenditure Limits (DELs). Expenditure in AME is generally less predictable and controllable than expenditure in DEL.

CFER – Consolidated Fund Extra Receipts. This is income which the Agency is not entitled to retain and it is passed over to HM Treasury.

Consolidated Fund – the Consolidated Fund is the government's general bank account at the Bank of England. Payments from this account must be authorised in advance by the House of Commons.

Contingent liabilities – contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the VOA's control. An example is legal action where the Agency may need to pay legal costs if it loses the case. These are not disclosed when disclosure could seriously prejudice the outcome of legal claims against the Agency.

Current assets – a current asset is cash and any other entity asset that will be converting to cash within one year from the Agency's reporting date.

Current liabilities – a current liability is an obligation that is due within one year of the Agency's reporting date.

Deferred revenue – this is income in the current year that relates to future accounting periods.

Departmental Expenditure Limits (DEL) – this is the spending budget that is allocated to and spent by government departments and their executive agencies. This amount, and how it is split between government departments, is set at Spending Reviews on a three-yearly basis. It is normally categorised as Capital DEL and Resource DEL. Departmental expenditure includes the running of the services and the everyday cost of resources such as staff. The DEL limit is tightly controlled by HM Treasury. An agency's expenditure is deemed to be DEL unless HM Treasury has specified otherwise.

Depreciation – this is the method of spreading the cost of a non-current tangible asset over its useful life.

Force Majeure – a common clause in contracts that essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties, or an event described by the legal term 'act of god' occurs.

FReM – Financial Reporting Manual. This is the HM Treasury technical accounting guide to the preparation of financial statements for government.

IAS – International Accounting Standard.

IFRIC – the IFRS Interpretations Committee (IFRIC) develops guidance on appropriate accounting treatment of particular issues. They are approved by the International Accounting Standards Board (IASB).

IFRS – International Financial Reporting Standards. Government organisations adopted IFRS from 2009-10 as the basis for preparation of their financial statements, which were previously prepared under UK-based Generally Accepted Accounting Practice (UK GAAP).

Intangible assets – intangible assets are non-physical assets, for example developed computer software and website development costs.

Losses – losses are made up of losses of pay and fruitless payments. Losses of pay include overpayments due to miscalculation, misinterpretation, or missing information; unauthorised issues; and other causes. Fruitless payments are a loss from which a liability ought not to have been incurred, or where the demand for the goods and service in question could have been cancelled in time to avoid liability.

Managing Public Money – this is a HM Treasury publication which gives guidance on how to appropriately handle public funds.

Non-current assets – an asset that is not likely to convert to cash or cash equivalent within one year of the Agency's reporting date.

Non-current liabilities – a liability not due to be paid within one year of the Agency's reporting date.

Payables (formerly known as 'creditors') – payables are amounts recognised as owing by the Agency at the end of the reporting period but payment has not been made.

PFI – Private Finance Initiative (PFI) is a way of creating 'public-private partnerships' (PPPs) by funding public infrastructure projects with private capital.

Provisions for liabilities – provisions are recognised when the VOA has a present legal or constructive obligation as a result of a past event, it is probable that the VOA will be required to settle that obligation and an amount has been reliably estimated.

Receivables (formerly known as 'debtors') – receivables represent all amounts recognised as owing to the Agency at the end of the reporting period. A proportion of the receivable balance relates to revenue that is not yet overdue for payment.

Receivable Days – the average number of days it takes to receive payment. The Agency calculates Receivable Days as, 'total receivables / total revenue x 365 days'.

Resource Accounts – the financial statements which report the cost of running the Agency.

Statement of Cash Flows – a statement that reports the cash flows during the financial year from operating, investing and financing activities.

Statement of Changes in Taxpayers' Equity – a statement which explains the movements in the Agency's net assets between the start and end of a financial year.

Statement of Comprehensive Net Expenditure (SoCNE) – this is the performance statement, the equivalent of the 'Profit and Loss' Account and Statement of Total Recognised Gains and Losses. It reports a summary of the Agency's income and expenditure for the financial year, along with its gains and losses.

Statement of Financial Position – previously known as the Balance Sheet, it provides a snapshot of the assets and liabilities of the Agency as at the end of the reporting period.

Supply Estimates process – this is the means by which a government department and their executive agencies seek funds from Parliament and authority is given for departmental group expenditure each year.

UK GAAP – the generally accepted accounting principles in the UK which are the body of accounting standards and guidance published by the Financial Reporting Council.

Voted expenditure – monies voted to the department by Parliament to cover the department and their agencies' expenditure, following the submission of the Estimate. Parliament votes annually on each government department and their executive agencies' future expenditure requirements.

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