Tuesday 12 Jun 2018

Ordered by the House of Commons to be published on 12 Jun 2018.

Listen to the meeting

Members present: Nicky Morgan (Chair); Charlie Elphicke; Stephen Hammond; Stewart Hosie; John Mann.

Questions 1-114

Witnesses

Melissa Tatton, Chief Executive Officer, VOA and Pedro Wrobel, Chief Strategy Officer, VOA.

Examination of witnesses

Witnesses: Melissa Tatton and Pedro Wrobel.

Q1 **Chair:** Thank you both very much for being here to give evidence to the Committee this morning. For the benefit of those watching from outside the room, I will ask you to introduce yourselves.

Melissa Tatton: I am Melissa Tatton, the chief executive of the Valuation Office Agency.

Pedro Wrobel: I am Pedro Wrobel, the chief strategy officer of the Valuation Office Agency.

Q2 **Chair:** Ms Tatton, you took over as the chief executive in September last year. Perhaps you could set out for us your main priorities and the things you have identified since then?

Melissa Tatton: Perhaps it will be helpful if I start by talking about the core role of the agency, which is to provide independent valuations for council tax, business rates and other valuations that underpin about £50 billion of local taxes.

In a year of significant change, in which we launched check, challenge, appeal—CCA—on 1 April 2017, we have actually had a really strong performance. That demonstrates to me the strong commitment of our people, which I am really pleased about, and also that we have listened to our customers in order to improve. We launched CCA in April. It is working, but there is much more to do to improve. That is clearly a priority. We are on track to deliver the new plan that we published on 14 May this year. Everything that we are due to deliver is later in the coming months, so we are definitely on track.

We have challenges ahead. There was an announcement about accelerating or bringing forward the 2022 revaluation to 2021. As you would expect, we are full-on in terms of planning for that. At the same time, it was announced that we would move to more frequent revaluations, on a triennial basis. We know that, after 2021, the next revaluation will be in 2024. That will be a new way of working for us. Again, we are planning for that at the same time. The priorities will be to continue to improve CCA and to listen to our customers, as well as delivering the 2021 revaluation and making sure that the agency is able to deliver more frequent revaluations, which I am confident that it will.

Actually, while some things will change, the core purpose of our work and the core skills of the agency will not change, so a priority for me is the leadership of our people and continuing to invest in our people, so that we continue to build on the strengths that the agency already has and so that we can deliver for the future.

Q3 **Chair:** Thank you. One of the VOA's main responsibilities, as you have said, is evaluating business rates and hearing appeals from businesses. I think you will be aware that there has been very strong criticism of the new business rate appeals process—check, challenge, appeal. *The Times* called it shambolic and in an article in *The Times* in April, a VOA spokesman said that you had incorporated user feedback from a number of sources, adding improvements to the overall user experience. Do you agree that there were problems? What improvements have been made?

Melissa Tatton: I would start by saying that the system is working. If anyone is in any doubt, I would encourage them to use the system. We did have problems in the early stages and some IT difficulties, but that is why we have been listening to people, fixing things and prioritising. I am really grateful to all those users who have given us feedback about their priorities for function improvements. The road map that we delivered on 14 May reflects priorities for our customers and broader stakeholders.

Q4 **Chair:** Thank you. You talked about IT issues and everything else. What was the state of the planned IT when you took over as chief executive? Was there sufficient testing? Was it just an IT issue that led to problems with people using the system?

Melissa Tatton: There were some delays in the functionality that people needed to use. As I said, we have been listening to make sure that where we have to sequence things, we prioritise those that matter most to our customers. The system has been stable for a long time in terms of IT use. While we acknowledge that it does not have all the functionality that people would like now, we are on track to deliver, and I am confident in the plan that we published. As part of issuing a new delivery plan, we have absolutely been focused on making sure that we have the right testing, escalation and programme management—all the things that are core to delivering a new IT system. We have been working even more closely with our parent Department—HMRC—to maximise the benefits of its IT expertise as well.

Q5 **Chair:** So what happened when there were problems? Was there a backlog in the appeals? Is there still a backlog in terms of people waiting for appeal decisions?

Melissa Tatton: In terms of the new system, there is no backlog. The system for CCA is very different from 2010 appeals. We are still on track to clear those. For the new system, we have a target of clearing 90% of checks within three months. We are delivering to that at the moment. Over 23,000 checks received to the system have been processed.

Q6 **Chair:** Is there still a backlog under the old system? Are there still customers waiting for appeals to be decided?

Melissa Tatton: Under the old system, the stock of property assessments was about 2 million. About 1.14 million appeals were received, so over half were appealed against, but it was possible to appeal with little or no evidence, which is one of the reasons why the system was changed. It provided uncertainty for people and clogged up the system—70% of those appeals resulted in no changes. We have just over 130,000—I think 138,000—outstanding, and 54,000 of those are held up in litigation. Of those not in litigation, 68% are less than two years old and we are on track to clear the balance of those appeals by September 2019. They are not appeals that were made in 2010 that are backlogged to then; they are appeals relating to the 2010 list. Previously you could appeal with little or no evidence; that is something that the new system of check, challenge, appeal is designed to tackle. You need to provide evidence in order to progress.

Q7 **Chair:** How long does an average business wait to get a decision? If a business decides to make an appeal today? Perhaps you could talk us through the process. Mr Wrobel, I do not want to exclude you from these discussions so please feel free to chip in as appropriate. Perhaps you could talk us through the timescale for businesses that appeal.

Melissa Tatton: I will ask my colleague to come in if he wants to add anything, but to resolve a check has taken on average about 1.5 months, so about six weeks. Somebody can register, link to their property, check the details and let us know if the facts have changed or are not captured correctly. We can also change valuations at that point. That means you do not move on to challenge unless you disagree so we have a shared view of the facts, so you move into a debate about the calculation based on a shared view of the facts between the agency and the customer.

Then we have an opportunity to discuss that. The customer is able to raise their concerns with us and share the evidence. We will discuss it with them, and in making our decision will share the basis of the evidence on which we are basing the calculation. You need to move to appeal only if you do not have a shared view of the underlying facts and calculation, which is quite different from the previous system where you could put in a speculative appeal with little or no evidence. As I say, previously 70% of appeals resulted in no change.

Q8 **Chair:** Are there any common issues that people complain about? Are issues thrown up that are common to many of the complaints about the way other valuations have been conducted, or about the bills being too high?

Melissa Tatton: The VOA is not responsible for billing; it is the valuation that is subject to CCA. It is the responsibility of the agency. The check is basically on the facts. Pedro, is there anything you want to add?

Pedro Wrobel: No themes have been thrown up in the early work that we have received, but one thing that might be worth emphasising is that one of the bits of functionality that we are adding is called a group prechallenge review. It gives agents and ratepayers the opportunity, if there are multiple properties that have similar issues, to tackle issues in one go, rather than one case at a time.

Q9 **Chair:** In April this year, *The Times* reported that almost 90% of users were dissatisfied with the appeals process for business rate decisions, according to data obtained from yourselves. Do you think that still holds? Is that what your data still suggests? If not, how have you been able to change people's impressions?

Melissa Tatton: No. We receive feedback in a number of ways. The number that you referred to relates to the fact that it is possible to go to the system either in terms of "find your business rates" or check, challenge, appeal. We had about 1,200 negative bits of feedback out of about 20 million page views. A tiny fraction—and those people had not specifically completed a check—provided negative feedback.

We take all feedback very seriously and are committed to improving; that is why we published a plan. However, the sample size was a fraction of a fraction of 1%. In April 2018, we had a much more robust sample of those who had actually completed a check—10%—and 57% of those were satisfied or very satisfied. I am far from complacent. We still have a way to go, but that is a far more representative number than some of the numbers that have previously been quoted in the press.

Q10 **Chair:** Finally, how would you respond to the assertion that the reduction in business rate appeals should not be trusted because the new system or process is far too hard for businesses to navigate?

Melissa Tatton: I disagree, on the basis that people are using the system.

Chair: But the numbers are much smaller than they used to be.

Melissa Tatton: They are much smaller. It is possible that some people are waiting for the new functionality that we are launching shortly and over the coming months. They may well be waiting to check and then potentially challenge on that basis.

In the coming week or so we will provide a simplification of the customer registration journey. I know, because our customers have told us so, that that functionality will be really welcome. We will introduce an API—an application programme interface—which allows your software to link with ours. It is a little bit like the way an app works on your phone—I know no more than that. People will be able to view property links. Later in the month, we will allow people to appoint their agent to multiple properties.

One of the big ones for our customers comes later, in July to September, when they will be able to submit a check using an API. That is all functionality that we know really matters to our customers and stakeholders. We publicise upcoming releases on our website and encourage people to look out for them. As I say, we are listening to stakeholders and we know there is work to do, but we are on track, and I am confident in the delivery schedule that we have published.

Q11 **John Mann:** Morning. Your budget is coming down 29%, but you are having to revalue every three years rather than every five years. What are you not doing that you were doing before?

Melissa Tatton: The previous spending review settlement anticipated a plan for a 29% reduction. Some of that was back-loaded to later years, but since then, we have been tasked with delivering more frequent revaluations, as you say, and the 2021 revaluation. The Government have committed to ensuring that we are sufficiently funded, so we are in discussions about what resources we need to discharge our statutory duty.

Q12 **John Mann:** So the cut is being reduced?

Melissa Tatton: We are currently in discussions about what funding is needed to do the task that is ahead of us.

Q13 **John Mann:** You are anticipating that the cut will be reduced.

Melissa Tatton: We are currently in discussions to ensure that we have the right resources to do the job.

Q14 **John Mann:** It was a 29% cut by 2021, which was back-loaded. What does it need to be for you to do the job?

Melissa Tatton: As you would expect, I am tasked with running the agency effectively and efficiently, so we are looking at ways in which we can continue to reduce—

Q15 **John Mann:** How much?

Melissa Tatton: We do not have firm figures at the moment. We are currently in discussions.

Q16 **John Mann:** You do not have firm figures. That does not sound very efficient, then. You must have a clear picture of how much money you require to deliver what Parliament is asking you to do.

Melissa Tatton: We know that the average cost in previous years over the whole life cycle of a revaluation was about £50 million. Of course, we have the ballparks, but we are working out what exactly it would take to do that for this year and for years ahead. We are currently in discussions. I am confident that we have a firm grip in terms of the planning that is needed—

Q17 **John Mann:** I am confident on that—very confident—which is why I am asking a very simple question. How much additional money, relative to the 29% budget reduction by 2021, do you need to do what Parliament has tasked you to do?

Melissa Tatton: In previous years, it has cost on average £50 million to undertake a revaluation, but we have not undertaken more frequent revaluations to date. We are working through to see what we need going forward. We are currently in discussions with the Treasury, and it would not be appropriate for me to—

Q18 **John Mann:** It would be highly appropriate, in front of a parliamentary Committee—in fact, I would suggest that it would be inappropriate for you not to tell us—for you to tell us how much you need to do what Parliament has tasked you to do. We have to vote on these things. We may or may not agree with what you say and the Treasury may have a different view on it, but we sit here on behalf of Parliament. I am asking you: how much do you need? Parliament has previously voted through the 29% reduction. How much do you need to do what Parliament is tasking you to do?

Melissa Tatton: The landscape has changed recently. We have been heavily engaged with policy colleagues in terms of our ability to deliver, and that is always subject to funding, but right at the moment we are working through what those plans are and therefore what we might need in terms of additional money or a reduction of the reduction.

Q19 **John Mann:** When we, or whoever is on this Committee in future years, question you in the future, I hope you will not come and say, "We could not do x, y, z", when you have not told us how much we should be pressing the Government for to ensure that you can do the job.

Let me move on to the staircase tax. How will you reimburse affected businesses?

Melissa Tatton: That is not the role of the agency. That would be for the Government. The role of the agency in terms of the staircase tax was to implement the outcome of the decision in the Supreme Court in terms of the valuation, so that the handling of any outcome that is not a valuation will not be for the agency. We are not involved in billing, collection or reimbursement.

Q20 **John Mann:** So that is the Treasury, then?

Melissa Tatton: MHCLG, too.

Q21 **John Mann:** Amazon's business rates are down by £140,000. What assessment are you giving to the unfair advantage the current system gives to online businesses compared with the bricks-and-mortar businesses with which they compete?

Melissa Tatton: The question of fairness—or otherwise—is not a question for the Valuation Office; it is a policy question for Ministers. But the role of the agency in terms of business rates is not about setting the policy or the business of collection; it is about providing the independent valuations, as set out in legislation.

Q22 **John Mann:** So you do not take any account of the online nature of the business and you do not have any internal workings on how or whether you could.

Melissa Tatton: Our role is to value the properties and maintain an accurate rating list. We play an important role in the wider business rates system, but it is limited. It is set out in statutes. It is about valuing the property, not about valuing the business.

Q23 **John Mann:** So who does give advice on whether business rates are fit for purpose?

Melissa Tatton: That policy is owned by MHCLG[1] colleagues.

Comment [CTJ]: Footnote – MHCLG and HMT

Q24 **John Mann:** But you have a lot of expertise. Are you saying that you are never asked at all to give any advice on whether business rates are fit for purpose?

Melissa Tatton: We have a huge amount of expertise in terms of property valuation. We collect a lot of data and, as you would expect, we work closely with our policy partners on policy matters. But comments on those are a matter for others and not for the agency.

Q25 **John Mann:** So you do give lots of advice on what options are and what trends are.

Melissa Tatton: We give advice on the basis of the data that we gather, to the extent that we are able to share it, in terms of property valuation. We play a really important role in the business rates system, but our role is limited by law to the part that we play, which is around providing independent property valuations. Questions about the fairness—or otherwise—of the broader business rates system are not for the agency.

Q26 **John Mann:** The law does not tell you that you cannot give advice—as you clearly do. The law does not restrict you on that. The Governor of the Bank of England says that business rates are a real issue. That is what he told us and that is what businesses are telling him. Business rates are leading to the demise of the high street. What are you doing about that?

Melissa Tatton: What is to be done—or otherwise—is a matter for Ministers and for policy colleagues.

John Mann: I am talking about the background advice on what is happening.

Melissa Tatton: We value properties at a particular point in time, in the regular revaluations—the last one being in 2016[2]. That is the data that we have. We are engaged in working with stakeholders. We mainly provide advice in terms of deliverability and implementation or otherwise of options. But on the wider business rates system, those questions are not for the agency.

Q27 **John Mann:** Some people would suggest that there is a major crisis now on the high street. That has been suggested for market towns—I would endorse that—but not just market towns. It has been suggested for plenty of other towns and conurbations as well. Should we be worried

Comment [CTJ]: Footnote – This should be 2015

---

[1] The following foot note has been inserted at the request of the VOA:

MHCLG and HMT - The Treasury and MHCLG jointly set the overall policy, the Treasury is responsible for funding decisions, MHCLG has legislative responsibility for the business rates system, and the VOA is responsible for compiling and maintaining the lists of rateable values for properties. In practice the departments and the VOA work together collaboratively to ensure the business rates system operates effectively. The Treasury is responsible for the ongoing work on reviewing corporate tax and the digital economy, and published a position paper at Autumn Budget 2017 with a further update at Spring Statement.

[2] The following foot note has been inserted at the request of the VOA:

The last valuation date being in 2015

about the crisis on the high street from the data and information that your agency has?

Melissa Tatton: That is not a question for me. The data I hold is around the property—

Q28 **John Mann:** Sorry. It is absolutely a question for you. You are employed by the state. We are parliamentarians. We have the ability, to the best of our competence, to try to make decisions, which we make for better or for worse, so we need to know what is going on. You have a lot of expertise, so I am asking you, is there a crisis on the high street in the judgment of your agency, from the data that you are picking up and analysing, that we should be aware of?

Melissa Tatton: The role of the agency is to provide independent property valuations at a particular point in time. That is why I am unable to comment.

Q29 **Chair:** But surely, property valuations must reflect the state of the market. One of the great unfairnesses of the system is that when businesses are struggling and rents are going down, or landlords are open to potentially being more flexible on rents, rates do not change. That is the killer for businesses. Retailers are going out of business because they cannot afford rates—it is not to do with rents. The rates are deeply inflexible. In fact, certainly in Loughborough, it is the rates that are putting people off renting premises in the middle of our town.

Mr Mann has a point; I understand the difference, but, Ms Tatton, you are head of a very important agency, as you said, in the business rates landscape, so we would like to hear your view on this, please.

Melissa Tatton: I will ask my colleague in a moment if he has anything to add. We do periodic revaluations, so we have valuations for a point in time. We did the 2017 list and we will start the 2021 list. It is a point in time as opposed to monitoring the property sector over time.

Q30 **Chair:** But the high street has been struggling for years—that is not new. There was the rise of online shopping, the Mary Portas initiatives that were started in 2010 by Ministers and I am sure there were others before. It is not a new phenomenon of retailers in particular, and other businesses and organisations, finding it a real struggle to afford the business rates. I am happy to hear from Mr Wrobel, but I would also like to hear how you are reflecting the concerns that you must hear all the time in preparations for the 2021 revaluations.

Melissa Tatton: Our valuations follow the market, so where there are changes between sectors and regions, they will be reflected as and when we do a revaluation.

Pedro Wrobel: That is the key point. The way the business rate legislation works is that we do a revaluation on a periodic basis; the last one was in 2017 and the one before that was in 2010. Each time we look again at the revaluation we can reflect the change in rateable values between those two dates. The change in rateable values reflects the change in open market annual rents for those properties. Where the annual open market rent has gone up, rateable values will go up in line with that.

The determination of business rate bills on the basis of rateable values depends on the multiplier set by the Government and on the application of wider reliefs set out in policy and administered by local authorities. Our role in the process is limited to that regard. The differences that we have seen in the market are reflected in the changes in rateable values. We can talk a bit about the changes in rateable values that we saw between the 2010 and 2017 revaluations, but that is the sort of evidence that we hold. We publish some of that evidence on a regular basis. We have seven sets of official statistics that we make public. If it is helpful, I can talk about those.

Q31 **John Mann:** You said based on "open market" rental values, but with the way the commercial property market has gone, there are all sorts of tie-ins with leveraged capital buyouts that mean that the crisis can be delayed because people are tied in, but eventually that bubble bursts. You will have evidence of that. We have seen it as some of the bigger retailers have been forced to exit presumably expensive smaller shopping complexes—Marks and Spencer is a good recent example. We are seeing a lot of that at the moment.

You have a unique insight into what is happening across the country. Are we going to face a potential crisis on some high streets? Do you have the data that would show the types of high street that will be disproportionately impacted?

Pedro Wrobel: Our data is limited. We collect data for the purposes of doing the revaluations, so it is at a particular point in time. The way in which we calculate rateable values is supposed to represent the open market rental value, aside from the particular deals and circumstances that particular businesses have. We do not base the rateable value on the exact rent that a business is paying at that point in time, but rather on what the open market rental value would be of those premises at that point. We don't have a detailed understanding of the exact rental arrangements of each high street; that is not part of the calculation.

One bit that might be worth adding to this is that one of the reasons the Chancellor made his announcement in the spring statement about making revaluations more frequent was to better reflect the market. By having revaluations every five years, or seven years as it was previously, the rateable values become very different from the initial valuations, so making that more frequent will bring those two factors closer and hopefully produce a better reflection. As Melissa pointed out, that is a policy point and others are better placed to comment on that than we are.

Q32 **John Mann:** I could go on and on about that, but I will leave it to others.

My final question is about your relationship with other Departments. I have two examples to ask you about. If a business installs CCTV they get charged more, but installing it assists the police significantly, and local authorities. The police cannot install CCTV and local authorities have a cost in doing so, so one could argue that if businesses are putting in CCTV systems there is a wider societal benefit but also a specific benefit to other parts of Government. Yet, they are disincentivised because that investment increases their rateable value. That is one example.

The second example is about MHCLG and the community infrastructure levy. If you have an empty property, looking at what the future rateable value will be is obviously a key part of the decision about whether to invest in that property, but because of the community infrastructure levy and how it is set up a local authority can charge you, up front if it wishes, a huge amount to move into an empty property—indeed into any property—in most situations. Therefore, there is a disincentive in doing so, which means that the property remains empty, affecting the amount of rates collected. How do you deal with those two policy issues in terms of your discussions with other Departments—or don't you?

Pedro Wrobel: I can comment on the operational side of that, which might be helpful. CCTV is one of the items that are explicitly set out in the plant and machinery regulations. Legislation specifically makes that rateable, so the impact of a CCTV system on rateable value is as set out in law and our role is to follow that.

In terms of the wider question on fairness and the appropriateness of the impacts you described regarding the community infrastructure levy, those are both policy questions for colleagues at the Ministry of Housing, Communities and Local Government. We play our part, as Ms Tatton described, in those policy discussions and we have regular conversations with MHCLG colleagues to support them with the evidence they require, but the decisions are for them and that is not something it would be appropriate for us to comment on.

John Mann: No, but you play your part in terms of that information. That is useful to know.

Chair: I have just whispered to my Clerk that I think you have very kindly volunteered officials or Ministers from MHCLG to come before the Committee. We shall make it clear that you have said that they are the people to answer these particular questions, so thank you for that—I'm sure they will thank you for it. We're going to move on and hear from Stephen.

Q33 **Stephen Hammond:** Good morning and thank you for coming to give evidence. Can you explain why the valuation office thinks that ATMs should be subject to business rates?

Melissa Tatton: I will start off and then hand over to my colleague. We are awaiting judgment from the Court of Appeal at the moment, so we would not want to say very much about the case, but I can state, for those who do not already know, the principle of it. It's whether the space that is occupied by ATMs located in supermarkets, convenience stores and petrol stations is separately rateable from the host premises. That case addresses some really important issues of rating law, on which clarity is required for proper administration, but we are awaiting, as I said, the outcome, the judgment, from the Court of Appeal at the moment.

Q34 **Stephen Hammond:** I understand that and am not going to ask you to go into the specifics of the case, but the valuation office's proposition is that ATMs should be subject to business rates and they should be subject to business rates whether they are outside or inside a store. What is the basic proposition for rating an ATM? For instance, if it's inside a store, what is the difference between the ATM and a Häagen-Dazs ice cream box? Both are probably being operated by the operator of the store on behalf of someone else, but you're not proposing to separately rate the Häagen-Dazs ice cream box, are you?

Melissa Tatton: I would say that the outcome from the Court of Appeal decision is about getting clarity for us; that is one of the things that we would like to achieve, for proper administration of the system. Is there anything that you would like to add, Pedro?

Pedro Wrobel: Yes, I would just like to say that there is no particular agenda that the agency is pushing. The only thing we are asking for is clarity. The issue for us is that the last decision on this case did not give full clarity, as far as we are concerned, to be able to operationalise, so that is what we are hoping—

Q35 **Stephen Hammond:** So you are seeking clarity as to whether business rates should be applicable to an ATM inside and outside.

Pedro Wrobel: Yes.

Q36 **Stephen Hammond:** But you are of a mind that there should be business rates on ATMs, in and outside premises?

Pedro Wrobel: Again, there are limits to what we can say, because this is ongoing litigation. As Melissa commented, we are awaiting the decision of the Court of Appeal. The previous court set out a particular decision. It is a slightly odd case, because both sides are appealing on two different points of principle, of clarification. I guess the best way to put it is that that point is unclear at the moment and what we want out of this is clarity over what the appropriate treatment should be of both ATMs and similar property types outside or inside the property.

Q37 **Stephen Hammond:** I understand you are seeking clarity, but has your current policy been operated on the basis of Government guideline, local authority diktat or current case law? Under what principle are you operating at the moment?

Pedro Wrobel: It is absolutely about current case law. Our understanding of the latest case law means that we have been behaving in a certain fashion, which, broadly speaking, is to—well, the relevant case is a previous House of Lords decision, and we had been following that. I should note that it is not the ATM itself that is rateable; it's the site on which it stands. So we had been operating on a particular understanding, which the last decision has not quite been in line with. We felt that the last decision had not given us the level of clarity to operationalise, and obviously ratepayers felt the same, so that is why the case is being heard at the Court of Appeal.

Q38 **Stephen Hammond:** Notwithstanding the Court of Appeal case, has applying business rates to ATMs been a subject of discussion between your office, Mrs Tatton, and the Government, as to a policy decision to apply that?

Melissa Tatton: As Pedro has indicated, we operate in accordance with case law, but we are independent. In terms of our decision making, we follow the law. We follow legislation and we follow case law, but we are not told to do something by somebody else, if that is what your question is.

Q39 **Stephen Hammond:** The question is a bit more basic than that. The Government have made a statement and the courts have ruled and you are following that at the moment, and there is now a dispute about that. I take that point. I am going back to right at the beginning. When the Government or the local authorities set down that you should apply business rates to ATMs, or the site on which the ATM is based, what was the discussion with the relevant authority at that time as to the impact and the potential benefits or disadvantages of such a rating decision?

Melissa Tatton: I would not be able to share if we had given advice, but I am actually not sure. I just don't know the answer. I will see if Pedro is able to add anything. It was before my time and I am not sure of the background.

Pedro Wrobel: As far as I am aware, there wasn't a policy decision to start to rate ATMs. The legislation sets out in principle what counts as a hereditament, which is a property unit for the purposes of business rates. The previous House of Lords decision—it is quite an old decision—clarified, broadly speaking, how one defines a hereditament and how one defines a hereditament where it is inside another hereditament. That House of Lords decision from 1936 sets out how one does that. There has been no further policy decision in that regard since then. It is just a case of us interpreting the law as we believe it to be correct to do so.

Q40 **Stephen Hammond:** I take that point, but post-clarification, you will accept the view that, depending on what the decision is, it could have quite an impact on the future provision of ATMs, which will have quite an impact on the rural ability to access finance, and potentially on financial inclusion. As a Government agency, what discussions would you have with the Government or the relevant authority as to the impact of that likely course of action?

Melissa Tatton: We would discuss the potential impact of cases. It is not for us to make a decision, but that is something that we would regularly engage on with our policy stakeholders. The decision is not for us, but the impact of cases is almost certainly something on which there would be discussion—but the decisions would be for others rather than for the agency.

Q41 **Stephen Hammond:** I understand that point but, given that you have the knowledge of the average liability for an ATM, what is the average liability for an ATM?

Melissa Tatton: I am afraid I don't know.

Pedro Wrobel: I have that to hand. The rateable value of ATMs is about £88 million on the 2017 list. There are about 13,000 of them that are separately assessed, so about £6,500.

Q42 **Stephen Hammond:** Going back to my point, obviously you have the best knowledge about the value. You will presumably then be providing evidence or policy guidance to the Government as to the pros and cons of a decision such as taxing on things like rural impact.

Melissa Tatton: We do not provide policy advice, but we would provide data as appropriate. Where there are a number of options to consider, we would also advise how we would operationalise and the impact of that.

Q43 **Stephen Hammond:** Thank you. You obviously have the average cost of liability. Can you tell us what the costs are so far of pursuing the court case?

Melissa Tatton: I am sorry, I do not have that data to hand.

Chair: Could you write to us?

Melissa Tatton: Yes.

Q44 **Stewart Hosie:** I wish to check something you said earlier: 1.14 million appeals from a stock of 2 million properties. Was that the correct number?

Melissa Tatton: That is correct for the 2010 appeals.

Q45 **Stewart Hosie:** You seemed to be very proud that 70% of those resulted in no change, which means that 30%—almost a third—did. It is a pretty rubbish system when more than half your stock of properties appeal and a third of those are successful and require a change to be made to the valuation. What do you say to that?

Melissa Tatton: The volume is one of the reasons why the Government decided to change the system and moved to the new check, challenge, appeal. In terms of the number of appeals that were successful, that is not necessarily because valuations are wrong. It can often be because facts have changed and we do not have all the evidence and the ratepayer is able to come to us with that further information.

One of the problems with the previous system was that it did not distinguish between those who had evidence that would result in a change and those who provided little or no evidence. The system became quite clogged in order to sift between the two.

Q46 **Stewart Hosie:** You say that is a problem. It is certainly a problem for you because, again, you seem to be very proud of the fact you cleared up more than 153,000 cases from the 2010 list. That was earlier this year. I would really ask the question as an outsider: what the hell are you doing with more than 153,000 open cases from the 2010 list? Why weren’t they resolved some time ago?

Melissa Tatton: They do not all date back to 2010. Of those, over 50,000 are held up in litigation. Of the balance of those, 68% are less than two years old. It often sounds as if they date back to 2010, but they don’t.

Yes, it is also a problem for our customers because it clogged up the system for them. It is not just a problem for the agency.

Q47 **Stewart Hosie:** You make the point that the rules have changed. Indeed, they have. Having gone from 1.14 million appeals on the old system, by April this year, a single case—not 1% but one case—had made it to the appeals stage of the new system. This is because you have put the onus on other people to prove you are wrong, rather than the onus being on you to prove you were right. Of course, we know that in the 30% of those appeals that succeeded, you were wrong. This is really bad, isn't it, when you are effectively going to deny justice to potentially millions of businesses and force them to pay more than they should by putting in place an incredibly complicated system where, by your own admission earlier in this hearing, some of the functionality is not yet rolled out and in place. This cannot be fair for businesses that are overpaying, can it?

Melissa Tatton: No—sorry, no to your previous statement. The system is working. There is more functionality to be rolled out, but people are able to use the system at the moment. To compare the number of cases that have reached the appeals stage under the new system to the old system is maybe not the right comparison to make. Appeals were the way of dealing with it. The important point of the new check, challenge, appeal process is to make sure the facts are established at a much earlier stage to avoid people having to go to appeal.

Where things went to appeal because of a factual difference, people are now able to go on the system online, check the information we have, correct that, and if that is all that is needed, the assessment can be changed very quickly without needing to go either to challenge or to appeal. By the time that small number of cases we imagine end up going to appeal, they will be on the basis of agreed facts and a shared understanding of the method of calculation both by the agency and the customer.

It is a very different system, so comparing the two sets of numbers of appeals is not a helpful one.

Q48 **Stewart Hosie:** Okay. Let's take a step back before the appeal.

We know of 1.14 million appeals under the old system, of which at least 30% were successful—let us call it 300,000 to round it down a bit—compared to the new system with 1,200 valuations being challenged in England. This is a system designed to stop businesses challenging wrong rates valuations, isn't it? You cannot go from 300,000 to 1,000 and say everything is hunky-dory. I don't believe that the agency is suddenly getting its valuations correct to the point that there has been a 99.3% fall-off in however you define appeal or challenge. That does not ring true.

Melissa Tatton: The system is designed to ensure that we put resources where we need them. A factual check can be done swiftly at the beginning. Things only move through the stages of check, challenge, appeal where necessary.

Q49 **Stewart Hosie:** I don't doubt that part of it. What I am saying is that you have put in place such a complicated system that instead of 1 million people appealing and 300,000 of them being upheld, 1,200 have challenged your valuation, because you have put the onus on them. I think Jerry Schurder, the guy from Gerard Eve, was right when he said that the new rules amount to a denial of justice, condemning firms to paying more than they rightfully owe, because you now have a system that is far too difficult for businesses and their agents to use.

Melissa Tatton: No, I disagree. Of those valuations, where there were changes on appeal, we anticipate that a good number of those can be resolved at the check stage much more quickly for our customers as well as much more efficiently and effectively for the agency. In terms of the customer, for those that are quite straightforward, changes can be made through check.

Q50 **Stewart Hosie:** Do any of the senior people in the agency get a bonus based on the reduction in the number of challenges to the valuations?

Melissa Tatton: No.

Q51 **Stewart Hosie:** I will move on. Why were there such substantial changes between the provisional and final business rates settlement data provided by the agency at the start of this year?

Melissa Tatton: There was an error. I will hand over to my colleague who will explain the detail.

Pedro Wrobel: Are you referring to the local government finance settlement?

Stewart Hosie: Yes.

Pedro Wrobel: The calculation that MHCLG colleagues utilised to generate the provisional local government finance settlement is based on the data underlying a statistical publication that the agency put out, which sets out all the stock, all the separate hereditaments, that make up the non-domestic rating list. We published a set of statistics on 5 October 2017 that set out all that data. In early December we became aware that there was an error in that data and we informed MHCLG colleagues that the error existed. We then corrected our statistics and put them out again on 18 January.

Q52 **Stewart Hosie:** That was described as a "fault in the process used to extract data". Why did no one from the agency realise there was a fault until after the publication of the provisional settlement data? I presume you have a QA function that looks at these big extracts, particularly when they are used for subsequent Department calculations in the real world, so what went wrong with the QA process?

Pedro Wrobel: We do; we have very robust quality assurance processes.

Stewart Hosie: Clearly not.

Pedro Wrobel: We work in line with the code of practice for official statistics, and these are official statistics, but errors do happen and the important thing for us is to learn from them. I would make two points.

First, we noticed, as I mentioned, in early December, so we informed colleagues in early December. Secondly, as a result of this process we have made a number of changes. We have revised and improved our QA processes, having identified the particular error. It was an error that affected about 0.5% of the total stock of properties, so having identified what had led to that error, we made sure that we improved our QA processes to account for it. We have also been in touch with the UK Statistics Authority and have brought in their good practice team to work with us over the summer, to make sure that all our processes reflect best practice.

Q53 **Stewart Hosie:** So what was the nature of the error in the selection of data to be extracted? What was the nature of the fault?

Pedro Wrobel: I am going to answer this at a top level; I can do the nerdy version as well if you would like.

Q54 **Stewart Hosie:** Do the nerdy version for me, please.

Pedro Wrobel: Okay. The complexity was caused by the fact that the team were trying to account for some changes in a set of properties that were in the list post the 2017 list, but might not have featured in the 2010 list. They tried to write the code to take the cut from a slightly later basis, not exactly on 1 April when the statistics were supposed to be represented. They took a slightly later cut to try to allow for data lag. What I mean by that is that sometimes, had we taken a cut on 1 April, there might have been some properties for which we made a change in late March, and they might not have been reflected in the data at that point.

Q55 **Stewart Hosie:** But that could happen in the future. How are you going to resolve that particular sort of error—taking the data later, doing the select, or whatever you do, later? How will you resolve that problem?

Pedro Wrobel: It was a particular bit of code within our data interrogation system that was not quite right. We have identified that code error and corrected it. We brought in a statistician from elsewhere within Government to double check; as well as applying our own QA processes, we got somebody else to double check it. As I say, we are now working with the UK Statistics Authority to make sure that we go through and make sure that our QA processes and our initial processes are absolutely reflective of best practice. That is something we are absolutely committed to doing.

Stewart Hosie: That is helpful, thank you.

Q56 **Chair:** Before I bring in Charlie, I want to turn to council tax. We have spent a lot of time talking about business rates this morning, but you have responsibilities in council tax too. In England, the ratio between the bottom and top rates of council tax remains at about 1:3, which is lower than the current range of house prices. What advice or work are you doing, or have you been asked to do, on the revaluation of council tax bands?

Melissa Tatton: Any revaluation of council tax is a matter for Ministers. It is a policy decision, and I am unable to comment.

Q57 **Chair:** So you are not doing anything in preparation? You do not have teams working on council tax just in case Ministers should suddenly ask or the Treasury should suddenly want to look at it in the next couple of months in preparation for the Budget?

Melissa Tatton: If we are asked for input into policy discussions, we are really responsive and we would provide that, but it is a question for Ministers and wider Government as to whether we should be preparing or otherwise.

Q58 **Chair:** I am not sure; I think as chief executive you surely need to be nimble and ready to respond to those sorts of questions. If you were to get a call from the Treasury today to say, "The Chancellor has asked for advice within a week on revaluation of council tax bands," how would you respond to that?

Melissa Tatton: If we were asked for input into policy advice, we would explain what we can and cannot do. The data we hold relates to valuations of the stock of domestic property in 1991, as opposed to more recent data. We would share the extent of the data we have, and explain what we have and what the limitations of the data would be, to manage expectations of what advice we would be able to provide, or not.

Q59 **Chair:** What would happen if you got that request? How long would it take for the VOA to revalue council tax bands?

Melissa Tatton: That is not a question I could answer off the top of my head, because it would depend what sort of system was wanted.

Q60 **Chair:** Let's just say it is exactly the same system as now, but the properties have not been looked at since 1991, so presumably it is a pretty big task to go around and look at properties again.

Melissa Tatton: I do not think it is a task you would enter into lightly. As with anything that we might be asked to do, it would very much depend on the availability of funding, resources, IT and data. Any advice that we gave on our ability to deliver would be predicated on our having all those things available. There would then need to be a discussion about funding for the provision of all these things. Lots of things are possible, but it is back to IT, data, money and people.

Q61 **Chair:** So if you were to get a question like that from the Treasury, you would literally have to start from scratch today, sit there and calculate, "I will need x number of people to revalue y number of properties and it would take me z number of months to do that". You don't have any of that work on the stocks.

Melissa Tatton: We would need to look at what we have done previously, although it may have been some time ago. We would work on the basis of what has been done before. We would need to update it, look at what we are currently doing and develop plans.

Q62 **Chair:** Would you look at what happened in Wales?

Melissa Tatton: We would look at anything that might help us work out how to implement something.

Q63 **Chair:** If that was the model that was chosen, do your great strategic brains—the strategy officer and others—say, "Well, if Ministers come and say that, we think that would be a very bad idea and here instead is what we would suggest"?

Pedro Wrobel: I come back to Melissa's earlier answer. We would advise Ministers on the sorts of options that they might be able to consider, or rather we would provide the data to support any options that they wanted to consider. The agency carried out the revaluation in Wales, so we have that relatively recent experience.

There are lots of resources that we can call on, but the basic fact is that there are 24 million domestic properties in England and that is a large operational undertaking in any circumstances. Coming back to Melissa's point, one would not enter into it lightly.

Q64 **Chair:** Okay. I think Professor Tony Travers has been quoted as saying that the Government are terrified of the effects of a revaluation of council tax bands. Is the Valuation Office also terrified?

Melissa Tatton: It would be a big undertaking, but there are lots of things we can do with all the resources I have outlined. Our function is to work with others and advise on the potential for implementation and deliverability and to work things through.

Q65 **Chair:** So there is no analysis in the Valuation Office Agency either currently or within relatively recent history of what a revaluation might do in terms of bands or bills?

Melissa Tatton: I think that would be a matter for MHCLG, but do you have anything to add, Pedro?

Pedro Wrobel: We have lots of bits of data which may be helpful. What we do not have is a complete set of data that sets out the values of properties as at every date since 1991. That is not something we collect or something it would be sensible for us to collect within our existing resource constraints.

What we do have is a very comprehensive database of the properties on a council tax list, and that is available. But, as Melissa says, that is the value of properties as at 1991. We know what the properties are, but we would have to revalue them.

Q66 **Chair:** How do you go about valuing new build properties?

Melissa Tatton: It is something that we have a lot of experience of doing. We use comparisons for other properties, so it is done on a comparable basis. For new builds we look at similar things in the area; at similar types of property in terms of character, location and age. It is something we have a good track record of doing.

Q67 **Chair:** Do you get a higher proportion of appeals in relation to new build properties or are there any general lessons or commonalities in terms of council tax appeals for rating new properties?

Melissa Tatton: I do not believe so. I think the number of challenges against the council tax system is fairly low.

Q68 **Chair:** Are there any underlying common causes of those challenges? What is the most common ground for people to challenge?

Melissa Tatton: This is not particularly statistically valid—it is what I see in the complaints that come through—but sometimes people disagree with their valuation and do not like the band they are in. They notice that their neighbours are in a different band and they think it is unfair. We are always able to explain the general principles of council tax, which is that it is a band. Sometimes there are small differences and people could be on either side. People sometimes compare their property with one that is not actually very similar—in size, character or location.

As I say, that is not statistically valid; those are the complaints that reach me as the chief executive. We explain fully how the system works and, although people may not be happy, they generally understand that that is the basis on which we value.

Q69 **Chair:** Do you produce a report, or is it in your annual report, on the grounds on which you have dealt with x number of appeals, the categories they break down into and the number of people satisfied with the explanation that you have given them?

Melissa Tatton: We produce the number of appeals and challenges that we deal with in reports. As to whether we give the reason for those, I do not think so. I am just checking with my colleague, and he is telling me that we do not.

Q70 **Chair:** Do you hold that data? I am basically asking if you could write to us to set out the broad categories of bases on which people appeal?

Pedro Wrobel: We have an appeal rate of about 0.2%. There is a difference between a formal appeal and—

Chair: And a question.

Pedro Wrobel: Yes. The appeal right is only for six months after an individual moves into a property. Challenges include informal band reviews, where somebody's appeal time has run out but we will look at it.

It is mostly to do with properties where people have recently moved in. Often it is to do with what we call an improvement indicator. That means that a previous owner has, for example, built an extension to the property. The way the legislation is set out means that we cannot reflect the increased band of the property, so we cannot reflect whether that extension would increase the value of the property such that it moves it into a new band until a relevant transaction takes place.

The most common relevant transaction is a sale, so a lot of the challenges and band reviews come as a result of that. Sometimes it is to do with new builds, but I would say that, in the vast majority of situations, it is to do with somebody who has moved into a new property and does not believe that their banding is correct. That can sometimes be as a result of an improvement indicator and sometimes it is a result, as Melissa says, of erroneous comparisons with local properties.

Q71 **Charlie Elphicke:** I just want to understand how you deal with what you might call your customers—the businesses you rate—and how you deal with them internally. I have had quite a lot of complaints from my constituents in Dover and Deal. One business said that the VOA would not accept that their building was undergoing alteration works and just carried on charging the full whack. Why is that?

Melissa Tatton: I cannot comment on particular cases without the facts.

Charlie Elphicke: No, but when there are alteration works you are not meant to charge business rates, are you?

Melissa Tatton: I cannot answer on that particular case; I could only speculate, which I am not sure would be helpful. There will be particular rules, and it will depend on the facts and circumstances. I cannot speak to your case, but it may be that people sometimes consider that they are entitled to some sort of reduction, whereas within the law, which we have to operate within, we are unable to offer that. As I say, it is hard to speculate without knowing the case.

Q72 **Charlie Elphicke:** But they were upset because the VOA basically didn't engage with them at all and wouldn't really listen or take an interest in their concerns or their perspective. On the staircase tax issue, a business asked me how these rules can be changed retrospectively. How is that fair? What is your response to them?

Melissa Tatton: What we have done in terms of the Mazars ruling is implement the outcome of the Supreme Court case. That is the role of the agency.

Q73 **Charlie Elphicke:** But you did not need to make it retrospective, did you? You have care management powers, so you could have said, "We're not going to impose this retrospectively."

Melissa Tatton: We were bound.

Pedro Wrobel: We are bound. The Local Government Finance Act 1988 sets out what is called the effective date for the purposes of a valuation. We do not have any leeway over that. When the Supreme Court issued its decision, the only choice we had was to abide by it, as set out by the legislation, which meant that it had to be backdated.

Q74 **Charlie Elphicke:** So you had to go back years and years. You don't have care management powers like they do at HMRC?

Melissa Tatton: No, in that instance we were bound by the legislation.

Pedro Wrobel: The legislation makes very clear the exact effective date for each circumstance. It does not necessarily mean years and years; it very much depends on the particular circumstances of each case. Some cases may have been back to 1 April 2015, some to 1 April 2017. It very much depends on the facts of the case.

Q75 **Charlie Elphicke:** The other complaint you get from business is sudden and frankly unexplained massive increases in business rate liabilities. East Kent College wrote to me and said, "We've got this 42% increase out of nowhere." Why does that happen, and what can you do to cushion the blow when there is a situation like that?

Melissa Tatton: I am wondering whether that was following a revaluation. Billing and collection is a matter for local authorities. The question of relief, discretionary or otherwise, is a matter for local authorities, not the agency. Local authorities administer them. Again, it is unhelpful to speculate when it is not a case I am familiar with. Whether it is a question of a transitional relief being withdrawn, I don't know.

Pedro Wrobel: I think it was probably to do with the revaluation. When there is a revaluation, our role within that process, as Melissa mentioned, is very limited. Our role in a revaluation is to value the property as at the new—sorry to add more jargon—antecedent valuation date. For the 2017 revaluation, we were looking at property values as of 1 April 2015. The previous list was based on property values as of 1 April 2008—so seven years' difference. There are going to be some changes in rateable value, reflecting the market moves in the meantime.

Our role is about setting rateable values. The calculation of how you come up with a business rate bill involves rateable values, but it also involves the application of the multiplier, set by the Government, and the application of reliefs, set by the Government and administered by local authorities. It is very difficult for us to comment on particular bills changing, but we can say that there were changes in rateable value as a result of the 2017 revaluation. Coming back to Melissa's earlier point, that follows the market. Our role is to set rateable values reflecting the open market rental value at that point in time. We did that. It went up in some areas, down in others, and I suspect that the bills reflected that.

Q76 **Charlie Elphicke:** This inevitably produces a cliff edge for businesses. Is your position, "There's a cliff edge and that's not our issue; that's for Government and local authorities to sort out. We're just a collection agency," or do you have discretion to deal with cliff-edge problems for businesses that are suddenly finding their rates liabilities shooting through the roof?

Melissa Tatton: We are not a collection agency. The collection is undertaken by the local authority. As I say, there are lots of players in that system. Any discretionary relief would be a matter for local authorities, not for us, as Pedro has set out. What we do is determine the rateable value. How that translates in terms of the multiplier and the administration of any relief, discretionary or otherwise, is not a matter for us.

Q77 **Charlie Elphicke:** Turning to your staff, the staff survey does not make for very good reading, does it? Why is that?

Melissa Tatton: No. After a period of slow but fairly steady rises there was a drop in our staff survey results. There is clearly much more for me to do in order to lead the agency into the future. As we take people through change, it is about taking our people with us. It really will be a priority for me and the senior leadership team. Although, as I mentioned, I am struck by one thing. Since I joined I have been keen to be out and about and to meet our staff in offices across the country, and see them undertake the work, which is really fascinating. I see a bunch of people who are very professional, full of expertise and hugely committed to the agency—hence the strong operational performance results. I absolutely recognise and acknowledge that there is more to do in terms of leading our people through change and I acknowledge the staff survey results. When I am with our people, I find that it is an agency packed full of people who are hugely engaged and very committed.

Q78 **Charlie Elphicke:** I think that sounds really great, but then we look at the hard figures. Out of 101 civil service departments and organisations, the response rate is in the bottom 10. The employee engagement index is in the bottom 10. For the question "Do I have the tools I need to do my job?" the response rate is in the bottom 10. Why? What is going on?

Melissa Tatton: There is clearly a lot to do. This specific year has been one of quite significant change for our people, introducing a new system. We have undertaken a reorganisation that will enable the agency to be much more flexible for the future, to balance resources, but it has meant change for our people. Clearly, there is more to do in terms of taking our people with us as we lead through change. As I say, it is a top priority for my team and me to listen to our staff.

Q79 **Charlie Elphicke:** How many of these problems do you attribute to the computer system, which I understand what is called glitches? How is the computer system going?

Melissa Tatton: We have a stable IT system. It is not without problems, which everyone has from time to time, but I am not sure that it is around that. I think there is something about the degree of change that we are taking our people through and the degree of change to come, so there is clearly much more that I need to do as a leader and with my leadership team in terms of taking our people through this. I absolutely acknowledge the results and recognise that the feedback is that we are not doing our best in terms of that leadership, but I come back to when I go out and visit local offices. They are packed full of people who are highly engaged, committed and really proud of the work that we do in the agency, and proud of the role that the agency plays in that broader system, in terms of bringing in local taxation. We have people who are proud to develop quite long careers with us. I want to be able to build on that and on the success of what has gone before, but there is much more to do.

Q80 **Charlie Elphicke:** People have been building long careers, haven't they, but you have been cutting them short. When you talk about change, do you really mean sacking people?

Melissa Tatton: No.

Charlie Elphicke: There are reports that you are making staff redundant. How many staff have you made redundant and how many redundancies are planned?

Melissa Tatton: We have had a number of exits that people have been able to apply for—they are not sackings or redundancies—following location changes and through our reorganisation.

Q81 **Charlie Elphicke:** How many staff have you "exited", if we are going to use the word exit—let us deal in euphemisms—and how many more exits do you plan?

Melissa Tatton: Fewer than 50 people took exits in the last year. Going back to the previous point that we have got a big job to do in terms of a revaluation for 2021 and more frequent revaluations, we will not be losing anybody whose skills we need for the agency going forward.

Q82 **Charlie Elphicke:** Let us talk about the exit of a board member who was paid £5,230, for which Treasury approval was not sought under the managing public money guidance, and should have been? Why did you take the decision not to seek approval?

Melissa Tatton: My understanding—it was for last year's accounts—was that there was some issue about timing or lack of clarification about what clearance was needed. It was a small procedural matter; it certainly wasn't a decision. The majority of it went through the full process.

Q83 **Charlie Elphicke:** Did the Treasury get in touch about this?

Melissa Tatton: I am sorry, but I do not know enough detail to be able to comment accurately on that.

Chair: Would you like to write to us?

Melissa Tatton: I would be happy to write to you about that.

Q84 **Charlie Elphicke:** Finally, what is the point of having the VOA as a separate entity from HMRC? Why not just have it as one big tax authority?

Melissa Tatton: There are historical reasons for that, but in terms of where we are now, we work really closely with HMRC and we derive great benefits from working together ever more closely. We work closely on IT, communications and HR. We already derive a huge amount of benefit from working very closely with HMRC colleagues. I sit on HMRC's executive committee, and Pedro, is part of the strategy team, works across with strategy colleagues. The majority of our funding comes from HMRC, so we work closely on the finance piece. As I say, I am really comfortable with the benefits we derive from working closely with HMRC.

Q85 **Charlie Elphicke:** It is great that you work closely, and it is good to hear that you are enthusiastic about those benefits. You yourself have had a career in HMRC for most of your time in the civil service, from being a graduate trainee onwards.

Melissa Tatton: That is right.

Charlie Elphicke: Would it not be more cost-effective if your activities were subsumed into the wider Department?

Melissa Tatton: I don't know about the cost-benefits. At the moment it is working as an agency. We get the benefits we need from working really closely. I have done no work on considering the pros and cons in financial terms, but in terms of whether it makes sense for us to continue to work closely where we have shared interests, I would say that is working well. That is something I intend to continue. Some of our work is very different from the work in HMRC, but HMRC has a vast span of work, as you know. I have done no analysis of the pros and cons.

Q86 **Chair:** I have a couple of very brief final questions, following on from what Charlie has just been asking. This morning you have both mentioned MHCLG. Do you think you might be better off as an agency under them?

Melissa Tatton: That is not something I have thought about. We are a large operational delivery department, which is working well and delivering successfully. We had a strong performance year, notwithstanding a lot of the challenges around the new system. The old system was broken, in terms of 2010 appeals. CCA is the future. That is not something I have considered.

Pedro Wrobel: I have one thing to add. We are bound by the Commissioners for Revenue and Customs Act 2005—

Q87 **Chair:** So it would require a change to primary legislation.

Melissa Tatton: The machinery of government changes would be significant, in terms of our structure. Pedro is quite right to point out that we come under the commissioner structure—commissioners are appointed by Her Majesty—so it is very different. We are independent of Ministers in our current constitution.

Q88 **Chair:** In the latest set of accounts—2016-17—your internal audit function gave an overall limited level of assurance for the agency. What actions have been taken to address those comments? Do you have any indication of what the new set of accounts is going to say?

Melissa Tatton: Yes. I can share both of those with you. They fell broadly into two areas—first, the control framework and, secondly, delivery of change. Some of the challenges we have faced spilled into the year that has just past. Our accounts are not yet published, but we are anticipating a similarly limited marking, which I take very seriously. We have already taken steps to make a difference. The difference that I and my senior team have made has already been recognised by our audit colleagues.

In terms of the control framework, we are working closely to strengthen our leadership and management cadre to ensure more compliance with systems. In terms of delivery of change, where we have delivered a large piece of change and no doubt will have more to come, we have appointed a chief transformation officer. That has been recognised, in the comment on the weaknesses, as a good next step, in terms of centralising control. We are bringing in stronger programme management, and we are working with HMRC on some of the IT. Steps are already in train—not enough to change it for the year that has just passed. It is up there with people engagement as a top priority for me and the senior leadership team.

Q89 **Chair:** The final thing is that your median gender pay gap is 16.3%, and the average in the civil service is 12.7%. What action are you trying to take to address that?

Melissa Tatton: I think our mean gap is 14.8%.

Q90 **Chair:** Okay, but mean and median are both above the average.

Melissa Tatton: Yes, I recognise that. I am deeply committed to tackling that, and there are a number of things that we do. It is due to a greater proportion of men than women at senior levels, and an over-representation of women at more junior pay grades. I think there is something about role modelling. We have a number of senior women in the top team. We are looking at what we do about flexible working, and we are supporting staff. We are very committed to our talent and development programmes to make sure that those who want to build a career through the agency—many do—are encouraged and enabled to do so. It is something I am personally very committed to.

Chair: Thank you very much indeed for giving evidence this morning. It has been very interesting. I think there are a few bits and pieces you are going to write to us on. We look forward to hearing from you on that. Thank you for your time.