Valuation Office Agency

VALUATION OFFICE AGENCY

ANNUAL REPORT & ACCOUNTS 2018-19

HC 2409

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ANNUAL REPORT & ACCOUNTS 2018-19

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FOREWORD
BY MELISSA TATTON, CHIEF EXECUTIVE

What we do continues to matter. Our business rates and council tax valuations underpin more than £50 billion of taxation, so our work is vital in funding local public services.

Welcome to the Valuation Office Agency's annual report and accounts for 2018-19. It's been a significant year for the agency. We have made good progress in preparing for the next business rates revaluation in 2021, brought forward from 2022. At the same time we have continued to deliver for our customers, meeting the majority of our performance targets for the year.

What we do continues to matter. Our business rates and council tax valuations underpin more than £50 billion of taxation, so our work is vital in funding local public services.

Looking back over 2018-19, one of the achievements I'm most proud of is how colleagues across the agency responded to the challenge of delivering the next revaluation to a compressed timetable – preparing for and starting the valuations that support it. That response has involved flexibility, collaboration, as well as considerable planning, prioritisation and professional expertise.

During the course of last year, we also further developed our check and challenge service which promotes early discussion and exchange of information between the agency and ratepayers so issues can be resolved sooner, reducing the need for formal appeals. By listening to customer feedback, we have added new functionality based on their needs – on time and to expectation.

While there is more work to be done on our business transformation, we have delivered a lot over the last 12-months. We continued to embed new ways of working, which make us more flexible and responsive and mean we are better placed to handle changes in demand for our services.

To enable us to work more effectively, over the last year we have introduced analytical and robotic technology. These innovative tools automate some of our administrative processes, so that we can make the best use of our expert skills in areas where they really make a difference.

We have also focused on making the agency a better place to work, investing in modern workplaces and our IT, and prioritising our people's professional development.

We have increased recruitment onto our graduate and apprenticeship schemes, and currently, we are supporting around a further 190 people to become chartered surveyors.

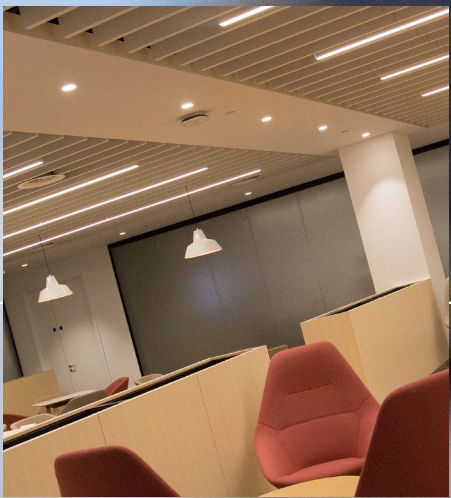
Our task for the year ahead is clear: to continue to transform our business to make it as easy as possible for our customers to engage with us, to provide the data we need to do our job or to check the facts that we hold about their property.

The agency is the organisation it is today because of the professionalism of its people and one thing that won't change is the importance of the work we do. I'm proud to lead the agency and I have every confidence that we can rise to the challenges ahead.

Melissa Tatton

Melissa Tatton, CBE
Chief Executive
11 July 2019

WHO WE ARE AND WHAT WE DO



Who we are

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

Offices in 43

locations throughout England, Wales and Scotland.

3,200 people

approximately employed based on full-time equivalents.

Core purpose

We are the public sector's property valuation experts and advisers, helping people and businesses to pay the right property taxes and receive the right financial support.

Vision

Our customers have confidence in our valuations and advice. We listen to and trust each other. Together we make the VOA a great place to work.

Strategic objectives 2018-2019

Our strategic objectives for 2018-2019 were:

- more trusted
- more expert
- more digital
- more efficient

What we do

The work we do enables the collection of approximately £55 billion[1] of revenue in non-domestic rates (also known as business rates) and council tax in England and Wales, which helps to fund essential public services. We also help determine fair rents and housing allowance received, as well as undertaking property valuation work for a range of public sector clients.

Business rates

We compile and maintain statutory rating lists of the rateable values for over two million non-domestic properties, enabling the collection of approximately £25 billion[1] in business rates by billing authorities throughout England and Wales.

Council tax

We compile and maintain statutory valuation lists of council tax bands for approximately 26 million domestic properties, enabling the collection of approximately £30 billion[1] in council tax throughout England and Wales.

Housing allowances

We determine Local Housing Allowance (LHA) rates and maintain a register of fair rents, setting the maximum that can be charged for regulated tenancies in England.

We advise local authorities of the maximum subsidy level payable for housing benefit claims under the local reference rent system. We also collect and interpret rental data on residential properties, which is used to inform parts of the benefits system and reporting for Consumer Pricing Index including owner occupiers' housing costs (CPIH).

Statutory valuations

We provide statutory valuations to support taxes administered by HMRC. We deal with Right to Buy determinations and Community Infrastructure Levy appeals in England and Wales. We also provide the Department for Work and Pensions (DWP) with valuations to support the administration of benefits.

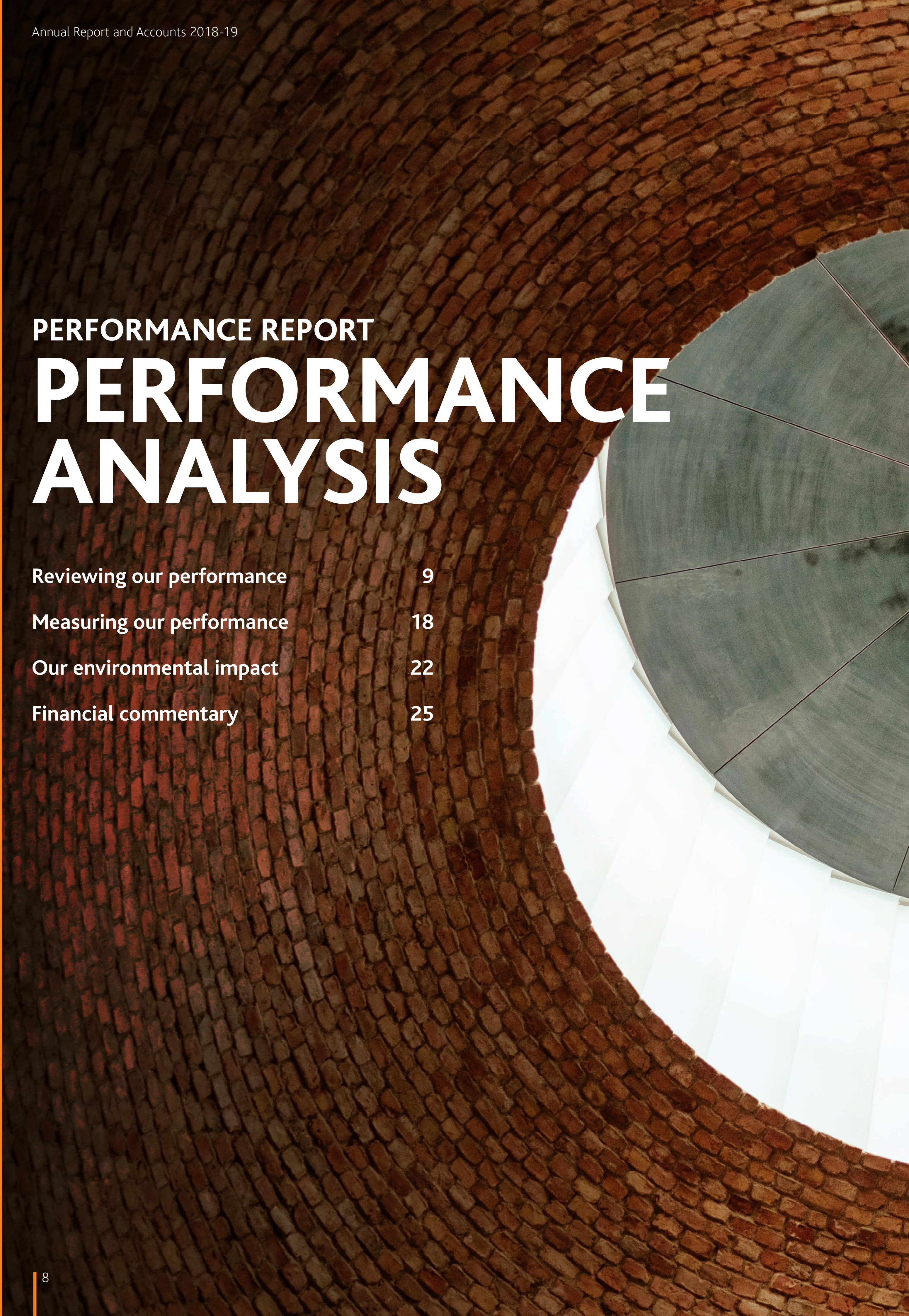
Property services (also known as District Valuer Services)

We provide a range of independent property advice and valuations throughout the public sector, in cases where a public function or public money is involved.

1 Source: Country and regional public sector finances: Financial year ending March 2017 (ONS).

SUMMARY OF KEY RISKS

We identify risks and issues which pose a threat to our performance. We then take effective management action to mitigate these risks and issues to reduce or prevent them affecting the successful delivery of our objectives. More detail on these risks and agreed mitigations can be found on pages 35 to 37.



PERFORMANCE REPORT

PERFORMANCE ANALYSIS

REVIEWING OUR PERFORMANCE

70%
of customer queries were resolved at first contact

162,600
Non-domestic reports investigated in 2018-19

499,900
Council Tax reports, band reviews and proposals investigated

511,900
items of lettings data collected

80%
of DWP cases completed within seven working days

This section sets out how we have performed against the aims and commitments set out in our 2017-19 Business Plan.

Delivery

Business rates

At 31 March 2019 we had 69,000 outstanding appeals against the 2010 rating list. Of these around 53,000 appeals are pending the outcome of litigation in the relevant courts, processing these is outside the control of the agency.

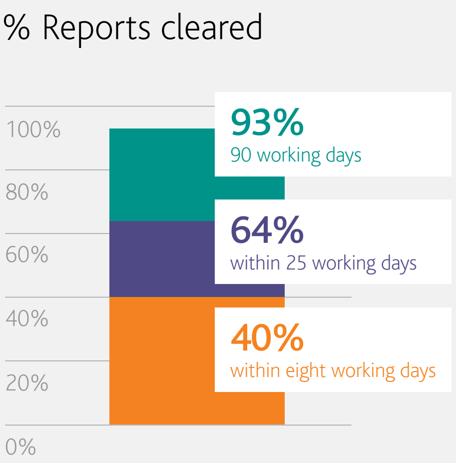
During 2018-19 we raised and investigated 162,600 reports after receiving information about property changes from billing authorities or customers, as part of our work to maintain both the 2010 and 2017 rating lists.

Check and challenge service

As part of the government's reforms to the business rates appeal system we launched our check and challenge service, in England, on 1 April 2017. The system allows businesses to check the facts held about their properties and view their valuation details before deciding whether to challenge.

On 16 May 2019, we published statistics on the number of checks and challenges received for the 2017 rating list (England).

Council Tax timeliness



As at 31 March 2019, we had:

- Registered 82,400 checks. 71,760 of these checks have been resolved
- Registered 12,930 challenges. 4,740 of these challenges were resolved and 1,220 were incomplete and therefore not accepted.

Council tax

We continued to maintain the council tax valuation lists by raising and investigating 499,862 reports, band reviews and proposals after receiving information about property changes from billing authorities or taxpayers.

We cleared 40% of reports within eight working days, 64% within 25 working days and over 93% in 90 working days.

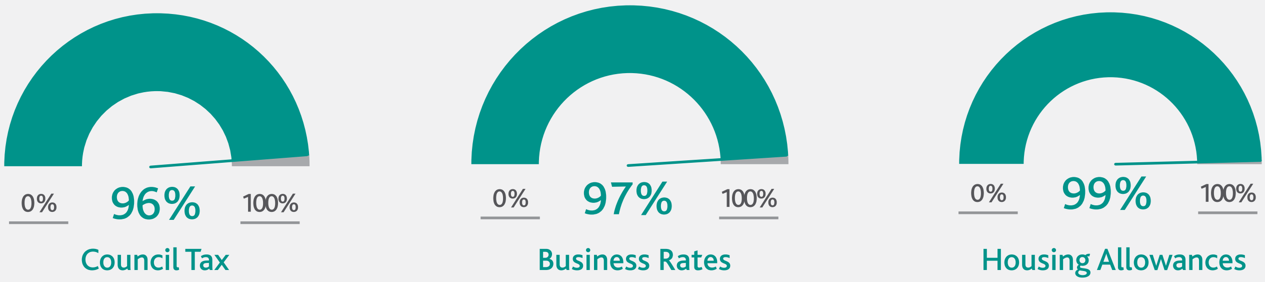
Housing allowances

We collect and interpret rental information for domestic properties for use in the operation of parts of the benefit system. Throughout the year we have determined LHA rates across England and managed a register of fair rents. This register sets the maximum rent that can be charged for a regulated tenancy in England.

The team also continued to gather data about lettings in the private rental sector to support the production of the CPIH measure of consumer inflation. CPIH includes a measure of owner/occupier housing costs based on this data. Our sources for this data included residential letting agents, landlords and bodies representing property owners.

We collected 511,900 items of lettings data, determined over 99% of housing benefit referrals within three working days and 99% of fair rent cases within 40 working days.

Valuation integrity



> Our compliance team undertakes specific valuation integrity checks... ensuring we continue to produce valuations of the highest quality.

Property services

We continued to deliver specialist, independent property advice and valuation services to the wider public sector.

We met all of our contractual commitments to our clients during the year and successfully secured new contracts for public sector projects in England, Scotland and Wales.

Statutory valuations

We provide statutory property advice to public sector clients, including supporting HMRC's work on inheritance tax, capital gains tax and other areas of tax compliance. We also deal with Right to Buy determinations and Community Infrastructure Levy appeals in England and Wales, and provide the Department for Work and Pensions (DWP) with valuations to support the administration of benefits.

We cleared initial appraisals for HMRC within an average of below five working days. We completed 80% of DWP cases within seven working days, providing valuation advice to support the administration of benefits.

Valuation integrity

We assure the quality of our work across the range of our business. Our compliance team undertakes specific valuation integrity checks on a sample of cases, assessing the quality of casework, and ensuring we continue to produce valuations of the highest quality.

Our business rates and council tax teams achieved 97% and 96% valuation integrity respectively. Our housing allowances, statutory valuations and property services teams achieved 99%, 96% and 95% respectively.

Customer service

We have four customer service centres. They are the first point of contact for our customers and deal with all initial telephone queries and correspondence.

This year we resolved 70% of customer queries at the first point of contact.

Where queries cannot be dealt with at the first point of contact, they are allocated to the most appropriate team within the organisation to ensure our customers receive the assistance they require.

We are committed to providing a consistently good service to our customers.

WAYS OF WORKING

13

People and locations

We have developed our estates strategy so that it encompasses both people and locations.

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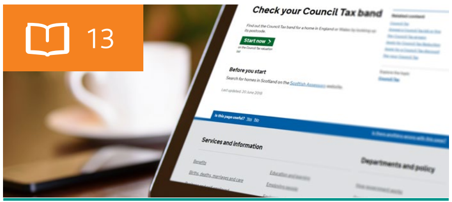
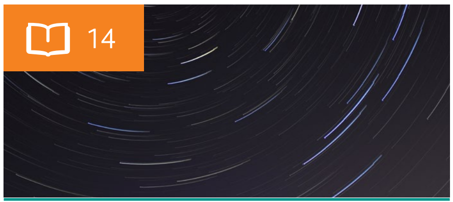


Check and challenge

We recognised that improvements could be made to the digital service.

14



Data

Our customers and stakeholders expect us to gather, share and use data in the right way.

> Our programme remains ambitious. This year we have focused on ensuring we can deliver the Revaluation 2021...

The agency has continued to deliver change aimed at creating a modern and efficient organisation that delivers reliable property valuation services for our customers.

Our programme remains ambitious. This year we have focused on delivering the revaluation of business rates in 2021 (Revaluation 2021) which was brought forward by a year and therefore needs to be completed to a compressed timetable. We have also established improvements to our check and challenge service and have been looking to automate processes to drive through efficiencies.

We have continued to promote better ways of working via our estates strategy and efficiency planning, and continue to invest in our long-term locations. We have also taken the decision to integrate our digital services with HMRC to build our capacity, capability and resilience in delivering digital services for the agency. The integration was completed on 1 April 2019.

> “ / ”
>
> We treat confidentiality seriously, as it underpins the public’s trust and confidence in the work we do.

We completed our move to a new business structure organised around the functional work the agency delivers. Our new structure means we are better able to handle changes in demand, and provides an improved working environment for our people.

People and locations

We developed our strategy in this important area to encompass both people and locations, guiding how we attract, recruit and retain people with the core skills we need for the future, as well as introducing a simplified process to appoint people to particular locations within our estate.

A smaller number of larger locations gives us greater operational effectiveness, better local career pathways and more visible leadership, which is in line with the Government’s strategy for fewer offices in larger hubs.

As an executive agency of HMRC, there are obvious benefits where our objectives align, such as sharing resources and facilities where we have offices in the same city or town. As part of this strategy where we have closed offices we have run voluntary exit schemes for the staff affected. At the same time we have been recruiting into our strategic locations such as Plymouth.

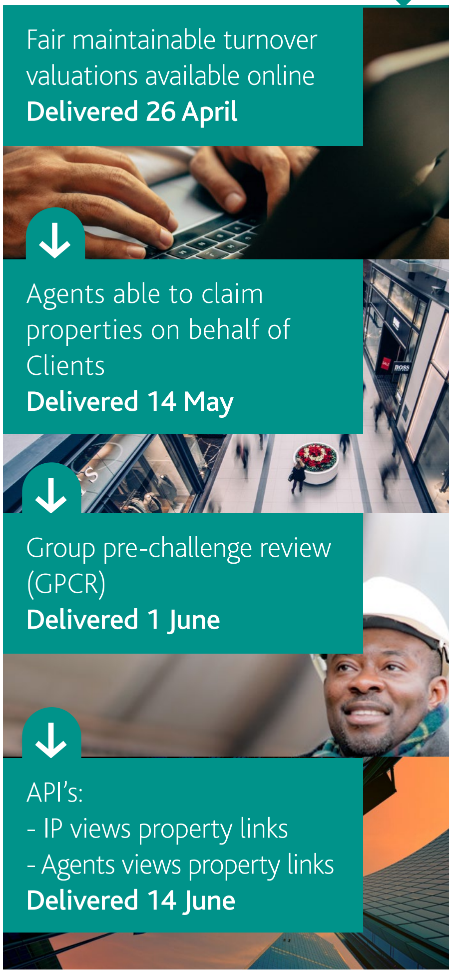
Check and challenge service (CCA)

We recognised that improvements could be made to the digital service and committed to working with stakeholders to prioritise and deliver areas of additional functionality that would make the biggest difference.

We published a road map in May 2018 which set out the digital improvements that we would deliver by January 2019 . They included expanding the property types on the service, new functionality that enables both property linking and the ability for our customers to develop software that communicates directly with our system (API).

CCA delivery plan – FY18/19 all delivered by Jan 2019

Quarter 1



Fair maintainable turnover valuations available online
Delivered 26 April

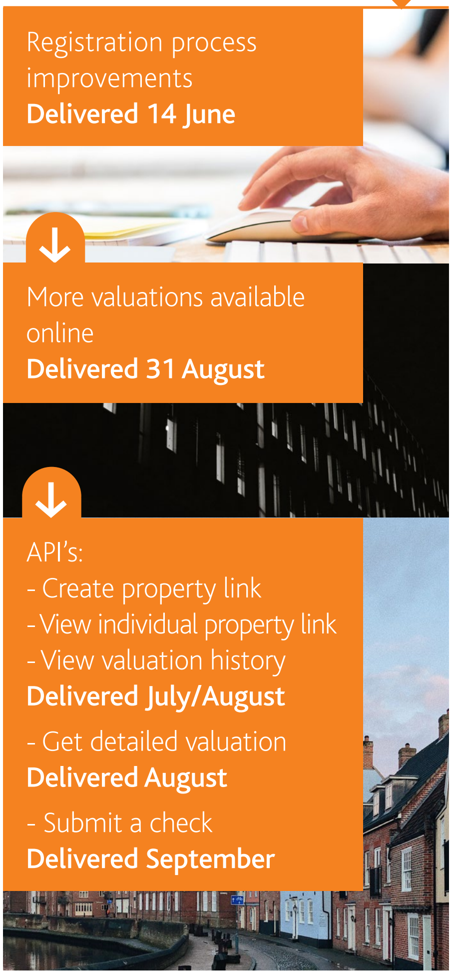
Agents able to claim properties on behalf of Clients
Delivered 14 May

Group pre-challenge review (GPCR)
Delivered 1 June

API's:
- IP views property links
- Agents views property links

Delivered 14 June

Quarter 2



Registration process improvements
Delivered 14 June

More valuations available online
Delivered 31 August

API's:
- Create property link
- View individual property link
- View valuation history

Delivered July/August

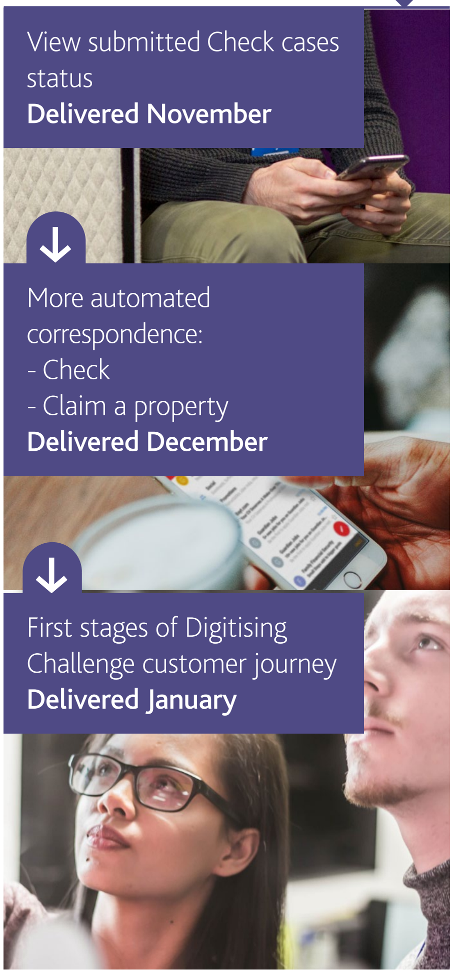
- Get detailed valuation

Delivered August

- Submit a check

Delivered September

Quarter 3



View submitted Check cases status
Delivered November

More automated correspondence:
- Check
- Claim a property

Delivered December

First stages of Digitising Challenge customer journey
Delivered January

Internal System Improvements

Detailed valuation Requests – improving efficiency
Delivered 14 June

Improvements to Property linking screens
Delivered July
Internal system automation for Check cases
Delivered August
More DVRs – improving Efficiency
Delivered June-September

More internal system automation for Check cases
Delivered October
More improvements to Property linking screens
Delivered November
Internal system first stages of automation for Challenge cases
Delivered January

Data and information

Our customers and stakeholders expect us to gather, share and use data in the right way. We treat confidentiality seriously as it underpins the public's trust and confidence in the work we do.

We handle all our data, including customer data, with the utmost care and in accordance with our legal obligations. Over the year, we have continued to work closely with HMRC and other organisations on our cyber and data security controls, including technical defences, response capabilities and ensuring staff awareness of good practice.

We have put training and guidance in place to support our implementation of the new General Data Protection Regulation (GDPR) and will continue with our progress in complying with the regulation.

OUR PEOPLE

90

people have been supported to gain professional qualifications in operational areas

20 people

from the Civil Service Fast Stream programmes employed in a variety of roles

6.25

working days lost to sickness, under the 7 day Civil Service target per person

70

sandwich placements offered to students undertaking surveying degrees

1,500

outdoor workers were issued with GPS monitoring devices for safety

We are committed to delivering our people strategy, which is essential to supporting the important work of our organisation. It is designed to ensure the agency will be resourced in the right places, at the right times by staff with the right skills now and in the future. We are continuing to develop and invest in the skills and competencies of our workforce.

Continued Improvement

We refreshed our role-based learning plans for all our operational delivery roles and created an experiential route to enable our caseworkers to progress to full qualification as chartered surveyors.

Over the past year we have supported more than 90 of our people to gain professional qualifications in operational areas. Our chartered surveyors are required to undertake and record online a minimum of 20 hours continuous professional development (CPD) by the Royal Institution of Chartered Surveyors (RICS). All our surveyors met their CPD requirements in 2018-19.

Improving the strength and resilience of our support functions has continued through specific professional training in the HR, finance and commercial professions.

The agency facilitated a number of internal moves to resource the introduction of the check and challenge service. At the SEO grade we established a rotation policy to rebalance resources between Business Rates, Property Services and the Statutory Valuations team.

In 2018-19, the agency took on 20 people from the Civil Service Fast Stream programmes in a variety of roles. We also welcomed participants on the government's Summer Diversity Internship and Autism Internship programmes.

Our graduate recruitment

This year we focused on building stronger links with universities to support graduate recruitment. We are offering around 70 sandwich placements to students undertaking surveying degrees from a range of universities, with 12 currently in post. We participated in several regional skills fairs to increase awareness of the employment opportunities that we offer. We will continue to develop this area of our work.

Our apprenticeship scheme

We see apprenticeships as a key component in building our future workforce and ensuring that we attract, retain, reward and develop the best talent from right across our society. We support the Civil Service commitment to create 30,000 apprenticeships by 2020.

Currently we have 118 colleagues completing apprenticeships in surveying, leadership and management, operational delivery, business administration, project management, HR and finance, including 54 'Level 6 chartered surveyor' and 36 'Level 3 surveying technician' apprenticeships, with plans to offer a further 25 at Level 6 and 15 at Level 3 from autumn 2019.

Meanwhile, we are expanding our offer to include specialised customer service and policy apprenticeships for the first time, ensuring we offer a variety of relevant schemes covering all business areas.

Health, safety and wellbeing

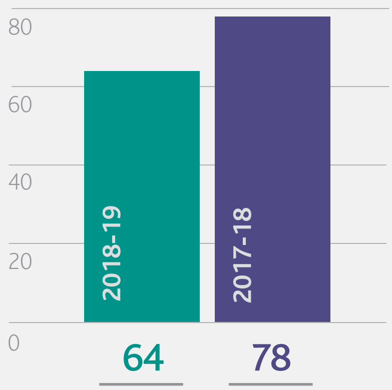
Our sickness absence levels remained stable in 2018-19 with an average of 6.25 working days lost per person as at March 2019, which remains below the Civil Service target of not exceeding seven days per person. We rolled out a confidential support co-ordinators service following a successful pilot, which aligns with the Mental Health First Aider initiative.

In June 2018, we launched a lone worker protection scheme, where we issued our 1,500 outdoor workers with GPS monitoring devices. Our Executive Committee received Health and Safety training in February 2019.

The number of Health and Safety incidents reported in 2018-19 was 64 compared to the 78 recorded in 2017-18. Other than a rise in the number of slips, trips and falls, there were no other significant issues identified. Two incidents were reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR).

Health and Safety

Incident reports



> We have worked closely with the wider Civil Service Diversity and Inclusion team to ensure alignment with the Civil Service D&I Strategy and ambitions.

Diversity and inclusion

We have worked closely with the wider Civil Service Diversity and Inclusion (D&I) team to ensure alignment with the Civil Service D&I Strategy and ambitions. We will be updating our strategy to reflect those key links whilst maintaining the momentum and vision for D&I in the agency.

Over the last year we have concentrated on improving senior representation of people with protected characteristics. We undertook analysis work to understand current position and identify areas in which we can target action for the future. We have already started implementing initiatives such as a refreshed diversity data declaration campaign with an emphasis on senior leader role modelling, a reverse mentoring scheme and a successful shadowing scheme which has had 85 requests from colleagues for shadowing in the six months since it was introduced.

Our 10 diversity groups continue to be pivotal in progressing and embedding the agency's D&I agenda. Over the last 12 months they generated an abundance of insightful communications and have raised the agenda's profile using blogs, focus groups and events. For example, events to raise awareness of mental health problems and another to support workplace adjustments.

We have been working with other government departments to draw on good practice in developing our Customer Equality Policy to put in place reasonable adjustments. This ensures that our services are accessible to the widest possible range of customers. To support this we have recently rolled out our Needs Enhanced Support training to assist our teams in dealing with customers that require extra support.

MEASURING OUR PERFORMANCE

We have designed our approach to performance management with the aim of ensuring that Executive Committee, our Board, our managers and our people all know the extent to which we are meeting our targets in an efficient and effective manner.

At the start of the 2017-18 financial year, we published a two year business plan with a set of performance measures and targets to measure ourselves against. With the announcement to bring forward the next revaluation of business rates to 2021, and then subsequent revaluations moving from every five years to every three, it was clear that meeting these in 2018-19 would be very challenging, as we changed our plans and managed our new and existing priorities. The table below sets out our performance in 2017-18 and 2018-19 against the targets published in the business plan.

Measure	Our 2017-19 Business Plan 2017-18 Targets	Our 2017-18 Performance	Our 2017-19 Business Plan 2018-19 Targets	Our 2018-19 Performance
Volumes				
Council Tax work cleared (England and Wales)	To clear 407,500 reports, band reviews and proposals, and 4,500 appeals.	Cleared 494,800 reports, band reviews and proposals, and 4,500 appeals.	To clear 468,000 reports, band reviews and proposals, and 4,700 appeals.	Cleared 499,900 reports, band reviews and proposals, and 3,500 appeals.
Business Rates work cleared (England and Wales)	To clear 278,000 maintenance reports and 124,500 appeals.	Cleared 458,600 maintenance reports and 151,300 appeals.	To clear 260,000 maintenance reports and 80,000 appeals.	Cleared 162,600 maintenance reports and 76,300 appeals.[2]
Housing allowances – the volumes of lettings data items collected	To collect 480,000 items of lettings data.	Collected 489,500 items of lettings data.	To collect 480,000 items of lettings data.	Collected 511,900 items of lettings data.
Timeliness				
Check and challenge service	To complete or substantially respond to 90% of checks within 3 months of receipt. To complete or substantially respond to 90% of challenges within 12 months of receipt.	90% of check cases completed within 3 months of receipt. 86% of challenge cases resolved within 12 months of receipt.	To complete or substantially respond to 90% of checks within 3 months of receipt. To complete or substantially respond to 90% of challenges within 12 months of receipt.	79% of check cases completed within 3 months of receipt. 81% of Challenge cases resolved within 12 months of receipt.
Council Tax	To clear: • 50% of reports within 8 working days • 75% of reports within 25 working days • 99% of reports within 90 working days	Cleared: • 55% of reports within 8 working days • 81% of reports within 25 working days • Over 99% of reports within 90 working days	To clear: • 50% of reports within 8 working days • 75% of reports within 25 working days • 99% of reports within 90 working days	Cleared: • 40% of reports within 8 working days • 64% of reports within 25 working days • 93% of reports within 90 working days

Measure	Our 2017-19 Business Plan 2017-18 Targets	Our 2017-18 Performance	Our 2017-19 Business Plan 2018-19 Targets	Our 2018-19 Performance
Housing allowances	Where no inspections are required, we will determine 96% of housing benefit referrals within 3 working days.	Where no inspections were required, determined over 99% of housing benefit referrals within 3 working days.	Where no inspections are required, we will determine 96% of housing benefit referrals within 3 working days.	Where no inspections were required, determined over 99% of housing benefit referrals within 3 working days.
Fair rent	We will determine 95% of cases within 40 working days.	Determined 99% of cases within 40 working days.	We will determine 95% of cases within 40 working days.	Determined 99% of cases within 40 working days.
Statutory valuations	To clear all initial appraisals for HMRC within an average of 5 working days. To report 80% of DWP cases within 7 working days.	Cleared all initial appraisals for HMRC within an average of 5 working days. Reported 83% of DWP cases within 7 working days.	To clear all initial appraisals for HMRC within an average of 5 working days. To report 80% of DWP cases within 7 working days.	Cleared all initial appraisals for HMRC within an average of 5 working days. Reported 80% of DWP cases within 7 working days.
Valuation Quality				
Valuation quality – a check on the quality of our valuation, process compliance and timeliness in making a valuation decision	Our housing allowances, statutory valuations and property services business areas will achieve valuation quality of 95% or higher. For our business rates and council tax teams to achieve a valuation quality of 94% or higher.	Our housing allowances, statutory valuations and property services business areas achieved a valuation quality of 99%, 97% and 96% respectively. Our business rates and council tax teams achieved a valuation quality of 95% and 96% respectively.	Our housing allowances, statutory valuations and property services business areas will achieve valuation quality of 95% or higher. For our business rates and council tax teams to achieve a valuation quality of 94% or higher.	Our housing allowances, statutory valuations and property services business areas achieved valuation quality of 99%, 96% and 95% respectively. Our business rates and council tax teams achieved valuation quality of 97% and 96% respectively.
Serving our Customers				
Digital services – proportion of overall agency transactions carried out using our new digital services	For 60% of transactions with us to be through digital channels.	40% of transactions with us were through digital channels.	For 70% of transactions with us to be through digital channels.	46% of transactions with us were through digital channels.
How we deal with customer enquiries	To deal with at least 70% of enquiries to our customer contact points at first point of contact.	We dealt with 64% of our enquiries to our customer contact points at first point of contact.	To deal with at least 75% of enquiries to our customer contact points at first point of contact.	We dealt with 70% enquiries to our customer contact points at first point of contact.

2 Total appeals cleared in 2017-19 were 227,600 against an overall target of 204,500.

Further information

Council tax appeals: While a target of clearing 4,700 appeals was set, we received fewer appeals and these were cleared.

Business rates and council tax: With the next revaluation of business rates brought forward to 2021 it was clear during the year that the business plan targets set in 2017 would be challenging to meet as resources had to be reprioritised onto the Revaluation 2021 and the check and challenge service. On our timeliness targets the lower out-turn was reflective of a change in the way in which we measured these.

Customer enquiries: We saw a considerable reduction in enquiries dealt with by our advisors as a result of appropriately directing customers online, or to their local authority, or by our improved in-queue information and advice. The remaining enquiries can be more complex and require escalation. Overall we saw a 6% performance improvement against a target that was more challenging than the previous year.

Digital services: Although we made improvements to our digital services, we have not met this target, due to processes making up large volumes of transactions not being prioritised for digitisation.

> By listening to our customers and acting on their feedback, we can identify steps to put matters right.

Complaints

We are committed to providing a consistently good service to our customers and most of our customers use our services without any problems. However, we recognise that we do not always get things right and complaints can help us to identify how we can improve. By listening to our customers and acting on their feedback, we can identify steps to put matters right.

In 2018-19 we received a 1,635 complaints. We resolved 1, 569 complaints during the year, of which 25% were fully or partially upheld.

If customers are dissatisfied with our decision, they have the right to seek further independent scrutiny by the Adjudicator's Office and then ultimately they can request an investigation by the Parliamentary Ombudsman.

The Adjudicator provides a fair and unbiased investigation of complaints. In 2018-19 the Adjudicator investigated 26 cases of which one was upheld and two partially upheld. No complaints were referred to the Ombudsman.

OUR ENVIRONMENTAL IMPACT

Less than 0.5%

of waste sent to landfill

19%

reduction in business travel this year

Less than 1%

of our estate is represented by green areas

58%

reduction in our number of domestic flights

78%

reduction in paper usage

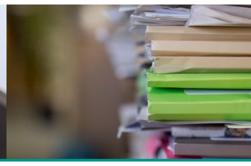
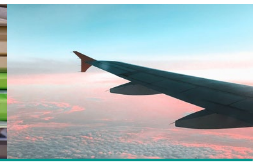
The agency has actively shown commitment to the principles of economic, social and environmental improvement by embedding sustainable development into its activities. During 2018-19 actions taken include:

- Working with suppliers to reduce waste;
- Continuing activities of the sustainability working group in co-ordinating and promoting environmental improvements to reduce our carbon footprint;
- Reducing business travel emissions;
- Making the estate more energy efficient.

Environmental performance

We gauge how sustainable we are through our progress towards the Greening Government commitments. They form the basis of our environmental objectives and targets. Our governance for sustainable development and environmental performance is through the Head of Estates and the Sustainability Manager.



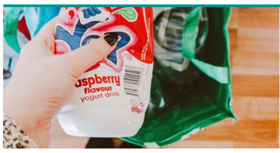



	Greenhouse gas emissions	Reducing waste sent to landfill	Water	Paper	Domestic flights
Target to 2020	To reduce the agency's emissions by 45% (government target 32%)	To send less than 10% of waste to landfill	To continue to reduce water consumption from 2014/15 onwards	To reduce paper usage by 50%	To reduce the number of domestic flights by 30%
Position at 31 March 2019	70% less emissions than in 2009/10	Less than 0.5%	55% reduction in water consumption since 2014/15	78% reduction	58% reduction
Comment on performance against target	Exceeded	Exceeded	Exceeded	Exceeded	Exceeded

Key things we did and are continuing to do

Greenhouse gas emissions

- Continuing to vacate inefficient buildings and move into modern energy and resource efficient premises;
- this year we have achieved a 19% overall reduction in business travel as a result of streamlining our work processes and encouraging people to use technology for meetings.



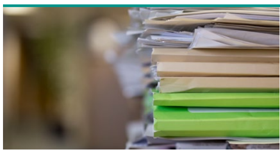
Reducing Waste sent to Landfill

- The majority of our offices have dry mixed recycling facilities;
- we have 100% coverage with shredding and recycling of our paper waste;
- proactively monitoring and encouraging reuse of furniture within our estate;
- choosing suppliers who commit to recycling equipment and furniture at the end of its life.

> As we move into regional centres we will work with HMRC to develop the biodiversity of the sites.

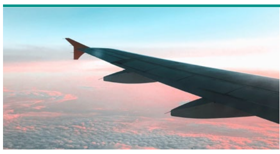
Water

- proactively reminding people to report leaks across the estate;
- comparing usage, identifying anomalies and arranging for remedial action to be completed.



Paper

- Invested in technology such as use of laptops and tablets, actively encouraging our people to cut their reliance on paper;
- significantly reducing the number of operational printers when relocating to regional hubs or modernising our offices.



Domestic flights

- We have refreshed our travel policies actively informing colleagues to make environmentally friendly travel arrangements.

Climate change and biodiversity

A potential climate change impact for the agency is the risk of flooding in our buildings. We mitigated the risk by carrying out an assessment of the likelihood of flooding using information available from the Environment Agency

Our green areas currently represent less than 1% of the estate. As we move into regional centres we will work with HMRC to develop the biodiversity of the sites.

FINANCIAL COMMENTARY

Our financial performance is set out in the accounts attached to this report in pages 71 to 110.

Over the course of the financial year we have been delivering on the Chancellor's commitment to bring forward the next revaluation of business rates by a year to 2021. At the same time we have been delivering our operational services and making improvements to our check and challenge service.

The agency's principal financial objective is to operate within the budget and control totals set by HMRC. It recovers funding for the full costs of delivering objectives for other government departments.

Income

Income for 2018-19 was £42.8 million, plus HMRC vote funding of £143.6m which is accounted for in reserves. The total amount of funding was £9.0 million (4.6%) lower than the previous year.

Managing costs

Total spending for 2018-19 was £192.7 million, including £1.2 million non-cash pension costs. Pay costs, including early departures, were £143.1 million, 74.2% of total costs, representing a 1.1% decrease on the previous year (£144.6 million).

Accommodation costs were £13.1 million, 6.8% of total costs, representing a 4.0% reduction on the previous year (£13.7 million).

IT costs were £14.1 million, 7.3% of total costs, representing an 8.2% increase on the previous year (£13.0 million).

Depreciation and amortisation charges were £7.5 million, 3.9% of total costs, representing a 1.7% decrease on the previous year (£7.6 million).

As part of the government's transparency agenda, we publish financial data on the GOV.UK and data.gov.uk websites.

Controlling cash flow

Cash forecasting is working effectively with a target to pay 80% of valid invoices within five days of receipt of the goods, in line with Department of Business, Energy, Innovation and Skills guidance. This year 98% of invoices were paid within five days.

Investing in our services

We invested £7.4 million in our IT capital assets in 2018-19 to provide infrastructure and equipment to support service delivery. An additional £1.5 million was invested in accommodation to support reducing the agency's footprint.

Financial outlook

We have continued to deliver against our requirements to deliver the revaluation of business rates in 2021 and are on track to do so. The next financial year remains challenging; we have secured additional funding to cover the costs of bringing forward the next revaluation and taken significant steps to ensure that we can continue to deliver our operations whilst remaining within our budgets and control totals. It will however be very challenging to meet our performance targets. We will shortly be publishing a revised one year business plan for 2019-20 setting out our plans for the year.

Adoption of going concern basis

Our accounts are prepared on a going concern basis. There is no reason to believe the agency will not continue in operational existence for the foreseeable future.

Accounts

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

Melissa Tatton

Melissa Tatton, CBE
Chief Executive
11 July 2019

ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

GOVERNANCE STATEMENT

This governance statement sets out the governance, risk management and internal control arrangements for the agency. It applies to the financial year 1 April 2018 to 31 March 2019 and up to the date of approval of the Annual Report and Accounts and accords with HM Treasury guidance.

Executive agency arrangements

The agency is an executive agency of HMRC. The Chief Executive of the agency is a Treasury appointed Accounting Officer and is accountable for safeguarding the public funds for which they have charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the conduct of the agency's day-to-day operations and management of the agency, including making changes to the organisation as are necessary to maintain and improve the performance. The Chief Executive is a HMRC Commissioner and member of HMRC's Executive Committee.

HMRC's Chief Executive, as Principal Accounting Officer for HMRC, is responsible for ensuring that there is a high standard of financial management in HMRC as a whole, including the agency. The Financial Secretary to the Treasury (in their role as departmental Minister for HMRC) has ministerial responsibility for the agency.

Our governance structure

In 2017-18 we undertook a comprehensive review of how the agency's governance operates, and to ensure it aligned to the Corporate Governance Code of Best Practice, delivering the changes for 2018-19. Our new governance structure is summarised in the diagram below. The Executive Committee (ExCom) is the primary decision-making forum for the agency and also reviews performance and transformation. The Board provides challenge and advice on the agency's strategy, capability and performance and is, alongside the Accounting Officer, supported by the Audit and Risk Assurance Committee.

This structure enables the ExCom to undertake effective and transparent decision-making and provides appropriate challenge and assurance by our Non-Executives.

Structure

Executive Committee
Sets strategy and oversees business performance, business delivery and transformation delivery.

Board
Provides challenge and advice on agency strategy, performance and capability

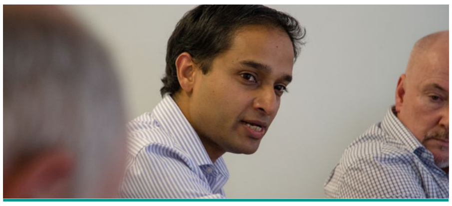
Board sub-committee

Audit and Risk Committee
Provides assurance and scrutiny on control, risk and governance

Board focus in 2018-19

Strategy

- Agency Strategy
- Customer insight and channel shift



Risk management

- Strategic Risk Review
- Risk Appetite

Governance

- Governance Review
- Board Operating Framework

Planning and performance

- Agency performance data and hub
- Business Planning
- Financial Planning
- Service performance

Transformation

- Prioritisation of Transformation Portfolio

People

- People Survey results
- People Strategy

The Board

Roles and responsibilities

During 2018-19, the Board's role was refocused from a decision making to an advisory body. A more streamlined meeting structure and membership was introduced. Membership is now: the Lead Non-Executive, the other Non-Executive Board Members, the Chief Executive, Chief Finance Officer, Chief Strategy Officer and the Chief Valuer. Other senior executives attend as the agendas dictate. The Board is chaired by the lead Non-Executive director, and helps to guide the agency strategically by drawing upon a range of public and private sector expertise.

Over the year the Board met five times and has provided challenge, advice and assurance to the Executive team on strategy, business planning, reviewing performance and transformation progress.

The Board has one sub-committee, the Audit and Risk Assurance Committee. The agency does not have a separate People, Nominations and Governance Committee as those in the Senior Civil Service (SCS) roles are members of HMRC's SCS and HMRC determines their remuneration within SCS pay policy guidelines. Matters relating to the agency's diversity and inclusion strategy, future organisational design, strategic workforce plans and Civil Service People Survey results, are considered by the Board.

Audit and Risk Assurance Committee (ARAC)

The ARAC provides independent assurance to the Board and the Accounting Officer on the integrity of financial statements and comprehensiveness and reliability of assurances across the agency on governance, risk management and the control environment.

The committee is chaired by a Non-Executive director, with one further Non-Executive director and one Non-Executive member. The National Audit Office, HMRC Internal Audit, and agency Chief Executive, Chief Finance Officer and/or Director of Finance and Business Planning also attend each meeting.

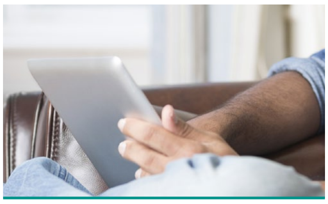
Audit and Risk Committee Focus in 2018-2019

Annual Report and Accounts

- Agency Annual Report and Accounts (AR&A).
- NAO Planning and Completion Reports for the AR&A.
- AR&A Lessons Learned.

Audit and Assurance

- Internal audit – annual opinion.
- Internal audit planning and coverage and management response to issues identified.
- Assurance mapping.



Controls and processes

- Whistleblowing process.
- GDPR compliance.
- Counter fraud.

Risk management

- Risk management framework.
- Risk report.
- Deep dives: Transformation governance, Technology and Valuation Integrity.
- Fraud risk assessment.

Non-Executives

Our Non-Executives bring external experience and expertise to the agency, playing an important role in providing advice, challenge and scrutiny to the work of the ExCom and the organisation's performance more widely. Our Non-Executives also contribute their expertise outside the formal Board and Committee structure, for example working closely with Executives on specific initiatives such as risk management.

Board Effectiveness

As part of the comprehensive review of our governance arrangements in 2017-18, to ensure it better aligned to the Corporate Governance Code of Best Practice, the Board's role was refocused to an advisory function and the structure streamlined so that there is a balance of Non-Executive and Executive Members. The membership was reduced as was the number of meetings (now five from eleven in 2017-18). These changes were implemented following the June 2018 Board meeting. We have also appointed two new Non-Executives who joined early in 2019-20, to replace those who have left.

The Board has continued to regularly review its own effectiveness to identify improvements, by obtaining feedback after every meeting, indicating it is functioning well, is effective and has transitioned well to the changes.

Register of Interests

The agency maintains a register of interests of its Board members to ensure that any potential conflicts of interest can be identified and managed, in line with the Code of Conduct for Board Members of public bodies.

The agency's Board members and members of its sub-committee are required to declare any potential conflicts of interest on appointment and on an annual basis. At the start of each Board meeting members also declare any conflicts of interests in the agenda items for that meeting.

Should potential conflicts of interests be identified, Board and sub-committee members would take no part in any discussion and are not involved in any decisions that relate to that issue. None of the agency's Executive or Non-Executive directors hold any company directorships or other significant interests that might conflict with their responsibilities.

Executive Committee (ExCom)

The Executive Committee is the agency's primary decision-making body. ExCom oversees service delivery and operational performance and is chaired by the Chief Executive. Its membership comprises all of the Executive directors with the Head of Communications as a standing invitee. It is the primary forum in which the Executive Directors make collective decisions.

In 2018-19 ExCom met 27 times to discuss and make decisions on a wide range of strategic, operational and financial issues. Every month ExCom reviews the agency's performance against key performance indicators and other targets and measures, and considers opportunities for improvement. It also reviews the status of, and management actions for, agency risks and issues.

ExCom provides senior governance and oversight for the delivery of the agency's transformation portfolio, which included prioritisation across the agency's portfolio and resolving issues escalated from supporting programme boards. The key programmes of the transformation portfolio are reviewed on a monthly basis.

In 2018-19 ExCom considered financial planning, both in-year management to optimise the use of funding and also longer term financial planning for future years, to ensure the right balance between capacity, capability and risk. Other matters covered this year include: the check and challenge service, our People Strategy, Estates Strategy, more frequent revaluations and the integration of our digital teams into HMRC.

ExCom

In addition, the ExCom has continued to recognise and celebrate agency successes as well as lessons learned.

As part of the wider review of the agency's governance arrangements, a more formal effectiveness review of ExCom was carried out. It was agreed that all of the areas of agency previously covered by ExCom, ExCom (Transformation) and ExCom (Performance) would be brought together and covered by a single ExCom meeting occurring twice a month. This was implemented from July 2018. The committee also regularly reviews its own effectiveness as part of the arrangements for each meeting.

Meeting attendance by executives and non-executives

Non-Executive Directors	Board	ARAC	ExCom
Gurpreet Dehal[3]	2 (2)	-	-
Sue Hall	5 (5)	5 (5)	-
Stephen Hughes	5 (5)	5 (5)	-
Non-Executive Members			
Robert Milburn		5 (5)	-
Executive Directors			
Melissa Tatton	5 (5)	4 (5)	26 (27)
Aneen Blackmore	4 (5)	4 (5)	25 (27)
Tim Bianek	2 (2)		25 (27)
Graham Brammer	2 (2)		21 (27)
Alan Colston[4]	2 (2)		12 (12)
Mary Hardman	3 (3)		10 (17)
Philip Macpherson	2 (2)		21 (27)
Jonathan Russell	1 (2)		20 (27)
Pedro Wrobel	3 (5)		22 (27)

- Note: the figure in brackets indicates the total number of meetings the Non-Executive and Executive members were eligible to attend.
- Please note that from June 2018 the Board membership was reconstituted as detailed earlier in this report. This accounts for the varying numbers of Board meetings that Executives were eligible to attend.

3 Gurpeet Dehal left the agency on 14 June 2018.
4 Following the departure of Mary Hardman on 31 October 2018, Alan Colston provided cover as Acting Chief Valuer for two board meetings and 12 ExCom meetings from 15 October to 31 March 2019.

Effectiveness of risk management

Risk management framework

Risk management operates at all levels in the agency from operational decision making, through to strategic risks reflected in our agency-level risk register.

The ExCom establish the risk management framework and sponsor individual complex strategic risks and issues, reviewing them on a regular basis throughout the year. A flow of risk reporting operates through the agency supported by visual management tools in order to drive effective risk conversations.

A structure of risk forums and registers is embedded in the agency, from individual unit and team level through to agency level. Executive directors are responsible for managing risks within their relevant business area, with risks formally reviewed at group level forums supported by dedicated risk registers.

There is also a network of risk and assurance leads representing each business area in place, which helps develop a consistent approach to risk management across the agency.

The Board provides oversight in ensuring the right accountability, governance and controls are in place to manage risk effectively, setting risk appetite along with completing periodic risk horizon scanning activity. The ARAC provides advice and support on risk controls in addition to completing deep dives on specific risk areas.

Risk capability improvements

We are continuously looking for opportunities to enhance risk management capability across the agency. Specifically, in 2018-19 we have:

- reviewed our risk management framework and refreshed our Risk Appetite Statement, helping build a risk aware culture by integrating risk management into our core service activity
- refreshed the agency's top level risks to ensure that the ExCom are managing those strategic risks that have greatest potential impact on the organisation
- strengthened the linkage between our top level risks, our strategic objectives and appetite categories
- worked closely with HMRC's risk function to ensure our approach to risk management, including building our maturity, is aligned and proportionate.

“ / ”
During the year we have continued to develop our people.

Strategic risk overview

Our strategic risks are enduring, complex and cross-cutting and have the potential to affect the delivery of our objectives. Each of our strategic risks is sponsored by a member of ExCom. The table below describes the risks and the key steps we took to manage them in 2018-19:

Key risk	Key mitigating actions
Funding, affordability and resource capacity: there is a risk that we are unable to deliver planned service and transformation outcomes through to 2023, the longer term impact being impaired ability to deliver future core services.	To manage this risk we are: • working closely with sponsors to secure the required budget settlements. • deploying effective mechanisms to monitor and successfully enable transformation benefits. • developing a strategic workforce plan to help inform individual business planning.
Leadership, capability and motivating our people: there is a risk that ineffective leadership causes disengagement amongst our people, challenging our ability to move towards the agency's future direction and achieve our strategic objectives.	During the year we have continued to develop our people. Ongoing action includes: • issuing regular briefings, created to enable managers to cascade key messages effectively. • motivating and engaging people through the agency's total reward package (including People Awards, bonus scheme and wellbeing strategy). • continuing to build up our leadership communities.
Cyber threats and security: there is a risk that we fail to implement and maintain effective cyber security capability, controls and response.	There has been a wide range of actions to mitigate this risk including: • integrating our security team into HMRC, with the integration of digital teams, to enable consistent and proportionate defence mechanisms • developing comprehensive security induction and refresher training for all staff • undertaking system security assurance, in alignment with policy • deploying user awareness campaigns, including 'think before you click' initiative.

Key risk	Key mitigating actions
Delivering change: there is a risk that we are unable to deliver sustainable transformation that enables us to improve our services and live within our funding allocation.	We are delivering an ambitious transformation programme. Managing this effectively is crucial to our success. We are: • engaging our leadership team and colleagues in our transformation journey • building a centralised programme and project management capability model • continuously improving the tools and supporting framework to enable effective change delivery.
Managing data and information: there is a risk that we will not be able to access, protect and use the data and information necessary to complete transformation or fulfil our future role in a timely and efficient manner and in compliance with legislation.	To ensure the data we hold is reliable, up to date and acted upon we are: • working with our strategic partners to understand and establish options for data flow and exchange improvements • identifying the data and information needs of new standardised processes • refreshing our policy and guidance to ensure regulation compliance.
Technology: there is a risk that our business applications and supporting infrastructure may not meet our business needs, for example reliability, performance, data or ability to support other transformation.	To manage this risk we are: • establishing a technical strategy and road map in alignment to business requirement • developing our capability to support heritage applications and infrastructure • ensuring required technology modernisation requirements are factored into future design work.
Check and challenge service: there is a risk that we will not be able to deliver the service, as currently designed, within available resources when volumes increase.	In order to mitigate this risk we are focusing on: • working with stakeholders to develop clarity around the priority improvements for the check and challenge service • developing and publishing a clear plan for delivery of service improvements • developing operational contingency plans in case of spikes in volume • seeking opportunities for process efficiency • ensuring the availability of appropriate management information.

Key risk	Key mitigating actions
Revaluation 2021: there is a risk that we fail to deliver Revaluation 2021 in a way that achieves wider government policy objectives.	To mitigate this risk we are: • developing our delivery plans, including how we will work with local authorities, professional bodies and trade associations in planning and delivering Revaluation 2021 • working to ensure we have the skills and resources we need to deliver.

Accounting Officer's report

Overview

We follow HM Treasury guidance on internal controls, intended to provide reasonable assurance and maintain propriety. This is a proportionate approach and not intended to eliminate all risk of failure.

Our commitments and resource allocation are published in our business plan and pages 18-19 of this annual report summarises performance against objectives and KPIs.

Responsibilities within the agency

Through annual letters of delegation, I delegate financial authority to each of the Executive directors to manage the budget for their operational areas within agreed financial limits, spending controls approvals and Managing Public Money guidelines. Each Executive director is supported by the Finance Director and their finance business partner. They cascade these delegations within their own areas and financial authority limits are set at each stage.

Supporting this scheme of delegations is our financial control framework, to ensure control standards are adhered to in all our financial processes. This helps to mitigate the risk of financial loss through fraud or error, and helps to ensure the integrity of the agency's financial statements. Each Executive director has an agreed set of annual objectives which reflects their accountabilities and delegated authorities.

Each Executive director has provided a statement to me as Accounting Officer, with their assurances that they have operated a sound system of governance, risk and control. This year we strengthened the approach by putting in place a standardised assurance checklist together with a review and challenge process by the Governance and Risk Management function and Internal Audit as well as the ARAC. Key themes from the individual Executive director statements and the review process have been discussed with me

Oversight and scrutiny

We have several forums which provide regular and robust oversight, scrutiny and assurance throughout the year. This includes the ExCom, the Board and the ARAC and through regular business reviews with HMRC.

Underpinning these senior forums, each individual Executive director has their own senior leadership forum for the discussion of performance, risk and issue management for their areas. There is an established process by which issues can be escalated from these to the ExCom.

During the year we have reviewed our approach to performance reporting, bringing financial, performance, and risk reporting together in one area. In addition the agency's performance hub has been refreshed to focus on fewer, more strategic metrics, thereby increasing transparency and oversight of performance by the ExCom.

Audit and Risk Assurance Committee (ARAC)

The ARAC completed its programme of work for the year and, in addition to reporting to the agency's Board following each of its meetings, produced an annual report of its work for both my and the Board's consideration. The ARAC has not identified any further issues for disclosure.

HMRC and Tailored Review

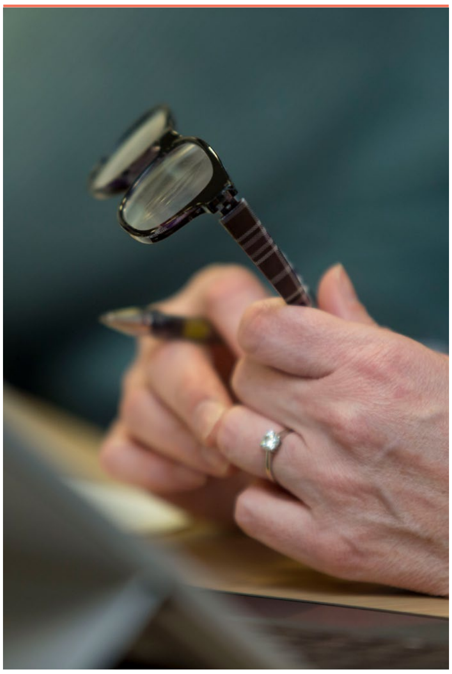
As an executive agency of HMRC, the agency has a framework document in place which sets out our relationship and broad framework for respective responsibilities. The document has been updated in line with the latest guidance and to reflect changes to funding arrangements that took place in 2017. This is one of the outputs of the Tailored Review of the agency which commenced in October 2018. The Review is due to publish its report shortly.

External reports and assurance

External reports on the agency are produced as required by external scrutiny bodies including the National Audit Office. We act on the recommendations they make including those within their audit completion report.

Further external assurance this year has been gathered on two key areas. The Infrastructure and Projects Authority (IPA) undertook a review of our transformation programme and the ONS Best Practice Division provided assurance on our official statistics processes. Both of these reviews have provided me with strong, independent assurance that the delivery controls in place are robust and effective.

> ...the agency's performance hub has been refreshed to focus on fewer, more strategic metrics, thereby increasing transparency and oversight of performance by the Executive Committee.



Internal audit

Each year the ExCom and the ARAC agree the annual internal audit plan, taking a risk-based and prioritised approach to identify aspects of the business that should be audited.

As Accounting Officer, I am advised on internal control matters through audit reports (and other assurance reports at the ExCom). The ARAC also reviews and require actions on internal audit reports.

Each year the Head of Internal Audit provides an opinion statement to me as Chief Executive, providing assurance on the adequacy of the agency's framework of governance, risk management and control. In 2018-19 this was based primarily on the 19 internal audits undertaken during the year.

An overall rating of 'moderate' assurance was provided for year ended 31 March 2019, an improvement from the previous two years where the assurance was 'limited'. This indicates that the agency has a reasonable control environment but there are some improvements required to enhance the adequacy and effectiveness of the overall system of governance, risk management and control.

It also recognises the improvements we have made in relation to the controlled delivery of change and governance around transformation and risk management. Some control challenges remain around compliance with some corporate processes, including management of leave and travel and subsistence and the need to strengthen second line assurance on these.

The following points were highlighted to me in the report:

- In governance terms, the overall agency governance as well as transformation governance has improved with better reporting and escalation of risks.

- There has also been an improvement in transformation control following the appointment of a Chief Transformation Officer and the centralisation of the transformation programme. This was highlighted in the internal audit reviews on transformation controls and benefits management and supported by the recent IPA review of the programme delivery.

- The agency's risk profile continues to remain challenging, reflecting the impact of balancing the delivery of Revaluation 2021 against other operational priorities and the surveyor recruitment and funding pressures faced. However, the risks are understood and the embedding of risk management is improving across the agency.

- Individual internal audit findings show a continued improvement in control across operational systems. However some weaknesses remain in corporate systems, particularly around people management, with cultural compliance issues and inconsistency in the application of controls.

- The recent integration of the agency's Digital services with our parent department HMRC's Digital Function provides opportunities and challenges. An internal audit advisory report confirmed that the governance model is satisfactory.

- The agency has a good track record in implementing audit recommendations with all actions cleared on time.

We have also continued our work to improve our overall internal control framework. We have mapped out the controls and sources of assurance for all our key processes. This has enabled us to identify opportunities for improvement in the second lines of defence. The assurance map together with an audit needs assessment undertaken by Internal Audit has informed our future audit planning.

Significant control issues and current control challenges

I can confirm that the agency has not had any significant control issues during the course of the year.

As highlighted in the Head of Internal Audit opinion, I recognise that there remain control challenges to address in relation to compliance issues with some corporate systems and weaknesses in assurance particularly around people management.

During the year we have actively taken steps to address these, through ensuring individuals understand their responsibilities, improving line management controls and establishing second line assurance checks. Whilst this has resulted in some uplift in compliance, further opportunities have been identified to improve compliance and ensure controls are applied consistently across the organisation. The agency has set up a process and control working group, led by the Chief People Officer, to address the control and cultural compliance issues to further strengthen controls and assurance in this area.

Update on control challenges reported during 2017-18

Last year we reported we were actively managing a number of other control challenges. These related to the delivery of improved functionality on our check and challenge service, financial control in contract management and our quality assurance processes for official statistics. Over the past year we have actively managed these control issues and they are no longer ongoing and have therefore been closed. These are explained further below:

- Our check and challenge service: We reported the delay to delivery of the improved functionality of this service, which was a complex digital programme. The responsibility for the programme was moved to the Chief Transformation Officer and was integrated within the transformation portfolio which improved oversight and delivery control. We drew on HMRC's digital expertise to strengthen our digital capability and the programme was re-planned. Over the year we have delivered all service improvement commitments published in May 2018 on time.

- Financial control in one instance of contract management: we identified a financial control issue which led to contract spend which had not followed the full approval process. Action was taken to place the work on a sound contractual footing and controls around contract management strengthened to ensure effective management. There was no financial loss involved.

- Quality assurance of official statistics: we identified an error in published official statistics relating to the stock of properties subject to business rates. The error was corrected and steps taken to ensure that the specific error would not recur. During the year we improved our quality assurance processes for all of our statistical publications and have worked with the Office for National Statistics during the year to strengthen assurance of our wider policies and processes.

General Data Protection Regulation

We have put in place guidance and mandatory training to support our implementation of the new General Data Protection Regulations which came into effect on 25 May 2018 and will continue with our progress in complying with the principles set out in the regulation. A recent Internal Audit review of our implementation identified a number of areas for improvement particularly around deepening our understanding of our risks in this area and we have an action plan to these address these. HMRC has a Data Protection Officer, whose role also oversees the agency.

Compliance with the Corporate Governance Code of Good Practice

I have assessed the agency's governance arrangements against the requirements set out in the Corporate Governance in Central Government Departments' Code of Good Practice 2017 and confirm that the agency complies with all of the requirements where appropriate.

The code focuses on governance arrangements for ministerial government departments and therefore there are elements not directly relevant as we are an executive agency of HMRC and not a ministerial government department. For example the Board does not include ministers and Non-Executives are appointed on approval from HMRC's Accounting Officer and not the Secretary of

State. However, we comply with the spirit and principles of code to ensure good governance in the agency.

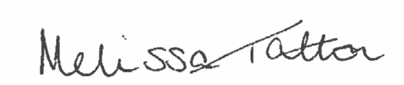
In June 2018, a number of changes were made to our governance arrangements to further strengthen compliance with the code. The Board's role has been refocused to that of an advisory function chaired by the Lead Non-Executive.

Conclusion

Our overall control framework and risk management and governance arrangements have continued to be strengthened during the year. The agency has faced challenges during the year, in particular the issues and risks around recruitment and funding were driven by the impact of bringing forward the next business rates revaluation to 2021, along with ensuring that we could set a balanced budget to the end of the 2015 Spending Review.

I recognise that the agency, like many other public bodies, will always have multiple risks to manage at any one time, however I am satisfied that the governance arrangements that were in place during 2018-19 have been sufficient to continue managing risks effectively.

Based on the review outlined above, I conclude that the agency has a sound system of governance, risk management and internal controls that supports our aims and objectives for 2019-20, with effective plans to ensure continuous improvement.



Melissa Tatton, CBE
Chief Executive
11 July 2019

DIRECTORS' REPORT

Executive directors

Melissa Tatton

Chief Executive and Accounting Officer

Tim Bianek

Chief Transformation Officer

Aneen Blackmore

Chief Finance Officer

Graham Brammer

Chief Operating Officer

Alan Colston

Chief Valuer

Philip Macpherson

Chief Digital and Information Officer

Jonathan Russell

Chief People Officer

Pedro Wrobel

Chief Strategy Officer

Non-Executive Directors

Sue Hall

Non-Executive Director

Stephen Hughes

Non-Executive Director

Directors

Full disclosure of the serving directors for 2018-19 is available in the Governance statement and Remuneration report of this document.

Pensions

For information on how the agency's pension liabilities are treated in the accounts, and more details on the pension schemes it operates, please see the Remuneration and Staff report and note 11 to the financial statements.

Register of interests

For more information on the agency's register of interests, please see page 31 of the Governance statement.

Personal data related incidents

During 2018-19 there were 44 personal-data related incidents. All were assessed and considered as low impact and did not require reporting to the Information Commissioner's Office.

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the agency to prepare for each financial year a statement of accounts in the form, and on the basis set out, in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the agency and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the government Financial Reporting Manual and 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;
- prepare the financial statements on a going concern basis.

The Permanent Secretary and Principal Accounting Officer of HM Revenue and Customs has designated the Chief Executive of the agency as its Accounting Officer. 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 agency's assets, are set out in Managing Public Money published by the HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the agency's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

I confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Melissa Tatton

Melissa Tatton, CBE
Chief Executive
11 July 2019

ACCOUNTABILITY REPORT

REMUNERATION AND STAFF REPORT

REMUNERATION REPORT

This report incorporates the agency's directors' remuneration information and the agency's staff report. The first section will outline the breakdown of each director's total remuneration and pension interest, detailing pay, pension and other benefits. For the purposes of this report "director" has been interpreted to mean any member of the agency's Executive Committee plus our Non-Executive directors, and thus excludes any other staff who are members of the Senior Civil Service. The second section will cover details of staff numbers, costs and other staff-related disclosures for the agency.

Director remuneration

Directors are members of the Senior Civil Service (SCS) and their general terms and conditions of employment are set by the Cabinet Office. HMRC, as the agency's sponsor department, determines the approach to remuneration for Senior Civil Servants in both HMRC and the agency in accordance with the SCS pay policy guidelines. The agency provides a moderated view of overall performance of SCS in the agency before their performance is moderated against the HMRC SCS cadre as a whole.

Contracts, notice periods and termination periods

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

In line with the contractual arrangements around the departure, the agency agreed to pay an exit package to a director upon their departure date in 2019-20. Further detail is provided in the directors' remuneration table below.

The agency did not make non-cash awards to any directors this year or in the previous year.

Salary and pension entitlements

The following section details the remuneration and pension interest of the agency's directors.

Salaries

These include:

- gross salary;
- overtime[3];
- reserved rights to London weighting or London allowances[3];
- recruitment and retention allowance[3]; and
- private office allowances and any other allowance to the extent that it is subject to UK taxation[3].

This report is based on accrued payments made by the agency and thus recorded in these accounts.

Directors' bonus payments

For Senior Civil Servants in the agency, bonus payments are awarded in relation to the performance of the individual throughout the year. The bonuses reported in 2018-19 relate to performance in 2017-18. The agency pays performance-related pay and bonuses in line with the scheme which applies to the Senior Civil Service as a whole.

Benefits in kind

The monetary value of benefits in kind covers any benefits an employer provides that HMRC treats as a taxable emolument. The benefits in kind in the table on page 52 for directors relate to travel and subsistence payments paid for travel to a location which, due to the frequency of travel, is deemed to be a permanent place of work or they relate to hospitality provided at external events.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil

3 No such payments were made during 2018-19

servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections; three providing benefits on a final salary basis (**classic, premium or classic plus**) with a normal pension age of 60 and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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, nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and five months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha**, as appropriate. Where the official has benefits in both the PCSPS and **alpha**, the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic, premium** and **classic plus**, 65 for members of **nuvos**, and the highest of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website: www.civilservicepensionscheme.org.uk.

Cash Equivalent Transfer Values (CETV)

A 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 pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The 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 member 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 worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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 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

Directors received payments to reimburse the out of pocket expenses they incurred in carrying out their duties.

Pay multiples (these disclosures are subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. The banded remuneration of the highest paid director in the agency (excluding pension benefits) in 2018-19 was £135k-£140k (2017-18: £145k-150k). This was 5.03 times (2017-18: 5.31) the median remuneration of the workforce, which was £27,312 (2017-18: £28,039). The reduction is due to the highest paid director in 2017-18 receiving substantial taxable benefits in kind from travel to a second permanent workplace. That director has now left the agency.

Total remuneration includes:

- salary;
- non-consolidated performance-related pay; and
- benefits in kind.

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

In 2018-19 (also in 2017-18) no employee received remuneration in excess of the highest paid director. Remuneration for all employees excluding pension benefits ranged from £17,562 to £135k-£140k (2017-18: £16,828 to £145k-£150k).

Remuneration

The following sections provide details of the remuneration and pension interests of the directors of the agency.

The information in this table is subject to audit.

Directors' remuneration information

	Salary (£'000)		Bonus Payments (£'000)		Benefits in kind (to nearest £100) [1]		Pension Benefits (£'000)		Total remuneration (£'000)	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Melissa Tatton Chief Executive	135-140	75-80 (130-135 full year equivalent)	-	-	100	-	160-165	135-140	295-300	215-220
Tim Bianek Chief Transformation Officer	120-125	25-30 (115-120 full year equivalent)	-	-	-	-	75-80	15-20	195-200	45-50
Aneen Blackmore Chief Finance Officer	110-115	0-5 (105-110 full year equivalent)	-	-	-	-	40-45	0	150-155	0-5
Graham Brammer Chief Operating Officer	130-135	130-135	-	-	-	-	-	-	130-135	130-135
Alan Colston Acting Chief Valuer (appointed 15 October 2018) [2]	40-45 (90-95 full year equivalent)	-	-	-	-	-	70-75	-	115-120	-
Mary Hardman Chief Valuer (until 31 October 2018) [3]	95-100 (95-100 full year equivalent)	75-80	-	5-10	7,200	35,200	0-5	0-5	105-110	95-100
Philip Macpherson Chief Digital and Information Officer [4]	90-95	90-95	-	-	-	-	25-30	20-25	120-135	115-120
Jonathan Russell Chief People Officer	100-105	-	-	-	-	-	15-20	-	120-125	-
Pedro Wrobel Chief Strategy Officer [5]	95-100	95-100	-	0-5	-	-	30-35	65-70	125-130	165-170
Gurpreet Dehal Non-Executive Director (until 14 June 2018)	0-5	10-15	-	-	-	-	-	-	0-15	10-15
Sue Hall Non-Executive Director	10-15	10-15	-	-	-	-	-	-	10-15	10-15
Stephen Hughes Non-Executive Director	10-15	10-15	-	-	-	-		-	10-15	10-15

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

[2] Alan Colston was permanently appointed as Chief Valuer with effect from 1 April 2019.

[3] The benefit in kind for Mary Hardman is £4,000 (2017-18: £20,900) for the payment of hotel and travel costs travelling to her second permanent workplace incurred from 1 April 2018 to her departure date. Taxation and National Insurance contributions relating to these payments amount to £3,200 (2017-18: £14,300).

As part of its review of Governance, and Board roles, the agency undertook a formal evaluation of the grade of the Chief Valuer post. The evaluation was performed independently by HMRC. The result of this evaluation concluded the Chief Valuer post was a higher pay band; changing from SCS Pay Band 1 to SCS Pay Band 2.

The agency is committed to fair pay for all staff members. Therefore, during 2018-19 additional salary of £48,505 was paid to Mary Hardman in respect of the regrading, backdated to 1 April 2016 when she took up post as Chief Valuer (with the current responsibilities). This additional salary is included in her salary disclosure above for 2018-19. Her full year-equivalent salary for 2018-19 excludes this additional salary and is calculated at the higher pay grade.

[4] Philip Macpherson left the agency on 6 April 2019. An exit package of £116,500 was agreed under the Civil Service Compensation Scheme which has been included in exit costs in the Statement of Comprehensive Net Expenditure for 2018-19 and has been paid in 2019-20.

[5] Pedro Wrobel left the agency on 8 April 2019.

The information in this table is subject to audit.

Directors' pensions

	Accrued pension at pension age - as at 31 March 2019 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31 March 2019 £'000	CETV at 31 March 2018 £'000	Real increase in CETV £'000
Melissa Tatton Chief Executive [1]	50-55 plus 115-120 lump sum	7.5-10 plus 12.5-15 lump sum	964	741	128
Tim Bianek Chief Transformation Officer	30-35	2.5-5	465	357	50
Aneen Blackmore Chief Finance Officer	5-10	2.5-5	69	39	15
Alan Colston Acting Chief Valuer (appointed 15 October 2018)	30-35 plus 70-75 lump sum	2.5-5 plus 7.5-10 lump sum	546	447	57
Mary Hardman Chief Valuer (until 31 October 2018) [2]	40-45 plus 125-130 lump sum	0-2.5 plus 0-2.5 lump sum	979	895	4
Philip Macpherson Chief Digital and Information Officer	30-35 plus 70-75 lump sum	0-2.5 plus 0 lump sum	566	484	13
Jonathan Russell Chief People Officer	35-40 plus 115-120 lump sum	0-2.5 plus 2.5-5 lump sum	868	769	19
Pedro Wrobel Chief Strategy Officer	25-30	0-2.5	311	246	9

[1] The prior year pension figures for Melissa Tatton have been recalculated due to a retrospective change in pensionable pay.

[2] The prior year pension figures for Mary Hardman have been recalculated in light of the salary change explained in the remuneration table above.

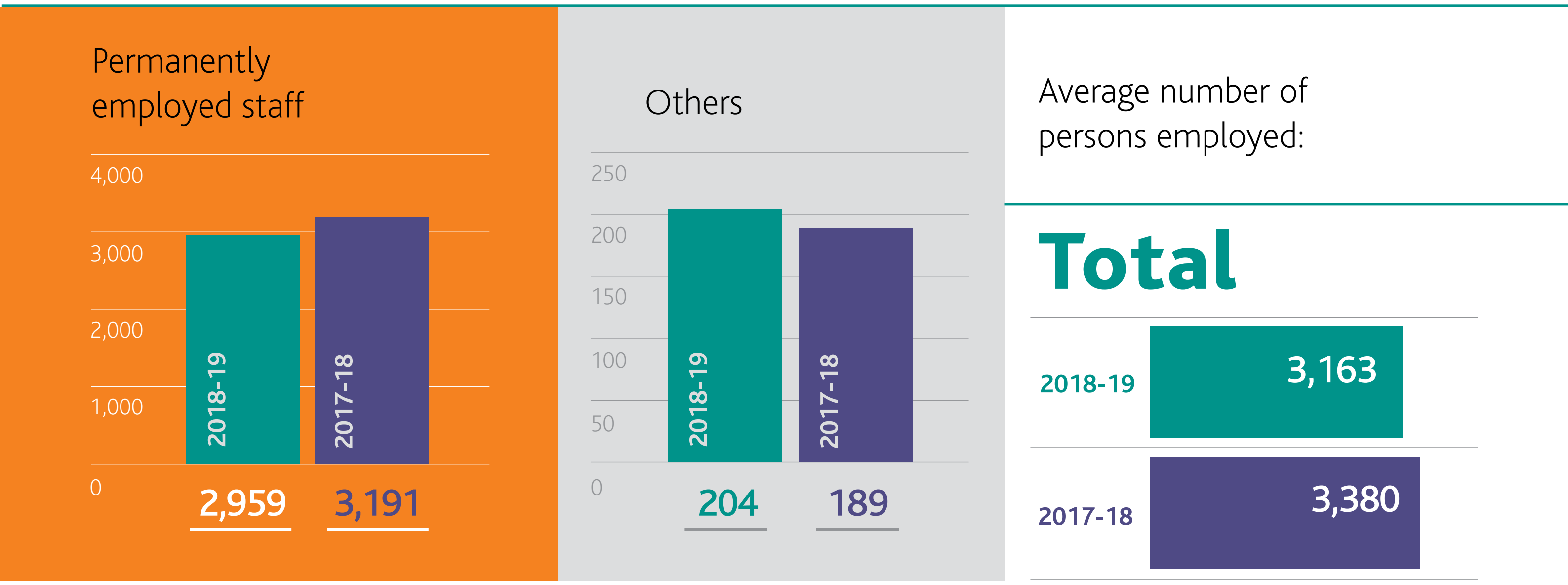
Graham Brammer is not currently an active member of the Civil Service pension scheme.

Gurpreet Dehal, Sue Hall and Stephen Hughes are not in the Civil Service pension scheme.

Staff numbers and related costs (these figures are subject to audit)

The average number of full-time equivalent persons (including senior management) employed during the year was as follows:

(a) Staff numbers and costs



Staff costs comprise:

	Permanently employed staff (£'000)		Others (£'000)		Total (£'000)	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Wages and salaries	99,233	102,029	5,514	5,659	104,747	107,688
Social security costs	10,415	10,898	190	181	10,605	11,079
Other pension costs	20,670	22,084	537	520	21,207	22,604
	130,318	**135,011**	**6,241**	**6,360**	**136,559**	**141,371**
Less recoveries in respect of outward secondments	(134)	(195)	-	-	(134)	(195)
Total staff costs	**130,184**	**134,816**	**6,241**	**6,360**	**136,425**	**141,176**

The staff expenditure detailed above includes contingent labour and consultancy expenditure. The total amount for contingent labour expenditure in 2018-19 was £1.5 million (2017-18: £1.3 million), and the total consultancy expenditure within staff costs for 2018-19 was £nil (2018-19: £nil).

Pension past service cost

A number of the agency's people are members of the Local Government Pension Scheme. Details of this scheme can be found in note 11 to the financial statements.

Civil Service pensions

The majority of the agency's people have pension benefits that are provided through the Civil Service pension arrangements, either alpha (a new pension scheme introduced from 1 April 2015) or the Principal Civil Service Pension Scheme (PCSPS). Both of these schemes are largely unfunded multi-employer defined benefit schemes. The agency is unable to identify its share of the underlying assets and liabilities. The scheme actuary last valued the PCSPS scheme as at 31 March 2012. Details can be found at http://www.civilservice.gov.uk/pensions. The accounts of the schemes will be published on https://www.gov.uk/government/publications, within the Cabinet Office Civil Superannuation Resource Accounts.

For 2018-19, employer contributions of £19.8 million (2017-18: £20.9 million), were payable to the PCSPS and alpha at one of four rates in the range 20.0% - 24.5% (also in 2017-18) of pensionable earnings, based on salary bands. The Scheme 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 2018-19, to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £121,654 (2017-18: £138,731) were paid to one or more of the appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earning from 1 October 2015. The agency also matches employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £4,721, 0.5% of pensionable pay (2017-18: £5,470, 0.5% of pensionable pay) were payable to the PCSPS and alpha to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £11,069 (2017-18: £23,194).

Seven employees retired on ill-health grounds during 2018-19, with a total additional accrued pension liabilities of £41,250 (there were six in 2017-18 with a total additional accrued pension liability of £351,896).

(b) Early departure costs

	2018-19	2017-18
	£'000	£'000
Additional provisions made	5,393	3,279
Costs during the year	1,552	438
Unused amounts reversed	(320)	(257)
Total in-year costs	**6,625**	**3,460**

The table below sets out the number of formally agreed exit packages in the year, divided into bands of cost. These disclosures are subject to audit.

Exit package cost by band Key risk	No. compulsory redundancies		No. other departures		Total no. exit packages by band	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
< £10,000	-	-	3	-	3	-
£10,001 - £25,000	-	-	42	8	42	8
£25,001 - £50,000	-	-	39	8	39	8
£50,001 - £100,000	-	-	28	3	28	3
£100,001 - £150,000	-	-	1	2	1	2
Total no. exit packages by type	**-**	**-**	**113**	**21**	**113**	**21**
Total operating cost (£'000)	**-**	**-**	**4,191**	**938**	**4,191**	**938**

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 agency has agreed early retirements, the additional costs are met by the agency 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 redundancy payment due on retirement. In certain circumstances it also includes the cost associated with the increase in liability to pay future pensions.

Reporting on the tax arrangements of public sector appointees

We report to HM Treasury about off-payroll appointments of more than six months and more than £245 a day. From 6 April 2017, reforms to intermediaries legislation (known as IR35) came into effect. Details of our contractors, who are in scope of the reformed legislation, are provided in Tables 1 and 2:

Table 1: All off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months:

	Valuation Office Agency
Number of existing engagements as of 31 March 2019	1
Of which…	
No. that have existed for between two and three years at time of reporting.	1

All existing off-payroll engagements, outlined above, have been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and national insurance and, where necessary, that assurance has been sought.

Table 2: All new off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months:

	Valuation Office Agency
No. of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019	0

Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019:

	Valuation Office Agency
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	0
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both on payroll and off-payroll engagements.	10

STAFF REPORT

3,204
full-time equivalent (FTE) people working for us on 1 April 2019

16
fewer people (net) than 1 April 2018

560
people **joined** the Agency in 2018-19

529
people **left** the Agency in 2018-19

Our staff and senior civil servants numbers

On 1 April 2019[5] the agency had 3,204 full-time equivalent (FTE) people working for us, including senior management.

Since 1 April 2018 our headcount reduced by 16 (net).

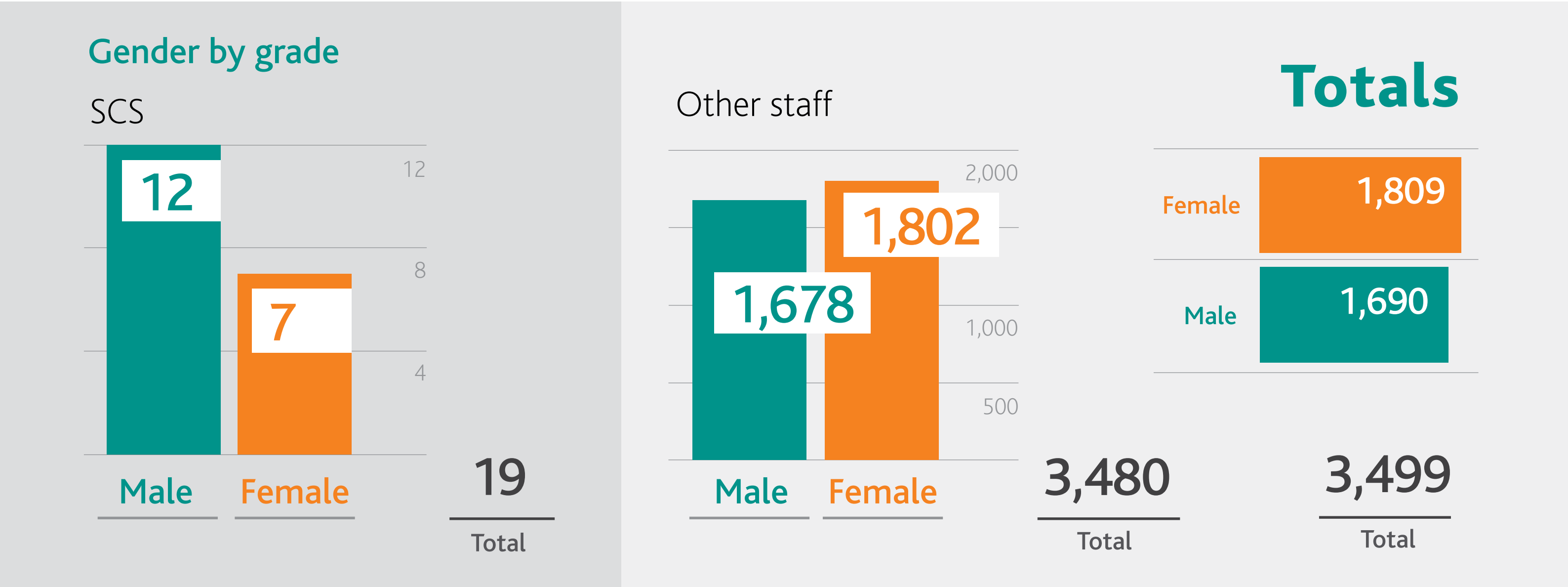
Senior Civil Service (SCS)

As of 1 April 2019 the agency has 19 SCS employees and 23 SCS posts.

Data as of 1 April 2019 (headcount not FTE):

Grade	Total
SCS3	1
SCS2	7
SCS1	11

5 To reflect our staff numbers more accurately, our disclosures reflect the position as at 1 April 2019, which takes into account the integration of our Digital services into HMRC.



Declared ethnicity category of employees:

The agency's ethnicity data is drawn from information voluntarily provided by employees. Of 3,499 employees (headcount rather than FTE) at 1 April 2019, 2,598 (74%) have provided a response.

	BAME	% BAME	White	% White	Choose not to declare	% Choose not to declare
G7, G6 & SCS	8	2.02%	278	70.38%	29	7.34%
AA To SEO	291	9.38%	1,811	58.34%	181	5.83%

The agency is committed to supporting Black, Asian and Minority Ethnic (BAME) colleagues and increasing representation in line with wider Civil Service aspirations. Internally, our race diversity group has launched a Mentor Me scheme and colleagues can access specific development programmes across the Civil Service. The agency is included in HMRC's ambitious goals for representation at Senior Civil Service level and will be working closely with them over the next year to achieve those goals.

> In 2017 the government introduced legislation that made it statutory for organisations with 250 or more employees to report annually on their gender pay gap.

Gender pay gap analysis:

The agency reported on male and female pay comparisons for a number of years through regular equal pay reviews. In 2017 the government introduced legislation that made it statutory for organisations with 250 or more employees to report annually on their gender pay gap. The agency reports on these requirements annually by publishing them via the government's gender pay gap service website.

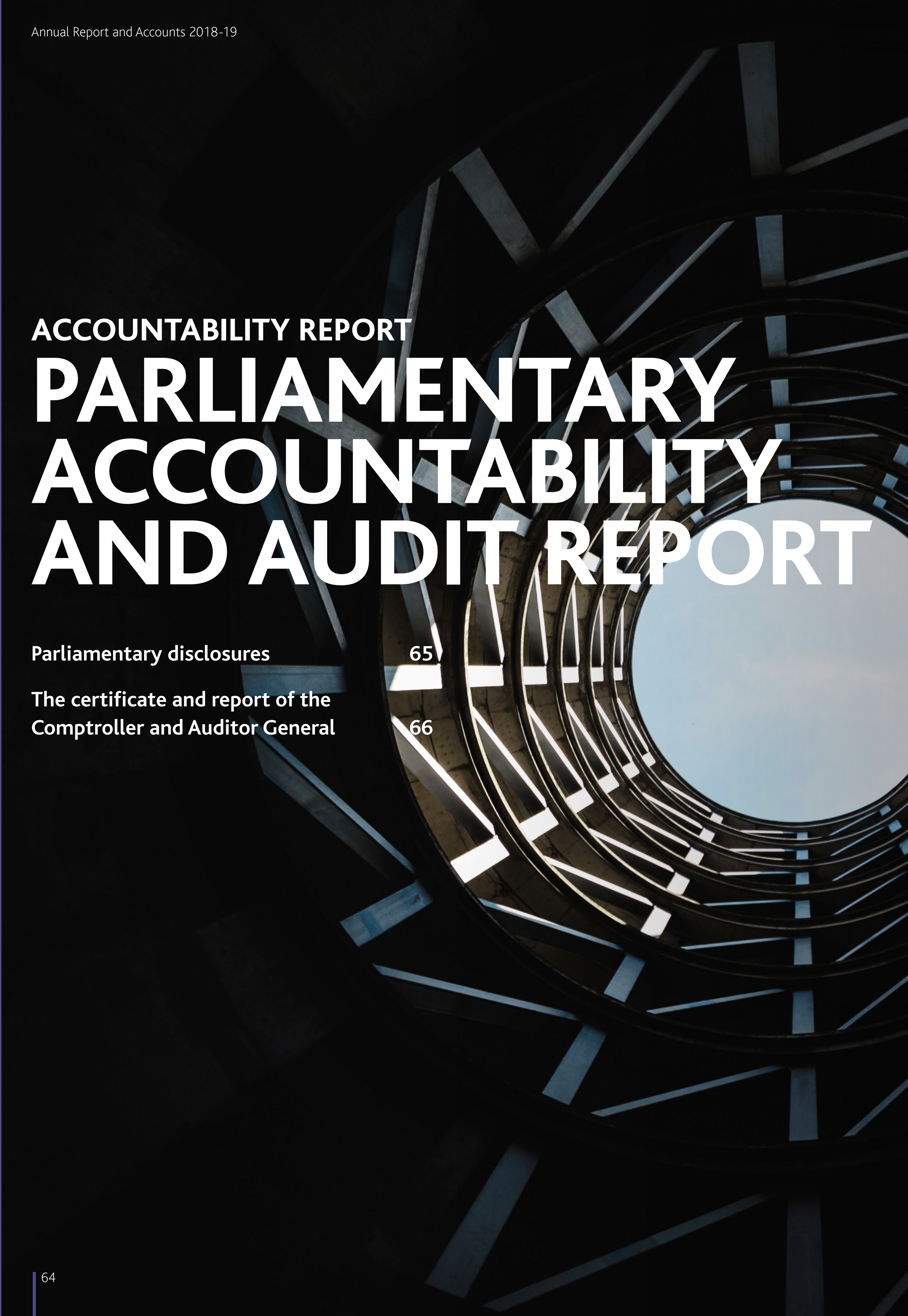
The gender pay gap figures below show the difference in the mean and median rates of pay between men and women in the agency for base pay using 1 April 2019 data. The difference is expressed as a percentage of the hourly rate of pay for male and female employees.

	Hourly rate for women	Hourly rate for men	Gender pay gap
Mean	£14.90	£17.62	15.44%
Median	£13.10	£15.50	15.48%

These headline figures take no account of the agency's grade structure, the different ratio of women and men within each grade, or the different national, intermediate or London pay rates.

Sickness absence data

For details on sickness absence data, please see Health, safety and wellbeing on page 16.



ACCOUNTABILITY REPORT

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

PARLIAMENTARY DISCLOSURES

All disclosures in this report are subject to audit.

Fees and charges

For details of the agency's fees and charges income, please see note 2 to the financial statements.

Remote contingent liabilities

A remote contingent liability is where the likelihood of settlement is too remote to meet the definition of a contingent liability. The agency has no quantifiable remote contingent liabilities as at 31 March 2019.

On 29 March 2017, the UK government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed. In accordance with accounting standards, no contingent assets can be recognised.

Losses and special payments

The agency has incurred losses and made special payments throughout the year. These are individually and collectively below the reporting threshold of £300,000 set down in Managing Public Money.

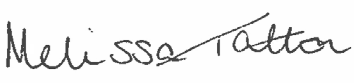
Losses and special payments are shown in their own line in note 4 of the financial statements.

Losses and special payments are defined in Annexes 4.10 and 4.13 of 'Managing Public Money', which can be found at https://www.gov.uk/government/publications/managing-public-money.

Regularity of expenditure

The Accounting Officer is able to identify any material irregular or improper use of funds by the agency, or material non-compliance use of funds.

To the date of this statement, there have been no instances of material irregularity, impropriety or funding non-compliance discovered during the financial year.



Melissa Tatton, CBE
Chief Executive
11 July 2019

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the Valuation Office Agency for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Valuation Office Agency's affairs as at 31 March 2019 and of the net expenditure 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 regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Valuation Office Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Valuation Office Agency's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Valuation Office Agency's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

12 July 2019

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

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement of Comprehensive Net Expenditure (SoCNE) for the year ended 31 March 2019

	Note	2018-19 Total £'000	2017-18 Total £'000
Revenue from contracts with customers	**3**	**42,846**	**44,681**
Staff costs	4	(143,050)	(144,636)
Purchase of goods and services	4	(41,207)	(41,239)
Provision expense	4	(625)	(952)
Other operating expenditure	4	(321)	582
Depreciation, amortisation and impairment charges	4	(7,474)	(7,603)
Total operating expenditure	**4**	**(192,677)**	**(193,848)**
Net expenditure for the year		**(149,831)**	**(149,167)**
Other comprehensive expenditure:			
Net gain on revaluation of intangible assets	6	568	254
Actuarial gain on pension fund	11	11,252	10,174
Re-measurement of net defined pension asset for changes in asset ceiling	11	(12,349)	-
Total comprehensive net expenditure		**(150,360)**	**(138,739)**

The notes on 75-110 form part of these accounts.

Statement of Financial Position as at 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	5	9,361	8,751
Intangible assets	6	21,140	19,914
Prepayments	7	57	173
Pension asset	11	8,736	10,379
Total non-current assets		**39,294**	**39,217**
Current assets			
Trade and other receivables	7	8,920	8,854
Contract assets		1,920	2,271
Cash and cash equivalents	8	22,352	25,310
Total current assets		**33,192**	**36,435**
Total assets		**72,486**	**75,652**
Liabilities			
Current liabilities			
Trade and other payables	9	(20,026)	(19,875)
Short term provisions	10	(7,125)	(4,687)
Amounts payable to the Consolidated Fund	8	(1,328)	(1,173)
Total current liabilities		**(28,479)**	**(25,735)**
Total assets less current liabilities		**44,007**	**49,917**
Non-current liabilities			
Long term provisions	10	(0)	(7)
Liability in respect of PFI assets	9	(42)	(76)
Total non-current liabilities		**(42)**	**(83)**
Total assets less total liabilities		**43,965**	**49,834**
Taxpayers' equity			
General fund		43,146	49,264
Revaluation reserve		819	570
Total taxpayers' equity		**43,965**	**49,834**

The notes on 75-110 form part of these accounts.

Melissa Tatton

Melissa Tatton, CBE
Chief Executive
11 July 2019

Statement of Cash Flows for the year ended 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Cash flows from operating activities			
Net expenditure for the year		**(149,831)**	**(149,167)**
Adjustments for:			
Depreciation of property, plant and equipment	5	2,305	2,991
Amortisation of intangible assets	6	5,169	4,612
Net loss on disposal of non-current assets	5/6	180	389
Creation and reversal of provisions	10	5,698	3,974
Use of provisions	10	(3,267)	(1,049)
Notional auditor's remuneration	4	75	72
Pension fund expenditure passing through the SoCNE	11	1,230	1,616
Movements on pension asset and pension fund income and expenditure not passing through the SoCNE	11	(685)	(738)
Pension fund contribution not passing through SoCNE		851	851
(Increase)/Decrease in trade and other receivables and prepayments	7	50	(246)
(Increase)/Decrease in contract assets		351	(372)
Increase in trade and other payables and other liabilities	9	272	758
Less movements in payables relating to items not passing through operating costs		(128)	(480)
Net cash outflow from operating activities		**(137,730)**	**(136,789)**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(3,095)	(1,873)
Purchase of intangible assets	6	(5,827)	(5,644)
Net cash outflow from investing activities		**(8,922)**	**(7,517)**
Cash flows from financing activities			
Current liabilities			
Parliamentary funding received		143,565	150,700
Receipts on behalf of the Consolidated Fund		155	501
Capital element of payments in respect of on-balance sheet PFI assets		(26)	(22)
Net cash inflow from financing activities		**143,694**	**151,179**
Net increase/(decrease) in cash and cash equivalents in the period		**(2,958)**	**6,873**
Cash and cash equivalents at the beginning of the period	8	**25,310**	**18,437**
Cash and cash equivalents at the end of the period	8	**22,352**	**25,310**

The notes on 75-110 form part of these accounts.

Statement of Changes in Taxpayers' Equity (SoCTE) for the year ended 31 March 2019

		2018-19			2017-18		
		General fund	Revaluation reserve	Total reserves	General fund	Revaluation reserve	Total reserves
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance		**49,264**	**570**	**49,834**	**36,432**	**531**	**36,963**
Changes in taxpayers' equity for the period							
Parliamentary Funding Received		143,565		143,565	150,700		150,700
Net gain on revaluation of intangible assets	6	-	568	568	-	241	241
Net expenditure for the year		(149,831)	-	(149,831)	(149,167)	-	(149,167)
Actuarial gain on pension fund	11	11,252	-	11,252	10,174	-	10,174
Remeasurement of net defined pension asset for changes in asset ceiling	11	(12,349)	-	(12,349)	-	-	-
Third party pension liability payments	11	851	-	851	851	-	851
Realised and transferred to general fund		319	(319)	-	202	(202)	-
Notional charges - auditor's remuneration	4	75	-	75	72	-	72
Balance carried forward		**43,146**	**819**	**43,965**	**49,264**	**570**	**49,834**

The amounts realised and transferred to the general fund relate to previously revalued assets. The reserve is released as these assets are depreciated, so that when the assets reach the end of their useful economic life, there is no longer a corresponding figure in the revaluation reserve. Similarly, when a previously revalued asset is disposed, the remaining balance in the revaluation reserve for that asset is transferred to the general fund.

The notes on pages 75-110 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of accounting policies

As the agency is a government entity, the financial statements have been prepared in accordance with the 2018-19 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 1.6 and 1.7).

The accounts have been prepared on a going concern basis.

1.2 Revenue

Revenue principally comprises charges for services provided by the agency to other government departments, agencies, non-departmental public bodies and external customers.

In line with the FReM, on 1 April 2018 the agency adopted the new International Financial Reporting Standard for revenue, IFRS15. Under IFRS15 the agency recognises revenue in a way which depicts the transfer of promised services to our customers and for the amount to which we expect to be entitled for those services. In previous years, in line with historical accounting standards, revenue was recognised as the costs were incurred of providing services.

On adoption of IFRS15 there have been no material impacts on or changes to the agency's financial statements.

A summary of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers is shown in note 3.

1.3 Financial assets

In line with the FReM, on 1 April 2018 the agency adopted the new International Financial Reporting Standard for financial instruments, IFRS9. There have been no changes to the agency's financial statements with the exception of the rewording of some of the accounting policies in this note, its supporting notes and note 1.4 below.

A financial asset is recognised when the agency becomes a party to the contractual provisions of the instrument. The exception is where the financial asset is consideration from customers for services provided. In these cases the agency recognises the financial asset when the revenue recognition criteria are met (see note 3). A financial asset is removed from the Statement of Financial Position when the contractual right to the asset expires, or when the asset is transferred to another party.

The agency's business model is to hold financial assets to collect contractual cash flows only. Financial assets are measured at amortised cost and consist of trade and other receivables, contract assets and cash and equivalents.

At each reporting date the agency recognises a loss allowance at an amount equal to lifetime expected credit losses. The amount of impairment loss is calculated based on the expected shortfall looking forward over the lifetime of the exposure.

The amount of the impairment is recognised in the Statement of Comprehensive Net Expenditure in the period of impairment.

1.3.1 Trade receivables

The majority of agency's trade receivables are held with other government departments and other public sector bodies, which the agency currently assesses as having a low risk of default and historical instances of impairment associated with these debts have been rare. Therefore the agency currently recognises zero expected credit losses for trade receivables.

1.3.2 Contract assets

Contract assets are classed as a financial asset. They represent revenue recognised from progress on contracts where performance obligations are partly satisfied (see note 3). 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'. Contract assets are measured net of expected credit losses which are calculated based on foreseeable losses on current contracts and for irrecoverable amounts. Recoverability is estimated for future years based on a five-year weighted average recovery rate.

1.3.3 Cash and cash equivalents

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

1.4 Financial Liabilities

A financial liability is recognised when the agency 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. On initial recognition they are measured at fair value. Subsequently, accruals and trade payables are measured at amortised cost and deferred income is measured at cost. The treatment of PFI related liabilities is described in note 1.12

1.5 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.

1.6 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 agency.

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 considers 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, except to the extent they reverse previous downwards revaluations recognised in net expenditure. 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 1.9).

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 on a straight line basis. The useful lives of newly capitalised property, plant and equipment are detailed in the accompanying table.

All 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	£5,000	Up to 7 years
IT hardware	£5,000	Up to 5 years
Furniture and fittings	£5,000	Up to 10 years
Telecommunications equipment	£5,000	5 years

Expenditure falling below these values is expensed in the Statement of Comprehensive Net Expenditure. 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 note 1.8).

PFI assets recorded under IFRIC 12 are depreciated over the shorter of the estimated useful economic life of the asset or the remaining lease term.

1.7 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.

Assets under construction costs are accumulated until the asset is ready to be brought into service when the asset is transferred to the relevant asset class and amortisation commences. 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. 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 1.6).

Amortisation

Intangible assets are amortised over their estimated useful lives on a straight line basis. The useful lives of newly capitalised intangible assets are detailed in the table below.

Asset class	Recognition threshold	Estimated useful life
Developed software	£15,000	10 years unless known to be otherwise
Developed software - enhancements	nil	As per the enhanced asset
Software licences	£5,000	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.

1.8 Grouped assets

The agency groups property, plant and equipment and intangible assets.

Grouped assets are a collection of assets which individually may be valued at less than an asset type's capitalisation threshold, but which together form a single collective asset because the items fulfil all the following criteria:

- the items are acquired at about the same date, or as part of work on the same project, and are planned for disposal at about the same date;
- the items are under single managerial control; and
- each grouped asset is over the capitalisation threshold for each asset class.

1.9 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 relating to that asset, before any remaining loss is recognised as an operating cost.

1.10 Provisions for liabilities and charges

Provisions 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.

1.11 Employee benefits

Pensions

The agency operates two different pension arrangements.

1) 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 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.

2) 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 accrued up to 31 March 2014 is based on a scheme member's final salary. Entitlement to benefits accrued thereafter is based on career average earnings.

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

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. A valuation was undertaken at 31 March 2019, but has not yet been completed.

The agency records non-cash service costs and net interest costs (comprising interest income on the assets and interest expense on the liabilities), which are both calculated with reference to the discount rate, and administration expenses as operating costs 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.

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 11). Liabilities in respect of other departures are recognised in the provision for early departure and additional pension commitments.

1.12 Private Finance Initiative (PFI) transactions

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

- 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.

Details of the agency's PFI arrangements can be found in note 13.

1.13 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 2019 are disclosed in note 12.

1.14 Immaterial account areas

Where balances or transactions are not material, they may not be disclosed separately in these accounts.

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. Estimates and underlying assumptions are reviewed on an ongoing basis. The most significant estimates and areas of management judgement made in the accounts relate to:

– **Provisions for legal claims and early departures (Note 10)**

Judgement is required in relation to legal claims 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 legal advice.

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 Post-Employment Benefits rate is applied, currently 0.29%. 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.

– **Measurement of the LGPS pension asset/liability (Note 11)**

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.

– **Measurement of the employee leave accrual (Note 9)**

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 2019

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 ExCom. The segmental information below is based on the information presented to the ExCom. The ExCom reviews financial information based on four reportable segments:

Business rates and council tax[7]

Compilation and maintenance of the non-domestic rating and council tax lists that support the collection of council tax and business rates. The major client for this service is HMRC, which provides £143.6 million or 94% of the segment's total resources for its work in England. In 2017-18, it provided £150.7 million or 94% of the segment's total resources. Our work in Wales is funded by the Welsh Assembly Government, which contributes £8.6 million or 5% (2017-18: £8.7 million or 6%).

Statutory Valuations Team[8]

Delivery of valuation advice for national taxes, principally:

- For Inheritance Tax and Capital Gains Tax to HMRC £7.6 million (2017-18: £8 million)
- For the operation of Community Infrastructure Levy provisions £0.06 million (2017-18: £0.05 million) for MHCLG and Right to Buy provisions £1.4 million (2017-18: £1.7 million) for MHCLG and Welsh Government

7 In 2017-18 this segment was titled Non-domestic rating and council tax
8 Property Services and Statutory Valuations team have been combined effective June 2019

- For the assessment of entitlements to benefits from DWP £0.3 million (2017-18: £0.4 million)

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 contributing £7.0 million (2017-18: £7.5 million and additional work done is carried out for MHCLG, contributing £1.9 million (2017-18: £2.0 million).

Corporate services costs are distributed across all four operating segments.

	2018-19			2017-18		
	Income from fees and charges	Full cost of providing services	Surplus/ (deficit)	Income from fees and charges	Full cost of providing services	Surplus/ (deficit)
	£'000	£'000	£'000	£'000	£'000	£'000
Business rates and Council tax	152,873	157,996	(5,123)	159,558	157,553	2,005
Property Services	15,303	15,135	168	16,250	15,401	849
Statutory Valuation Team	9,307	9,307	-	10,051	10,349	(298)
Local housing allowances and fair rents	8,928	9,009	(81)	9,522	8,929	593
Total	**186,411**	**191,447**	**(5,036)**	**195,381**	**192,232**	**3,149**

Reconciliation to Statement of Comprehensive Net Expenditure

	2018-19	2017-18
	£'000	£'000
Surplus/(Deficit) per above	(5,036)	3,149
Funding shown in SoCTE	(143,565)	(150,700)
Non-cash pension costs not recovered from clients	(1,230)	(1,616)
Total net comprehensive expenditure	**(149,831)**	**(149,167)**

The agency's ExCom does not require an analysis of assets or liabilities by segment for the purposes of allocating resource or assessing performance. Accordingly no analysis is included in these financial statements.

3. Revenue from contracts with customers

In 2018-19 the agency has recognised £42.8 million (2017-18: £44.7m) of revenue from contracts with customers.

The following disclosures describe the material[9] sources of revenue arising from contracts with customers, and supplement those provided in note 2.

Revenue category	Revenue negotiated annually	Revenue charged on an hourly basis
Revenue streams	• Council tax and business rates (Wales); • Housing allowances ; • Fair rent and; • Statutory valuations team (HMRC).	• Property services; • Statutory valuations team (DWP); and • Statutory valuations team (Right to Buy).
Total revenue recognised	£25.1m	£16.8m
Timing of revenue recognition (and satisfaction of performance obligations)	Over time (1)	Over time (2)

9 The remaining revenue (£0.9m) has been included within the "Business rates and council tax" segment in note 2.

(1) Our service level agreements to deliver these statutory services are negotiated on an annual basis. The agency's framework agreement requires that we recover the full cost of the services we provide to our customers. The agency agrees funding for each year in advance with our funding providers in order to achieve this objective. For each of these services we have several performance obligations and our funding providers are able to use the services we provide as they are performed as they simultaneously receive and consume the benefits provided by our performance. This means our performance obligations are satisfied over time.

We invoice funding providers in equal instalments on a monthly basis and payment is required at the latest by the tenth working day for most providers. The agency holds quarterly performance discussions with its funding providers covering in-year operational and financial matters. If our performance is significantly outside of agreed levels we discuss whether a funding adjustment or corrective action is required. Sustainable efficiencies delivered in the financial year would usually be reflected in future funding settlements.

(2) The agency recognises revenue over time for these services where it has a right to payment for an amount that at least compensates the agency for its performance completed to date which is equivalent to the selling price of the goods or services transferred to date in the event that the customer or another party terminates the contract for reasons other than the agency's failure to perform as promised. This right is conveyed either by the agency's standard terms of engagement, the Service Level Agreement or by administrative practice for each contract. This work also does not create an asset with an alternative use to the agency.

In each case the agency recognises revenue using an input method. Client Fees are calculated on a diary basis using records of time spent on client activity and pre-determined hourly charge-out rates derived to recover estimated full costs of the service, as required by Managing Public Money. This provides a faithful depiction of the transfer of services as our performance obligations are heavily labour-intensive to fulfil.

The agency's performance obligations for this work vary in their duration from smaller valuations that are completed within a few working days up to multi-year contracts. In each contract the performance obligation is to undertake work on property valuations or assessments, the output of which is a report. Until the performance obligation is completely satisfied the agency recognises a contract asset from the value of unbilled resource expended on the performance obligation. Typically an invoice is issued on completion of the performance obligation, although as agreed in our contracts we hold the right to invoice on an interim basis for longer-term contracts. On issue of an invoice this contract asset becomes a trade receivable. Payment terms for invoices raised are 30 days from the receipt of the invoice.

If the customer is not satisfied with our work we will discuss their concerns in full, and issue a refund where it is fair and appropriate.

The agency has adopted the practical expedient in paragraph 121 of IFRS15 because, as described above, it has a right to consideration from our customers in an amount that corresponds directly with the value to the customer of the entity's performance completed to date. There is no consideration from contracts with customers that is not included in the transaction price.

The contract balances from revenue with customers are:

	31 March 2019	31 March 2018
Receivables, which are included in Trade and Other Receivables (note 7)	£6.1m	£5.6m

4. Expenditure for the year ended 31 March 2019

	Note	2018-19 £'000	2017-18 £'000
Staff costs			
Wages and salaries		104,747	107,688
Social security costs		10,605	11,079
Other pension costs		21,207	22,604
Early departure costs		6,625	3,460
Less recoveries in respect of outward secondments		(134)	(195)
		143,050	**144,636**
Purchases of goods and services			
IT service charges		6,754	6,337
Accommodation excluding non-domestic rates		11,197	11,116
Travel and subsistence		4,642	5,007
Accommodation - non-domestic rates		1,917	2,551
HMRC service charges		2,122	1,724
Other computing costs		7,326	6,674
Telephone charges		730	794
Postage and couriers		1,128	1,093
External training		922	912
Research and development		41	135
Contracted-out services		1,668	2,371
Subscriptions		1,348	1,384
Legal claims and services (excluding movement in provisions)		555	420
Printing, stationery and distribution		307	203
Rentals under operating leases		(18)	48
PFI Finance charges		24	30
Sundry costs		544	440
		41,207	**41,239**
Provision expenser			
Provision movements in-year		625	952
		625	**952**
Other operating expenditure			
Auditor's notional remuneration		75	72
Losses and special payments		66	109
Net loss on disposal of non-current assets		180	389
Movement in provision for doubtful debt		-	(1,152)
		321	**(582)**
Depreciation, amortisation and impairment charges			
Depreciation of property, plant and equipment	5	2,305	2,991
Amortisation of intangible assets	6	5,169	4,612
		7,474	**7,603**
Total operating expenditure		**192,677**	**193,848**

A further breakdown of staff costs, as well as details on pensions and exit packages, can be found on 55, 57 and 58 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 10.

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. 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 2018	1,867	9,296	414	12,674	5,762	**30,013**
Additions	-	-	3,095	-	-	**3,095**
Disposals	-	(461)	-	(2,285)	(508)	**(3,254)**
Write-offs	-	-	-	-	-	**-**
Impairments	-	-	-	-	-	**-**
Reclassifications	-	36	(2,243)	1,184	1,023	**-**
At 31 March 2019	**1,867**	**8,871**	**1,266**	**11,573**	**6,277**	**29,854**
Depreciation:						
At 1 April 2018	1,615	8,160	-	8,629	2,858	**21,262**
Charged in the year	84	484	-	1,251	486	**2,305**
Disposals	-	(388)	-	(2,276)	(410)	**(3,074)**
Write-offs	-	-	-	-	-	**-**
Impairments	-	-	-	-	-	**-**
At 31 March 2019	**1,699**	**8,256**	**-**	**7,604**	**2,934**	**20,493**
Net book value:						
At 31 March 2019	**168**	**615**	**1,266**	**3,969**	**3,343**	**9,361**
At 31 March 2018	**252**	**1,136**	**414**	**4,045**	**2,904**	**8,751**

The agency's buildings are PFI financed. All other property, plant and equipment are owned, and no donated assets were held during the year (31 March 2018: nil). The agency's buildings were valued by Property Services, a unit of the agency, 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 2018-19.

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 1.6.

	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 2017	1,867	10,663	1,592	13,408	5,634	**33,164**
Additions	-	-	1,873	-	-	**1,873**
Disposals	-	(2,363)	-	(2,271)	(381)	**(5,015)**
Write-offs	-	-	-	(5)	-	**(5)**
Impairments	-	-	-	-	-	**-**
Reclassifications	-	996	(3,051)	1,542	509	**(4)**
At 31 March 2018	**1,867**	**9,296**	**414**	**12,674**	**5,762**	**30,013**
Depreciation:						
At 1 April 2017	1,531	8,964	-	9,741	2,667	**22,903**
Charged in the year	84	1,230	-	1,164	513	**2,991**
Disposals	-	(2,034)	-	(2,271)	(322)	**(4,627)**
Write-offs	-	-	-	(5)	-	(5)
Impairments	-	-	-	-	-	**-**
At 31 March 2018	**1,615**	**8,160**	**0**	**8,629**	**2,858**	**21,262**
Net book value:						
At 31 March 2017	**252**	**1,136**	**414**	**4,045**	**2,904**	**8,751**
At 31 March 2017	**336**	**1,669**	**1,592**	**3,667**	**2,967**	**10,261**

6. Intangible assets

	Developed Software £'000	Assets under construction £'000	Total £'000
Cost or valuation:			
At 1 April 2018	68,543	1,888	**70,431**
Additions	-	5,827	**5,827**
Disposals	(36)	-	**(36)**
Write-offs	-	-	**-**
Impairments	-	-	**-**
Reclassifications	4,287	(4,287)	**0**
Revaluations	1,324	-	**1,324**
At 31 March 2019	**74,118**	**3,428**	**77,546**
Amortisation:			
At 1 April 2018	50,517	-	**50,517**
Charged in the year	5,169	-	**5,169**
Disposals	(36)	-	**(36)**
Revaluations	756	-	**756**
At 31 March 2019	**56,406**	**-**	**56,406**
Net book value:			
At 31 March 2019	**17,712**	**3,428**	**21,140**
At 31 March 2018	**18,026**	**1,888**	**19,914**

The developed software assets above are held at revalued amounts. If they had been held at historic cost their carrying value would have been £17.022 million (31 March 2018: £17.660 million).

	Developed Software £'000	Assets under construction £'000	Total £'000
Cost or valuation:			
At 1 April 2017	52,859	10,992	**63,851**
Additions	-	5,644	**5,644**
Disposals	-	-	**-**
Write-offs	-	-	**-**
Impairments	-	-	**-**
Reclassifications	14,752	(14,748)	**4**
Revaluations	932	-	**932**
At 31 March 2018	**68,543**	**1,888**	**70,431**
Amortisation:			
At 1 April 2017	45,214	-	**45,214**
Charged in the year	4,625	-	**4,625**
Disposals	-	-	**-**
Revaluations	678	-	**678**
At 31 March 2018	**50,517**	**-**	**50,517**
Net book value:			
At 31 March 2018	**18,026**	**1,888**	**19,914**
At 31 March 2017	**7,645**	**10,992**	**18,637**

7. Trade receivable and other current and non-current assets

	31 March 2019	31 March 2018
Trade receivables and other current assets:	£'000	£'000
Trade and other receivables	6,077	5,617
Prepayments	2,843	3,237
	8,920	**8,854**
Other non-current assets:		
Prepayments	57	173
Total	**8,977**	**9,027**

8. Cash and cash equivalents

At 31 March 2019, the agency held £22.4 million of cash (31 March 2018: £25.3 million).

The cash balance disclosed above includes £1.3 million (31 March 2018: £1.2 million) of civil penalties which have been collected on behalf of the Consolidated Fund (see note 1.5).

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

Current financial and other liabilities	31 March 2019 £'000	31 March 2018 £'000
Trade and other payables	738	1,465
Accruals and deferred income	12,697	11,150
Employee leave accrual	6,591	7,260
	20,026	**19,875**
Amounts payable to the Consolidated Fund	1,328	1,173
	21,354	**21,048**
Non-current financial and other liabilities:		
Non-current liability in respect of on-balance sheet PFI assets	42	76
Total	**21,396**	**21,124**

10. Provisions

a) Movements in provisions

	Early departure and additional pension commitments £'000	Provision for legal claims and compensation £'000	Provision for accommodation costs £'000	Total £'000
Balance at 1 April 2018	**3,304**	**1,306**	**84**	**4,694**
Increase in provision	5,393	625		6,018
Provisions not required written back	(320)	-	-	(320)
Provisions utilised in the year	(2,962)	(305)	-	(3,267)
Unwinding of discount	-	-	-	-
Balance at 31 March 2019	**5,415**	**1,626**	**84**	**7,125**

Provisions for early departure and additional pension commitments

The detailed accounting policy for early departure costs is set out in note 1.11. The costs are expected to fall due as shown below in note 10b and the total in-year costs are detailed in the remuneration and staff report.

Provisions for legal claims and compensation

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

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

	31 March 2019 £'000	**31 March 2018** £'000
Early retirement and pension commitments fall due:		
Within one year	5,415	3,297
Between one and two years	-	7
	5,415	**3,304**

11. 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 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 whilst 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 2019 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 2016, and completed in December 2016. 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 £10.7 million, then adjusted down by £12.3 million due to remeasurement to the asset ceiling under IAS 19 has resulted in a pension asset of £8.7 million at 31 March 2019, having previously been an asset of £10.4 million at 31 March 2018. The performance of the scheme assets during the year has been very strong, showing a return of £11.5 million. In addition, there have been changes in the demographic assumptions used by the actuary, which have almost eliminated the increase in the defined benefit obligation which arose from higher inflation in year and lower returns on corporate bonds.

In 2018-19, the agency made contributions at a rate of 20.4% (also in 2017-18) of pensionable salary. The total cash contribution that the agency expects to

make to the LGPS scheme in the year to 31 March 2020 is £0.675 million.

Transactions relating to the Local Government Pension Scheme

Recognised as operating costs

	2018-19		2017-18	
	£'000	% of pay	£'000	% of pay
Service cost	1,274	24.4%	1,430	27.4%
Net interest on defined liability	(274)	-5.3%	(38)	-0.7%
Administrative expenses	230	23.6%	224	4.3%
	1,230	**23.6%**	**1,616**	**31.0%**
Actual return on scheme assets	**15,933**		**9,472**	

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

	2018-19	2017-18
	£'000	£'000
Return on plan assets in excess of interest	11,490	5,053
Other actuarial gains on assets	-	-
Actuarial (losses)/gains arising from changes in financial assumptions	(7,322)	5,121
Actuarial gains arising from changes in demographic assumptions	7,084	-
Actuarial gain recognised in Statement of Changes in Taxpayers' Equity	**11,252**	**10,174**

Under IAS 19, the surplus in the defined benefit plan as shown in this note is only recognised as an asset on the Statement of Financial Position up to the value of the asset ceiling, which is the present value of economic benefits available in the form of refunds from the plan and reductions in future contributions to the plan. The net defined benefit pension asset on the Statement of Financial Position at 31 March 2019 has been reduced by £12,349k to reflect the value of the asset ceiling.

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 2019 £'000	31 March 2018 £'000
Fair value of scheme assets	187,424	176,679
Present value of funded liabilities	(166,005)	(165,960)
Net asset	21,419	10,719
Present value of unfunded obligations	(334)	(341)
Remeasurement of net defined benefit pension asset for changes in asset ceiling	(12,349)	-
Net asset in the Statement of Financial Position	**8,736**	**10,378**

Reconciliation of fair value of the scheme liabilities

	31 March 2019 £'000	31 March 2018 £'000
Opening defined benefit obligation at 1 April	166,301	171,393
Service cost	1,260	1,430
Interest cost	4,169	4,381
Remeasurements losses/(gains) arising from changes in financial assumptions	7,348	(5,104)
Remeasurements (gains) arising from changes in demographic assumptions	(7,084)	-
Estimated benefits paid	(5,728)	(6,016)
Past service costs, including curtailments	14	-
Contributions by scheme participants	76	234
Estimated unfunded benefits paid	(17)	(17)
Closing defined benefit obligation at 31 March	**166,339**	**166,301**

Reconciliation of fair value of the scheme assets

	31 March 2019 £'000	31 March 2018 £'000
Opening fair value of assets at 1 April	176,679	172,476
Interest on assets	4,443	4,419
Return on assets less interest	11,490	5,053
Other actuarial gains		
Administration expenses	(230)	(224)
Contributions by the employer including unfunded	851	851
Contributions by scheme participants	76	137
Estimated benefits paid plus unfunded net of transfers in	(5,885)	(6,033)
Estimated fair value of scheme assets at 31 March	**187,424**	**176,679**

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

The agency has a service level agreement with DWP which has accepted that if the pension scheme liability were 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 agency for the amounts recognised as operating costs above. These costs totalling £1.23 million for 2018-19 (2017-18: £1.62 million) are instead fully financed by our sponsor department HMRC. The agency 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	163,830	166,339	168,888
Projected service cost	1,243	1,267	1,291
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	166,485	166,339	166,193
Projected service cost	1,267	1,267	1,267
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	168,737	166,339	163,976
Projected service cost	1,297	1,267	1,243
Adjustment to life expectancy assumptions	+1 year	None	-1 year
Present value of total obligation	172,272	166,339	160,610
Projected service cost	1,311	1,267	1,225

History of surplus or deficit in the scheme

	31 March 2019 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2015 £'000
Fair value of employer assets	187,424	176,679	172,476	146,496	151,342
Fair value of defined benefit obligations	(166,339)	(166,301)	(171,393)	(154,330)	(160,021)
Net surplus/(deficit) arising from defined benefit obligation	**21,085**	**10,378**	**1,083**	**(7,834)**	**(8,679)**

Financial assumptions

	31 March 2019 % per year	31 March 2018 % per year
RPI increases	3.5%	3.4%
CPI increases	2.5%	2.4%
Salary increases	4.0%	3.9%
Pension increases	2.5%	2.4%
Discount rate	2.4%	2.4%

The discount rate is the annualised yield at the 16 year point on the Merrill Lynch AA rated corporate bond yield curve.

Composition of scheme assets

	31 March 2019		31 March 2018	
	£'000	%	**£'000**	%
Equities	101,966	54.4%	108,035	61.1%
Target return funds	49,982	26.7%	39,596	22.4%
Alternative assets	28,916	15.4%	20,442	11.6%
Cash	6,560	3.5%	8,606	4.3%
	187,424		**176,679**	

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 2019	31 March 2018
Retiring today:		
Males	21.3	22.3
Females	23.8	24.8
Retiring in 20 years:		
Males	23.0	24.6
Females	25.6	27.0

The post retirement mortality is based on the Club Vita mortality analysis, projected using the CMI_2018 Model released in March 2019, allowing for a long term rate of improvement of 1.5% per annum and adopting the default smoothing parameter of 7.0. At the last accounting date, the CMI_2015 Model was adopted. The effect of updating to the most recent model is reflected in the Change in demographic assumptions figure. 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 the proportion of membership that had taken up the option under the new LGPS to pay 50% of contributions for 50% of benefits at the previous valuation date will remain the same.

12. 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 2019	31 March 2018
	£'000	£'000
Obligations under operating leases comprise:		
Land and buildings		
Not later than one year	5,922	3,744
Later than one year and not later than five years	6,691	3,311
Later than five years	35	-
	12,648	**7,055**
Other		
Not later than one year	4	23
Later than one year and not later than five years	6	11
Later than five years		-
	10	**34**

The obligations have increased during the year as the agency has entered into significant new lease contracts and there has been an increase in lease costs. 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 PFI contract for accommodation services or the Capgemini and Fujitsu contracts for IT services..

13. 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 agency 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.

(a) 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 2019	31 March 2018
	£'000	£'000
Total commitments, analysed by period in which they are due:		
Not later than one year	2,055	3,111
Later than one year and not later than five years	1,617	551
Later than five years	-	-
	3,672	**3,662**

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 2019, the agency paid £3.2 million (2017-18: £4.2 million) 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 12.

(b) Total charge to the Statement of Net Comprehensive Expenditure and future commitments (on and off-balance sheet)

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 £3.3 million (2017-18: £5.5 million).

Future commitments in respect of these payments are analysed below:

	31 March 2019	31 March 2018
	£'000	£'000
Total commitments, analysed by period in which they are due:		
Not later than one year	2,072	3,136
Later than one year and not later than five years	1,627	579
Later than five years	-	-
	3,699	**3,715**

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.

14. Contingent liabilities at 31 March 2019

Contingent liabilities are as follows:

The agency is involved in several cases involving litigation 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 £0.1 million (31 March 2018: £0.4 million) of contingent liabilities as at the end of the financial year.

15. Related party transactions for the year ended 31 March 2019

The agency is an executive agency of 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 £7.6 million (2017-18: £8 million) earned from HMRC and expenditure includes £3.1 million (2017-18: £2.4 million) invoiced to the agency by HMRC. Current assets include £nil (31 March 2018: £9,000) of debt due from HMRC and £nil (31 March 2018: £nil) of current liabilities 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 DWP, the MHCLG and the Welsh Assembly Government. During the year, income was invoiced to these parties under service level agreements as follows:

DWP	£7.3 million	(2017-18: £7.9 million)
MHCLG	£3.4 million	(2017-18: £3.7 million)
Welsh Government	£8.6 million	(2017-18: £8.6 million)

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 pages 56 and 57 of the Remuneration and Staff Report and in note 11.

During the year, no Board Member has undertaken any material transactions with the agency. 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.

16. Events after the reporting period

The Accounting Officer authorised these financial statements for issue on the same day as certified by the Comptroller and Auditor General.

There are no reportable non-adjusting events after the reporting period.

17. Standards in issue but not yet effective

These accounts have been prepared in accordance with the Treasury's Financial Reporting Manual 2018-19. 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 impact on our accounts from such standards is described below:

IFRS 16 Leases

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. During 2018-19 HM Treasury have agreed to delay the adoption of this standard within the government by one year and it will now be effective for annual reporting periods beginning on or after 1 January 2020.

The agency is assessing live contracts to assess whether sufficient information exists to enable the assessment under IFRS 16 criteria. The agency's exposure falls primarily into two areas, Estates and IT. Key stakeholders from these business areas have been identified to assist with this work, alongside legal and commercial colleagues. The agency has been working in conjunction with our parent department to align our accounting treatments as our parent department are involved in, and joint-signatories to, many of the services the agency purchases.

During 2018-19 the agency has reviewed the leases currently held for our buildings and as a result the agency expects there to be a significant impact on the agency's financial statements on adoption of the new standard. The agency expects lease payments currently classified as operating expenditure to be re-classified and brought on-balance sheet with the annual cost recognised instead as depreciation. The agency's lease expenditure for 2019-20 is forecast to be £8.0m. During 2019-20 the agency will review this assessment to make sure it continues to reflect the agency's latest lease arrangements and the agency will also review other leases held under the standard to determine the impact on the financial statements.

PAYMENT OF LOCAL AUTHORITY RATES (POLAR)

Introduction

The agency is responsible for administering the POLAR scheme on behalf of Her Majesty's Government. The Chief Executive Officer of the agency is the Accounting Officer for POLAR. The POLAR financial statements are included within the HMRC consolidated financial statements are audited as part of the overall HMRC audit. It does not form part of the agency's financial statements and is not audited as part of the agency's audit. Therefore the following information has not been subject to audit.

Background

POLAR is a scheme by which local authorities in the UK are compensated by central government for the business rates due on properties occupied by a diplomatic mission or international organisation with diplomatic status. In accordance with the Vienna Convention on Diplomatic Relations 1961, Diplomatic Privileges Act 1964 or relevant Statutory Instrument, diplomatic missions and international organisations are exempt from all national, regional and municipal dues and taxes in respect of premises of the mission, other than such as represent payment for specific services rendered.

Under the scheme, diplomatic missions and international organisations are required to contribute an amount known as the Beneficial Portion. This is to take account of the extraneous services rendered, such as the fire services and street lighting. The Beneficial Portion was set at 6% of the overall rates bill.

The agency's responsibilities

The agency administers the POLAR scheme. Essentially the agency's role is to liaise with local authorities, diplomatic missions, international organisations and the Foreign and Commonwealth Office (FCO).

The agency pays 100% of the rates liability to the local authorities and then seeks to recover the Beneficial Portion from the mission or organisation. If a mission or organisation falls into arrears then the FCO will remind them of the legal requirement to pay the Beneficial Portion.

Fact and figures

In 2018-19, there were 244 diplomatic missions in London, plus 32 consulates outside of London and 41 international organisations. There are four consulates in Northern Ireland. Rateable values ranged from less than £1,700 to £11.2 million. A total of 31 local authorities are involved in the POLAR scheme, mainly in Greater London. During 2018-19 the POLAR scheme required £84.4 million of funding, representing cash payments made to authorities, net of beneficial portion recovered (2017-18: £76.5 million). The Beneficial Portion collected was £5.7 million (2017-18: £4.3 million).

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.

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 agency'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 income – this is cash received in the current year that relates to income for future accounting periods.

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

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

IAS – International Accounting Standard. Accounting standards which government departments must comply with where relevant.

IFRIC – the IFRS Interpretations Committee (IFRIC) develops guidance on appropriate accounting treatment of particular issues. Government departments must comply with this guidance where relevant.

IFRS – International Financial Reporting Standards. Accounting standards which government departments must comply with where relevant.

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

Losses – Examples of losses include overpayments of salary due to miscalculation, misinterpretation, or missing information and fruitless payments. 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.

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 – 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 agency has a present legal or constructive obligation as a result of a past event, it is probable that the agency will be required to settle that obligation and an amount has been reliably estimated.

Receivables – 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.

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 (SoCTE) – 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 – provides a snapshot of the assets and liabilities of the agency as at the end of the reporting period.

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