HM Revenue & Customs

Annual Report and Accounts 2013-14

HM Revenue & Customs Annual Report and Accounts 2013-14

For the year ended 31 March 2014

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HC19

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Contents

Your Charter

Our role

- We make sure that the money is available to fund the UK's public services by collecting taxes and duties as laid down by Parliament. We help families and individuals with targeted financial support.
- We want to give you a service that is even-handed, accurate and based on mutual trust and respect. We also want to make it as easy as we can for you to get things right.

Your rights – what you can expect from us:

- Respect you
- Help and support you to get things right
- Treat you as honest
- Treat you even-handedly
- Be professional and act with integrity
- Tackle people who deliberately break the rules and challenge those who bend the rules
- Protect your information and respect your privacy
- Accept that someone else can represent you
- Do all we can to keep the cost of dealing with us as low as possible.

Your obligations – what we expect from you:

- Be honest
- Respect our staff
- Take care to get things right.

More information

For more information about what we do, your rights and where you can get help and support please go to www.gov.uk/government/publications/your-charter or speak to one of our advisers.

About us – who we are and what we do

The UK is the world's seventh largest economy and the third largest in the EU and we play our part by making it as easy as possible for industry and business to trade

We are an effective, efficient and impartial tax and payments authority. We collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system.

We are also one of the UK's biggest organisations, with around 61,000 full-time equivalent staff and revenues of more than £500 billion a year from 45 million individuals and 4.9 million business customers.

We contribute to the country's economic and social well-being. The UK is the world's seventh largest economy and the third largest in the EU and we play our part by making it as easy as possible for industry and business to trade.

Our key objectives, set by the government, are to:

- maximise revenues
- improve the service that we give our customers
- make sustainable cost savings.

To these, we have added a fourth objective: include and involve our people in how we meet these key objectives and ensure that we invest in their skills, capability and the experience they have of working in HMRC.

The Chancellor also instructs us to take a lead role in the design of tax policy, working in partnership with HM Treasury to make sure that it is designed in a way that reflects our experience of customers and their behaviour, as well as delivering the government's objectives for fairness and economic growth.

As part of the government's wider ambitions to support working families, we will be launching the new Tax-Free Childcare scheme in autumn 2015. We also work with a number of other government departments to help deliver their objectives, for example in collecting student loans and in enforcing the National Minimum Wage.

Our achievements in 2013-14

£505.8bn

Record amount of **tax revenue we brought in** and £30.2 billion more than in 2012-13

Record **compliance revenues** – £3 billion more than 2012-13

£23.9 bn

79%

The highest proportion of **customer calls** we have ever answered in a year

83%

Post we turned around within 15 working days – exceeding our target for the second year in a row

We gave up **60,000m²** of estate space in 2013-14 – the equivalent to eight football pitches

34,747,024

The **number of visits** to HMRC's online services in 2013-14 – a 6.6 per cent increase on the previous year

93.4%

Jan 31

The record number of **Self Assessment** returns sent to us by the 31 January deadline

159

HMRC supported the inclusion of strong customs co-operation and trade facilitation articles. 159 countries agreed the **World Trade Organisation's** first major multilateral trade deal in December 2013.

£235m
Saved in **cost efficiencies**

7%
The lowest ever level of **tax credits error and fraud** in 2012-13, down from 8.1 per cent in 2010-11

48m
PAYE reporting

Number of individual employments moved onto **Real Time PAYE** reporting in 2013-14

30
The number of **avoidance cases we won** in tribunals and courts, protecting **£2.7 billion** of revenues

915
The total **number of prosecutions** from our own criminal investigations – up from 770

Call 03

We moved all our **helplines** to 03 numbers, which is cheaper for most of our customers

10m
Fewer sheets printed by our staff compared with 2012-13

£100,000+
The amount of money staff at HMRC raised for the BBC's **Children in Need** appeal – for the fifth year running

5,053 The number of days we gave in 2013-14 to **volunteering** in our local communities

Foreword

Lin Homer

Chief Executive and
Permanent Secretary

I am delighted to introduce this year's annual report and accounts, which sets out how we have performed during the last financial year.

The scale of our work is huge, as we serve almost every individual and every business in the UK. And our role - to collect the money that pays for the UK's public services and to help families and individuals with targeted financial support - is of crucial importance to the country.

This annual report reveals some really significant achievements we made during the past financial year, of which everyone in HMRC should be rightly proud. In 2013-14 we brought in £505.8 billion of total tax revenues - which is £30.2 billion more than in 2012-13 - and record compliance revenues of £23.9 billion, against £20.7 billion in 2012-13. At the same time, we continued to improve customer service and deliver sustainable cost savings.

We handled 79 per cent of customer calls to our contact centres - our best ever performance. We also exceeded our 80 per cent customer post target for the second year in a row, turning 83 per cent around within our target of 15 working days. We processed tax credits and Child Benefit claims and changes of circumstance in 15.3 days for UK claims and in 86.7 days for international claims - well within our target of 22 days and 92 days respectively. Tax credit error and fraud, at seven per cent, is at its lowest level ever, following a reduction for the second successive year.

And we achieved all this while delivering some major projects, such as Real Time Information for PAYE, which has been operational for more than a year, with 48 million individual employments now reporting in real time. We have also prepared for the launch of the new Tax-Free Childcare scheme in autumn 2015, as part of the government's wider ambitions to support working families.

On a number of separate occasions, the government has allowed us to reinvest some of the efficiency savings we are making so we can meet public expectations better on our performance and to collect tax at the best cost to the taxpayer. The government's decision to invest in us is a huge vote of confidence in HMRC and in how we go about our work.

The achievements we have made in recent years show that our people are serving the UK with expertise, commitment and increasing effectiveness. This doesn't mean, however, that we have reached where we need to be: we will continue to strive to do things better and smarter - for individual taxpayers, for businesses, for our people, and for the UK - building on our achievements in the last year and in the years before.

We have started a nationwide face-to-face conversation with our people about how we are building our future

Most taxpayers want to comply with their obligations - and we must make it as easy as possible for this honest majority to get their taxes and benefit claims right, so we can free up our compliance teams to focus on those who really are trying to cheat the system. These are the fundamental principles behind Your Charter, which explains what rights customers can expect from HMRC and what we expect in return.

The needs and expectations of our customers continue to change, and we must change as well, by truly putting customers at the heart of everything we do, showing that we are flexible and adaptable to changing needs. By offering them first-class online services - as they experience with the best online banks and retailers - we'll meet their rising expectations, harnessing digital technology and changing how we work as a result.

We know this will have big implications for our people: what it will feel like to work for HMRC; the types of jobs we'll be doing and the skills we need; and the kind of workplaces we'll be based in. That is why we have already started a nationwide face-to-face conversation with them about how we are building our future - ensuring that everyone has the chance to hear about our plans, to discuss the future and to have a say in how we build it.

Ministers have understandably placed high expectations on us. In 2015-16 we have been asked to make a further five per cent reduction to our budget through efficiency savings and pay restraint, and to bring in compliance revenues of £26.3 billion.

We have shown that we can meet their expectations and that we are an effective, efficient and impartial tax authority. Because, with the issue of tax very much in the public eye, we know how important it is to maintain public confidence in our integrity, impartiality and even-handedness. So we will also work hard to demonstrate that while we have necessarily different approaches to different customers, to reflect the type of risks they represent, we will always seek to collect the taxes that are due under the law from all taxpayers.

We have performed really well over the past financial year, creating solid foundations for the challenges that lie ahead. I know the scale of our ambition is not without risk - and I am the first to acknowledge that - but it is right that we have this ambition and clarity of purpose and direction in building our future for our customers and for the UK.

Lin Homer
Chief Executive and Permanent Secretary

Strategic report

Reviewing our performance

£23.9 billion

We secured record additional compliance revenues in 2013-14

Our people – in their own words

Ved Mangrolia

Specialist Investigations, Manchester

"As an Operational Support Team member working across taxes, my role helps our investigation teams to close the tax gap."

Maximising revenues

Our job is to help the honest majority to get their tax, Child Benefit and tax credits claims right and make it hard for the dishonest minority to cheat the system. The fact that the overwhelming majority of the UK's businesses and individuals are fundamentally honest and pay or claim what is due makes that job much easier for us.

Our strong performance in this financial year is a result of continuing to help customers get their tax and payments affairs right and further strengthening our grip on those who deliberately cheat the system through fraud, avoidance and evasion and by refusing to pay what they owe.

We tailor our approach according to risk and customer behaviours, making the most of new technology, intelligence and analytics. We make sure that people are paying the tax due, when it is due.

We generated additional compliance revenue from our work in 2013-14 of £23.9 billion, more than in any previous year and £3 billion more than we reported in 2012-13. This total includes:

- £9.182 billion cash collected
- £8.003 billion revenue protected
- £5.508 billion future revenue benefit
- £1.233 billion product and process yield.

These types of revenue are explained on page 11. We achieved this by:

- employing 2,000 expert tax specialists to work closely with the 2,000 largest businesses in the UK - those with an annual turnover of £600 million or assets worth £3 billion, providing us with 100 per cent coverage. In 2013-14, we secured more than £8 billion in additional compliance revenues from large businesses
- tackling tax avoidance schemes through the courts. Concentrating our work on marketed avoidance in a new counter-avoidance directorate is sharpening our focus on promoters and users of schemes
- tackling organised crime, protecting and preventing the loss of more than £1 billion
- securing £268 million in extra tax from the UK's 6,000 wealthiest individuals as a result of the work carried out by our High Net Worth Unit, which has more than 400 specialists dealing with customers who each have a net worth of £20 million or more

Our people – in their own words

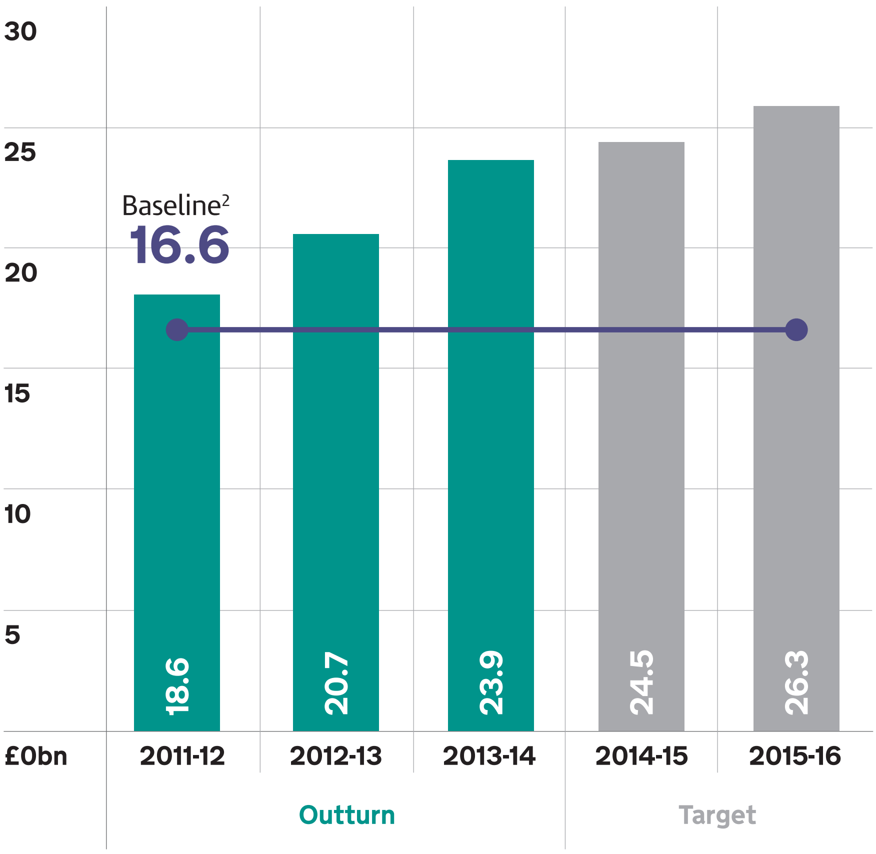
Suzanne Hurst

Special Investigations Assistant Director, Sheffield

"Our newly-created teams of 120 people became operationally effective within three months. During 2013-14 we delivered £294.7 million in revenues, against a target of £142 million."

- investigating cases that led to the prosecution of 915 individuals, predominately for tax-related crimes. Our investigations helped to secure a collective total of 378 years in custodial sentences during the past year
- continuing to close in on offshore tax evaders. New international agreements mean we are getting access to more information on offshore accounts than ever before
- using high-profile billboards, posters, digital and radio advertising campaigns to reinforce the message that we are closing in on undeclared income. Our evasion publicity campaigns aim to prompt voluntary disclosure of hidden income
- continuing to invest heavily in our data capabilities, including exploring new sources of data, such as data from Merchant Acquirers and the Land Registry, and training additional analysts to use Connect – our award-winning data analysis system.

Compliance yield reported by HMRC since the beginning of 2011-12 (£billion) (excluding exceptional items[1])



1 Exceptional items are identified as cases that are (a) an unusual occurrence that is unlikely to be repeated; (b) of such a size that to report it within our normal results would distort the underlying trend of performance; and (c) not included within HMRC's revenue targets, as it could not have been predicted.

2 The £16.6 billion baseline is a figure agreed with HM Treasury from which to negotiate targets. It has been uplifted to reflect an understatement in the original calculation. A number of technical adjustments are required to calculate the baseline, and so it is not a statement of the actual additional revenue generated in 2010-11.

Case study: Notification of Vehicle Arrivals (NOVA)

The Notification of Vehicle Arrivals (NOVA) online service, which started in April 2013, replaced an outdated manual process, making it much more difficult for fraudsters to bring cars into the UK and sell them on without accounting for the VAT. In its first year, nearly 128,000 vehicles were notified through the service, with an additional £115 million net revenue benefit achieved.

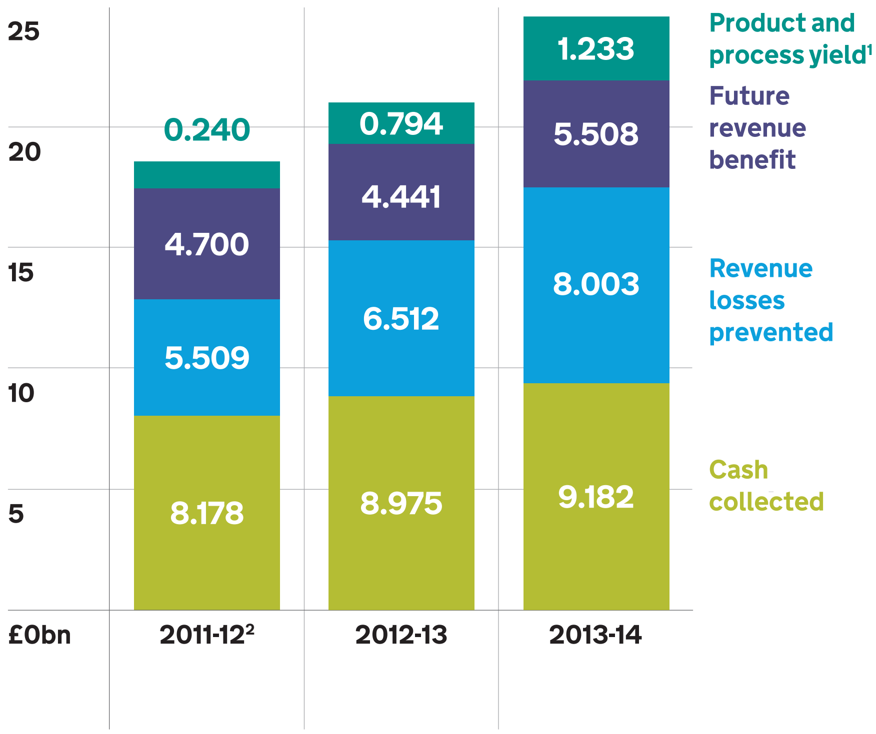
We have secured more than £60 billion in total compliance revenues since 2011-12, of which more than £23 billion came from large businesses. Between 2011-12 and 2015-16, we expect to secure more than £110 billion in additional compliance revenues.

The way we calculate our total compliance revenue (which was updated at the start of the Spending Review 2010 (SR10) period) is based on a number of key components that include:

- cash collected - measures the amount of additional compliance revenue when we identify past non-compliance. We apply a discount rate to reflect the fact that some of the amounts we identify will not be collected, due to insolvency for example
- future revenue benefit - assesses the effects of our work on future compliance behaviour
- revenue losses prevented - is the value of our activities where we have prevented revenue from being lost to the Exchequer, for example, stopping a fraudulent repayment claim
- product and process improvement - is an estimate of the impact in each year of legislative changes made in the SR10 period that close tax loopholes to reduce opportunities to avoid or evade tax.

Technical notes are available online, setting out how we calculate yield in more detail www.gov.uk/government/publications/business-plan-indicators

Total revenue secured by yield type (£billion)



1 The value of product and process yield is the in-year impact of all legislative changes implemented since 2011-12.
2 Prior year breakdown not available on a comparable basis.

Our people – in their own words

Andrew Dunster

VAT Assurance, Maidstone

"I help maximise revenues by tackling the non compliant and by improving customer service."

We continue to develop new ways of achieving successful compliance outcomes. That means making things as straightforward as possible for customers – delivering services in such a way that reduces opportunities for error and encourages accuracy. This is a significant shift from our current approach, which is much more about responding to error and evasion after it happens. To support this, we are also considering how to evolve and change the way in which we measure ourselves, to ensure that our targets support the delivery of these changes.

The National Audit Office (NAO) reviewed our methodology and processes for estimating and compiling yield in 2013-14 and concluded that they were sound and that the measure provides a reasonable proxy for the beneficial impacts of our compliance work. The NAO also found that we have improved the measure to better reflect changes in the nature of our compliance work and that we have taken a prudent approach, collecting relevant evidence before making changes and discounting our estimates appropriately where there is uncertainty. We have taken the NAO's findings into account in the way we have presented our performance this year.

As part of this year's audit activity, the NAO also identified that we should have increased our 2010-11 baseline by £1.9 billion more than we did, as a result of our actual performance and to make it consistent with the methodology introduced in the SR10 period. As a result of the NAO's findings, we have made this adjustment, to ensure that we can measure our performance since 2011-12 against a comparable baseline (see table below).

Effect of understated baseline on reported performance (£billion)

	2011-12	2012-13		2014-15
Original baseline	13	13	13	13
Targeted performance increment from SR10	2	4	5	7
2012 baseline adjustment to reflect new scoring rules for Future Revenue Benefit	1.7	1.7	1.7	1.7
Extra target increment added by subsequent fiscal events	0	0	0.3	1.4
Total performance expectation arising from funding received	**16.7**	**18.7**	**20**	**23.1**
Amount of stretch added to performance expectations[1]			**3.0**	**1.4**
Of which:				
– Amount that can now be attributed to baseline error			1.9	
– Other stretch			1.1	
Total performance expectation	**16.7**	**18.7**	**23**	**24.5**
Outturn	18.6	20.7	23.9	-
Total reported over-performance[2]	**1.9**	**2.0**	**0.9**	**-**

1 In 2013-14 our performance expectations were stretched by a total of £3 billion. We now know that £1.9 billion of this stretch can be attributed to baseline issues. The balance of £1.1 billion represents stretch over and above that which can be attributed to baseline issues. In 2014-15, our performance expectations have already been stretched by £1.4 billion. This is less than the baseline error that we have now identified. We will review whether further changes to our targets are needed.

2 In 2011-12 and 2012-13, we did not anticipate any over-performance when setting targets for the year. However, we can now identify that all of the over-performance ultimately reported in 2011-12, and all but £100 million of that reported in 2012-13, can be explained by the errors within our baseline.

Our people – in their own words

Sohan Singh

Specialist Investigations, Offshore, Birmingham

"I'm working with my team to make sure that offshore evaders voluntarily pay the tax due and remain compliant."

The effect of this under-statement in our baseline means that we should have assessed our performance during the SR10 period against the baseline of £16.6 billion. Our briefing to Ministers was based on our assessment at that time, and so some of the public announcements made about performance improvements drew upon our incorrect assessment of the baseline.

Our original settlement at SR10 required us to increase performance against our baseline in each year of the Spending Review period, rising to an extra £7 billion above baseline per year by 2014-15. The targets for each year were subsequently increased to reflect a change to our rules for scoring Future Revenue Benefit, and our targets for 2013-14 and 2014-15 were also further increased as a result of new funding at later fiscal events. Finally, as the SR10 period progressed and we exceeded our targets in 2011-12 and 2012-13, we offered to 'stretch' our performance expectations to reflect our performance forecasts.

Once we correct for baseline errors, the actual increments we have delivered above our baseline during the Spending Review period so far are:

The increments above our baseline that we have delivered over the SR10 period (£billion)

	2011-12	2012-13	2013 14
Outturn	18.6	20.7	23.9
Revised baseline	16.6	16.6	16.6
Improvement in SR10	**2.0**	**4.1**	**7.3**

Despite the baseline adjustment, we still met the additional compliance yield targets that the government set in SR10: in 2011-12 we delivered the expected £2 billion increase; in 2012-13 a £4.1 billion increase; and in 2013-14, we improved performance £7.3 billion against a targeted £5.3 billion.

The way in which we measure our performance is complex. There is a real tension between the need to ensure that our calculation methodologies reflect current evidence about the effects of our activity, and the need to provide a comparable and stable time series for our performance information. We have been aware of that point and have tried to address this risk when presenting data, by providing appropriate caveats in footnotes. In light of the error we have found in our baseline, we now recognise it would be inappropriate to compare directly compliance yield outturns as they have been measured since 2011-12 with earlier years. We have reviewed the caveats we use and will be drawing particular attention in the caveat to significant methodology changes, such as the changes in 2010. We also recognise the need to provide more information to aid understanding of our complex performance, and have therefore provided a more detailed breakdown of our compliance revenues in this year's Annual Report.

Our people – in their own words

Kevin Thompson

Personal Tax, Operations contact centre lead, East Kilbride

"My team helped employers understand the changes to Real Time Information for PAYE by taking the time to talk them through it on the phone."

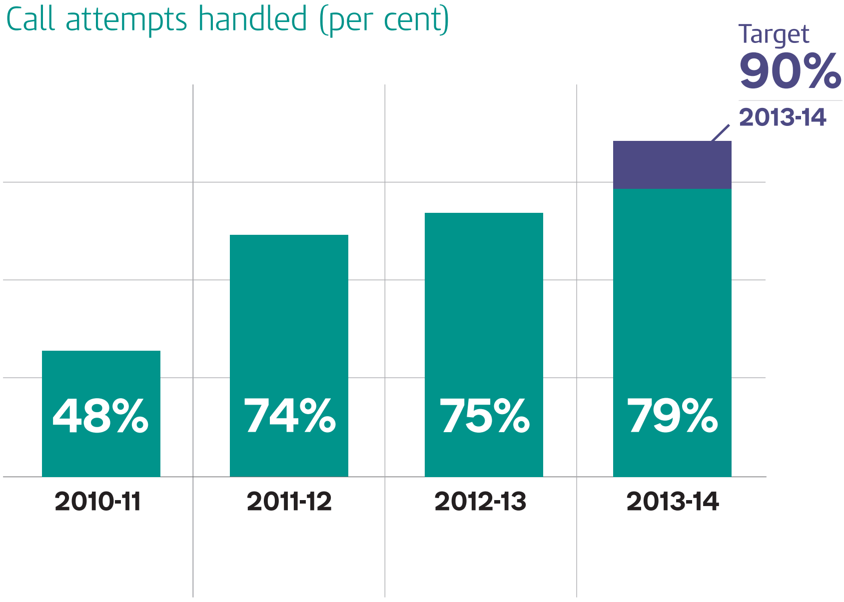
Improving customer services

We have progressively improved customer service levels. Although they are not yet where we want them to be, our collective efforts have recovered our phone and post performance from their low point in 2010-11 and improved significantly over the past three years. For the last two years, we have exceeded our customer service targets in the second half of the year, and it is now our ambition to offer a consistent level of service throughout the year and to manage our peak periods of demand better.

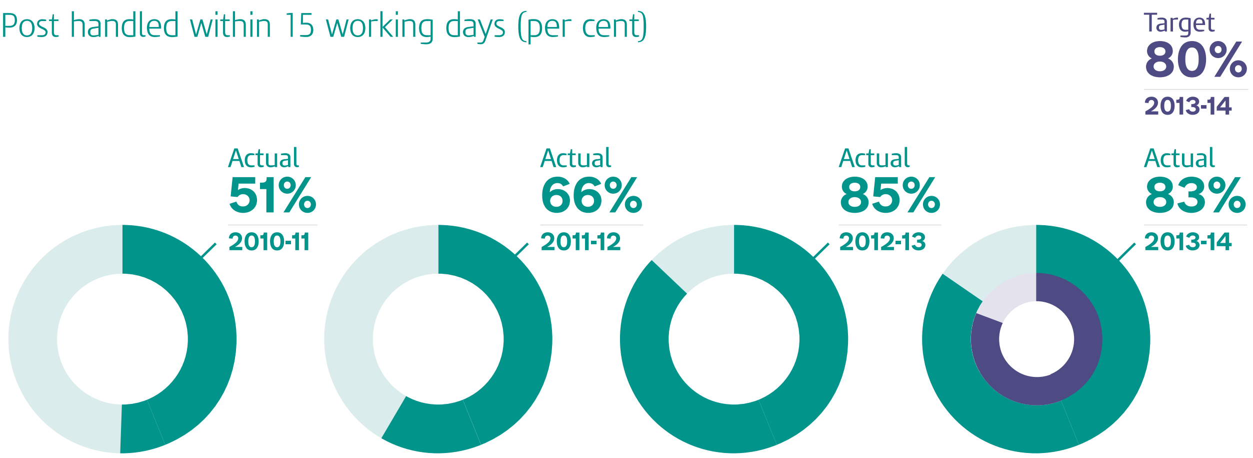
In 2013-14, we continued to make improvements against our customer service targets, by answering 79 per cent of call attempts to our contact centres and handling 83 per cent of post within 15 working days. We have maintained post handling above our target, while we improve our call handling performance towards the target of 90 per cent.

We also processed tax credits, Child Benefit claims and changes of circumstance in 15.3 days for UK claims and in 86.7 days for international claims – well within our target of 22 days and 92 days respectively.

Call attempts handled (per cent)



Post handled within 15 working days (per cent)



Our people – in their own words

Tarveen Singh

Business Customer and Strategy, Croydon

"I spend my time at work helping to improve the experience of our business customers by making tax easier, quicker and simpler."

We made a significant number of changes to our processes to improve the service that we give our customers, which included:

- introducing new speech recognition technology (known as Intelligent Telephony Automation, or ITA) in December 2013 (see case study below)
- launching the biggest modernisation of PAYE since its introduction in 1944, with the roll-out of Real Time Information (RTI) for PAYE in April 2013. RTI brings PAYE up to date with today's employment patterns, where people change jobs more frequently than in the past and can have more than one job or pension. A total of 48 million individual employments have moved to Real Time PAYE reporting in 2013-14
- reducing the cost to customers of contacting us by phone by moving from 0845 numbers to 03 phone numbers, which are far less expensive to call from mobile phones.

Case study

We installed a new telephone speech recognition system across our main helplines in December 2013. The system now handles about a million calls per week from customers. Called Intelligent Telephony Automation (ITA), the new system uses speech recognition to ask what the caller wants and provides the most appropriate response.

Elements of the security process are also automated before a caller is put through to an adviser. This means the adviser knows why the customer is calling and whether or not they have passed security, making the call shorter, and possibly saving the customer money. We now use ITA for calls made to all of our contact centres and in offices where staff switch between telephone and processing work, according to demand.

The feedback from customers and advisers alike has been very positive about ITA. The vast majority of calls are going smoothly through the system with customers automatically getting the information they need or being routed to an adviser able to deal with their specific enquiry.

The department delivered more than £235 million in efficiency savings in 2013-14

Our people – in their own words

Adam Grzegorski

Risk and Intelligence Service, Profile and Case Delivery, London

"It's nice to know that when I come to work, I'm using IT that helps stop tax evasion and protects the revenue we collect for the UK."

Reducing costs

We have achieved this improved performance while making significant cost reductions, year on year. We were set a target of a 25 per cent cost reduction over the 2010 Spending Review period, and a further five per cent in 2015-16 - and we are meeting those targets.

We have done this by streamlining our processes, allowing us to reduce our workforce, our estate and the cost of the services we buy. When HMRC was created in 2005, we had 96,000 full time equivalent (FTE) members of staff and 539 offices. By July 2014, following the closure of our Enquiry Centres, we expect to have fewer than 60,000 FTEs and 190 offices.

While HMRC received additional funding to tackle tax avoidance and evasion, we still had to reduce our costs and the Department delivered more than £235 million in sustainable cost savings in 2013-14. We made these savings in a number of ways, including:

- improving the effectiveness and efficiency of our processes and systems, which enabled us to reduce our overall employee numbers as part of our Spending Review targets. By the end of 2013-14, there were 61,370 full-time equivalent employees, which is a net reduction of 3,106 from 2012-13
- contributing to the government's objective of reducing its estate by vacating 60,000m^2 of space and saving £21 million in annual costs. One of the key projects was the full vacation of Somerset House in central London, which saved £4 million a year. For the fourth year running, HMRC has vacated more space than any other government department, according to figures from the Cabinet Office.

Case study

Since 2008, we have invested around £80 million in state-of-the-art technology called Connect, enabling us to bring in an additional £3 billion in tax revenues. Connect allows our compliance teams to search more than a billion pieces of data at the touch of a button, taking seconds to find evidence of potential evasion and fraud that would otherwise have taken skilled teams weeks to sift, sort and track down. This has enabled us to reduce the number of people we have working in our Risk and Intelligence function by 40 per cent while still increasing the compliance revenue they collect or protect. Connect has positioned HMRC at the forefront of tax administrations worldwide in the use of cutting-edge data analysis to drive customer compliance.

In summary: key performance indicators

The following table sets out in more detail our main performance data compared to the previous year.

Creating sustainable cost reductions

Unit costs (pence per £ collected/paid out)	2013-14	2012-13
Collecting Income Tax (Self Assessment and Pay As You Earn)	0.93	1.00
Collecting Corporation Tax	0.77	0.76
Collecting National Insurance Contributions	0.25	0.27
Collecting VAT	0.64	0.63
Administering personal tax credits	1.41	1.45
Administering Child Benefits	0.55	0.57

Maximising revenue collection

	2013-14	2012-13
Cash collected from compliance	£9.2bn	£9.0bn
Future revenue benefit	£5.5bn	£4.4bn
Revenue loss prevented	£8.0bn	£6.5bn
Product and process yield	£1.2bn	£0.8bn
Total revenue secured	£23.9bn[1]	£20.7bn
Payment on time - proportion of businesses and individuals who pay tax on time - using VAT as lead indicator	86.9%	86.7%

	2012-13	2011-12
Debt roll rate - proportion of tax debt (CT, SA, Employers' PAYE) cleared within 90 calendar days (%)	96.8%	95.4%
Personal tax credits error and fraud - estimated amount of incorrect payments after awards have been finalised	£2.01bn (7.0%)	£2.09bn (7.3%)

	2011-12	2010-11
Tax gap - difference between all the tax theoretically due and tax actually collected	7.0% (£35bn)	7.1% (£34bn)

Stabilising and improving customer service

	2013-14	2012-13
% of post cleared within 15 working days of receipt	82.6%	85.0%
% of post cleared within 40 working days of receipt	96.9%	97.1%
% of post cleared within 15 working days of receipt passing HMRC quality standards	91.3%	91.7%
% of post cleared within 40 working days of receipt passing HMRC quality standards	91.2%	91.8%
% of call attempts handled by our contact centres	79.2%	75.2%
% of return transactions carried out online (12 months to quarter end e-returns, SA, PAYE, VAT, CT and Stamp Duty Land Tax)	97.1%	92.8%
Increase/decrease (-) in cost for all customers dealing with us (compared to April 2011)	+£15.3m[2]	-£2.7m
Increase/decrease (-) in cost for business customers dealing with us (compared to April 2011)	+£44.3m	+£26.3m
Customers find us straightforward to deal with - all customers rolling annual score out of 100 (margin for error in brackets)	72.8 (±2.4)	73.0 (±2.6)

1 The figures do not include exceptional items. Exceptional items are identified as cases that are: (a) an unusual occurrence that is unlikely to be repeated; (b) of such a size that to report it within our normal results would distort the underlying trend of performance; and (c) not included within HMRC's revenue targets, as it could not have been predicted. Exceptional items generated £344 million additional compliance revenue in 2013-14, but have not been included in the performance against targets shown above to avoid distorting our performance.

2 The net increase to customer costs since April 2011 arises mainly from key policy measures announced by the government at the Budget and Autumn Statement. For example, Restrictions to Pensions Tax Relief (£80 million cost increase) and the Bank Levy (£20 million cost increase) have increased customer costs, but directly support measures to reduce the budget deficit. The Patent Box (£26 million cost increase) tax relief is a measure that has been welcomed by business and contributes to economic growth.

Our people - in their own words

Yasmin Khan

HR Diversity and Inclusion Team, Shipley

"I've been helping colleagues to build their confidence and capabilities, which leads them to provide a better service for our customers."

Our people

We need to build an HMRC for the future that involves and invests in our people. The expectations and demands placed on us from customers and from ministers will only increase over time and we need to rise to those challenges and become an organisation that is flexible and adaptable - with people who are ready to learn new skills and do new things.

Over the past year our people have played a central role in delivering record revenues, improving customer service and making sustainable cost reductions. As part of our government spending commitments, we are becoming a smaller and more highly-professional organisation, with fewer people working across fewer locations. In 2013-14 we continued our focus on reshaping and reducing our workforce, as well as beginning to consider how we can build more modern workplaces for our people.

Through redeployments, level moves and promotions, we made effective use of our staff's skills, including promoting more than 5,100 people into roles across the Department and moving 310 people across five different locations. Our focus has always remained on business delivery, so in 2013-14 we also recruited 512 people on fixed-term contracts, as well as recruiting 1,800 staff externally, bringing in new talent and skills to help us to meet our objectives.

As part of our focus on increasing our skills base, we also helped more than 1,000 people start their tax training for the first time and recruited 234 graduates onto our Tax Professional Development Programme.

We are committed to the learning and development of our people. In 2013-14 we invested more than 233,000 days of learning in our people. We also launched the Civil Service Competency Framework across the organisation, to underpin our skills development programme.

In addition, we successfully implemented new terms and conditions for new recruits, aligned with the Civil Service Reform Plan. Our continued investment in the Building Our Organisation programme ensured that we reduced the number of management layers in the organisation, as well as putting the right structures in place and the right people in our key leadership and management roles.

Engaging with our people remained a key priority in 2013-14. We continued to work to improve our results from the Civil Service People Survey with a variety of activities, including:

- extending site-based communications (face-to-face communications led by senior leaders) across the country
- embedding a People Impact Assessment to support change management
- improving our communications channels
- revising our leadership and management intranet site and continue rolling out our leadership events
- running a programme of innovative workshops for 150 senior leaders looking at the importance of trust in building engagement.

HMRC PEOPLE AWARDS

We delivered the third HMRC People Awards in 2013-14, with nominations increasing to 565

Our long standing commitment to representing the communities we serve was recognised in 2013-14 when HMRC was named one of the UK's top ten employers for race and gender equality and progression - for the second year running. Our confidence in this arena has grown following the success of our Embrace career management programme for Black, Asian and Minority Ethnic staff in Personal Tax, and we will now offer this opportunity across the Department.

In August 2013 our HR shared services were the first to be awarded the Cabinet Office's Achieving Customer Service Excellence award, evidence of the high-quality service we offer our own people. We delivered the third HMRC People Awards in 2013-14, with nominations increasing to 565. This initiative gives our staff the chance to recognise and celebrate the work of colleagues who demonstrate outstanding talent, innovation and achievement in HMRC.

We also developed additional resources to improve our leadership and management capability, as well as designing a number of ways in which people can progress their careers - from our Spring School and Leap programme for middle and junior grades to the Ascend programme for those aspiring to become part of the Senior Civil Service.

Our investment in talent and career progression has helped build more interesting, rewarding and challenging jobs for our people, so we can make HMRC a great place to work.

Our people - in their own words

Pam Mason

Personal Tax, Operations

"I enjoyed helping students to prepare for interviews for further education or employment."

Sustainability

The three pillars of sustainability - economic, social and environmental impact - apply to all aspects of our work. They are central to our role in collecting taxes and duties, administering tax credits and Child Benefit and how we engage with our customers, our people and local surroundings.

Progress against the targets set for us by government is reported quarterly to HMRC's Performance Committee, the Department for the Environment and Rural Affairs and the Cabinet sub-committee leading on the Greening Government Commitments (GGC). Our environmental data was externally verified by Carbon Smart in June 2014.

Meeting our targets

We continue to work towards achieving the 2010-15 targets contained in GGC for sustainable operations and procurement. As the final year of the targets approach, we are on track to make savings over and above the levels required for greenhouse gas emissions, waste, domestic flights and paper usage.

We have more than 500 green volunteers who encourage behaviour change in the office environment

Greening Government commitment

	2015 Government reduction target	Position at 31 March 2014
Greenhouse gas emissions	25%	33%
Waste	25%	50%
Water	$6m^3$ per FTE	$7.67m^3$ per FTE
Paper	10%	32%
Domestic flights	20%	32%

Improving water efficiency remains a challenge, albeit one that we have been tackling through active management of leaks and water surveys. Business travel is another area attracting close scrutiny, but it is also a necessity for us as a large operational department with offices spread throughout the UK.

While our travel requirements are increasing, in line with our commitment to deploy more staff on frontline activities and improve the visibility of our senior leaders, road travel is declining in favour of more sustainable options. For example, rail travel was up by nine per cent in 2013-14, and more than 260,000 audio conferences took place during the year.

Our successes include saving paper and cutting waste. Staff printed 10 million fewer sheets of paper this year. We also cut 500 tonnes from the amount of waste we send to landfill and we recycled all of our IT waste. Following the success of our internal 'swap shop' for office supplies, we are leading a pilot to encourage greater reuse of government assets.

GOV.UK

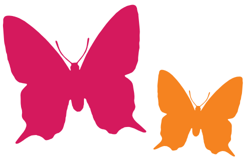
More detailed information on our environment performance can be found in our sustainability accounts at http://bit.ly/1l4m21m

Mainstreaming sustainability

We have mainstreamed sustainability by building it into our policies, stakeholder engagement and people initiatives. For example, sustainability assessments are included in all new policy initiatives; we ran an event for our stakeholders to reflect our move to improve transparency in our communications; and we have more than 500 green volunteers who encourage behaviour change in the office environment.

Sustainable estate

For the third year in a row, we have given up more space across our estate than any other government department and we continue to make use of our existing buildings when lease events arise, rather than move into new accommodation. While this means there have been no large refurbishments or life-cycle investments, we have processes in place to meet the Building Research Establishment Environmental Assessment Methodology (BREEAM) international sustainability benchmark for buildings, and Olympic standards should the need arise.



We created a wild-flower meadow on our site in Newcastle for pollinating insects

Our new environmental management system is helping to minimise the environmental impact at our sites. The environment standard ISO14001 has been awarded to our headquarters office at 100 Parliament Street, London and this certification is also maintained by our primary private sector provider.

The impact of extreme weather on our ability to deliver our services and enable staff to work in a safe environment is built into our planning and strategies. Data from the Environment Agency is helping us to identify and monitor offices which are at risk of flooding.

We created a new habitat for bees and other pollinating insects in the wild-flower meadow at our Benton Park View complex in Newcastle. Food waste from the kitchens at our offices in Bootle is now being used as a compost to improve soil quality in the garden areas.

Sustainable procurement

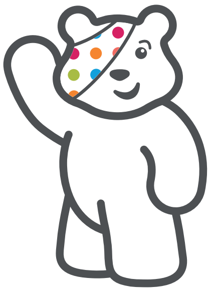
Our sourcing of materials and assets complies with government buying standards (GBS), although difficulties in accessing a sufficient supply of suitably recycled paper at an affordable price means that the majority of our printed products fail on that aspect of the paper GBS.

We continue to use the CAESER (Corporate Assessment of Environmental, Social and Economic Responsibility) tool to manage supply chain risks, including sustainability. The last exercise indicated that the majority of our suppliers who took part had strategies in place to reduce their greenhouse gas emissions. The exercise currently being undertaken by Cabinet Office and Defra to collect 2013-14 emission data for the top 500 government suppliers will provide us with a baseline we can use to demonstrate reductions in future years.

This year we gave 5,053 days of employee time to community activity across the UK

Community issues

This year we committed funding of £3 million to the Voluntary and Community Sector (VCS) to help our customers understand and comply with their tax obligations and claim their correct entitlements. We also gave 5,053 days of employee time to community activity across the UK, in line with the encouragement we give to our employees to work with voluntary organisations and schools in the communities close to our offices and to participate in civic duties, for example as magistrates and school governors. Further work took place with UK and international agencies to develop and support effective civil governments overseas.



Our staff raised more than £100,000 in 2013 for the BBC's Children in Need appeal

In November 2013, for the fifth year in a row, our staff raised more than £100,000 for the BBC's Children in Need appeal. Volunteers at our Contact Centres in Liverpool, Manchester and Lillyhall also played their part in the campaign by taking £192,000 in telephone pledges from members of the public on the appeal night. Further donations totalling £966,000 were made by staff to the Charity for Civil Servants, the Lifeboat Fund and to other good causes of their choice through our on-line payroll giving arrangements.

In December 2013, HMRC was named the winner of the Best Public Sector Employer Campaign prize at the National Payroll Giving Excellence Awards and awarded a Gold Quality Mark from the Institute of Fundraising for the sixth year running, in recognition of the 13 per cent of our staff who donate to charity using payroll giving.

Diversity and inclusion

We want our workforce to reflect the diversity of our customers and we want to develop and use the collective experience of that diverse workforce to deliver a high quality service.

ene employers network for equality & inclusion

In 2013 We won the public sector category in the 2013 Employers' Network for Equality and Inclusion awards

In January 2014 we published our diversity data in accordance with the requirements of the Equality Act 2010. The data shows the diverse make-up of our employees and highlights the actions we have in place to develop under-represented groups and address equality issues in the workplace. In support of our actions, we have Executive Committee Champions and employee networks in place for eight diversity strands. The networks offer people the opportunity to share experiences, comment on new initiatives and ensure that everyone in the workforce is treated fairly and can give of their best.

Our progress on diversity issues has been recognised in a number of ways: Business in the Community named HMRC among the top ten employers for race and gender equality and progression in 2012 and 2013. *The Times* put the Department in the top 50 employers for women, also for the second year running. We also won the public sector category in the 2013 Employers' Network for Equality and Inclusion awards.

Disabled staff are employed across all grades and locations. We operate the Guaranteed Interview Scheme and have an established team, dedicated to ensuring reasonable adjustments. We are raising awareness of mental health issues to ensure that sufficient support mechanisms are available to managers and staff, and we are offering development opportunities for people from Black, Asian and Minority Ethnic (BAME) backgrounds as well as other minority groups. We continue to improve access to our services for disabled customers and to raise awareness of their needs with our front line staff.

We are committed to improve female representation rates, particularly at senior levels. We have set ourselves a target of 42 per cent for women at senior civil servant (SCS) level, and as at 31 March 2014, the position was 39.9 per cent (see table on page 23). Last year, 55 per cent of the staff we promoted were women, and women made up the majority of new entrants to our SCS. We have set out what our leaders, managers and staff need to do to achieve our target in our diversity and inclusion strategic action plan.

Number of male and female employees

	Female	Male	Total 31 March 2014
Directors	4	6	10
Senior managers	119	179	298
Employees	40,481	28,525	69,006[1]

1 Based on headcount (not full-time equivalent). Includes permanent and temporary employees.

Our people – in their own words

Joanne Wardhaugh

Specialist Investigations, Newcastle

"My team supports the economy – we're focusing on people who deliberately fail to pay the correct amount of tax, to make sure they start paying what they owe."

Additional financial information

Long-term liabilities

We have four Private Finance Initiative (PFI) contracts which are:

- Mapeley STEPS Contractor Ltd, relating to the private sector provision of serviced accommodation across the majority of the Departmental estate. The end year of the contract is 2021-22
- Exchequer Partnerships, relating to the provision of serviced accommodation at 100 Parliament Street. The end year of the contract is 2037-38
- Newcastle Estates Partnership, relating to the provision of serviced accommodation at a number of sites in the Newcastle upon Tyne area, including the redevelopment of the Benton Park View site. The end year of the contract is 2029-30
- Bootle PFI solutions 1998, relating to the provision of serviced accommodation at St John's House Bootle. The end year of the contract is 2025-26.

In addition, we have a significant IT Public Private Partnership (PPP) contract, which is included within the Resource Accounts. Called ASPIRE the contract is to deliver a significant proportion of HMRC's and VOA's IT infrastructure with Capgemini as the prime contractor and other outsourcing partners including Fujitsu.

In 2012, we completed a major renegotiation and restructuring of the contract to deliver significant price reductions, which we are now seeking to implement effectively over the remaining period of the contract.

Comparison of outturn against Estimate

The total resource outturn for the year was £46.220 billion, £1.181 billion (2.5 per cent) below the Estimate. The total capital outturn for the year was £218.3 million, £14.4 million (6.2 per cent) below the Estimate.

The variances which exceed ten per cent, and those that are also significant in terms of value, are explained on page 24.

Comparison of outturn against Estimate

	Outturn (£million)	Variance to Estimate (%)	Reason for variance
Resource Departmental Expenditure Limit (DEL)			
VOA administration	2.1	Net nil	Outturn was £2.1 million against a net nil budget. This represents a small surplus against operating income.
Utilised provisions	11.7	-26.1	Utilisation of provisions for costs pertaining to several legal cases brought against the Department that were forecast to conclude in 2013-14 becoming more protracted.
Resource Annually Managed Expenditure (AME)			
Providing payments in lieu of tax relief to certain bodies	53.1	-41.0	New relief - Gift Aid relief on Micro Donations. Actual claims in the first year of this relief were much lower than originally forecast.
HMRC administration	11.4	-31.7	Lower than expected need for new provisions.
Utilised provisions	13.5	-28.8	Utilisation of provisions for costs pertaining to several legal cases brought against the Department that were forecast to conclude in 2013-14 becoming more protracted.
Capital Annually Managed Expenditure (AME)			
Social benefits and grants	1.8	-90.0	Residual claims for Child Trust Fund endowments were lower than expected.

The ***Annual Report and Accounts*** of the Valuation Office Agency are published separately and can be viewed at www.voa.gov.uk

Consolidated Statement of Financial Position

Details of the Department's assets and liabilities are reported in the Consolidated Statement of Financial Position.

Cash flow

The net cash outflow for the year was £1.8 million, as detailed in the Consolidated Statement of Cash Flows.

The explanation of the variances between Estimate and cash requirement as shown are detailed in the Reconciliation of Net Resource Outturn to Net Cash Requirement. The main movements in working capital are:

- receivables varied by £401.6 million from the estimate, largely due to an increase in personal tax credit receivables of £459.4 million
- payables varied by £730.2 million from the estimate, due to the introduction of three new Corporation Tax reliefs in 2013-14.

Description of reporting entities

The entities that are consolidated within these accounts are as follows:

- supply-financed agencies - Valuation Office Agency
- non-departmental public bodies - none
- others - none.

Reconciliation of resource expenditure between Estimates, accounts and budgets (£million)

	2013 14	2012-13[1]
Net Resource Outturn (Estimates)	47,401.0	47,199.0
Total resource budget outturn	46,219.7	46,353.1
of which:		
Departmental Expenditure Limits (DEL)	3,645.4	3,663.1
Annually Managed Expenditure (AME)	42,574.3	42,690.0
Adjustments include:		
Child Trust Fund budgeted as Capital	0.2	0.5
Expenditure outside the budget - IFRS Asset costs	9.6	6.4
– Consolidated fund extra receipts	(0.9)	(0.3)
– Barter deal prepayment release	–	(48.7)
Net operating cost (Accounts)	**46,228.6**	**46,311.0**

1 Certain prior figures have been restated as per Resource Account note 25.

Managing risks to our performance

Our Governance Statement outlines the main risks to our performance and includes information on how we are managing them.

Description of departmental reporting cycle

We published our main estimate for 2013-14 in April 2013 as part of the *Central Government Supply Estimates - Main Supply Estimates*. We also applied for a supplementary estimate, details of which are available in the *Central Government Supply Estimates - Supplementary Estimates*, published in February 2014. These documents are in the public domain and can be accessed from the government website at www.gov.uk.

In June 2013 we produced a combined Annual Report and Accounts that reported on our performance. This report is available from The Stationery Office and the HMRC website: www.hmrc.gov.uk.

Lin Homer
Principal Accounting Officer
25 June 2014

Our people – in their own words

Berni McAuley

Taskforce Lead, Belfast

"As a taskforce lead I have a fabulous role, that gives me the opportunity to work with a diverse range of people in targeting high-risk areas of tax evasion."

Governance Statement

Lead Non-Executive foreword

Ian Barlow

Lead Non-Executive

The last year was one of continued significant change and achievement for HMRC. It met its targets for efficiency and tax yield and made significant progress in developing and starting to implement its long-term strategy. This is to serve taxpayers better at lower cost while generating increased tax yield. It will do this by structuring its organisation and processes around its customers and using digital means as its core method of engagement and delivery.

The executive team at HMRC have much to be proud of, and I have seen the challenge and assurance role of the Board grow and become embedded in the Department's work over the last year. The Board's role is to focus on the Department's performance and future strategy.

We have benefited from a diverse range of experience in HMRC, both on the executive and Non-Executive team. The Board comprises six Non-Executives, including myself, and six executives, including the Chief Executive, Lin Homer. We are assisted by two further Non-Executives who serve on our Audit and Risk Committee.

The Non-Executives have managed large, complex businesses with many similar challenges, particularly in the management of change and in digital enablement and data exploitation. Others have helped build or advise smaller businesses. All understand what it's like to be an HMRC customer.

The Board works in three main ways: firstly, collectively as a Board that meets seven times a year, including an annual strategy session; secondly, through its committee structure, which enables issues to be looked at in greater depth before they are brought back to the Board; and thirdly, individual Non-Executive board members have adopted a buddy system, working between meetings on a one-on-one basis with individual executives, according to their skills and experience base. We have found this combination increasingly effective in helping the executive team to shape the future agenda.

The governance section of this report sets out in more detail the structure and composition of the Board and the work it and its committees have completed in the past year.

This year, as part of our Board effectiveness review, we reflected on the performance data that was being presented to the Board, to ensure that it was fit for purpose and gave the Board the right tools to adequately scrutinise and challenge performance. The Board now routinely views both the performance and transformation hubs, which display performance figures in a readily digestible format and are used by the Executive team to manage the business, to enable focussed discussion in Board meetings.

"HMRC has taken huge strides in developing its strategy for the future, which is focused on its customer groups, rather than the taxes it collects, the benefits and credits it pays out, or existing organisational structures."

I am therefore confident we are receiving the right quality of information, to monitor, challenge and assure the Department's business.

HMRC has taken huge strides in developing its strategy for the future, which is focused on its customer groups, rather than the taxes it collects, the benefits and credits it pays out, or existing organisational structures. Central to this new approach are: first, digital enablement of services that will allow taxpayers and their agents to do more for themselves - reducing costs for both them and HMRC; and, second, sophisticated use of its data to provide a better service and to track down those who seek to avoid or evade their tax obligations.

In recent weeks HMRC staff have started to learn about how this will look in practice through Building our Future, which sets out the Department's vision for 2020 and beyond and starts a conversation with them about their critical role in building that future. The executive team have deliberately and rightly launched this programme well in advance of all the detail being worked out in full, so that all staff can contribute to the final designs and build their own confidence in their future. I recently attended an event with the mid-level managers on the subject; it was an excellent and robust discussion about the future shape of the Department and what needs to occur to realise our ambitions.

Ian Barlow
Lead Non-Executive

How we are structured

Our high-level governance

Committees

Audit and Risk

Scrutiny

People, Nominations and Governance

Sub-committees

Portfolio Delivery

Investment

People Matters

Ministerial arrangements

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act (CRCA) 2005, which gives the legal powers and responsibilities of the Department to Commissioners appointed by the Queen.

HMRC's status as a non-ministerial department is intended to ensure that the administration of the tax system is fair and impartial.

The Department is ultimately accountable to the Chancellor of the Exchequer for how it conducts its business. The Chancellor has delegated the responsibility for oversight of the Department to the Exchequer Secretary to the Treasury, as departmental minister for HMRC. The current departmental minister is David Gauke MP.

The Department must comply with any directions of a general nature given by the Treasury, including Treasury ministers.

HMRC Commissioners

The seven Commissioners at HMRC are responsible for the collection and management of revenue, the enforcement of prohibitions and restrictions and other functions, such as the payment of tax credits. They exercise these functions in the name of the Crown. The Commissioners are also entitled to appoint officers of Revenue and Customs who must comply with their directions.

The Commissioners of HMRC are Lin Homer, Edward Troup, Simon Bowles, Jennie Granger, Jim Harra, Nick Lodge and Ruth Owen.

The way in which the Commissioners conduct their business is governed by the Commissioners for Revenue and Customs Act which says that the Commissioners may make arrangements specifying how many of them are required to carry out their functions. Generally, two Commissioners are required. Decisions relating to the resolution of our largest and most sensitive cases are decided by three Commissioners, including the Tax Assurance Commissioner, who is currently Edward Troup.

Our committees

We have a committee structure in place that enables our executives to undertake effective and transparent decision-making and that provides appropriate challenge and assurance by our Non-Executives.

Non-Executive Board Members

Left to right: Norman Pickavance, Philippa Hird, Volker Beckers, Ian Barlow, John Whiting and Edwina Dunn

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More information about the Board is available online at: http://bit.ly/1hDbCVZ

All Board Members

Ian Barlow, Lead Non-Executive (Chair); **Lin Homer**, Chief Executive; **Edward Troup**, Tax Assurance Commissioner; **Simon Bowles**, Chief Finance Officer; **Jennie Granger**, Director General, Enforcement and Compliance; **Jim Harra**, Director General, Business Tax; **Ruth Owen**, Director General, Personal Tax; **Volker Beckers**, Non-Executive; **Edwina Dunn**, Non-Executive; **John Whiting**, Non-Executive; **Philippa Hird**, Non-Executive; **Norman Pickavance**, Non-Executive.

Colin Cobain, Non-Executive, left during the last financial year.

Ian Barlow - Lead Non-Executive

Ian Barlow is a Non-Executive Director of Smith & Nephew plc, Foxtons Group plc and The Brunner Investment Trust plc. He is Chairman of The Racecourse Association and a board member of the China British Business Council. Until 2008, Ian was a senior partner at KPMG.

John Whiting - Non-Executive Board Member

John is currently the Tax Director of the Office of Tax Simplification and until 2013 was the Tax Policy Director of the Chartered Institute of Taxation. Previously, he was a tax partner at PricewaterhouseCoopers.

Edwina Dunn - Non-Executive Board Member

Edwina is the co-founder of Dunnhumby, which uses data mining and analysis to help improve customers' retail and brand experience. Her company was instrumental in the introduction of the Tesco Clubcard. Edwina is also a director of entertainment social media platform Starcount.

Philippa Hird - Non-Executive Board Member

Philippa is an experienced independent director with interests in remuneration, governance and the delivery of complex change. She is also a Non-Executive Director of the Remuneration Consultants Group and City University. Until 2009, Philippa was group HR director of ITV Plc. Philippa is leaving the Board on 30 June 2014.

Norman Pickavance - Non-Executive Board Member

Norman is a former FTSE 100 HR and communications director, most recently for WM Morrisons Supermarkets Plc. He now acts as an advisor to boards and senior leadership teams on issues of leadership, change and organisational development. Norman is also an advisor to Teach First and Blueprint for Better Business, focusing on ethics, inclusion and sustainability.

Volker Beckers - Non-Executive Board Member

Volker has led a number of large change and transformation programmes, focusing on public and customer engagement. He was Group Chief Executive of RWE Npower until the end of 2012. He has worked in the energy business for more than 20 years - now as non-Executive Director/Chairman. Before joining RWE he worked in the European IT sector and industry.

John Whiting, Non-Executive Director visits frontline staff in Benton Park View, Newcastle

Other Non-Executives[1]

Leslie Ferrar

Leslie was former treasurer to HRH The Prince of Wales and The Duchess of Cornwall, The Duke and Duchess of Cambridge and Prince Harry. Leslie also holds a number of other Non-Executive positions. She was previously a tax partner at KPMG.

Paul Smith

Paul is the former UK Finance Director of the Ford Motor Company and has Board-level experience from across both the public and private sectors in health, housing, transport, financial services and government.

Roles and responsibilities

As a non-ministerial department, the role of the Board is critical to the success of HMRC. The Board is in place to advise and challenge the management of HMRC, particularly focusing its attention on the performance of the Department and its future strategic direction. This year, that has meant a strong focus on the development of the strategic plans for the Department's transformation.

The Non-Executives on the Board bring with them a wealth of experience from a range of backgrounds, including data analytics, human resources, IT, accountancy and the tax profession. Their skills and professional background bring an external perspective to the advice the Board gives to help shape strategy and challenge performance.

The Board provides:

- **challenge**: reviewing and challenging the Department's business plan and performance against that plan, with particular reference to agreed strategic priorities
- **expertise**: providing wider public and private sector expertise to help shape the delivery of strategy and to improve HMRC's performance. They also advise the Chief Executive on senior appointments
- **strategy**: assuring HMRC's strategic direction is clear and deliverable, taking into account risk and focusing on the long-term success of the Department and value for the taxpayer
- **assurance**: providing the Chief Executive, as Principal Accounting Officer, with assurance that the financial statements are factually accurate, that risk management processes are robust, and that control processes across HMRC are strong and appropriate
- **stakeholder views**: reflecting the views of HMRC's external stakeholders; supporting HMRC to develop stakeholder communications plans; and using the cross-government network of Non-Executive directors to bring insight and intelligence to support the Executive Committee to identify challenges and opportunities.

1 Janet Williams, Non-Executive, left during the last financial year.

The Board does not have a role in day-to-day operational decision-making, nor in tax policy or individual taxpayer matters.

The Board met seven times in 2013-14, including one session dedicated entirely to shaping the Department's future strategy. Board members also met with many HMRC teams in 2013-14 to gain insight into their day-to-day work and the challenges they face, including two days visiting frontline offices in London and Newcastle.

At Board meetings, members receive detailed updates on HMRC's performance, which gives them clear oversight of how the Department is performing against its objectives and business plan commitments. The Board regularly views ExCom's 'performance hub', which is the tool the executive uses each month to analyse performance issues. This is a visual representation of the key indicators against which the Department judges its performance. The Board receives regular updates from business areas within HMRC covering financial performance, departmental targets, including customer service measures, and the key risks to performance faced by the Department.

The Board's committee structure remains the same as last year, consisting of the Board and three supporting committees:

- People, Nominations and Governance
- Scrutiny
- Audit and Risk.

Work is delegated to Board committees, where smaller groups of Non-Executives and ExCom members can examine issues in more detail and present their findings to the Board for discussion and conclusion. More detailed information on the roles, responsibilities and work done by these committees during the year can be found in the table on pages 42 and 43.

The Department also established a 'buddying' system last year between members of ExCom and Non-Executive Board members with areas of particularly relevant expertise. This allows Non-Executives to use their experience to help executive colleagues between meetings, and to provide an informal, trusted sounding board outside the formal Board setting. Board members now also participate in the preparation of material to be discussed at meetings, to make the most efficient use of their time.

This year, having established its new membership, the Board has focused on continuously improving its effectiveness and impact, assessing areas for development after each meeting through structured questionnaires and a formal meeting review from a different member each time. The Board has finished the year with a formal effectiveness review, bringing in an external partner to assist the Lead Non-Executive in considering how the Board and its committees operate, through the lens of purpose, people and process. We will be using this review to continue to improve the effectiveness of the Board in the coming year.

Attendance at Board meetings

Board member	Number of meetings attended	Number of times invited/eligible to attend
Ian Barlow (Lead Non-Executive)	7	7
Lin Homer (Chief Executive)	7	7
Edward Troup (Tax Assurance Commissioner and Second Permanent Secretary)	6	7
Simon Bowles (Chief Finance Officer)	7	7
Jennie Granger (Director General for Enforcement and Compliance)	7	7
Jim Harra (Director General for Business Tax)	7	7
Ruth Owen (Director General for Personal Tax)	7	7
Volker Beckers (Non-Executive)	7	7
Colin Cobain (Non-Executive)[1]	4	4
Edwina Dunn (Non-Executive)[2]	7	7
John Whiting (Non-Executive)	7	7
Philippa Hird (Non-Executive)	7	7
Norman Pickavance (Non-Executive)	6	7

1 Left the Board in September 2013.
2 Was a Non-Executive advisor to the Board until November 2013 when she formally joined the Board.

The Executive Committee (ExCom)

Left to right: William Hague, Simon Bowles, Jennie Granger, Mark Dearnley, Ruth Owen, Edward Troup, Lin Homer, Jim Harra and Nick Lodge

GOV.UK

More information about ExCom is available on online at http://bit.ly/1kBQI9S

Members

Lin Homer, Chief Executive and Permanent Secretary (Chair); **Edward Troup**, Tax Assurance Commissioner and Second Permanent Secretary; **Jim Harra**, Director General, Business Tax, **Ruth Owen**, Director General, Personal Tax, **Nick Lodge**, Director General, Benefits and Credits, **Jennie Granger**, Director General, Enforcement and Compliance, **William Hague**, Chief People Officer, **Simon Bowles**, Chief Finance Officer, **Mark Dearnley**, Chief Digital and Information Officer. Standing invitee: **Stephen Hardwick**, Director of Corporate Communications.

Mark Hall, Chief Information Officer and **Mike Falvey**, Chief People Officer both left during the last financial year.

Lin Homer – Chief Executive and Principal Accounting Officer (Commissioner)

Lin is a qualified lawyer with many years' experience as a chief executive in local and central government, including Suffolk County Council, Birmingham City Council, the Home Office and the Department for Transport.

Edward Troup – Tax Assurance Commissioner and Second Permanent Secretary (Commissioner)

Edward is a qualified solicitor with experience gained in the private sector at Simmons and Simmons, and as an advisor to the Chancellor of the Exchequer and latterly as a Director General in HM Treasury.

Simon Bowles – Chief Finance Officer (Commissioner)

Simon was previously chief financial officer at international fabrics manufacturer Fiberweb, and held various senior financial positions at RAC, BOC Group and Arthur Andersen & Co. He trained as a chartered accountant after graduating from Trinity College Dublin with a degree in economics.

Jennie Granger – Director General Enforcement and Compliance (Commissioner)

Before joining HMRC, Jennie was Second Commissioner Law at the Australian Tax Office, based in Canberra, Australia. She is a member of the International Monetary Fund Panel of Tax Administration experts and a solicitor of the Supreme Court of New South Wales.

Ruth Owen – Director General Personal Tax (Commissioner)

Before joining HMRC, Ruth was Work Services Director and Deputy Chief Operating Officer at the Department for Work and Pensions (DWP). She was previously Chief Operating Officer in Jobcentre Plus. She has spent two spells in the private sector on secondment, most recently in PC World in 2005-06. Ruth is Head of Profession for Operational Delivery in Government.

Jim Harra – Director General Business Tax (Commissioner)

Jim began his career in the Inland Revenue as an Inspector of Taxes in 1984. In January 2009, he was appointed Director of Corporation Tax and VAT, responsible for optimising the design and delivery of these business taxes. Jim became Director of Personal Tax Customer Operations in March 2011, and Director Personal Tax Operations in October 2011. He was appointed Director General Business Tax on 16 April 2012.

Nick Lodge – Director General Benefits and Credits (Commissioner)

Nick joined the Inland Revenue in 1990 after ten years in retail banking. He worked in policy for three years and had spells in HM Treasury and the Cabinet Office before returning to a series of management and project jobs. He took up his current role as Director General Benefits and Credits on 6 August 2012.

Mark Dearnley – Chief Digital and Information Officer

Mark was previously CIO at Vodafone UK where he introduced Cloud-based technologies. He was named Oracle Global Business Unit CIO of the Year in 2012. He has also held senior positions with Cable and Wireless and Boots the Chemists. He began his career in the aerospace industry. Mark is a Fellow of the Institute of Engineering and Technology and British Computer Society.

William Hague – Chief People Officer

William led the reform of Civil Service pensions, pay and wider workforce transformation, when he was previously the Executive Director for Civil Service Workforce Reform in the Cabinet Office. He began his Civil Service career at the Department for Work and Pensions and has also been Director of HR Services at the Home Office. He started out in policy and operational management roles at Jobcentre Plus.

Roles and responsibilities

ExCom oversees and assures all of HMRC's work and is responsible for setting and delivering strategy. It is the Department's main executive forum and the primary place in which Commissioners make their decisions. Individual committee members have portfolios of responsibility that span each line of HMRC business and corporate service function.

ExCom meets in three different forms each month - ExCom, ExCom (Performance) and ExCom (Transformation).

ExCom key issues

During this reporting year ExCom met 12 times, covering a wide range of strategic, operational and financial issues which required decision, agreement or discussion by the Department's most senior leadership team. Key issues covered included: plans for the digital transformation of HMRC services and Building our Future; IT and infrastructure projects, such as real-time changes to the PAYE system and One Click services for business customers; and the wider Civil Service reform agenda.

The committee reviews its own effectiveness on a regular basis as part of the arrangements for each meeting and by other means from time to time, for instance coaching, workshops and formal reviews. A formal review of ExCom effectiveness and its sub-committees was conducted during the year. It made a number of recommendations to enhance committee effectiveness, which will be implemented during 2014-15.

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More about the ExCom (Performance) Committee is available online at http://bit.ly/Uti3Ar

ExCom (Performance)

Chair Simon Bowles, Chief Finance Officer

Role and responsibilities

ExCom (Performance) oversees the Department's performance, both in terms of immediate and future objectives. Within a dedicated performance hub, displaying performance indicators agreed by the committee, it analyses HMRC performance against targets and considers ways to improve performance in all areas, including both customer service and value for money.

ExCom (Performance) met 11 times during the reporting period, covering a range of key issues including: compliance revenues secured; tax receipts; contact centre performance; and debt.

ExCom (Transformation)

Chair Nick Lodge (Director General, Benefits and Credits and senior responsible officer for HMRC Change Portfolio)

Role and responsibilities

The future model for HMRC will require a different way of working across the traditional line of business structure. In May 2013, ExCom took the decision to revise the change governance model to support the Department's future direction, forming a new ExCom-level Committee (Transformation) which would provide the most senior level of governance and ensure effective delivery of both the change portfolio and future strategic transformation.

ExCom (Transformation) had its first meeting in August 2013, and met seven times during the reporting period. In addition to monitoring the delivery of the Change Portfolio, key issues covered include the establishment of appropriate governance and assurance mechanisms for the Change Portfolio, creation of the first 'blueprint' strategy for HMRC and the establishment of a design authority.

ExCom sub-committees

In addition to the three ExCom committees described above, ExCom is supported by three sub-committees – Portfolio Delivery, People Matters and Investment.

During the year, there have been some revisions to these sub-committees, to ensure they remain fit for purpose as the organisation and its objectives develop.

Change governance

To support ExCom (Transformation) in its role, and to advise on and challenge business areas on the progress of change portfolios, ExCom also formed the Portfolio Delivery Board in January 2014 (Chaired by Nick Lodge as the senior responsible officer for the Change Portfolio).

The Change Delivery Committee, which fulfilled similar functions to the Portfolio Delivery Board for previous change portfolios, was formally closed.

Tax Committee

This committee was responsible for pro-actively co-ordinating tax strategy and approaches to risk across HMRC. ExCom reviewed the role of the committee during the year and agreed it was no longer necessary, as governance processes had become stronger and better focused. Instead, tax issues are now managed through a range of targeted senior groups which can escalate issues to ExCom whenever necessary, reflecting their direct and collective ownership of tax issues. In addition, the role of the Audit and Risk Committee in monitoring risks is well established.

Attendance at ExCom meetings

	ExCom		ExCom (Performance)		ExCom (Transformation)	
Board member	Number of meetings attended	Number of meetings invited/ eligible to attend	Number of meetings attended	Number of meetings invited/ eligible to attend	Number of meetings attended	Number of meetings invited/ eligible to attend
Lin Homer	12	12	11	11	7	7
Edward Troup	11	12	10	11	6	7
Jim Harra	11	12	11	11	6	7
Ruth Owen	11	12	9	11	6	7
Nick Lodge	11	12	10	11	7	7
Jennie Granger	12	12	8	11	6	7
Mike Falvey[1]	1	1	1	1		
Dorothy Brown[2]	5	5	3	3	0	1
William Hague	6	6	7	7	6	6
Simon Bowles	11	12	9	11	5	7
Mark Hall[3]	5	6	3	5	1	1
Mark Dearnley	6	6	6	6	6	6

1 Mike Falvey was the Chief People Officer until he left HMRC in April.
2 Dorothy Brown was the interim Chief People Officer from May to September, when William Hague took on the permanent role
3 Mark Hall was the interim Chief Information Officer from April to September, when Mark Dearnley took on the permanent role of Chief Digital and Information Officer.

ExCom sub-committees

	Change Delivery[1]	Portfolio Delivery Board	Investment	People Matters
Role and responsibilities	Assured delivery of the agreed portfolio of HMRC investment programmes on behalf of ExCom, in line with government best practice. As part of new change governance arrangements introduced in December, ExCom agreed formally to close this committee and replace it with a Portfolio Delivery Board.	Acts as an additional decision-making body, helping others to implement change, offering support and advice as well as a challenge function operating below but reporting to ExCom (Transformation).	Makes investment decisions on behalf of ExCom, in line with HMRC's strategic direction and change initiatives, which cost more than £2 million, or are new or contentious.	Plans for three to five years ahead, in terms of how HMRC will be structured and uses its resources. It also oversees the programme of work that will deliver the people strategy and takes decisions on delegated issues relating to people policies. The committee supports the Chief People Officer in designing and implementing an annual 'One HR' work plan.
Chair	Nick Lodge (Director General, Benefits & Credits) - May 2013 to October 2013; Lin Homer (Chief Executive) - April 2013 and November 2013 as Change Programme senior responsible officer.	Nick Lodge (Director General, Benefits & Credits) - January 2014 to present.	Simon Bowles (Chief Finance Officer).	Mike Falvey (Chief People Officer - to 30 April); Dorothy Brown (Acting Chief People Officer - from May to September); William Hague (Chief People Officer - from October).

1 Superseded by Portfolio Delivery Board

ExCom sub-committees

	Change Delivery[1]	Portfolio Delivery Board	Investment	People Matters
Issues covered	Reviewed and agreed monthly Change Programme risks and status Performed two 'stock-takes' for the Change Programme Reviewed key programmes within the Change Programme portfolio Acted as an escalation body for PaceSetter to ensure it is working as intended.	Monitored and challenged progress of the change portfolios against key milestones and indicators Identified priorities within the change portfolios.	Examined business cases for Autumn Statement 2012 investment; Spending Review 2013 settlement; Autumn Statement 2013 investment and legacy business cases for Spending Review 2010 settlement; reinvestment Prior to the creation of ExCom (Transformation), led quarterly investment funding prioritisation exercises Reviewed finance and benefits status and associated risks and issues of core change and reinvestment settlements.	Examined existing HR and people practices as they were updated and refreshed Reviewed significant new practices as they were being developed Oversaw the delivery plan for the HMRC people strategy. Examined the priority and work plan for the HR policy remit Considered items escalated via the departmental risk register, and referred by the Board, ExCom, or the People, Nominations and Governance Committee for in-depth review.

1 Superseded by Portfolio Delivery Board

Board sub-committees (Role and responsibilities)

<table>
<tr><th>Audit and Risk</th><th>Scrutiny</th><th>People, Nominations and Governance</th></tr>
<tr>
<td>Provides assurance to the Board and the Principal Accounting Officer on the accuracy and precision of financial statements and the strength of risk management and control processes across HMRC. Its scope covers all aspects of HMRC business and those relating to the Valuation Office Agency (VOA), as escalated. The Chair of the Audit and Risk Committee will attend at least one meeting annually of the VOA Audit and Risk Committee.

Advises the Board and the Principal Accounting Officer on:
• assurance processes and actions in relation to management of risks in an HMRC context
• strategic processes for risk, control and governance
• the accounting policies, the accounts, and the annual report of the organisation. This includes the Resource Accounts, Trust Statement and the National Insurance Fund Accounts
• recommending follow-up action in response to reviews of processes in settled tax cases
• the planned activity and results of both internal and external audit
• the adequacy of management response to issues identified by audit activity
• when necessary, proposals for tendering audit services from contractors who provide audit services to the Department
• anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.</td>
<td>A special sub-group of the HMRC Board, which carries out in-depth scrutiny of single issues referred to it by the Board

The committee advises the Board and the Principal Accounting Officer on specific areas within the Board's remit

Examples of issues that have been referred include:
• HMRC's strategies, policies, practices and measurement of performance and how they might best be developed and improved.</td>
<td>Provides advice and scrutiny for the Board and Chief Executive on:
• nominations arrangements within HMRC
• succession planning for appointments to ExCom and the Board, so it can maintain an appropriate balance of skills and experience
• the identification and development of leadership capability and high potential across the Department
• the incentive and reward strategy for the Department
• HR support for the Department's strategic direction and key HR performance indicators
• HMRC's ability to meet its legislative responsibilities in relation to its people, including health and safety, the Equality Act and equal opportunities.</td>
</tr>
</table>

Board sub-committees

Audit and Risk	Scrutiny	People, Nominations and Governance
Chair: John Whiting (Non-Executive)	**Chair**: Volker Beckers (Non-Executive)	**Chair**: Philippa Hird (Non-Executive)
		
Issues covered: There has been a particular focus this year on: • assessing the process of risk management in the Department and ensuring the right challenges and assurances are in place, resulting in clearer separation of responsibilities between Audit and Risk Committee and the Board • improving liaison with the NAO as external auditor - a series of workshops were held to supplement the usual liaison meetings and cover key relationship issues as they arose throughout the year • considering areas of qualification or concern within the accounts and possible remedies, which were discussed and tracked throughout the year • assuring wrongdoing processes, shaping and improving policies and implementation • assuring the Annual Report and Tax Assurance Commissioner's Report • identifying and assuring the processes around the Department's business critical models in the light of the Macpherson Report.	**Issues covered:** There has been a particular focus this year on: • change management programmes • reviewing issues relating to the Department's stakeholders and customers - particularly around complaints handling. This has included looking at recommendations or advice from the Adjudicator, Ombudsman and consultative groups • shaping the Department's security strategy.	**Issues covered:** There has been a particular focus this year on: • the outcome from the Department's people survey and improving engagement in the Department • HMRC's capability to deliver the business plan - including professional capability, leadership and management • reviewing the talent pipeline and succession planning • pay strategy in the organisation • attendance management • the Department's strategy for its people.

The risks to our performance: what they are and how we deal with them

The level of risk has decreased since 2012-13

The level of risk has increased since 2012-13

The level of risk has remained the same as 2012-13

Risk management operates at all levels in HMRC, from operational decision making on individual cases, through to the strategic-level risks identified in our Departmental Risk Register.

There are several ways that HMRC manages risk, including:

- running a risk management escalation/de-escalation process, based on risk registers operated at the various levels throughout the business. The aim is to ensure that accountable individuals are aware of emerging and existing risks
- having an independent corporate risk management team, whose function is to scrutinise, assess and develop how we manage risk at HMRC
- embedding 'risk partners' within business areas, who are responsible for developing appropriate risk-related activity
- assessing the effectiveness of our risk processes by running an HMRC-wide risk management maturity assessment. The next one will be run during 2015-16
- examining specific risks in greater detail, with ExCom ensuring the assessment of the risk, the mitigating actions and tolerance of the residual risk levels are appropriate
- monitoring our progress in controlling each risk during the year; this includes the work we do internally together with external factors which impact upon the Department.

Revenue

Risk	Progress	What are we doing
Additional compliance revenue Delivering our Spending Review 2010 proposition for additional compliance revenues.		The Spending Review revenue targets are on track to be achieved. They continue to be monitored by ExCom through its monthly performance hub meetings. Departmental performance measures are agreed with HM Treasury. Our methodology and systems underpinning the reporting of our measures in 2013-14, was reviewed by the National Audit Office. Controls in place to monitor and manage future revenue delivery targets include: • business planning will be coordinated with our transformation agenda, the data strategy and the security strategy • effective workforce planning and management • use tax risk analysis to inform compliance planning and resource deployment • development and maintenance of tax risk picture for large businesses Issues around the reporting of our performance against targets are set out on pages 9 to 13 'Maximising revenues'.

Operations

Risk	Progress	What are we doing
Transforming HMRC Mobilising quickly and effectively to deliver the transformation agenda.	New risk	We have established the HMRC Change Portfolio to manage change programmes and projects, and to ensure they are aligned with our strategic objectives. We have: • developed a blueprint for our transformation, which is aligned to our strategic direction • organised projects and programmes and identified senior responsible officers at Director General level • ensured the HMRC Change Portfolio is overseen at ExCom level.
HMRC Universal Credit programme Managing large-scale migration from tax credits to Universal Credit.	✓	We continue to work extremely closely with both the Department for Work and Pensions (DWP) and HM Treasury on the HMRC Universal Credit programme. Actions include: • working with DWP to identify contingency options to support the baseline planning assumptions • membership of the Universal Credit Programme Board and other key DWP boards covering design, IT and volumetric analysis • integrated planning is underway and risks are shared at two-weekly meetings with the DWP Universal Credit executive team • contributing towards the design of the Universal Credit service to ensure it reflects the characteristics of tax credits.
Tax policy skills Capability or capacity in our policy community to meet the demand of our customers and enable HMRC's effectiveness.	=	We have policy governance groups to oversee this risk. Actions include: • developing strategic tax product plans that explain our approach to coping with different resourcing pressures in different parts of the business • running corporate exercises to identify risk areas and staff vacancies in policy, as well as organising fast stream graduates and shadowing placements across HMRC and HM Treasury • developing a small pool of skilled flexible policy experts to support directorates within HMRC • starting a longer-term piece of work to identify the risks and opportunities to resourcing policy in the future.

Operations

Risk	Progress	What are we doing
Supplier sustainability Key suppliers fulfil their contracts.	✓	Existing controls have been rigorously maintained and improved, taking into account funding, spending constraints and impact upon the supplier. Actions include: • establishing a contingency planning group, overseen by the Chief Finance Officer and supported by independent financial opinion, assessments and costs options • regularly monitoring news sources and maintaining a close relationship with cross-government bodies to identify any significant developments with the supplier or market sector • regularly testing business continuity plans, and subjecting them to regular scrutiny by Internal Audit, to manage the impact of any contractor default • refreshing and updating our contingency plans, legal advice, and handling and commercial negotiation strategies. These are now subject to continuous review.
Business direction Developing a realistic, affordable and understood long-term vision for the Department that enables delivery of our long-term aims.	=	We are continuing work on an overarching strategy aimed at embedding a realistic and affordable framework for decision-making across HMRC. We have: • maintained links with transformation programmes throughout the Department to ensure alignment with our blueprint work on the future of HMRC • ensured that business and strategic planning is based on our future direction • communicated the strategy through engagement of HMRC senior leaders.
Workload, capacity and resource management Effectively forecasting demand and balancing capacity with workload.	=	We are improving our ability to match workload volumes and resource availability, particularly in Personal Tax, where it has presented the biggest challenge. However, this risk requires further attention to keep it within tolerance. Actions include: • a strengthened business planning process which more explicitly tackles capacity and workload issues with information about the resources we have at our disposal • taking a more active approach to managing staffing supply and demand across the business by the Workforce Management Programme.

Operations

Risk	Progress	What are we doing
Sustainable and affordable Personal Tax business model Delivering a sustainable and affordable business model, which maintains improved service delivery at a lower cost.		In Personal Tax, we have: • identified that the delivery of a number of change benefits through the Business Process Re-engineering, Contact Transformation and digital programmes bring staff and cost savings • developed a robust business plan which sets out how we will work differently to achieve our customer service ambition. This includes bringing in teams from across HMRC to support service levels at peak times • reviewed our corporate services functions to see which staff could be redeployed into operational roles.

Customer service

Risk	Progress	What are we doing
Understanding customers Understanding the impact of changes to our operating model on customer service levels, experience and behaviour.		We continue to improve our customer understanding and use customer intelligence appropriately by: • building our understanding of the cumulative changes on customers to help us manage the overall impact on our diverse customer base • routinely seeking customer insight and feedback on all our proposed changes, and in digital in particular, involving end users in the design of our new services • assessing the likely impact on service levels, costs and yield as the three key objectives of the Department and building our understanding of how service levels can influence compliance and tax yield • making better use of our (and others') data, which will ensure we segment our customer base better, so we can offer differentiated and personalised services for customers, based on their tax risk and past behaviour.

People

Risk	Progress	What are we doing
People skills and technical capability Staff in the right place with the right skills to deliver our strategic objectives.		We have redesigned our workforce delivery approach. However, there are still challenges for us in this area. We have: • improved the quality of our workforce data, including completing a strategic workforce planning review • introduced a clear workforce planning governance structure • run an internal capability assessment against four cross-government priority areas (leading change, commercial, digital, project and programme management) • started to measure and evaluate our capability in the tax and operational delivery professions.
Leadership and management capability The capability needed to deliver departmental transformation and improve business performance.	New risk	We have established a central team to co-ordinate our approach to building our leadership and management capability. Its early focus has been on addressing the skills gap around leading and managing change. We have: • completed an exercise to start measuring and evaluating our change leadership capability • produced targets for a yearly improvement in capability from 2014-17 • put in place the funding needed to support these improvements • started the roll-out of a programme (Building our Future) which focuses on building the capability of all leaders and managers in HMRC.
Employee relations Deterioration in industrial relations, sustained industrial action and unrest.		Our employee relations team co-ordinates activity across HMRC to manage this risk. We have: • maintained dialogue with unions and employee groups on a wide range of challenging issues that affect our people • participated in the Cabinet Office Employee Relations Manager Group to develop best practice across government • supported parts of HMRC which have time-critical business processes to manage any industrial action.

People

Risk	Progress	What are we doing
People engagement Staff engagement to deliver change and maximise performance.		Activity takes place at all levels to build the skills of our leaders and to help our people understand the vision around transforming HMRC. We have: • improved analysis of our annual People Survey and Pulse surveys data to maximise our approach to employee engagement • begun to plan to implement a programme to ensure that everyone in HMRC, regardless of grade or location, has access to senior leaders to hear and share information about the Department's transformation agenda • continued to use people impact assessments to support change management • developed our involvement with cross-government engagement networks to enable us to share good practice, develop tools and build engagement capability • carried on more work to improve HMRC's culture, to build trusted leadership and understand the sources of employee disengagement.
Health and safety Duty of care as employer and leaseholder towards employees, customers and building users.		We have a number of internal specialists who address this risk. They support managers and staff by providing technical advice, guidance and assurance programmes. We have: • updated the health and safety governance structure to meet business and legislative needs better, including reporting and reviewing health and safety performance at Board, ExCom and directorate levels • revised the guidance and support arrangements for site senior responsible managers • successfully delivered new third-party contracts for employee assistance and occupational health and well-being, without suffering any failure in service provision • launched mental health and well-being strategies, including measures to support our people and to reduce levels of sickness absence.

Reputation

Risk	Progress	What are we doing
Reputation management Effectively using communications and stakeholder management pro-actively to manage our reputation and to respond appropriately to a crisis situation.		We adopt a proactive and open approach to engagement with media and stakeholders to promote understanding and better represent and explain HMRC's activities and position. We have: • hosted successful stakeholder conferences in July and November 2013 for our top 150 corporate stakeholders • further embedded use of an online stakeholder tool to improve insight for stakeholder engagement • monitored media coverage to deploy key messages effectively • designed and delivered successful marketing campaigns for Self Assessment, tax credits, tax avoidance, and High Income Child Benefit Charge • launched a dedicated Twitter account and YouTube e-learning to meet customer demand, particularly from small and medium-sized businesses • engaged with cross-government communications networks using a 'reputation index' to measure stakeholder perceptions.

IT and security

Risk	Progress	What are we doing
Cyber threats Protection against cyber threats.		We receive funding from the National Cyber Security Programme to mitigate this risk. We also report on overall delivery, including progress and benefits, to the Cabinet Office. We do not disclose the specific actions we take against cyber crime for security reasons.
Information management Our culture and capability supports the data flows required to deliver digital by default.		We are strengthening the ability to manage data more effectively to support the digital by default strategy agreed with ministers. Actions include: • embedding data management in HMRC strategy work • drafting strategic data management principles to assess the position of data management across HMRC • establishing new opportunities for knowing what data we have and working across boundaries to exploit it • one of our Change Portfolio clusters is centred around improving our use of data.

IT and security

Risk	Progress	What are we doing
Protective security Protecting the confidentiality, integrity or availability of our assets.	=	We have developed a number of controls relating to our buildings and suppliers. Actions include: • developing a clear understanding of our supplier risks and our response to those risks • improving our knowledge of delivery and compliance with standards to develop additional assurance actions • having effective monitoring in place which reveals a low level of reported incidents.
Business continuity capability Following a significant event, our plans and arrangements are insufficient to enable delivery of key objectives.	=	We are working to develop a broader business continuity capability across the Department. Actions include: • developing a new business continuity strategy that identifies more than 20 actions to support management of risks • implementing a business continuity tool that standardises planning across HMRC. This is auditable and will increase visibility of plans and support assurance activity.

Current control challenges – statement by Principal Accounting Officer Lin Homer

> "Over the past year we have successfully managed a number of issues that have posed a risk to delivery of our core work."

Our business planning involves identifying issues that pose a significant risk to our performance and then managing these risks to mitigate their impact.

We do this by regular oversight and scrutiny via ExCom (Performance) and effective assurance from Audit and Risk Committee. How we manage risks is set out in our risk management strategy, together with policies and supporting guidance. This includes:

- defined roles and responsibilities at all levels
- a corporate reporting process, which includes the escalation and de-escalation through individual lines of business risk management activity
- the behaviours we require for effective risk management
- critical success factors.

Over the past year, we have successfully managed a number of issues that have posed a risk to delivery of our core work. Some of these are risks that have become issues, while others are new issues that need to be managed.

Current control issues

Tax credits appeals

We realised that a significant backlog in appeal cases in 2012-13 could have caused delays in responding to customers. We immediately introduced a recovery plan that included closer monitoring of how fast we were clearing appeals. By deploying additional resources to this area, we managed to sort out the majority of the backlog by June 2013.

The additional measures we took were not sufficient to meet all of our targets for 2013-14 and there remained a number of weaknesses and an unsatisfactory experience for some of our customers. During the past year we have continued to strengthen the way we manage the tax credits appeals process. As a result, we expect this issue to reduce in priority to more manageable levels during 2014-15.

Management of pensions

A review by the National Audit Office (NAO) highlighted a potential risk that we would over-pay Civil Service pensions in 2012-13. In response, we introduced a new service, so that the provider of Civil Service pensions could obtain more information about the pensions we paid electronically. A specialist team within HMRC also closely monitored the situation, and worked closely with the Cabinet Office and NAO.

As a result of our prompt action, we realised more work was needed to

We introduced better governance and accountability arrangements to manage risks, issues and decisions proactively

tighten controls in this area. So we introduced better governance and accountability arrangements to manage risks, issues and decisions pro-actively. This included a data cleansing project which concentrated on high-risk cases that was completed in May 2014, and further assurance reviews planned in 2014-15.

Accelerated payment in tax avoidance cases

Individuals and businesses who use tax avoidance schemes and are involved in lengthy legal action against us over disputed amounts of tax now face the possibility of having to pay HMRC the money in advance, rather than retaining it while the dispute is settled in the courts. The 2014 Finance Bill has extended these 'accelerated payment' powers to users of tax avoidance schemes disclosed under the Disclosure of Tax Avoidance Schemes (DOTAS) rules, and to taxpayers involved in schemes that contravene the General Anti-Abuse Rule (GAAR).

The way we implement these powers needs to be consistent - and we need to have effective controls in place. To ensure this takes place, we have created a steering group, drawn from across HMRC and including external representation, to oversee these new controls. They include making sure cases selected for accelerated payment notices are robust against any legal challenges; that the criteria for selecting cases for accelerated payment notices are developed and cleared through the steering group and that a handling plan for issuing the notices means we learn to get the flow of cases right.

Customer service levels

Our ambition is to deliver consistent quality performance for our customers

We recognise that our customer service levels have not been where we want them to be. In the year we have made improvements, with good performance in the second half of the year. Full details are included at page 14 of this report. We are beginning to work differently to deliver improvements, including using flexible resourcing drawn from across HMRC to support and manage our service levels through the peak customer renewal periods. Our ambition is to deliver consistent quality performance for our customers through managing demand, and delivery of change to systems and processes, which when combined, will bring a better customer experience.

Individual Identity Assurance (IDA)

We have agreed with the Government Digital Service (GDS) that we will build the new business and agent digital services using Government Gateway during 2014-15, with a plan to migrate customers onto business IDA when it is ready. HMRC and GDS are currently collaborating on an alpha (prototype) for business IDA, and so we do not yet have a firm delivery date for this service. The Government Gateway service is due to be retired in March 2016, and so there is a risk that we may not have time to move all the customers from the old system to the new system in time. Also, at this stage we do not have a detailed understanding of what will be involved for businesses and agents in transitioning to the new Government Gateway services and later migrating to the services on business IDA.

Tax credits error and fraud

The Comptroller and Auditor General (C&AG) qualified his regularity opinion on HMRC's 2013-14 Resource Accounts because of material levels of error and fraud in the payments of personal tax credits. Our estimate of error and fraud at seven per cent of finalised entitlement is the lowest since the current personal tax credit scheme was introduced in 2003-04.

Following a recommendation in the Comptroller and Auditor General's Value For Money report *Tackling tax credits error and fraud,* published in February 2013, we ran a trial early in 2013 which showed that the private sector could carry out like-for-like checks on tax credits awards and provide additional capacity. Following this trial, the Chancellor announced at Autumn Statement 2013 that HMRC would work in partnership with a private sector supplier to carry out fraud and error checks to prevent money being paid out to tax credits claimants erroneously.

We subsequently signed a contract on 6 May 2014 under which a private sector supplier will carry out checks on claims, to add to the work of our own teams. This means up to five and a half million more compliance checks over the next three years, with the potential to reduce incorrect payments by up to £2 billion. As a result we will aim to reduce losses through error and fraud towards 5.5 per cent of finalised entitlement by the end of 2014-15.

Actions

With all risks and subsequent issues that may arise from them, we have clear owners who are accountable for taking action. These actions vary, but mostly include ensuring that there are effective controls in place, focusing resources in priority areas and investing in enhanced capabilities.

A number of specific sources contribute to my review of these risks, including:

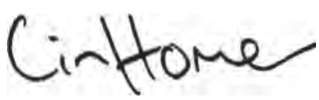
- individual statements from each member of the Executive Committee, outlining the governance, risk and control arrangements in their business areas
- the governance statement provided by the Valuation Office Agency and the review that underpins this
- the production of the Great Britain and Northern Ireland National Insurance Funds' governance statements - there are two funds and two accounts produced, which I sign separately. Many of the activities relating to the transactions of the two funds are carried out by other departments and agencies (for example, the Department for Work and Pensions and the Department for Social Development in Northern Ireland) and I receive letters of assurance from the Accounting Officers of each of these

- National Audit Office (NAO) reports
- bi-monthly reports to the Audit and Risk Committee on the status of recommendations made by external scrutiny bodies, such as the NAO, Public Accounts Committee and Treasury Select Committee
- the director of Internal Audit's annual opinion to me as Principal Accounting Officer
- the Tax Assurance Report, compiled by the Tax Assurance Commissioner
- external reports on HMRC, produced by organisations including the Information Commissioner's Office, Her Majesty's Inspectorate of Constabulary, the Independent Police Complaints Commission and the Office of the Surveillance Commissioners
- formal assurance that I receive from HMRC's senior information risk owner that information risk has been appropriately managed in the conduct of HMRC business
- our enhanced approach in response to the 2013 review of quality assurance of government analytical models, including the development of new, high-level departmental guidance and our contribution to the cross-government working group on quality assurance
- the reviews that underpin the Managing Risk of Financial Loss project. This is an HM Treasury requirement that government departments conduct financial process assessments of their significant financial processes.

Taking all of these into account, I recognise that there are a number of real challenges we continue to face. Of those I have identified, the most significant are detailed in the current risks to our performance table.

Conclusion

An organisation of HMRC's size and complexity will always have a significant number of risks to manage at any one time, but I am satisfied that the governance arrangements I have put in place are sufficient to continue managing these risks effectively. Based on the review I have outlined above, I conclude that HMRC has a sound system of governance, risk management and internal control that supports the Department's aims and objectives.



Lin Homer
Principal Accounting Officer
25 June 2014

GOV.UK

The Code of Good Practice is available on online at http://bit.ly/Srlrdf

Compliance with Code of Good Practice

This year HMRC has continued efforts to improve and build on the strength of its governance.

The Chief Executive has reviewed and is confident that our governance arrangements fully comply with the key principles set out in the Code of Good Practice. As a non-ministerial department, HMRC has a Board led by our Lead Non-Executive, with an even balance of executive and Non-Executive members.

Our Audit and Risk Committee consists of three Non-Executives, including the chair, who is also a Board member, and two others with relevant financial experience.

A review of the Board's effectiveness found that it is still at a relatively early stage in its development, but had got off to a good start, with strong relationships and skills base as well as a clear purpose - though there is still the potential further to enhance performance in the year ahead. Particular areas of focus in the coming year will be:

- improving the quality of papers submitted to the Board
- being clear about outputs required from the Board
- planning agendas further in advance in line with HMRC's strategic objectives.

The Department will also be considering succession planning for Non-Executives for the future. We will revisit progress in implementing the recommendations in December to ensure we maximise benefit from this valuable exercise.

HMRC carried out an equivalent exercise internally to review the effectiveness of the Executive Committee (ExCom). The review included analysis of committee meeting papers and notes from the last 12 months, a questionnaire completed by ExCom members and a structured discussion at a subsequent committee meeting to examine findings.

The results of the review have shown that ExCom is functioning well in terms of quality of discussions and decision-making. The review also identified areas where steady improvements could be made to build on the strong foundation already in place, such as taking steps to further enhance the quality of committee papers and developing new ways to share key messages and decisions across the Department.

This year, the Board started to use the same performance hub that is discussed by ExCom each month to facilitate performance discussions with Board members. The Board visits the dedicated performance room during each of its meetings, where key performance indicators are monitored visually around the room and where it has become easier for Non-Executives to understand, challenge and assure Departmental performance. This model has been used as an exemplar for other departments to consider using to facilitate effective performance discussions with their Board members.

Recommendations made by external scrutiny bodies

HMRC recognises the importance of recommendations made by external scrutiny bodies, and has a formal monitoring system in place to make sure they are implemented promptly.

The Chief Executive presents a report to each meeting of the Audit & Risk Committee (A&RC), updating it on the status of recommendations and whether any are overdue. Recommendations are considered overdue if they have not been implemented by the date stated at the time of implementation[1]. On 31 March 2014 there were 17 tier 1 and two tier 2 recommendations that were overdue. We have put in place action plans and agreed revised dates for all overdue recommendations, which are reviewed at each Audit and Risk Committee meeting.

In 2013-14 we have also included recommendations made by the National Audit Office (NAO) in its cross-government reports where recommendations are appropriate to HMRC.

Tier 1 recommendations are those where failure to implement is likely to have the greatest financial, operational or reputational impact for HMRC. This includes recommendations made by our primary assurance providers, the NAO, Public Accounts Committee (PAC), and Treasury Select Committee (TSC), as well as recommendations made by the Independent Police Complaints Commission (IPCC) and the Major Projects Authority (MPA). These are reported at each bi-monthly A&RC meeting.

Tier 2 recommendations are of a lower impact and made by other external bodies and progress in implementing them is reported twice a year, in May and November.

1 Recommendations made prior to 2013-14 were considered overdue if they had not been implemented within 12 months.

Recommendations made by external scrutiny bodies

2013-14	Tier 1 recommendations				
	Opening[1] balance	New	Closed	Closing balance[2]	Overdue[3]
NAO/PAC/TSC reports	22	61	61	22	5
NAO cross-cutting reports[4]	0	29	21	8	0
NAO[5]	57	128	138	47	9
Others[6]	16	37	36	17	3
Total	**95**	**255**	**256**	**94**	**17**

2013-14	Tier 2 recommendations				
External body making recommendation	Opening balance[7]	New	Closed	Closing[8] balance	Overdue[9]
Deep Dive reviews[10]	9	40	29	20	
European Commission and European Court of Auditors	36	18	14	40	
Health and Safety	5	1	5	1	1[11]
HM Inspectorate of Constabulary	5	15	6	14	
Interception of Surveillance Commissioner	0	6	1	5	
Office of Surveillance Commissioners	1	8	9	0	
UK Statistical Authority	5[12]	0	5	0	
GCHQ	1[13]	0	0	1	1[14]
Total	**62**	**88**	**69**	**81**	**2**

1 Balance as at 1 April 2013.
2 Balance as at 31 March 2014.
3 Operational constraints have led to a delay in implementation beyond the envisaged target date. All are reviewed at each Audit and Risk Committee meeting.
4 NAO cross-government reports since 1 January 2013 with recommendations appropriate to HMRC.
5 Section 2 audit recommendations and management letters.
6 Independent Police Complaints Commission (IPCC) and the Major Projects Authority.
7 Balance at 1 April 2013.
8 Balance at 31 March 2014.
9 Recommendations in the closing balance that were overdue at 31 March 2014.
10 Including Starting Gate and Project Assessment reviews.
11 Expected completion by 30 June 2014.
12 Four internal recommendations were incorrectly included at 31 March 2013 and in our Annual Report for 2012-13.
13 Omitted from the report to 31 March 2013 and the Annual Report for 2012-13.
14 Required inspection expected by 31 July 2014.

Pension liabilities

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS).

The defined benefit scheme within the PCSPS is unfunded and is contributory. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme (LGPS). Further information can be found within the Valuation Office Agency accounts that can be viewed at www.voa.gov.uk.

Further information on how pension liabilities are treated can be found in the Remuneration Report.

Register of interests

Senior managers within HMRC, including the Non-Executives, are required to complete a declaration of any interests. No significant company directorships or other interests were held by Board members which may have conflicted with their management responsibilities. Note 22 to the accounts confirms that no member of the Board, including Non-Executives, has any related-party interests.

Remuneration to auditors for non-audit work

HMRC did not pay any remuneration to its auditors for non-audit work.

Public sector information holders

HMRC is required to comply with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance Managing Public Money. Since 1 January 2010 HMRC information is provided through a Public Sector Information licence which has no charging implications for holders.

Published sickness absence data

Our target was to reduce the average number of days lost to sickness absence (AWDL) based on the number of full-time equivalent staff to 7.0 by March 2014, from 7.72 in 2013. We reduced by 0.33 AWDL but missed our target, ending the year at 7.39. We planned to further reduce AWDL through greater emphasis on measures aimed at promoting people's health and wellbeing, combined with sustained improvements in the way we manage attendance. Our approach is to build the capability and confidence of our managers with a strong emphasis on giving them the skills they need to deal with sickness absence issues with their teams.

We have made tackling workplace stress a priority by encouraging managers to use a stress management tool, which is based on standards set out by the Health and Safety Executive, as well as training staff to support managers by facilitating events and ensuring that actions are agreed and followed through. There has also been a gradual rise in long-term sickness absence of 21 days or more. We encourage case conferencing to identify options to resolve long-term absence cases and have provided managers with additional guidance and support for staff with serious or terminal illness.

Personal data-related incidents

All government departments are required to publish information about any serious data-related incidents, which have to be reported to the Information Commissioner.

Table 1: summary of protected personal data-related incidents formally reported to the information commissioner in 2013-14

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
May	Software design weakness leading to unauthorised disclosure of HMRC customer information. An automated letter intended for a customer was held in a system queue awaiting a valid address to be provided. When the letter was finally produced, certain data fields were populated with more up-to-date information that should not have been disclosed to the customer.	The automated letter related to a Child Trust Fund and included some information about a child that the recipient was not entitled to have	3	Individuals contacted

Other protected personal data-related incidents in 2013-14

Incidents which did not require reporting to the Information Commissioner were recorded centrally within the Department and are set out in the table below. Small, localised incidents are not recorded centrally and are not included in these figures. Figures for 2012-13 are shown in brackets.

Table 2: summary of other protected personal data related incidents in 2013-14

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	4 (9)
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	7 (18)
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0 (0)
IV	Unauthorised disclosure	32 (49)
V	Other	0 (0)

Statement on information risk

In 2013-14 the number of centrally-managed security incidents impacting on protected personal data in HMRC reduced from 76 to 43. A further 5,000 mostly-minor incidents potentially impacted on customers. The number of customers affected by these centrally-managed incidents continued to fall. The single largest incident involved the disclosure of a small amount of personal information involving 293 customers.

Further action on information risk

We deal with millions of customers every year and tens of millions of paper and electronic interactions. We continue to take the issue of data security extremely seriously and continually look to improve the security of customer information. We use security incident reports and analysis to understand and reduce security risk, so we can make sure the Department is seen as a trusted and professional organisation.

Lin Homer

Lin Homer
Principal Accounting Officer
25 June 2014

Additional information

Delivering a high-quality tax system – our structural reform plan

Our structural reform plan sets out our programme of work to support the government's priority to deliver a more focused and effective tax administration.

During 2013-14 we:

- worked with the Treasury to introduce a General Anti-Abuse Rule. It targets abusive tax avoidance schemes that seek to exploit tax legislation in a way that Parliament never intended
- collaborated with the Treasury to legislate for an annual tax on enveloped dwellings. These are properties that are owned by companies and are worth more than £2 million
- continued to transform the PAYE system with the roll out of our Real Time Information (RTI) programme. The vast majority of employers are now reporting their PAYE deductions through RTI
- launched 28 taskforces in specific, high-risk sectors or locations where there was evidence of tax evasion. Taskforces have included: security guards, medical and legal professionals, bouncers and doormen in London; tax and benefit fraud in the Scottish fishing industry; and fraudulent VAT repayment claims in Northern Ireland.

We have also made progress in offering more digital services. These include new procedures which allow business customers to register for VAT and other main direct taxes online. We implemented pilots for our three exemplar services - PAYE Online, Your Tax Account and Digital Self Assessment - and are on track to deliver the final services during 2014-15.

Transparency agenda

Being transparent in our work is of vital importance if customers are to see that we are fair and deal with them impartially - from individual taxpayers through to families claiming tax credits and Child Benefit, to the largest of multinational companies.

Part of this approach is to look at ways of sharing our data more widely, within our legal framework, and mindful of our duty to protect customers' privacy and safeguard the effective operation of the tax system.

During the last financial year, we were involved in a number of transparency programmes, including:

- releasing anonymous information through the HMRC Datalab – which is a safe and secure facility for the research community to analyse HMRC data
- publishing key data on our departmental spending and procurement, as well as information on our organisation and performance, at www.data.gov.uk
- establishing the Tax Administration Research Centre (TARC) to support independent research on tax administration. The centre is sponsored by HMRC, HM Treasury and the Economic and Social Research Council and hosted by Exeter University and the Institute for Fiscal Studies
- establishing the Tax Transparency Sector Board – a public forum for HMRC to consider wider access and use of our data for public benefit while safeguarding taxpayer confidentiality.

ROYAL STATISTICAL SOCIETY

In 2013 our website for overseas trade data, was declared overall winner of the RSS Excellence in Official Statistics Award

We have also improved the accessibility and usability of our national and official statistics. In September 2013, our website for overseas trade data, www.uktradeinfo.com, was declared overall winner of the RSS Excellence in Official Statistics Award. The site offers increased data availability, simplified data access and improved data visualisation for users. Similarly, our main statistics website underwent extensive development and was successfully migrated to www.gov.uk in February 2014.

GOV.UK

The ***Sharing and publishing data for public benefit*** consultation document is available online at http://bit.ly/1nellHM

We launched a wide-ranging public consultation on options for making some of the data that we hold more widely available to support the government's open data, transparency and growth objectives. The consultation generated many constructive responses on the benefits and risks of sharing more detailed information publicly and how that would work within our framework of maintaining taxpayer confidentiality.

Following the data sharing consultation, the Chancellor announced in Budget 2014 that the government will legislate to provide for a controlled release of non-financial VAT registration data for specific purposes (principally credit scoring) to a small number of qualified parties (like credit reference agencies). We will continue to explore options for the public release of a limited subset of non-financial VAT registration data as open data to support the Government's wider transparency objectives.

Better regulation

HMRC contributes to the government's better regulation agenda by simplifying the administration of the tax system, making it easier for customers to deal with us and reducing their costs and ours.

Since the Autumn Statement announcement in 2012, we have been pursuing a target to reduce the net annual cost of tax administration to business by a total of £250 million by March 2015. Where business costs have increased as a result of government policy, for example through the introduction of the Bank Levy or changes to pensions tax relief, we have worked even harder to reduce costs in other areas to compensate for the increase.

GOV.UK

View the ***Administrative Burdens Advisory Board Report*** at: http://bit.ly/1kRyiN0

The document ***Supporting small business: making tax easier, quicker and simpler*** is available at: http://bit.ly/1nR7RLR

Our work to reduce the burdens on business is scrutinised by an independent panel, the Administrative Burdens Advisory Board. The Board helps us improve our customer service to small business by challenging our work, and monitoring our performance in meeting targets. Members of the Board either run or serve small businesses, so they understand their needs. The Board has also introduced an online facility to collect feedback from small businesses and has published its own annual report on their goals and achievements.

We report overall progress against our £250 million customer cost reduction target in a quarterly summary published by the Cabinet Office. At the end of 2013-14, there was an overall increase in annual ongoing costs to business of £44 million (up from £26.3 million a year earlier). A significant part of the increase was due to changes in the Patent Box regime. Although it has increased costs, the changes are welcomed by business which can apply a lower rate of Corporation Tax to profits earned from patented inventions and other innovations. Cost reductions from new digital services and PAYE in Real Time (RTI) are due to be taken into account before March 2015, which we expect these to make a significant contribution towards meeting our target.

The introduction of new digital services is central to our plans to reduce costs for business customers by simplifying and speeding up the way they deal with us, making it easier, in particular for small business customers, to meet their tax obligations. We will be implementing Your Tax Account, a new business tax dashboard which lets small businesses take control of their tax affairs through a personalised online account. Business customers can already choose the subjects on which they would like tax information and tailored email advice.

The document *Supporting small business: making tax easier, quicker and simpler* sets out these and other steps we have made to improve tax administration for small businesses, in line with recommendations made by the Office of Tax Simplification.

Debt, complaints and powers

How we manage debt

The vast majority of taxpayers pay their taxes in full and on time. Individuals and businesses need to pay the tax that is due, or return a tax credit overpayment, otherwise it is unfair on the honest majority. We estimate that about ten per cent of the money legitimately owed to the Exchequer is not paid on time and has to be pursued using our debt pursuit and enforcement powers.

Many debts do not reach that stage. We aim to make it as easy as possible for our customers to pay what they owe early by offering a range of payment methods and facilities; for example, to collect small amounts through PAYE tax codes or, for tax credit customers, by deduction from on-going awards. These facilities are efficient, increase the chances of successfully collecting monies owed, and help customers to manage their finances.

Where customers are unable or unwilling to pay on time, we seek to pursue all outstanding amounts quickly and efficiently. In 2013-14 we collected £40 billion using our debt pursuit and enforcement powers - £5.3 billion more than in 2012-13. Depending on the circumstances, the action we take might include:

- offering Time to Pay arrangements if they are an individual or a viable business which needs more time to pay us what they owe due to financial difficulties. By the end of March 2014, we had made more than 700,000 Time to Pay arrangements, worth £2.6 billion - an increase of £1 billion since March 2013
- pursuing debt through insolvency proceedings where we have exhausted other possibilities for payment, or where customers remain unwilling to pay what they owe. We pursue the collection of debt through a number of avenues and only write-off debts when all other options have been exhausted, which accounts for around £4 billion a year - less than one per cent of the total tax revenue we collect. The vast majority of write-offs (95 per cent) are the result of insolvency, where we are cannot legally recover the full amounts owed.

By the end of March 2014, total debt was £16.7 billion, with other receivables of £14.1 billion, as follows:

- debt that is legally overdue and is being pursued by HMRC using our debt pursuit and enforcement powers techniques described above (£16.7 billion by the end of March 2014)
- amounts that have been assessed, but have either been temporarily suspended (for instance, due to an appeal) or have not yet reached the statutory payment deadline (£14.1 billion by the end of March 2014).

Receivables (£billion)

	March 2014	March 2013
Tax credits receivables (note 6.2 of the Resource Account)	6.5	5.7
Trust Statement receivables (note 4 of the Trust Statement)	24.3	22.4
Total	**30.8**	**28.1**
Comprising of:		
Not yet due	7.5	7.1
Under dispute, appeal or investigation	3.5	2.9
Tax credits cross-year recovery	1.4	1.2
Contractual payment plans (includes coding out and intra-government debt)	1.7	1.7
Receivables excluding debt	**14.1**	**13.0**[1]
In-debt pursuit or enforcement	16.7	15.1
Total	**30.8**	**28.1**

1 Difference due to rounding

Complaints

HMRC deals with 45 million individuals and 4.9 million businesses. Each year we receive and respond to 60 million phone calls and 9.5 million letters from Self Assessment and PAYE customers. Given the sheer size and scale of our organisation, it is inevitable that we will sometimes make mistakes, and receive complaints from customers.

We want our response to complaints to be among the best in government, and to ensure that we learn from feedback from customers so that we can continuously improve our services and reduce future complaints.

During the last financial year, we successfully resolved 98.3 per cent of the 64,729 complaints received, which is two per cent more than the previous year, when we received 67,956 complaints.

When a customer is unhappy with the outcome of a complaint to HMRC they can take their case to the Adjudicator, who acts as a fair and unbiased referee of complaints about HMRC and the Valuation Office. The current Adjudicator is Judy Clements OBE. There was a significant reduction in the number of complaints sent to the Adjudicator in 2013-14, down from 2,574 in 2012-13 to 1,087 last year.

Customers who are unhappy with the Adjudicator's decision can then ask their MP to refer their complaint to the Parliamentary Ombudsman, Dame Julie Mellor. The Ombudsman investigates complaints that individuals have been treated unfairly or have received poor service from government departments and other public organisations and the NHS in England.

Details of HMRC complaints referred to the Adjudicator and the Ombudsman in 2012-13, following Adjudicator investigation, are as shown in the table below - 2013-14 performance will appear in their respective annual reports in July 2014.

Complaints to the Adjudicator and Parliamentary Ombudsman 2012-13

	Adjudicator	Ombudsman
Number of HMRC complaints accepted for investigation	2,574	6
Number of investigations reported on[1]	1,354	13
Number of cases upheld in full	321 (24%)	3 (23%)
Number of cases upheld in part	497 (37%)	3 (23%)
Number of cases not upheld	506 (37%)	7 (54%)

1 For completeness: 27 complaints were withdrawn by customers and three more were reconsidered by HMRC, as a result of policy changes or new evidence. These cases represent the outstanding two per cent of cases settled by the Adjudicator

We are already looking at how we can significantly reduce the need for customers to escalate their complaints by resolving the difficulties at the earliest possible opportunity. We recognise that the number of complaints referred to and upheld by the Adjudicator are too high.

The Tax Assurance Commissioner, Edward Troup, is leading work to improve the way we respond to complaints and learn from what customers tell us. This has already led to improvements, with more complaints being resolved successfully within HMRC and fewer reaching the Adjudicator.

We also commissioned the Scrutiny Committee, a sub-committee of the Board made up of Non-Executive directors, to work alongside the project team to bring external challenge to our approach, make recommendations and share good practice from their respective areas of expertise and wider experience.

Detentions and warrants for further detention

HMRC is responsible for investigating a range of criminal offences involving tax fraud by individuals and organised crime groups. This means our criminal investigators have the power to arrest anyone they reasonably suspect of being involved in or committing a tax-related offence.

Detentions and applications for warrants for further detention

	2013-14
Number of persons detained after arrest[1]	
Detained after arrest by HMRC officers	421
Detained after arrest by other government agencies before adoption by HMRC	153
Detained for more than 24 hours and subsequently released without charge	Nil
Number of persons for whom warrants for further detention beyond 36 hours were:	
Applied for	Nil
Granted	Nil
Where a warrant for further detention beyond 36 hours was applied for, the numbers of persons:	
Charged	Nil

1 People arrested for a customs or revenue offence, who went through the legal process or were released without charge.

People

Number of Senior Civil Service staff in post by pay band

Grade	Number at 1 April 2014	Number at 1 April 2013	Percentage change
Permanent Secretary	2	2	No change
SCS3	8	7	14.3% increase
SCS2	45	42	7.1% increase
SCS1	264	283	6.7% decrease
Total	**319**	**334**	**2.7% decrease**
Staff on secondment (not included in the above)	16	12	33% increase

SCS numbers

The total number of SCS posts has reduced from 400 at the end of 2009 to 325 at 1 April 2014; 313 posts are in HMRC and 12 are in the VOA. The overall total of 319 SCS staff in post at 1 April 2014 includes 307 in HMRC and 12 in the VOA. We continue to monitor the number of posts closely to ensure that the SCS structure mirrors the reduction in size of the rest of HMRC.

SCS recruitment

We have adopted rigorous governance, assessment and selection in our SCS recruitment practices to put the right people with the right skills in key roles and enhance our leadership capability. A number of appointments have been made on promotion into and within the SCS at HMRC and across the Civil Service.

A total of 36 SCS posts were advertised and filled during the last year:

- 5 within HMRC (all at SCS1 by 'expressions of interest')
- 23 across the Civil Service (16 at SCS1, 7 at SCS2)
- 8 by external recruitment campaigns (1 at SCS1, 6 at SCS2 and 1 at SCS3).

Non-SCS recruitment

The way we recruit and redeploy our people supports the drive to transform HMRC into a more flexible, transparent and modern organisation, offering customers a more highly-personalised service that they will increasingly access online.

We are continuing to build our workforce of the future by redeploying people across the organisation, using team moves and recruitment campaigns. We promoted 5,100 people during 2013-14 and more than 3,200 of these were into compliance roles. This takes the total number of promotions during the spending review period to 11,000. In order to support business delivery, including commitments in the 2013 Autumn Statement, we also extended more than 2,400 fixed-term appointments to 2014-15. We are continuing to move people into compliance posts and during 2013-14 a total of 1,327 were moved into new roles at 88 locations. We used reinvestment funding to recruit a further 579 staff into tax specialist posts at 59 locations.

We have generally only recruited externally where we were unable to fill vacancies by any other means. We have run limited external recruitment exercises. For example, 39 Grade 7 posts were permanently recruited into 18 locations to quickly bring in additional tax professionals required by the Department. We also recruited 111 apprentices in 18 locations on a formal apprenticeship learning programme run by the government's external provider. We received positive endorsement of our external recruitment performance from the Civil Service Commission as part of its annual audit of recruitment practices.

Reporting on the tax arrangements of public sector appointees

All government departments and their arm's length bodies that employ individuals 'off payroll' for more than six months have to report to HM Treasury about the financial arrangement, to make sure it is transparent and that the individual in question is paying the right amount of tax and National Insurance.

We have reviewed the way we make these appointments to ensure our processes are robust. We have the right to request assurances, and do so, from the individual in relation to monies received from HMRC. We can terminate any contract if these assurances are not provided.

Table 1: All existing off-payroll engagements as of 31 March 2014 for more than £220 per day and that lasted for longer than six months:

	HMRC	Valuation Office Agency
Number of existing engagements as at 31 March 2014	18	3
Length of existing engagements:		
Less than one year at time of reporting	8	3
Between one and two years at time of reporting	5	Nil
Between two and three years at time of reporting	2	Nil
Between three and four years at time of reporting	2	Nil
Four or more years at time of reporting	1	Nil

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, 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 2013 and 31 March 2014, for more than £220 per day and that last for longer than six months:

	New engagements, or those that reached six months in duration	Right to request information about income tax and National Insurance Contributions	Requests for information made	Information has been received	Information has not been received	Engagement terminated as a result of information not being received
HMRC	15	All	All	All	Nil	N/A
Valuation Office Agency	6	All	All	1	5[1]	Nil

1 VOA continue to seek the necessary information and assurances, where appropriate.

Table 3: Board members, and/or senior officials with significant financial responsibility:

Number of individuals who are board members, and/or senior officials with significant financial responsibility	HMRC	Valuation Office Agency
On payroll	72	7
Off payroll	Nil	Nil

Health and safety

Managing the risks to the health and safety of our staff and customers is a priority for HMRC and we compare our performance both internally and externally against public and private sector organisations. Our robust governance includes:

- health and safety issues being regularly reported to the Board and ExCom
- new arrangements for joint health and safety committees to ensure areas of concern can be escalated more efficiently.

We have also developed a health and wellbeing communication campaign and supported initiatives such as *Stoptober* and *Change4Life*, as well as participating again in the Civil Service Physical Activity Challenge. More than 1,500 staff took part in the challenge, increasing our participation rate by more than 50 per cent from last year.

We know that mental health issues and stress can have a debilitating effect on some people. HMRC has already signed the *Time to Change* pledge, which commits the Department to reducing discrimination and stigma around mental health issues in the workplace. It also commits us to building manager capability and confidence to support our people and provide pathways to further help and advice, including through our occupational health and employee assistance services.

Our estates team work with a number of private sector partners who provide property services across the whole HMRC estate. Each partner is responsible for ensuring compliance with health and safety legislation and we monitor their performance closely. Management of health and safety at site level has been further enhanced through changes to our network of senior responsible managers, with additional resources committed to fire and building-related safety.

During the last year, incidents reported as 'major Injuries' to the Health and Safety Executive (set out in the table below) were mostly minor fractures due to slips and trips on the HMRC estate, or as part of daily work activity.

Reporting of Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR): reports to the Health and Safety Executive

RIDDOR incidents	2013 14	2012-13	2011-12
Fatal injuries	0	0	0
Major injuries	19	15	26
Dangerous occurrences	0	1	0
Over three-day injuries	0	16	124
Over seven-day injuries[1]	35	40	N/A[2]
Diseases	4	6	1
Total	**58**	**78**	**151**

Non-RIDDOR incidents	2013 14	2012-13	2011-12
Upper limb disorders	100	135	246
Stress	926	708	790
Slips/trips/fall	474	554	686
Violence and verbal abuse	272	322	371
Other	1,895	1,839	2,290
Total	**3,667**	**3,558**	**4,383**

1 On 6 April 2012 the RIDDOR 'over-three-day' injury reporting requirement changed in the UK. The trigger point for reporting increased from over three days to 'over-seven-day incapacitation'. There has been no change in Northern Ireland.
2 Where the jobholder reported work as causal factor.

Consultancy and temporary staff

We occasionally use professional service providers to help with specialist work. This may include consultancy, contingent labour, learning, legal advice, translation, interpreting and research services. These services are used when we do not have the necessary skills internally or where a different external expert opinion on complex issues is needed.

External advisers provide us with technological expertise to help with delivery of strategic objectives and major programmes. Contingent labour is used to quickly deploy specialist expertise, drive change and deliver increased efficiency with tight resources.

We continue to implement the Cabinet Office directive to reduce the use of consultants across central government. This directive, and the austerity measures introduced from May 2010, has seen a significant reduction in spending on consultancy within the last five years. We continue to look for ways of achieving savings and introduced new procurement tools to improve our data analysis and share best practice in the employment of consultants with different parts of HMRC.

Our evasion publicity campaigns aim to prompt voluntary disclosure of hidden income

Spending on consultancy increased in 2013-14, to £336,000 from £151,000 in 2012-13, primarily in support of the Government Banking Service project. However, spending has significantly reduced in the preceding years, from £47 million in 2009-10 to £10.1 million in 2010-11 and £1.1 million in 2011-12.

Total consultancy and contingent labour spend for the Valuation Office Agency for 2013-14 was £0.931 million.

Communications

Publicity and advertising

During the last year we spent approximately £6 million on advertising campaigns to support our operations. Our major campaigns focused on prompting tax credits customers to renew their claims on time, encouraging Self Assessment customers to file and pay before the deadline and tax evaders to change their behaviour and declare all their income.

We also informed parents with incomes of more than £50,000 of changes to Child Benefit entitlements, launched a campaign to encourage eligible employers to claim a £2,000 National Insurance rebate, encouraged people hiding income offshore to declare it to us and informed estate agents that HMRC has replaced the Office of Fair Trading as the supervisor of money laundering regulations. We concluded a campaign to prepare employers for the introduction of Real Time Information for PAYE and, as in previous years, we ran an advertising campaign to recruit candidates for our graduate recruitment programme.

Internal communications

The Department has a policy of actively informing and consulting our staff and their representatives through a number of well-defined and established channels. A variety of channels are employed, including: face-to-face announcements and question-and-answer sessions with senior managers; cascade team briefings; site-based communications events with senior managers appointed to liaise with specific sites; Hotseat (an online forum for asking questions to and getting answers from managers); staff telephone conferences with the senior leadership; email alerts; corporate and business area intranet sites; intranet-based community forums; newsletters; a staff magazine; staff surveys; and regular meetings and discussions with trade union representatives.

Valuation Office Agency

The Valuation Office Agency (VOA) is an executive agency of HMRC and employs around 3,500 people based in 70 locations throughout the UK. It is responsible for maintaining valuation lists of 24.7 million domestic properties and 1.9 million non-domestic properties across England and Wales.

The VOA's work enables:

- the collection of property taxes by local authorities
- the payment of significant sums of benefits
- the collection of key national taxes by HMRC
- the setting of fair rents.

Additionally the VOA provides property valuations and expert advice to the wider public sector, enabling public bodies to make the best use of their property assets.

The VOA's vision is that 'its customers have confidence in its valuations and advice. As a modern professional organisation with expert and committed people, it acts fairly, consistently and efficiently'.

The VOA has four strategic objectives:

- target and achieve customer trust
- sustainably reduce our costs and improve value for money
- develop and sustain the right capabilities
- drive quality and consistency through improved processes.

This year the VOA has continued to deliver strong operational performance. The number of outstanding business rates appeals has been reduced to its lowest level since the 2010 rating lists were published and all council tax appeals have been considered and banding decisions issued within the two-month target.

Achieving this has been challenging, but was made possible by the continued centralisation and increased capability of many of the agency's customer contact functions. As a result the VOA has been able to resolve, at first point of contact, significantly more business rates and council tax telephone queries.

In addition, the VOA has developed its information and analysis function to improve the level of advice and support given to clients in HMRC, the Department for Communities and Local Government (DCLG), the Department for Work and Pensions, the Welsh government and local authority delivery partners.

This included working with DCLG on business rates appeals reform and with HM Treasury and DCLG on the longer term review of business rates administration. The VOA has worked closely with local authorities to support business rates retention in England and now provides property price changes to the Office of National Statistics. The changes are the largest single source for the CIPH index, the new measure of consumer price inflation which includes owner occupiers housing costs.

Statistical tables

Table 1: Total departmental spending (£000)

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013 14 Outturn	2014-15 Plans	2015-16 Plans
Resource DEL							
HMRC administration	3,596,631	3,345,192	3,311,468	3,289,624	3,292,167	3,278,280	3,096,668
Departmental unallocated provision	-	-	-	-	-	35,445	34,631
VOA administration	644	1,298	5,835	-1,978	-2,085	1	-
Utilised provisions	54,283	48,381	47,599	40,954	33,160	38,697	34,827
National Insurance fund	433,818	411,362	340,644	334,541	322,125	302,104	296,960
Total Resource DEL	**4,085,376**	**3,806,233**	**3,705,546**	**3,663,141**	**3,645,367**	**3,654,527**	**3,463,086**
Of which[1]:							
Staff costs	2,510,589	2,421,423	2,373,043	2,270,672	2,260,253	2,122,480	2,017,913
Purchase of goods and services	1,417,643	1,153,093	1,086,949	1,069,561	1,130,017	1,255,408	1,161,135
Income from sales of goods and services	-339,163	-310,604	-329,140	-313,498	-321,142	-376,209	-352,000
Current grants to persons and non-profit bodies (net)	8,572	40,628	11,240	29,944	4,012	1,743	972
Current grants abroad (net)	627	595	576	594	449	594	450
Rentals	271,867	259,820	265,590	262,455	225,422	247,415	234,455
Depreciation[2]	203,386	215,373	217,296	226,075	233,890	252,000	256,473
Change in pension scheme liabilities	2,963	-	-	1,255	2,788	-	-
Other resource	8,892	25,905	79,992	116,083	109,678	115,651	109,057
Unallocated funds - resource	-	-	-	-	-	35,445	34,631
Resource AME							
Social benefits and grants	12,179,253	12,259,046	12,134,533	12,160,117	11,492,064	11,702,800	12,478,400
Providing payments in lieu of tax relief to certain bodies	154,513	176,852	101,532	57,134	76,396	172,199	185,207
Filing incentive payments	100,069	-	-	-	-	41	29
HMRC administration	106,926	64,776	3,967	19,596	24,631	30,001	30,000
Payments to add capacity	-	-	-	-	-	8,000	-
VOA - Payments of rates to LAs on behalf of certain bodies	32,049	39,603	47,537	55,747	60,085	72,601	74,190
VOA administration	5,416	5,126	1,139	-398	825	1	1
Utilised provisions	-141,317	-185,491	-56,271	-41,500	-33,383	-39,697	-34,827
Personal Tax Credit[3]	27,600,898	28,870,775	29,914,314	29,699,832	29,329,220	29,695,400	30,623,400
Other reliefs and allowances	416,046	492,718	634,429	739,496	1,624,497	1,913,572	1,858,783
Total resource AME	**40,453,853**	**41,723,405**	**42,781,180**	**42,690,024**	**42,574,335**	**43,554,918**	**45,215,183**

Table 1: Total departmental spending (£000)

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013 14 Outturn	2014-15 Plans	2015-16 Plans
Of which:							
Purchase of goods and services	48,327	52,360	79,369	74,927	74,442	84,832	78,200
Income from sales of goods and services	-2,155	-2,365	-2,846	-3,312	-3,702	-4,231	-4,010
Current grants to persons and non-profit bodies (net)	40,078,530	41,378,570	42,386,319	42,200,664	41,963,365	42,526,706	43,613,303
Subsidies to private sector companies	272,963	308,509	443,358	465,118	551,816	957,306	1,532,516
Depreciation[2]	-3,034	40,054	-9,270	-489	2,859	2	1
Take up of provisions	234,910	136,108	14,376	3,829	20,219	30,000	30,000
Release of provision	-175,507	-196,050	-142,802	-41,500	-33,383	-39,697	-34,827
Other resource	-181	6,219	12,676	-9,213	-1,281	-	-
Total resource budget	**44,539,229**	**45,529,638**	**46,486,726**	**46,353,165**	**46,219,702**	**47,209,445**	**48,678,269**
Of which:							
Depreciation[2]	200,352	255,427	208,026	225,586	236,749	252,002	256,474
Capital DEL							
HMRC administration	214,312	161,073	215,064	190,063	211,019	162,796	135,359
Departmental unallocated provision	-	-	-	-	-	1,286	1,441
VOA administration	14,432	7,334	5,156	3,968	7,101	9,018	7,300
Total capital DEL	**228,744**	**168,407**	**220,220**	**194,031**	**218,120**	**173,100**	**144,100**
Of which:							
Capital grants to persons and non-profit bodies (net)	-	-	-	-	-	-	-
Purchase of assets	232,902	172,696	221,589	199,245	220,229	172,814	143,659
Income from sales of assets	-4,158	-4,289	-1,369	-5,214	-2,109	-1,000	-1,000
Unallocated funds – capital	-	-	-	-	-	1,286	1,441

Table 1: Total departmental spending (£000)

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013 14 Outturn	2014-15 Plans	2015-16 Plans
Capital AME							
Social benefits and grants	306,302	226,677	86,255	547	223	1,000	-
Utilised provisions	80,691	113,996	-	-	-	-	-
Total Capital AME	**386,993**	**340,673**	**86,255**	**547**	**223**	**1,000**	**-**
Of which:							
Capital grants to persons and non-profit bodies (net)	386,993	340,673	86,255	547	223	1,000	-
Total Capital Budget	**615,737**	**509,080**	**306,475**	**194,578**	**218,343**	**174,100**	**144,100**
Total departmental spending[4]	**44,954,614**	**45,783,291**	**46,585,175**	**46,322,157**	**46,201,296**	**47,131,543**	**48,565,895**
Of which:							
Total DEL	4,110,734	3,759,267	3,708,470	3,631,097	3,629,597	3,575,627	3,350,713
Total AME	40,843,880	42,024,024	42,876,705	42,691,060	42,571,699	43,555,916	45,215,182

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1 Figures for 2012-13 have been restated to correct some spend classification misalignments reported in last year's accounts.
2 Includes impairments.
3 Personal Tax Credit figures for 2012-13 have been restated. Please refer to note 25.
4 Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Table 2: Public spending control (£million)

	Main Estimate	Supplementary Estimate	Final Provision	2013 14 Outturn
Resource DEL				
Voted				
HMRC administration	3,315	-19	3,296	3,292
Departmental unallocated provision	37	-37	0	0
VOA administration	0	0	0	-2
Utilised provision	45	0	45	33
Non-voted				
National Insurance Fund	314	0	314	322
Total spending DEL	**3,710**	**-55**	**3,655**	**3,645**
Resource AME				
Voted				
Social benefits and grants	11,792	0	11,792	11,492
Providing payments in lieu of tax relief to certain bodies	127	2	129	76
e-filing incentive payments	0	0	0	0
HMRC Administration	30	6	36	25
VOA - payments of rates to Las on behalf of certain bodies	64	0	64	60
VOA administration	0	0	0	1
Utilised provisions	-47	0	-47	-33
Non-voted expenditure				
Personal Tax Credits	30,027	0	30,027	29,329
Other relief and allowances	1,661	84	1,745	1,624
Total spending AME	**43,654**	**92**	**43,746**	**42,574**
Capital DEL				
HMRC administration	177	46	223	211
Departmental unallocated provision	1	-1	0	0
VOA administration	7	0	7	7
Capital AME				
Social benefits and grants	2	0	2	0

Table 3: Capital employed (£million)

	2009-10 Outturn	2010-11[1] Outturn	2011-12[2] Outturn	2012-13 Outturn	2013 14 Outturn	2014-15 Plans	2015-16 Plans
Consoliated position							
Non current assets	1,839.3	1,787.4	1,741.7	1,679.7	**1,657.1**	1,648.7	1,621.7
Property, plant and equipment	640.2	580.3	536.3	484.9	**464.3**	463.6	444.9
Land	24.0	24.0	28.9	28.9	**28.9**	28.9	28.9
Buildings	359.3	328.5	285.1	253.0	**232.3**	227.7	223.1
Accomm refurbishment	74.2	70.2	84.7	74.6	**75.1**	77.0	71.8
Office and computer equipment	97.7	84.4	82.7	66.1	**66.3**	65.9	64.3
Vehicles	6.1	4.7	8.9	7.0	**9.7**	11.5	12.8
Furniture and fittings	36.3	35.0	31.4	29.0	**26.2**	23.0	20.1
Assets under construction	38.2	30.6	10.5	22.5	**23.1**	27.4	22.0
Scientific aids	4.4	2.9	4.0	3.7	**2.6**	2.3	1.9
Intangible	1,199.1	1,207.1	1,205.4	1,194.8	**1,192.8**	1,185.1	1,176.8
Software licences	13.4	13.5	10.0	6.4	**6.7**	6.3	6.2
Developed computer software	1,003.0	1,058.0	1,031.5	1,040.7	**1,020.7**	1,018.9	1,016.3
Website development costs[3]	0.0	0.0	1.4	3.9	**5.2**	4.6	3.9
Assets under construction	182.7	135.6	162.5	143.8	**160.2**	155.4	150.6
Receivables › 1 Year	0.0	1,093.0	1,099.3	1,214.4	**1,467.5**	1,462.5	1,457.5
Current assets	287.1	885.8	782.8	963.7	**1,078.9**	1,081.9	1,080.9
Liabilities ‹ 1 Year	-1,100.4	-1,918.8	-1,975.0	-1,998.6	**-2,720.0**	-2,717.5	-2,714.5
Liabilities › 1 Year	-201.4	-418.8	-381.1	-344.3	**-335.1**	-330.1	-325.1
Provisions	-355.9	-296.0	-168.9	-129.6	**-116.4**	-118.7	-118.7
Capital employed	468.7	1,132.6	1,098.9	1,385.3	1,032.0	1,026.8	1,001.8

1 The figures for 2010-11 have been restated to include receivables and payables for tax credits that transferred to the Resource Accounts from the Trust Statement in 2011-12 under clear line of sight.
2 The approach agreed with HM Treasury has been that certain penalty charges relating to income tax have been treated as income within the Resource Account and offset against HMRC expenditure. The treatment ceased from 1 April 2012 and the penalty charges are now reported within the Trust Statement as Consolidated Fund Extra Receipts.
3 Website development costs, previously reported within developed computer software, have been reported as a separate intangible category in line with IFRS disclosure requirements.

NOTE: These figures agree with those included in the relevant audited published Resource Accounts except where restated for machinery of government changes.

Table 4: Administration budget (£000)

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013 14 Outturn	2014-15 Plans	2015-16 Plans
Resource DEL							
HMRC administration	3,483,369	3,217,450	871,766	849,599	777,741	707,212	691,360
Departmental unallocated provision	-	-	-	-	-	35,445	34,631
Utilised provisions	54,283	48,381	40,850	32,971	26,156	18,697	22,400
National Insurance Fund	-	-	48,953	64,838	60,254	67,289	71,109
Total administration budget	**3,537,652**	**3,265,831**	**961,569**	**947,408**	**864,151**	**828,643**	**819,500**
Of which[1]:							
Staff costs	2,510,589	2,421,423	335,549	303,503	306,449	317,693	300,000
Purchase of goods and services	861,565	643,079	413,024	391,306	401,842	335,679	358,000
Income from sales of goods and services	-316,102	-296,264	-88,623	-59,518	-68,469	-142,300	-127,000
Current grants to persons and non-profit bodies (net)	-	-	1,999	2,001	2,981	-	-
Rentals	271,867	259,820	178,377	195,916	139,403	159,526	151,170
Depreciation	201,586	213,166	66,611	55,000	67,232	63,400	64,500
Change in pension scheme liabilities	2,963	-	-	-	-	-	-
Other resource	5,184	24,607	54,632	59,200	14,713	59,200	38,199
Unallocated funds - resource	-	-	-	-	-	35,445	34,631

1 Figures for 2012-13 have been restated to correct some spend classification misalignments reported in last year's accounts.

Table 5: Staff numbers

	2011-12 Outturn	2012-13 Outturn	2013 14 Outturn
Core Department			
Permanent staff[1]	64,483	61,568	59,494
Others[2]	2,591	3,577	3,692
Total	**67,074**	**65,145**	**63,186**
Valuation Office Agency (VOA)			
Permanent staff[1]	3,535	3,418	3,408
Others[2]	39	62	103
Total	**3,574**	**3,480**	**3,511**

1 The 'permanent staff' figures include numbers of staff engaged on capital projects.
2013-14 Core Department; 51. (2012-13 and 2011-12: Core Department; 0)
2 The 'others' figures include values for contingent labour and consultants.
2013-14: Core Department; 125, VOA 9. (2012-13: Core Department; 105, VOA 12;
2011-12: Core Department; 70, VOA; 11)
Note: This table reflects the average number of full-time equivalent persons employed during the year.

Table 6: Total identifiable expenditure on services by country and region, 2009-10 to 2012-13 (£000)

	2009-10	2010-11	2011-12	2012 13
North East	1,535	1,584	1,649	1,729
North West	4,298	4,447	4,668	4,902
Yorkshire and the Humber	3,171	3,281	3,452	3,628
East Midlands	2,534	2,631	2,751	2,886
West Midlands	3,390	3,521	3,715	3,904
East	2,940	3,061	3,209	3,357
London	4,695	4,899	5,246	5,517
South East	4,069	4,225	4,415	4,609
South West	2,668	2,770	2,897	3,034
Total England	**29,300**	**30,418**	**32,002**	**33,567**
Scotland	2,713	2,776	2,865	2,996
Wales	1,767	1,825	1,908	2,003
Northern Ireland	1,169	1,221	1,296	1,362
UK identifiable expenditure	**34,948**	**36,239**	**38,071**	**39,927**
Outside UK	62	62	76	118
Total identifiable expenditure	**35,010**	**36,301**	**38,147**	**40,045**
Non-identifiable expenditure	4,194	3,846	3,728	3,632
Total expenditure on services	**39,203**	**40,147**	**41,876**	**43,677**

Table 7: Total identifiable expenditure on services by country and region, per head 2009-10 to 2012-13 (£000)

	2009-10	2010-11	2011-12	2012 13
North East	596	612	635	664
North West	615	633	662	692
Yorkshire and the Humber	607	624	653	682
East Midlands	567	584	606	632
West Midlands	613	633	662	692
East	511	527	547	568
London	591	608	639	664
South East	479	493	510	528
South West	511	526	546	568
England	561	578	603	627
Scotland	522	532	541	564
Wales	581	598	623	651
Northern Ireland	652	676	714	747
UK identifiable expenditure per head	**562**	**578**	**602**	**627**

Explanatory notes for table 8 on page 85
Departments are encouraged to add notes to the regional DR tables to explain what drives the regional allocation of particular spending areas shown. Departments should also accompany the tables with the following explanatory text:

1 Tables 6, 7 and 8 show analyses of the Department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in the November 2013 release. The figures were largely taken from the Online System for Central Accounting and Reporting (OSCAR) during the summer of 2013 and the regional distributions were completed by the following autumn (taking on board any revisions to departmental totals). Please note that totals may not sum due to rounding.
2 The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the Department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities own expenditure.
3 TES is a cash equivalent measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2013.
4 The data feature both identifiable and non-identifiable spending:
   A Identifiable expenditure on services - which is capable of being analysed as being for the benefit of individual countries and regions.
   B Expenditure that is incurred for the benefit of the UK as a whole and cannot be disseminated by individual country or region is considered to be non-identifiable.
5 Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the Department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.
6 The functional analyses of spending in Table 8 are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in Chapter A of the CRA November 2013 release. These are not the same as the strategic priorities shown elsewhere in the report.

Table 8: Total identifiable expenditure on services by function, country and region for 2012-13 (£ million)

	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	Outside UK	Not Identifiable	Totals
General public services																
Executive and legislative organisations, financial and fiscal affairs, external affairs	0	-1	-1	-1	-1	-1	-1	-1	-1	-8	0	0	0	0	3,632	3,623
General public services not classified elsewhere	0	0	0	0	0	0	1	1	0	4	0	0	0	0	0	4
Total general public services	**0**	**-1**	**-1**	**0**	**-1**	**0**	**-1**	**-1**	**-1**	**-5**	**0**	**0**	**0**	**0**	**3,632**	**3,628**
Economic affairs																
General economic, commercial and labour affairs	8	24	18	16	18	24	50	39	20	216	21	9	6	-	-	252
Mining, manufacturing and construction	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	0
R&D economic affairs	7	20	14	13	15	20	41	32	16	178	17	7	5	-	-	207
Total economic affairs	**15**	**43**	**32**	**29**	**34**	**44**	**91**	**72**	**36**	**394**	**38**	**17**	**10**	**-**	**-**	**459**
Environment protection																
Environment protection not classified elsewhere	0	1	1	0	0	1	1	1	1	5	0	1	0	-	-	6
Total environment protection	**0**	**1**	**1**	**0**	**0**	**1**	**1**	**1**	**1**	**5**	**0**	**1**	**0**	**-**	**-**	**6**
Social protection																
Old age	2	5	4	4	4	5	6	8	5	43	5	2	1	-	-	50
of which: pensions	2	5	4	4	4	5	6	8	5	43	5	2	1	-	-	50
Family and children	482	1,374	1,020	865	1,114	1,137	1,657	1,650	960	10,260	916	569	389	53	-	12,188
of which: family benefits, income support and tax credits	482	1,374	1,020	865	1,114	1,137	1,657	1,650	960	10,260	916	569	389	53	-	12,188
Housing	0	0	0	0	0	0	0	0	0	0	0	0	0	-	-	0
Social exclusion not classified elsewhere	1,231	3,479	2,572	1,989	2,752	2,171	3,762	2,878	2,033	22,868	2,036	1,414	961	65	0	27,344
of which: family benefits, income support and tax credits	1,231	3,479	2,572	1,989	2,752	2,171	3,762	2,878	2,033	22,868	2,036	1,414	961	65	0	27,344
Social protection not classified elsewhere	0	0	0	0	0	0	0	0	0	2	0	0	0	-	-	3
Total social protection	**1,715**	**4,858**	**3,597**	**2,858**	**3,871**	**3,313**	**5,426**	**4,537**	**2,998**	**33,173**	**2,958**	**1,985**	**1,351**	**118**	**0**	**39,584**
Total	**1,729**	**4,902**	**3,628**	**2,886**	**3,904**	**3,357**	**5,517**	**4,609**	**3,034**	**33,567**	**2,996**	**2,003**	**1,362**	**118**	**3,632**	**43,677**

Resource Accounts

Consolidated Resource Accounts for the year ended 31 March 2014

Contents

Foreword to the Resource Accounts

Introduction

These Resource Accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000. They present the operating costs and financial position of HM Revenue & Customs (HMRC) for the year ended 31 March 2014 and include the Core Department and the Valuation Office Agency (VOA). Figures for the VOA are also published separately in their agency accounts (HC 96), which can be viewed at www.voa.gov.uk.

HMRC is responsible for collecting the bulk of tax revenue. We manage: Income, Corporation, Capital Gains, Inheritance, Insurance Premium, Stamp and Petroleum Revenue taxes; Value Added Tax; Excise and Customs duties; Environmental taxes - Climate Change and Aggregates Levies, Landfill Tax and Air Passenger Duty; National Insurance Contributions; Bank Levy; Tax Credits; Child Benefit and the Child Trust Fund; enforcement of the National Minimum Wage; recovery of Student Loan repayments and statutory payments.

HMRC has a close relationship with the Department for Work and Pensions and its counterpart in Northern Ireland, the Department for Social Development, as they are responsible for the payment of benefits based on National Insurance Contributions. Expenditure related to the collection of National Insurance Contributions is included in the Consolidated Statement of Comprehensive Net Expenditure.

Receipts and payments of direct and indirect taxes and National Insurance Contributions are accounted for in the Trust Statement which is on pages 168-201.

Pension benefits are provided through the Civil Service pension arrangement (see note 1.13.1 and the Remuneration Report). Pension benefits are also provided through the Local Government Pension Scheme for a number of staff that are employed by the VOA (see note 1.13.2).

Supply procedure

Supply Estimates are a request to Parliament for funds to meet most expenditure by government departments and certain related bodies. When approved by Parliament, they form the basis of the statutory authority for the appropriation of funds and for HM Treasury to make issues from the Consolidated Fund. Statutory authority is provided annually by means of Consolidated Fund Acts and by an Appropriation Act. These arrangements are known as the “Supply Procedure” of the House of Commons.

Certain expenditure may be outside the Supply Procedure and, where Parliament gives statutory authority, will be charged directly to the Consolidated Fund. Alternatively, a statutory fund will be set up to finance the service, as in the case of the National Insurance Fund.

As a government department, HMRC is accountable to Parliament for its expenditure. Parliamentary approval for its spending plans is sought through Supply Estimates presented to the House of Commons.

The Department is subject to net expenditure control under the Parliamentary Vote system. The Vote is constructed on a resource account basis and includes a formal description (ambit) of the services to be financed. Voted money cannot be used to finance services not covered by the ambit.

Government Banking Service

The Government Banking Service (GBS) is part of HMRC and is responsible for providing banking transaction services to around 700 public sector customers. It also works with HM Treasury to minimise the cost of Government borrowing and supports Treasury cash management. Its creation was a result of the recommendations of the Chancellor's 2004 Departments Banking Review and the Bank of England's decision to withdraw from the provision of retail banking and clearing services.

Under GBS's agreement with Royal Bank of Scotland and Citibank, balances are swept from the commercial banks to the Bank of England and transferred to the Consolidated Fund. GBS customer balances are not included in HMRC's Statement of Financial Position on page 116, but are included in the accounts of the relevant government entities.

Payment of suppliers

The Department is committed to the prompt payment of invoices. Payment is regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The Department paid 99.7 per cent (2012-13: 99.7 per cent) of supplier invoices within 30 days.

The Department aims to pay invoices within five days of receipt of goods and valid invoice. The Department paid 93.8 per cent (2012-13: 96.4 per cent) of supplier invoices within five days. The legal requirement remains at 30 days.

In 2013-14 interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £11 (2012-13: Nil).

Change in Personal Tax Credit reporting

The Department has previously followed the accounting policy of not recognising Personal Tax Credit payments until the awards are authorised following finalisation. This process is not complete until after the Accounts have been published and consequently there is uncertainty around the level of adjustments likely to arise. In 2012-13 the Department's statisticians provided an estimated range in which the finalisation adjustments were likely to fall and, in 2013-14, subsequently analysed the actual result against this range.

In 2013-14, the Department has changed its policy to include an estimate based on the mid-point of the range provided by our statisticians and accordingly certain prior year values have been restated. The financial impact of this change is disclosed at note 25 (page 166).

Scottish Rate of Income Tax (SRIT)

The Scotland Act 2012 gives the Scottish Parliament the power to set a rate of income tax from 2016-17 onwards and this will be accounted for within HMRC's accounts. The cost of introducing and then running the SRIT will be met by the Scottish Government. The Scotland Act Implementation income covers recovery of charges from the Scottish Government in respect of additional costs incurred by HMRC and details can be found at note 7 (page 144).

Auditors

The Comptroller and Auditor General audits these Resource Accounts in accordance with the Government Resources and Accounts Act 2000. The notional charge for these audit services as disclosed in these accounts is £0.6m (2012-13: £0.7m). In addition the Comptroller and Auditor General audits the Trust Statement and it has been agreed that it is also appropriate to reflect the cost of this audit in these Resource Accounts. For 2013-14 the cost of the audit of the Trust Statement amounted to £1.3m (2012-13: £1.2m). The total audit fee reported in these Resource Accounts is £1.9m (2012-13: £1.9m).

So far as I am aware, there is no relevant audit information of which the auditors are unaware. 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 auditors are aware of that information.

Lin Homer
Principal Accounting Officer

25 June 2014

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed HM Revenue & Customs to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Principal 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 accounts and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the permanent head of the Department as Principal Accounting Officer of the Department. In addition, HM Treasury has appointed an Additional Accounting Officer to be accountable for those parts of the Department's accounts relating to specified lines of the Estimate and the associated assets, liabilities and cash flows. This appointment does not detract from the head of Department's overall responsibility as Accounting Officer for the Department's accounts.

For 2013-14 the Principal Accounting Officer was Lin Homer.

The allocation of Accounting Officer responsibilities in the Department was as follows:

Estimate sections A, C-H and K-M: Lin Homer, Principal Accounting Officer.

Estimate sections B, I and J: Penny Ciniewicz, Chief Executive of the Valuation Office Agency.

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 Department's assets, are set out in *Managing Public Money* published by HM Treasury.

Remuneration Report

Remuneration Policy

Senior Civil Service (SCS) pay and conditions are not delegated to individual departments. The SCS is a corporate resource, employed with a common framework of terms and conditions.

Recommendations on SCS remuneration are provided by the Review Body on Senior Salaries in an annual report to the Prime Minister.

The Government's response to the recommendations of the Review Body on Senior Salaries is communicated to departments by the Cabinet Office and the remuneration of HMRC's senior civil servants is determined by the Department's Remuneration Committee in accordance with that central guidance.

In reaching its recommendations, the review body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the Government's departmental expenditure limits
- the Government's inflation target.

The review body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the review body can be found at www.gov.uk.

Service contracts

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.

Unless otherwise stated, 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. No such compensation payments were made to senior managers during 2013-14.

Details of the service contract for each member of the Department's Executive Committee are shown on page 96.

Non-executive Board members are appointed for a fixed term of usually three years.

There have been no amounts payable to third parties for services of a senior manager in 2013-14. For reporting purposes, the term senior manager refers to those individuals who have served on either the Board or the Executive Committee.

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

Performance management system

HMRC has two Permanent Secretaries: the Chief Executive and the Tax Assurance Commissioner. Below them are three levels of senior civil servant: Director General, Director and Deputy Director which are underpinned by a job evaluation scheme (JESP - Job Evaluation for Senior Posts), which provides a consistent basis for comparing the relative value of jobs within and across departments.

A pay award averaging one per cent of the SCS paybill was implemented from 1 April 2013. The key elements of the award were:

- increases to the minimum salaries for each of the SCS1 pay ranges to £60,000 (National) £63,500 (London)
- increase to the minimum salary for the SCS2 pay range to £84,000
- a performance distribution of 'Top' (25 per cent), 'Achieving' (65 per cent), and 'Low' (10 per cent)
- staff in the 'Low' performance group were not eligible for an award
- individual awards did not exceed nine per cent of basic pay.

Base pay award

In acknowledgment that many HMRC SCS are paid at or near the bottom of the pay ranges the priority was:

- base pay awards were only paid to 'Top' and 'Achieving' performers whose pay falls below their pay range median
- address critical pay anomalies by using relative pay positioning for 'Top' performers paid at the lower end of their pay range.

All awards were capped at the pay range median.

Non-consolidated award

Delivery of performance against objectives is rewarded through a non-consolidated performance award for those who make the biggest contributions. In 2013-14 non-consolidated performance awards were made to SCS in the 'Top' performance group only, based upon 2012-13 performance which was analysed as below.

In order to determine relative performance, SCS members are ranked from strongest to weakest and allocated to three Performance Groups:

- Top: top 25 per cent of performers
- Achieving: next 65 per cent of performers and
- Low: bottom 10 per cent of performers.

Performance assessment is based on:

- the degree to which business objectives within the performance contract have been met or not
- the degree to which the corporate, capability and development objectives in the performance contract have been met or not
- the degree to which leadership behaviours and professional skills elements of the common framework have been demonstrated
- additional consideration of the degree of difficulty or ease of meeting the objectives in the light of actual events.

Performance against these criteria should be considered in the round. It is not sufficient to deliver business results at the expense of good team leadership, or to deliver corporate objectives at the expense of managing poor performance.

An individual can only be awarded a 'Top' if they have exceeded at least one finance/efficiency objective.

Non-consolidated performance award decisions are monitored by gender, ethnicity, disability and working pattern to guard against bias. The value of non-consolidated awards paid in 2013-14 for performance in 2012-13 were set as SCS1 = £9,500, SCS2 = £12,450 and SCS3 varied between £7,500 to £14,900.

The performance of Deputy Directors is moderated at Director General led committees in line with Cabinet Office performance guidance to meet the performance group allocations.

The Main Remuneration Committee comprises the Chief Executive, all Director Generals, and an independent observer. The committee makes performance decisions for Directors and signs off the pay sub-committee performance recommendations for Deputy Directors.

The Permanent Secretaries moderate the performance and non-consolidated awards for Director Generals with advice from an independent observer.

The performance of the Accounting Officer of the Valuation Office Agency is assessed by the Principal Accounting Officer of HMRC and moderated by the Main Pay Committee who also set the reward level.

The performance assessment and reward arrangements of HMRC's Permanent Secretaries, is managed by the Cabinet Office. Please see www.cabinetoffice.gov.uk for further information on these arrangements.

Policy on notice periods and termination payments

The following provides details of the Department's policy on standard SCS notice periods and termination payments.

Notice

a. Because of the power of the Crown to dismiss at will, an SCS member is not entitled to a period of notice terminating their employment. However, unless employment is terminated by agreement, in practice they will normally be given the following periods of notice in writing terminating employment:

   (i) if dismissed on grounds of inefficiency, or if dismissal is the result of disciplinary proceedings in circumstances where summary dismissal is not justified:

   - continuous service up to 4 years, a notice period of 5 weeks,
   - continuous service of 4 years and over, a notice period of 1 week plus 1 week for every year of continuous service, up to a maximum of 13 weeks.

   (ii) if retired on medical grounds, a period of notice as above or, if longer, 9 weeks, unless a shorter period is agreed.

   (iii) if employment is terminated compulsorily on any other grounds, unless such grounds justify summary dismissal at common law or summary dismissal is the result of disciplinary proceedings, a notice period of 6 months applies.

   On the expiration of such notice, employment will terminate.

   There will be no notice if an individual agrees to voluntary exit or voluntary redundancy.

b. If employment is terminated without the notice which it is stated in (a) would normally be given, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

c. Unless otherwise agreed, an individual is required to give a minimum of 3 months written notice to their Director General, if they wish to terminate their employment.

Compensation for early termination is based upon the standard SCS terms and conditions as set out in the SCS contracts.

Details of the service contracts for members of the Board and the Executive Committee who have served during the year

The main details of service contracts are included in the table shown below.

Officials	Date of appointment	End date of term	Unexpired term (months)
Lin Homer	23 January 2012	N/A	N/A
Edward Troup	28 August 2012	N/A	N/A
Simon Bowles	17 March 2009	N/A	N/A
Mark Dearnley	1 October 2013	30 September 2016	30
Mike Falvey	15 February 2010	30 April 2013	Expired
Jennie Granger	1 October 2012	30 September 2015	18
William Hague	23 September 2013	N/A	N/A
Jim Harra	16 April 2012	N/A	N/A
Nick Lodge	6 August 2012	N/A	N/A
Ruth Owen	1 September 2012	N/A	N/A
Non-executive Board members			
Ian Barlow	20 February 2012	19 February 2015	11
Volker Beckers	1 January 2013	31 December 2015	21
Colin Cobain	2 January 2009	30 September 2013	Expired
Edwina Dunn	1 January 2013	31 December 2015	21
Philippa Hird	2 January 2009	30 June 2014	3
Norman Pickavance	1 January 2013	31 January 2015	10
John Whiting	1 April 2013	31 March 2016	24

Note: Where the end date of term or unexpired term is shown as N/A, this denotes that their appointment is on a permanent basis.

The following sections provide details of the salaries and pension entitlements of the most senior officials of the Department. These disclosures have been subject to external audit.

Single total figure of remuneration

Senior Officials	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to the nearest £100)		Pension benefits (£'000)[4]		Total (£'000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Lin Homer Chief Executive and Permanent Secretary	180-185	180-185	15-20	15-20	600	200	20-25	85-90	220-225	280-285
Edward Troup Tax Assurance Commissioner and Permanent Secretary	150-155	85-90 (145-150 full year equivalent)	-	-	500	200	30-35	15-20	185-190	105-110
Simon Bowles Chief Finance Officer	185-190	180-185	-	-	500	200	65-70	70-75	255-260	255-260
Mark Dearnley[1] Chief Digital and Information Officer (from 1 October 2013)	85-90 (175-180 full year equivalent)	-	-	-	400	-	20-25	-	110-115	-
Mike Falvey[2] Chief People Officer (to 30 April 2013)	15-20 (175-180 full year equivalent)	170-175	-	10-15	-	200	0-5	70-75	20-25	255-260
Jennie Granger Director General Enforcement and Compliance	150-155	70-75 (145-150 full year equivalent)	5-10	-	500	200	55-60	30-35	215-220	105-110
William Hague[3] Chief People Officer (from 23 September 2013)	65-70 (130-135 full year equivalent)	-	-	-	400	-	85-90	-	155-160	-
Jim Harra Director General Business Tax	130-135	120-125 (125-130 full year equivalent)	10-15	5-10	500	200	20-25	235-240	165-170	370-375
Nick Lodge Director General Benefits and Credits	120-125	75-80 (115-120 full year equivalent)	10-15	5-10	500	100	80-85	60-65	220-225	145-150
Ruth Owen Director General Personal Tax	130-135	75-80 (130-135 full year equivalent)	5-10	-	500	200	45-50	50-55	190-195	130-135

1 Mark Dearnley was appointed on a three-year contract commencing on 1 October 2013.
2 Mike Falvey was appointed on a three-year contract commencing on 15 February 2010. His contract was extended and he left the Department on 30 April 2013.
3 William Hague joined the Department on 23 September 2013. He was paid by his former employer, the Cabinet Office, until 30 September 2013.
4 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights. The value of pension benefits can vary year to year due to a number of factors: the date an individual joined the Department; the date an individual left the Department; an individual receiving a higher pay increase in one year compared to another year.

Salary

Salary covers both pensionable and non-pensionable amounts and includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. They relate to performance in the previous year, therefore, bonuses paid in 2013-14 are based on 2012-13 performance and bonuses paid in 2012-13 are based on 2011-12 performance.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue & Customs as a taxable emolument. The benefits in kind incurred by the senior officials detailed in this report related to hospitality provided at external development events. Lin Homer and each of the non-executive Board members, with the exception of Colin Cobain and Norman Pickavance, all had a benefit in kind relating to a Board dinner. Norman Pickavance had a benefit in kind relating to a taxable travel and subsistence payment.

Pay multiples

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 median represents the remuneration of that staff member that lies in the middle of the linear distribution of the total staff, excluding the highest paid director.

The banded remuneration of the highest paid director in HMRC for the financial year 2013-14 was £195,000 - £200,000 (2012-13, £195,000-£200,000). This was 9.8 times (2012-13, 9.8) the median remuneration of the workforce, which was £19,974 (2012-13, £19,974).

In 2013-14, no (2012-13, None) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £2,452 to £199,800 (2012-13 £4,625 - £197,700).

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.

The calculation for both 2012-13 and 2013-14 combines the remuneration of the workforce for both HMRC and the Valuation Office Agency. For both years the median figure falls at the HMRC Assistant Officer national pay maximum. There has been no year on year variance due to 21 per cent of HMRC's workforce being on the Assistant Officer national pay maximum and this maximum not changing in 2013-14.

Non-executive Board members

The Department's Board comprises both senior operational management and external appointees. The fees of the external appointees is detailed below. These disclosures have been subject to external audit.

Single total figure of remuneration

Non-executive directors	Fees (£'000)		Benefits in kind (to the nearest £100)		Total (£'000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Ian Barlow (Lead non-executive)	45-50	40-45	100	-	50-55	40-45
Volker Beckers	15-20	5-10 (15-20 full year equivalent)	100	-	20-25	5-10 (15-20 full year equivalent)
Colin Cobain (to 30 September 2013)	10-15 (25-30 full year equivalent)	25-30	-	-	10-15 (25-30 full year equivalent)	25-30
Edwina Dunn (from 4 November 2013)	5-10 (10-15 full year equivalent)	-	100	-	5-10 (10-15 full year equivalent)	-
Philippa Hird	30-35	30-35	100	-	35-40	30-35
Norman Pickavance	10-15	0-5 (10-15 full year equivalent)	300	-	15-20	0-5 (10-15 full year equivalent)
John Whiting (from 1 April 2013)	15-20	-	100	-	20-25	-

Pension Benefits

	Accrued pension at pension age as at 31 March 2014 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2014	CETV at 31 March 2013	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	(to the nearest £000)	(to the nearest £000)	(to the nearest £000)	(to the nearest £100)
Lin Homer[1] Permanent Secretary and Chief Executive	110-115	0-2.5	2,011	1,869	21	-
Edward Troup[1] Tax Assurance Commissioner	20-25	0-2.5	434	368	33	-
Simon Bowles[2] Chief Finance Officer	25-30	2.5-5.0	346	272	44	-
Mark Dearnley[2] Chief Digital and Information Officer (from 1 October 2013)	0-5	0-2.5	21	7[4]	7	-
Mike Falvey[2] Chief People Officer (to 30 April 2013)	20-25	0-2.5	257[5]	248	9	-
Jennie Granger[2] Director General Enforcement and Compliance	5-10	2.5-5.0	75	24	38	-
William Hague[1] Chief People Officer (from 23 September 2013)	25-30	2.5-5.0	260	210[6]	41	-
Jim Harra[3] Director General Business Tax	50-55 (Plus 150-155 lump sum)	0-2.5 (Plus 2.5-5.0 lump sum)	903	831	14	-
Nick Lodge[3] Director General Benefits and Credits	45-50 (Plus 135-140 lump sum)	2.5-5.0 (Plus 10.0-12.5 lump sum)	845	728	64	-
Ruth Owen[3] Director General Personal Tax	35-40 (Plus 115-120 lump sum)	2.5-5.0 (Plus 7.5-10.0 lump sum)	592	524	29	-

1 Member of the Premium Scheme, lump sum not applicable.
2 Member of the Nuvos Scheme, lump sum not applicable.
3 Member of the Classic Scheme.
4 CETV at 30 September 2013.
5 CETV at 30 April 2013.
6 CETV at 22 September 2013.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. 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 1.5 per cent and 6.25 per cent of pensionable earnings for **classic** and 3.5 per cent and 8.25 per cent for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2014. 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 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. 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 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/pensions

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure 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 that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Lin Homer
Principal Accounting Officer

25 June 2014

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of HM Revenue & Customs for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Consolidated Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

The Resource Accounts record £29.3 billion of personal tax credits expenditure in 2013-14. As shown in Note 6.3 to the Resource Accounts the Department's latest estimate is that in 2012-13 error and fraud resulted in overpayments of between £1.82 billion and £2.19 billion (6.3 per cent to 7.6 per cent) of the final award by value to which claimants were not entitled. Note 6.3 also shows that the Department estimates that error led to underpayments of between £0.07 billion and £0.32 billion (0.3 per cent to 1.1 per cent) of the final award by value. Where error and fraud result in over or underpayment of personal tax credits, the transactions are not in conformity with the Tax Credits Act 2002 and related regulations which specify the criteria for entitlement to personal tax credits and the method to be used to calculate the award.

The Department currently has no estimate of the total level of error and fraud in the personal tax credits awards made in 2013-14 and therefore no evidence to demonstrate a lower estimate for overpayments and underpayments attributable to error and fraud in 2013-14. Accordingly, I have been unable to confirm that, in all material respects, personal tax credits awards are in conformity with the authorities which govern them and have been applied for the purposes intended by Parliament.

I have therefore qualified my audit opinion on the regularity of personal tax credits expenditure because of the probable level of overpayments attributable to error and fraud which have not been applied to the purposes intended by Parliament; and because of the probable level of under and over payments in personal tax credits expenditure which are not in conformity with the relevant authorities.

Qualified Opinion on regularity

In my opinion, except for the probable level of error and fraud in personal tax credits expenditure, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial

transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2014 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the: Foreword by Lin Homer, Strategic Report, Director's Report, Additional information and Foreword to the Resource Accounts, 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 part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have prepared a Report on HM Revenue & Customs 2013-14 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921. This includes, at paragraphs 5.7 to 5.9, further information on the qualification of my audit opinion on the regularity of personal tax credits expenditure.

Sir Amyas C E Morse **25 June 2014**
Comptroller and Auditor General

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

Statement of Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual *(FReM)* requires the Department to prepare a Statement of Parliamentary Supply (SOPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

Summary of Resource and Capital Outturn 2013-14

									2013-14 £m	2012-13 £m
				Estimate			Outturn			Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: saving/(excess)		Total
Departmental Expenditure Limit										
- Resource	SOPS 2	3,341.2	313.6	3,654.8	3,323.3	322.1	3,645.4	17.9		3,663.1
- Capital	SOPS 2	230.7	-	230.7	218.1	-	218.1	12.6		194.0
Annually Managed Expenditure										
- Resource	SOPS 2	11,974.2	31,772.0	43,746.2	11,620.6	30,953.7	42,574.3	353.6		43,099.6
- Capital	SOPS 2	2.0	-	2.0	0.2	-	0.2	1.8		0.5
Total Budget		**15,548.1**	**32,085.6**	**47,633.7**	**15,162.2**	**31,275.8**	**46,438.0**	**385.9**		**46,957.2**
Non-Budget										
- Resource	SOPS 2	-	-	-	-	-	-	-		-
- Capital	SOPS 2	-	-	-	-	-	-	-		-
Total		**15,548.1**	**32,085.6**	**47,633.7**	**15,162.2**	**31,275.8**	**46,438.0**	**385.9**		**46,957.2**
Total Resource	SOPS 2	15,315.4	32,085.6	47,401.0	14,943.9	31,275.8	46,219.7	371.5		46,762.7
Total Capital	SOPS 2	232.7	-	232.7	218.3	-	218.3	14.4		194.5
Total		**15,548.1**	**32,085.6**	**47,633.7**	**15,162.2**	**31,275.8**	**46,438.0**	**385.9**		**46,957.2**

Net Cash Requirement 2013-14

Note	2013-14 Estimate	Outturn	2013-14 £m Outturn compared with Estimate: saving/(excess)	2012-13 £m Outturn
SOPS 4	**15,317.2**	**14,852.2**	**465.0**	**15,700.0**

Administration Costs 2013-14

	2013-14 Estimate	2013-14 Outturn	2012-13 Outturn
SOPS 3.2	**880.3**	**864.2**	**947.4**

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

An explanation of material variances between the Estimate and outturn are provided in the Strategic Report on page 24.

The notes on pages 108-114 and 121-167 form part of these accounts.

Notes to the Departmental Resource Accounts (Statement of Parliamentary Supply)

SOPS 1. Statement of Accounting Policies

The Statement of Parliamentary Supply (SOPS) and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (*FReM*) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the *FReM* are consistent with the requirements set out in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS 1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system, and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS 1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences as described below. A reconciliation of the Department's outturn as recorded in the SOPS compared to the IFRS-based Consolidated Statement of Comprehensive Net Expenditure (SoCNE) is provided in SOPS note 3.1.

SOPS 1.2.1 PFI and other Service Concession Arrangements

The National Accounts basis for recognising service concession arrangements is broadly similar to UK-GAAP, applying a risk-based test to determine the financial reporting. IFRS-based recognition of service concession arrangements (IFRIC 12) is determined using control tests, which can result in a different on/off Statement of Financial Position treatment. With the introduction of IFRS accounting, properties that the Department sold to private sector contractors and subsequently leased back under a PFI contract were capitalised as finance leases under IFRIC 12. However, these properties remain off the Statement of Financial Position for Estimate and Budgeting and are treated as resource expenditure within the Statement of Parliamentary Supply.

As described in note 1.6.2, the Department has capitalised both its short-term leases with third-party private landlords, which Mapeley manages on its behalf and its short-term leases held directly with third-party private landlords under IAS 17 *Leases* where the relevant conditions are met. These properties are on the Statement of Financial Position for Accounting, Estimate and Budgeting. The property, 100 Parliament Street, was included on the Statement of Financial Position prior to IFRS and as a result is also still included on the Statement of Financial Position for Accounting, Estimate and Budgeting. The difference in the SoCNE and SOPS accounting treatment described in this paragraph can be seen as the IFRS asset costs adjustment in SOPS note 3.

As described in note 1.6.3 IT Assets, IT non-current assets of our IT Partners used in the delivery of the ASPIRE PPP contract have been capitalised as finance leases under IFRIC 12. These assets are however off Statement of Financial Position for Estimate and Budgeting and are treated as resource expenditure within the Statement of Parliamentary Supply.

SOPS 1.2.2 Provisions - Administration and Programme expenditure

Provisions recognised in IFRS-based accounts are not recognised as expenditure for national accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and national accounts, additional data entries are made in the Statement of Parliamentary Supply across AME and DEL control totals, which do not affect the Statement of Comprehensive Net Expenditure. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply will differ from that reported in the IFRS-based accounts.

SOPS 2. Net Outturn

SOPS 2.1. Analysis of net resource outurn by section

	2013-14 £m										Restated* 2012-13 £m
	Outturn							Estimate			Outturn
	Administration			Programme							
	Gross	Income	Net	Gross	Income	Net	Total	Net Total	Outturn Total, compared to Estimate Net Total	Outturn Total compared to Estimate Net Total, adjusted for virements	Total
Spending in Departmental Expenditure Limit											
Voted:											
A HMRC Administration	846.2	(68.5)	777.7	2,571.2	(56.7)	2,514.5	3,292.2	3,296.3	4.1	4.1	3,289.6
B VOA Administration	-	-	-	193.9	(196.0)	(2.1)	(2.1)	-	2.1	2.1	(2.0)
C Utilised Provisions	26.2	-	26.2	7.0	-	7.0	33.2	44.9	11.7	11.7	41.0
Total Voted	872.4	(68.5)	803.9	2,772.1	(252.7)	2,519.4	3,323.3	3,341.2	17.9	17.9	3,328.6
Non-voted:											
D National Insurance Fund	60.3	-	60.3	261.8	-	261.8	322.1	313.6	(8.5)	(8.5)	334.5
Total Non-Voted	60.3	-	60.3	261.8	-	261.8	322.1	313.6	(8.5)	(8.5)	334.5
Total spending in Departmental Expenditure Limit	**932.7**	**(68.5)**	**864.2**	**3,033.9**	**(252.7)**	**2,781.2**	**3,645.4**	**3,654.8**	**9.4**	**9.4**	**3,663.1**
Spending in Annually Managed Expenditure											
Voted:											
E Social Benefits and Grants	-	-	-	11,492.1	-	11,492.1	11,492.1	11,792.0	299.9	285.9	12,160.1
F Providing payments in lieu of tax relief to certain bodies	-	-	-	76.4	-	76.4	76.4	129.5	53.1	53.1	57.1
G e-filing incentive payments	-	-	-	-	-	-	-	-	-	-	-
H HMRC Administration	-	-	-	24.6	-	24.6	24.6	36.0	11.4	10.4	19.6
I VOA - payments of rates to local authorities on behalf of certain bodies	-	-	-	63.8	(3.7)	60.1	60.1	63.6	3.5	3.5	55.8
J VOA Administration	-	-	-	0.8	-	0.8	0.8	-	(0.8)	0.2	(0.4)
K Utilised Provisions	-	-	-	(33.4)	-	(33.4)	(33.4)	(46.9)	(13.5)	0.5	(41.5)
Total Voted	-	-	-	11,624.3	(3.7)	11,620.6	11,620.6	11,974.2	353.6	353.6	12,250.7

											Restated* 2012-13 £m
										2013-14 £m	
							Outturn			Estimate	Outturn
	Administration			Programme							
	Gross	Income	Net	Gross	Income	Net	Total	Net Total	Outturn Total, compared to Estimate Net Total	Outturn Total compared to Estimate Net Total, adjusted for virements	Total
Non-voted:											
L Personal Tax Credit	-	-	-	29,329.2	-	29,329.2	29,329.2	30,027.0	697.8	697.8	29,699.8
M Other reliefs and allowances	-	-	-	1,624.5	-	1,624.5	1,624.5	1,745.0	120.5	120.5	739.5
Total Non-Voted	-	-	-	30,953.7	-	30,953.7	30,953.7	31,772.0	818.3	818.3	30,439.3
Total spending in Annually Managed Expenditure	**–**	**–**	**–**	**42,578.0**	**(3.7)**	**42,574.3**	**42,574.3**	**43,746.2**	**1,171.9**	**1,171.9**	**42,690.0**
Total Voted	872.4	(68.5)	803.9	14,396.4	(256.4)	14,140.0	14,943.9	15,315.4	371.5	371.5	15,579.3
Total Non-Voted	60.3	-	60.3	31,215.5	-	31,215.5	31,275.8	32,085.6	809.8	809.8	30,773.8
Total	**932.7**	**(68.5)**	**864.2**	**45,611.9**	**(256.4)**	**45,355.5**	**46,219.7**	**47,401.0**	**1,181.3**	**1,181.3**	**46,353.1**

An explanation of material variances between the Estimate and outturn are provided in the Strategic Report on page 24.

**Certain prior year figures have been restated as per note 25.*

SOPS 2.2 Analysis of net capital outturn by section

	2013-14						2012-13
	£m						£m
	Outturn			Estimate			Outturn
	Gross	Income	Net	Net	Outturn Net Total compared to Estimate Net Total	Outturn Total compared to Estimate Net Total, adjusted for virements	Net
Spending in Departmental Expenditure Limit							
Voted:							
A HMRC Administration	213.0	(2.0)	211.0	223.4	12.4	12.4	190.0
B VOA Administration	7.2	(0.1)	7.1	7.3	0.2	0.2	4.0
C Utilised Provisions	-	-	-	-	-	-	-
Total Voted	220.2	(2.1)	218.1	230.7	12.6	12.6	194.0
Non-voted:							
D National Insurance Fund	-	-	-	-	-	-	-
Total Non-voted	-	-	-	-	-	-	-
Total spending in Departmental Expenditure Limit	**220.2**	**(2.1)**	**218.1**	**230.7**	**12.6**	**12.6**	**194.0**
Spending in Annually Managed Expenditure							
Voted:							
E Social Benefits and Grants	0.2	-	0.2	2.0	1.8	1.8	0.5
F Providing payments in lieu of tax relief to certain bodies	-	-	-	-	-	-	-
G e-filing incentive payments	-	-	-	-	-	-	-
H HMRC Administration	-	-	-	-	-	-	-
I VOA - payments of rates to local authorities on behalf of certain bodies	-	-	-	-	-	-	-
J VOA Administration	-	-	-	-	-	-	-
K Utilised Provisions	-	-	-	-	-	-	-
Total Voted	0.2	-	0.2	2.0	1.8	1.8	0.5
Non-voted:							
L Personal Tax Credit	-	-	-	-	-	-	-
M Other reliefs and allowances	-	-	-	-	-	-	-
Total Non-voted	-	-	-	-	-	-	-
Total spending in Annually Managed Expenditure	**0.2**	**-**	**0.2**	**2.0**	**1.8**	**1.8**	**0.5**
Total Voted	220.4	(2.1)	218.3	232.7	14.4	14.4	194.5
Total Non-voted	-	-	-	-	-	-	-
Total	**220.4**	**(2.1)**	**218.3**	**232.7**	**14.4**	**14.4**	**194.5**

SOPS 3. Reconciliation of outturn to net operating cost and against Administration Budget

SOPS 3.1 Reconciliation of net resource outturn to net operating cost

		Note	2013-14 £m Outturn	Restated* 2012-13 £m Outturn
Total resource outturn	Budget	SOPS 2.1	46,219.7	46,353.1
	Non-Budget	SOPS 2.1	-	-
			46,219.7	**46,353.1**
Add:	Capital spend - Child Trust Fund	SOPS 2.2	0.2	0.5
	IFRS asset costs		9.6	6.4
			9.8	**6.9**
Less:	Income payable to the Consolidated Fund		(0.9)	(0.3)
	Barter deal prepayment release		-	(48.7)
			(0.9)	**(49.0)**
Net Operating Costs in Consolidated Statement of Comprehensive Net Expenditure			**46,228.6**	**46,311.0**

SOPS 3.2 Outturn against final Administration Budget and Administration net operating cost

	2013-14 £m	2012-13 £m
Estimate - Administration costs limit	**880.3**	**962.9**
Outturn - Gross administration costs	932.7	1,006.9
Outturn - Gross income relating to administration costs	(68.5)	(59.5)
Outturn - Net administration costs	**864.2**	**947.4**
Reconciliation to the Statement of Comprehensive Net Expenditure		
Adjustments:		
provisions utilised (transfer from Programme)	(26.2)	(33.0)
Administration IFRS asset costs	28.3	34.5
Consolidation adjustments	1.8	3.6
Barter deal prepayment release	-	(38.2)
Administration income payable to the Consolidated Fund	-	(0.1)
Net Administration Costs in the Consolidated Statement of Net Expenditure	**868.1**	**914.2**

**Certain prior year figures have been restated as per note 25.*

SOPS 4. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £m	Outturn £m	Net total outturn compared with Estimate: saving/(excess) £m
Resource Outturn	SOPS 2.1	47,400.9	46,219.7	1,181.2
Capital Outturn	SOPS 2.2	232.7	218.3	14.4
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation and amortisation		(239.4)	(270.8)	31.4
New provisions and adjustments to previous provisions		(36.0)	(20.2)	(15.8)
Other non-cash items		(2.3)	(9.1)	6.8
Adjustments to reflect movements in working balances:				
Increase/(decrease) in inventories		-	0.2	(0.2)
Increase/(decrease) in receivables		-	401.6	(401.6)
(Increase)/decrease in payables		-	(730.2)	730.2
Use of provisions		46.9	33.4	13.5
Other adjustments		(32,085.6)	(30,990.7)	(1,094.9)
Net Cash Requirement		**15,317.2**	**14,852.2**	**465.0**

An explanation of material variances between the Estimate and outturn are provided in the Strategic Report on page 24.

SOPS 5. Income payable to the Consolidated Fund

SOPS 5.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the Department, the following income is payable to the Consolidated Fund (*cash receipts being shown in italics*).

	Outturn 2013-14 £m		Outturn 2012-13 £m	
	Income	*Receipts*	Income	*Receipts*
Income outside the ambit of the Estimate	(0.9)	*(0.9)*	(0.3)	*(0.3)*
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total amount payable to the Consolidated Fund	**(0.9)**	***(0.9)***	**(0.3)**	***(0.3)***

SOPS 5.2 Consolidated Fund income

Consolidated Fund income shown in SOPS note 5.1 above does not include any amounts collected by the Department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the Department's Trust Statement, see pages 168-201.

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2014

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

		2013-14 £m		Restated* 2012-13 £m	
	Note	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Administration costs					
Staff costs	3	309.7	309.7	303.5	303.5
Other costs	4	625.0	625.0	666.7	666.7
Income	7	(68.5)	(66.6)	(59.6)	(56.0)
Programme expenditure					
Staff costs	3	1,819.4	1,956.8	1,833.8	1,967.2
Other costs	5	43,541.7	43,649.4	43,575.5	43,677.5
Income	7	(57.6)	(245.7)	(62.3)	(247.9)
Net operating costs for the year ended 31 March		**46,169.7**	**46,228.6**	**46,257.6**	**46,311.0**
Total expenditure		46,295.8	46,540.9	46,379.5	46,614.9
Total income		(126.1)	(312.3)	(121.9)	(303.9)
Net operating costs for the year ended 31 March		**46,169.7**	**46,228.6**	**46,257.6**	**46,311.0**
Other Comprehensive Net Expenditure					
Items that will not be classified					
to net operating costs:					
Net (gain)/loss on:					
- revaluation of intangibles		(17.8)	(18.1)	(17.5)	(17.8)
Total Comprehensive Net Expenditure for the year ended 31 March		**46,151.9**	**46,210.5**	**46,240.1**	**46,293.2**

**Certain prior year figures have been restated as per note 25.*

The notes on pages 121-167 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2014

This statement presents the financial position of the Department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

		31 March 2014 £m		Restated* 31 March 2013 £m	
	Note	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Non-current assets:					
Property, plant and equipment	8	455.5	464.3	475.6	484.9
Intangible assets	9	1,172.6	1,192.8	1,174.3	1,194.9
Financial assets	12,13	-	-	-	-
Receivables	16	1,467.5	1,467.5	1,214.4	1,214.4
Total non-current assets		**3,095.6**	**3,124.6**	**2,864.3**	**2,894.2**
Current assets:					
Assets classified as held for sale		-	-	-	-
Inventories	14	-	2.2	-	2.0
Trade and other receivables	16	1,049.4	1,054.0	933.2	937.3
Other current assets		-	-	-	-
Financial assets	12,13	-	-	-	-
Cash and cash equivalents	15	4.5	22.6	12.0	24.4
Total current assets		**1,053.9**	**1,078.8**	**945.2**	**963.7**
Total assets		**4,149.5**	**4,203.4**	**3,809.5**	**3,857.9**
Current liabilities:					
Trade and other payables	17	(2,682.5)	(2,719.9)	(1,968.4)	(1,998.6)
Provisions	18	(78.9)	(80.0)	(63.4)	(65.4)
Other liabilities		-	-	-	-
Total current liabilities		**(2,761.4)**	**(2,799.9)**	**(2,031.8)**	**(2,064.0)**
Non-current assets plus/less net current assets/liabilities		**1,388.1**	**1,403.5**	**1,777.7**	**1,793.9**
Non-current liabilities:					
Provisions	18	(35.6)	(36.4)	(62.9)	(64.2)
Pension liability		-	(37.7)	-	(33.0)
Other payables	17	(334.9)	(335.0)	(343.9)	(344.3)
Financial liabilities	12	-	-	-	-
Total non-current liabilities		**(370.5)**	**(409.1)**	**(406.8)**	**(441.5)**
Total assets less liabilities		**1,017.6**	**994.4**	**1,370.9**	**1,352.4**
Taxpayers' equity and other reserves:					
General fund		894.1	907.4	1,240.6	1,253.7
Revaluation reserve		123.5	124.7	130.3	131.7
Pension reserve		-	(37.7)	-	(33.0)
Total equity		**1,017.6**	**994.4**	**1,370.9**	**1,352.4**

Lin Homer
Principal Accounting Officer
25 June 2014

**Certain prior year figures have been restated as per note 25.*
The notes on pages 121-167 form part of these accounts

Consolidated Statement of Cash Flows

for the year ended 31 March 2014

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Department during the reporting period. The statement shows how the Department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Department's future public service delivery. Cash flows arising from financing activities include Parliamentary Supply and other cash flows, including borrowing.

	Note	2013-14 £m	Restated* 2012-13 £m
Cash flows from operating activities			
Net operating cost		(46,228.6)	(46,311.0)
Adjustments for non-cash transactions	4,5	300.1	277.8
(Increase)/Decrease in trade and other receivables		(401.6)	(288.4)
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		-	-
(Increase)/Decrease in inventories		(0.2)	0.2
Increase/(Decrease) in trade and other payables		711.1	(13.1)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		19.1	71.1
Use of provisions	18	(33.4)	(41.6)
Net cash outflow from operating activities		**(45,633.5)**	**(46,305.0)**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(38.5)	(27.2)
Purchase of intangible assets	9	(181.8)	(171.1)
Proceeds of disposal of property, plant and equipment		0.2	0.3
Proceeds of disposal of intangible assets		-	-
Net cash outflow from investing activities		**(220.1)**	**(198.0)**
Cash flows from financing activities			
From the Consolidated Fund (Supply)- current year		14,850.4	15,676.1
From the Consolidated Fund (Supply)- prior year		-	-
From the Consolidated Fund (non-Supply)		-	-
From the Trust Statement		30,678.0	30,546.0
From the National Insurance Fund		357.0	299.7
Payments to the National Insurance Fund		-	-
Advances from the Contingencies Fund		-	0.2
Repayments to the Contingencies Fund		-	(0.2)
Loans received from the National Loans Fund		-	-
Repayments of loans from the National Loans Fund		-	-
Capital element of payments in respect of finance leases and on Statement of Financial Position PFI contracts		(32.7)	(42.4)

Consolidated Statement of Cash Flows (continued)

for the year ended 31 March 2014

	Note	2013-14 £m	Restated* 2012-13 £m
Net financing		**45,852.7**	**46,479.4**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(0.9)**	**(23.6)**
Payments of amounts due to the Consolidated Fund		(0.9)	(0.3)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(1.8)**	**(23.9)**
Cash and cash equivalents at the beginning of the period	15	**24.4**	**48.3**
Cash and cash equivalents at the end of the period	15	**22.6**	**24.4**

**Certain prior year figures have been restated as per note 25.*

The notes on pages 121-167 form part of these accounts

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2014

This statement shows the movement in the year on the different reserves held by the Department, analysed into 'General Fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). Financing and the balance from the provision of services are recorded here. The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. Other earmarked reserves are shown separately where there are statutory restrictions of their use.

		Core Department				Core Department and Agency			
	Note	General Fund £m	Revaluation Reserve[1] £m	Pension Reserve £m	Total Reserves £m	General Fund £m	Revaluation Reserve[2] £m	Pension Reserve £m	Total Reserves £m
Balance at 31 March 2012		**952.8**	**139.7**	-	**1,092.5**	**957.7**	**141.5**	**(28.8)**	**1,070.4**
Net Parliamentary Funding - drawn down		15,621.5	-	-	15,621.5	15,676.1	-	-	15,676.1
Net Parliamentary Funding - deemed		29.8	-	-	29.8	48.2	-	-	48.2
Funding from Trust Statement[3]		30,546.0	-	-	30,546.0	30,546.0	-	-	30,546.0
National Insurance Fund		331.5	-	-	331.5	331.5	-	-	331.5
Supply (payable)/receivable adjustment		(11.9)	-	-	(11.9)	(24.3)	-	-	(24.3)
CFERs payable to the Consolidated Fund	SOPS 5	(0.3)	-	-	(0.3)	(0.3)	-	-	(0.3)
Comprehensive Net Expenditure for the Year*		(46,257.6)	17.5	-	(46,240.1)	(46,311.0)	17.8	-	(46,293.2)
Non-cash Adjustments									
Non-cash charges - auditor's remuneration	4,5	1.9	-	-	1.9	2.0	-	-	2.0
Movements in Reserves									
Transfer between reserves		26.9	(26.9)	-	-	27.8	(27.6)	(0.2)	-
Pension Reserve actuarial (losses)/gains		-	-	-	-	-	-	(4.0)	(4.0)
Balance at 31 March 2013*		**1,240.6**	**130.3**	**-**	**1,370.9**	**1,253.7**	**131.7**	**(33.0)**	**1,352.4**
Net Parliamentary Funding - drawn down		14,788.0	-	-	14,788.0	14,850.4	-	-	14,850.4
Net Parliamentary Funding - deemed		11.9	-	-	11.9	24.3	-	-	24.3
Funding from Trust Statement[3]		30,678.0	-	-	30,678.0	30,678.0	-	-	30,678.0
National Insurance Fund		324.1	-	-	324.1	324.1	-	-	324.1
Supply (payable)/receivable adjustment		(4.4)	-	-	(4.4)	(22.5)	-	-	(22.5)
CFERs payable to the Consolidated Fund	SOPS 5	(0.9)	-	-	(0.9)	(0.9)	-	-	(0.9)
Comprehensive Net Expenditure for the Year		(46,169.7)	17.8	-	(46,151.9)	(46,228.6)	18.1	-	(46,210.5)
Non-cash Adjustments									
Non-cash charges - auditor's remuneration	4,5	1.9	-	-	1.9	2.0	-	-	2.0

Consolidated Statement of Changes in Taxpayers' Equity (continued)

for the year ended 31 March 2014

		Core Department				Core Department and Agency			
	Note	General Fund £m	Revaluation Reserve[1] £m	Pension Reserve £m	Total Reserves £m	General Fund £m	Revaluation Reserve[2] £m	Pension Reserve £m	Total Reserves £m
Movements in Reserves									
Transfer between reserves		24.6	(24.6)	-	-	26.9	(25.1)	(1.8)	-
Pension Reserve actuarial (losses)/gains		-	-	-	-	-	-	(2.9)	(2.9)
Balance at 31 March 2014		**894.1**	**123.5**	**–**	**1,017.6**	**907.4**	**124.7**	**(37.7)**	**994.4**

1 The 31 March 2014 Core Department Revaluation Reserve Balance comprised £67.7m in relation to Intangible Assets (31 March 2013 £74.5m, 1 April 2012 £75.4m).

2 The 31 March 2014 Consolidated Revaluation Reserve Balance comprised £68.9m in relation to Intangible Assets (31 March 2013 £75.7m, 1 April 2012 £76.8m).

3 Personal Tax Credits and Corporation Tax Reliefs are funded out of tax receipts from the Trust Statement, where these payments are shown as disbursements. Please see the Trust Statement, page 179.

Certain prior year figures have been restated as per note 25.

The notes on pages 121-167 form part of these accounts

Notes to the Departmental Resource Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2013-14 *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. The Resource Account is prepared on a going concern basis.

Where the *FReM* permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of HM Revenue & Customs for the purpose of giving a true and fair view has been selected. The particular policies adopted by HM Revenue & Customs are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the *FReM* also requires the Department to prepare the Statement of Parliamentary Supply and supporting notes which show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and certain financial assets and liabilities.

1.2 Basis of consolidation

These accounts comprise a consolidation of the Core Department and Departmental Agency (Valuation Office Agency) which fall within the Departmental boundary as defined in the *FReM* and make up the "Departmental Group". Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the Departmental boundary is given at note 24.

1.3 Tax Credits

1.3.1 Personal Tax Credits

Personal Tax Credits consist of Child Tax Credit and Working Tax Credit. Background about the operation of Personal Tax Credits can be found at www.hmrc.gov.uk.

Awards are initially assessed and paid throughout the year on a provisional basis, based on claimants' assessments of their personal circumstances, and then adjusted after the end of each award year, once claimants' actual circumstances are known. Finalisation is the process by which claimants confirm their actual income and other circumstances for the previous award year. This process finalises the award for the award year that has ended and where the payments made do not match the revised entitlement based on the final information provided, this will give rise to under or overpayments which are accounted for as soon as identified. Finalisation also forms the basis for the provisional award for the current year.

Personal Tax Credits expenditure is recognised in the financial year in which claims are assessed and awards authorised. Authorisation is the point at which the obligation to pay Personal Tax Credits arises; payments are provisional until entitlement is finalised after the financial year end. Expenditure recognised during the financial year (1 April to 31 March) relates to provisional awards for the current award year (6 April to 5 April) and adjustments in respect of the previous award year, following completion of the annual finalisation exercise.

In prior years, the Department has not estimated the results of the finalisation exercise following the year end due to uncertainty around the level of adjustment required. This year, there has been a change in accounting policy and the Department's statisticians have provided a range for the likely outcome of the finalisations and the mid-point of this range has been included in the Account. Further information on this change in accounting policy can be found at note 25.

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Receivables and payables are recognised as appropriate. Correcting payments are made in respect of underpayments, however if a customer has an existing receivable balance the underpayment is offset against the receivable. Overpayments are treated as other receivables and the Department seeks to recover these from future Personal Tax Credits awards or through direct repayments. Further details relating to the accounting for Personal Tax Credits receivables are provided at note 1.22 and note 6.

1.3.2 Corporation Tax Reliefs

Certain Corporation Tax Reliefs are included in these Resource Accounts:

Research & Development Tax Credits - Large Companies "Above the Line" (ATL)
Research & Development Tax Credits - Small and Medium Enterprises
Film Tax Relief
High-end TV Tax Relief
Animation Tax Relief
Land Remediation Relief
Vaccine Research Relief
Enhanced Capital Allowances

These reliefs can contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. There may also be an element that is treated as Negative Taxation which is when the extent of the relief is less than or equal to the recipient's tax liability.

The value of these reliefs is estimated, based on the most recent data available. The basis of the estimation is, where available, derived from claims recorded on companies' returns for their accounting period which ended in the relevant HMRC financial year or based on other appropriate forecasting methodology. The filing requirements for companies are such that these returns are not due until 12 months after the accounting period end and consequently historic claims are utilised to project forward to the current year taking into account forecast growth rates and planned changes in relevant tax policy and rates.

1.4 Child Benefit

Payments to claimants are accounted for from the time a claim for Child Benefit is approved and put into payment by HMRC and thereafter as each subsequent payment falls due.

Where an overpayment of benefit is established, a receivable is created and programme expenditure in the Consolidated Statement of Comprehensive Net Expenditure is reduced accordingly. Where possible, overpayments are recovered from future benefit entitlements. Receivables which are deemed irrecoverable are written-off in accordance with the Department's normal remission policy, and recorded as losses or remissions as appropriate within the Consolidated Statement of Comprehensive Net Expenditure.

From 7 January 2013, a new higher income Child Benefit tax charge was introduced when a customer or their partner receives Child Benefit and either one of them has an income above £50,000 in a tax year. As a result, a proportion of the Child Benefit recorded as expenditure in the Resource Accounts for these higher rate taxpayers is now recovered via future income tax charges accounted for in the Trust Statement.

1.5 Financial instruments

A financial instrument is a contractual obligation which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Department's financial instruments are not complex and it has no equity instruments.

Further details can be found at note 12.

1.6 Property, plant and equipment

1.6.1 General

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses, in accordance with IAS 16 *Property, Plant and Equipment*. A £5,000 capitalisation threshold applies to all property, plant and equipment except for furniture, vehicles and IT hardware, which are capitalised regardless of cost. On initial recognition assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets under construction are recorded at cost. Apart from property and (collectively) furniture, all other plant and equipment is of low value with short lives where the cost is considered to be comparable to the modified historical cost had revaluation indices been applied. Assets capitalised under finance leases are recorded at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract, in accordance with IAS 17 *Leases*.

1.6.2 Property assets

Where substantially all risks and rewards of ownership of a leased asset are borne by the Department, the asset is recognised and recorded at the lower of fair value and the present value of the minimum lease payments, at the inception of the lease. The interest element of the finance lease payment is charged to the Consolidated Statement of Comprehensive Net Expenditure over the period of the lease at a constant rate in relation to the balance outstanding.

Private Finance Initiative (PFI) transactions have been accounted for in accordance with IFRIC 12 *Service Concession Arrangements*, and where the Department has control within the contract and a material residual interest, the property is recognised as a non-current asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between a Consolidated Statement of Comprehensive Net Expenditure service charge and a Consolidated Statement of Financial Position finance lease liability.

The majority of the freehold and leasehold property assets occupied by HMRC were acquired from the predecessor Departments by Mapeley STEPS Contractor Ltd in March 2001 under a twenty-year PFI contract (see note 11.3). These assets have been capitalised as finance leases under IFRIC 12. The buildings only have been treated as finance leases and the related land has been treated as operating leases. The Department has also capitalised its seven other PFI property interests as finance leases being service concession arrangements under IFRIC 12, with the exception of Benton Park View, of which only 75 per cent has been capitalised as the Department for Work and Pensions is the joint tenant for the remainder of the property. The Department has capitalised both its short-term leases with third-party private landlords which Mapeley manages on its behalf, and its short-term leases held directly with third-party private landlords under IAS 17 where the relevant conditions are met.

Property assets have been stated at fair value using professional valuation every five years, with interim professional review three years after each full valuation. Valuations in intermediate years are undertaken where a material change is likely.

Accommodation refurbishments at note 8 reports expenditure in respect of major capital refurbishments and improvements of properties occupied but not owned. HMRC policy is to capitalise refurbishments when the project costs exceed £150,000.

1.6.3 IT assets

The IT non-current assets recognised by our IT partners Capgemini and Fujitsu and used in delivering the ASPIRE contract have been capitalised as finance leases under IFRIC 12 and are disclosed at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract. It is not possible to separate these assets between the Core Department and the Valuation Office Agency as they are used in common to deliver the service. These joint assets are held by the Core Department and are treated as an operating lease by the Valuation Office Agency. Whilst consolidated figures will report the correct aggregate position this difference in approach is to be noted. Where related figures are reported separately for the Core Department and the Valuation Office Agency, there is no material impact on figures reported.

1.6.4 Tangible assets under construction

Assets under construction are separately reported in note 8. Costs are accumulated until the asset is completed and brought into service when the asset is transferred to the relevant asset class and depreciation commences.

1.7 Depreciation

Non-current assets are depreciated at rates calculated to write them down to estimated residual values on a straight-line basis over their estimated useful lives. Asset lives are normally in the following ranges:

1.7.1

Asset category – Tangible Assets	Estimated useful life
Land	Not depreciated
Freehold buildings	50 years
Leased serviced accommodation	Period of the lease
Leased IT assets	Period of the lease
Accommodation refurbishments	Period of the lease
Office equipment	5 to 20 years
Computer equipment	5 to 7 years
Vehicles	5 to 8 years
Furniture & fittings	15 years
Scientific aids	3 to 10 years

1.7.2

Asset category – Intangible Assets	Estimated useful life
Developed computer software	10 years unless known to be otherwise
Software licences	Period of the licence
Website development costs	10 years unless known to be otherwise

1.8 Intangible assets

1.8.1 Developed computer software

Computer software that has been developed by the Department and its IT service partners, and for which the Department has ownership rights e.g. the corporate tax collecting software, has been capitalised. This capitalisation includes the staff costs for developing, integrating and testing IT software in the development of the programs. Annually where appropriate, indices are applied to developed computer software which have not been formally valued during the year.

1.8.2 Intangible assets under construction

Intangible assets under construction relate to software development and are separately reported in note 9. Costs are accumulated until the asset is completed and brought into service when the asset is transferred to the relevant asset class and amortisation commences.

1.9 Impairments of non-financial assets

Impairments are recognised in accordance with IAS 36 *Impairment of Assets*.

1.10 Operating income

Operating income is income which relates directly to the operating activities of the Department. It principally comprises fees and charges to other government departments, agencies, non-departmental public bodies and external customers for services provided on a full-cost basis. It includes not only income allowed to be retained by the Department but also any operating income which, in accordance with the *FReM*, is required to be paid to the Consolidated Fund. Operating income is stated net of VAT.

The Department complies with IAS 18 *Revenue* in respect of its income streams and recognises revenue when earned.

1.11 Administration and programme expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme, income and expenditure. The classification of expenditure and income as administration or as programme follows the definition agreed with HM Treasury.

Administration reports the internal administration costs of running the Department for example human resources, finance, estates management, and includes both costs and associated operating income. The income is analysed between that which is allowed to be offset against gross administrative costs and that which is not.

Programme reports the costs incurred in the delivery of front line services such as the parts of the Department which interact directly with our external customers. In addition it includes the payments made for Tax Credits, Child Benefit and other disbursements by the Department. All expenditure and associated operating income for the Valuation Office Agency is treated as Programme.

1.12 Cash and cash equivalents

These are cash and bank balances in respect of administering the Department and programme expenditure, but exclude all tax and duty revenues collected. The latter are included in the Department's Trust Statement.

Cash and cash equivalents comprise cash in hand and current balances, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

1.13 Pensions

1.13.1 Principal Civil Service Pension Scheme

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS).

The defined benefit scheme within the PCSPS is unfunded and is contributory. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

1.13.2 Local Government Pension Scheme

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme. Further information can be found within the Valuation Office Agency accounts (HC 96) that can be viewed at www.voa.gov.uk.

1.14 Employee Benefits

In accordance with IAS 19 *Employee Benefits*, an accrual is made for staff annual leave earned but not taken at the date of the Consolidated Statement of Financial Position.

1.15 Provisions

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Department provides for legal or constructive obligations which are of uncertain timing or amount at the date of the Consolidated Statement of Financial Position, on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rates set by HM Treasury.

1.16 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who take early departure or retirement under the Civil Service Compensation Scheme. The Department has made provision in full for this cost. The estimated risk-adjusted cash flows are discounted at 1.8 per cent as set by HM Treasury (2012-13: 2.35 per cent).

1.17 Impairment of receivables

In accordance with IAS 39 an impairment of receivables is made when considered material following assessment of the recoverability of future cash flows, for example, in respect of legal costs that have been awarded to the Department. Impairments are also made to include those in respect of Child Benefit receivables (note 1.4) and Tax Credits receivables (note 1.22) to allow for potentially irrecoverable amounts. All these impairments have been estimated having regard to the level of receivables not expected to be recovered.

1.18 Value Added Tax (VAT)

Most of the activities of the Department are outside the scope of VAT. A proportion of the activities of the Department will attract VAT, and output VAT will apply in these circumstances. The Department also has recoverable and non-recoverable elements for input tax on purchases. Some purchase VAT on a restricted number of services is recovered under Section 41 of the VAT Act 1994 and in accordance with the HM Treasury 'Contracting-out Direction'. Section 41 is intended to remove any disincentive to government departments of contracting-out activities performed 'in-house' where there is a sound basis for doing so. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Income and expenditure is otherwise shown net of VAT.

1.19 Third-party assets

On behalf of the Department, Citibank holds Euro deposits in relation to the European Commission twinning projects. These assets are not held as part of the Department's activities and as such do not form part of these accounts.

Details of these assets are reported in note 23.

1.20 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the Department discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money.* Further information about *Managing Public Money* can be found on the HM Treasury website.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.21 Newly applied and future accounting policy changes

Adopted in these Financial Statements

The *FReM* typically applies the standards and interpretations that are effective for the accounting period to which it refers. The following have been adopted in these Resource Accounts:

- for 2013-14, the *FReM* pro-forma Resource Accounts format has been updated to separate the Statement of Parliamentary Supply and its associated notes from the remainder of the Resource Accounts. In addition, the Statement of Parliamentary Supply now has its own set of accounting policies

- IAS 1 Presentation of financial statements (Other Comprehensive Income). The application of the IAS 1 amendments interpreted for terminology and adapted for the public sector context was effective 1 April 2013.

Effective for future financial years

New and revised standards and interpretations have been issued but are not yet effective, and have not therefore been adopted in this account. We expect that the following new standard and *FReM* changes may affect the Resource Accounts if they are adopted by the Financial Reporting Manual, after further consultation:

- IFRS 13 Fair Value Measurement, effective 1 January 2013 for the private sector. IFRS 13 provides consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS. The impact of the proposals on the public sector are being further reviewed by HM Treasury and other relevant authorities following a consultation that took place in 2013. For Central Government, the implementation date is expected to be during 2015-16

- IFRS 12 Disclosure of interests in other entities, EU adopted effective 1 January 2014. With the continuation of current adaptions, the impact on Central Government primarily relates to disclosure of the financial effects on, and risks to, the consolidating entity

- IFRS 9 Financial Instruments, effective 1 January 2015 (not yet EU adopted). IFRS 9 addresses classification, measurement and impairment of financial assets and is still subject to consultation

- IAS 17 Leases (replacement), effective date to be determined. The current proposals include the elimination of the current operating lease categorisation for nearly all leases except short-term. Instead, assets and liabilities will be recognised on a "right to use" basis. HM Treasury has commenced an analysis of the revised exposure draft and will review the implications with the relevant authorities, following due process once there is a final standard.

1.22 Critical accounting judgements and key sources of estimation

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the Department's accounting policies.

The areas that involve a higher degree of judgement or complexity, or where the assumptions and estimates are significant to the Resource Accounts, are as follows:

Personal Tax Credits expenditure

Personal Tax Credits consist of Working Tax Credits and Child Tax Credits. HMRC statisticians provide receivable and payable balances based on data from tax credits systems to move Personal Tax Credits to an accruals accounting basis. A range for the estimate of the results of the current year finalisation exercise is also provided. This estimate is based on a model used to forecast debt and factors in a number of assumptions including the expected effects of new policy. It is therefore subject to uncertainty and the estimate disclosed in note 6.2 represents the mid-point of the range (see note 1.3.1). Estimates for the split of Working Tax Credits and Child Tax Credits and the apportionment of costs to Negative Tax and Payments of Entitlement are also provided. The apportionments are estimated by modelling the tax credits systems and financial data (see note 6).

Corporation Tax Reliefs

As stated in note 1.3.2 Corporation Tax Reliefs are estimated by the Department's statisticians. The models are based on a combination of projections utilising the most recent forecasts of economic variables on which future expenditure flows depend. Due to the areas of uncertainty involved, there will inevitably be differences between the estimated forecasts and actual future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models (see note 6.4).

Impairment of receivables

Impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, the calculation of which differs depending on the type of receivable. The following receivables balances have been impaired: Personal Tax Credits, Child Benefit, law costs, and other receivables (see note 16).

The impairment of Personal Tax Credits receivables is based on assumptions about the amounts which will be recovered, informed by experience. The impairment percentage is calculated for different receivables category types, taking into account recent, actual recovery rates for each category. The percentages are then applied to the gross carrying value of receivables for each category to provide an estimate of the recoverable amount. This ensures that assets are carried at no more than their fair value (i.e. their expected recoverable amount).

The exercise is performed after all Personal Tax Credits remissions exercises during the year have been completed, in order that only relevant data is used in determining appropriate recovery rates.

Relatively minor adjustments in assumptions can have a significant impact on reported figures. The maximum impact of a one per cent change in the recoverability assumptions would be an increase or decrease of £65 million of the impairment.

The impairment of Child Benefit receivables is calculated using recovery rates by aged debt bands. The percentages have been created by comparing the outstanding balance with the original value of the overpayment debt in each aged debt band. Following this process through each of the aged debt bands provides the value of the Child Benefit impairment required.

Provisions and contingent liabilities

The Department undertakes a quarterly review of provisions and contingent liabilities. The provisions include legal claims, early departure costs, Child Trust Fund and accommodation costs. These are estimated by appropriate business areas based on the likelihood of a liability materialising. In accordance with IAS 37, a provision is recorded if it is considered probable that an obligation will arise (see note 18). Where a possible obligation may arise, the Department discloses a contingent liability, unless the outflow of economic benefits is remote (see note 20).

2. Statement of Operating Costs by Operating Segment

This note apportions current expenditure against the Operating Segments that are the main areas of business activity.

The reportable segments are the lines of business that are reported to the Chief Executive and the Board. These segments are the strands of activity in the management information reviewed by the Board and used by them to make decisions, presented as the Financial Pack and reported here in the same format.

The Financial Pack covers expenditure and income which is reported to the Chief Executive and the Board. Information on all other net expenditure is included in note 2.1. This information is reported to the Board, however as it is Annually Managed Expenditure it is centrally managed and is reported in a different format than the reportable segments in the management accounts which compares budgeted spend to full year forecast spend at the segment level.

	2013-14		
	Gross Expenditure £m	Income £m	Net Expenditure £m
Reportable Segment			
Business Tax	157.6	(1.8)	155.8
Personal Tax	680.2	(10.1)	670.1
Enforcement & Compliance	1,068.6	(31.6)	1,037.0
Benefits & Credits Delivery	153.0	-	153.0
Central Tax & Strategy	42.5	(1.0)	41.5
Chief Finance Officer Group	430.0	(22.3)	407.7
Chief Digital & Information Officer Group	846.9	(27.2)	819.7
Chief People Officer Group	185.1	(26.1)	159.0
Legal	49.2	(3.5)	45.7
HMRC Central Budgets	56.9	(1.5)	55.4
Change Investment funding	100.3	-	100.3
Total	**3,770.3**	**(125.1)**	**3,645.2**

	Restated* 2012-13		
	Gross Expenditure £m	Income £m	Net Expenditure £m
Reportable Segment			
Business Tax	199.3	(14.7)	184.6
Personal Tax	736.3	(8.7)	727.6
Enforcement & Compliance	1,051.2	(23.1)	1,028.1
Benefits & Credits Delivery	157.2	(0.1)	157.1
Central Tax & Strategy	36.6	(0.6)	36.0
Chief Finance Officer Group	490.6	(24.4)	466.2
Chief Digital & Information Officer Group	793.4	(29.7)	763.7
Chief People Officer Group	126.9	(15.0)	111.9
Legal	47.4	(3.3)	44.1
HMRC Central Budgets	47.8	(1.6)	46.2
Change Investment funding	98.9	(0.3)	98.6
Total	**3,785.6**	**(121.5)**	**3,664.1**

2.1 Reconciliation between Operating Segments and Consolidated Statement of Comprehensive Net Expenditure

	2013-14 £m	Restated** 2012-13 £m
Total net expenditure reported for operating segments	**3,645.2**	**3,664.1**
Valuation Office Agency	(1.3)	(2.4)
Payments in lieu of tax relief	61.3	54.4
Payments of Local Authority Rates	60.1	55.7
Child Benefit and Child Trust Fund	11,492.1	12,160.1
Personal Tax Credits	29,329.2	29,699.8
Corporation Tax Reliefs	1,628.1	729.3
Other Income Tax reliefs	9.5	11.0
IFRS elements not included in the Management Accounts	9.5	6.3
Remaining reconciling items	(5.1)	(67.3)
Total net expenditure per the Consolidated Statement of Comprehensive Net Expenditure	**46,228.6**	**46,311.0**

** Certain prior year figures have been restated to align with the segments reported to the Board in 2013-14.*

***Certain prior year figures have been restated as per note 25.*

3. Staff numbers and related costs

Staff costs comprise:

	2013-14 £m			2012-13 £m
	Permanently employed staff	Others	Total	Total
Wages and salaries	1,747.2	69.7	1,816.9	1,815.6
Social security costs	124.3	3.9	128.2	130.1
Other pension costs	317.4	7.5	324.9	325.0
Sub Total	**2,188.9**	**81.1**	**2,270.0**	**2,270.7**
Less recoveries in respect of outward				
secondments	(2.3)	-	(2.3)	(3.4)
Total net costs	**2,186.6**	**81.1**	**2,267.7**	**2,267.3**

Of which:	Charged to Administration budgets	Charged to Programme budgets	Charged to Capital budgets	Total
Core Department	308.9	1,817.8	3.6	2,130.3
Valuation Office Agency	-	137.4	-	137.4
Total net costs	**308.9**	**1,955.2**	**3.6**	**2,267.7**

The Department consists entirely of officials as it does not pay the salary of the Minister who has responsibility for HM Revenue & Customs (HMRC). This is paid out of central funds and can be found in the resource accounts of HM Treasury.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HMRC is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. An actuarial valuation of the PCSPS is currently underway, with an effective date of 31 March 2012. This valuation is being conducted in line with directions made by HM Treasury, made under the Public Service Pensions Act 2013. Provisional results of the valuation indicate that there will be an increase of 2.2 percentage points in the average employer contribution rate paid to the scheme from 1 April 2015, with the average employer contribution rising from 18.9 per cent to 21.1 per cent. The full results of the valuation, which will also set an employer cost cap for the scheme, will be published in the coming months. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2013-14, employers' contributions of £323,163,855 were payable to the PCSPS (2012-13: £323,206,137) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, 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 2013-14 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. Employers' contributions of £730,863 (2012-13: £749,334) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £52,760, 0.8 per cent of pensionable pay (2012-13: £52,558, 0.8 per cent of pensionable pay), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2013-14 were £961,429 (2012-13: £971,438). Further information can be found within the Valuation Office Agency accounts (HC 96) that can be viewed at www.voa.gov.uk.

Contributions due to the partnership pension providers at the reporting period date were £134,668. Contributions prepaid at that date were nil.

The Remuneration Report provides details of the Pension benefits for the members of the Executive Committee.

137 individuals (2012-13: 123 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £192,497 (2012-13: £195,613).

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows. These figures include those working in the Core Department and the Valuation Office Agency included within the Consolidated Departmental Resource Account.

	2013-14 Number			2012-13 Number
	Permanently employed staff	Others	Total	Total
Core Department	59,443	3,567	63,010	65,040
Valuation Office Agency	3,408	103	3,511	3,480
Staff engaged on capital projects	51	-	51	-
Total	**62,902**	**3,670**	**66,572**	**68,520**

3.1 Reporting of Civil Service and other compensation schemes - exit packages

Comparative data shown in brackets for previous year.

	Core Department			Core Department and Agency		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
<£10,000	2 (-)	83 (14)	85 (14)	2 (-)	83 (14)	85 (14)
£10,000 - £25,000	11 (1)	713 (93)	724 (94)	16 (2)	715 (94)	731 (96)
£25,000 - £50,000	- (2)	1,117 (130*)	1,117 (132*)	- (2)	1,119 (130*)	1,119 (132*)
£50,000 - £100,000	- (-)	201 (85)	201 (85)	- (-)	202 (91)	202 (91)
£100,000 - £150,000	- (-)	18 (15)	18 (15)	- (-)	18 (18)	18 (18)
£150,000 - £200,000	- (-)	3 (10)	3 (10)	- (-)	3 (10)	3 (10)
£200,000+	- (-)	1 (4)	1 (4)	- (-)	1 (4)	1 (4)
Total number of exit packages by type	**13 (3)**	**2,136 (351*)**	**2,149 (354*)**	**18 (4)**	**2,141 (361*)**	**2,159 (365*)**
Total resource cost	**£159,844 (£34,616)**	**£68,415,187 (£16,564,259*)**	**£68,575,031 (£16,598,875*)**	**£251,844 (£48,616)**	**£68,564,187 (£17,357,259*)**	**£68,816,031 (£17,405,875*)**

* The prior year figures have been adjusted to account for a late exit package relating to 2012-13.

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 in which the obligation becomes binding on the Department. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service pension scheme. The ill-health retirement costs are met by the pension scheme and are not included in the table.

The numbers included in the table above include departures of staff who are members of the Local Government Pension Scheme. Their compensation arrangements are outside the scope of the Civil Service Compensation Scheme. The cost of their early retirements reflects the cost of providing any lump sum due on retirement together with the cost associated with the increase in future liability to pay pension.

4. Other Administration costs

	2013-14 £m				2012-13 £m			
	Core Department		Core Department and Agency		Core Department		Core Department and Agency	
Rentals under operating leases:								
Hire of plant and machinery	0.2		0.2		0.3		0.3	
Other operating leases	9.8		9.8		17.3		17.3	
		10.0		10.0		17.6		17.6
Interest charges:								
Accommodation PFI interest charges[1]	35.5		35.5		38.3		38.3	
Accommodation Non-PFI interest charges	1.9		1.9		2.1		2.1	
		37.4		37.4		40.4		40.4
Service charges								
IT PPP contract payments	224.9		224.9		202.4		202.4	
Accommodation PFI contract payments[1]	88.8		88.8		90.5		90.5	
Indexation of liability on PFI deals	2.4		2.4		2.5		2.5	
		316.1		316.1		295.4		295.4
Other expenditure:								
Travel, subsistence and hospitality	11.5		11.5		10.0		10.0	
Accommodation expenses	21.7		21.7		72.7		72.7	
Staff related costs	4.6		4.6		3.1		3.1	
Printing, postage, stationery and office supplies	8.1		8.1		10.8		10.8	
Telephone expenses	29.4		29.4		36.0		36.0	
IT services and consumables	27.9		27.9		19.7		19.7	
Legal costs[2]	(1.3)		(1.3)		1.6		1.6	
Consultancy	0.8		0.8		1.2		1.2	
Contracted out services	20.9		20.9		19.4		19.4	
Publicity	4.8		4.8		4.3		4.3	
Bank charges	10.7		10.7		10.4		10.4	
Other miscellaneous expenditure	13.5		13.5		7.5		7.5	
		152.6		152.6		196.7		196.7
Non-cash items:								
Depreciation	55.8		55.8		64.4		64.4	
Amortisation	48.3		48.3		47.2		47.2	
Profit on disposal of property, plant and equipment	(0.1)		(0.1)		(0.1)		(0.1)	
Loss on disposal of property, plant and equipment	2.7		2.7		3.2		3.2	
Net revaluation loss	-		-		-		-	
Net loss on impairment of non-current assets	0.3		0.3		-		-	
Auditor's remuneration and expenses	1.9		1.9		1.9		1.9	
		108.9		108.9		116.6		116.6
Total		**625.0**		**625.0**		**666.7**		**666.7**

1 Includes payments for non-PFI land and buildings that are leased by the PFI service provider.
2 In 2013-14 there was a credit following a reduction in the impairment provision for Law Cost receivables.

5. Programme costs

		2013-14 £m				Restated* 2012-13 £m			
	Note	Core Department		Core Department and Agency		Core Department		Core Department and Agency	
Tax Credits									
Personal Tax Credits	6	29,329.2		29,329.2		29,699.8		29,699.8	
Corporation Tax Reliefs	6	1,615.4		1,615.4		729.3		729.3	
			30,944.6		30,944.6		30,429.1		30,429.1
Child Benefit									
Child Benefit		11,494.4		11,494.4		12,176.0		12,176.0	
Guardians Allowance (Funded from NIF)		2.0		2.0		1.9		1.9	
			11,496.4		11,496.4		12,177.9		12,177.9
Payments in lieu of tax relief									
Life Assurance Premium Relief, MIRAS		9.5		9.5		11.0		11.0	
Transitional payments to charities		19.0		19.0		4.4		4.4	
Stakeholder pensions		55.0		55.0		50.0		50.0	
			83.5		83.5		65.4		65.4
Payments of Local Authority Rates									
Payments of Local Authority Rates (POLAR)		-		63.8		-		59.1	
			-		63.8		-		59.1
Rentals under operating leases:									
Hire of plant and machinery		0.1		0.1		0.1		0.1	
Other operating leases		24.4		24.6		15.3		15.6	
			24.5		24.7		15.4		15.7
Interest charges:									
IT PPP interest charges		4.5		4.5		8.6		8.6	
			4.5		4.5		8.6		8.6
Service charges									
IT PPP contract payments[1]		287.1		295.9		276.7		288.2	
Accommodation PFI contract payments[1]		41.4		50.1		47.3		55.4	
Indexation of liability on PFI deals		-		-		-		-	
			328.5		346.0		324.0		343.6

5. Programme costs (continued)

	Note	2013-14 £m Core Department		Core Department and Agency		Restated* 2012-13 £m Core Department		Core Department and Agency	
Other Programme Costs									
Travel, subsistence and hospitality		37.1		42.7		33.6		38.7	
Accommodation expenses		75.7		85.4		26.8		36.0	
Staff related costs		0.2		0.8		0.3		0.8	
Printing, postage, stationery and office supplies		59.2		61.0		66.6		68.2	
Telephone expenses		26.6		28.4		20.6		22.3	
IT services and consumables		0.3		1.7		5.9		7.0	
Legal and investigation		37.9		38.5		37.3		37.5	
Consultancy		0.5		0.5		0.3		0.3	
Contracted out services		17.9		18.6		22.5		23.2	
Publicity		2.6		2.7		2.4		2.5	
Post Office services		12.5		12.5		12.7		12.7	
Bank charges		8.9		8.9		8.6		8.7	
Shipbuilders' Relief		1.0		1.0		33.1		33.1	
Enforcement Costs		23.6		23.6		20.2		20.2	
Business Link Payments		-		-		4.7		4.7	
NIF OGD Costs		58.5		58.5		60.1		60.1	
Early severance schemes		85.7		85.8		19.7		20.8	
Other programme expenditure		31.2		24.1		28.6		20.1	
			479.4		494.7		404.0		416.9
Non-cash items									
Depreciation		10.5		13.7		8.3		12.2	
Amortisation		147.9		153.0		141.1		146.5	
(Profit)/Loss on disposal of property, plant and equipment		(0.7)		(0.7)		(2.1)		(1.9)	
Net revaluation loss/(gain)		0.1		0.1		(0.5)		0.3	
Net loss/(profit) on impairment of non-current assets		3.1		3.1		1.4		1.4	
Auditor's remuneration and expenses		-		0.1		-		0.1	
Other Pension Finance Costs		-		1.7		-		0.2	

5. Programme costs (continued)

		2013-14 £m				Restated* 2012-13 £m			
	Note	Core Department		Core Department and Agency		Core Department		Core Department and Agency	
Provision provided for in year	18								
Amounts provided for early departure costs		2.7		3.0		9.1		8.3	
Borrowing costs (Unwinding of discount) on provisions	18	1.2		1.3		1.5		1.6	
Child Trust Fund		(2.4)		(2.4)		(15.9)		(15.9)	
Other provisions		17.9		18.3		8.2		8.4	
			180.3		191.2		151.1		161.2
Total			**43,541.7**		**43,649.4**		**43,575.5**		**43,677.5**

[1] Includes payments for non-PFI land and buildings that are leased by the PFI service provider.

Certain prior year figures have been restated as per note 25.

Child Benefit

Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum. In accordance with the revised government policy, it is estimated that £600m will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2013-14. These income tax charges are accounted for in the Trust Statement.

6. Tax Credits

6.1 Analysis of Personal Tax Credit expenditure:

	2013-14 £m			Restated* 2012-13 £m		
	Child Tax Credits	Working Tax Credits	Total Tax Credits	Child Tax Credits	Working Tax Credits	Total Tax Credits
Tax Credits treated as Negative Taxation	2,046.8	563.0	2,609.8	2,141.8	611.1	2,752.9
Tax Credits treated as Payments of Entitlement	20,525.3	5,645.6	26,170.9	19,588.6	5,589.3	25,177.9
	22,572.1	**6,208.6**	**28,780.7**	**21,730.4**	**6,200.4**	**27,930.8**
Movement in impairment for receivables	313.5	60.2	373.7	1,161.9	285.3	1,447.2
Remissions/Write-offs	127.2	47.6	174.8	250.4	71.4	321.8
Total Tax Credits	**23,012.8**	**6,316.4**	**29,329.2**	**23,142.7**	**6,557.1**	**29,699.8**

The Personal Tax Credits expenditure analysis above is disclosed as Negative Taxation to the extent that the Personal Tax Credits are less than or equal to the recipient family's income tax liability and as Payments of Entitlement where Personal Tax Credits exceed the recipient family's income tax liability.

Please see note 1.22 for the estimation techniques used to determine the values for Negative Taxation and the Payments of Entitlement and how these are apportioned between Child Tax Credits and Working Tax Credits.

6.2 Personal Tax Credit receivables

	Note	2013-14 £m	Restated* 2012-13 £m
Receivables as at 1 April		**5,652.7**	**4,013.5**
Adjustment to prior year finalisation estimate		(206.7)	760.2
Estimated overpayment of awards prior to finalisation[1]		975.0	900.0
Overpayments identified from change of circumstances in year		1,161.0	1,063.7
Recoveries made		(921.4)	(762.9)
Remissions/Write-offs		(174.8)	(321.8)
Receivables as at 31 March		**6,485.8**	**5,652.7**
Provision for impairment for receivables		(4,095.8)	(3,722.1)
Net	16	**2,390.0**	**1,930.6**
Of which:			
Amounts falling due within one year		922.5	716.2
Amounts falling due after more than one year		1,467.5	1,214.4
Total		**2,390.0**	**1,930.6**

1 The range of the estimate is £750m to £1,200m (2012-13: £800m to £1,000m).

Remissions and write-offs in 2013-14 include £10.7m (2012-13: £10.1m) written-off in respect of organised fraud identified during the year. For further details on the actions the Department is taking to meet its published targets on Personal Tax Credit fraud, please see pages 54-55 of this publication.

6.3 Personal Tax Credits error and fraud

HMRC measures the overall level of error and fraud by investigating a random sample of finalised awards, although because of the design of the tax credits scheme this cannot be completed until after claimants have finalised their awards for the preceding year. Some claimants, such as those taxpayers included within Self Assessment, may not finalise their awards for the preceding year until 31 January.

In June 2014, HMRC completed its testing on finalised awards for 2012-13, based on a random sample of some 3,390 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.82 billion and £2.19 billion (6.3 per cent to 7.6 per cent of the final award by value) being paid to claimants to which they were not entitled. In addition, HMRC estimates that error resulted in underpayments to claimants of between £0.07 billion and £0.32 billion (0.3 per cent to 1.1 per cent of the final award by value) to which they were entitled.

6.4 Corporation Tax Reliefs

	2013-14 £m			2012-13 £m		
	Negative Taxation	Payments of Entitlement	Total	Negative Taxation	Payments of Entitlement	Total
Research & Development Tax Credits - Large Companies "Above the Line" (ATL)[2]	264.1	451.1	715.2	-	-	-
Research & Development Tax Credits - Small & Medium Enterprises	319.9	232.6	552.5	237.1	206.8	443.9
Film Tax Relief	-	287.0	287.0	-	252.0	252.0
High-end TV Tax Relief[2]	-	14.8	14.8	-	-	-
Animation Tax Relief[2]	-	12.3	12.3	-	-	-
Land Remediation Relief	25.9	5.1	31.0	24.6	6.3	30.9
Vaccine Research Relief	2.6	-	2.6	2.5	-	2.5
Enhanced Capital Allowance	-	-	-	-	-	-
Total	**612.5**	**1,002.9**	**1,615.4**	**264.2**	**465.1**	**729.3**

[2] These reliefs were introduced in 2013-14.

**Certain prior year figures have been restated as per note 25.*

7. Income

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Administration services	(66.9)	(65.0)	(60.5)	(58.5)
Banking services	(15.6)	(15.6)	(16.0)	(16.0)
Other income types	(20.7)	(22.6)	(21.4)	(23.2)
Subscriptions and fees	(16.7)	(16.6)	(18.0)	(18.0)
IT and telephony charges	(6.2)	(6.2)	(6.0)	(6.0)
VOA services	-	(186.3)	-	(182.2)
	(126.1)	**(312.3)**	**(121.9)**	**(303.9)**
Of which:				
Administration income	(68.5)	(66.6)	(59.6)	(56.0)
Programme income	(57.6)	(245.7)	(62.3)	(247.9)
Total	**(126.1)**	**(312.3)**	**(121.9)**	**(303.9)**

Of total operating income received, the following relates to services provided to external and public sector customers where full cost exceeds £1.0m. In each case the financial objective is to recover the full costs of the service. This information is only provided for fees and charges purposes, and not for IFRS 8 purposes.

	2013-14 £m			2012-13 £m		
	Income	Full Cost	Surplus/ (Deficit)	Income	Full Cost	Surplus/ (Deficit)
Fees and charges raised by the Valuation Office Agency (VOA)						
Rating and Council Tax	(153.1)	152.3	0.8	(150.5)	150.6	(0.1)
National and Central Services	(11.9)	11.9	-	(11.6)	10.9	0.7
Commercial Services	(16.0)	16.1	(0.1)	(16.1)	14.8	1.3
Local Housing Allowances and Fair Rents	(15.0)	14.7	0.3	(13.8)	13.5	0.3
Fees and charges raised by the Core Department						
International assistance[1]	(0.4)	0.7	(0.3)	(0.6)	1.0	(0.4)
Money Laundering Regime	(7.6)	7.4	0.2	(7.5)	7.4	0.1
Bank charges via GBS	(15.3)	13.7	1.6	(15.7)	13.3	2.4
National Minimum Wage	(7.3)	7.3	-	(7.2)	7.2	-
Collection of Student Loans	(4.7)	5.7	(1.0)	(6.0)	5.6	0.4
DWP Welfare Reform Agenda	(2.4)	2.4	-	(3.3)	3.3	-
Services provided to VOA	(3.3)	3.3	-	(3.6)	3.6	-
UK Border Agency	(20.6)	20.6	-	(27.2)	27.2	-
The Child Maintenance Service	(0.5)	0.5	-	(1.5)	1.5	-
Civil Service Resourcing	(25.2)	24.0	1.2	(14.1)	13.7	0.4
Accommodation recharges	(5.0)	5.6	(0.6)	(5.2)	5.2	-
Single Tier Pension Reform	(3.2)	3.2	-	-	-	-
Scotland Act Implementation[2]	(1.0)	1.0	-	-	-	-
Total	**(292.5)**	**290.4**	**2.1**	**(283.9)**	**278.8**	**5.1**

1 For this service it is not the financial objective to recover the full costs.
2 Scotland Act Implementation income covers recovery of charges from the Scottish Government in respect of additional costs incurred by HMRC of £0.8m Scottish Rate of Income Tax (SRIT) and £0.2m Stamp Duty Land Tax. The SRIT element of the income consists of £788k staff costs and £3k IT costs.

8. Property, plant and equipment

	Land[1]	Buildings[1]	Accommodation refurbishments[1]	Office & computer equipment	Vehicles	Furniture & fittings	Assets under construction	Scientific Aids	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation									
At 1 April 2013	28.9	496.8	162.1	275.8	14.4	55.0	22.9	6.3	1,062.2
Additions	-	-	-	18.8	4.9	1.8	26.2	0.7	52.4
Disposals	-	(29.2)	(11.9)	(22.5)	(0.1)	(4.7)	-	(0.7)	(69.1)
Impairments	-	-	-	(0.1)	-	(0.3)	-	-	(0.4)
Reclassifications	-	-	14.5	11.4	-	0.3	(26.0)	(0.2)	-
Revaluations[2]	-	-	-	-	-	(0.1)	-	-	(0.1)
At 31 March 2014	**28.9**	**467.6**	**164.7**	**283.4**	**19.2**	**52.0**	**23.1**	**6.1**	**1,045.0**
Depreciation									
At 1 April 2013	-	(243.9)	(87.4)	(209.5)	(7.7)	(26.1)	-	(2.7)	(577.3)
Charged in year	-	(19.9)	(12.9)	(29.7)	(1.9)	(3.6)	-	(1.5)	(69.5)
Disposals	-	28.5	10.8	22.1	0.1	3.8	-	0.8	66.1
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-
Revaluations[2]	-	-	-	-	-	-	-	-	-
At 31 March 2014	**-**	**(235.3)**	**(89.5)**	**(217.1)**	**(9.5)**	**(25.9)**	**-**	**(3.4)**	**(580.7)**
Carrying amount at 31 March 2013	**28.9**	**252.9**	**74.7**	**66.3**	**6.7**	**28.9**	**22.9**	**3.6**	**484.9**
Carrying amount at 31 March 2014	**28.9**	**232.3**	**75.2**	**66.3**	**9.7**	**26.1**	**23.1**	**2.7**	**464.3**
Asset financing:									
Owned	28.9	-	75.2	38.6	9.7	26.1	23.1	2.7	204.3
Finance leased	-	-	-	27.7	-	-	-	-	27.7
On-Statement of Financial Position PFI contracts	-	232.3	-	-	-	-	-	-	232.3
Carrying amount at 31 March 2014	**28.9**	**232.3**	**75.2**	**66.3**	**9.7**	**26.1**	**23.1**	**2.7**	**464.3**
Of the total:									
Core Department	28.9	232.1	73.5	63.6	9.7	23.8	21.2	2.7	455.5
Valuation Office Agency	-	0.2	1.7	2.7	-	2.3	1.9	-	8.8
Carrying amount at 31 March 2014	**28.9**	**232.3**	**75.2**	**66.3**	**9.7**	**26.1**	**23.1**	**2.7**	**464.3**
Cost or valuation									
At 1 April 2012	28.9	522.2	164.9	277.8	15.8	56.1	10.6	6.7	1,083.0
Additions	-	-	-	9.5	0.3	2.1	20.1	0.7	32.7
Disposals	-	(25.4)	(6.1)	(20.7)	(1.7)	(3.6)	-	(1.7)	(59.2)
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications[3]	-	-	3.3	9.2	-	0.4	(7.5)	0.6	6.0
Revaluations[2]	-	-	-	-	-	-	(0.3)	-	(0.3)
At 31 March 2013	**28.9**	**496.8**	**162.1**	**275.8**	**14.4**	**55.0**	**22.9**	**6.3**	**1,062.2**

	Land[1]	Buildings[1]	Accommodation refurbishments[1]	Office & computer equipment	Vehicles	Furniture & fittings	Assets under construction	Scientific Aids	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Depreciation									
At 1 April 2012	-	(237.1)	(80.2)	(194.8)	(7.2)	(24.8)	-	(2.8)	(546.9)
Charged in year	-	(21.9)	(12.4)	(35.1)	(2.0)	(3.6)	-	(1.6)	(76.6)
Disposals	-	15.1	5.2	20.4	1.5	2.3	-	1.7	46.2
Impairments	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-
Revaluations[2]	-	-	-	-	-	-	-	-	-
At 31 March 2013	**-**	**(243.9)**	**(87.4)**	**(209.5)**	**(7.7)**	**(26.1)**	**-**	**(2.7)**	**(577.3)**
Carrying amount at 31 March 2012	**28.9**	**285.1**	**84.7**	**83.0**	**8.6**	**31.3**	**10.6**	**3.9**	**536.1**
Carrying amount at 31 March 2013	**28.9**	**252.9**	**74.7**	**66.3**	**6.7**	**28.9**	**22.9**	**3.6**	**484.9**
Asset financing:									
Owned	28.9	-	74.7	33.3	6.7	28.9	22.9	3.6	199.0
Finance leased	-	-	-	33.0	-	-	-	-	33.0
On-Statement of Financial Position PFI contracts	-	252.9	-	-	-	-	-	-	252.9
Carrying amount at 31 March 2013	**28.9**	**252.9**	**74.7**	**66.3**	**6.7**	**28.9**	**22.9**	**3.6**	**484.9**
Of the total:									
Core Department	28.9	252.5	72.7	62.6	6.7	26.5	22.1	3.6	475.6
Valuation Office Agency	-	0.4	2.0	3.7	-	2.4	0.8	-	9.3
Carrying amount at 31 March 2013	**28.9**	**252.9**	**74.7**	**66.3**	**6.7**	**28.9**	**22.9**	**3.6**	**484.9**

1 See note 1.6.2 for the accounting policy for property assets.
2 See notes 1.1 and 1.6 for the accounting policy regarding revaluation of property, plant and equipment.
3 See note 9.

Freehold land and buildings 100 Parliament Street

A full valuation was undertaken in March 2012 on the basis of existing use. Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue & Customs, whose services include providing valuation and estate surveying services to government departments.

Leased land and buildings

The accounting treatment adopted by HM Revenue & Customs accords with International Accounting Standards. Leased buildings have been brought onto the Department's Consolidated Statement of Financial Position where applicable, whilst leased land remains as an operating lease. The buildings have been valued by the Valuation Office Agency, an executive agency of HM Revenue & Customs, whose services include providing valuation and estate surveying services to government departments.

9. Intangible assets

	Licences	Software	Website development	Assets under construction	Total
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 April 2013	34.7	2,476.6	5.0	143.5	2,659.8
Additions	3.1	0.4	-	181.2	184.7
Disposals	(6.4)	(78.4)	-	-	(84.8)
Impairments	-	(3.0)	-	-	(3.0)
Reclassifications	1.0	162.0	1.5	(164.5)	-
Revaluation[1]	-	38.3	-	-	38.3
At 31 March 2014	**32.4**	**2,595.9**	**6.5**	**160.2**	**2,795.0**
Amortisation					
At 1 April 2013	(28.2)	(1,436.1)	(0.6)	-	(1,464.9)
Charged in year	(3.9)	(196.7)	(0.7)	-	(201.3)
Disposals	6.4	77.8	-	-	84.2
Impairments	-	-	-	-	-
Reclassifications	-	-	-	-	-
Revaluation[1]	-	(20.2)	-	-	(20.2)
At 31 March 2014	**(25.7)**	**(1,575.2)**	**(1.3)**	**-**	**(1,602.2)**
Carrying amount at 31 March 2013	**6.5**	**1,040.5**	**4.4**	**143.5**	**1,194.9**
Carrying amount at 31 March 2014	**6.7**	**1,020.7**	**5.2**	**160.2**	**1,192.8**
Asset financing:					
Owned	4.8	1,020.6	5.2	160.2	1,190.8
Finance leased	-	-	-	-	-
On-Statement of Financial Position PFI contracts	1.9	0.1	-	-	2.0
Carrying amount at 31 March 2014	**6.7**	**1,020.7**	**5.2**	**160.2**	**1,192.8**
Of the total:					
Core Department	6.7	1,004.6	5.2	156.1	1,172.6
Valuation Office Agency	-	16.1	-	4.1	20.2
Carrying amount at 31 March 2014	**6.7**	**1,020.7**	**5.2**	**160.2**	**1,192.8**
Cost or valuation					
At 1 April 2012	36.5	2,273.1	2.0	162.6	2,474.2
Additions	0.9	1.9	-	169.7	172.5
Disposals	(2.7)	(16.1)	-	-	(18.8)
Impairments	-	(1.4)	-	-	(1.4)
Reclassifications[2]	-	179.3	3.0	(188.3)	(6.0)
Revaluation[1]	-	39.8	-	(0.5)	39.3
At 31 March 2013	**34.7**	**2,476.6**	**5.0**	**143.5**	**2,659.8**

	Licences	Software	Website development	Assets under construction	Total
	£m	£m	£m	£m	£m
Amortisation					
At 1 April 2012	(26.4)	(1,241.8)	(0.2)	-	(1,268.4)
Charged in year	(4.5)	(188.8)	(0.4)	-	(193.7)
Disposals	2.7	15.9	-	-	18.6
Impairments	-	-	-	-	-
Reclassifications	-	-	-	-	-
Revaluation[1]	-	(21.4)	-	-	(21.4)
At 31 March 2013	**(28.2)**	**(1,436.1)**	**(0.6)**	**-**	**(1,464.9)**
Carrying amount at 31 March 2012	**10.1**	**1,031.3**	**1.8**	**162.6**	**1,205.8**
Carrying amount at 31 March 2013	**6.5**	**1,040.5**	**4.4**	**143.5**	**1,194.9**
Asset financing:					
Owned	6.0	1,039.9	4.4	143.5	1,193.8
Finance leased	-	-	-	-	-
On-Statement of Financial Position PFI contracts	0.5	0.6	-	-	1.1
Carrying amount at 31 March 2013	**6.5**	**1,040.5**	**4.4**	**143.5**	**1,194.9**
Of the total:					
Core Department	6.5	1,020.5	4.4	142.9	1,174.3
Valuation Office Agency	-	20.0	-	0.6	20.6
Carrying amount at 31 March 2013	**6.5**	**1,040.5**	**4.4**	**143.5**	**1,194.9**

1 See notes 1.1 and 1.8 for the accounting policy regarding revaluation of intangible assets.
2 See note 8.

10. Impairments

The Core Department has identified a number of impairments in 2013-14 in respect of discontinued IT software & IT hardware projects, and reduction in service potential on certain antiques, artefacts and artwork assets.

		Impairment taken through the Revaluation Reserve £m		Impairment charged to the Consolidated Statement of Comprehensive Net Expenditure £m	
	Note	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Property, plant and equipment	8	-	-	-	-
Intangible assets	9	-	-	3.4	3.4
Impairment charged for the year ended 31 March 2014		**–**	**–**	**3.4**	**3.4**
			£m		**£m**
		Core Department	Core Department and Agency	Core Department	Core Department and Agency
Property, plant and equipment	8	-	-	-	-
Intangible assets	9	-	-	1.4	1.4
Impairment charged for the year ended 31 March 2013		**–**	**–**	**1.4**	**1.4**

11. Capital and other commitments

11.1 Capital commitments

The majority of capital commitments relate to the future cost of the development work raised under the IT service contract with ASPIRE.

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Contracted capital commitments at 31 March not otherwise included in these financial statements				
Property, plant and equipment	2.7	3.6	4.5	4.6
Intangible assets	118.8	118.8	159.2	159.2
	121.5	**122.4**	**163.7**	**163.8**

11.2 Commitments under leases

11.2.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below. The buildings payments relate to property leased by

Mapeley from third-party landlords on behalf of the Department; property leased by the Department direct from private landlords and the minor occupation of other government department buildings. The property leases vary in length and the Department has no right of purchase at the end of the contract but would re-negotiate leases where continued occupation is desired. The properties have been assessed against IAS 17 *Leases* and determined as operating leases and therefore the associated commitments have been recorded in this note.

The other commitments relate to a number of IT and vehicle leasing contracts. These include a contract for the management of the Customs Handling of Import Export Freight system (CHIEF) which is a data capture and validation system for international trade movements. The CHIEF contract runs for five years to 31 January 2015 with an option to extend the contract by up to three years. Other commitments also include a contract with Inchcape Fleet Solutions (IFS) for the fleet management including service, maintenance and repair of motor vehicles over a four year period with a renewal option of a further two years. IFS also provide 20 per cent of the Department's leased vehicles under this contract. There are no purchase options within the lease agreements. There are options to both informally and formally extend each lease agreement. There are no specific escalation clauses relating to the lease agreements. The remaining vehicles leased by the Department are via a contract with Lex Autolease, again there are no purchase options within the lease agreements but there are options to formally extend each of the lease agreements. The payment of these lease costs to Lex Autolease go via IFS, our fleet management supplier.

	2013-14 £m		Restated* 2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Obligations under operating leases for the following periods comprise:				
Land and Buildings				
Not later than one year	98.3	108.3	100.0	109.7
Later than one year and not later than five years	379.4	390.4	383.5	392.7
Later than five years	224.5	224.9	271.7	271.8
	702.2	**723.6**	**755.2**	**774.2**
Other				
Not later than one year	9.0	9.1	9.8	9.9
Later than one year and not later than five years	1.4	1.4	9.5	9.5
Later than five years	-	-	-	-
	10.4	**10.5**	**19.3**	**19.4**

**Certain prior year figures have been restated upon receipt of updated information.*

11.2.2 Finance leases

The following commitments are in respect of assets that have been brought onto the Department's Consolidated Statement of Financial Position (SoFP) under IAS 17. Total finance lease charges are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the Department and property leased by the Department direct from private landlords. The Department does provide services for some contracts which are treated as finance leases. The property leases vary in length and the Department has no right of purchase at the end of the contract but would re-negotiate leases where continued occupation is desired.

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Obligations under finance leases for the following periods comprise:				
Buildings				
Not later than one year	3.9	3.9	3.9	3.9
Later than one year and not later than five years	15.6	15.6	15.7	15.7
Later than five years	9.0	9.0	12.9	12.9
	28.5	**28.5**	**32.5**	**32.5**
Less interest element	**(7.8)**	**(7.8)**	**(9.7)**	**(9.7)**
Present value of obligations	**20.7**	**20.7**	**22.8**	**22.8**

11.2.3 Finance leases – Consolidated Statement of Comprehensive Net Expenditure – future commitments

The payments to which the Department is committed in relation to finance leases are detailed in the table below.

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Buildings				
Not later than one year	5.4	5.4	6.3	6.3
Later than one year and not later than five years	19.7	19.7	21.6	21.6
Later than five years	7.4	7.4	12.9	12.9
	32.5	**32.5**	**40.8**	**40.8**

11.3 Commitments under PFI and other service concession arrangements

11.3.1 Off-Statement of Financial Position

The Department has no off-Statement of Financial Position PFI contracts.

11.3.2 On-Statement of Financial Position

The following commitments are in respect of assets that have been brought onto the Department's Statement of Financial Position (SoFP) under IAS 17 and IFRIC 12 *Service Concession Arrangements*. They comprise commitments relating to the STEPS contract (Mapeley-owned) freehold and historic leasehold properties, Newcastle Estates Partnership (NEP) held with DWP, the building known as 100 Parliament Street and two further property PFI arrangements with contractors. They also include commitments for IT assets owned by Capgemini and Fujitsu to deliver the IT service contract.

The STEPS contract is subjected to annual RPI movements and adjustments for index efficiencies. There is no automatic right of renewal for the STEPS contract at the expiry of the agreement on 2 April 2021; but the contract provides for new market lease terms to be agreed if required, giving the Department continued rights of occupation in HMRC's former freehold and historic leasehold estate beyond contract expiry. Options for termination of the contract include default (without compensation) and termination for convenience (with compensation).

The NEP contract is subject to an annual uplift in January in relation to the Availability Charge (i.e. rent) and a further annual uplift relating to the Condition Payment (service charge) in April. Whilst there is a phased building specific expiry arrangement concluding October 2029, the contract contains options to extend the occupancy of buildings which can be exercised three years before the expiry of building occupancy agreements via negotiation with the landlord. There are a number of options to terminate the contract which include voluntary termination giving 12 months notice with compensation, termination for Force Majeure, termination for default without compensation and finally contractor insolvency.

The IT contract was originally for a ten year period commencing on 1 July 2004. The contract incorporated an option to extend it up to a further eight years. In 2007 the Department exercised the option to extend it for a further three years to 30 June 2017 in return for achieving certain pricing reductions.

The substance of each contract is that the Department has a finance lease and that payments comprise two elements - finance lease charges and service charges.

The details of the imputed finance lease charges are given in the table below for each of the following periods:

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Rentals due within one year	62.0	62.0	72.5	72.5
Rentals due later than one year and not later than five years	198.3	198.6	199.3	199.7
Rentals due later than five years	427.2	427.3	469.8	470.2
	687.5	**687.9**	**741.6**	**742.4**
Less interest element	(348.4)	(348.6)	(384.8)	(385.2)
Present value of obligations	**339.1**	**339.3**	**356.8**	**357.2**

Details of the minimum service charge are given in the table below for each of the following periods:

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Service charge due within one year	528.2	528.3	513.2	513.3
Service charge due later than one year and not later than five years	1,219.3	1,219.4	1,614.9	1,615.3
Service charge due later than five years	524.9	525.0	588.7	589.0
	2,272.4	**2,272.7**	**2,716.8**	**2,717.6**

11.3.3 Charge to the Consolidated Statement of Comprehensive Net Expenditure and future commitments

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-Statement of Financial Position PFI and other service concession arrangement transactions (there were no off-Statement of Financial Position transactions) was £662.1m[1] (2012-13: £639.0m) and the payments to which the Department is committed are detailed in the table below.

1 This amount is included within the figures reported in note 4 and note 5 as PPP and PFI service charges.

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Not later than one year	565.2	565.3	552.0	552.2
Later than one year and not later than five years	1,342.8	1,343.0	1,745.6	1,746.3
Later than five years	712.9	713.0	804.0	804.4
	2,620.9	**2,621.3**	**3,101.6**	**3,102.9**

11.4 Other financial commitments

The Department has not entered into any non-cancellable contracts (which are not leases or PFI contracts) during 2013-14.

12. Financial Instruments

The following disclosures are made to allow users of the Department's financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Department is exposed at the reporting date.

The risks considered are credit risk (the risk of default by a counter-party receivable), liquidity risk (the risk that the Department will not be able to discharge its financial obligations) and market risk (the risk of loss from fluctuations in market prices).

As the cash requirements of the Department are largely met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit or market risk. The Department does not face a liquidity risk as its operations, including benefits payments, are financed by the Exchequer.

12.a Credit risk

Due to the nature of trade and other receivables, the Department views the credit risk associated with these receivables as negligible.

12.b Liquidity risk

The Department does not face a liquidity risk as it is financed by the Exchequer.

12.c Market risk

Market risk includes currency risk and interest rate risk. The Department is exposed to negligible currency risk and does not face an interest rate risk as it has no investments or borrowings and its operations are financed by the Exchequer.

12.d Collateral and other credit enhancements obtained

The Department holds no collateral or other credit enhancement in respect of its financial assets.

12.e Embedded derivatives

The Department has conducted a review of all its material contracts and has concluded that there are no separable material embedded derivatives which require disclosure.

12.f Fair value

The value of financial assets and financial liabilities carried at amortised cost is deemed to be a reasonable approximation of their fair value. In respect of Personal Tax Credit receivables, these have not been discounted to present value as it has been concluded that the effect would not be material and there is fundamental uncertainty in the estimate of future inflows which would make any such discounting insufficiently reliable. Further information in relation to Personal Tax Credits can be seen in note 1.3.1, note 6 and note 16. Assumptions on the recoverability of receivable balances are reviewed on an annual basis and appropriate adjustments for impairment are made.

13. Investments in other public sector bodies

The Department holds no loans, Public Dividend Capital or other interests in public bodies outside the Departmental boundary.

14. Inventories

The value of the inventories detailed below relates entirely to the Valuation Office Agency. Full details can be found within the Valuation Office Agency account that can be viewed at www.voa.gov.uk.

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Inventories	-	2.2	-	2.0
	-	**2.2**	**-**	**2.0**

15. Cash and cash equivalents

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Balance 1 April	12.0	24.4	29.9	48.3
Net change in cash and cash equivalent balances	(7.5)	(1.8)	(17.9)	(23.9)
Balance at 31 March	**4.5**	**22.6**	**12.0**	**24.4**
The following balances at 31 March were held at:				
Government Banking Service	3.6	21.7	10.9	23.3
Commercial banks and cash in hand	0.9	0.9	1.1	1.1
Balance at 31 March	**4.5**	**22.6**	**12.0**	**24.4**

16. Trade receivables, financial and other assets

	2013-14 £m		Restated* 2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Amounts falling due within one year:				
Trade receivables	-	5.2	-	4.1
Deposits and advances	21.7	20.3	32.0	31.0
Value added tax	17.3	17.3	22.1	22.1
Other receivables - excluding Child Benefit, CTF and Tax Credits[1]	5.1	4.8	6.0	5.7
Other receivables - Child Benefit and CTF[2]	26.8	26.8	22.7	22.7
Other receivables - Personal Tax Credits[3]	922.5	922.5	716.2	716.2
Prepayments and accrued income - excluding Child Benefit, CTF and Tax Credits	20.3	21.4	93.7	95.0
Prepayments and accrued income - Child Benefit and CTF	35.7	35.7	40.5	40.5
	1,049.4	**1,054.0**	**933.2**	**937.3**
Amounts falling due after more than one year:				
Trade receivables	-	-	-	-
Other receivables - Personal Tax Credits[3]	1,467.5	1,467.5	1,214.4	1,214.4
	1,467.5	**1,467.5**	**1,214.4**	**1,214.4**

1 This figure is net of provision for impairment amounting to Core: £17.5m, Consolidated: £17.8m (2012-13: Core: £19.3m, Consolidated: £19.5m)
2 This figure is net of provision for impairment amounting to Core: £13.0m (2012-13: Core: £13.8m)
3 This figure is net of provision for impairment amounting to Core: £4,095.8m (2012-13: Core: £3,722.1m) (see note 6).

16.1 Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013-14 £m	Restated* 2012-13 £m	2013-14 £m	Restated* 2012-13 £m
Balances with other central government bodies	36.2	57.9	-	-
Balances with local authorities	37.7	38.7	-	-
Balances with NHS bodies	0.7	0.6	-	-
Balances with public corporations and trading funds	-	0.1	-	-
Subtotal: intra-government balances	74.6	97.3	-	-
Balances with bodies external to government	979.4	840.0	1,467.5	1,214.4
Total receivables at 31 March	**1,054.0**	**937.3**	**1,467.5**	**1,214.4**

Certain prior year figures have been restated as per note 25.

17. Trade payables and other current liabilities

	2013-14 £m		Restated* 2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Amounts falling due within one year:				
Other taxation and social security	(39.1)	(39.1)	(41.6)	(41.6)
Trade payables	(51.9)	(53.9)	(71.2)	(71.3)
Other payables - excluding Child Benefit, CTF and Tax Credits	(2.2)	(2.2)	(0.8)	(0.8)
Other payables - Child Benefit and CTF	(14.3)	(14.3)	(8.7)	(8.7)
Other payables - Personal Tax Credits	(791.6)	(791.6)	(712.9)	(712.9)
Accruals and deferred income excluding Child Benefit, CTF and Tax Credits	(390.1)	(407.4)	(314.3)	(332.0)
Accruals and deferred income - Child Benefit and CTF	(208.8)	(208.8)	(282.4)	(282.4)
Accruals - Personal Tax Credits	-	-	-	-
Accruals - Corporation Tax Reliefs	(1,150.0)	(1,150.0)	(488.8)	(488.8)
IT PPP payables	(17.4)	(17.4)	(21.0)	(21.0)
Accommodation PFI payables	(10.4)	(10.4)	(14.3)	(14.3)
Accommodation non-PFI payables	(2.2)	(2.2)	(0.4)	(0.4)
Amounts issued from the Consolidated Fund for Supply but not spent at year end	(4.4)	(22.5)	(11.9)	(24.3)
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	(0.1)	(0.1)	(0.1)	(0.1)
receivable	-	-	-	-
	(2,682.5)	**(2,719.9)**	**(1,968.4)**	**(1,998.6)**
Amounts falling due after more than one year:				
Other payables, accruals and deferred income	-	-	-	-
IT PPP payables	(20.2)	(20.3)	(18.5)	(18.9)
Accommodation PFI payables	(296.2)	(296.2)	(320.5)	(320.5)
Accommodation non-PFI payables	(18.5)	(18.5)	(4.9)	(4.9)
	(334.9)	**(335.0)**	**(343.9)**	**(344.3)**

17.1 Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013-14 £m	Restated* 2012-13 £m	2013-14 £m	2012-13 £m
Balances with other central government bodies	(102.5)	(123.0)	-	-
Balances with local authorities	-	(29.0)	-	-
Balances with NHS bodies	-	-	-	-
Balances with public corporations and trading funds	(4.6)	(4.7)	-	-
Subtotal: intra-government balances	(107.1)	(156.7)	-	-
Balances with bodies external to government	(2,612.8)	(1,841.9)	(335.0)	(344.3)
Total payables at 31 March	**(2,719.9)**	**(1,998.6)**	**(335.0)**	**(344.3)**

**Certain prior year figures have been restated as per note 25.*

18. Provisions for liabilities and charges

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Balance at 1 April	**(126.3)**	**(129.6)**	**(162.6)**	**(168.8)**
Provided in the year	(36.0)	(36.8)	(32.0)	(32.5)
Provisions not required written back	17.9	17.9	30.6	31.7
Provisions utilised in the year	31.1	33.4	39.2	41.6
Borrowing costs (Unwinding of discounts)	(1.2)	(1.3)	(1.5)	(1.6)
Balance at 31 March	**(114.5)**	**(116.4)**	**(126.3)**	**(129.6)**

Analysis of expected timing of discounted flows

	2013-14 £m		2012-13 £m	
	Core Department	Core Department and Agency	Core Department	Core Department and Agency
Not later than one year	(78.9)	(80.0)	(63.4)	(65.4)
Later than one year and not later than five years	(35.0)	(35.8)	(60.8)	(62.0)
Later than five years	(0.6)	(0.6)	(2.1)	(2.2)
Balance at 31 March	**(114.5)**	**(116.4)**	**(126.3)**	**(129.6)**

	Early departure costs £m	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	(19.0)	(1.0)	(54.4)	(0.7)	(4.9)	(80.0)
Later than one year and not later than five years	(26.9)	-	(8.2)	-	(0.7)	(35.8)
Later than five years	(0.4)	-	-	-	(0.2)	(0.6)
Balance at 31 March	**(46.3)**	**(1.0)**	**(62.6)**	**(0.7)**	**(5.8)**	**(116.4)**

18.1 Early departure costs

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS paying agent over the period between the early departure date and normal retirement date. The Department has provided for this in full at the point when the early retirement programme became binding by establishing a provision for the estimated payments, discounting by the HM Treasury discount rate of 1.8 per cent in real terms, and updated annually to reflect the unwinding of the discount.

18.2 Child Trust Fund

Child Trust Fund (CTF) endowments; eligibility to which ceased on 3 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £3.6m was retained in 2012-13 for general CTF payments amounts forecast to become payable in respect of children qualifying for CTF endowments. Utilisations in 2013-14 total £0.2m (2012-13: £0.5m).

18.3 Legal claims

A provision of £62.6m (2012-13: £47.3m) has been made for costs relating to various legal claims against the Department. The provision reflects all known claims, in excess of the de minimis limit for reporting of £0.1m, where legal advice indicates that it is probable that the claim will be successful and the amount of the claim can be reliably estimated. Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 20.

18.4 Accommodation costs

A provision of £0.7m has been made (2012-13: £2.5m) for buildings related claims giving rise to probable liabilities under tenancy agreements and for personal injury claims relating to HMRC estate where the amount of the claims can be reliably estimated. Claims, which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 20.

18.5 Other

Provisions relating to various other claims against the Department amount to £5.8m (2012-13: £7.5m).

19. Pension liability

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme. The pension assets and liabilities, part of the Local Government Pension Scheme are reflected in the Consolidated Statement of Financial Position (see page 116).

Further information can be found within the Valuation Office Agency accounts (HC 96) that can be viewed at www.voa.gov.uk.

20. Contingent liabilities

The Department has the following quantifiable contingent liabilities:

- Shipbuilders' Relief - a contingent liability of £18.9m (2012-13: £19.8m) exists for potential future claims against the Department. This relief is disclosed as a contingent liability as when a contract to build a vessel is signed it creates a possible obligation that will only be satisfied if two future events occur
- Legal claims - a contingent liability of £60.3m (2012-13: £69.6m) exists for costs that may be awarded should various legal cases in which HMRC is involved be determined against the department. The contingent liability covers all such cases where the outcome is unknown or cannot be estimated reliably
- Compensation - potential liability in relation to a Missing Trader Intra Community fraud case totalling £3.3m (2012-13: £9.7m)
- Guaranteed costs - possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities £1.0m, 94 cases (2012-13: £1.0m, 108 cases)
- The Department has a further number of contingent liabilities amounting to £6.6m (2012-13: £4.8m).

In addition to contingent liabilities reported within the meaning of IAS 37, the Department also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of a contingent liability.

Managing Public Money requires that the full potential costs of such contracts be reported to Parliament. These costs are reproduced in the table below.

	1 April 2013	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2014	Amount reported to Parliament by Departmental Minute
	£m	£m	£m	£m	£m	£m
Guarantees	-	-	-	-	-	-
Indemnities	3.8	5.3	-	(1.1)	8.0	-
Letters of Comfort	-	-	-	-	-	-

The Department has not entered into any unquantifiable contingent liabilities.

21. Losses and special payments

21.1 Losses statement

	2013-14				2012-13			
	Core Department		Core Department and Agency		Core Department		Core Department and Agency	
	Cases	£m	*Cases*	£m	*Cases*	£m	*Cases*	£m
Losses are made up of:								
Personal Tax Credits remissions	*2,451,742*	136.2	*2,451,742*	136.2	*2,680,688*	290.6	*2,680,688*	290.6
Personal Tax Credits write-offs	*29,101*	38.6	*29,101*	38.6	*19,935*	31.2	*19,935*	31.2
Child Benefit irrecoverable overpayments	*38,659*	10.6	*38,659*	10.6	*53,206*	16.8	*53,206*	16.8
Law costs remissions	*14,478*	1.4	*14,478*	1.4	*18,277*	1.7	*18,277*	1.7
Others	*982*	1.7	*1,016*	1.8	*1,063*	1.5	*1,093*	1.5
Total	***2,534,962***	**188.5**	***2,534,996***	**188.6**	***2,773,169***	**341.8**	***2,773,199***	**341.8**

Details of cases over £300,000

Personal Tax Credits

There were no special exercises conducted during 2013-14, the £174.8m remitted/written-off was as a result of our business as usual processing activity.

Child Benefit

There were no special exercises conducted during 2013-14, the £10.6m remitted/written-off was as a result of our business as usual processing activity.

Other

£0.4m - Exchange rate loss in respect of currency conversion.

21.2 Special payments

	2013-14				2012-13			
	Core Department		Core Department and Agency		Core Department		Core Department and Agency	
	Cases	£m	*Cases*	£m	*Cases*	£m	*Cases*	£m
Payments and accruals	*21,805*	3.7	*21,865*	3.8	*8,853*	2.9	*8,902*	3.0

Details of cases over £300,000

There were none in this category during 2013-14.

22. Related-party transactions

The Department is the parent of the Valuation Office Agency. This body is regarded as a related-party with which the Department has had various material transactions during the year.

The Valuation Office Agency has had a significant number of material transactions with other government departments. Most of these transactions have been with the Department for Communities and Local Government, the Department for Work and Pensions and the Welsh Government.

In addition, the Department has had a small number of transactions with other government departments and other central government bodies.

No Board member, key manager or other related parties has undertaken any material transactions with the Department during the year.

23. Third-party assets

The Department holds Euro deposits in relation to European Commission (EC) Twinning Projects. For such projects it is common for the lead body to hold Euro funds on behalf of the EC. The funds are payable to other European Union (EU) member states as reimbursement for work undertaken in assisting EU candidate states in preparing for membership of the EU. The Department holds these funds as an agent of the EC.

Neither the Department nor the government generally have any beneficial interest in these funds. In 2013-14, all remaining funds were paid out in March 2014 leaving a nil balance. The values for 2012-13 are set out in the following table.

		2013-14		2012-13	
		Core Department	Core Department and Agency	Core Department	Core Department and Agency
Monies on deposit:					
Euro deposits - EC Twinning Projects	€	-	-	0.2m	0.2m

24. Entities within the Departmental boundary

The entities within the boundary during 2013-14 were as follows:

- Supply-financed agencies - Valuation Office Agency
- Non-departmental public bodies - None
- Others - None.

The Annual Report and Accounts of the Valuation Office Agency are published separately and can be viewed at www.voa.gov.uk.

25. Change in Personal Tax Credit reporting

In prior years the Department has followed the accounting policy of not recognising Personal Tax Credit payments until the awards are authorised following finalisation. This process, as described in note 1.3.1, is not complete until after the Account has been published and consequently there is uncertainty around the level of adjustments likely to arise. In 2012-13, the Department's statisticians provided an estimated range in which the finalisation adjustments were likely to fall and, in 2013-14, subsequently analysed the actual result against this range.

In 2013-14, the Department has changed its policy to include an estimate based on the mid-point of the range provided by our statisticians. As a result, the Personal Tax Credit values for the 2012-13 year have been restated using the estimate provided. The 2012-13 year is the earliest for which an estimate was available.

A summary of the impact of this change is shown in the table below:

Restatement of Consolidated Statement of Comprehensive Net Expenditure at 31 March 2013

	Previously published Resource at 31 March 2013	Net effect of inclusion of Personal Tax Credit Estimate for finalisation	Restated at 31 March 2013
	£m	£m	£m
Net operating cost	**46,720.6**	**(409.6)**	**46,311.0**

Restatement of Consolidated Statement of Financial Position at 31 March 2013

	Previously published Resource at 31 March 2013	Net effect of inclusion of Personal Tax Credit Estimate for finalisation	Restated at 31 March 2013
	£m	£m	£m
Net Assets	**942.8**	**409.6**	**1,352.4**
Changes consist of:			
Gross Personal Tax Credit receivables		900.0	
Provision for impairment of receivables		(462.4)	
Net receivables		437.6	
Payables		(28.0)	
		409.6	

26. Events after the reporting period date

There are no reportable non-adjusting events after the reporting period. The financial statements were authorised for issue by the Principal Accounting Officer on 25 June 2014.

Trust Statement

Contents

Principal Accounting Officer's Foreword to the Trust Statement

1. Introduction

The Trust Statement reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year 2013-14. The costs of running HMRC, payments of Child Benefit and payments of tax credits, are reported in the Departmental Resource Accounts (page 86).

2. Basis for the preparation of the Trust Statement

The HM Treasury accounts direction, issued under Section 2 of the Exchequer and Audit Departments Act 1921, requires HMRC to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury. This includes the Financial Reporting Manual and the principles underlying it as well as International Financial Reporting Standards (IFRS).

HMRC has worked closely with HM Treasury to ensure that the accounting policies that underpin these accounts are comprehensive and appropriate.

3. Selection of appropriate accounting policies for the Trust Statement and use of judgements and estimates

As Principal Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement (see notes 1 and 2). Areas where judgements and estimates are used are as follows:

3.1 Estimation of accrued revenue

The nature of tax legislation and our associated systems, mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. Because of the areas of uncertainty involved, there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in our models. We believe that the levels of variation are acceptable and this is verified each year by means of a validation exercise as more recent data becomes available. Since the implementation of Real Time Information there is less reliance on estimated figures for Pay As You Earn (PAYE). Further detail can be found in note 6.

3.2 Provision for liability

HMRC is engaged in legal proceedings with taxpayers across a range of disputes. The Department makes provision for these proceedings, which occur in the normal course of business, as summarised in note 8 'Provision for liabilities and contingent liabilities'. Provisions may vary in the event of further developments in proceedings, consistent with generally accepted accounting principles. Litigation is inherently unpredictable and, depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax.

Provisions are made, after taking appropriate legal and other specialist advice, when a reasonable estimate can be made of the likely outcome of the dispute. At 31 March 2014 HMRC's aggregate provision was £8.5 billion (£8.0 billion at 31 March 2013). The ultimate liability may vary from the amounts provided and depends upon the outcome of litigation proceedings, investigations and possible settlement discussions.

Other cases, where it is probable that HMRC will be required to settle the obligation and is unable to estimate the amount reliably, or where it is possible that HMRC will be required to settle the obligation, are classed as contingent liabilities.

The HMRC litigation and settlement strategy is available on the HMRC website (www.hmrc.gov.uk/manuals/danspmanual/DANSP05000.htm). The aim of the strategy is to make sure that tax disputes are resolved in an efficient and even-handed way, consistent with the law.

4. Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 2 of the Exchequer and Audit Departments Act 1921. The auditor's remuneration for this is included in HMRC's Resource Accounts.

No non-audit work was carried out by the auditors for HMRC.

So far as I am aware, there is no relevant audit information of which the auditors are unaware. 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 auditors are aware of that information.

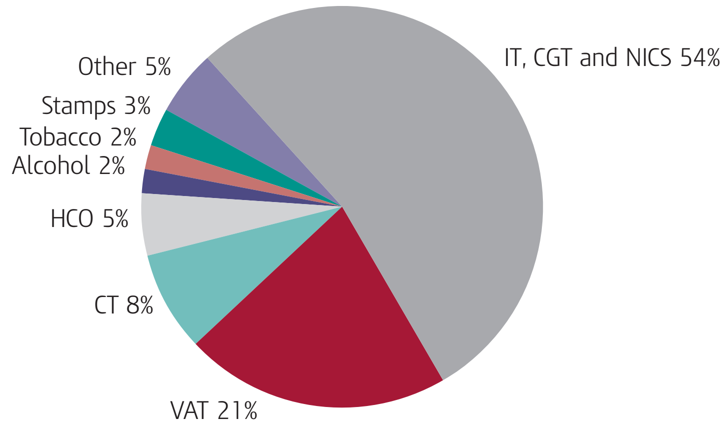
5. Financial Review

The financial review provides a commentary of HMRC's performance in tax and duty collection and explains movements in values when compared to prior years.

5.1 Total Revenue

This year has seen the highest ever reported accrued revenue of £505.8 billion, £30.2 billion more than last year. We have continued to help customers get their tax and payments right and further strengthened our grip on those who deliberately cheat the system through avoidance, evasion and non-payment. In addition, improvements in the economy have led to significant increases across the majority of taxes and duties.

Analysis of Total Accrued Revenue



Total revenue is shown before deduction of revenue losses, increase in impairments and the movement in the provision for liabilities provided in the year. To analyse revenue from taxes and duties after these changes, the Statement of Revenue and Expenditure should be viewed in conjunction with notes 7 and 8.

	2013-14 £ billion
Total Revenue	505.8
Revenue losses and increase in Impairments (note 7)	(5.5)
Movement in Provision for liabilities	(0.9)
Total Revenue less items noted above	**499.4**

5.2 Comparison by Tax type with explanations for significant movements

Income Tax, Capital Gains Tax and National Insurance Contributions (NICs)

Income Tax, Capital Gains Tax and NICs accounted for 54 per cent of total revenue at £272.7 billion; £16.2 billion (6.3 per cent) higher than in 2012-13. Economic improvement across most sectors, notably Financial and Business service sectors has resulted in higher receipts.

Value Added Tax

Value Added Tax accounted for 21 per cent of total revenue at £108.2 billion, being £7.2 billion (7.1 per cent) higher than 2012-13 with increases in revenue across a wide range of sectors due to a rise in consumer spending.

Corporation Tax

Corporation Tax accounted for 8 per cent of total revenue at £40.3 billion; £1.1 billion (2.8 per cent) higher than 2012-13.

Hydrocarbon Oils Duties

Hydrocarbon Oils accounted for 5 per cent of total revenue at £26.9 billion, £0.4 billion (1.5 per cent) higher than 2012-13. This increase is primarily due to a rise in consumption of diesel resulting from a reduction in pump prices earlier in the year.

Stamp Taxes

Stamp Taxes accounted for 3 per cent of total revenue at £12.9 billion; £3.4 billion (35.8 per cent) higher than 2012-13. This increase is primarily due to an increase in Stamp Duty Land Tax transactions and higher prices in both residential and commercial markets.

Alcohols

Alcohol Duties accounted for 2 per cent of total revenue at £10.4 billion, the highest on record, being £0.2 billion (2.0 per cent) higher than 2012-13. This increase is primarily due to duty rate rises in March 2013.

Tobacco

Tobacco Duties accounted for 2 per cent of total revenue remaining static from 2012-13 at £9.6 billion.

Other Taxes, Duties and Revenues

The remaining minor taxes and duties account for 5 per cent of the total revenue at £24.8 billion; £1.7 billion (7.4 per cent) higher than in 2012-13. Significant variances were:

Petroleum Revenue Tax (PRT)

PRT revenue (£1.1 billion) decreased by £0.7 billion (38.9 per cent) when compared to 2012-13. This was mainly due to higher expenditure on maintenance and decommissioning costs and unplanned shutdowns contributing to lower production. These factors have reduced profits on which PRT revenues are charged.

Betting and Gaming

Revenue from Betting and Gaming Duty increased by 27.8 per cent; from £1.8 billion (2012-13) to £2.3 billion (2013-14). This increase is primarily due to the introduction of Machine Games Duty in February 2013 which includes an element of VAT at 20 per cent; replacing Amusement Machine Licence Duty which excluded VAT.

Bank Levy

Bank Levy revenue increased by 37.5 per cent; from £1.6 billion (2012-13) to £2.2 billion (2013-14). This rise is primarily due to the increase in the rate from 0.088 per cent in January 2012 to 0.130 per cent in January 2013.

Climate Change Levy

The increase in revenue from Climate Change Levy from £0.6 billion (2012-13) to £1.2 billion (2013-14) is due to the introduction of the Carbon Price Floor on 1 April 2013, increasing the tax liability of operators who generate electricity by using gas and fossil fuels.

Significant movement in assets and liabilities

- The total of receivables and accrued revenue receivable (ARR) - before impairments - increased by £8.8 billion (8.4 per cent) with notable increases in SA and VAT. This is generally in line with the increase seen in total accrued revenue (note 4).
- Impairments have increased by £0.4 billion (6.5 per cent). The total impairment is 27 per cent of receivables which is generally in line with prior years (note 4).
- Revenue losses decreased by £0.2 billion (3.3 per cent); the total revenue losses represent 1.0 per cent of total revenue (note 7.2).

Provision for liabilities and contingent liabilities (note 8)

Provisions were reviewed during 2013-14. Of the sum of £8.0 billion provided last year £0.4 billion was paid out during the year and it was identified that £1.0 billion was no longer required. New provisions and increases to existing provisions totalling £1.9 billion have been added, giving a carried forward balance of £8.5 billion - a £0.5 billion increase on last year.

Contingent liabilities increased during 2013-14 by £14.7 billion. Of this increase, £10.4 billion relates to a revision to the estimates of cases currently in litigation and taking into account court decisions during the year. In addition, new cases have been identified with an estimated value of £4.3 billion.

Movement of total revenue over the last 8 years

	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
	£ billion	£ billion	£ billion	£ billion	£ billion	£ billion	£ billion	£ billion
Total revenue	505.8	475.6	474.2	469.7	435.8	441.0	461.6	441.3
Variance to prior year	30.2	1.4	4.5	33.9	(5.2)	(20.6)	20.3	32.0
Variance to prior year (per cent)	6.3	0.3	1.0	7.8	(1.2)	(4.5)	4.6	7.8

Note: Total Revenue figures for the years 2006-07 to 2008-09 above differ from those published at the time, having been adjusted in 2009-10 to take account of the fact that, from 2009-10, Tax Credits Negative Taxation is reported as Expenditure in the Statement of Revenue & Expenditure, and so allow all years 2006-07 to 2013-14 to be compared on a like-for-like basis.

Lin Homer
Principal Accounting Officer
25 June 2014

Statement of the Principal Accounting Officer's Responsibilities in Respect of the Trust Statement

HM Treasury has appointed the Chief Executive as Principal Accounting Officer of HMRC with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Principal Accounting Officer for HMRC is responsible for ensuring that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Principal Accounting Officer is responsible for the fair and efficient administration of the tax system, including the assessment, collection and proper allocation of revenue.

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Principal Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for HMRC for each financial year. In conforming with HM Treasury direction (see page 200 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of taxes, duties, National Insurance Contributions, and Student Loan recoveries administered by HMRC during the year, together with the net amounts surrendered to the Consolidated Fund.

The Trust Statement is prepared on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3 and some repayments (notes 2.5 and 2.8 refer) which are accounted for on a cash basis. The Trust Statement must give a true and fair view of the state of affairs of HMRC, including a Statement of Revenue, Other Income and Expenditure, a Statement of Financial Position, and a Statement of Cash Flows.

The Department's Governance Statement, covering both the Resource Accounts and the Trust Statement, and which follows the same framework, is shown on pages 26-58.

In preparing the Trust Statement, the Principal Accounting Officer is required to:

- observe 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 have been followed and disclose and explain any material departures in the account.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

The Audit Report of the Comptroller and Auditor General to the House of Commons

I have audited HM Revenue & Customs' (the Department's) Trust Statement for the year ended 31 March 2014 under the Exchequer and Audit Departments Act 1921. The Trust Statement comprises the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of the Principal Accounting Officer's Responsibilities in respect of the Trust Statement, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Department and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the HM Revenue & Customs Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of taxes, duties, National Insurance Contributions, Student Loan recoveries, fines, penalties and related expenditures and disbursements administered by the Department as at 31 March 2014 and of the revenue and expenditure and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the: Foreword by Lin Homer, Strategic Report, Directors' Report, Additional Information and Principal Accounting Officer's Foreword to the Trust Statement 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 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

Further details arising from my examination can be found in my Report on HM Revenue & Customs 2013-14 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1.

Sir Amyas C E Morse **25 June 2014**
Comptroller and Auditor General

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

Financial Statements

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March

	Note	2014 £ bn	2013 £ bn
Taxes and Duties			
Income Tax	2.1	162.1	150.9
Value Added Tax	2.2	108.2	101.0
Corporation Tax	2.3	40.3	39.2
Hydrocarbon Oils Duties	2.4	26.9	26.5
Stamp Taxes	2.5	12.9	9.5
Alcohol Duties	2.6	10.4	10.2
Tobacco Duties	2.7	9.6	9.6
Other Taxes and Duties	2.8	25.3	23.4
Total Taxes and Duties		**395.7**	**370.3**
Other Revenue and Income			
National Insurance Contributions	3.1	106.7	101.7
Student Loan Recoveries	3.3	1.5	1.6
Fines and Penalties		1.4	1.5
Taxation due from Isle of Man	3.4	0.5	0.5
Total Other Revenue and Income		**110.1**	**105.3**
Total Revenue		**505.8**	**475.6**
Expenditure			
Impairment charges	7.1	(5.5)	(5.1)
Movement in provisions	8	(0.9)	(6.7)
Total Expenditure		**(6.4)**	**(11.8)**
Disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(106.1)	(101.0)
Appropriation of revenue to Resource Account	3.2	(30.7)	(30.6)
Student Loan Recoveries due to the Department for Business, Innovation and Skills	3.3	(1.7)	(1.6)
Total Disbursements		**(138.5)**	**(133.2)**
Total Expenditure and Disbursements		**(144.9)**	**(145.0)**
Net Revenue for the Consolidated Fund		**360.9**	**330.6**

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 182 -199 form part of these accounts.

Statement of Financial Position

As at 31 March

	Note	2014 £ bn	2013 £ bn
Non-current assets			
Receivables falling due after more than one year	4	0.8	0.9
Current assets			
Receivables	4	16.9	15.3
Accrued Revenue Receivable	4	89.3	82.4
Total current assets		**106.2**	**97.7**
Total assets		**107.0**	**98.6**
Current liabilities			
Payables	5	14.7	14.3
Accrued Revenue Payable	5	28.8	26.8
Deferred Revenue	5	0.8	0.9
Bank balance		1.2	2.0
Total current liabilities		**45.5**	**44.0**
Assets less current liabilities		**61.5**	**54.6**
Non-current liabilities			
Provision for liabilities	8	8.5	8.0
Net assets		**53.0**	**46.6**
Movements on Consolidated Fund account:			
Balance on Consolidated Fund account as at 1 April		46.6	56.5
Net Revenue for the Consolidated Fund		360.9	330.6
Less amount paid to Consolidated Fund		(354.5)	(340.5)
Balance on Consolidated Fund account as at 31 March		**53.0**	**46.6**

Lin Homer
Principal Accounting Officer
25 June 2014

The notes at pages 182 -199 form part of these accounts..

Statement of Cash Flows

For the year ended 31 March

	Note	2014 £ bn	2013 £ bn
Net Cash Flow from Revenue activities	A	355.3	340.4
Cash paid to Consolidated Fund		(354.5)	(340.5)
Increase/(decrease) in Cash in this period	B	**0.8**	**(0.1)**

Notes to the Statement of Cash Flows

A: Reconciliation of Net Cash Flow to movement in Net Funds

For the year ended 31 March

	2014 £ bn	2013 £ bn
Net Revenue for the Consolidated Fund	360.9	330.6
(Increase) /decrease in Non-cash Assets	(8.4)	3.5
Increase in liabilities	2.3	0.4
Increase in Provision for liabilities	0.5	5.9
Net Cash Flow from Revenue Activities	**355.3**	**340.4**

B: Analysis Of Changes in Net Funds

For the year ended 31 March

	2014 £ bn	2013 £ bn
Increase / (decrease) in Cash in this period	0.8	(0.1)
Net Funds as at 1 April (Opening Cash at Bank)	(2.0)	(1.9)
Net Funds as at 31 March (Closing Cash at Bank)	**(1.2)**	**(2.0)**

Notes to the Trust Statement

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1. Statement of accounting policies

1.1 Basis of accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921
- the 2013-14 Financial Reporting Manual issued by HM Treasury
- reference to International Financial Reporting Standards as adapted or interpreted for the public sector context
- the accounting policies detailed in subsequent notes.

The accounting policies have been developed by HMRC in consultation with HM Treasury and have been reviewed during 2013-14 and these policies have been applied consistently in dealing with items considered material in relation to the accounts. The Trust Statement is prepared on a going concern basis.

The tax gap is not recognised in the Trust Statement. The tax gap is defined as the difference between tax collected and that which should be collected (the theoretical liability). The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and HMRC's interpretation of the intention of Parliament in setting law (referred to as the spirit of the law). The tax gap estimate is net of the Department's compliance activities. The tax gap is the tax that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

The financial information presented is rounded to the nearest £0.1 billion, except for Certificates of Tax Deposit, Student Loan Recoveries, revenue losses, and provision for liabilities, which are rounded to the nearest £1 million, due to the much smaller amounts of revenue accrued.

1.2 Accounting convention

The Trust Statement has been prepared in accordance with the historical cost convention. Taxes and duties are accounted for on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis as agreed with HM Treasury. In addition, some repayments are accounted for on a cash basis. Accounting for these elements on a cash basis does not have a material impact on the accounts.

1.3 Revenue recognition

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HMRC. The taxable events for the main taxes and duties are described in note 2 below. Note 4 provides an explanation of accrued revenue receivable, note 6 describes the circumstances and approaches used where estimation of accruals is needed and note 8 provides an explanation of provision and contingent liabilities. Revenues are deemed to accrue evenly over the period for which they are due.

HMRC undertakes compliance work to collect or protect revenue as part of the commitment to narrow the tax gap. This includes work in tackling avoidance, evasion and criminal attack. Given the uncertainty of both the probability of economic flow and reliability of estimated figures, future revenue flows in relation to this activity are not recognised in the accounts until such time as a liability is assessed or established and/or reasonably certain.

2. Taxes and Duties (additional information)

2.1 Income Tax

For the year ended 31 March

	2014 £ bn	2013 £ bn
Self Assessment	25.9	19.3
Other Income Tax revenue (including PAYE)	136.2	131.6
Total	**162.1**	**150.9**

The taxable event for Income Tax is the earning of assessable income during the taxation period by the taxpayer. Where payments are received in advance of Self Assessment returns, the estimate of the Income Tax component is based on prior year Income Tax liabilities.

2.2 Value Added Tax

For the year ended 31 March

	2014 £ bn	2013 £ bn
Gross Revenue	183.8	175.7
Less: Revenue Repayable	(75.6)	(74.7)
Net Revenue	**108.2**	**101.0**

The taxable event for Value Added Tax is the undertaking of taxable activity during the taxation period by the taxpayer.

VAT is structured in such a manner that taxpayers are also entitled to claim repayments; hence a breakdown of gross revenue and repayments is disclosed.

2.3 Corporation Tax

The taxable event for Corporation Tax is the earning of assessable profit during the taxation period by the taxpayer.

2.4 Hydrocarbon Oils Duties

For the year ended 31 March

	2014 £ bn	2013 £ bn
Road Fuel	26.3	25.9
Rebated Fuel	0.6	0.6
Total	**26.9**	**26.5**

The taxable event for Hydrocarbon Oils Duty is the date of production, date of import or movement of goods out of a duty suspended regime.

2.5 Stamp Taxes

For the year ended 31 March

	2014 £ bn	2013 £ bn
Stamp Duty Land Tax	9.7	7.0
Stamp Duty Reserve Tax	2.8	2.2
Stamp Duty	0.3	0.3
Annual Tax on Enveloped Dwellings	0.1	-
Total	**12.9**	**9.5**

The taxable event for Stamp Taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) is the purchase of property or shares.

Stamp Duty is recognised in the accounting period in which the tax receipt is received and is measured as the cash amount received. Repayments of Stamp Duty are made on a cash basis - these are recognised in the period the repayment is made.

Annual Tax on Enveloped Dwellings (ATED) came in to effect on 1 April 2013 - this tax relates to residential properties owned by 'non-natural' persons i.e. companies, and the taxable event is based on the market value of the relevant property(ies) being greater than £2 million at 1 April each year.

2.6 Alcohol Duties

For the year ended 31 March

	2014 £ bn	2013 £ bn
Wine, Cider and Perry	4.1	3.9
Beer	3.3	3.4
Spirits	3.0	2.9
Total	**10.4**	10.2

The taxable event for Alcohol duties is the date of production, date of import or movement of goods out of a duty suspended regime.

2.7 Tobacco Duties

For the year ended 31 March

	2014 £ bn	2013 £ bn
Cigarettes	8.4	8.5
Hand rolling Tobacco	1.1	1.0
Cigars	0.1	0.1
Total	**9.6**	**9.6**

The taxable event for Tobacco Duties is the date of production, date of import or movement of goods out of a duty suspended regime.

2.8 Other taxes and duties

For the year ended 31 March

	Note	2014 £ bn	2013 £ bn
Capital Gains Tax*	2.8.1	3.9	3.9
Inheritance Tax*		3.7	3.1
Insurance Premium Tax		3.0	3.0
Air Passenger Duty		3.0	2.8
Customs Duties		2.9	3.0
Betting and Gaming Duties		2.3	1.8
Bank Levy		2.2	1.6
Landfill Tax		1.2	1.2
Climate Change Levy		1.2	0.6
Petroleum Revenue Tax*		1.1	1.8
Capital Taxes - (UK Swiss Agreement)	2.8.2	0.5	0.3
Aggregates Levy		0.3	0.3
Total		**25.3**	**23.4**

*Repayments for Capital Gains Tax, Inheritance Tax and Petroleum Revenue Tax are made principally on a cash basis - these are recognised in the period the repayment is made.

2.8.1 Capital Gains Tax (CGT) is collected via the self-assessment (SA) system. Liability ratios taken from analysis of taxpayer returns are applied to SA receipts to split them between Income Tax, National Insurance Class 4 and CGT. CGT receipts are recognised in the period in which payments from taxpayers are received.

2.8.2 Capital Taxes - (UK Swiss Agreement). In October 2011, the UK and Switzerland finalised an agreement on tackling tax evasion. This came into force on 1 January 2013 and aims to regularise the assets of UK individuals held in Swiss bank accounts. The UK-Swiss Agreement will cover tax liabilities in the years 2003-12 through both a payment for the past charge, and from 2014 onwards payment of a future withholding tax. Bank assets will be in scope if they are beneficially owned by a UK resident taxpayer. Such an agreement was supported by UK legislation at Schedule 36 to the Finance Act 2012 which also became effective from 1 January 2013.

Throughout the course of 2013-14, HMRC received payments from the Swiss authorities totalling £466 million. These are classified as Capital Taxes.

3. Other Revenue, Income and Disbursements (additional Information)

3.1 National Insurance Contributions

For the year ended 31 March

	Note	Net Revenue 2014 £ bn	Net Revenue 2013 £ bn
National Insurance Fund - Great Britain		84.0	78.8
National Insurance Fund - Northern Ireland		1.6	1.4
National Health Services (NHS)		21.1	21.5
Total Revenue		**106.7**	**101.7**
Remissions and Write-offs	7.2	(0.6)	(0.7)
Net Revenue due to the National Insurance Funds and National Health Services for the year		**106.1**	**101.0**

National Insurance Contributions (NICs) are collected by HMRC on behalf of the National Insurance Funds of Great Britain and Northern Ireland, and the Health Services for England, Wales, Scotland and Northern Ireland. They are payable to the funds and the Health Services when received and not when accrued. Some elements are estimated (refer to note 6 for further information).

National Insurance Classes 1A, 1B and 3 receipts are recognised in the accounting period in which the contributions are allocated.

3.2 Appropriation of Revenue to the Resource Accounts

Appropriations of revenue are made from the Trust Statement to fund Tax Credit payments which are accounted for within the Resource Accounts (note 6 Tax Credits).

3.3 Student Loan Recoveries

	2013-14 £m	2012-13 £m
Balance at 1 April	65	155
Receipts - included in 'Other Revenue and Income'	1,490	1,590
Payments - included in 'Disbursements'	(1,670)	(1,680)
Balance at 31 March – Included in (receivables)/payables	**(115)**	**65**

HMRC collects Student Loans that are recovered through the taxes system on behalf of the Department for Business, Innovation and Skills (BIS). Student loan recoveries are accounted for on the basis of estimated cash collected during the year. The actual amounts recovered during the year are only known after the year end when employers submit their annual returns. Estimates of receipts are made in year using an estimation model and at year end are updated based on the latest figures of employer returns processed. At the year end the difference between estimated receipts (recoveries) and pay-over to BIS is shown as a receivable or payable. Differences between estimated and actual recoveries are adjusted and accounted for in the following year.

3.4 Taxation due from the Isle of Man

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man (IoM) Governments whereby VAT and certain Customs and Excise duties (known as Common Duties) are pooled and shared on an agreed basis. The Isle of Man Treasury is therefore entitled to a share of Common Duties collected in both the United Kingdom and the Isle of Man that is attributable to goods consumed or services supplied on the Island. This share is reduced by the Common Duties collected and retained by the Isle of Man. Additional adjustments are made for UK costs of collection, prior years' national income and payments already made by the IoM. As required by the agreement, the revenue disclosed in the Trust Statement is net of these deductions and adjustments.

4. Receivables and Accrued Revenue Receivable

	Receivables as at 31 March 2014 £ bn	Accrued Revenue Receivable as at 31 March 2014 £ bn	Total as at 31 March 2014 £ bn	Total as at 31 March 2013 £ bn
Receivables and Accrued Revenue Receivable due within one year:				
Income Tax	5.3	31.4	36.7	32.8
Value Added Tax	7.8	28.1	35.9	33.1
Corporation Tax	2.1	11.4	13.5	13.3
National Insurance Contributions	3.8	11.1	14.9	13.9
Other Taxes and Duties	4.5	7.3	11.8	10.8
Totals before Impairment	**23.5**	**89.3**	**112.8**	**103.9**
Less Impairment	(6.6)	-	(6.6)	(6.2)
Total	**16.9**	**89.3**	**106.2**	**97.7**
Receivables due after more than one year:				
Inheritance Tax	0.8	-	0.8	0.7
Corporation Tax	-	-	-	0.2
Totals before Impairment	0.8	-	0.8	0.9
Less Impairment	-	-	-	-
	0.8	**-**	**0.8**	**0.9**
Totals before Impairment	**24.3**	**89.3**	**113.6**	**104.8**
Less Impairment (note 7.3)	(6.6)	-	(6.6)	(6.2)
Total	**17.7**	**89.3**	**107.0**	**98.6**

Receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received at the Statement of Financial Position date.

Accrued revenue receivable represents taxes and duties relating to the financial year that are not yet due or received from taxpayers where these have not been included in receivables, and it is reasonably certain. A significant proportion of these amounts has been estimated (see note 6).

In addition to receivables and accrued revenue receivables, HMRC has a number of taxpayer liabilities which have been postponed pending finalisation of enquiries. These items arise predominantly under Income Tax (PAYE/SA) and Corporation Tax. For most cases the revenue is excluded as it cannot be measured reliably and the probability of an economic flow to HMRC is viewed as low. However to ensure all appropriate liabilities are disclosed HMRC undertakes a review of material postponed Corporation Tax cases. As a result of the review, an amount of £0.7 billion (2012-13 £0.6 billion) has been included in accrued revenue receivables.

5. Payables, Accrued Revenue Payable and Deferred Revenue

	Payables as at 31 March 2014 £ bn	Accrued Revenue Payable as at 31 March 2014 £ bn	Deferred Revenue as at 31 March 2014 £ bn	Total as at 31 March 2014 £ bn	Total as at 31 March 2013 £ bn
Value Added Tax	1.9	10.7	-	12.6	11.7
Corporation Tax	9.0	0.4	0.2	9.6	10.3
Income Tax	0.1	2.8	-	2.9	2.5
National Insurance Funds and the NHS	1.8	14.9	-	16.7	15.0
Other Revenue Payables	0.1	-	0.6	0.7	0.9
Payments on Account	1.8	-	-	1.8	1.6
Total	**14.7**	**28.8**	**0.8**	**44.3**	**42.0**

Payables are amounts recorded as due by HMRC at the end of the reporting period but payment has not been made.

Accrued Revenue Payable is recognised when:

- amounts are due to VAT traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- amounts of receivables and accrued revenue receivable that when received will be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services
- amounts in respect of Corporation Tax and Income Tax likely to be repayable by HMRC pending finalisation of taxpayer liabilities, and for expected Corporation Tax overpayments.

Deferred revenue includes duties and taxes paid in the current year that relate to future accounting periods.

There are no Payables which fall due after one year.

6. Accruals measurement and accounting estimates

The underlying approach to accruals measurement is that revenues from taxation are deemed to accrue evenly over the period for which they are due. Revenues are recognised in the period in which the event that generates the revenue occurs.

Estimates have been made to support the accrued revenue receivable and payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published. The estimates are consistent with those prepared for the March 2014 Budget on the basis of the economic assumptions provided by the Office for Budget Responsibility.

6.1 Uncertainty around the estimates

Statistical models are used to derive the estimates and these are based on a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what HMRC believes to be the relevant inputs, as previously described in note 1.3. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models. HMRC believes that the levels of variation are acceptable with a maximum likely overall uncertainty expected to be some £4 billion, which does not affect significantly the reported position. This figure is equivalent to less than one per cent of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

This maximum likely overall uncertainty is based on a combination of evidence from the performance of the models over previous years and the judgement of professional Departmental economists and statisticians having substantial experience of tax forecasting.

The estimates process for each major tax stream is described in more detail below:

6.2 Income Tax and National Insurance Class 1 collected under PAYE

Since the implementation of Real Time Information there is less reliance on estimated PAYE figures. However whilst we no longer have to rely on the forecast estimate to split PAYE Income Tax (IT) and National Insurance Contributions (NICs) in-year, there is still a degree of estimation involved due to late or missing submissions and for receipts relating to prior periods where the split between IT and NICs cannot be identified.

Estimates are also required to recognise underpayments as receivables or overpayments as payables identified during the end of year reconciliation of individual taxpayer accounts. These amounts have been estimated based upon previous experience of the levels of underpayments and overpayments from previous reconciliations as there are no alternative sources of data to draw from.

6.3 Self Assessment Income Tax and National Insurance Contributions Class 4

Accrued revenue receivable represents accrued tax liabilities for 2013-14 where payment is not yet due at 31 March 2014. The estimation process has three stages:

(i) Estimation of accrued tax liabilities for 2013-14. Due to the nature of the self assessment regime, information from actual self assessment returns or associated tax payments relating to 2013-14 is not available at the point of estimation. The IT SA forecast has been revised slightly to incorporate latest 'head of duty analysis' results (see below for more information), the class 4 NICs forecast is as published at Budget 2014 as changes due to latest head of duty analysis are very small.

(ii) Deduction from the 2013-14 accrued tax liabilities of relevant payments by 31 March 2014. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total self assessment receipts of Income Tax, NICs Class 4 and Capital Gains Tax between these three components. The breakdown is estimated from separate information on self assessment liabilities.

(iii) A further deduction for payments due by 31 March but not made by that date (these are included in the receivable balances). The amounts relate to payments on account due on 31 January. The breakdown of the total between Income Tax and NICs is made by statistical estimation.

Accrued revenue receivable is separately estimated for each revenue stream and component of Income Tax. The estimates used are based on the Budget 2014 forecast, modified in the light of the final 2013-14 head of duty analysis. Economic assumptions provided by the Office for Budget Responsibility are used in the preparation of these estimates, the most significant ones being 'profits from self-employment', which rose by 3.1 per cent and 'dividend income', which rose by 3.5 per cent in 2013-14. Additionally, in Budget 2012, the Government announced a reduction in the additional rate of tax from 50 per cent to 45 per cent, taking effect from April 2013. It is likely that some individuals subject to the additional rate will have deferred income that would otherwise have arisen in 2012-13 into 2013-14 in order to gain further advantage from the reduction in tax rate. This will have had the effect of boosting Income Tax liabilities for 2013-14. However the extent of income deferred into 2013-14 and the subsequent impact on 2013-14 liabilities are not known and subject to significant estimation uncertainty.

6.4 Value Added Tax

Not all information relating to VAT accrued revenue receivable and payable was available at the time of publication of these accounts. Accrued revenue receivable and payable via the regular return process has been estimated using historic data. This past outturn is then used to project forward in order to construct estimates for the more recent periods. These have been combined with actual return data and adjusted to account for any payments or repayments relating to these returns that were made prior to the year end. The methodology provides a reliable indication of future accrued revenue receivable and payable.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments have been made to reflect VAT that is accounted for outside the process described above. The principal adjustments relate to import VAT, repayments made to government departments and Officers' Assessments of errors in submitted VAT returns. These are based largely on actual return information although some forecast element remains using the methodology described above.

6.5 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies, who previously paid QIPs, have from 2006-07 moved to paying their Corporation Tax liabilities in three instalment payments (TIPs). Separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies.

Onshore companies

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

For accounting periods where no QIPs have been received, accrued revenue receivable has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in Corporation Tax liabilities.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts.

Accrued revenue payable has been estimated for expected overpayments based on historical trends.

North Sea companies

The majority of TIPs relating to 1 January to 31 March are not due in sufficient time for publication of the accounts and are therefore estimated. This estimate is primarily based on prior year outturn liabilities adjusted for forecast growth in North Sea companies' Corporation Tax liabilities.

7. Impairment Charges

Impairment Charges are made up of Revenue losses and the movement in the Impairment of Receivables.

7.1 Breakdown of Impairment Charges

For the year ended 31 March

	Note	2014 £ bn	2013 £ bn
Revenue Losses	7.2	5.1	5.3
Increase/(decrease) in Impairment of Receivables	7.3	0.4	(0.2)
Total Impairment Charges		**5.5**	**5.1**

7.2 Revenue losses

For the year ended	Remissions 31 March 2014	Write-offs 31 March 2014	Total 31 March 2014	Remissions 31 March 2013	Write-offs 31 March 2013	Total 31 March 2013
	£ m	£ m	£ m	£ m	£ m	£ m
Income Tax	378	1,290	1,668	565	720	1,285
Value Added Tax	70	1,611	1,681	6	1,998	2,004
Corporation Tax	9	431	440	3	605	608
Alcohol Duties	4	40	44	18	54	72
Tobacco Duties	2	3	5	-	1	1
Capital Gains Tax	14	26	40	3	35	38
National Insurance Contributions	141	538	679	80	654	734
Fines and penalties	15	525	540	250	284	534
Other remissions and write-offs	6	31	37	4	27	31
Total Revenue losses	**639**	**4,495**	**5,134**	**929**	**4,378**	**5,307**

Revenue losses are made up of Remissions and Write-offs. Remissions are debts capable of recovery but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

For certain taxes only a partial split between remissions and write-offs is known. Where information is unavailable the percentage split of the known element is applied to the remainder to calculate a total estimated remission and write off split.

Revenue losses – Cases over £10 million (included in Revenue losses table)

There were 24 cases (13 cases in 2012-13) where the loss exceeded £10 million, totalling £510 million (£568 million in 2012-13). Specific details are shown below:

There were four write-offs (five in 2012-13) of VAT, interest, surcharge and penalties relating to Missing Trader Intra-Community Fraud (MTIC) over £10 million each, totalling £73 million (£104 million in 2012-13). All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 20 write-offs (eight in 2012-13) relating to Insolvency over £10 million each. They were for VAT, Corporation Tax, Income Tax, National Insurance and Excise Duty including interest, surcharge and penalties totalling £437 million (£464 million in 2012-13).

There was a bulk remission of £36 million for un-assessed VAT losses in respect of Marine and Aviation Loss Adjustors who incorrectly zero rated loss adjustment services due to misleading guidance.

There was a bulk remission of £212 million for Income Tax relating to untaxed state pension income. These related to financial years between 2010-11 and 2013-14. There was a low likelihood of recovery and they were therefore progressed on a value for money basis.

There was a write-off of £247 million of VAT, interest and penalties in respect of seven assessments in complex MTIC fraud cases where assessments had not been raised within the statutory time limits.

There was a bulk remission of £91 million for Corporation Tax, Income Tax and VAT relating to 248,269 cases. The cases are no longer considered cost effective to pursue. The remissions were therefore progressed on a value for money basis.

There was a bulk write-off of £58 million in relation to 8,814 cases for Corporation Tax, Income Tax and VAT. These were considered irrecoverable and write-off appropriate.

The Governance report and the Tax Assurance Commissioner's report set out actions HMRC is taking to manage the risk of revenue losses in future years.

7.3 Impairment of Receivables

For the year ended 31 March

	2014 £ bn	2013 £ bn
Balance as at 1 April	6.2	6.4
Increase/(decrease) in Impairment of Receivables	0.4	(0.2)
Balance as at 31 March	**6.6**	**6.2**

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on HMRC's analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. The Department assesses the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The impairment of receivables is calculated to provide a fair value of receivables, in effect reducing them to a value that is likely to be collected and providing for non collectable debt.

Non collectable debt includes legally due debt that is written off or remitted (losses note 7.2 refers), in addition to debt that is discharged, amended or cancelled, as information is received which reduces the liability or confirms that it is not legally due. The discharge, amendment and cancelled element results from liabilities being estimated by either the Department or the tax payer and then subsequently amended once the true liability is known.

8. Provision for liabilities and contingent liabilities

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount can be reliably estimated.

Contingent liabilities are cases where it is probable that HMRC will be required to settle the obligation but is not able to estimate the amount reliably, or where it is possible that HMRC will be required to settle the obligation. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the Department.

Provision for liabilities

	Legal claims	Oil and gas field decommissioning	Total 2013-14	Total 2012-13
	£ m	£ m	£ m	£ m
Balance at 1 April	4,184	3,835	8,019	2,081
Provided in the year	1,441	440	1,881	7,168
Provision not required written back	(222)	(774)	(996)	(459)
Provision utilised in the year	(13)	(429)	(442)	(771)
Balance at 31 March	**5,390**	**3,072**	**8,462**	**8,019**

8.1 Legal claims

Provision for liability

HMRC is involved in a number of legal and other disputes which can result in claims by taxpayers against HMRC. It is in the nature of HMRC's business that a number of these matters may be the subject of litigation over several years. The Department having taken legal and other specialist advice, has established a provision having regard to the relevant facts and circumstances of each matter in accordance with accounting requirements. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement discussions.

Contingent liabilities

HMRC currently has 21 cases where the maximum potential tax revenue before losses, capital allowances and other reliefs, is over £100 million. This covers a range of heads of duty, including Corporation Tax, Income Tax, and VAT. The table above shows the total provision we have made for likely outcomes.

The total meeting the criteria for contingent liabilities is estimated at £29.2 billion (£14.5 billion as at 31 March 2013).

8.2 Consequences of oil and gas field decommissioning on revenues from UK oil and gas exploration and production

The 1975 Oil Taxation Act, as subsequently amended, allows for Petroleum Revenue Tax (PRT) losses arising from the decommissioning of infrastructure associated with UK oil and gas fields subject to PRT, to be carried back indefinitely. As a result losses are carried back to years in which assessable profits chargeable to PRT arise, working backwards until the losses are exhausted. The Corporation Tax Act 2010 allows a company incurring a loss to set that loss against profits of the same and earlier accounting periods so far as they fall within the twelve months ending immediately before the loss making period begins, and during which the trade was being carried on. For general decommissioning expenditure incurred in UK oil and gas extraction trades the carry back period is three years rather than twelve months. For losses arising in accounting periods beginning on or after 12 March 2008, the carry back period was extended, allowing losses to be carried back and set against profits from oil and gas extraction trades for accounting periods back to 17 April 2002.

Decommissioning costs over the five year period from 2014 to 2018 are largely planned, so industry estimates of costs over that period are assumed to be the best available. This five year period corresponds with Budget 2014 forecasts of revenues as produced by the Office for Budget Responsibility. The total costs of decommissioning for the period 2014 to 2018 are estimated to be £6.9 billion at today's prices (cost estimates extracted from Oil & Gas UK survey reports). The impact on tax receipts thereon is estimated to be a cost to the Exchequer of £3.1 billion (split between PRT at £0.5 billion and CT at £2.6 billion) and since this estimate is seen as relatively reliable, a provision for this amount is included in the provision for liabilities table. The provision estimate assessment period has rolled on one year resulting in a revision of identified costs and new decommissioning requirements. The outcome of this is an increase in the total cost of decommissioning to industry. The provision estimate for 2014-15 to 2018-19 of £3.1 billion is 20 per cent lower than the estimate provided for the 2012-13 accounts. This is due to lower estimates of tax relief that companies are able to realise on their decommissioning costs. The provision utilised in year of £429 million is the actual Exchequer tax cost for 2013-14 and has been measured by identification of PRT repayments and lower CT liabilities arising from utilisation of decommissioning losses.

There is considerable uncertainty in the amount and timing of decommissioning costs beyond 2018. The main areas of uncertainty are future costs (estimates of costs in successive surveys have increased by 80 per cent in the last five years), timing (introduction of incentives such as brown field allowance has extended the life of a number of fields), and future changes to fiscal regime (tax rate and field allowance changes will impact on field development plans). For these reasons it is not possible to provide a reliable estimate of the tax costs of decommissioning beyond 2018-19.

9. Certificates of Tax Deposits

	CTD Issues 2013-14	CTD Redemptions 2013-14	CTD Total 2013-14	CTD Total 2012-13
	£ m	£ m	£ m	£ m
Receipts	590	343	933	624
Payments	(589)	(339)	(928)	(638)
Net receipts/(payments)			5	(14)
Balance at 1 April			(5)	9
Balance at 31 March – Included in (receivables)/ payables			**–**	**(5)**

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities. Relevant taxes and liabilities can be found on the HMRC website (www.hmrc.gov.uk). HMRC administers this scheme on behalf of HM Treasury, and the accounts of the National Loans Fund include the principal and accrued interest for all issued CTDs as at 31 March.

Delays in processing between the issue and redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in balances at the year end; these balances are included within receivables or payables on the Statement of Financial Position in the Trust Statement.

10. RN LTD

RN Limited, a company registered in 1933, is used by HMRC as a nominee to hold charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement.

RN Limited also holds as nominee and on behalf of HMRC assets that have been assigned to HMRC in settlement of debts. These are not recognised in the Trust Statement until realised.

11. Third party assets

The Department holds cash and other assets which have been seized in relation to ongoing legal proceedings. These assets do not belong to the Department and do not form part of these accounts, although where seized assets are forfeited without legal proceedings, proceeds are recognised as penalty income.

The Department also holds Euro deposits in relation to traders who are located outside the European Union but who are trading electronically via the internet with EU member states. Neither the Department nor the government generally have any beneficial interest in these funds.

12. Related party transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No Board member, key manager or other related party has undertaken material transactions with the Department during the year.

13. Events after the reporting period

There are no reportable non-adjusting events after the reporting period. The financial statements were authorised for issue by the Principal Accounting Officer on 25 June 2014.

Accounts Direction Given by HM Treasury

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 2 OF THE EXCHEQUER AND AUDIT DEPARTMENTS ACT 1921.

1. This direction applies to those government departments listed in appendix 2.

2. The Department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2014 for the revenue and other income, as directed by the Treasury, collected by the Department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2013-14.

3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the Department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

4. The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 13). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material

departure from the FReM should be discussed in the first instance with HM Treasury.

7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Ross Campbell
Deputy Director, Government Financial Reporting
Her Majesty's Treasury

20 December 2013

National Audit Office

HM Revenue & Customs 2013-14 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2013-14 Accounts of HM Revenue & Customs

3 July 2014

Issued under Section 2 of the Exchequer and Audit Departments Act 1921

Amyas Morse
Comptroller and Auditor General
National Audit Office

25 June 2014

This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.

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HMRC's 2013-14 Accounts

About this report

1 This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General (C&AG) must consider the adequacy of the systems to assess and collect taxes. It forms part of our programme of audit work on HM Revenue & Customs (HMRC), which includes our examination under section 2, our annual financial audit of HMRC's accounts under the Government Resources and Accounts Act 2000, and value-for-money studies under the National Audit Act 1983.

2 In this report, we provide a commentary on, and evaluation of, HMRC's performance in revenue administration in 2013-14, drawing together conclusions from all our recent audit work and HMRC's own measures of performance published in its Annual Report and Accounts and Trust Statement.

3 The report is arranged into five parts:

- The Summary describes the scope of the audit, our main findings, overall conclusion and recommendations.
- Part One is our commentary on key numbers in HMRC's Trust Statement and Annual Report and Accounts.
- Part Two evaluates how HMRC measures and reports its performance in increasing tax revenues through compliance activities.
- Part Three evaluates how HMRC allocates its resources to the compliance risks it faces.
- Part Four sets out significant findings from our audit of HMRC's revenue systems.
- Part Five explains the C&AG's qualification of HMRC's Resource Accounts, and gives an update on HMRC's progress in managing fraud, error and debt from the personal tax credits system.

Scope of the audit

4 Section 2 of the Exchequer and Audit Departments Act 1921 requires the C&AG to examine the accounts of HMRC "to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and the C&AG shall satisfy himself that any such regulations and procedure are being duly carried out". The C&AG is also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons. Taken alongside the C&AG's audit opinion on HMRC's Trust Statement, which records the tax revenues HMRC has collected, this report meets that requirement.

5 The C&AG provides a separate audit opinion on HMRC's Resource Accounts under the Government Resources and Accounts Act 2000. These accounts record HMRC's running costs and other spending, of which the largest component is spending on personal tax credits. For ease of reporting, we have included our examination of tax credits in this report.

Summary findings

6 In collecting tax, HMRC aims to achieve the highest levels of compliance with tax law possible whilst demonstrating efficiency and maintaining public confidence in the tax system. HMRC estimates that it collects 93 per cent of the tax it should theoretically collect based on its interpretation of tax law. HMRC must choose where to focus its resources balancing the need for efficient systems which help those who pay their tax willingly with activities to encourage and, where necessary, enforce compliance with tax law.

Performance in 2013-14

7 Total tax revenues increased by nearly 7 per cent this year, from £476 billion in 2012-13 to £506 billion in 2013-14. HMRC had collected by the year end over 77 per cent of the revenue that was due for the year (compared to 78 per cent in 2012-13). Some taxes – such as corporation tax and income tax self assessment – are not due until some months after the year end. For these, HMRC estimates the value of revenues it is entitled to collect but which are not yet collectable by forecasting the likely final tax liabilities of individuals and companies. At 31 March 2014, this estimate was £89 billion (£82 billion at 31 March 2013).

8 HMRC has also accounted for some £24 billion of taxes that are due to be collected, which includes £13.3 billion of tax debt, which is when a tax liability is outstanding after its due payment date and is under active debt management.

9 HMRC is decreasing its running costs over time from £3.4 billion in 2010-11 to £3.3 billion in 2013-14. HMRC's spending was within the overall limits set by Parliament.

HMRC's effectiveness in increasing revenues from its compliance work

10 The aim of HMRC's compliance work is to reduce the tax gap: the difference between the tax that is theoretically due and the tax HMRC actually collects. But HMRC also needs a more direct measure of the effectiveness of its compliance work as the tax gap is subject to long reporting delays and affected by factors outside HMRC's control, such as the strength of the economy. HMRC measures compliance yield both to provide accountability for its overall performance and to manage its business and the performance of its compliance teams on a day-to-day basis.

11 HMRC's strategy since the 2010 Spending Review has been to do more compliance work to secure additional revenues. Its settlement with HM Treasury (the Treasury) included a £917 million reinvestment in compliance work in order to generate additional revenues of £7 billion a year by 2014-15. HMRC's success in delivering this strategy depends on its ability to:

- identify the risks to tax compliance and design effective interventions;
- allocate resources to address these interventions; and
- measure the effectiveness of its compliance work.

12 Our review this year has focused on the measurement of compliance performance and the allocation of compliance resources. Our summarised findings are at paragraphs 13 to 21.

How HMRC measures the effectiveness of compliance work

13 HMRC's estimate of compliance yield has increased throughout the current spending review period reaching £23.9 billion in 2013-14, the highest level ever reported. It is a complex hybrid of measures, calculated in different ways and covering different time periods, which are designed to reflect the breadth of HMRC's compliance activities. The figure reported in 2013-14 includes four different components:

- Cash collected of £9.2 billion (39 per cent);
- Revenue losses prevented of £8.0 billion (33 per cent);
- Future revenue benefit of £5.5 billion (23 per cent); and
- Product and process yield of £1.2 billion (5 per cent).

Most, but not all, of this additional revenue had a direct benefit to the exchequer in 2013-14. HMRC will in practice receive some of the cash collected after the end of the financial year, and the future revenue benefits of £5.5 billion is a reasonable estimate of what will be generated over the next five years through compliance work in 2013-14 which has changed taxpayers' behaviour (paragraphs 2.1 and 2.15).

14 HMRC has improved its measurement of compliance yield since 2010-11 so that it reflects a wider range of the impacts of compliance work. HMRC has progressively improved the evidence on which it bases its estimates and adapted the measure to reflect changes in the nature of its compliance work. As it has evolved the measure, HMRC has taken a prudent approach, collecting relevant evidence before making changes and reducing its estimates appropriately where there is uncertainty. We found that the methodology and processes HMRC used to estimate compliance yield in 2013-14 were sound, and that the measure provides a reasonable proxy for the beneficial impacts of its compliance work (paragraphs 2.15 to 2.41).

15 When HMRC agreed performance targets with the Treasury for the spending review period, it set its baseline too low which made the targets easier to achieve. This has not diminished the focus and energy HMRC has put into maximising revenue from its compliance work, but it has made the targets less challenging. In responding to our review, HMRC identified errors it had made when calculating its baseline in 2010-11, which had the effect of understating the baseline by £1.9 billion. HMRC reported that it had exceeded its performance targets by £1.9 billion and £2.0 billion in 2011-12 and 2012-13 respectively, when in fact it had achieved almost exactly the level of performance improvement required under its settlement. Partly in response to this apparent over-achievement, HMRC agreed with the Treasury to stretch its target for 2013-14 by a further £3.0 billion. HMRC's performance in 2013-14 exceeded this new target and it is now reviewing whether the targets it has set for future years are adequate to meet the settlement requirement (paragraphs 2.4 to 2.14).

16 In external reporting, HMRC has inadvertently overstated the degree of improvement in its performance. The way HMRC has measured compliance yield during this spending review period is substantially different to the way it reported its yield in 2010-11 and before, preventing a like-for-like comparison. Until it identified the error in its baseline, HMRC was not aware that such comparison was significantly flawed. Therefore, in presenting the trend in its compliance performance information prior to this year's annual report, HMRC has inadvertently overstated the increase in the additional revenue it has generated since 2011-12 compared to earlier years (paragraphs 2.38 to 2.40).

17 In this year's annual report, HMRC has substantially improved the accuracy, clarity and transparency of the way it reports its compliance yield. While the measure is complex, we consider that the way the data had been reported in previous years did not adequately disclose what the measure contained, such as what element represented HMRC's estimate of revenue benefits expected in future years. We welcome the fact that HMRC has produced a much fuller and clearer explanation of its compliance yield in 2013-14, which also discloses the understatement in its baseline calculation and recognises that comparison of the data with the figures reported before 2011-12 would be inappropriate (paragraph 2.41).

How HMRC allocates compliance resources

18 **HMRC has used £1 billion of additional funding between 2011-12 and 2014-15 to increase tax revenues and target specific risk areas.** HMRC responded to the challenge to improve public finances in the short term by bringing in more revenue from its compliance work and, over the longer term, seeking to promote more compliant behaviour among taxpayers. It had a clear rationale for using the funding in this way, which extended its coverage of areas of significant risk. For example, HMRC is now undertaking more compliance checks and increasing the number of prosecutions to deter evasion by small and medium-sized businesses, and strengthening its ability to tackle organised crime (paragraphs 3.2 to 3.6).

19 **HMRC has improved its assessment of tax risks but this needs to be used more consistently in the allocation of compliance resources.** HMRC cannot yet fully show how its use of resources aligns with its assessment of tax risks but is improving its management information to test these decisions. It is also developing a new Strategic Picture of Risk to bring together data, intelligence and economic analysis to provide a more comprehensive and current view of risks across its business. HMRC intends to use the new assessment more directly in its management of the business, developing a more explicit link between risks and the decisions it makes about where to allocate resources. It is also building new models to test the potential for better outcomes from different configurations of compliance work (paragraphs 3.14, 3.17, 3.18, 3.20 and 3.21).

20 **HMRC is constrained in how flexibly it can reallocate compliance resources, but has responded to changing threats to tax revenue by shifting the balance of its activities.** A number of factors constrain HMRC's ability to redirect its compliance effort quickly, including: the geographical spread of its offices; the need to train staff for new roles; and the volume of compliance cases it has in the pipeline, which can make it difficult to replace staff who have been investigating cases for a long time. However, HMRC has redeployed resources in response to new risks as they have emerged and then receded, such as the fraudulent exploitation of VAT rules though Missing Trader Intra-Community fraud; and in 2013-14, it created a new directorate to coordinate and lead its work to counter tax avoidance (paragraphs 3.13 and 3.19).

21 **As HMRC's strategy for compliance work changes, its performance framework and approach to resource deployment will need to adapt.** HMRC is aiming to do more to promote voluntary compliance and deter evasion and avoidance before it happens, thereby reducing the reliance on compliance interventions after the event. It has started to redesign its performance framework to capture the impact of its work to promote compliance, focusing increasingly on changing customer behaviours. Strengthening its understanding of how resources align to risks and the effectiveness of different compliance activities will improve the evidence on which HMRC makes decisions about where to deploy resources (paragraphs 2.46 and 3.22 to 3.24).

Progress in performance of revenue systems since last year

22 **HMRC continue to modernise Pay As You Earn by rolling out its Real Time Information system.** RTI collects timely payroll information from employers. Most employers have been able to file their returns using RTI but some smaller employers experienced problems as they struggled to adapt their internal processes and systems in time. HMRC has announced a package of support for these employers (paragraph 4.7).

23 **HMRC's 'tax debt' has increased to £13.3 billion at 31 March 2014 from £12.2 billion last year.** But HMRC has collected £39.6 billion in 2013-14 (£34.5 billion in 2012-13) and focused on clearing debt older than one year resulting in this balance falling to £3.7 billion (£4.2 billion last year). HMRC is currently finalising a new debt management strategy, which extends the use of private sector debt collection agencies and the use of improved data (paragraph 4.11).

24 **The UK-Swiss Tax Agreement, which came into force in January 2013, had brought in £1 billion by 31 March 2014, significantly less than HMRC had originally expected, but in line with its updated forecasts.** HMRC has gained new data to enable it to better inform its future interventions for tackling offshore evasion (paragraphs 4.13 to 4.18).

Progress reducing tax credits error and fraud

25 **The C&AG has qualified his regularity audit opinion on HMRC's 2013-14 Resource Accounts because of material levels of error and fraud in the payments of personal tax credits.** HMRC's central estimate of error and fraud in 2012-13 is £2.0 billion which represents 7.0 per cent of finalised entitlement. This is the lowest proportion since the current personal tax credits scheme was introduced in 2003-04 (paragraph 5.10).

26 **Personal tax credits debt rose in 2013-14, from £4.8 billion at 1 April 2013 to £5.5 billion at 31 March 2014.** In-year recoveries increased from £763 million in 2012-13 to £921 million in 2013-14, but recovery rates from HMRC's use of private sector debt collection agencies have so far been well below forecast (paragraphs 5.19 to 5.26).

Conclusion

27 In forming his conclusion on the adequacy and effectiveness of HMRC's tax collection systems, the Comptroller and Auditor General considers the results of our financial audit of HMRC's accounts, our section 2 examinations and findings from value-for-money reports. We have published two value-for-money reports on HMRC in the last year: *Gift aid and reliefs on donations*[1] and *Tax reliefs.*[2]

28 The primary focus of HMRC's compliance work since the 2010 Spending Review has been to meet on its commitment to deliver additional tax revenue over the spending review period by investing in compliance projects. HMRC has been broadly successful to date in delivering on this objective as measured by its estimates of compliance yield. HMRC has also flexed its resources to address significant threats and has increased its coverage in key areas, such as by doing more compliance checks to tackle fraud and evasion by small and medium-sized businesses.

29 HMRC has designed a reasonable basis for its estimation of compliance yield as a proxy for the effectiveness of its compliance work. The measure is a complex hybrid of different elements which reflects the breadth of impacts from a wide variety of compliance activities, but demonstrates the positive impact of HMRC's investment in compliance work on the public finances. I am concerned that an error of as much as £1.9 billion in HMRC's baseline calculation led it to report the trend in its performance in a way that inadvertently exaggerated the improvement in its performance since 2010-11. That this error came to light as a result of the NAO's audit raises concerns about HMRC's governance and use of its management information that I intend to explore further in future work. Despite this, I am satisfied from the evidence we have seen that HMRC's compliance performance has improved throughout the spending review period and that its effectiveness continues to increase as HMRC develops new ways to deter, detect and prevent abuse of the tax system.

30 Our work in the year has demonstrated that there are other areas of HMRC's business where it lacks good management information and continues to be exposed to risk. Tax reliefs are essential to the effective operation of the tax system. Reliefs also create the opportunity to misuse and avoid tax. Our systemic review of Tax Reliefs identified that the value of reliefs is significant and the number of reliefs is growing, but that there is no specific framework governing their introduction or modification. We found that HMRC has responded proactively to address opportunities for abuse, but that the time needed to collect data and take remedial action places an onus on robust design and monitoring of their performance. Our study on Gift Aid showed that HMRC had not collected the data to enable a robust evaluation of the effectiveness of the reliefs on donations to charities. We intend to report later in 2014 on how HMRC administers and assesses the impact of those tax reliefs with an objective to influence behaviour.

1 Comptroller and Auditor General, *Gift Aid and reliefs on donations*, Session 2013-14, HC 833, National Audit Office, November 2013.

2 Comptroller and Auditor General, *Tax reliefs*, Session 2013-14, HC 1180, National Audit Office, March 2013.

31 In fulfilling our statutory duties under the Exchequer and Audit Act 1921, while recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, we conclude that in 2013-14 HMRC has framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

Recommendations

32 HMRC recognises the importance of developing its performance framework as its compliance strategy evolves. HMRC has also accepted the principle that there should be external scrutiny of the data it publishes on its compliance performance in future, and has invited the National Audit Office to play an ongoing role in providing independent assurance about the data's quality.

33 To further improve its strategic planning processes, HMRC should:

- Use its assessment of the risks it faces to inform explicitly the deployment of resources and development of their medium-term operating model.
- Build a risk-based view of the optimal deployment of its resources (by regime, customer group and behaviour).
- Continue building an evidence base to support a more sophisticated set of performance measures that capture the breadth of impact it has on customers paying the right amount of tax.

34 HMRC should investigate why the levels of error and fraud in personal tax credits associated with undeclared partners have continued to rise despite its initiatives undertaken to date to tackle this specific risk.

Part One

Financial performance

1.1 This part provides a brief commentary on HMRC's financial performance as reported in HMRC's 2013-14 Trust Statement and HMRC's 2013-14 Resource Accounts. It also summarises our recent work on tax reliefs.

Tax revenues

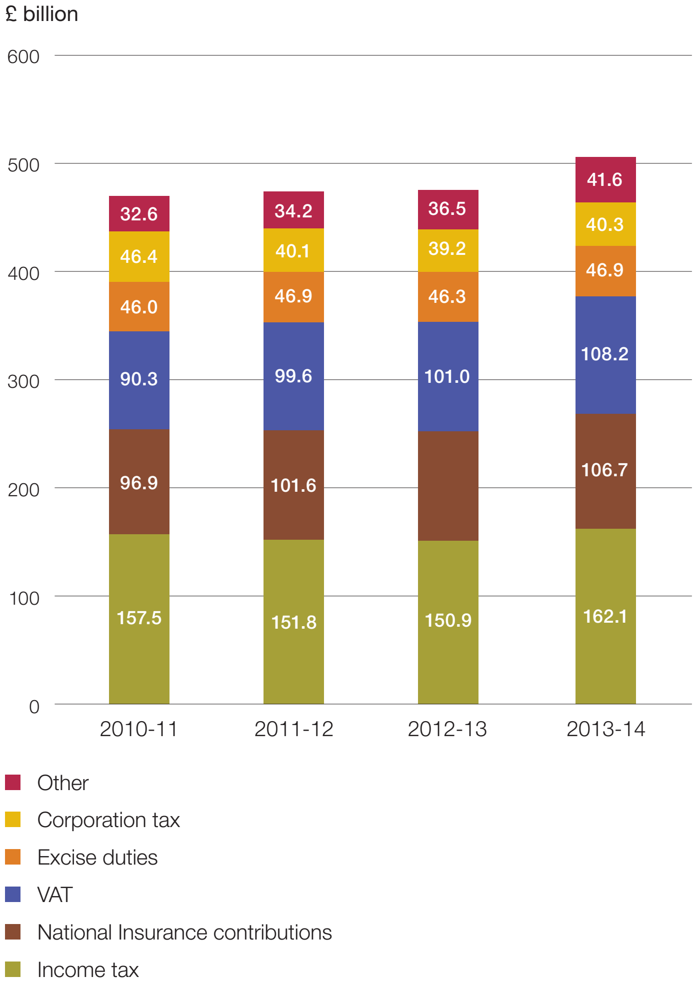
1.2 In 2013-14, total revenue increased to £505.8 billion from £475.6 billion in 2012-13 (6.3 per cent) – **Figure 1**. The taxes that contributed most of this increase are income tax and national insurance which increased by £16.2 billion (6.4 per cent), VAT by £7.2 billion (7.1 per cent) and stamp taxes which have significantly increased by £3.4 billion (35.8 per cent).

Tax collection

1.3 The Trust Statement accounts for revenue on an accruals basis, reporting tax due on earned income or activities during the financial year, regardless of when the cash is actually received. Of its 2013-14 revenue of £505.8 billion (2012-13 £475.6 billion), HMRC has not yet received £113.6 billion, 23 per cent of revenue (2012-13 £104.8 billion, 22 per cent). This consists of £24.3 billion due from taxpayers but not yet received and £89.3 billion of taxes not yet due from taxpayers, but earned in the financial year (note 4 to the Trust Statement).

1.4 As there is some risk that this revenue will not be collected or may subsequently prove not to be due, accounting standards require the Trust Statement to reflect this risk. The £24.3 billion of tax due is reduced by £6.6 billion to £17.7 billion to cover the likelihood of tax not being paid or proving not to be due (2012-13 £22.4 billion reduced by £6.2 billion to £16.2 billion). This 'impairment' does not mean that HMRC will not collect these amounts and the degree of impairment varies across taxes (**Figure 2** on page 14). HMRC's estimates show that amounts due for VAT, income tax and national insurance contributions carry the highest level of risk, and so receive the largest level of impairment. VAT liabilities are impaired to account for the risks of company insolvencies and VAT balances under dispute, whereas personal taxes take into account that some debts may be potentially spurious following the implementation of HMRC's Real Time Information (RTI) system.

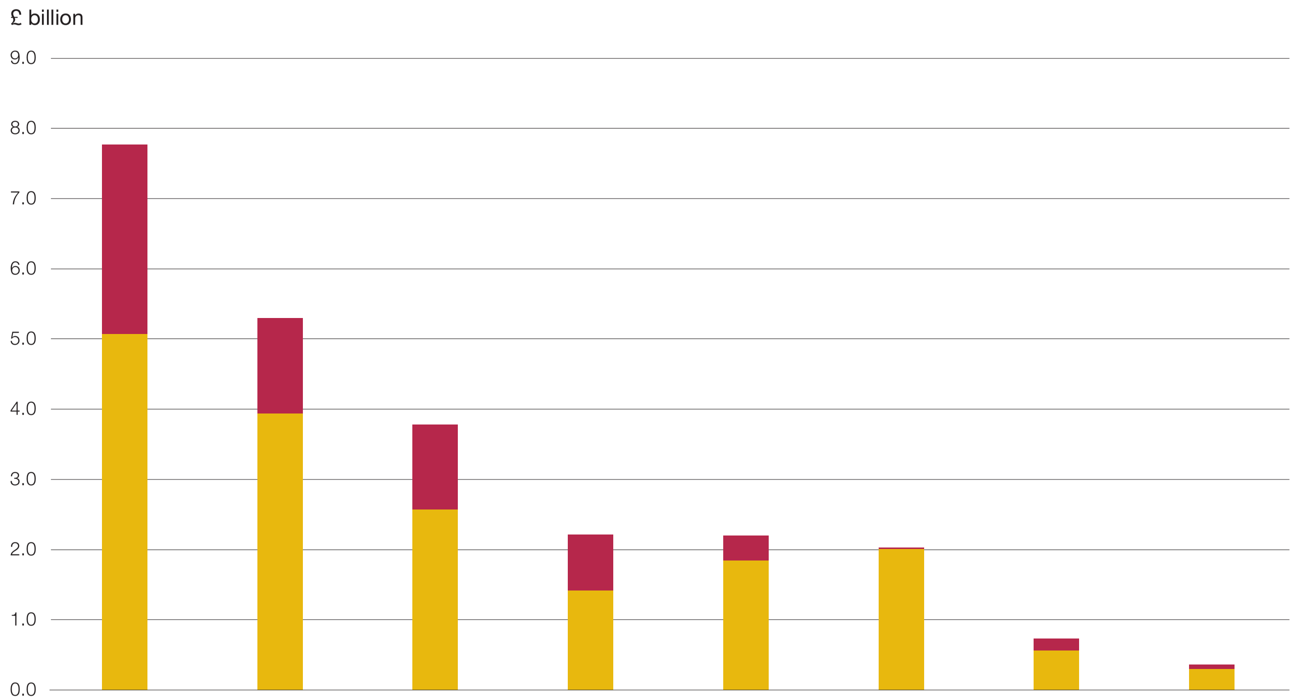
Figure 1
Tax revenues 2010-11 to 2013-14



Source: HM Revenue & Customs Trust Statements 2010-11 to 2013-14

Figure 2

Impairment of receivables varies across taxes



	VAT	Income tax	National insurance	Penalties	Corporation tax	Other direct taxes	Other indirect taxes	Capital gains tax
Impairment	2.7	1.4	1.2	0.8	0.4	0.0	0.2	0.1
Net receivable	5.1	3.9	2.6	1.4	1.8	2.0	0.6	0.3
Percentage of gross receivable impaired	35%	26%	32%	36%	16%	1%	23%	15%

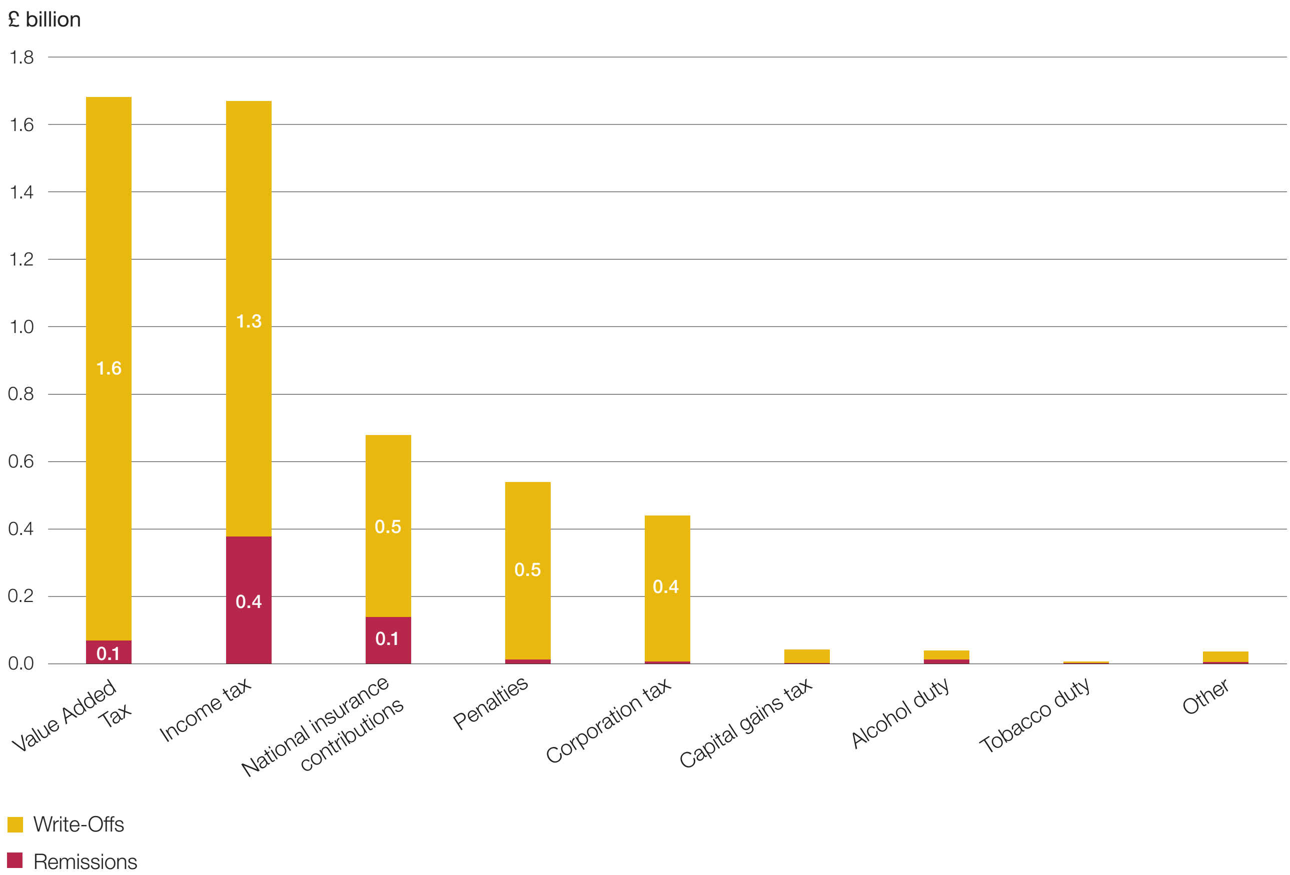
Note

1 The total impairment shown above does not sum to £6.6 billion due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

1.5 HMRC had revenue losses, where it has assessed that tax owed is unlikely to be collected, of £5.1 billion in 2013-14 compared to £5.3 billion in 2012-13. Where HMRC has no practical way to pursue a liability it can write this off, the most common cause being debtor insolvency. Some £4.5 billion was written off in 2013-14, compared to £4.4 billion in 2012-13. HMRC can also remit debt where it decides not to pursue a tax liability on value-for-money or hardship grounds. In 2013-14, remissions were £0.6 billion, a fall from £0.9 billion in 2012-13. Debt due to official error can be written-off or remitted. The main reasons for losses, including those for high value cases (over £10 million), are disclosed in note 7.2 of the Trust Statement. **Figure 3** shows that most of the losses come from VAT, income tax and national insurance, equating to 0 per cent to 2 per cent of these taxes.

Figure 3
Main sources of loss 2013-14



Source: National Audit Office analysis of note 7.2 of the Trust Statement

Provisions and Contingent Liabilities

1.6 Some revenue collected and reported will subsequently be repaid to taxpayers. This may be because taxpayers have overpaid, because taxes due are reassessed for previous tax years or because reliefs and allowances are claimed. HMRC reports two types of provision for the future repayment of tax in its Trust Statement (£8.5 billion at 31 March 2014 compared to £8.0 billion as at 31 March 2013):

- **Legal claims** where taxpayers have disputed the interpretation of legislation through the courts and are seeking a reassessment of the tax payable. The outcome depends on litigation, but HMRC expects that they will repay some £5.4 billion as at 31 March 2014 (£4.2 billion as at 31 March 2013).
- **Oil field decommissioning costs** where companies offset costs of decommissioning oil and gas fields in the North Sea against petroleum revenue tax and corporation tax they have previously paid on those fields. These are recognised because decommissioning costs can be carried back to earlier years indefinitely, in contrast to other taxes that are time limited. HMRC has estimated that they will repay some £3.1 billion as at 31 March 2014 (£3.8 billion at 31 March 2013).

1.7 HMRC also discloses contingent liabilities, which are possible liabilities to HMRC. These have increased significantly to £29.2 billion at 31 March 2014 (£14.5 billion at 31 March 2013) due to a revision of the estimates for cases currently in litigation and taking into account court decisions during the year. It will be important for HMRC to maintain an up-to-date assessment of the progress of key legal cases and any potential accounting and budgetary consequences.

Expenditure

1.8 HMRC has cut its running costs while maximising revenue (**Figure 4**). Also, the amount spent on benefits and credits increased in 2011-12 and 2012-13, but decreased this year. Part of these cost reductions are because HMRC reduced its full-time equivalent headcount by over 5,000 (8 per cent) from 66,900 in March 2011 to 61,400 in March 2014. Enforcement and Compliance headcounts have increased, despite this overall reduction, reflecting HMRC's strategic shift into this area (**Figure 5**).

Figure 4
Revenue collected, benefits and credits paid and administrative spend

	2010-11 (£bn)	2011-12 (£bn)	2012-13 (£bn)	2013-14 (£bn)
Revenue	468.9	474.2	475.6	505.8
Benefits and credits spend	42.3	42.8	43.1	42.5
Administration spend	3.4	3.3	3.3	3.3

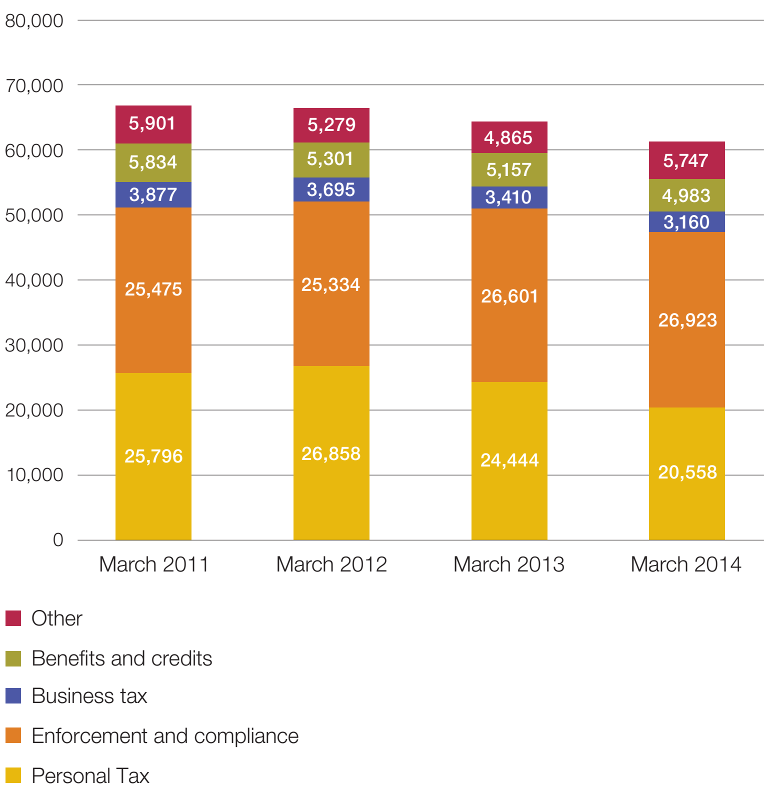
Notes

1 Benefits and credits spend includes Resource Accounts subheads: E Social benefits and grants, F Providing payments in lieu of tax relief to certain bodies, L Personal tax credits and M Other reliefs and allowances.

2 Administration spend is Resource Accounts subhead: A HMRC administration (DEL).

Source: HM Revenue & Customs' Trust Statement and Resource Accounts

Figure 5
Changes in staff numbers (full-time equivalents)



Source: National Audit Office analysis of full-time equivalent staff data

Tax reliefs

1.9 In March 2014, our first report on tax reliefs reported that the value of tax reliefs is significant and the number of reliefs had increased from 1,048 in March 2011 to 1,128 by December 2013.[3] Tax reliefs are often used for practical purposes such as setting the right income and profit for tax purposes and making the tax system simpler to use. Reliefs also create the opportunity to misuse and avoid tax. We found that there is no specific framework governing the introduction or modification of reliefs, and that HMRC has not systematically categorised tax reliefs according to the function they perform.

1.10 We also found that the value of tax at risk from the abuse of reliefs is unknown but likely to be significant. HMRC has responded proactively to address opportunities for abuse, although it could collect data to assess the extent of emerging threats sooner, allowing it to act more quickly to safeguard revenue. Our study on Gift Aid showed that HMRC had not collected the data to enable a robust evaluation of the effectiveness of the reliefs on donations to charities. We intend to report later in 2014 on how HMRC administers and assesses the impact of those tax reliefs with an objective to influence behaviour.

3 Comptroller & Auditor General, *The exchequer departments: Tax reliefs*, Session 2013-14, HC 1256, March 2014.

Part Two

Measuring compliance yield

What HMRC measures and why

2.1 HMRC assesses the impact of its compliance work by estimating compliance yield, a measure of the additional revenue it generates through its compliance activities. HMRC reported compliance yield of £23.9 billion in 2013-14 – its highest yield to date.

2.2 HMRC estimates compliance yield to provide accountability and to support decision-making. The long-term aim of compliance work is to reduce the tax gap: the difference between the tax that is theoretically due and the tax HMRC actually collects. But a more direct measure of compliance yield is also necessary as the tax gap is subject to long reporting delays and is affected by factors outside HMRC's control, such as the strength of the economy and changes to tax rates. HMRC therefore estimates the additional tax revenue attributable to its compliance activities, both to provide accountability for its overall performance and to manage its business and the performance of its compliance teams on a day-to-day basis.

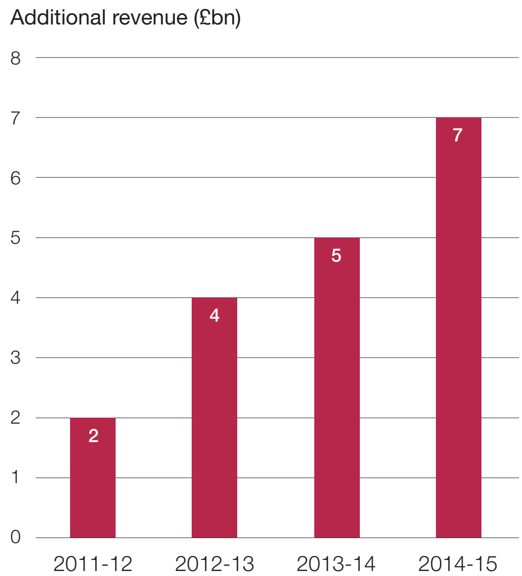
2.3 This part considers how HMRC estimates and reports compliance yield. We did not seek to verify the accuracy of the figures reported by HMRC in 2013-14, but rather to assess whether the way HMRC estimates yield is reasonable and whether it has adequate processes to validate its estimates.

The 2010 spending review settlement

2.4 The 2010 Spending Review set HMRC's funding and delivery commitments until 2014-15. HMRC committed to make efficiency savings while doing more compliance work to secure additional revenues. Overall, HMRC agreed to make efficiency savings which would reduce its running costs from £3.4 billion in 2010-11 to £3.3 billion in 2014-15 (Figure 4 on page R17), while increasing the additional revenue generated from its compliance work by £7 billion a year by 2014-15 (**Figure 6** overleaf). HM Treasury (the Treasury) agreed that to achieve this additional revenue, HMRC could reinvest a total of £917 million of its efficiency savings.

Figure 6

Targets agreed at the start of the 2010 spending review period for incremental increases in compliance yield



Source: National Audit Office analysis of spending review 2010 documents

Calculating the baseline from which targets were set

2.5 To measure incremental improvements over the spending review period, HMRC needed to establish a baseline level of performance. The calculation of this baseline was complicated because HMRC also agreed with the Treasury that it would change its measurement methodology to provide a more accurate assessment of the breadth of its compliance activities. The new approach extended the scope of the compliance measure and refined it to improve its accuracy.

2.6 Calculating this baseline was complex and involved a number of stages. HMRC set its baseline by forecasting the additional revenue its work would generate in 2010-11, based on a mid-year estimate, and adjusting this figure to account for the impact of the methodological changes it was making. Its targets for each year of the spending review period were then agreed by adding a greater increment in each year to the baseline.

2.7 In June 2011, HMRC reviewed its mid-year estimate for 2010-11 against the actual outturn it had achieved in that year to ensure it was accurate. Although the original forecast was £13 billion and actual performance was £13.9 billion, HMRC agreed with the Treasury not to revise the forecast because it believed the additional £0.9 billion was based on unusual performance in one area of the business that could not be sustained in future years.

2.8 HMRC has reported its performance against these targets during the spending review period. However, our audit identified a significant error in the baseline calculation. The impact of this error, and how it came about, is set out in the following paragraphs.

The impact of the error

2.9 The error in HMRC's baseline calculation had the effect of understating the baseline, and therefore reduced the targets that HMRC agreed in each year of the spending review period, by £1.9 billion. While not diminishing the focus and energy HMRC has put into maximising revenue from its compliance work, this made the original targets easier to achieve. For example, in the first year HMRC agreed to deliver an incremental improvement of £2 billion. As the baseline against which it was measuring was set £1.9 billion too low, the incremental improvement required to meet the target was in reality only £100 million. In practice, HMRC exceeded its target in 2011-12 by £2 billion, thus achieving the incremental improvement it had agreed with the Treasury but – taking into account the error in the baseline – not exceeding it.

2.10 Despite this effect, HMRC has still delivered the incremental improvement required of it in each year of the spending review period to date. As a consequence of the baseline error, HMRC reported that it had achieved additional revenue in excess of targets by £1.9 billion and £2 billion in 2011-12 and 2012-13 respectively. It is now clear that this apparent over-performance was actually attributable to the baseline error, and so HMRC in fact achieved almost exactly the level of performance improvement that was required.

2.11 Partly in response to this apparent over achievement, HMRC agreed with the Treasury to increase its target for 2013-14. It agreed to deliver an additional £3.0 billion of yield without further funding[4] and £0.3 billion in relation to extra funding it was granted in the 2012 Autumn Statement. This meant that HMRC had a target in 2013-14 of £23.0 billion. In practice, HMRC delivered £23.9 billion of additional revenue in 2013-14, exceeding even its revised target by £0.9 billion. HMRC is now reviewing whether the targets it has agreed for future years are adequate to meet the settlement requirement.

How the error came about

2.12 HMRC agreed its 2010-11 baseline with the Treasury in November 2010. It had to use a forecast because at that stage it did not know what its outturn for the year would be. HMRC also assessed the impact of its new methodology for measuring yield. These changes were significant and the calculation to adjust the baseline was therefore complex.

4 2013-14 targets were stretched in Autumn Statement 2012, by £0.5 billion, and Autumn Statement 2013, by £2.5 billion.

2.13 One significant change to the way HMRC measured its additional revenue was to include the revenue protected from its work to disrupt organised crime within its wider measure of compliance yield. While HMRC uplifted its baseline by £0.84 billion to reflect its forecast of the yield from organised crime, it did not make a further adjustment to take into account that the revenue protected by this work in 2010-11 was ultimately £2.52 billion. As a consequence, HMRC failed to include £1.68 billion of yield from organised crime in its baseline, even though this type of yield was to be counted in future years.

2.14 HMRC also made a number of smaller calculation errors in adjusting its baseline to take account of methodological changes, resulting in a further understatement of £0.22 billion. The combined effect of these errors was to understate the baseline by £1.9 billion.

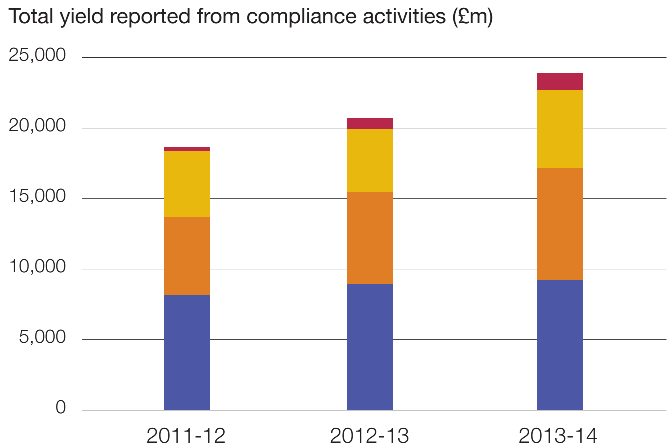
HMRC's methodology for estimating yield

2.15 HMRC's current measure of compliance yield is complex. It is a hybrid of measures, calculated in different ways and covering different time periods, which are designed to reflect the breadth of HMRC's compliance activities. The total of £23.9 billion reported in 2013-14 includes four different components (**Figure 7** and **Figure 8** on page R24):

- **i** Cash collected of £9.2 billion (39 per cent), which is an estimate of the additional tax HMRC has collected by identifying and challenging non-compliance;
- **ii** Revenue losses prevented of £8.0 billion (33 per cent), which is tax revenue HMRC has protected either by refusing or reducing repayments claims because they are fraudulent or in error, or by disrupting criminal activity;
- **iii** Future revenue benefit of £5.5 billion (23 per cent), which is HMRC's estimate of the revenue benefits over the next five years where it considers it has changed the behaviour of taxpayers; and
- **iv** Product and process yield of £1.2 billion (5 per cent), which is the impact of legislative changes made since April 2011 to close tax loopholes and changes to HMRC's processes which reduce opportunities to avoid or evade tax.

Figure 7

Compliance yield reported by HMRC since 2011-12



Yield type	2011-12 (£m)	2011-12 (%)	2012-13 (£m)	2012-13 (%)	2013-14 (£m)	2013-14 (%)
Product and process yield	240	1	794	4	1,233	5
Future revenue benefit	4,700	25	4,441	22	5,508	23
Revenue losses prevented	5,509	30	6,512	31	8,003	33
Cash collected	8,178	44	8,975	43	9,182	39
Total	**18,627**		**20,722**		**23,926**	

Note

1 Percentages shown here have been rounded to add up to 100 per cent.

Source: National Audit Office analysis of HM Revenue & Customs performance data

Figure 8

There are four principal types of compliance yield calculated in different ways

Yield type	When the revenue benefits occur	What is measured
Cash collected		
An estimate of the additional tax HMRC has collected by identifying and challenging non-compliance, such as tax avoidance and evasion	All relate to tax assessments completed in year. Some will be collected after the year end	Additional tax liabilities and behavioural penalties are recorded when the compliance officer issues the taxpayer with a statement of the tax due. HMRC discounts the amount it records to recognise that some tax liabilities are not collected, for example because the taxpayer becomes insolvent.
Revenue losses prevented		
Comprises two separate measures which represent tax revenue HMRC has protected within the year	In-year	1 Losses prevented are recorded when HMRC refuses or reduces repayment claims because they are incorrect or fraudulent (87 per cent of revenue losses prevented in 2013-14). 2 HMRC estimates the value of criminal activity disrupted when HMRC seizes illicit goods (13 per cent of revenue losses prevented in 2013-14).
Product and process		
An estimate of the impact of legislative changes to close tax loopholes and changes to HMRC's processes that reduce opportunities to avoid or evade tax	In-year benefits of all legislative changes since April 2011	When legislative changes are made HMRC estimates the likely impact on revenues over up to five years. Each year it reviews these estimates and records the cumulative impact of all legislative changes made since April 2011.
Future revenue benefit		
An estimate of the future benefits of compliance work through changing the behaviour of taxpayers	Future years (1 to 5 years)	Whenever a compliance investigation is concluded, staff assess whether and for what period they should record the revenue benefits that will accrue in future years. In doing so, they estimate how long the taxpayer's behaviour will change as a result of the intervention, based on the taxpayer's characteristics and circumstances.

Source: National Audit Office analysis of HM Revenue & Customs compliance yield guidance

Our analysis of HMRC's methodology

2.16 HMRC recognises that it has to reconcile the competing objectives of improving the accuracy of the measure as a proxy for the effectiveness of all of its compliance work and reporting its performance in a way that is understandable and comparable from one year to another. We examined HMRC's methodology to test whether the measure:

- **a** reflects the range of impacts from different types of compliance intervention based on the best evidence available;
- **b** is subject to robust processes to assure the quality of the data that underpin it;
- **c** allows comparison of HMRC's performance over time; and
- **d** is reported in a way that is meaningful and understandable as an indicator of HMRC's performance.

a Does the measure reflect the impact of different types of compliance intervention based on the best evidence available?

2.17 HMRC has developed and extended the measure over time to include the impact of an increasingly wide range of its compliance activities, and to identify separately the different types of yield that make up the aggregate figure. Overall, we saw evidence that HMRC's measurement of yield provides a fair reflection of the range of compliance interventions and their impacts; and that HMRC has improved the measure, collecting evidence to support or challenge how it is constructed, and making reasonable adjustments to its measurement methodology which take account of this evidence. We set out below our findings in respect of each of the four types of yield.

Cash collected

2.18 HMRC changed how it measures cash collected in 2011-12 so that reported performance more closely reflects the revenue HMRC can expect to receive. It now discounts the amount it records to recognise that some tax liabilities identified at the conclusion of a compliance case are not ultimately collected, for example because the taxpayer becomes insolvent. HMRC estimated in 2010-11 that around 10 per cent of low value compliance assessments were not subsequently paid, and has discounted the amount of cash collected it scores from these cases by 10 per cent ever since. HMRC is now seeking to update its estimates of how much cash it collects from its compliance work.

Revenue losses prevented

2.19 Revenue losses prevented is made up of two elements, the first relates to changes made to actual repayment claims found to be incorrect or fraudulent: the second is a prediction of the impact on revenues of disrupting criminal activity.

2.20 These two measures carry different levels of certainty and precision. The value of repayments that have been prevented is known with reasonable certainty and accuracy and we found that the recording of this type of yield was straightforward and clearly understood by compliance teams. Estimates of the impact of HMRC's compliance work in disrupting organised crime are less certain and more judgemental. Officials are required to make a judgement about how long the criminality would have continued without the intervention, and the extent to which seizures of illicit goods will change the behaviour of consumers.

Future revenue benefit

2.21 HMRC expanded its measurement of future revenue benefit across its compliance business from 2012-13 to capture the impact of its work on smaller companies and individuals. This was a significant change in approach as HMRC had previously only identified future revenue benefit from its work with large businesses. HMRC took a cautious approach when it extended the measure by piloting the effect of the changes in 2011-12 to develop an evidence base, and limiting the period over which benefits could be calculated in areas of its business where the measure was new.

2.22 Future revenue benefit is inherently less certain, harder to estimate and more susceptible to errors as estimation is judgemental. But measuring future benefit is important: benefit sustained over a longer period of time may reduce the need for compliance work in future; the measure encourages staff to consider both the immediate and longer-term benefit of their work; and the calculation of future revenue benefit provides relevant evidence to inform decision-making.

2.23 HMRC is in the early stages of developing its understanding of the impact of its compliance work on future taxpayer behaviour. Its research has confirmed that businesses declare bigger increases in their tax liabilities in subsequent years when future revenue benefit has been scored when compared with cases where it has not.

Product and process yield

2.24 Product and process yield is an estimate of the impact of legislative changes to close tax loopholes and changes to HMRC's processes that reduce opportunities to avoid or evade tax. HMRC both estimates the in-year impact of such changes and forecasts the impact of the change forward to estimate the impact in future years.

2.25 HMRC assesses the impact of legislative changes on tax revenues at the end of each year. Its initial estimates are checked by the Office of Budgetary Responsibility and HMRC then revises those estimates if customer behaviour has not changed in line with expectations. This means estimates are reasonably certain and accurate.

2.26 The amounts HMRC has recorded in each year of this spending review period are cumulative but only take account of changes made since April 2011. For example, in 2013-14, HMRC reported the cumulative impact of three years of legislative changes, whereas in 2011-12, it only measured the impact of changes made in that year. As a result, what appears to be an upward trend in product and process yield is partly a consequence of the methodology HMRC uses and not necessarily the result of better performance year-on-year.

2.27 This approach to recording yield differs from HMRC's approach to measuring other types of yield. Elsewhere HMRC records all the impact in the year it has done the work, rather than attributing impact in future years. HMRC is considering developing how it reports impact from this type of work, so that it can better show comparative performance over time.

b Is the measure subject to robust processes to assure data quality?

2.28 Generally, HMRC's internal processes for assuring the robustness of the measure are well-developed and effective. We reviewed the processes in place for 2013-14. We found that HMRC has established guidance for staff that explains how they should measure different kinds of yield. There are processes to check that HMRC's teams follow this guidance and to challenge the reasonableness of their assumptions. HMRC employs a wide range of internal checks on data quality:

- Internal audit reviews of compliance yield cover the areas that contribute most yield.
- Further in-house audits and quality checks conducted by HMRC staff cover a large number of smaller value cases, and all the compliance yield recorded in the large business area.
- Technical panels consider how yield should be recorded in unusual and exceptional compliance cases, or in relation to new types of compliance work, such as taxpayer education programmes.

2.29 Where internal checks have identified weaknesses in methodology or errors in how yield was recorded, HMRC has taken steps to adjust the data before reporting its performance. It has not found a cost-effective way to determine the net impact of errors on its reported yield in those areas where its quality checks cover only a sample of compliance cases. HMRC believes that its current checks provide an appropriate level of control without spending disproportionate amounts of money on an assurance regime.

2.30 While HMRC's internal processes for testing and challenging in-year estimates of yield are sound, they did not pick up the significant error in the 2010-11 baseline calculation we identified during the course of our audit. The measurement of compliance yield is complex drawing on information from across HMRC's business and HMRC also changes its approach to measurement to reflect the best evidence available. This increases the risk that the data is inconsistent from one year to the next. HMRC has regular discussions of performance figures with the Treasury during the year, but does not subject its compliance yield data to other external scrutiny. HMRC has accepted the principle that there should be external scrutiny of the data it publishes on its compliance performance in future, and has invited the National Audit Office to play an ongoing role in providing independent assurance about the data's quality.

c Does the measure allow comparison of HMRC's performance over time?

2.31 HMRC improved its management information systems in 2011-12 to enable it to separately identify its performance across the four yield types. Although all four types of yield were recorded before 2011-12, HMRC could not break down its aggregate yield into those categories. The performance trend for each category of yield is therefore only identifiable between 2011-12 and 2013-14.

2.32 HMRC's current measure provides a good indication of trends in performance since 2011-12. The yield data is not comparable with data from before 2011-12, because of changes HMRC made to its methodology for measuring yields and the impact of the error it made in estimating its 2010-11 baseline. This makes it impractical to compare HMRC's performance over the longer term.

2.33 Consistency of the measure over time is important. The measure is both a key indicator of HMRC's overall performance and a means to demonstrate that it is meeting its commitments to generate additional revenues from compliance work. HMRC has taken two important actions to provide a sound basis for comparing its compliance measure for the period since 2011-12:

- It identifies and excludes exceptional items that would distort the underlying trend in its performance; and
- It has restated figures for this spending review period after making significant changes in methodology, so that it can describe trends in performance on a comparable basis.

Identifying and excluding exceptional items

2.34 HMRC has established sound practices, broadly equivalent to accounting principles, to identify high-value compliance cases that would distort the underlying trend in its performance. The impact of including exceptional items in HMRC's reported yield would be significant and would make any trend in performance hard to detect. In 2011-12, for example, HMRC excluded an exceptional item worth £4.3 billion, or 23 per cent of the total yield reported in that year, whereas in 2012-13 it identified none. For a case, or group of cases, to be considered exceptional and excluded from its reported performance, HMRC must show that all the conditions below apply:

- reporting yield from the case would distort the underlying trend in HMRC's performance;
- the case or type of case is a one-off and not repeatable; and
- that type of case was not included in the baseline or targets against which performance is assessed.

2.35 We found that HMRC has established a governance process to ensure that it treats exceptional items consistently. HMRC identifies potential exceptional cases throughout the year and these are considered by a challenge panel. Decisions by the panel are taken on a case-by-case basis and recorded before HMRC's aggregate outturn for the year is known.

Adjusting prior year's data for changes in measurement methodology

2.36 HMRC made one significant revision to prior year's performance in 2012-13 when it reported the results of its evaluation of the wider measurement of future revenue benefits introduced for the spending review 2010 period. It gathered evidence in 2011-12 to estimate the impact of the change and then increased both its 2010-11 baseline and its outturn for 2011-12 (by £1.7 billion and £1.9 billion respectively) to reflect the impact of this change in methodology. This process was well controlled and cautious, and HMRC did not report figures until it had developed its evidence and could determine the effect of the measure.

2.37 This revision was important to ensure that the trend in data since 2011-12 reflected changes in performance rather than being distorted by the changes in measurement. HMRC also increased the targets it had agreed with the Treasury by the same amount in each year of the spending review period.

d Is the measure reported in a way that is meaningful and understandable as an indicator of HMRC's performance?

2.38 When reporting its results publicly, HMRC has inadvertently overstated the degree of improvement in its performance. The way HMRC has measured compliance yield during this spending review period is substantially different to the way it reported its yield in 2010-11 and before, preventing a like-for-like comparison. Until it identified the error in its baseline, HMRC was not aware that such comparison was significantly flawed. Therefore, in presenting the trend in its compliance performance information prior to this year's annual report, HMRC has inadvertently overstated the increase in the additional revenue it has generated since 2011-12 compared to earlier years. HMRC has also made such comparisons in other publications and in its briefing of ministers.

2.39 While HMRC has frequently used footnotes and other caveats when publishing data to explain that methodologies were not directly comparable, it has not done so consistently and such caveats have not always been strong enough or sufficiently prominent. In its 2012-13 Annual Report, HMRC showed the trend in its performance since 2005-06 without making sufficiently clear that it had used different measurement methodologies over that period and the figures could not be compared on a like-for-like basis. Given the baseline issues that have now been identified, this had the consequence of overstating significantly the improvement in performance between 2010-11 and 2011-12.

2.40 We also consider that HMRC should have been more transparent in reporting its compliance yield and describing what it included. In past years it has not made it clear enough that only some of the yields are in-year revenue benefits, or that there are uncertainties in the data. Unlike other areas of its reporting, such as on the tax gap, HMRC has not produced sufficient detail describing its methodology and approach.

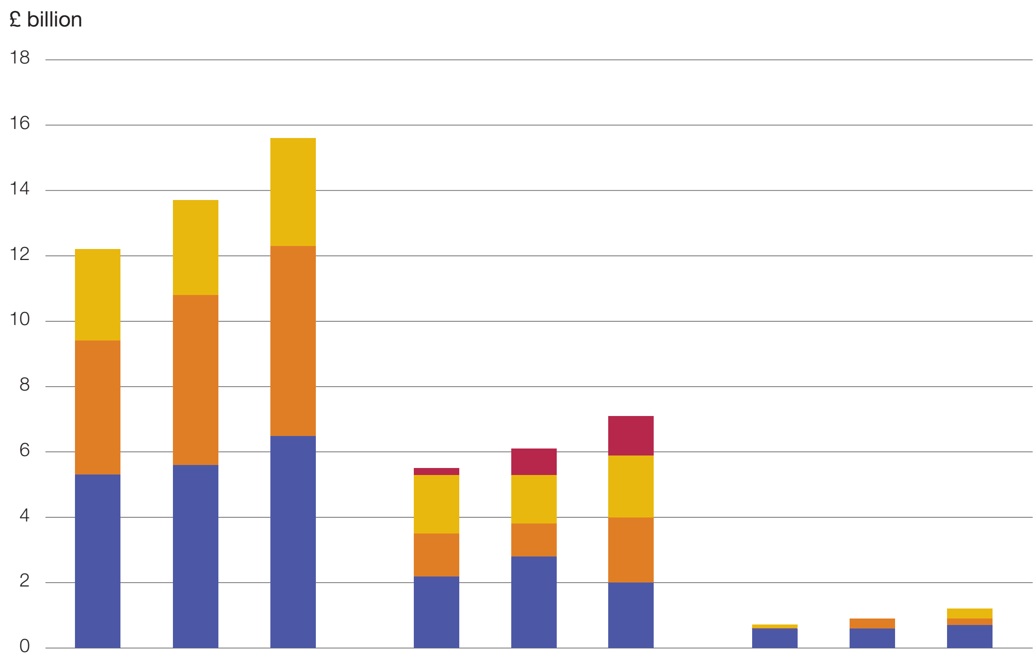
2.41 HMRC has substantially improved the accuracy, clarity and transparency of the way it reports its compliance yield in this year's Annual Report. It reports its yields broken down by type, showing those yields that relate to future years. It has also recognised that compliance yields up to 2010-11 are not comparable with the data it has reported since. HMRC has also explained the error it made when setting its baseline and the impact of the error on its performance relative to targets.

Managing performance

2.42 Those parts of HMRC's business that do the most compliance work and deal with the greatest amounts of tax at risk make the biggest contributions to reported yield. Sixty-six per cent of yield comes from the compliance and enforcement business area, which undertakes compliance investigations across all tax streams. Almost 30 per cent of yield was recorded by the business tax area, which undertakes compliance work on large businesses, while 5 per cent came from the personal tax area, including those teams dealing with charities, pensions, and affluent individuals (**Figure 9**).

Figure 9

Directorates' contributions to compliance yield



	Enforcement and compliance			Business tax			Personal tax		
	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
Product and process yield	0.0	0.0	0.0	0.2	0.8	1.2	0.0	0.0	0.0
Future revenue benefit	2.8	2.9	3.3	1.8	1.5	1.9	0.1	0.0	0.3
Revenue losses prevented	4.1	5.2	5.8	1.3	1.0	2.0	0.0	0.3	0.2
Cash collected	5.3	5.6	6.5	2.2	2.8	2.0	0.6	0.6	0.7

Source: National Audit Office analysis of HM Revenue & Customs data

2.43 HMRC sets targets for each Directorate, and monitors progress against these each month. It regularly reviews progress against its targets with the Treasury. HMRC revises its forecasts for yield during the year based on information about how its compliance cases are progressing.

2.44 HMRC's process for monitoring and managing its performance includes regular challenge of performance data across its business. Compliance yield data is scrutinised by each part of the business at monthly performance meetings. The results are aggregated and reported to HMRC's Executive Committee. Before compliance data is reported as management information, each team performs quality checks on its data. Performance data is regularly discussed, compared and challenged – for example, teams performing similar work compare the ratio of cash collected to future revenue benefits in order to understand any differences.

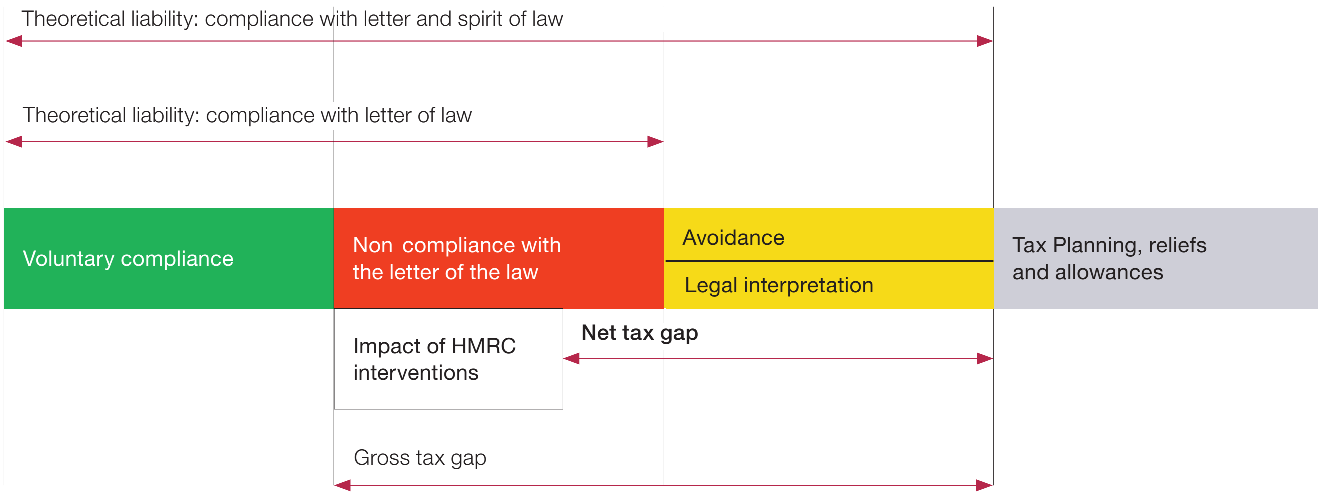
Measuring the long-term benefits of compliance work

2.45 HMRC estimates that in 2011-12, the latest year for which data is available, it collected 93 per cent of the tax that was due.[5] The remaining 7 per cent (£35 billion) it defines as the tax gap (**Figure 10** overleaf). Although in absolute terms the tax gap increased from the previous year, it fell as a proportion of the overall tax take from 7.1 per cent (**Figure 11** overleaf).

2.46 It is reasonable to expect that over the long-term the tax gap should decrease if HMRC is successful in increasing compliance with tax law. However, it is not straightforward to link compliance yield to reductions in the tax gap, which is affected by external factors such as economic conditions and changes in tax rates. For example, should HMRC be successful in encouraging more people to comply with their tax obligations voluntarily, it is conceivable that the tax gap would fall and that so would the amount of yield HMRC could generate from its compliance work. Further, a substantial amount of compliance work is needed to contain the tax gap and prevent it from growing. As HMRC's compliance strategy evolves it will therefore need to develop the framework by which it measures its performance further.

5 HM Revenue & Customs, *Measuring tax gaps 2013 edition*, October 2013.

Figure 10
HMRC's definition of the tax gap



Source: National Audit Office presentation of HM Revenue & Custom's definition of tax gap

Figure 11
Tax gap long-term trend

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Tax gap (£)	36	36	37	36	32	34	35
Tax gap (%)	8.3	7.7	7.5	7.6	7.3	7.1	7.0

Source: HM Revenue & Customs, *Measuring tax gaps 2013 edition* publication

Part Three

How HMRC resources compliance work

3.1 HMRC invests £1.1billion a year tackling non-compliance (**Figure 12** overleaf). In return, it has committed to bring in additional tax revenue, rising to £26.3 billion per year by March 2016.[6] This part looks at how HMRC allocates its compliance resources to meet its targets to increase tax revenues and, over the long term, close the tax gap.

How HMRC bids for resources

3.2 HMRC considered a range of factors when negotiating its spending review settlement with HM Treasury (the Treasury). The primary focus for the 2011-2015 spending review period was on increasing tax revenues, which reflected the wider government objective to improve public finances. HMRC considered the potential impact of reducing costs on tax revenues and coverage of different customer groups. It estimated that a 25 per cent reduction in funding would increase the tax gap by at least £0.7 billion by 2014-15. HMRC forecast that any reduction in investment would increase non-compliance by small and medium-sized businesses, where its coverage had fallen to 2 per cent of businesses due to staff reductions in previous years.[7]

3.3 HMRC presented possible projects to the Treasury, assessing the impact of increased interventions on tax revenues and the wider deterrent effect on customer behaviours. Treasury Ministers selected their preferred options, agreeing that HMRC could invest £917 million of its efficiency savings across four years from 2011-12, to bring in extra compliance revenues of £7 billion a year by March 2015, an overall return of 18:1 across the period. The extra investment has allowed HMRC to increase the number of staff tackling non-compliance from 25,500 in March 2011 to 27,000 by March 2014, despite an overall reduction in staff across the department. By March 2015, HMRC expects to increase the number of staff tackling non-compliance by a further 1,000.

6 HM Revenue & Customs, *HMRC Business Plan 2014–16*, April 2014.
7 HC Committee of Public Accounts, *HM Revenue & Customs: Compliance and Enforcement Programme*, Eighty-Seventh Report of Session 2010-12, HC 1892, May 2012. Recommendation: "The Committee is not convinced that the decision to reduce staff numbers in this area represented value for money for the taxpayer. The Department estimated that its commitment to reduce staff numbers by more than 3,300 (about 11 per cent) over the Programme's lifecycle reduced the additional yield that could have been generated by £1.1 billion."

Figure 12

HMRC's funding across the 2010 and 2013 spending review periods

	2010-11 Actual (£m)	2011-12 Actual (£m)	2012-13 Actual (£m)	2013-14 Actual (£m)	2014-15 Forecast (£m)	2015-16 Forecast (£m)
Total Departmental Administration Expenditure	3,394	3,323	3,290	3,292	3,278	3,097
Resources devoted to compliance work	1,119	1,126	1,134	1,143	1,194	1,157
Compliance resources as a proportion of total resources	33%	34%	34%	35%	36%	37%

Notes

1 Total Departmental Administration Expenditure shows actual or forecast administration expenditure within Resource Accounts subhead: A HMRC administration (DEL).

2 Figures for 'resources devoted to compliance work', cover parts of the business tackling non-compliance: Enforcement and Compliance, Large Business and Specialist Personal Tax.

Source: *HM Revenue & Customs annual reports and accounts*; HM Revenue & Customs management accounts

3.4 In addition to its funding allocation across spending review periods, HMRC can bid for extra funding through the Autumn Statement and Budget processes. It exploited this mechanism in the *Autumn Statement 2012* and obtained £77 million to strengthen its risk capability across Enforcement and Compliance and Large Business. In return, HMRC committed to increasing tax revenues by a further £1.8 billion a year.[8]

3.5 HMRC used a range of measures to determine the level of investment in new projects. The main aim was to close the tax gap, and the projects sought to achieve this by increasing the amount of tax collected and protected, influencing taxpayer behaviours and extending HMRC's coverage of specific customer groups (**Figure 13**). Return on investment was an important factor in determining the focus of projects – the forecast return ranged from 11:1 to 62:1 – but was not the only factor. HMRC recognised that, used alone, return on investment can be a disincentive to investment in certain types of work, such as improving systems to prevent taxpayers making mistakes in the first place. In addition, potential returns vary across different types of work. For example, Large Business work delivers a high return on investment because the tax at stake in each case is higher than in other areas of work (paragraph 3.7).

8 HM Treasury, *Autumn Statement 2012*, December 2012.

Figure 13

Factors considered in using additional funding for compliance work

	Cost and benefit (original spending review plans)			Emphasis HMRC put on these aims when developing projects					
Spending review projects	Investment across SR10 period (£m)	Yield across SR10 period (£m)	Projected return on investment across SR10 period	Yield	Value of Tax Gap	Deterrence	Coverage	Strengthening capability	Extent of risks
Affluent individuals	17	259	15:1	✔✔	✔	✔✔	✔	✔✔	✔
Wider coverage	548	7,037	13:1	✔✔	✔✔✔	✔✔✔	✔✔✔	✔✔	✔✔✔
Volume crime	60	930	16:1	✔	✔✔	✔✔✔	✔✔	✔	✔
Evasion publicity	8	330	41:1	✔	✔✔	✔✔✔	✔✔	✔	✔✔
Organised crime	96	4,315	45:1	✔✔	✔✔	✔✔	✔✔	✔✔	✔✔✔
Avoidance package for Large Business	25	1,550	62:1	✔✔✔	✔✔✔	✔	✔✔✔	✔✔	✔✔
Expanding the use of debt collection agencies	101	1,105	11:1	✔✔	✔✔	✔✔	✔	✔	✔
Debt – staff reinvestment	62	918	15:1	✔✔	✔✔	✔✔	✔	✔	✔
Total	**917**	**16,444**	**18:1**						

Strong emphasis

Moderate emphasis

Low emphasis

Notes

1 All investment and yield figures are original forecasts. These may have changed during the course of the spending review period.

2 HMRC also initiated a project to develop the compliance skills of its Large Business staff as part of HMRC's Change Programme. This project was not funded through the investment package for compliance work.

Source: National Audit Office analysis of spending review 2010 project business cases

3.6 HMRC had a clear rationale for using the spending review funding. It increased its focus on customer behaviours, extended its coverage and strengthened its capabilities (**Case Study 1**). In particular, it used the funding to:

- **Tackle customer error**
  It is increasing efficiency in tackling customer error by streamlining processes in compliance centres. This frees up people to focus on serious avoidance and evasion, and increases coverage of small and medium-sized businesses from 2 per cent to 9 per cent by 2015.

- **Undertake campaigns and taskforces for specific groups**
  It is undertaking four campaigns each year to target specific taxpayer groups, such as medics, encouraging them to declare their income voluntarily. HMRC also increased the number of taskforces to 30 per year to focus on evasion risks in specific trades and professions in particular regions.

- **Address fraud, evasion and avoidance**
  It is recruiting criminal and civil investigators, and training over 5,000 staff to identify and tackle fraud, evasion and avoidance.

- **Increase risk capability**
  It is developing its technology to improve risk profiling across Enforcement and Compliance. It is also increasing resource in Large Business to strengthen risk assessment capability using the Large Business risk taskforce.

Case Study 1
Volume crime project

HMRC used the extra funding to strengthen its capability to undertake more complex investigations and increase its coverage of deliberate evasion. It is investing £41 million in the volume crime project to increase the number of fraud prosecutions of individuals and businesses that deliberately avoid their tax obligations. It recruited an extra 200 investigators to increase the number of prosecutions from 165 in 2010-11 to 1,174 in 2014-15. HMRC forecast increased revenues of £497 million – a return of 12:1 – and a stronger deterrent effect.

In 2013-14, there were 804 prosecutions as a result of the volume crime project. HMRC is conducting ongoing research to understand the impact of prosecutions on behaviours. Its initial research suggests that businesses are aware of HMRC's tougher approach although there is not yet sufficient evidence to confirm this.

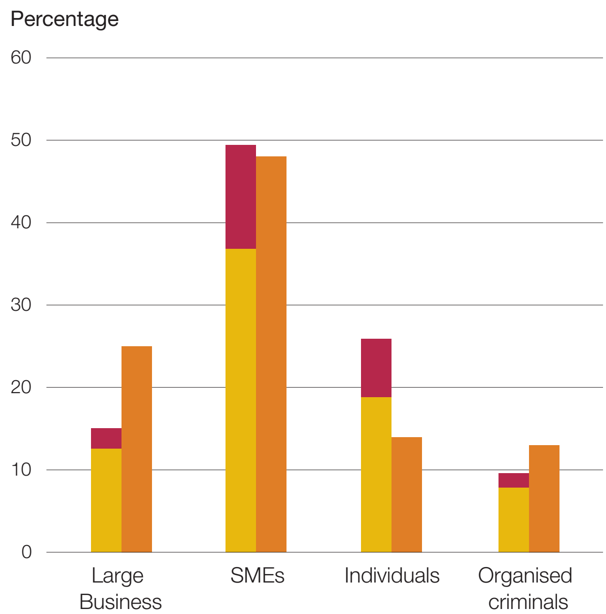
Note

1 Investment and revenue figures are current forecasts.

3.7 HMRC used its spending review settlement to help close the tax gap, based on an analysis of the potential returns in areas where it was previously under-represented. For example, it invested approximately half of the additional funding in the small and medium-sized business sector, which comprised 48 per cent of the tax gap (**Figure 14**), increasing the number of staff to improve the ratio of interventions to businesses in this sector from 2 per cent to 9 per cent. By contrast, it judged that the return on its investment by putting more staff into the large business sector would be smaller. In the former Large Business Service, which dealt with the 800 largest businesses, the ratio of investigators to businesses was already more than 1:1, giving HMRC 100 per cent coverage of these businesses. HMRC concluded that for Large Business, better returns could be achieved by maintaining existing staff numbers and enhancing their compliance skills through further training.

Figure 14
How HMRC used additional funding to address the tax gap

Percentage of compliance staff deployed in 2013-14 against percentage tax gap by customer group



	Large Business	SMEs	Individuals	Organised criminals
Additional staff	2	13	7	2
Existing staff	13	37	19	8
Tax gap	25	48	14	13

Notes

1 Staff measured in full-time equivalents.

2 Existing staff represent the staff already in post tackling these customer groups prior to the additional funding with additional staff being funded through the spending review investment package.

3 The chart shows the four largest customer groups which represent 97 per cent of all staff engaged in compliance work.

Source: National Audit Office analysis of HM Revenue & Custom's Tax Compliance Risk Overview and compliance staff numbers

3.8 In 2012, the Committee of Public Accounts' report *HMRC: Compliance and Enforcement Programme*[9] concluded that the Committee was not confident that there was a regular discussion with policy makers in which HMRC was sufficiently clear about the marginal rate of return it could achieve from different levels of spending. HMRC recognises that good quality information on marginal returns is an important part of decisions about resources,[10] and was already modelling different scenarios in some areas of the business to assess likely returns (paragraph 3.14). We found that, since 2012, HMRC has also started to analyse the point at which marginal returns start to diminish in four tax regimes – Corporation Tax, VAT, Self Assessment and Employer Compliance. In each case, it found that its existing coverage was significantly below the point at which further investment would mean marginal returns would start to fall. HMRC has not yet extended this analysis to different customer groups.

How HMRC allocates resources each year

3.9 HMRC's key governance arrangements for allocating compliance funding each year are as follows:

- **Setting budgets**
  The Executive Committee sets budgets and targets across the whole department, reflecting its objectives and ministerial priorities.
- **Deciding what to resource**
  The central finance team supports the Executive Committee in deciding where to deploy resources. It reviews budget allocations across business areas and considers proposed changes to the previous year's allocations against departmental priorities.
- **Assigning budgets**
  Business areas assign annual budgets to their directorates, using the previous year's allocation as the start point. The primary focus is on the need to meet revenue targets, while also considering the department's wider objectives and emerging risks.
- **Monitoring performance**
  Business areas monitor performance against targets and report back to the Executive Committee.

9 HC Committee of Public Accounts, *HM Revenue and Customs: Compliance and Enforcement Programme*, Eighty-Seventh Report of Session 2010-12, HC 1892, May 2012.

10 HM Treasury, Treasury Minutes, *The Government's responses on the Seventy-Fifth, the Seventy-Seventh, the Seventy-Ninth to the Eighty-First and the Eighty-Third to the Eighty-Eighth Reports from the Committee of Public Accounts*: *Session 2010-12*, CM 8416, July 2012, Eighty-Seventh Report, Paragraph 2.3.

3.10 Until 2011, HMRC did not have a consistent means of coordinating its response to risks. In 2011, the Enforcement and Compliance business area introduced planning groups to coordinate and focus its efforts on three significant areas of risk. These were: organised crime, mass market evasion and avoidance. The Personal Tax and Business Tax areas also have their own planning groups which coordinate work across their directorates. Large Business also has a tactical delivery plan which sets priorities for compliance work with large businesses dealt with across both Business Tax and Enforcement and Compliance. The planning groups help to set the strategy for tackling risks, and work with the directorates to advise on the type of interventions and resources needed.

3.11 The planning groups are important in providing an organisation-wide focus on specific risks and a cross-departmental response. In practice, each group operates differently and influences decision-making to varying degrees. For example, the Mass Market and Evasion Group has taken a collaborative approach with directorates to ensure they meet targets, whereas the Avoidance, Legal Interpretation, Complex and Offshore Group performs a more strategic advisory role. HMRC is reviewing the role of the planning groups to ensure they provide consistent and effective challenge to resource deployment decisions.

Factors considered in deploying resources

3.12 The Executive Committee and business areas have decided how to allocate resources based primarily on judgements, taking account of a range of factors. The priorities have been delivering annual revenue targets, while maintaining coverage across tax regimes and customer groups and, over the longer-term, strengthening capabilities. Using the spending review funding, HMRC redeployed staff across compliance work. Over the last three years, 6,500 staff have either joined or been redeployed within the Enforcement and Compliance business area, enabling HMRC to increase the number of compliance interventions.

3.13 HMRC faces practical constraints which restrict the extent to which resources can be reallocated each year and mean that reconsidering allocations from scratch is impractical. For example, compliance staff are spread over 100 sites; are committed to delivering existing work, including lengthy investigations; or may need further training before undertaking more complex work. For example, it takes two years to train a criminal investigator and four years to train a tax inspector. The Enforcement and Compliance area has sought to increase its flexibility by implementing a major training programme, providing training to over 5,000 staff over the last three years.

3.14 The Enforcement and Compliance area has used modelling to test the impact of different resource mixes on potential returns in the mass market sector, which includes small and medium-sized businesses and most individuals. We assessed that the modelling was sophisticated, demonstrating good practice by considering a range of scenarios and assumptions. However, we also found that the modelling did not cover all directorates or different types of compliance work, such as criminal investigations, and had not been used outside the Enforcement and Compliance business area. HMRC is building models in other areas to assess the impact of different resource mixes on potential returns and customer behaviours. This will build confidence that it is making optimal resource deployment decisions across the totality of its compliance work.

3.15 This year, for the first time, senior management are taking a cross-departmental view on the allocation of compliance resources to take account of wider departmental priorities, and are planning to redeploy compliance staff to other parts of the business. For example, HMRC expects almost 1,000 compliance staff to move into customer contact centres this year to help manage the annual peak in demand for the renewal of tax credits.

Consideration of risks when deploying resources

3.16 HMRC faces a wide range of risks, from simple mistakes to deliberate evasion to criminal attack. HMRC continually assesses these risks, investing funds and developing new technologies to better understand the threats. For the largest businesses, risks are identified on a case-by-case basis. HMRC used the additional spending review funding to increase its coverage of specific risks, increasing the number of interventions on small and medium-sized businesses, and focusing more on rule breakers and organised crime.

3.17 HMRC produces an annual summary of the main risks to tax collection. It ranks these on the basis of the amount of tax at risk, the possible social harm the risk could cause, and the potential impact on its reputation. The annual summary does not, though, provide a complete or current view of the risks to tax revenue. We found that the information on financial impact is based on historical data, and it does not consider the impact of future risks which may vary as economic and other circumstances change. Recognising its limitations, HMRC has not consistently used the annual assessment of risks when making resource deployment decisions.

3.18 HMRC is developing a new ‘Strategic Picture of Risk’ which aims to bring together data, intelligence and economic analysis to provide a more comprehensive and current view of risks. This includes more detailed analysis to show how risks relate to customer groups and behaviours. It intends to use the new assessment more explicitly in managing its business, developing a clearer link to the resource allocation process and providing senior management with better information to support decision-making.

3.19 Directorates have, though, reallocated resources to tackle significant risks. For example, HMRC has responded to the increasing profile of tax avoidance by creating a new Counter Avoidance Directorate, drawing 600 staff from across the department to provide a more consistent and coordinated response to this risk. We also found that HMRC had moved staff to tackle other major threats in the past. For example, it moved and trained over 1,000 staff to tackle Missing Trader Intra-Community (MTIC) fraud in 2005, when that risk was at its highest (**Figure 15** overleaf). HMRC refined its approach as its understanding of the fraud improved and, in line with the diminishing risk, reduced the number of staff to 300. HMRC's investment in tackling MTIC fraud over a 15-year period has considerably reduced the tax lost to this type of fraud. HMRC continues to tailor its response to the scale of the threat.

Availability of management information

3.20 To make informed resourcing decisions, HMRC needs good management information on risks and on performance in different parts of its business. By developing the Strategic Picture of Risk, HMRC is seeking to provide a better strategic outcome from its risk assessments. To assess performance, HMRC now uses four measures of compliance which provide HMRC with indicators of the returns from a broad range of its interventions to tackle non-compliance and improve voluntary compliance (Part Two).

3.21 We reviewed how HMRC allocates resources by risk, customer group and customer behaviour. We found that there was good management information on how HMRC allocated the spending review funding, and the projects could be mapped to specific risks. However, HMRC had incomplete and inconsistent management information on the distribution of annual resource allocations by risk type, customer groups or behaviours. There is scope for HMRC to improve the use of its management information to provide a clearer view on the extent to which it aligns its compliance resources with risks. It could also build its understanding of the behaviours that lead to non-compliance in different population groups.

Figure 15

Case Study 2: Missing Trader Intra-Community (MTIC) Fraud

1999 2000	MTIC fraud increases in early 2000s VAT system targeted through chains of companies. Traders go missing without paying VAT due HM Customs & Excise tackles MTIC fraud through Criminal Investigations	Respond
2005 06	HMRC loses test case in European Court, MTIC fraud increases HMRC receives huge VAT repayment claims amounting to £4 billion in three months HMRC moves 1,000 staff into tackling MTIC fraud	
2006-07	HMRC starts using new civil intervention to challenge fraudulent repayment claims Succeeds rapidly in reducing the level of fraud Fraudsters diversify into new products, creating new risks for HMRC	Prevent
2008 09	Fraudsters start exploiting carbon credits market HMRC uses powers to enact emergency legislation to zero-rate carbon credits Move towards civil rather than criminal action against fraudsters	
2010 11	Fraudsters move into gas and power industries HMRC monitors suspicious traders intensively, often preventing fraud HMRC focuses on promoting awareness, educating banks and large businesses to spot signs of fraud	Promote
2013 14	Numbers of staff reduce to around 300 Intensive trader monitoring work continues to prevent involvement in fraud Threat to UK high but contained. Collaborative cross-EU work ongoing to prevent and disrupt fraud	

Source: National Audit Office analysis of MTIC project business cases and Enforcement and Compliance business plans

How HMRC is developing its compliance strategy

3.22 HMRC is developing a new long-term strategy for compliance work to tackle the behaviours that lead to non-compliance (**Figure 16** overleaf). Its objectives are to:

- 'Promote' voluntary compliance by designing better systems and using communications guidance and publicity to help people to comply voluntarily;
- 'Prevent' non-compliance by intervening to stop obvious errors and frauds at the point of transaction; and
- 'Respond' robustly to non-compliance by focusing resources directly on those who deliberately evade or avoid paying tax.

3.23 HMRC already builds in a range of factors when deciding on the types of compliance intervention required and the resources needed. It is now considering how to measure and report the impact of the totality of its compliance work. HMRC will now need to ensure it aligns its management information with the new strategy to make informed decisions on the allocation of its compliance resources. Its work to develop its risk assessment (paragraph 3.18) and measure its performance (Part Two) will provide a stronger basis to achieve this. HMRC also needs to strengthen its understanding of the link between risks and resource deployment, and extend its use of modelling to trade-off allocations between different types of compliance work.

3.24 To maximise its impact, HMRC also needs to understand the balance of compliance work needed to deliver responsive actions to collect or protect yield, against the longer-term impact of activities to promote compliance and change behaviours. Developing a broader range of performance measures, which recognise the impact of different types of work, alongside a better understanding of how resources are allocated against risks, should give HMRC a stronger basis to achieve the new strategy.

Figure 16
HMRC's approach to improve voluntary compliance

Upstream	At transaction	Downstream
Promote	**Prevent**	**Respond**
Design compliance into systems and processes	**Block** mistakes	**Personalise** response
Scan for risk	**Prompt** compliance	**Self correct** and **Self-serve**
Nudge customers	**Personalise** return	Cost-effective **triage**
Direct to next steps		**Hard-edged** follow up
Opportunity to **correct**		

Underpinned by flexible, cross-cutting capability in two areas:

Leverage and deter

Agents and third parties, Transparency, Taxpayer responsibilities

Analyse

Strategic use of data, Customer understanding, Early risk scanning, Feedback

Source: HM Revenue & Customs' new strategy for compliance

Part Four

Other significant developments

4.1 This part gives an update on the following areas, which we highlighted in previous reports:

- Pay As You Earn;
- Tax debt management; and
- The UK-Switzerland tax agreement.

Pay As You Earn

4.2 Pay As You Earn (PAYE) is HMRC's largest tax collection process. In 2013-14, HMRC collected £162.1 billion in income tax and £106.7 billion in National Insurance contributions, about 90 per cent of which was through PAYE. HMRC collects this tax through around 1.7 million active employer schemes, which annually produce approximately 62 million returns for separate employments and pensions each year.

4.3 In recent years HMRC has invested in improving its PAYE systems. In 2009, it introduced the new National Insurance and PAYE Service (NPS). NPS created a single record for an individual's PAYE pay and tax details irrespective of the number of sources of income they have. This consolidated 12 regional databases into a single employee-focused national database. NPS improved HMRC's ability to provide more accurate tax codes and reduced the likelihood of people over or underpaying tax.

4.4 In 2013-14, HMRC changed PAYE so it could collect more timely data from employers through the Real Time Information system (RTI). RTI offers HMRC the prospect of tracking changes in income and employment in year, helping to keep people on the correct tax code when their employments change and thereby reducing the levels of under and overpayments of tax. RTI also allows HMRC to identify PAYE debt in year rather than at the end-of-year reconciliation.

4.5 We reported previously that the introduction of NPS in 2009 was not smooth,[11] adding to previous work backlogs and causing delays in updating taxpayer records. However, we noted in 2012-13 that HMRC had met its targets to clear these backlogs and stabilise the service.[12] This has allowed HMRC to operate a more normal PAYE service and to further reduce manual workloads. In 2012-13, we reported that the NPS system generated 20.5 million 'work items' (where manual intervention may be required to correct or update an employee's tax record), which was 4.5 million more than HMRC had the capacity to deal with. In 2013-14, the system was being used more effectively to automate tasks meaning that only 7.8 million work items were generated, which HMRC had the capacity to clear.

4.6 HMRC piloted RTI in 2012-13 before introducing it for all employers in 2013-14. As at 31 March 2014, 1.6 million employer schemes (94 per cent) are filing through RTI, comprising 47.7 million employments (over 99 per cent). Data quality has improved and HMRC's own evaluation suggests that RTI is helping to change employer behaviour by encouraging them to tell HMRC of changes in employee circumstances earlier.[13]

4.7 HMRC's employer survey suggests that, for most employers, changing to RTI has not been unduly burdensome. HMRC has nevertheless recognised that some smaller employers struggled to adapt their internal processes and systems in time.[14] For example, in December 2013, it allowed employers with nine or fewer employees to report PAYE information on or before the last payday in the tax month until April 2016.

Tax debt management

4.8 HMRC's Trust Statement reports a figure of £24.3 billion 'receivables' at 31 March 2014, which means taxes owed. This includes £13.3 billion of tax debt, which is when a tax liability is outstanding and collectable after its due payment date. HMRC's total debt balance makes up around 70 per cent of the overdue debt owed to government.[15] Tax debt excludes tax credits debt which we discuss in Part Five of this report.

4.9 The value of tax debt at year end increased to £13.3 billion at 31 March 2014 compared with £12.2 billion at 31 March 2013 (**Figure 17**). HMRC managed a total of £56.6 billion of debt during 2013-14, 33 per cent more than in the previous year. During the year, HMRC collected £39.6 billion in 2013-14 (£34.5 billion in 2012-13). Of this extra cash collected, an estimated £4.4 billion has been the result of earlier debt recovery action as a result of the introduction of Real Time Information. RTI means that PAYE debts can be identified sooner. The net effect of RTI is a significant factor in the £1.1 billion increase in the debt balance as at 31 March 2014.

11 Comptroller and Auditor General, *HM Revenue & Customs Annual Report and Accounts 2009-10, HC 299, July 2010,* Comptroller and Auditor General, *HM Revenue & Customs Annual Report and Accounts 2010-11, HC 981, July 2011,* Comptroller and Auditor General, *HM Revenue & Customs Annual Report and Accounts 2011-12*, HC 38, June 2012.

12 Comptroller and Auditor General, *HM Revenue & Customs Annual Report and Accounts 2012-13, HC 10, July 2013*.

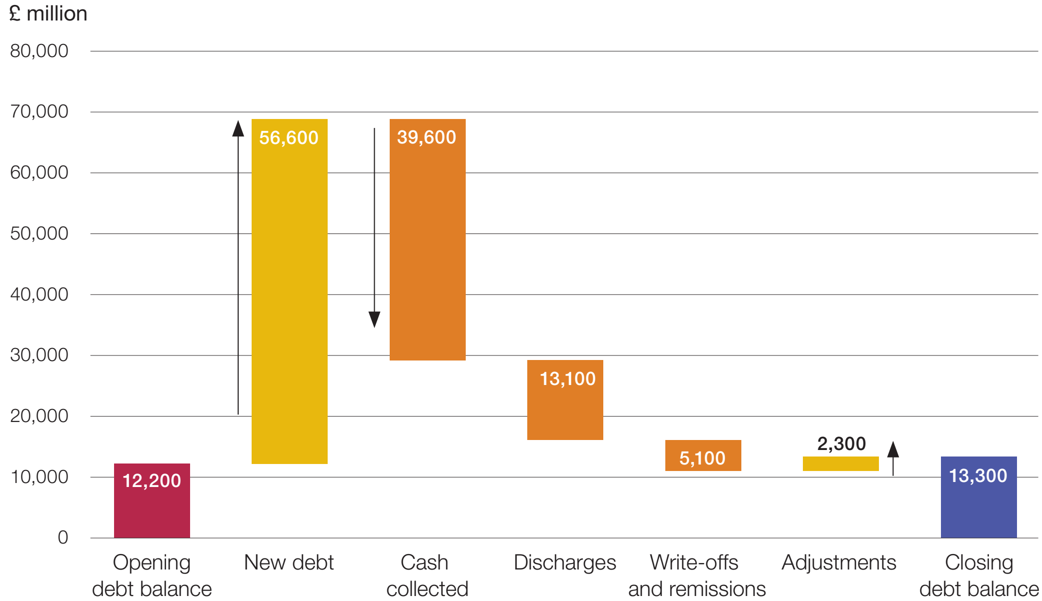
13 Available at: www.hmrc.gov.uk/research/report304.pdf, page 10.

14 Available at: www.gov.uk/government/publications/real-time-information-rti-assessment-of-impact-of-on-or-before-reporting

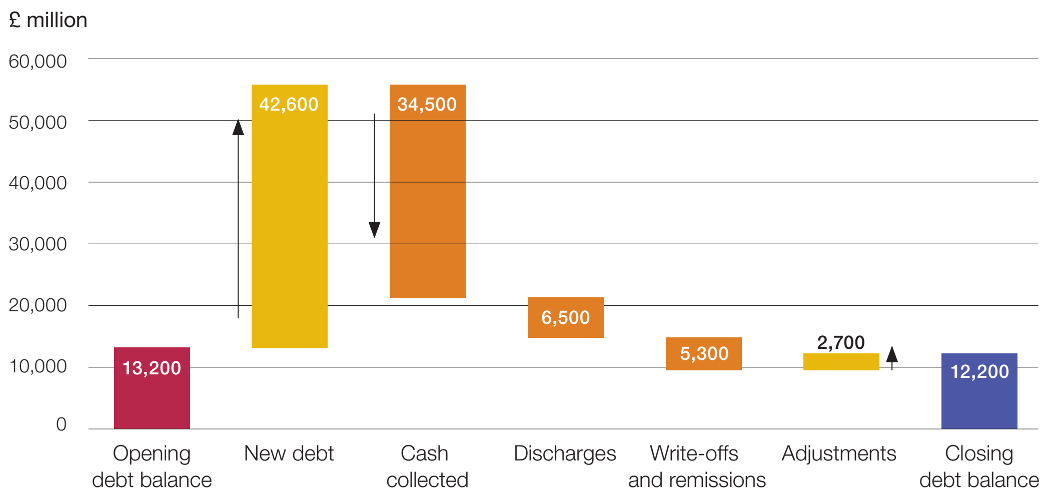
15 Comptroller and Auditor General, *Managing debt owed to government*, Session 2013-14, HC 967, National Audit Office, February 2014; See also: Comptroller and Auditor General, *HM Revenue & Customs annual report and accounts 2012-13*, HC 10, June 2013.

Figure 17
Increasing tax debt flows in 2013-14

Debt movements 2013-14



Debt movements 2012-13



Notes

1 Movements here exclude tax credits debt.

2 Debt is written off in situations where there is no practical way to pursue the liability. Some write-offs occur automatically and are outside a department's control such as where the debtor is insolvent.

3 Debt 'remission' (a concept unique to government) is where a department decides not to pursue a debt primarily on the grounds of value for money, i.e. the cost of pursuing it would be greater than the benefit, or it is not the most efficient use of limited resources, compared with other priorities.

4 Discharged debt is where HMRC amends or cancels a debt as further information is received that determines the taxpayer's final liability as being lower than the originally estimated figure.

5 Adjustments are due to manual adjustments to reconcile between debt balance figures in debt management systems and movements, such as cash collected, in other financial systems.

Source: HM Revenue & Customs

4.10 In 2013-14, HMRC focused on clearing its older debt, which was more than 34 per cent of its previous year-end balance (28 per cent at 31 March 2014). This resulted in the balance of debt aged over 12 months reducing to £3.7 billion from £4.2 billion at 31 March 2013 (**Figure 18**).

4.11 HMRC is completing a new debt management strategy, which has the following key components:

- **More strategic use of private sector debt collection agencies (DCAs)** to collect government debt, in particular through a cross-government 'debt market integrator.' HMRC sent £879 million of debt to DCAs in 2013-14 as extra capacity for low priority debts. The market integrator should act as a single point of contact to manage debt placements on behalf of HMRC and other government bodies, and should enable HMRC debt to be placed more intelligently with DCAs.
- **Improved Analytics.** HMRC is using its analytics system to design debt collection campaigns based on risk profiling and customer segmentation. This allows for more tailored and flexible approaches. It also requires less manual intervention for allocating debts. HMRC is running this in parallel with previous systems and this should bring further benefits in 2014-15.
- **Early collections and tailored approaches.** Collecting debts early: to ensure that debts are placed into debt recovery processes quickly and additional support is given to debtors in difficulty through allowing instalment pay arrangements.

4.12 HMRC has a wide range of performance data to measure its debt management performance and there are a range of key performance measures which are reported monthly to HMRC's Executive Management Committee. These include the period end debt balance, new debt, and roll rate calculation which measures the proportion of new debt that HMRC has collected within 30 or 90 days. HMRC is improving the roll rate calculation in 2014-15 to include a wider range of taxes including Value Added Tax.

UK-Switzerland tax agreement

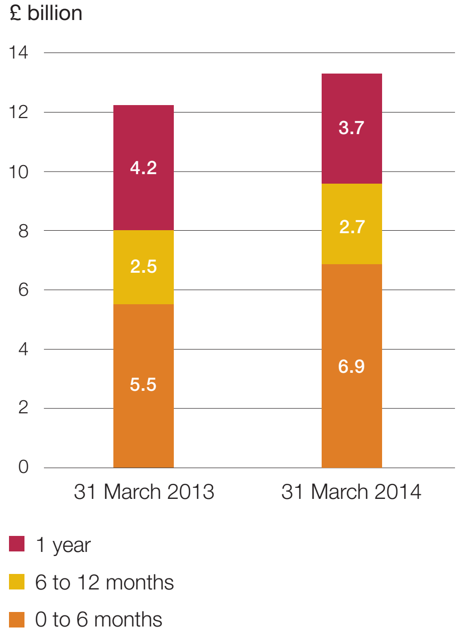
4.13 HMRC has a strategy for tackling offshore evasion[16] which aims to ensure that UK taxpayers meet their tax obligations, through cooperation with other tax jurisdictions. Including the UK, 44 jurisdictions have committed to the early adoption of a new standard on automatic exchange of information (known as 'The Organisation for Economic Co-operation and Development Common Reporting Standards').[17] Ten jurisdictions, including the UK Crown Dependencies and Overseas Territories, have already signed agreements to this standard with the UK. These agreements simply allow information to be shared between tax authorities.

16 HM Revenue & Customs, *No Safe Havens 2014*.

17 Under the OECD Common Reporting Standard, jurisdictions obtain financial information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. Based on an initiative of the G8 in 2013, the standards were developed by the OECD, working with G20 countries and in close cooperation with the EU.

Figure 18
The breakdown of HMRC's debt by age

Debt breakdown by age 2012-2014



Note

1 Trend analysis showing reduction in age of debt.

Source: HM Revenue & Customs

4.14 The UK-Switzerland tax agreement came into force on 1st January 2013. This agreement is unique as it allows individuals to avoid having their account details shared with HMRC if they pay a charge. Under the agreement, UK domiciled individuals with bank accounts in Switzerland can:

- opt to pay a withholding tax[18] based on the balance of their Swiss accounts between 2002 and 2012, and avoid having their details shared with HMRC; or
- opt to disclose the details of their accounts either through the Liechtenstein Disclosure Facility (LDF)[19] or directly to HMRC.

18 Withholding tax is a tax levied on income or assets held abroad by a third party on behalf of a government.

19 The Liechtenstein Disclosure Facility (LDF) is a facility to deal with those who want to disclose that they may have a UK tax liability. The LDF allows people with relevant property in Liechtenstein to settle their tax liability on all offshore assets with HMRC under this arrangement.

4.15 HMRC originally forecast that it would collect £5.0 billion revenue from the UK-Switzerland tax agreement by March 2016.[20] Following indications from the Swiss government that the agreement is likely to raise much less than originally expected, the Department revised its estimate and, in Autumn Statement 2013, it reduced the forecast of expected revenue to £1.7 billion by March 2016 (**Figure 19**).[21] HMRC had collected £808 million of withholding tax by March 2014 against a forecast of £955 million. Compliance work is ongoing to quantify revenue from the LDF and direct disclosures to HMRC related to the agreement. So far, HMRC has identified £6 million in direct disclosures and over £260 million in revenue from the LDF which it considers is likely to have been disclosed as a result of the UK-Switzerland tax agreement, bringing the total revenue received by March 2014 to £1,074 million. In April 2014, HMRC received a further £58 million in withholding tax relating to 2013-14.

4.16 HMRC used a range of external sources and data from its own compliance activities to revise its revenue estimates. In its latest forecast, HMRC used the most up to date information available but had to rely on its own judgement and experience of the agreement's performance so far, in particular for assumptions about how account holders would respond to the agreement, because there was no robust evidence for some of the factors that might impact on revenue. The factors used in the forecasts, many of which remain highly uncertain, included:

- the total value of UK funds in Switzerland;
- whether account holders had been declaring those funds to HMRC previously;
- how account holders respond to the agreement, including the level of capital flight out of Switzerland; and
- the extent to which account holders can find ways to circumvent the deal.

4.17 HMRC has gained new data as a result of its agreement with the Swiss authorities. This includes personal information about account holders who opt for disclosure, including the balance of their accounts between 2002 and 2012 and a list of the top ten countries where people have moved assets from Switzerland. It plans to use this data to validate its own analysis and to support negotiations over new tax agreements with other countries.

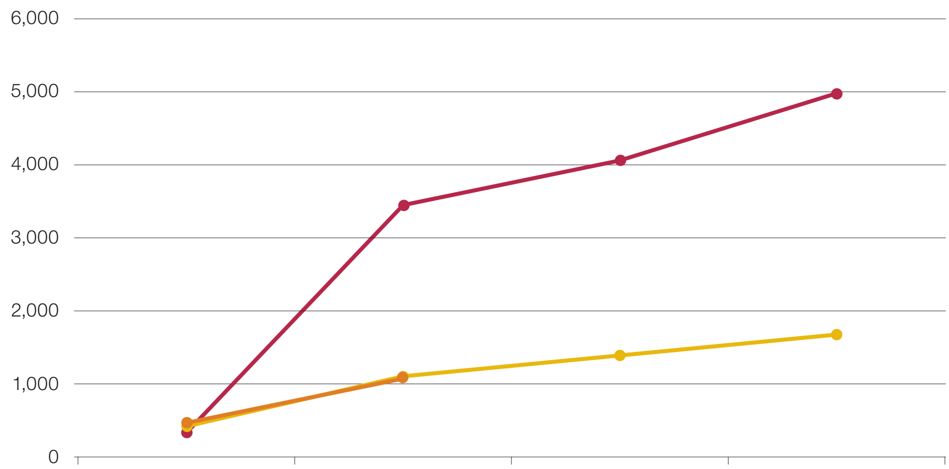
4.18 While HMRC has a wider strategy for tackling offshore evasion, which sets out how it plans to use data sharing agreements, it has not set out detailed performance measures, or longer-term objectives, other than expected revenues, specific to this agreement. It is not clear how HMRC proposes to exploit the lessons learned from the UK-Switzerland tax agreement.

20 The tax due on bank accounts which fall under the UK-Swiss tax agreement comprises two parts: firstly, a one-off payment based on the balance of the account at 31 December 2012, the length of time that the account was held and any increases over that time; secondly, a tax on income and gains for the future from 1 January 2013.

21 The Office for Budget Responsibility (OBR) certified HMRC's original forecasts for revenue from the UK-Swiss tax agreement but highlighted the uncertainties inherent in these forecasts due to lack of information about the value of UK assets in Switzerland. In 2013, it agreed the revised forecasts with HMRC and included these in its *Economic and Fiscal Outlook 2013*.

Figure 19

Forecast and actual revenues (cumulative)



	2012-13	2013-14	2014-15	2015-16
Original revenue estimate	330	3,450	4,060	4,980
Updated revenue estimate	420	1,105	1,390	1,675
Actual revenue to date	466	1,074	–	–

Notes

1 ‘Actual revenue to date’ includes revenue from the withholding tax and HMRC’s estimates to date of revenue connected to the Switzerland agreement through the LDF and through direct disclosures to HMRC.

2 Revenue for the Switzerland agreement is accounted for on a cash basis; £58 million relating to 2013-14 but received in April 2014, has therefore not been included in the actual revenue to date figures shown above.

Source: HM Revenue & Customs’ models and actual revenue data

Part Five

Personal tax credits

Introduction

5.1 In 2013-14, HMRC spent £29 billion on child and working tax credits (personal tax credits). Tax credits give financial support to around 4.7 million families, supporting around 7.8 million children.

5.2 The personal tax credits scheme is designed to be flexible enough to react to changes in claimants' circumstances. Claimants do not always, however, understand their obligations to tell HMRC when their circumstances change and to report their actual income and circumstances at the end of the tax year. Claimants may make mistakes in their applications, which result in result in overpayments or underpayments. For example, claimants may misunderstand what they should report as income, or miscalculate their childcare costs. Final entitlements, based on their actual income and circumstances in the year, can only be calculated after the end of each year as part of the finalisation process. If claimants have been paid more than they were entitled to, HMRC will seek to recover the resulting overpayment.

5.3 HMRC expects the introduction of Real Time Information (RTI) for PAYE to address much of the error in the personal tax credits system arising as a result of undeclared or understated income. Its initial analysis assumed that the majority of such error and fraud for employment income would be removed once RTI was fully implemented. Following the successful implementation of RTI (see Part Four) the vast majority of employers are now reporting in real time. RTI earnings data for 2013-14 is currently being used in support of tax credit renewals for 2014-15. It is too early to assess the impact of RTI on levels of personal tax credit error and fraud because the final reconciliation of individuals' tax credits entitlement for the 2013-14 tax year, including the identification of overpayments and underpayments of tax credits, will not commence until summer 2014 and the estimate of error and fraud for that year will not be published until 2015.

5.4 In October 2010, the government announced its intention to introduce a new 'Universal Credit' to replace many of the current working-age benefits, including working and child tax credits, with a single means-tested payment. The government's current assumption is for the Universal Credit service to be available in each part of Great Britain during 2016, with the majority of the remaining legacy benefit caseload moving to Universal Credit during 2016 and 2017.

5.5 This part of the report describes:

- how HMRC's accounts report personal tax credits;
- why the Comptroller and Auditor General (C&AG) qualified his audit opinion in 2013-14; and
- the actions HMRC is taking to reduce personal tax credits error and fraud; manage personal tax credits debt; and prepare for the implementation of Universal Credit.

Accounting for personal tax credits

5.6 2013-14 is the third year that HMRC has reported personal tax credits in its Resource Accounts: until 2010-11, personal tax credits were reported in HMRC's Trust Statement. After HM Treasury's 'clear line of sight' initiative, HMRC has reported personal tax credits in the Resource Accounts, which also show running costs and wider expenditure. Total expenditure recorded in HMRC's 2013-14 Resource Accounts is £46 billion, of which £29 billion was on personal tax credits.

The C&AG's audit opinion

5.7 In forming his audit opinion on HMRC's Resource Accounts, under the Government Resources and Accounts Act 2000, the C&AG is required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities that govern them (his regularity opinion).

5.8 The C&AG has qualified his regularity opinion on HMRC's 2013-14 Resource Accounts owing to the material level of error and fraud in personal tax credits expenditure. This expenditure has not been applied to the purposes intended by Parliament and does not conform to the requirements of the Tax Credits Act 2002. The Act specifies the criteria that govern entitlement to personal tax credits and the method to be used to calculate the amounts to be paid. Transactions do not conform to the governing legislation and are therefore irregular for one of two reasons:

- error or fraud results in payments of personal tax credits to households that are not entitled to those credits; or
- error or fraud results in underpayments or overpayments which differ from the entitlement specified in the legislation.

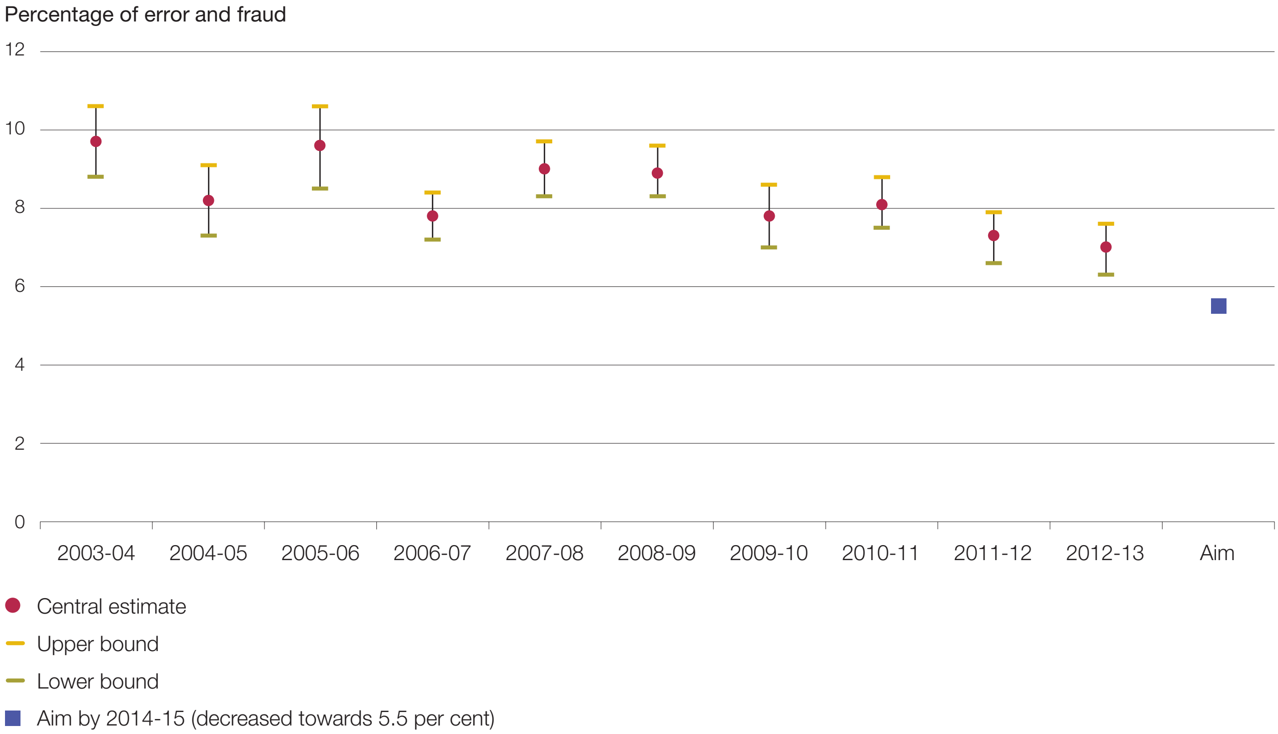
5.9 This is the third year in which HMRC's Resource Accounts have been qualified in respect of the regularity of personal tax credits expenditure, however HMRC's Trust Statement, in which personal tax credits were reported in previous years, received similar qualified audit opinions since the scheme commenced in 2003-04. The C&AG has reported to Parliament on personal tax credits every year since they were introduced.

Levels of error and fraud in 2012-13

5.10 HMRC's estimate of error and fraud within the personal tax credits system decreased from between 6.6 per cent and 7.9 per cent in 2011-12 to between 6.3 per cent and 7.6 per cent in 2012-13, as shown in **Figure 20**. The 2012-13 central estimate of error and fraud is 7.0 per cent (7.3 per cent midpoint 2011-12) and is the lowest since the current personal tax credits scheme was introduced in 2003-04. The 2012-13 error and fraud percentages equate to payments of between £1.8 billion and £2.2 billion being made to claimants incorrectly because of error or fraud and a further £70 million to £320 million not being paid to claimants because of error. The overall levels of error and fraud in finalised awards are significant within the context of the £29 billion spent on personal tax credits in 2013-14. Note 6.3 to HMRC's Resource Accounts discloses its best estimate of all error and fraud within the personal tax credits system.

Figure 20

HMRC's error and fraud estimates from 2003-04 to 2012-13, including projections to 2014-15 'towards 5.5 per cent' aim



Note

1 HMRC reports error and fraud within a range around a central estimate. The figures referred to within this report are the central estimates. The National Audit Office reviews the methodology for producing this estimate, which meets the national standard for official statistics. It is the best estimate of error and fraud available.

Source: HM Revenue & Customs, *Child and Working Tax Credits Error and Fraud Statistics, 2003-04 to 2012-13*

5.11 The relative proportions of error and fraud in the total published estimate have changed significantly between 2011-12 and 2012-13. Error accounted for £880 million (44 per cent) of the estimated £2.01 billion error and fraud favouring the customer in 2012-13. This compares to £1.22 billion (58 per cent of the £2.09 billion per the published statistics) for 2011-12. Fraud accounted for the remaining £1.13 billion (56 per cent) in 2012-13 compared to £870 million (42 per cent) in 2011-12. HMRC has informed us this is in part due to the increase in losses around claimants having undeclared partners.

Work to reduce error and fraud in 2013-14

5.12 In the Autumn Statement 2013, the government announced that HMRC would aim to reduce losses through error and fraud in the personal tax credits system towards 5.5 per cent of finalised personal tax credits entitlement by 2014-15. It announced a number of initiatives to help meet this objective, including working in partnership with a private sector provider to carry out fraud and error checks to prevent money being paid out to tax credits claimants erroneously.

5.13 Achieving this aim will be challenging and HMRC has engaged private sector partners to enhance its capacity to tackle error and fraud from September 2014. Our report *Tackling tax credits error and fraud*[22] recommended that HMRC should evaluate ways to improve the quality and volume of interventions through the use of third parties. Following a successful pilot exercise with Transactis in spring 2013, HMRC planned to appoint a partner for three years in 2014 to provide a data analytics service and make checks on personal tax credits claimants to reduce error and fraud in the claims of those individuals. Following an open procurement process, HMRC signed a contract with Synnex-Concentrix UK Ltd in May 2014 for checking to commence in September 2014. The contract uses a payment by results model, offering a cost-effective means of identifying and correcting awards.

5.14 HMRC performs annual analysis to estimate the level of error and fraud in six key risk areas.

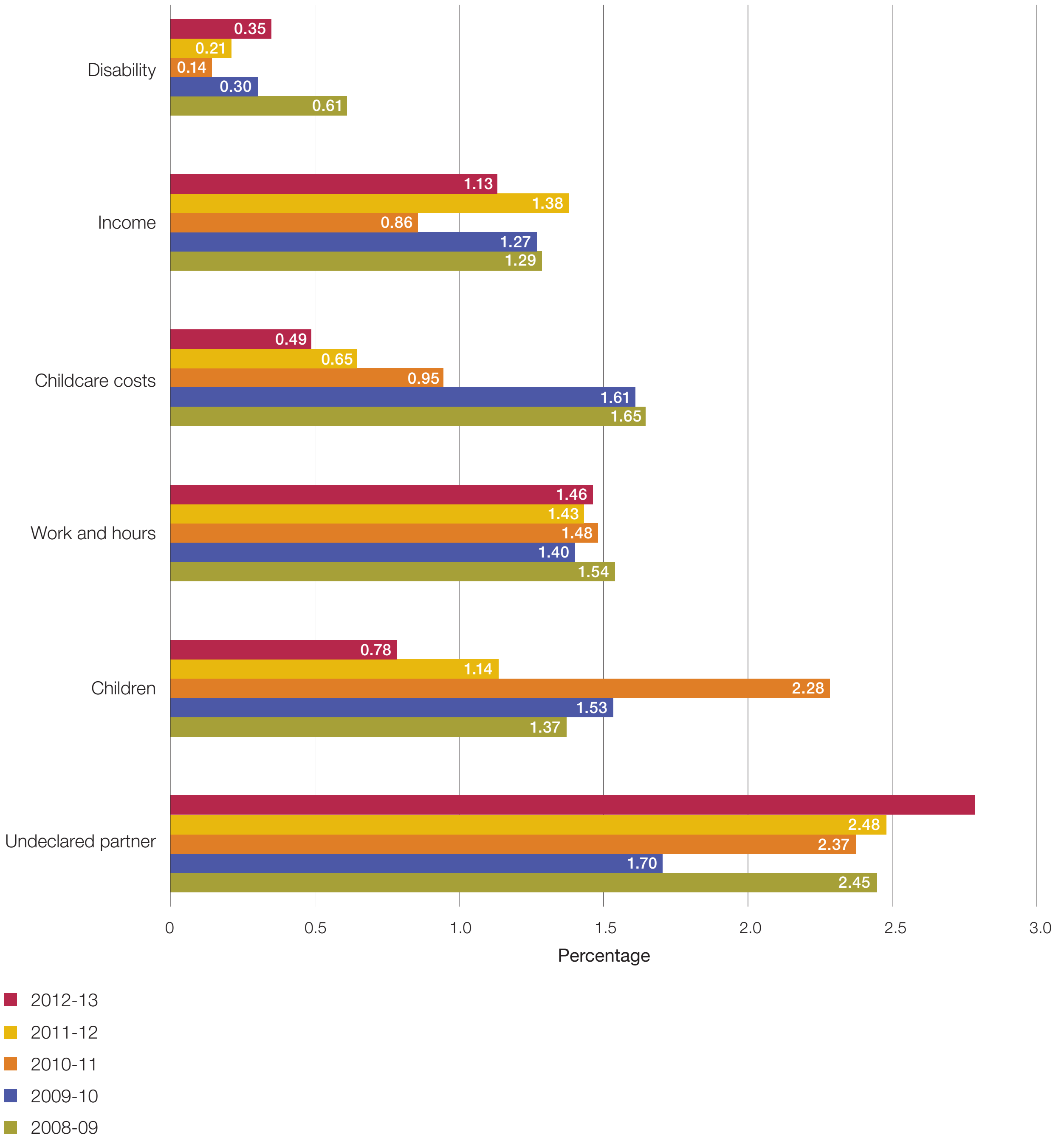
5.15 HMRC's analysis of error and fraud in finalised 2012-13 awards, as shown in **Figure 21** overleaf, indicates that it has made progress in three of the six risk areas since 2011-12: income, children and childcare, but error rates have increased for the disability and undeclared partner risk areas.

22 Comptroller and Auditor General, *Tackling tax credits error and fraud*, Session 2012-13, HC 891, National Audit Office, February 2013.

Figure 21

HMRC's error and fraud estimates by risk area for 2008-09 to 2012-13

Error and fraud losses have reduced in 2012-13 in three of the six identified risk areas



Note

1 The values are HMRC's best estimate of the primary reason for an adjustment to awards. HMRC does not publish confidence intervals for these estimates.

Source: National Audit Office analysis of HM Revenue & Customs' *Child and Working Tax Credits: Error and Fraud Statistics 2012-13*

5.16 The increase in the level of error and fraud in the undeclared partner risk category is disappointing as HMRC used credit reference agency data as well as HMRC risk tools throughout 2012-13 to help identify cases with a risk of an undeclared partner. The figures published in June 2014 suggest that these actions were insufficient to reduce error and fraud in this risk area.

5.17 As discussed in Part Four of this report, following the introduction of the Real Time Information (RTI) system, HMRC holds up-to-date data on income for every employee whose taxes are paid through PAYE. This data should help to improve levels of error and fraud in the income risk area. However, this will not be able to tackle incorrect self employed income reported by claimants.

Levels of personal tax credits debt

5.18 Personal tax credits debt arises when a personal tax credit recipient is paid in excess of what they are entitled to receive. HMRC will then seek to recover this debt.

5.19 Personal tax credits debt rose in 2013-14. As at 31 March 2014 the total value of personal tax credits debt was £5.5 billion (£4.8 billion at 31 March 2013). The £0.7 billion increase in total debt between 31 March 2013 and 2014 is the net effect of £1.8 billion of new debts that HMRC identified in year, offset by £0.9 billion of recoveries and £0.2 billion of debt remissions.

5.20 In addition, for the first time in its accounts HMRC now recognises its estimate of overpayments made in the most recent tax credits award year. This is correctly accounted for as a receivable as opposed to debt, and explains why Note 6.2 to HMRC's Resource Accounts records net receivables at 31 March 2014 of £2.4 billion (£1.9 billion at 31 March 2013).

HMRC actions to improve management of personal tax credits debts in 2013-14

5.21 HMRC has an additional target for personal tax credits debt as a result of conclusions drawn by the cross-government Fraud, Error and Debt Taskforce, which is the strategic body for all fraud and error, debt and grant efficiency initiatives across government.

5.22 In contrast to the target of reducing the gross personal tax credits debt balance to £3.7 billion by March 2015, the new target focuses on debt recovery rates. HMRC's recovery target for 2014-15 is £970 million, compared to actual recoveries in 2013-14 of £815 million (£660 million in 2012-13).[23] There was no target set for 2013-14.

23 The figures quoted here for recovery do not align directly with the figures disclosed in Note 6.2 of the 2013-14 Resource Accounts. The recovery target captures only cash collected and the value of time to pay arrangements. The Resource Accounts figures also include other adjustments to the receivables balance.

5.23 HMRC has changed its approach to recognise that a target on the personal tax credits debt balance may not be the most appropriate measure of success. Personal tax credit debt levels are likely to increase further because of Budget changes affecting eligibility.[24] In addition, initiatives to improve HMRC's error and fraud detection capabilities would, if successful, serve to increase the amount of identified debt. Instead, HMRC's key performance measure is now to maximise its recovery of cash.

5.24 HMRC has continued to track its historical debt to calculate its recovery rates. This has led it to increase its estimated recovery rates by 3 per cent (from 31.4 per cent to 34.1 per cent). Despite this, the provision for irrecoverable debt increased by £374 million (to £3.6 billion) as the stock of debt increased during 2013-14. HMRC's estimated overpayments arising from the 2013-14 finalisation process, which are now recognised in the Resource Account as receivables, are impaired at a lower rate than other personal tax credits debt. These receivables are expected to be recovered sooner and to have higher recoverability rates.

5.25 In the Autumn Statement 2013, the government announced that HMRC would expand its capacity to recover benefit and personal tax credits debts through an increased use of private sector debt collection agencies. Recovery rates from HMRC's trial use of these agencies are not as high as initial expectations. HMRC estimated that the increased use of debt collection agencies from January 2013 would result in the recovery of an additional £90 million of debt by the end of 2014-15. While HMRC is on track to deliver this target, the current recovery rate is well below the initial expectation of approximately 30 per cent.

5.26 HMRC estimates that the current overall recovery rate is 18 per cent so far (see **Figure 22**). Recoveries fall into two distinct categories:

- **Recoveries after giving 'final opportunity letters'** where HMRC sends final opportunity letters before it passes the debt to a debt collection agency. Customers are given a minimum of 14 days to repay the debt or contact HMRC to set up a direct debit arrangement. Recoveries made during this period are classed as final opportunity letter recoveries.

- **Debt collection agency recoveries** where recoveries are made because of action taken by a debt collection agency.

5.27 In June 2013, we reported on HMRC's project to recover £520 million of historical tax credits debt. The project, with a planned start date of April 2014, involved HMRC updating its IT systems to allow it to collect historical debt by deducting proportions of payments from new claimant awards. The expected start date for this recovery method is now October 2014 and expected benefits have reduced to £480 million.

24 The level by which income can increase before it impacts on the level of award has been reduced from £10,000 in April 2011 to £5,000 from April 2013. Overpayments that were previously out of scope for recovery will be pursued and will increase the number of cases in future debt campaigns.

Figure 22

Debt recovery rates from 1 January 2013 to 28 March 2014[1]

Initiative	Total debt stock subject to intervention (£m)	Amount recovered[3] (£m)	Recovery rate (%)
Final opportunity letter sent by HMRC	771	108	14
Debt processed by debt collection agency	571[2]	31	6
Overall recovery rate (debt subject to either one or both of the above interventions)	771	139	18

Notes

1 Debts were passed to debt collection agencies in tranches for an average duration of five months between 1 January 2013 and 28 March 2014.

2 Some debts initially selected as part of the measure were removed before being sent to the debt collection agency. This is because HMRC was able to start debt collection following the final opportunity letter (£108 million). In addition, some debts were found not to be suitable for referral to a debt collection agency at this time due to changes to the customer debt on the system (£92 million).

3 This balance is made up of actual cash recoveries and direct debit arrangements set up (as at 28 March 2014). Actual recoveries may be lower if obligations under direct debit arrangements are not fully met.

Source: National Audit Office analysis of March 2014 HM Revenue & Customs' Debt Management and Banking management information

Universal Credit

5.28 We reported in 2012-13 that HMRC was working closely with the Department for Work & Pensions (DWP) on the transition to Universal Credit. HMRC is responsible for stopping existing personal tax credits claims when a claimant becomes eligible for Universal Credit.

5.29 Since April 2013, DWP has been using pilot schemes (Pathfinders) to roll-out Universal Credit. The government's current assumption is for the Universal Credit service to be available in each part of Great Britain during 2016, with the majority of the remaining legacy benefit caseload moving to Universal Credit during 2016 and 2017. To date the impact on HMRC has been minimal as very few tax credits claimants have transferred to Universal Credit.

5.30 At present, the government has yet to announce whether HMRC or DWP will be accountable for recovering historical tax credit debt once individuals move into claiming Universal Credit. Both departments are working closely to determine the detail of the transitional arrangements.

Appendix One

Progress on last year's recommendations

In our report on HMRC's 2012-13 accounts, we identified five broad themes that linked our findings and recommendations to our wider value-for-money work on HMRC's activities. We recommended that HMRC should seek to apply these lessons across the full range of its activities. Our analysis of HMRC's progress in each of these areas is summarised in **Figure 23**.

Figure 23

HMRC's progress on last year's recommendations

NAO recommendation	Progress	Commentary
PAYE & Real Time Information: To improve PAYE's operations in order to keep workloads up to date, to gain internal financial accreditation by improving RTI's financial system design to improve online contingency measures and to clarify the future operating model for PAYE and RTI.	Good	Progress has been made against a number of these points and HMRC acknowledge there is further work to be done. On PAYE, HMRC is working to reduce and automate the number of back-office tasks that it is required to do. On RTI, work has begun supporting internal financial reporting systems. HMRC believe that it has adequate measures in place for RTI disaster recovery. HMRC has developed a high-level vision for the PAYE operating model. However, the detail of this vision, including the processes to be re-engineered and the opportunities to maximise RTI data, still needs to be refined.
Tackling VAT fraud: To enhance the risk profiling of VAT payment returns, the response to fraud risks from internet traders, and review the performance of the online VAT registration system.	Good	HMRC has made progress in developing its strategic intelligence and staff capability. HMRC is developing a pilot project to risk profile VAT payment returns and has appointed senior sponsors to take forward cross-HMRC work on combating online fraud. HMRC is currently completing its review of the implementation of its enhanced online VAT registration system. Emerging findings suggest that there were some implementation problems, such as interfaces between components and some evidence of increased attempted fraud. However, overall the system has been successful in identifying and rejecting fraudulent registration attempts and all elements of the new system were delivered satisfactorily.
Personal tax credits: To continue to reduce losses from fraud and error, and to enhance the analysis and collection of tax credits debt.	Limited	This is covered in Part Five of our report. The 7.0 per cent central point of HMRC's estimate of error and fraud within the personal tax credits system in 2012-13 is the lowest ever recorded. While overall progress is being made, the level of error in relation to the risk associated with undeclared partners increased in 2012-13 despite HMRC's initiatives. HMRC is outsourcing more personal tax credits debt and is on track to meet its target of collecting an additional £90 million through this initiative. The current recovery rate so far is, however, well below initial projections.

Figure 23 *continued*

HMRC's progress on last year's recommendations

NAO recommendation	Progress	Commentary
Customer Focus: To identify and apply best practice in customer service, and promote cultural change throughout its business to put customers and their needs at the heart of its decision-making so it becomes easier for all taxpayers to pay the right tax at the right time.	N/A	HMRC has developed a high-level customer service strategy and is setting out the detail around refining its business processes and performance measures. However, we have not conducted detailed work in this area in 2013-14.
Data Quality: To improve the quality of its data and to improve management information and information systems to aid decision-making and performance.	Good	HMRC has worked on improving the quality of its Resource Accounts general ledger system and the reliability of the data coming out of its Enterprise Resource Planning system as management information has been improved. To enhance its decision-making processes, HMRC has a project to improve its costing data and its management information on the cost of anti-avoidance activity, though this has been slightly delayed. HMRC is currently recruiting a Director of Data Exploitation, and is establishing a new Data Cluster and Enterprise Data Hub, and developing detailed plans for different business units as part of HMRC's transformation agenda.

Source: National Audit Office's financial and section 2 audit work and HM Revenue & Customs' review of its implementation of recommendations

Appendix Two

Our evidence base

1 We reached our conclusions on HMRC using evidence collected between September 2013 and June 2014.

2 As part of our **financial audit**, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts and their disclosures. We analysed and discussed with officials the supporting data prepared by a variety of business units in HMRC.

3 As part of our **Section 2 audit** on the adequacy and integrity of HMRC's revenue collection systems, we reviewed the systems for revenue collection across all different tax streams, as well as HMRC's debt management system, and the Real Time Information system introduced for PAYE.

4 Our **analytical review** in Part One was based on an analysis of the numbers published in the financial statements, plus an analysis of supporting information provided during the course of the financial audit.

5 Our review in Part Two of HMRC's systems for reporting **compliance yield** included testing of the controls around the scoring and reporting of compliance yield, document review, interviews, site visits to local compliance offices, and reviews of 45 case files including Large Business cases. We also reviewed HMRC's reported performance against the underlying data. We reviewed compliance yield against a framework of four criteria:

- Reasonableness. Where we used interviews with HMRC staff and document review including guidance notes to consider whether the measure reflects the impact of different kinds of compliance intervention and whether it is based on the best evidence available;
- Consistency. Where we looked at changes in methodology and exceptional items to consider whether the measure allows comparison of performance over time;
- Reliability. Where we looked at the robustness of quality assurance processes to ensure data quality, governance processes, and reviewed the systems for calculating cash collected, revenue loss prevented, future revenue benefit, and product and process yield; and
- Understandability. Where we investigated how well the measure is disclosed and reported as an indicator of HMRC's performance internally, to the centre of government, and in HMRC's corporate documents.

6 As part of our review of **how HMRC resources compliance work** in Part Three we performed the following work:

- we reviewed existing evidence and research on good practice in resource deployment, and assessed HMRC's methods for deploying resources including an assessment of its compliance resource allocation model;
- we performed a document review of its risk assessment methodology and examined how HMRC aligns its resources with the risks it faces;
- we reviewed budgeting evidence, including its budgeting processes and management accounts, and analysed HMRC's spending review 2010 settlement and the business cases for the reinvestment and autumn statement funding;
- we undertook interviews with members of the central finance team, HMRC staff involved in making resourcing decisions, and HMRC staff involved in understanding the risks the department faces; and
- we carried out case studies on the MTIC and volume crime projects, which involved reviewing all documentation related to the projects and interviews around recruitment and training with staff involved in setting up and overseeing the projects.

7 To provide the evidence for Part Four's consideration of HMRC's **new revenue systems and systems for new taxes**, we reviewed HMRC's new strategies and performance measures, attended performance meetings in business hubs and conducted interviews with key members of staff, and considered the evaluations of the performance of new systems. We reviewed HMRC's forecasting of revenues for new taxes, including using Monte Carlo analysis to consider uncertainty.

8 In addition to our standard **financial audit work around personal tax credits**, for Part Five we also reviewed HMRC's error and fraud statistics analysis, information on the performance of initiatives to reduce error and fraud in tax credit payments. We also interviewed key staff and reviewed documents on HMRC plans and strategies around tax credit debt, and reviewed the performance of strategic initiatives such as the use of debt collection agencies.

9 In addition, we also reviewed:

- HMRC's internal audit reports to understand their management of risks and challenges.
- We reviewed HMRC's corporate publications on measuring the tax gap, on compliance performance.

We reviewed relevant NAO and PAC reports on HMRC's performance in the past year including reports on tax reliefs, gift aid, and cross-government debt management.

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