



HM Revenue
& Customs

Annual Report and Accounts 2017-18



HM Revenue and Customs Annual Report and Accounts 2017-18

(For the year ended 31 March 2018)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000 and Section 2 of the Exchequer and Audit Departments Act 1921

Annual Report presented to the House of Commons by Command of Her Majesty

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This is part of a series of departmental publications which, along with the Main Supply Estimates 2018-19, the document Public Expenditure: Statistical Analyses 2018 present the Government's outturn for 2017-18 and planned expenditure for 2018-19.



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Foreword by Chief Executive and Permanent Secretary

Welcome to HMRC's annual report and accounts for 2017-18. I'm proud of the vital work we do to fund the UK's public services, the record tax revenues we're bringing in, and the leaps forward we're taking to modernise how we operate.



Over the past year, we've secured £605.8 billion in revenue for the UK – another record amount and £30.9 billion more than last year. We also protected more than £30 billion that would otherwise have been lost to UK taxpayers through tackling error, avoidance, evasion and organised crime.

Our task, as always, is to work with integrity to help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system. But we know that the world around us, and the technology people use in their day-to-day lives, is changing rapidly. That's why, in 2015, we said that our goal was to become one of the world's most digitally-advanced tax authorities, an ambition that we still hold and are on track to deliver.

Today, more and more of our customers are self-serving through high-quality and sophisticated online tools – and we're increasingly a data-led organisation. Our Personal Tax Accounts have been accessed by around 15 million people since they launched, and nearly 93% of people filed their Self Assessment return online this year – a record number. Our investment in digital and making better use of the data we hold means people can do their tax or benefits when they want, where they want, using smart online systems that help to reduce error and fraud.

Our modernisation programme goes further than this – developing our new customs system, our work to make it easier for businesses and agents to interact with us online, and our new network of modern, high-tech regional centres. In 2017, we opened our regional centre in Croydon, the first of 13 to open over the coming years. It's a fantastic building and represents a fundamental change in the way we work – moving our people out of dozens of smaller offices and into modern workplaces, making it easier to exploit new technology, develop skills and work in a joined-up way for customers.

Over the last three years, new government priorities have added to our already packed agenda. In 2016, the EU referendum result heralded potentially major changes in our customs, tax, tax credits and Child Benefit work. In particular, this means delivering the new Customs Declaration Service we were already developing in a way that is flexible enough to support any new UK customs regime. It also means delivering essential programmes to support access to European markets and boost free trade with countries across the world – many of which will be delivered through sophisticated digital systems.

To ensure we can build on our achievements and go further with our transformation, in the context of ongoing budgetary pressures, we're prioritising the projects that make the most difference – pausing some work and stopping other projects to make room for our EU exit work. For example, we'll continue to build on the success of Personal Tax Accounts, encouraging more people to use them, but only adding extra services where they reduce phone and post contact. We've already said we're slowing the pace at which businesses need to keep digital records and send information to us through Making Tax Digital, to make the transition as smooth as possible.

Our transformation goals remain the same – and many projects have now reached a new level of maturity where we're able to embed them in the area of HMRC where the outcomes and benefits have the most effect. Our new strategy, published in July 2017, sits at the heart of our plans – and this annual report looks at the progress we're making under each part of this strategy.

But our new strategy also shows us the areas where we need to go further, within the funding available – in our work to support agents and others that play an important role in helping the tax system run smoothly, for example.

We're dedicated to the vital work that we do. So many of the things we all value as a society, from our hospitals to our schools, police and other indispensable services, couldn't function without the money we bring in.

That success is down to the hard work and professionalism of our workforce – and I'd like to thank them on behalf of the Board and our senior leadership team. It's been a year of change but also achievement, and I've got every confidence we'll build on this great foundation as we continue to transform our department.



Jon Thompson

Chief Executive and Permanent Secretary



For more information about HMRC's strategy go to
www.gov.uk/government/publications/hmrc-strategy

We have a vital purpose

We are the UK's tax, payments and customs authority: we collect the money that pays for the UK's public services and help families and individuals with targeted financial support.

Our objectives, set by the government, are to:



The taxes and duties we collect fund the UK's schools, hospitals and other important services that we all rely on. We also pay tax credits and Child Benefit, enforce the National Minimum Wage and administer the government's Tax-Free Childcare scheme.

So our work touches the lives of virtually everyone in the country – it's no wonder we're one of the UK's biggest organisations, with more than 59,000 full-time equivalent employees nationwide.

Our vision is to be a world class organisation

To achieve our vital purpose in a changing world, we are transforming and modernising the way we work – and we're putting customers at the heart of everything we do.

We're proud of this ambition, and the values that underpin it.

- We **are professional**
- We **act with integrity**
- We **show respect**
- We **are innovative**

The UK has the second most effective tax system in the G20 after Canada, according to the World Bank Group and PwC.*

*PwC/World Bank Group 'Paying Taxes' report, 2017



The difference we made in 2017-18

Total tax revenues

£605.8bn



generated for UK public services and other government priorities



£30.3bn

Additional tax secured through our work to tackle error, avoidance and evasion – 5% higher than last year

96.6%

Customs checks cleared within two hours, against our target of 95%





78%

Successful outcomes for appeals heard in the tribunals and courts – protecting £37bn in tax



£229m

Efficiency savings we made for the UK taxpayer



80.7%

Customer post turned around within 15 days



15m

Customers using Personal Tax Accounts to manage their tax affairs online since launch



46.7m

Calls received – and we beat our five minute target for average speed of answer



1m+

Customers renewed their tax credits online – a 6% increase

Customers are at the heart of what we do

HMRC's work touches the lives of everyone in the UK.

We collect taxes and duties from more than 45 million individuals and five million businesses. We also pay tax credits to around 3.8 million families and 6.8 million children and we support around 12.9 million children in the UK through Child Benefit.

That's a lot of customers and a big responsibility – so everything we do starts with understanding their needs. The vast majority of our customers want to pay the right tax at the right time and play their part in funding the UK's vital public services. Our job is to make this as straightforward as possible for them to do, while tackling avoidance and evasion by the dishonest minority.

Our customers include:



45m

Individuals

[Read more on page 22](#)



500,000

Wealthy individuals*

[Read more on page 28](#)



5m+

Small businesses

[Read more on page 36](#)



170,000

Mid-sized businesses

[Read more on page 42](#)



2,000

Large businesses

[Read more on page 50](#)

* The wealthy population fluctuates significantly year on year and we have estimated a population in excess of 500,000 individuals.

Your Charter

Whether you're a business contributing to the UK's economy, a family on tax credits or a hard-working individual using Self Assessment or PAYE, we want to give all our customers a service that is fair, accurate and based on mutual trust and respect. We also want to make it as easy as we can for customers to get things right.

'Your Charter' is the basis for this commitment and is central to everything we do. It explains what you, as customers, can expect from us – and what we expect from you.

What you can expect from us:

- Respect you and treat you as honest
- Provide a helpful, efficient and effective service
- Be professional and act with integrity
- Protect your information and respect your privacy
- Accept that someone else can represent you
- Deal with complaints quickly and fairly
- Tackle those who bend or break the rules

What we expect from you:

- Be honest and respect our staff
- Work with us to get things right
- Find out what you need to do and keep us informed
- Keep accurate records and protect your information
- Know what your representative does on your behalf
- Respond in good time
- Take reasonable care to avoid mistakes



For more information about our Charter go to www.gov.uk/government/publications/your-charter/your-charter



A close-up photograph of a person's hand operating a coffee machine. The hand is holding the handle of the machine, and a stream of coffee is being poured into a glass cup. The background is blurred, showing a window and some indoor plants. A teal-colored overlay covers the right side of the image, where the text is located.

Our performance

How we delivered against our strategic plans in 2017-18

- 16 Maximising revenues due and bearing down on evasion and avoidance
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Maximising revenues due and bearing down on avoidance and evasion

Maximising the collection of the tax and duties that are legally due goes to the heart of our vital purpose. We help the honest majority to get their tax right and make it harder for the dishonest minority to cheat the system

We know it's much better and more cost effective to help customers get their tax affairs right from the start, rather than spend time and resources fixing mistakes after they happen. That's why we're using powerful new tools to analyse our data and produce richer insights into our customers' needs and behaviours. It means we can tailor our customer services, spot emerging risks, and act faster to prevent problems before they occur. Crucially, it also means our specialists can respond with maximum impact to tackle deliberate tax avoidance and evasion.

Our strategy is to:

- segment customers by type and size, and tailor our customer services based on behaviours, capabilities and the level of risk
- promote compliance and prevent non-compliance as early as possible in each customer's relationship with us, while responding strongly to deliberate non-compliance
- reduce the likelihood of disputes by helping more customers to get their affairs right, but where disputes occur to resolve them by agreement or through litigation – whichever best secures the tax that is legally due.

This year's performance highlights:

£605.8bn

Record total revenues

£30.3bn

Compliance yield

90%+

Successful tax prosecutions



Segmenting customers and tailoring services



Our new customer lab lets us work directly with customers to design services

Everything we do starts with what we know about our customers, and how we can make it straightforward for them to register, file and pay the right tax at the right time.

That's why we're re-orienting our systems and processes to meet the needs of five different groups – and using digital technology to enable more customers to manage all their tax affairs in one place.

This framework means we can closely tailor our services to the requirements of each group and allocate our resources in the best way to help customers. It also means we can identify and prioritise risks more easily and cost-effectively, while maintaining fairness and consistency across the board.

We define our five customer groups as:

Individuals:

Customers have incomes below £150,000 and assets below £1 million. Read more on page 22

Wealthy individuals:

Customers are individuals with incomes above £150,000 or assets above £1 million. Read more on page 28

Small businesses:

Customers have a turnover below £10 million and fewer than 20 employees. Read more on page 36

Mid-sized businesses, charities and public bodies:

Customers have turnovers between £10 million and £200 million or have 20 or more employees. Read more on page 42

Large businesses:

We broadly define a customer as a large business if it has a turnover exceeding £200 million – although we also look at other factors, such as their UK and global footprint or the sector they operate in. Read more on page 50

Promoting compliance and preventing non-compliance

When we talk about compliance, we simply mean paying the right tax at the right time, in line with the tax rules. The best way to tackle non-compliance is to prevent it happening in the first place – and that's about providing good customer service for the majority as well as cracking down on the minority who break the rules. This approach is at the heart of our strategy to maximise tax revenues for the UK's public services.

We also have dedicated Customer Compliance Managers that monitor the tax affairs of every large business and our wealthiest individuals, reflecting the complexity of their affairs and the tax at stake. In fact, at any one time we'll be actively investigating around half of the UK's largest businesses. In contrast, with small businesses, we only step in when something goes wrong, intentionally or otherwise.

Overall, to secure the right tax at the right time, we:

- tailor to our customers
- are digital and data-led
- work with others to secure the right tax
- deliver through our skilled and adaptable workforce.



£13m

Additional revenue since 2016 through trial of new digital prompts in online Self Assessment

Promoting Self Assessment compliance

This year we needed more than 11 million customers to complete their tax return by the Self Assessment deadline of 31 January.

To help achieve this, we sent nearly six million targeted email and SMS reminders to segmented groups of customers, reminding them of the deadline and giving them support. We improved the wording, timing and frequency of these reminders in order to generate maximum impact. A record half a million people also chose to view our guidance videos on YouTube.

Based on insight and market research, we ran new adverts featuring ducks to represent the niggling feeling customers get when they know they haven't completed their tax return. The adverts ran on radio, Out of Home posters, digital channels and social media, driving customers to our Self Assessment pages on GOV.UK.

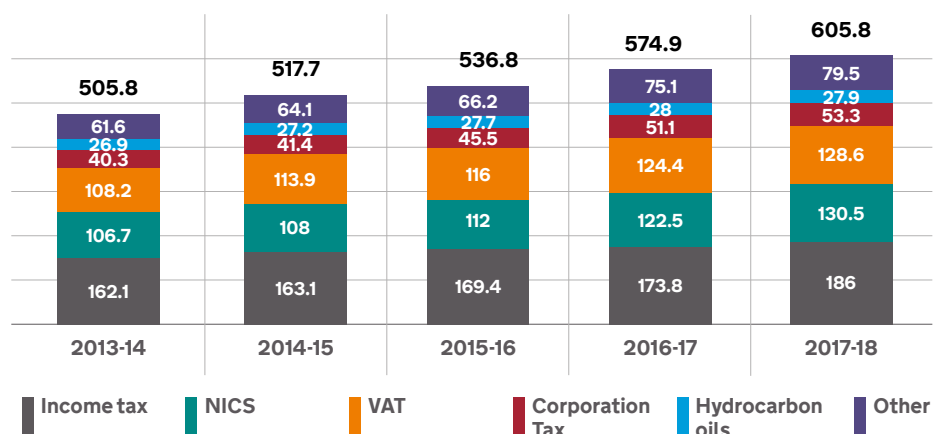
Our overall campaign activity resulted in 93.5% of customers (10.7m) renewing by the deadline, and 92.8% renewing online – both record numbers.



Our total revenues

In 2017-18, our strategic approach to compliance helped total tax revenues to reach a record £605.8 billion – an increase of £30.9 billion, or 5.4%, on 2016-17. This figure represents money received and due to HMRC after accounting for money we repaid and owed.

Figure 1: Revenue (£bn)



Total revenues are driven by the overall level of activity in the economy and the rates of taxation, allowances and reliefs set by Parliament. In summary, compared to 2016-17:

- Income tax (31% of total revenue), and National Insurance Contributions (22% of total revenue) increased 6.8%. The amount of revenue raised for these two taxes is closely linked to the number of people in employment and wages levels, both of which increased during this period.
- Value Added Tax (21% of total revenue) increased 3.4%. Higher receipts for the oils, gas and mining and the leisure and business sectors were seen during this financial year.
- Corporation Tax (9% of total revenue) increased 4.3%. Many sectors experienced rising company profits, particularly the industrial and commercial and finance sectors.
- Hydrocarbon oils (5% of total revenue) decreased by 0.4%.
- Stamp Taxes (3% of total revenue) increased by 7.8%, mainly due to the continuing increase in house prices.
- Alcohol (2% of total revenue) increased by 1.8% due to increases in duty rates in March 2017, while tobacco (1.5% of total revenue) remained static.
- Capital Gains Tax (1.3% of total revenue) decreased by 7.1% due to the rate reduction from 18% to 10% where a person is not a higher rate taxpayer. The higher rate of 28% reduced to 20%.
- Insurance Premium Tax (1% of total revenue) increased by 37.8%. There was a rise in the standard rate from 10% to 12%.
- A number of other taxes, including Inheritance Tax, Bank Levy and customs duties, account for the remaining revenue.



For more information, with year-on-year comparisons, go to the Trust Statement on page 164.

Measuring the tax gap

The UK's tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid.

In 2016-17 (the latest year for which figures are available), we collected 94.3% of the estimated tax revenue due maintaining the tax gap at its lowest level for five years. There has been an overall downward trend in the UK's tax gap, which has reduced from 7.3% in 2005-06 to 5.7% in 2016-17, with some year-on-year variations.

It's impossible to collect every penny of tax owed for a variety of reasons – for example, we can't collect tax from businesses that become insolvent, even if they owe outstanding tax. There also isn't a straightforward link between the tax gap and HMRC's total revenues. In any given year, it's possible that the revenue we secure might increase while the percentage tax gap remains the same or reduces, due to changes in the overall level of activity in the economy and other factors.



5.7%

The UK's tax gap in 2016-17

Figure 2: UK tax gap in 2016-17

By customer group



By behaviour



Of the £33 billion tax gap, 41% can be attributed to small businesses, followed by large businesses which make up 21% of the tax gap. The key behaviour driving the tax gap is 'failure to take reasonable care'. Taken together, avoidable mistakes through 'error' or 'failure to take reasonable care' cost the Exchequer £9.2 billion in 2016-17. This is a challenge we're addressing through our transformation into a modern, digital tax authority (see page 30). Through our Making Tax Digital for Business programme, we're developing digital and data-led systems that will make it easier for customers to get their tax right – and by reducing the number of avoidable errors we will also reduce the cost, uncertainty and worry that customers face when we need to intervene to put things right.

For more information about HMRC's Measuring tax gaps report go to www.gov.uk/government/statistics/measuring-tax-gaps

For more information about HMRC's tax gap and compliance yield go to: www.gov.uk/government/uploads/system/uploads/attachment_data/file/627609/The_tax_gap_and_compliance_yield_what_they_are_and_how_they_relate.pdf



£6.2bn

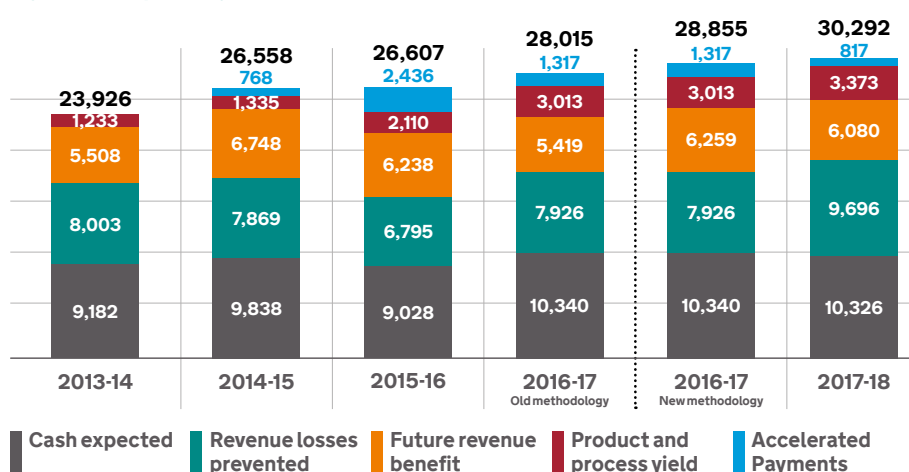
Revenue loss prevented by tackling non-compliance, such as stopping fraudulent repayment claims

Protecting revenues at risk

Every year, through our compliance work, we collect or protect billions of pounds that would have otherwise been lost to the UK through fraud, tax avoidance, evasion and non-compliance. We've strengthened our grip on those who deliberately cheat the system and continue to pursue those who refuse to pay what they owe, applying civil and criminal sanctions as appropriate to this dishonest minority.

In 2017-18 we generated £30.3 billion in compliance yield against our target of £28 billion, an increase of £1.4 billion from 2016-17*. There are a number of components that make up compliance yield, as shown in figure 3.

Figure 3: Compliance yield (£m)



Cash expected
Additional revenue due when we identify past non-compliance, with a reduction to reflect any revenue that we know will not be collected (for example: when a business becomes insolvent).

Revenue losses prevented
Revenue that we prevented from being lost to the Exchequer (for example: stopping fraudulent repayment claims and disrupting criminal activity).

Future revenue benefit
Estimated effect of our compliance work on customers' future behaviour.

Product and process yield
Estimated annual impact on net tax receipts of legislative changes to close tax loop holes and changes to our processes which reduce opportunities to avoid or evade tax.

Accelerated Payments
Disputed amounts of tax that people using tax avoidance schemes are now required to pay up front within 90 days, as well as an estimate of the behavioural change that this policy has generated.

* Read more on how the methodology for measuring compliance yield changed in 2016-17, go to: www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2017-to-2018

Customer focus:

Individual customers

Individuals are by far our largest customer group. There are more than 45 million people in the UK tax system, with around 30 million people liable to pay tax through Pay As You Earn (PAYE) and seven* million through Self Assessment. We also support millions more families and children through the Child Benefit and tax credits we administer.

How we work with this customer group

Individual customers want a straightforward and convenient way of conducting their affairs. For those in PAYE, we work with their employers so they pay the tax they owe without needing to engage directly with the system. We're also simplifying some customer interactions through our digital services, such as the Personal Tax Account, to help people manage their affairs in real time. We supplement this by phone, post and extra services for customers who need enhanced support.

Individual customers: incomes below £150,000 and assets below £1 million



£255bn

Estimated PAYE and NIC receipts collected



£2.7bn

Yield generated from our compliance activities



£3.4bn

Tax gap estimate for 2016-17, including wealthy customers



£320m

Estimated spend on compliance activities



6.8m

Children and 3.8 million families supported by tax credits



£38bn

Paid out in tax credits and Child Benefit



69%

of individuals rated their
overall experience of dealing
with HMRC in the last year
positively*

* HMRC Individuals, Small Businesses and
Agents Customer Survey 2017

* Some Self Assessment customers may also
be employees

Tackling avoidance and evasion

A fair tax system is a critical part of the government's plan to build a fairer society, and we are clear that everyone must pay the tax that is due, at the right time.

We want the tax system as a whole to support and encourage customers to get things right – but we're also cracking down on the minority who deliberately bend or break the rules. When we see problems, we don't hesitate to respond, and we never give anyone preferential treatment, whether they're an individual or a multinational corporation.

Organised criminals

We use the full range of criminal and civil powers to investigate tax cheats and to tackle organised crime groups, disrupting their activity, dismantling their organisations and taking the profit out of their fraud. We generated or protected £3.3 billion* in compliance yield in 2017-18 as a result of our investigations and enforcement action against organised crime – and 887 serious organised criminals have been brought to justice since 2010. Our latest estimate of the tax gap for this group is £5.4 billion for 2016-17.

* Of our total compliance yield, approximately £5 billion cuts across different groups and cannot be allocated to a specific group

Offshore avoidance and evasion

High-profile data leaks like the Paradise and Panama Papers reveal the challenge involved in tackling offshore avoidance and evasion. The systems used to avoid and evade tax through offshore structures are complex – but if we suspect wrongdoing, our expert analysts use leading-edge technology to unpick these structures and trace them back to individuals.

We also benefit from the Common Reporting Standard, which was developed by the Organisation for Economic Co-operation and Development, after a drive by the G20 nations to develop a global standard for the automatic exchange of financial account information. It's now a rich source of information for us and will be in future.

Last year, over 140 individuals were the subject of criminal investigation for offences associated with offshore tax evasion, including four arrests and a further six interviews under caution relating solely to the Panama Papers. Since 2010, we've brought in more than £2.8 billion from domestic and global initiatives to tackle offshore tax evaders. Since June 2012, 26 individuals have been successfully prosecuted, resulting in over 100 years of custodial sentences and 12 years of suspended sentences.

Off-payroll working in the public sector

The off-payroll working rules (Off-payroll working in the public sector: reforming the intermediaries legislation) are designed to ensure that those who work through a personal service company (PSC), who would have been employees if they were directly engaged, pay broadly the same employment taxes as if they were employed. There is significant non-compliance with the rules, which costs hundreds of millions of pounds in lost tax receipts. In April 2017, the government reformed the rules for engagements in the public sector. As a result, we estimate that an additional £410 million of income tax and National Insurance Contributions has been collected in 2017-18.



£2.8bn+

Revenue from initiatives to tackle
offshore tax evaders

Disguised remuneration

Last year, Parliament passed legislation targeted at 'disguised remuneration' tax avoidance schemes, where people are paid by loans instead of ordinary remuneration to avoid income tax and National Insurance Contributions. The changes Parliament introduced to fix this long-standing form of avoidance included a new charge on outstanding disguised remuneration loans, which protected £290 million in 2017-18. The charge applies to loans outstanding at 5 April 2019, and we expect to protect £2.5 billion for the UK's vital public services from it by 2021. We're continuing to litigate this type of scheme – and we won a high-profile Supreme Court case during the year against RFC 2012 (formerly The Rangers Football Club) which confirmed our view that earnings cannot be diverted to avoid tax.



917

Criminals and fraudsters prosecuted
in 2017-18

Tackling alcohol fraud

Since we launched our new Alcohol Strategy in 2016, we have modernised how we tackle alcohol fraud. We've worked with the largest suppliers of alcohol to strengthen tax compliance within supply chains, significantly disrupting the evasion of excise duties. Our Alcohol Taskforce has also carried out intensive exercises on the border, making a real impact on deterring illicit alcohol traffic through our ports. We've secured £1.4 billion in revenue over the past year that would otherwise have been lost to the UK.

Tax avoidance promoters

The vast majority of tax advisers play by the rules and help their clients pay the right amount of tax. However, there is a small minority who seek to help their clients bend the rules and to pay less tax than they owe. We have a suite of powers to tackle promoters and enablers of tax avoidance schemes, designed to change behaviour and influence those involved to move out of promoting and enabling for good, with various sanctions and penalties for those who don't. We are using these powers to challenge all major promoters of avoidance schemes. We are also using a range of other approaches to disrupt their activities, including making three complaints to the Advertising Standards Authority about misleading adverts. All have been upheld and apply to anyone promoting similar schemes, not just the promoter of the arrangement referred.



For more information about disguised remuneration go to:
www.gov.uk/guidance/disguised-remuneration-settling-your-tax-affairs



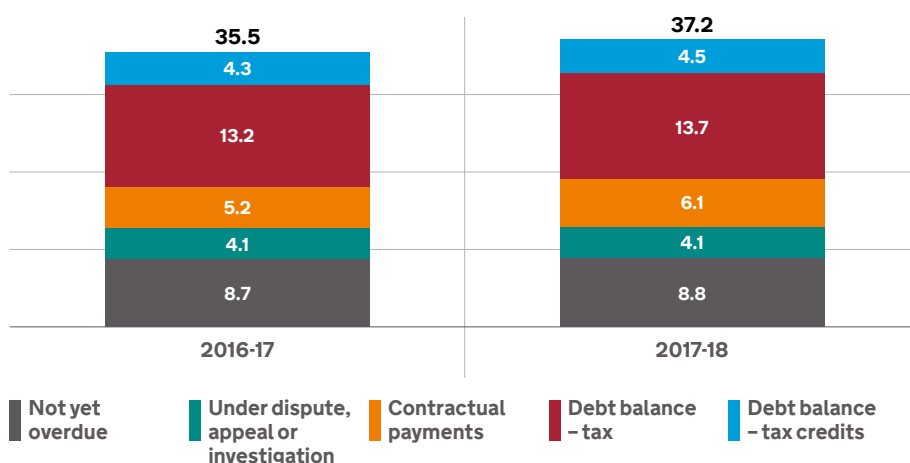
For more information about HMRC's Criminal Investigation policy go to:
www.gov.uk/government/publications/criminal-investigation/hmrc-criminal-investigation-policy

Receivables, debt and losses

Receivables are money due to HMRC for all liabilities, even if they are not currently overdue (see figure 4). These can include taxes, duties, tax credits, penalties and interest charges owed by individuals and businesses, and they amounted to £37.2 billion in March 2018 compared to £35.5 billion in March 2017. Tax receivables were gross £30.3 billion (see Trust Statement page 172) while tax credit receivables were gross £6.9 billion (see Resource Accounts page 201).

While most of the £605.8 billion revenues are collected when due, once the amount becomes overdue and is not under appeal, it becomes a debt. The total debt we collected in 2017-18 was £37.5 billion and the remaining debt balance (which is both collectible and enforceable) at the end of March 2018 was £18.2 billion. This included £13.7 billion in total tax debt (equates to 2.3% of tax revenues) and £4.5 billion in total tax credit debt. We also achieved greater efficiency savings, delivering this work for 9% lower cost than 2016-17.

Figure 4: Breakdown of receivables and debts (£bn)



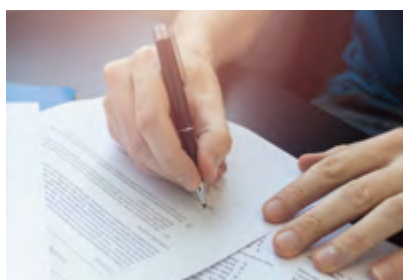
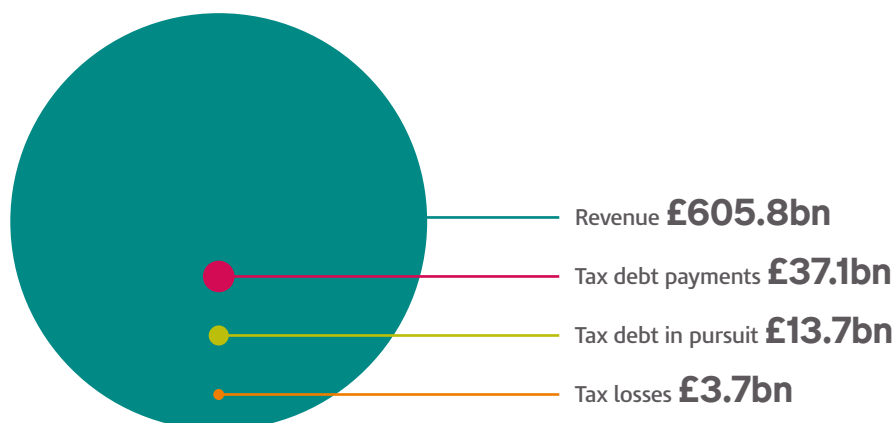
When individuals or businesses need more time to pay the debt, due to temporary financial hardship, we set up Time to Pay agreements to help them get back on a sustainable payment track. At the end of March 2018 we had ongoing arrangements worth £2.7 billion. Most debt is repaid in the same year, but part of our debt collection figure is debt from previous years that has taken longer to recover.

Where customers do not pay on time or enter into a Time to Pay arrangement, we use our debt collection powers to secure any outstanding amounts quickly and efficiently.

We use private sector debt collection agencies to help with our debt collection activities – and these agencies collected £407 million in overdue tax and tax credits payments in 2017-18.

In certain cases we decide to stop debt collection activity if it becomes uneconomic for us to pursue the outstanding amount, or if there is no practical means to collect it – for example, losses when companies or individuals become insolvent and we cannot collect from the bankruptcy or liquidation. We are consulting on how to tackle the minority who unfairly reduce their tax bill through the misuse of corporate insolvency. Tax losses were £3.7 billion in 2017-18.

Figure 5: Tax debt in pursuit and tax losses compared to revenue (£bn)



£37bn

Tax protected through litigation activity

Reducing the likelihood of disputes

The strategies we're following to promote compliance and prevent non-compliance – as well as our new digital services for customers (see page 30) – are designed to reduce the likelihood of disputes by helping more customers to get their tax affairs right.

Inevitably, some disputes do still occur. When they do, we always resolve them in accordance with the law and our published litigation and settlement strategy (LSS) and code of governance for resolving tax disputes.

The LSS sets out how we approach and resolve tax disputes, and includes an accompanying commentary to help our employees apply the LSS when dealing with tax disputes. Our code of governance for resolving tax disputes helps our customers to understand the internal governance processes we use to make sure we deal with all cases fairly.

Our bottom line is clear: we treat all customers fairly and even-handedly – no matter who they are or how complex their tax affairs may be.



Read more about how we resolve tax disputes, and the decisions we took to resolve disputes in 2017-18 on page 86.



For more information about HMRC's Litigation and Settlement Strategy go to www.gov.uk/government/publications/litigation-and-settlement-strategy-lss



For more information about HMRC's code of governance for resolving tax disputes go to www.gov.uk/government/publications/resolving-tax-disputes

Customer focus: Wealthy individuals

Wealthy individuals are important to tax authorities due to their significant contribution to the economy and the role many play as business owners. They often have complex tax affairs covering multiple kinds of taxes, and have greater choice than most people about how they manage their income and assets, including use of tax advisers.

How we work with this customer group

Our approaches range from assigning a specific team to develop an in-depth understanding of the customer's financial affairs, behaviours and compliance risks, to using strong data-led approaches to identify risks in a wider wealthy population. We offer support where needed to ensure they pay the correct tax – but we also take direct action against those who fail to or incorrectly file tax returns. We collect disputed amounts of tax upfront from avoidance schemes, and we take disputes to tribunal when we can't agree the amount of tax due.

Wealthy individuals: incomes above £150,000 or assets above £1 million



£57bn

Estimated tax receipts collected



£1bn

Yield generated from our compliance activities



£135m

Estimated spend on compliance activities



£28bn

Estimated PAYE and NICs receipts collected



98%

Self Assessment returns filed on time



72%

Percentage using agents



28%

of all income tax receipts
are paid by the top 1%
of earners

Transforming tax and payments for our customers

We're making it straightforward for people and businesses to pay the right tax and claim the right entitlements at the right time, by launching user-friendly digital services.

We've made real progress in reorienting our systems and services to become a data-led organisation, so we can make paying tax and claiming entitlements easier. Millions of customers are now using HMRC's Personal Tax Accounts and Business Tax Accounts to handle their tax affairs quickly and easily online. In 2017 we also introduced Simple Assessment, which removes the need for some customers to complete a tax return at all. Last year we expanded the range of digital tax account services available – tax credits customers can now use them to renew their annual awards, and we can adjust tax codes in real time to avoid under and overpayments.

Our strategy is to:

- use sophisticated digital tax accounts and other online services as our main way of interacting with customers, making it easier for them to see their affairs in one place and harder for them to make mistakes – but still provide direct support to those who need it
- support intermediaries to play an active role in collecting tax and providing data, so we rely less on customers providing their own data
- welcome the use of agents to represent customers where they add value in helping their clients to get their affairs right.

This year's performance highlights:

15m

Personal Tax
Account customers
since launch

93.5%

Self Assessment
customers filed
on time

4:28

Average minutes to
answer customer
calls



3.3m+

Businesses using Business Tax Accounts
to manage their tax affairs online

Digital tax accounts and direct support

Customers rightly expect the same high levels of service from us as they do from banks, retailers and other organisations – and they increasingly want services to be delivered digitally, as it's faster and more convenient for them. Our new digital services are continuing to grow, but we've also invested in traditional channels, including a seven-day service and voice biometric technology on our phones.

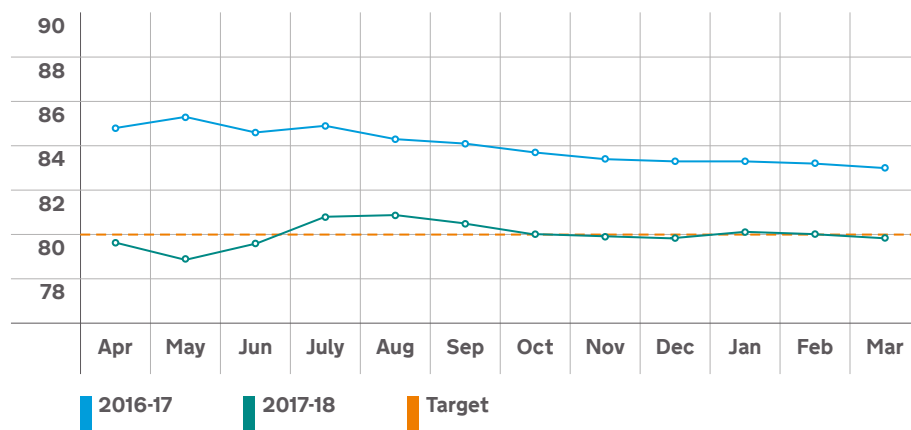
Expanding our digital services

The number of customers using our digital tax accounts continued to grow during 2017-18. To date, around 15 million people have accessed Personal Tax Accounts – and our Business Tax Accounts are used by more than 3 million businesses.

This is important for the overall transformation of our customer services. Not only do digital tax accounts make it quicker and more convenient to pay the right tax at the right time, they reduce pressure on our more traditional customer services.

We wanted to achieve an average customer satisfaction rating of 80% for our digital services in 2017-18. The number of survey responses we received increased by 43% from 6.7 million to 9.6 million and the percentage of customers who were either 'satisfied' or 'very satisfied' across all our digital services was marginally under 80% at 79.8%. We continue to listen to our customers to help us improve our service offering.

Figure 6: Digital customer satisfaction – year-to-date (%)



We're making smarter use of the data we hold, so customers can use their accounts to view their tax code, check their estimated tax liability and report changes using online iForms. Of the 1.3 million iForms we received last year we turned around 94.6% within 7 days, marginally below our 95% target. Customers can also decide how they want to receive information from us – for instance, by receiving all PAYE and Self Assessment correspondence online.

As well as digital tax accounts, we're also developing innovative digital customer support services – for example, we held around 1.5 million live webchats with customers in 2017-18 as an alternative to calling us.

Through our Making Tax Digital for Business programme, we're working to give businesses modern, digital services that make it easier for them to get things right. Increasingly, we're working in partnership with the software industry so businesses, and their tax agents, can use products and services that interact seamlessly with our own systems. In April 2018, we launched a pilot for business customers which allows them to use approved software to generate and send their quarterly VAT return from their digital records, rather than logging in to the HMRC portal and typing in the information. We plan to roll this out to all businesses with a taxable turnover above the VAT threshold (£85,000) from April 2019.



9.9m

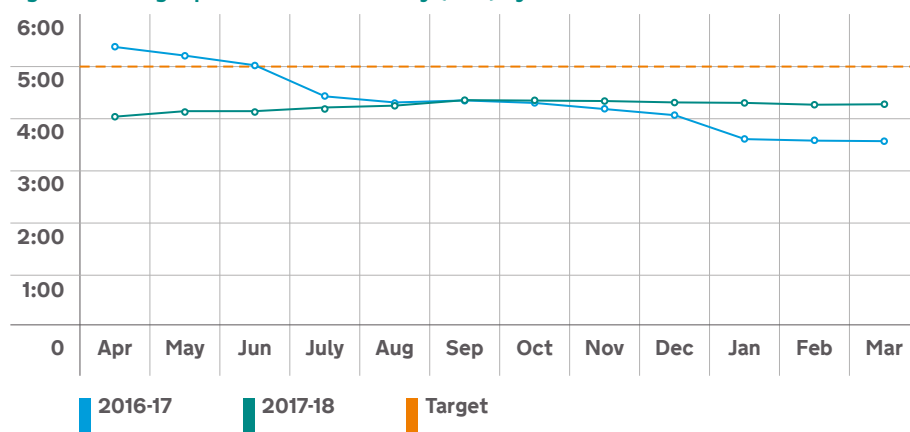
Customers used a new feature in HMRC's mobile app to track their tax credit payments

Customer phone calls

We received 46.7 million phone calls to our contact centres in 2017-18. This is a decrease of 10% in demand to speak to an adviser, as more customers use our digital services – but so far customer demand hasn't dropped by as much as we expected it to after we introduced digital channels. Phone contact remains an important element of our interaction with customers, so we offer a seven-day telephony service and our customers are supported by automated messaging to access information and appropriate services.

Thereafter, for customers who need to speak to an adviser, our average speed in answering calls was 4 minutes and 28 seconds this year. This is within the five minute target we are funded by government to deliver, but was slower than the 3 minutes and 54 seconds we achieved in 2016-17. The percentage of customers who waited 10 minutes to be connected to an adviser was 14.6% against our target of no more than 15%. Going forward, we'll continue to strive to optimise our phone performance within the funding available.

Figure 7: Average speed of answer monthly (mins) - year-to-date



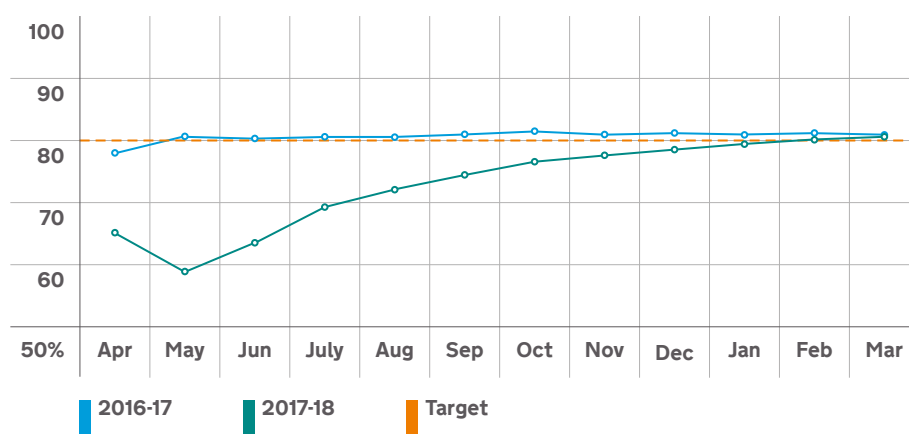
For more information on demand and call routing, go to: www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2017-to-2018

Customer post

We received around 18 million items of post in 2017-18, compared to around 20 million in 2016-17 – that's around a 10% reduction. Out of 12.9 million post items where customers required a response, we turned around 80.7% of post in 15 days, just beating our target of 80%, and 97.1% of post in 40 days, beating our target of 95%.

We experienced a dip in our post turnaround performance during the first quarter of the year, due to a peak in our telephony demand driven by the tax credits renewal period. This meant we had less flexibility to move resources between phone calls and post than at other times of the year. After we put a recovery plan in place, our performance improved from the second quarter.

Figure 8: Post turnaround within 15 days - year-to-date (%)



110,000+

Customers supported last year through our Needs Enhanced Support service

Handling complaints

Most of our customers use our services without any problems, but we recognise mistakes happen and we continually examine our processes to identify how we can improve. We do this by listening to our customers and acting on their feedback, improving our complaints handling service and making the complaints process easy and accessible for our customers. For example, in 2017-18 we expanded the availability of our online iForm complaints service to all businesses and individuals.

In 2017-18 we received 77,410 new complaints, similar to last year, and we resolve around 99% of complaints internally. However if a customer remains dissatisfied with our decision they can refer their complaint to the independent Adjudicator's Office (AO) and then to the Parliamentary and Health Service Ombudsman (PHSO). The AO received 15% fewer complaints about HMRC than the previous year. They investigated 997 cases requiring a decision and upheld in part or in full 39% of these in the customers' favour. Of the 90 complaints which were investigated by the PHSO in 2016-17, the latest year for which figures are available, no cases were fully upheld by the PHSO and only three were partially upheld. We complied with all recommended decisions from both the AO and PHSO.



Information about how to complain to HMRC can be found at: www.gov.uk/complain-about-hmrc



Full information about the Adjudicator's Office can be found at: www.adjudicatorsoffice.gov.uk



Full information about the Parliamentary and Health Service Ombudsman can be found at: www.ombudsman.org.uk

Benefits and credits

HMRC doesn't just collect tax revenues. We're also responsible for administering tax credits and Child Benefit – and this work is vital to supporting families with children, tackling child poverty and helping to ensure work pays more than welfare.

Last year, tax credits helped around 3.8 million families and 6.8 million children, while Child Benefit supported around 12.9 million children. Our priority is to pay customers on time and make sure they receive their correct entitlement.

This year we maintained our performance in processing new tax credits and Child Benefit claims and changes of circumstances for UK customers, which took us an average of 13.8 days against a target of 22 days. For international customers the average was 55.6 days against a target of 92 days. Over one million customers renewed their tax credits online – the most popular means of renewal, and a 6% increase.

Tax credits: The government has given us a target to keep error and fraud within the tax credits system at no more than 5% of paid entitlement in 2016-17, 2017-18 and 2018-19. As it takes around 14 months after the end of the tax year until all claims are finalised, our latest estimate of error and fraud relates to 2016-17 at 4.9% (£1.32 billion) of paid entitlement. This figure compares to 4.8% (£1.35 billion) in 2015-16.

HMRC has set a target for 2017-18 to keep underpayments no higher than 0.7% of finalised entitlement. This target remains for 2018-19. The latest estimate for underpayments relates to 2016-17 at 0.8% (£200 million), compared to 0.6% (£180 million) in 2015-16, although the rise is not statistically significant. You can read more about what we're doing to address error and fraud in the Principal Accounting Officer's report, on page 84.

We're gradually transferring customers from tax credits to Universal Credit, which is administered by the Department for Work and Pensions (DWP). As a result of this transition we ended 123,420 claims during 2017-18, of which only 102,311 involved active payments.

Child Benefit: Our central estimate of the overall level of error and fraud associated with claims where we have positive contact with the customer in 2017-18 is 0.4% of total Child Benefit expenditure (£50 million). This is an increase on the 2016-17 estimate of 0.3% (£35 million).

Some customers do not respond to our requests for information. In practice some of the non-respondents will be eligible and some ineligible. We have undertaken additional analysis of the non-respondents using a wide range of other customer data to assess whether they would have been classed as in error and fraud if they had replied to the request for information.

This shows that around 60% of non-responders are likely to be eligible and 40% not. Taking this into account, the estimated level of error and fraud for 2017-18 was 0.9% of total expenditure (£110 million). The equivalent figure for 2016-17 was 0.6% (£65 million).



£26.4bn

Tax credits payments in 2017-18



£11.7bn

Child Benefit payments in 2017-18



152m

Number of data requests from businesses
and agents via third party software

Intermediaries and agents

It's a crucial part of our strategy to work with independent third parties to improve our performance. We're actively working with those who can help us to support our customers and collect tax – such as employers, through their role in administering Pay As You Earn, or others who can collect data to pre-populate digital tax accounts, such as banks and building societies.

Third party data is a vital tool for us in identifying risks and improving the experience our customers have when they use our digital services. Using it means we can calculate tax or entitlements more accurately, ease the burden on customers and improve compliance. It requires a lot of work to convert third party data into a format that is compatible with our own systems, but we're developing a new data strategy that will help us to set consistent standards for the way this data is supplied to us.

We're also working closely with software developers to ensure that our own plans are aligned with software being developed for business customers. The more straightforward we can make it for businesses to pay their taxes and interact with us using their own software, the more efficiently we can maximise revenue collection.

Agents can also play a key role in helping people comply with their tax obligations, and we welcome their use where they add value in helping their clients to get their affairs right. We're developing our services for tax agents, so they can deal with us across all taxes on behalf of their clients.

We know we have work to do, as in our most recent customer survey, only 47% of agents felt they had a positive overall experience dealing with HMRC. To support them, we're investing in a new digital service and we're strengthening our engagement with agents and their professional bodies. We've also published a revised HMRC standard for agents. It complements the Professional Conduct in Relation to Taxation, to which many agents subscribe as part of their membership of tax professional bodies, and establishes minimum standards on tax planning and avoidance.

Agent Services

Our Agent Services online account assures the status of an agent and protects access to client data in our new digital services. Agents can now use this service to act for their client by, for example, making a quarterly update, or to register a trust.

In future, we're looking to consolidate the design elements of our digital services to enable agents to see and do everything that their clients can.

This will be a fundamental building block in our strategy to help customers be compliant as early as possible in their dealings with us.

By providing good services for agents, we're supporting them in getting their tax right on behalf of their clients.



Customer focus: Small businesses

Small businesses represent more than 95% of businesses in UK, so they are vital for our economy. They can take many forms, from partnerships to small limited companies or self-employed people, with overlap between personal and business taxes. The small business tax gap is mainly due to errors, evasion and hidden economy activity.

How we work with this customer group

We support small businesses and their tax agents with digital services that allow them to deal with their tax affairs online, at times to suit them, so they can focus on running their business. We also provide educational material and guidance. Where small businesses aren't compliant, we deploy a range of interventions depending on the size and complexity of the tax loss. We also work to make sure that they meet wider legal obligations, such as the National Minimum Wage.

Small businesses: turnover below £10 million and fewer than 20 employees*



£110bn

Estimated receipts from Corporation Tax, VAT and others**



£5.4bn

Yield generated from our compliance activities



£13.7bn

Tax gap estimate for 2016-17



£525m

Estimated spend on compliance activities



15m

Employments by businesses which are dealt with as small



£95bn

PAYE and NICs from individuals or wealthy customers***



74%

of small businesses rated
their overall experience of
dealing with HMRC in the
last year positively*

* HMRC Individuals, Small Businesses and
Agents Customer Survey 2017

- * This group also includes micro businesses with turnover below £2 million and fewer than 10 employees
- ** Includes an estimated £28 billion of receipts from tax regimes that cut across small and mid-sized business
- *** Estimated PAYE and NICs receipts collected from small businesses but paid by individual and wealthy customers

Designing and delivering a professional, efficient and engaged organisation

To deliver for our customers in a changing world, we are building on the skills and expertise of our people and working in new, more collaborative and flexible ways.

We're putting the right people in the right places, doing the right work, with the right skills, using the latest digital tools. We're opening 13 new regional centres across the UK over the next few years. These modern and cost-effective buildings will enable our workforce to work together in innovative new ways to support our customers. We're also designing new and effective tax and customs policies, systems and processes – and the changes we're making have benefits for other government departments and play a vital role in supporting the government's overall agenda.

Our strategy is to:

- move towards a more highly-skilled and sustainable workforce through better training, development and by creating a new, modern network of large regional centres
- use our assets and capabilities to deliver wider government aims, and to design new services and systems that other government departments can use in the future.

This year's performance highlights:

12

Regional centre
sites secured
to date

4,604

Full-time equivalent
employees recruited

£229m

Sustainable cost
savings



A skilled and sustainable workforce

At the end of 2017-18, HMRC (including Revenue and Customs Digital Technology Services Ltd) had 59,332 full-time equivalent employees – nearly 2,000 fewer than the previous year. As part of our transformation, we're providing our people with more collaborative working environments, and we're investing in skills development and technology. These changes are helping us to improve our customer service while also operating in a more cost-efficient way.

Our people and professions

We want to make HMRC a great place to work, where everyone knows they are valued and will be treated fairly, regardless of background, working pattern or who they know. Our latest staff engagement score is 50%, a significant improvement, but we know we have more to do to increase this further.

An important part of this is creating a greater range of career opportunities. We had 22 professions within HMRC last year, including tax, policy, operational delivery, project and programme management, IT, finance and analysis, and we promoted more than 4,000 people during 2017-18.

We're also investing in the skills our people need to deliver for our customers. Every single HMRC employee gets a full five days of learning and development every year.

We try as much as we can to involve our people in deciding changes that affect them. This year, we announced significant changes to our approach to managing performance and development for 2018-19, working with thousands of our people through dial-ins, focus groups and trials.



Find out more about our workforce on page 98, including information on diversity on page 103 and details of recruitment and losses on page 101.



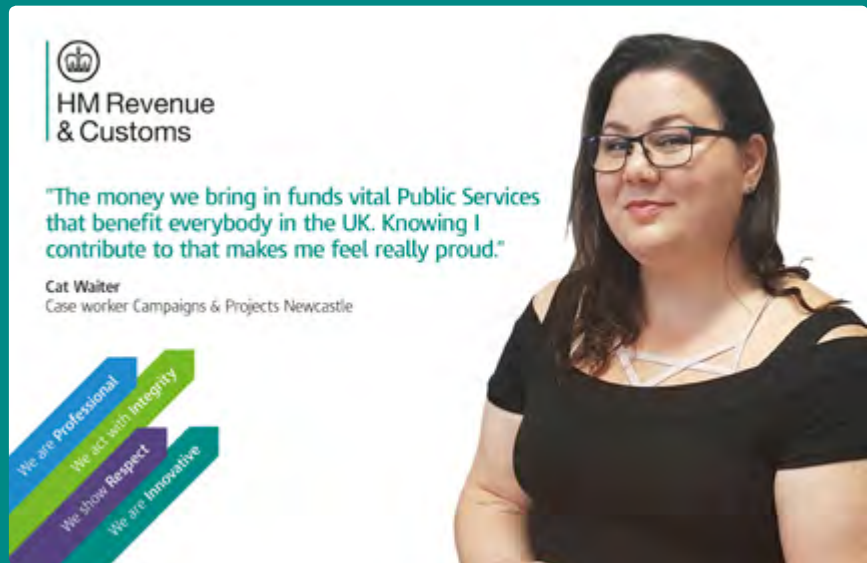
4,000+

HMRC people promoted in 2017-18

HMRC's culture and values

In 2017, we took the opportunity to discuss our corporate culture and the values that we want to live by as a department. This involved a conversation across HMRC, ensuring that more than 60,000 people had the opportunity to help develop these values.

What's different about our values is that they are not imposed. Everyone working in HMRC played a part in their creation, based on words and ideas that are important to our people in their everyday working life.



Our technology

Technology is crucial to HMRC's transformation. We're investing in new digital tools for our people, and to date we've provided more than 43,000 mobile tablet devices so our experts can work more flexibly and access our systems wherever they happen to be. We're also cutting out manual processes so they can work even more efficiently and effectively. At the same time, we're focused on the smarter use of data and using sophisticated technology to interrogate and analyse it, including Artificial Intelligence and robotics.

Cloud-based data

We are moving our data to cloud-based storage, which is not only faster and cheaper to run but increases our resilience by improving our capacity to recover should some extraordinary event impact on our ability to continue operating normally.

Strengthening data security

As a data-rich organisation, data security is extremely important to us and we continuously monitor and detect for fraud and misuse of our systems, including the internet, using specialist technology. We are very conscious of our role in safeguarding our customers' information. We have put training and guidance in place to support our implementation of the new General Data Protection Regulation (GDPR) and we will continue with our progress in complying with the regulation (see more on page 135).



90%

Reduction in HMRC-branded phishing and smishing emails and texts

New IT contracts

To get the best value for money for UK taxpayers, we have replaced our outsourced IT contract with a series of smaller, more flexible contracts which are already saving more than £100 million in 2017-18. Our ambition is to be a data-led organisation, so we're using powerful new tools to analyse our data and produce richer insights into our customers' needs and behaviours. We're also developing our approach to the way we manage our data by moving from developing one large repository for our data, called the Enterprise Data Hub, towards smaller, modular platforms that we can more easily change and adapt to meet our data needs in the future. By building more targeted analytical data services, we will be better able to meet customer needs.

Moving to our new regional centres



We opened our first regional centre in Croydon in 2017-18

In July 2017 we opened our Croydon Regional Centre, which is the first of a network of regional centres we'll open across the UK over the coming years. It's a glimpse into the future of HMRC: we're gradually moving out of office buildings that are no longer fit for purpose and into fewer modern buildings equipped with the high-speed digital infrastructure we need.

Overall, our estate reduced in size from 145 buildings in 92 towns in 2016-17 to 119 buildings in 76 towns in 2017-18. Eventually, we expect to be located in just 13 regional centres, along with five specialist sites and, for a period of time, seven transitional sites.

By bringing our people together into newer and larger sites, our teams will be able to collaborate more effectively to improve customer service and tackle avoidance and evasion – using state-of-the-art data and risk assessment tools. Moving to regional centres will save more than £300 million up to 2025. The programme will deliver annual cash savings (compared to 2015-16 costs) of £74 million in 2025-26, rising to around £90 million by 2028, while improving customer service and modernising how HMRC works.

This year we also moved into our transitional site at Canary Wharf and secured a further nine regional centre sites in Belfast, Birmingham, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester and Stratford. Altogether, including our existing site in Newcastle and a regional centre already being built in Bristol, we have secured 12 of our 13 regional centre locations. We're in negotiations for a number of potential sites for our Nottingham Regional Centre and we plan to secure a lease in 2018.

Customer focus:

Mid-sized businesses

Mid-sized businesses* make up less than 4% of UK business but employ more than 19% of the workforce. Some of these are businesses that are growing rapidly which can result in increasing complexity in their tax affairs. The tax gap for mid-size businesses is mainly due to challenges to interpretation of the law, failure to take reasonable care and non-payment.

How we work with this customer group

We support mid-sized businesses in a number of ways, including digital tax accounts for some and supporting third party software used by this group. We target risks to tax revenue by using data to develop greater customer understanding. When non-compliance does occur, we tackle it according to the level of risk, with more intensive intervention for the most complex cases.

Mid-sized businesses: turnover between £10 million and £200 million, or 20 or more employees



£45bn

Estimated receipts from Corporation Tax, VAT and others**



£3.5bn

Yield generated from our compliance activities



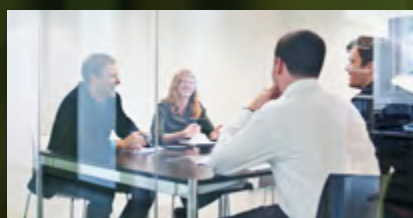
£3.9bn

Tax gap estimate for 2016-17



£225m

Estimated spend on compliance activities



9m

Employments by businesses which are dealt with as mid-sized



£75bn

PAYE and NICs from individuals or wealthy customers***



55%

of mid-size businesses rated
their overall experience of
dealing with HMRC positively*

*HMRC mid-size business survey 2016

* Includes public bodies and charities
** Includes an estimated £16 billion of receipts
from tax regimes that cut across small
and mid-sized business
*** Estimated PAYE and NICs receipts collected
from mid-sized businesses but paid by
individual and wealthy customers

Expenditure and budget

We're driving down our day-to-day running costs to deliver better value for money for taxpayers and the country. Figure 9 shows what it cost to run HMRC in 2017-18.

Figure 9: Expenditure and benefits and credits relative to total revenue 2017-18*

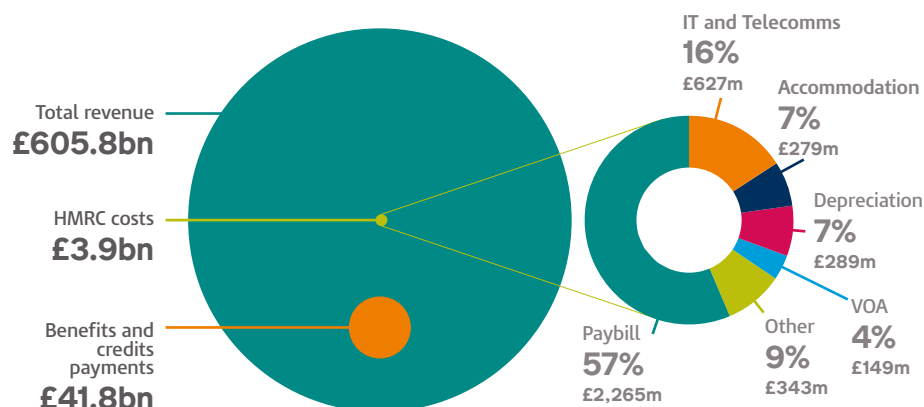
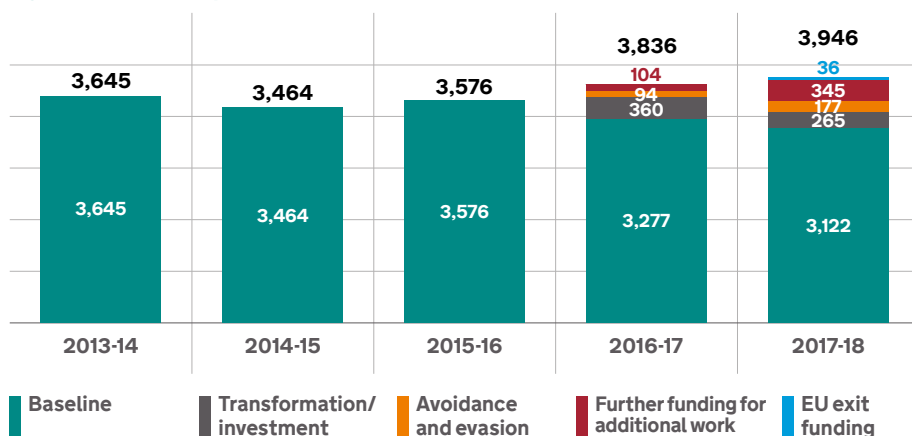


Figure 10 shows how our expenditure and budget are changing over time. Over the last five years, our baseline funding has reduced due to the sustainable efficiencies we have delivered. We have also received funding to carry out additional work requested by ministers, such as Help to Save.

At the government's Spending Review 2015, we were given funding to invest in our transformation for 2016-17 onwards. Since the Spending Review, further funding has also been provided for tackling avoidance and evasion. In 2017-18, we also received funding to support EU exit work.

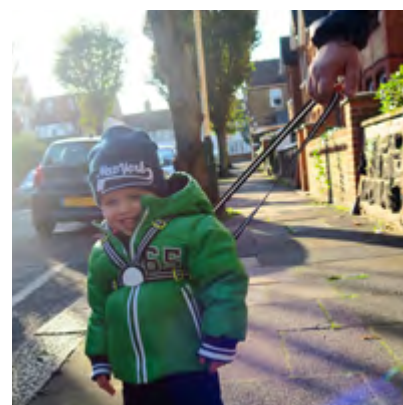
* The above figures are based on budgeting treatment as opposed to accounting treatment as represented in the Resource Accounts. Numbers may appear not to sum due to rounding.

Figure 10: HMRC's expenditure 2013-14 to 2017-18 (£m)*



+ More information on our expenditure can be found in the resource accounts on page 184.

* HMRC resource spending, which is money that is spent on day-to-day resources and administration costs. Includes depreciation and VOA. Numbers may appear not to sum due to rounding.



£0.5bn

The cost of distributing £41.8 billion in benefits and credits



0.53p

What it costs HMRC for every £1 we collect

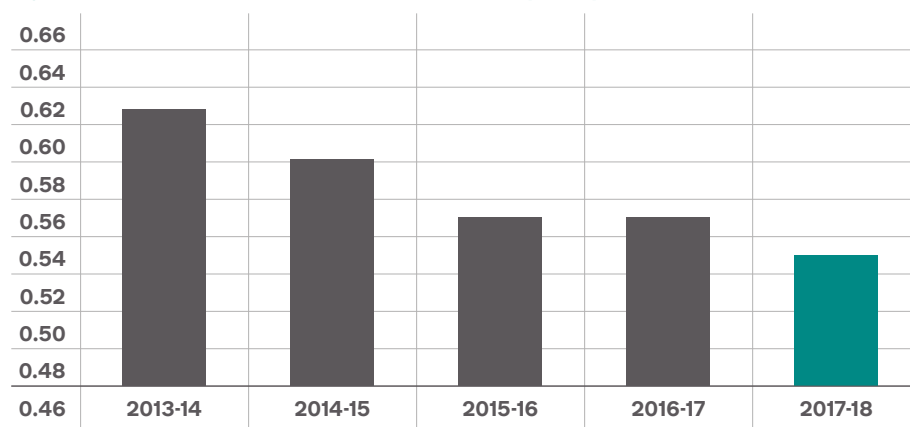
Saving money for the UK taxpayer

Last year we achieved cost savings from our departmental transformation, including better IT and developing our digital services. We generated other cost savings by making it easier for customers to get their tax affairs right without having to contact us – for example, by encouraging customers to use online services rather than call or write to us.

We're committed to reducing our operating costs and we've exceeded our commitment to make £380 million of sustainable cost savings in 2017-18, achieving £410 million.

The efficiencies we have delivered, together with increasing revenues, mean that the cost of collecting taxes in the UK is less than a penny for every pound collected – down from 0.61 pence in the pound in 2013-14 to 0.53 pence in the pound in 2017-18.

Figure 11: Cost of tax collection 2013-14 to 2017-18 (pence per £ collected)



29%

Reduction in office printing – that's 44.3 million fewer sheets of paper

Becoming a sustainable organisation

We're committed to becoming a sustainable organisation. The 2010-20 Greening Government Commitments set a challenge for us to reduce the environmental impact of our estate and operations. These commitments also form part of our contribution to the global Sustainable Development Goals.



Read about our commitments to the global Sustainable Development Goals on page 54.

This year, we recycled 81% of our waste, compared to 71% last year – and we reduced our UK air travel with 2,474 fewer flights taken.

Where possible, we have complied with government buying standards in sourcing our materials and assets, meeting all the requirements for IT, food, catering services and transport. We're making year-on-year progress to meet the government aspiration for 33% of our procurement spend to be with small and medium enterprises by 2020.

Our tendering process provides for the exclusion of any bidder who has committed offences under the Modern Slavery Act 2015 and, alongside general checks on statutory compliance throughout the contract term, we use a sustainability assessment tool to measure the impact of our supply chain. This gives assurance that the risk of modern slavery is mitigated in the goods and services that we buy – and that our suppliers address diversity, health and safety, labour standards and social values.

We are working with the Environment Agency to address the impact of climate change and to identify and monitor offices at risk of flooding. Environmental considerations have also been factored into building works for our new regional centres. To support biodiversity, we have added insect hotels, log piles and meadow areas to many of our key sites, as well as cultivating trees and hedgerows to benefit nesting birds.



Find out about our sustainability at www.gov.uk/government/publications/hmrc-and-valuation-office-agency-sustainability-report

Delivering across government

HMRC is first and foremost responsible for generating the revenue that enables the government as a whole to function, but our impact on the government's aims goes well beyond this. We support growth in the economy by delivering targeted tax reliefs – towards research and development, for example – and our customs clearance processes are vital to ensuring smooth international trade. We work closely with devolved administrations and other government departments, such as with the Department for Business, Energy and Industrial Strategy on National Minimum Wage and Anti Money Laundering regulations.

Customs

We work in partnership with UK Border Force and other government agencies to manage customs administration, supporting traders and promoting export-led growth by ensuring a rapid customs clearance. We also act to disrupt illicit supply chains and create a fair playing field for honest traders, imposing civil or criminal sanctions against those who think the rules don't apply to them.

In March 2018, we received a formal notice of infraction from the European Commission alleging that the UK has not taken adequate steps to prevent losses to the EU budget from customs undervaluation fraud. We do not agree with the Commission's estimate of evaded duty and accept no liability. The UK has taken reasonable and appropriate steps to address suspected fraud. We have written to the Commission and to OLAF (the European Union's anti-fraud office) to set out our argument in detail. HMRC's compliance approach continues to evolve as new information becomes available and we learn from ongoing operations. This includes carrying out targeted inland pre-clearance checks in partnership with Border Force.



£3.2bn

Customs duties collected in 2017-18

EU exit: Government planning for the border

We co-chair and resource the work of the cross-government Border Planning Group, which provides oversight and assurance of the planning work across government for dealing with the operational and practical impacts of EU exit on the UK's border. There are over 30 UK government departments and agencies with responsibility for border activity. The work of the Border Planning Group ensures that all border-related projects, programmes and plans for exit are coordinated and optimised to deliver maximum benefits in the immediate and, where appropriate, longer term.

National Minimum Wage

Our role in enforcing the National Minimum Wage plays a crucial part in building a fairer society where work pays for everyone. We work to ensure businesses meet their legal obligations – and workers can lodge complaints directly to us if they think their employer isn't playing by the rules.

Tax reliefs

Tax reliefs are designed to benefit the economy or support wider government aims by reducing tax for particular groups or things. We publish statistics on our tax reliefs every year, including cost estimates for tax reliefs where this is available and a list of those where costs are not available. In 2017-18, we provided 424 different tax reliefs, 105 costing £50 million or more and 80 costing less than £50 million, totalling over £400 billion.



Read our latest tax relief statistics and cost estimates at www.gov.uk/government/collections/tax-relief-statistics

Devolution

The devolved legislatures already possess some powers over taxation, with more coming into effect next year. We work closely with the revenue authorities in Scotland and Wales that administer fully-devolved taxes on land transactions and landfill disposals, looking at how best to share data, knowledge and experience. We administer Scottish income tax and incorporate the rates and bands set annually by the Scottish Parliament. We are working on the introduction of Welsh rates of income tax from April 2019, which we will administer. We're also preparing to enable Northern Ireland Corporation Tax rate-setting powers, if it's agreed that devolution should occur.

Our key statistics

Figure 12: In summary – key performance indicators

Maximise revenues due and bear down on avoidance and evasion	2016-17	2017-18
Cash expected from compliance	£10.3bn	£10.3bn
Future revenue benefit	£6.3bn	£6.1bn
Revenue loss prevented	£7.9bn	£9.7bn
Product and process yield	£3.0bn	£3.4bn
Accelerated Payments	£1.3bn	£0.8bn
Total compliance yield	£28.9bn	£30.3bn
	2015-16	2016-17
Tax credits error and fraud – the proportion of error and fraud within the tax credits system	4.8% (£1.4bn)	4.9% (£1.3bn)
Tax gap – difference between all the tax theoretically due and tax actually collected	5.7% (£32bn)	5.7% (£33bn)
Transform tax and payments for our customers	2016-17	2017-18
% Overall customer satisfaction – digital services	83.0%	79.8%
% iForms turnaround in seven days	99.0%	94.6%
Average speed of answer	03:54	04:28
% of outliers (new target for 2017-18)*	-	14.6%
% of post received by HMRC that has been cleared within 15 working days of receipt*	81.0%	80.7%
% of post received by HMRC that has been cleared within 40 working days of receipt	96.3%	97.1%
Average turnaround (days) of new tax credits and Child Benefit claims and changes of circumstances for UK customers	16.2	13.8
Average turnaround (days) of new tax credits and Child Benefit claims and changes of circumstances for international customers	51.8	55.6
Design and deliver a professional, efficient and engaged organisation	2016-17	2017-18
Unit costs (pence per £ collected/paid out)		
Collecting income tax (Self Assessment and Pay As You Earn)	0.83	0.79
Collecting Corporation Tax	0.68	0.61
Collecting National Insurance Contributions	0.22	0.20
Collecting VAT	0.59	0.57
Administering tax credits	1.65	1.43
Administering Child Benefit	0.50	0.53
Sustainable cost savings	£181m	£229m
Cumulative customer cost reduction	£28.2m	£45.7m

* See more at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627610/HMRC_s_Customer_Service_-_How_HMRC_reports_on_digital_customer_satisfaction_post_and_telephony.pdf



Customer focus: Large businesses

This customer group consists of the largest and most complex businesses. They are high-value taxpayers and play a pivotal role in the economy. They also manage complex supply chains and have a vital role in ensuring tax compliance across these chains.

How we work with this customer group

We manage large businesses by using dedicated customer compliance managers and tax teams, who know and understand their tax affairs. This gives us an early idea of any potential disputes, issues or arrangements which could be open to legal interpretation. We secure the best data and intelligence to identify non-compliance promptly and seek national and international agreements on data-sharing to make the economic activity and tax affairs of large businesses more transparent. We use litigation to resolve risks where appropriate – and publicise the outcome as a deterrent.

Large businesses: broadly defined as turnover exceeding £200 million



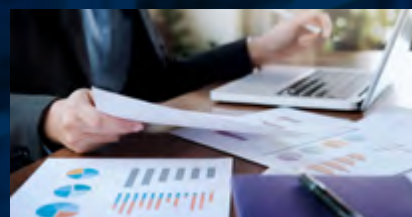
£135bn

Estimated receipts from Corporation Tax, VAT and others



£9bn

Yield generated from our compliance activities



£7bn

Tax gap estimate for 2016-17



£205m

Estimated spend on compliance activities



8m

Employments by businesses which are dealt with as large



£110bn

PAYE and NICs from individuals or wealthy customers*



82%

of large businesses rated their
overall experience of dealing
with HMRC as 'good' *































*HMRC large business survey 2016

* Estimated PAYE and NICs receipts collected
from large businesses but paid by individual
and wealthy customers










Progress against our commitments

We are committed to delivering further improvements to how we maximise revenues, improve customer service, make sustainable cost efficiencies and include and involve our people. Our main external commitments are covered in our 2017-18 Single Departmental Plan, covering key areas such as generating payments and tackling fraud and error. Where there is a risk to delivery or a commitment is not on track, we provide an explanation below.

Figure 13: Single Departmental Plan commitments

Maximise revenues due and bear down on avoidance and evasion	
We will build on our success in collecting £574.9 billion in total revenues over 2016-17 and the overall downward trend in the tax gap over the past decade.	  
We will deliver compliance revenues of £28 billion in 2017-18 through our compliance and enforcement activity.	  
We will continue to identify and prevent losses in the tax credits system so that error and fraud is no more than 5% as we support the transition to Universal Credit. The early termination of the Concentrix contract, which provided additional capacity and, to a lesser extent, the strengthened self-employment test (C&P) means we forecast not to achieve the 5% error and fraud target in 2017-18. We continue to pursue opportunities to address error and fraud and we have embedded changes to our compliance processes and implemented education and reminder campaigns to guide customers to claim correctly.	  
We will invest £800 million into additional work to tackle evasion and non-compliance in the tax system, with a further £155 million of investment announced at Autumn Budget 2017 for future years up to 2019-20.	  
We will raise an additional £5 billion a year by 2019-20 by tackling tax avoidance and aggressive tax planning, evasion and compliance, and by addressing imbalances in the tax system. This includes the following commitments:	  
– extending our model for the wealthiest individuals to a further 2,000 individuals with net wealth between £10 million and £20 million	  
– strengthening our work around identifying those who seek to operate in the hidden economy	  
– increasing our ability to prevent alcohol and tobacco smuggling.	  
We will strengthen the sanctions and deterrents against tax avoidance.	  
We will continue to tackle tax avoidance, closing schemes and collecting yield of more than £1.3 billion in 2017-18 through Accelerated Payments (AP) and collect yield of £1.1 billion in tax settlements. Issuing of AP notices was affected by a Court of Appeal decision received at the end of 2017 and many judicial review claims could not be progressed while the effects of the judgment were considered. This delayed the issue and payment of AP Notices bringing in £0.8 billion against a target of £1.3 billion. Settlement yield for marketed avoidance cases was on target of £1.1 billion.	  

Key:

-    Commitment on track or complete
-    Risk to delivery or slightly off track
-    Commitment not on track

Continued

We will increase the number of criminal investigations that we undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates, with the aim of increasing prosecutions in this area to 100 a year by the end of the Parliament.	
We will support the government in making it a crime when companies fail to put in place measures to stop tax evasion in their organisation, making sure that penalties are large enough to punish and deter such behaviour.	
We will ensure global companies pay their fair share in tax by supporting the government's leading role in the reform of international tax rules.	
We will review the country by country tax reporting rules and consider the case for making this information publicly available on a multilateral basis.	
We will further strengthen our ability to police the National Minimum Wage, with new teams to undertake proactive reviews of those employers considered most at risk of non-compliance.	
We will ensure developing countries have full access to global automatic tax information exchange systems and continue to build the capacity of tax authorities in developing countries.	
Transform tax and payments for our customers	
We will invest £1.3 billion to transform HMRC into one of the most digitally advanced administrations in the world, finishing the delivery of our multi-channel digital services so we become a 'digital-by-default' organisation. We have prioritised our transformation portfolio to support additional projects generated by EU exit. In order to release project capacity, we have actively managed our transformation portfolio. In our assessment, the new portfolio is ambitious but deliverable. We will keep our priorities and capacity under review.	
We will accelerate channel shift, and continue to encourage customers to use digital services.	
We will continue to roll out and develop digital tax accounts, enabling customers and their authorised agents to see all their tax affairs in one place, and be able to check at any time that their details are complete and correct.	
We will work with HM Treasury and the Department for Work and Pensions (DWP) on the transition to Universal Credit, making this as smooth as possible for staff and claimants, in line with the migration plan led by DWP.	
We will support the government's pensions and savings reforms by continuing to design and deliver the new Lifetime ISA and support the delivery of the new 'Help to Save' initiative.	
We will gradually roll-out Tax-Free Childcare support to eligible households to help with the cost of childcare, enabling more parents to go out to work or work more, to provide greater security for their families.	
We will continue to monitor Annually Managed Expenditure risks and work with HMT officials to develop operational and policy ideas to minimise fraud, error and debt.	

Continued

<p>We will support the government to negotiate a successful EU exit and future partnership.</p> <p>We will implement changes so that the tax and customs system – including the Customs Declaration System (CDS) – will be ready for that outcome.</p> <p>We will support UK businesses so that they can continue to meet their obligations.</p> <p>We have a pivotal role in ensuring that after EU exit goods continue to flow into, and out of, the UK and that any tax and duties are collected. To date detailed work has focused on understanding the issues that will affect HMRC and our customers. As we head towards EU exit, detailed impacting and delivery planning is under way to inform and support the government in reaching a successful outcome in the ongoing negotiations. We are delivering the new Customs Declaration Service, which is designed to support any new UK customs regime, and is on track to be delivered in January 2019.</p>	
<p>We will achieve an average of 80% customer satisfaction for our digital services.</p> <p>In 2017-18 we narrowly missed our 80% target for satisfaction with digital services at 79.8%. To improve customer satisfaction with our digital services, we have established closer working across all digital services allowing for expertise to be shared, a rolling plan of system enhancements and a new forecasting model which should allow early intervention.</p>	
<p>We will answer customer calls to our helplines within an average speed of answer of below five minutes throughout 2017-18.</p>	
<p>We will reply to 95% of customer correspondence received via iforms in the Personal Tax Account within seven days.</p> <p>Due to issues with our digital robotic solutions and bedding in of the new measure in the early part of 2017-18 we narrowly missed the target. These issues have been addressed and we continue to see improved performance.</p>	
<p>We will reply to 80% of qualifying post in 15 days where customers are expecting a reply, and 95% in 40 days.</p>	
<p>We will handle new tax credits and Child Benefit claims and changes of circumstances for UK customers within an average of 22 days.</p>	
<p>We will handle new tax credits and Child Benefit claims and changes of circumstances for international customers within an average of 92 days.</p>	
Design and deliver a professional, efficient and engaged organisation	
<p>We will improve employee engagement each and every year, continuing to make consistent positive progress towards achieving the Civil Service Employee Engagement Index benchmark (which was 59% in 2016).</p>	
<p>We will increase the percentage of staff each and every year who feel they have the skills required to do their job effectively, working towards the Civil Service benchmark (which was 89% in 2016).</p>	
<p>We will continue to transform our estate into modern, adaptable workspaces, creating 13 new regional centres over the next five years, serving every nation and region in the UK.</p>	
<p>We will ensure these regional centres will bring staff into more cost-effective buildings, while making it easier for HMRC teams to collaborate and modernise the way they work.</p>	
<p>We will secure a cumulative £380 million of sustainable efficiencies, in line with Spending Review 2015 and subsequent fiscal events. We expect to meet this commitment and continue to work towards £717 million target of annual, sustainable efficiencies by 2019-20.</p>	
<p>We will achieve £1.9 billion of cumulative savings over the Spending Review.</p> <p>We reprioritised our transformation work to ensure we can deliver on new priorities such as EU exit. Stopping or pausing some of this work may result in our efficiencies materialising over a longer timeframe.</p>	
<p>We will continue to support the Greening Government commitments, working towards the 2019-20 targets set for us by government to:</p> <ul style="list-style-type: none"> • reduce greenhouse gas emissions from a combination of energy use and business travel by 45% 	

Continued

- cut our waste, increase recycling and reduce waste sent to landfill to less than 10% of our overall waste.
- cut office paper use by 50%
- reduce the number of domestic flights undertaken by 30%.



We will contribute to the Global Goals for Sustainable Development through recruitment of a diverse workforce.



A handwritten signature in black ink that reads "Jon Thompson".

Jon Thompson

Principal Accounting Officer
6 July 2018





Our accountability

How we operated HMRC in a transparent way in 2017-18

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How we govern HMRC

Foreword

This has been another year of strong achievement for HMRC. We have again brought in record tax receipts and achieved our key targets for customer service and compliance yield, while making good progress with our transformation programme.



As HMRC's Lead Non-Executive, I'm privileged to chair the HMRC Board following the retirement of Sir Edward Troup as Executive Chairman in early 2018. On behalf of the Board, I would like to thank Sir Edward for his leadership and for the wise counsel he provided to the department and to the tax profession over many years.

The Board's role is to provide support, challenge and assurance to HMRC's Executive Committee (ExCom). It's clear that the combination of HMRC's operational priorities, its transformation programme and EU exit requirements creates a very challenging agenda for the department. Therefore, the key priority for the Board this year has been to satisfy itself that the ambitious targets and objectives that HMRC sets are realistic and are supported by the right resources.

Our main areas of focus have been:

- scrutinising HMRC's performance, to ensure that we are on track to meet our key performance targets
- providing support and challenge to the department's transformation programme, with a particular emphasis on the work ExCom has undertaken to review and revise HMRC's priorities
- understanding and supporting the vital work HMRC is undertaking to prepare for EU exit.

HMRC's six Non-Executives, who sit on the Board with the Permanent Secretaries and the Chief Financial Officer, bring a wide range of expertise and experience in areas relevant to HMRC's business and transformation. Their role is to help the department to achieve its objectives by bringing an external and independent perspective to complement the considerable expertise and experience of HMRC's Executives.

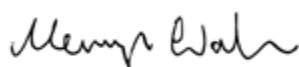
During the year we were very pleased to welcome Juliette Scott as a new Non-Executive member of the Board. Juliette brings extensive private sector experience of data strategy and customer insight – topics that are critical to HMRC's future direction.

As a Board, we're supported by three Board Committees – the Audit and Risk Committee, the Charter Committee and the People and Nominations Committee. Each of these undertake detailed work in the areas within their remit and include additional Non-Executives who bring relevant expertise and experience to the table.

But our work also goes beyond our formal Board and Committee structures. Our Non-Executives are actively involved within the department, providing support on the transformation programme and in other areas that can benefit from Non-Executive input. As well as being valuable in its own right, this work helps to ensure that our Board and Committee activities and the items we cover in our committees are founded on a solid understanding of HMRC's business, objectives and challenges.

This year, we've undertaken a comprehensive review of how the Board operates – and one of the outcomes has been to increase the frequency of Board meetings to ten times a year. This creates a better alignment between the Board cycle and ExCom's agenda, and means our Non-Executives can make more timely contributions towards the challenges and priorities that ExCom is tackling.

Over the following pages, you can read more about the Board and ExCom, as well as a fuller picture of HMRC's governance structures and processes.



Mervyn Walker
Lead Non-Executive

Governance Statement

Our Governance Statement sets out HMRC's governance, risk management and internal control arrangements over the financial year 1 April 2017 to 31 March 2018 and up to the date of approval of the Annual Report and Accounts.

The Statement accords with HM Treasury guidance and also contains HMRC's Accounting Officer System Statement.

How we are structured

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. Our status as a non-ministerial department is intended to ensure that the administration of the tax system is fair and impartial. HMRC complies with directions of a general nature given by Treasury ministers.

HMRC is accountable to the Chancellor of the Exchequer for how we conduct our business. The Chancellor has delegated the responsibility for oversight of the department to the Financial Secretary to the Treasury, as departmental minister for HMRC. The current departmental minister is The Rt. Hon. Mel Stride MP*.

We have a policy partnership with HM Treasury (HMT) to develop and deliver tax policy. HMT leads on strategic work and tax policy development, supported by HMRC, while we lead on policy maintenance and delivery, supported by HMT. The policy partnership covers policy work on all direct and indirect taxes and duties, National Insurance, tax credits and Child Benefit.

* Jane Ellison MP was the Financial Secretary to the Treasury from July 2016 to June 2017.

Commissioners

Our Commissioners 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 way in which the Commissioners conduct their business is governed by the CRCA. Decisions relating to the resolution of our largest and most sensitive cases are decided by three Commissioners, chaired by the Tax Assurance Commissioner.

HMRC currently has seven Commissioners: Jon Thompson, Jim Harra, Penny Ciniewicz, Justin Holliday, Nick Lodge, Angela MacDonald and Melissa Tatton*.

* Sir Edward Troup (January 2018), Jennie Granger (May 2017) and Ruth Owen (June 2017) stood down as Commissioners in the period. Angela MacDonald, Penny Ciniewicz and Melissa Tatton were appointed as Commissioners in November 2017.

Permanent Secretaries

Our Permanent Secretary and Chief Executive, Jon Thompson, is the Principal Accounting Officer for HMRC. Jon is responsible for the delivery of HMRC's strategy and is accountable to Parliament for the stewardship of HMRC's resources. As Permanent Secretary, he is also accountable for delivering HMRC's ambitious transformation programme, improving customer service and managing the department's budget. Jon chairs the Executive Committee and is a member of the HMRC Board. Jon's Accounting Officer responsibilities are set out on pages 154 to 155. Jon joined HMRC as Chief Executive and Permanent Secretary on 2 April 2016.

Our Second Permanent Secretary and Deputy Chief Executive, Jim Harra, was appointed on 1 January 2018. The role of Second Permanent Secretary was created following Sir Edward Troup's retirement in January 2018*. Jim is the HMRC lead for exiting the EU, the Policy Partnership with HMT and the department's tax profession. Jim is also the Tax Assurance Commissioner and is responsible for HMRC's work to maintain and improve the health of the tax administration system. Jim is a member of the HMRC Board and the Executive Committee.

* Prior to 1 January 2018, Jim held the role of Commissioner of Revenue and Customs; Director General Customer Strategy and Tax Design and Tax Assurance Commissioner.

Tax Assurance Commissioner

The role of Tax Assurance Commissioner (TAC) was introduced by HMRC in 2012 as part of a package of measures designed to strengthen the governance of tax disputes. The TAC provides assurance and transparency and has an explicit challenge role in decision-making in the largest and most sensitive disputes, and in a sample of smaller cases. A report on how HMRC's tax dispute resolution governance operated during the year is prepared by the Tax Assurance Commissioner on an annual basis (see pages 86 to 97). The Tax Assurance Commissioner is Jim Harra.

Non-Executive Directors

Non-Executive Directors bring external experience and expertise to the department, playing an important role in providing advice, challenge and scrutiny to the work of the Executive and the department more widely, both within and outside of formal Board and sub-committee meetings. Non-Executives contribute their expertise outside the formal Board and sub-committee structures – for example, working closely with executives on specific initiatives, mentoring and undertaking in-depth examinations of risk. Non-Executive Directors also support the effectiveness of programme boards for HMRC's most significant transformation programmes.

Mervyn Walker, HMRC's Lead Non-Executive Director, has chaired HMRC Board meetings since 15 January 2018 following the retirement of Sir Edward Troup as Executive Chair. As Lead Non-Executive Director, Mervyn meets regularly with the HMRC Non-Executive Directors and the Permanent Secretaries, acting as a sounding board where necessary. Mervyn also takes an active role across government, liaising with the government-wide Lead Non-Executive Director. In addition, the Lead Non-Executive Director is responsible for the development and appraisal of Non-Executives as effective Board members.

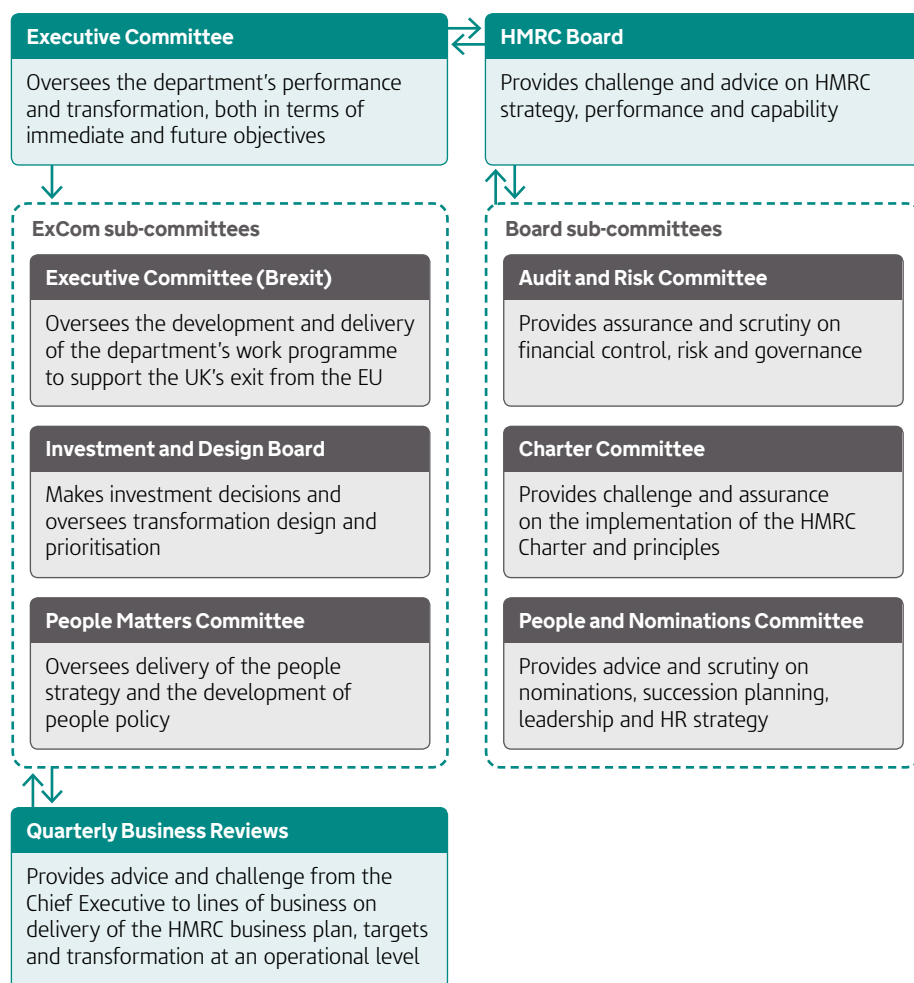
Our governance structure

HMRC has a three-layered system of governance:

- HMRC Board
- HMRC Executive Committee
- Executive accountability system.

This framework enables our Executive Committee (ExCom) to undertake effective and transparent decision-making and provides appropriate challenge and assurance by our Non-Executives.

Figure 14: HMRC committee structure as at 31 March 2018



HMRC Board and sub-committees

The role of HMRC's Board is critical to our success as a non-ministerial department. The Board consists of the Lead Non-Executive, the Non-Executive Board Members, the Permanent Secretaries and the Chief Finance Officer as the standing members, with other executives attending as the agenda on risks and decisions dictate. The Board is chaired by Mervyn Walker, as Lead Non-Executive, and helps to guide the department strategically by drawing upon wide-ranging public and private sector expertise.

The Board provides challenge, advice and assurance to the Permanent Secretaries and the executive team on developing and implementing their strategy, business plan and performance against that plan. The Board is advisory and does not have a role in operational decision-making, tax policy or individual taxpayer matters.

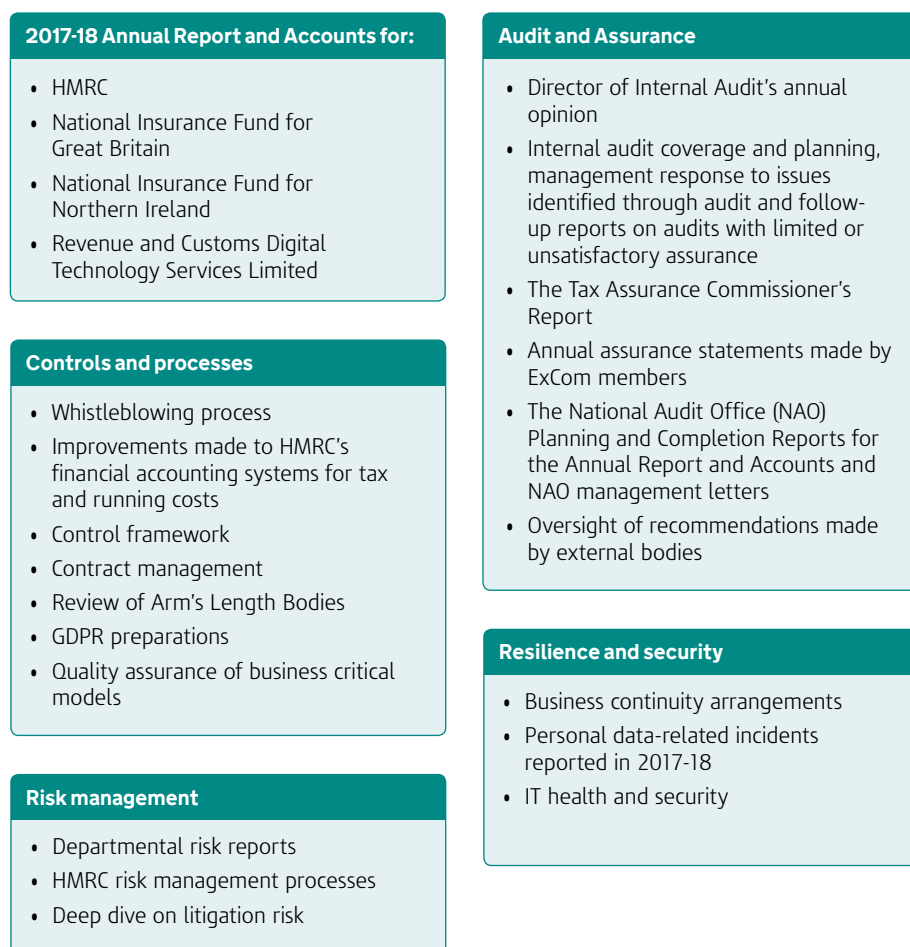
Figure 15: Board focus in 2017-18

Strategy <ul style="list-style-type: none"> • HMRC Strategy • Customer journeys and channel shift • Data Strategy • Customer strategies 	Planning and performance <ul style="list-style-type: none"> • HMRC performance data and hub • Business planning • Chief Executive's hub 	Transformation <ul style="list-style-type: none"> • Prioritisation of Transformation Portfolio • HMRC transformation data and hub
Risk management <ul style="list-style-type: none"> • Risk report • Annual risk overview • Risk deep dives 	People <ul style="list-style-type: none"> • People priorities and workforce culture • Capacity and capability • People Survey results 	Cross-cutting <ul style="list-style-type: none"> • EU exit • General Data Protection Regulations (GDPR) preparations • Communications and reputation

The HMRC Board is supported by three sub-committees:

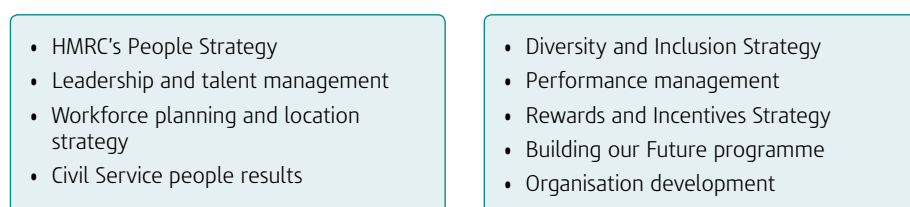
The **Audit and Risk Committee** provides independent assurance to the Board and the Principal Accounting Officer on the integrity of financial statements and the comprehensiveness and reliability of assurances across HMRC on governance, risk management and the control environment. The committee is chaired by John Whiting.

Figure 16: Audit and Risk Committee focus in 2017-18



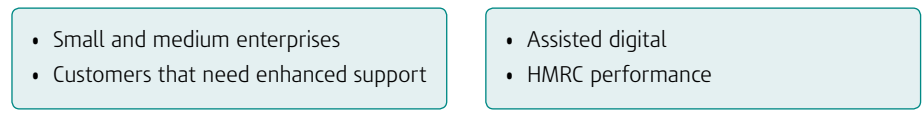
The People and Nominations Committee provides advice and scrutiny for the HMRC Board on the development and implementation of the department's people strategy, the effectiveness of nominations arrangements within HMRC, and HMRC's ability to meet its legislative responsibilities in relation to its people. These legislative responsibilities include health and safety, the Equality Act and equal pay opportunities. This committee was renamed from the People, Nominations and Governance Committee in September 2017, after the Board moved oversight of departmental governance issues to the Audit and Risk Committee. The committee is chaired by Mervyn Walker.

Figure 17: The People and Nominations Committee focus in 2017-18



The Charter Committee reviews the extent to which HMRC has demonstrated the standards of behaviour and values included in Your Charter and prepares an annual report. The committee considers a range of performance and management information, representing the views of all customer groups, and advises the Board on whether HMRC's strategies, policies, practices and measurement of performance in these areas are effective and how they might best be improved. The committee chair is Joanna Baldwin.

Figure 18: Charter Committee focus in 2017-18

- 
- Small and medium enterprises
 - Customers that need enhanced support
 - Assisted digital
 - HMRC performance

Board effectiveness

Our Board regularly reviews its own effectiveness as part of the arrangements for each meeting. On an annual basis, the Board conducts a thorough assessment using structured questionnaires. The review is used as an opportunity for the Board to assess progress against recommendations from previous reviews, to ensure there is continuous improvement in the Board's effectiveness and impact. The 2017-18 review found that the Board was functioning well, was effective and was well-placed to provide advice and challenge to the Executive on the direction of the department. The Board has transitioned well to new chair arrangements, in early 2018, as well as benefiting from a number of improvements that had been made during the year. The Board's skills and expertise were enhanced further following the appointment of an additional Non-Executive with a strong background in data. An increase in the frequency of Board meetings, to ten a year, has enabled the Board to align itself more closely with the rhythm and pace of strategic and transformational developments in HMRC and provide more timely advice and counsel as a result. The 2017-18 effectiveness review identified other enhancements, including further strengthening Board members' knowledge of the department, more frequent site visits and increasing the Board's engagement with senior leaders, including from the Valuation Office Agency.

Executive Committee and sub-committees

The Executive Committee (ExCom) is HMRC's most senior decision-making body and is chaired by the Chief Executive and Permanent Secretary, Jon Thompson. ExCom oversees and assures all of HMRC's work and is responsible for setting and delivering our strategic objectives. ExCom is also responsible for improving the department's performance, customer service and change agendas.

In 2017-18, ExCom met 11 times to discuss and make decisions on a wide range of strategic, operational, financial and customer related issues. Every month, ExCom considers a dedicated performance hub, which displays HMRC's performance against its key performance indicators. ExCom look at ways to improve our performance in all areas, including customer service and value for money. It also reviews the status of, and management actions for, departmental risks and issues.

Key issues covered by ExCom this year included business planning, customer journeys, customer strategies, people priorities and workforce culture, business-critical functions, General Data Protection Regulations preparations, communications and reputation, data strategy, infrastructure and technology and demand management.

ExCom is the primary place in which Commissioners make their decisions. Individual committee members have portfolios of responsibility that span each of HMRC's business areas and corporate service functions.

In 2017-18, decisions relating to the effective delivery of HMRC's transformational change were made by ExCom (Transformation). These decisions included prioritisation across HMRC's change portfolio and resolving issues escalated from supporting boards and committees. ExCom (Transformation) also ensured that the change portfolio remained aligned to HMRC's strategy and priorities, as set by the committee. ExCom (Transformation) was chaired by the Permanent Secretary, Jon Thompson.

In 2017-18, ExCom (Transformation) met 11 times. Key issues covered this year included prioritisation of the Transformation portfolio, the progress of the main transformation programmes, business continuity and physical security, regional centres and culture and values.

Both ExCom and ExCom (Transformation) review their own effectiveness as part of the arrangements for each meeting and occasionally by other means such as coaching, workshops and formal reviews.

At the end of March 2018, ExCom agreed that all of the areas of business covered by ExCom and ExCom (Transformation) should be brought together and covered by a single ExCom meeting taking place twice a month. This change reflects the growing maturity of the transformation programme as well as a desire to provide greater integration of the issues covered and more flexibility as to when they are discussed.

ExCom delegates certain responsibilities to three sub-committees:

- ExCom (Brexit) was created in July 2017 to ensure that HMRC's EU exit plans are joined-up and reflected in the wider departmental delivery and planning processes. ExCom (Brexit) provides the most senior level of governance and challenge to our EU exit delivery plans. It also ensures that we are providing the appropriate resource and focus on delivery and planning. ExCom (Brexit) is chaired by the Second Permanent Secretary, Jim Harra.
- People Matters Committee oversees the programme of work that will deliver HMRC's People Strategy and takes decisions on delegated issues relating to our people policies. The sub-committee supports the Chief People Officer in designing and implementing the annual One HR work plan. The committee is chaired by the Chief People Officer, Esther Wallington.
- The Investment and Design Board was created in July 2017 following a review that merged the Investment Committee and its Strategic Design Authority with our Transformation Board. This new sub-committee brings together design and investment appraisal, streamlining the process and creating a single view of change. The Investment and Design Board makes decisions on investment, prioritisation and deliverability on behalf of ExCom, in line with HMRC's strategic direction and change initiatives. The Investment and Design Board is chaired by the Chief Finance Officer, Justin Holliday.

HMRC's system of executive accountability has been strengthened by introducing quarterly business reviews (QBRs) for each of our business areas. These meetings are led by the Permanent Secretary, supported by the Chief Finance Officer and attended by the relevant Director General and their senior team. The QBRs primarily focus on meeting business plan commitments, including our performance against our delivery and transformation commitments, risk management and resources.

Through QBRs, ExCom has involved a wider leadership group in considering HMRC's performance, addressing challenges and identifying how we can continuously improve.

This year, we introduced a strengthened delegation framework and improved our annual group level assurance processes. We are also working to embed a 'three lines of defence' model to assure ExCom and the Board that HMRC's overall strategy continues to deliver on our objectives. The first line of defence is about making sure appropriate controls are in place to support the work of HMRC's front line operations and staff. These controls tend to be in real time or built into the system. The second line of defence consists of managers making sure standards are set before an activity takes place and then conducting checks afterwards to ensure processes and risk management activities are properly designed and operating as intended. Independent assurance is obtained from Internal Audit, the National Audit Office and others as part of the third line of defence.

Register of interests

HMRC maintains a register of interests to ensure that potential conflicts of interest can be identified, in line with the Code of Conduct for Board Members of Public Bodies. HMRC Board members and members of its sub-committees are required to declare any potential conflicts of interest on appointment and on an annual basis. No significant company directorships or other interests were held by Board members which may have conflicted with their responsibilities. Note 17 to the Resource Accounts confirms that no member of the Board, including Executives, had any related-party interests.

Non-Executive Directors



Mervyn Walker
Lead Non-Executive
Board Member



Joanna Baldwin
Non-Executive
Board Member



Alice Maynard
Non-Executive
Board Member



Simon Ricketts
Non-Executive
Board Member



Juliette Scott¹
Non-Executive
Board Member



John Whiting
Non-Executive
Board Member



Leslie Ferrar
Non-Executive Board
Sub-committee Member



Diane Herbert
Non-Executive Board
Sub-committee Member



Paul Smith
Non-Executive Board
Sub-committee Member

This page:

- 1 Juliette Scott joined HMRC on 21 November 2017.

Opposite page:

- 1 Jim Harra was appointed as the Second Permanent Secretary on 1 January 2018. Prior to that, Jim held the role of Commissioner of Revenue and Customs; Director General Customer Strategy and Tax Design and Tax Assurance Commissioner. Sir Edward Troup was the Executive Chair and Permanent Secretary until 15 January 2018.
- 2 Jennie Granger was Director General Customer Compliance until 26 June 2017. David Richardson was the Interim Director General for Customer Compliance from 1 June 2017 to 3 September 2017. Penny Ciniewicz joined HMRC on 4 September 2017.

- 3 Nick Lodge was the Director General for Transformation until 24 April 2018. Nick Lodge was appointed Director General Strategy on 25 April 2018.
- 4 Ruth Owen was Director General Customer Service until 6 June 2017. Rachel McLean was the Interim Director General for Customer Service from 22 May 2017 to 6 August 2017. Angela MacDonald joined HMRC on 7 August 2017.
- 5 David Richardson was the Interim Director General for Customer Compliance from 1 June 2017 to 3 September 2017 and then the Interim Director General for CS&TD from 1 January 2018.
- 6 Penny Ciniewicz was the Chief Executive of the VOA until 4 September 2017. Melissa Tatton was appointed as Chief Executive on 4 September 2017.

- 7 Karen Wheeler joined HMRC on 3 July 2017.
- 8 Mike Potter was the Interim Chief Digital and Information Officer until 13 October 2017. Jacky Wright has been appointed on a two year fixed term on assignment from Microsoft with effect from 16 October 2017. Jacky Wright is a Senior Civil Servant and bound by the Civil Service Code. HMRC has robust mechanisms in place to handle IT and commercial decision making, including a Commercial Governance Board (CGB). Jacky Wright is a member of the CGB, however she does not participate in commercial decisions specifically concerning Microsoft.

Members of Executive Committee (ExCom)



Jon Thompson

Commissioner of Revenue and Customs; Chief Executive and Permanent Secretary, Principal Accounting Officer, and member of the Board



Jim Harra¹

Commissioner of Revenue and Customs, Second Permanent Secretary, Tax Assurance Commissioner and member of the Board



Gill Aitken

General Counsel and Solicitor



Penny Ciniewicz²

Commissioner of Revenue and Customs, Director General Customer Compliance



Justin Holliday

Commissioner of Revenue and Customs, Chief Finance Officer and member of the Board



Nick Lodge³

Commissioner of Revenue and Customs, Director General Strategy



Angela MacDonald⁴

Commissioner of Revenue and Customs, Director General Customer Service



David Richardson⁵

Interim Director General, Customer Strategy and Tax Design



Melissa Tatton⁶

Commissioner and Chief Executive of the Valuation Office Agency



Esther Wallington

Chief People Officer



Karen Wheeler⁷

Director General Border Delivery Group



Jacky Wright⁸

Chief Digital and Information Officer

Meeting attendance by members of each Board and Committee

Figure 19: Meeting attendance by Executives and Non-Executives

	Board	Audit & Risk Committee	People Nominations and Governance Committee	Charter Committee	ExCom	ExCom (Transformation)
Non-Executive Board Members						
Mervyn Walker	8 (8)	8 (8)	4 (4)			
Joanna Baldwin	7 (8)			4 (4)		
Alice Maynard	8 (8)		1 (1) ¹	3 (4)		
Simon Ricketts	8 (8)					
Juliette Scott ²	3 (3)					
John Whiting	8 (8)	8 (8)		4 (4)		
Non-Executives						
Leslie Ferrar		7 (8)	3 (4)			
Diane Herbert			4 (4)			
Paul Smith		8 (8)				
Executives						
Sir Edward Troup ³	4 (5)				5 (8)	6 (7)
Jon Thompson	6 (8)	1 (8) ⁴			9 (11)	9 (11)
Jim Harra	8 (8)				10 (11)	8 (11)
Gill Aitken			2 (4) ⁴		9 (11)	9 (11)
Penny Ciniewicz			3 (3) ⁴		9 (11)	7 (11)
Jennie Granger ⁵					0 (1)	2 (2)
Justin Holliday	8 (8)	7 (8) ⁴			11 (11)	10 (11)
Nick Lodge					8 (11)	11 (11)
Angela MacDonald ⁶			2 (3) ⁴		8 (8)	6 (7)
Rachel McLean ⁷					2 (3)	3 (3)
Ruth Owen ⁸					1 (1)	2 (2)
Mike Potter ⁹					2 (5)	6 (7)
David Richardson ¹⁰					6 (6)	6 (6)
Melissa Tatton ¹¹					6 (6)	3 (6)
Esther Wallington			4 (4) ⁴		9 (11)	8 (11)
Karen Wheeler ¹²					6 (9)	6 (8)
Jacky Wright ¹³					6 (9)	3 (4)

Note: This table sets out meeting attendance by each Committee or Board member. It does not include other attendees or presenters.

1 Alice Maynard became a member of the People and Nominations Committee in March 2018.

2 Juliette Scott joined HMRC on 21 November 2017.

3 Sir Edward Troup retired on 15 January 2018.

4 Standing invitee.

5 Jennie Granger left HMRC on 26 June 2017.

6 Angela MacDonald joined HMRC on 7 August 2017.

7 Rachel McLean was the Interim Director General for Customer Services Group from 22 May 2017 to 6 August 2017.

8 Ruth Owen left HMRC on 6 June 2017.

9 Mike Potter was the Interim Chief Digital and Information Officer until 13 October 2017.

10 David Richardson was the Interim Director General for Customer Compliance from 1 June 2017 to 3 September 2017 and then the Interim Director General for CS&TD from 1 January 2018.

11 Melissa Tatton became the Chief Executive of the VOA on 4 September 2017.

12 Karen Wheeler joined HMRC on 3 July 2017.

13 Jacky Wright joined HMRC on 16 October 2017.

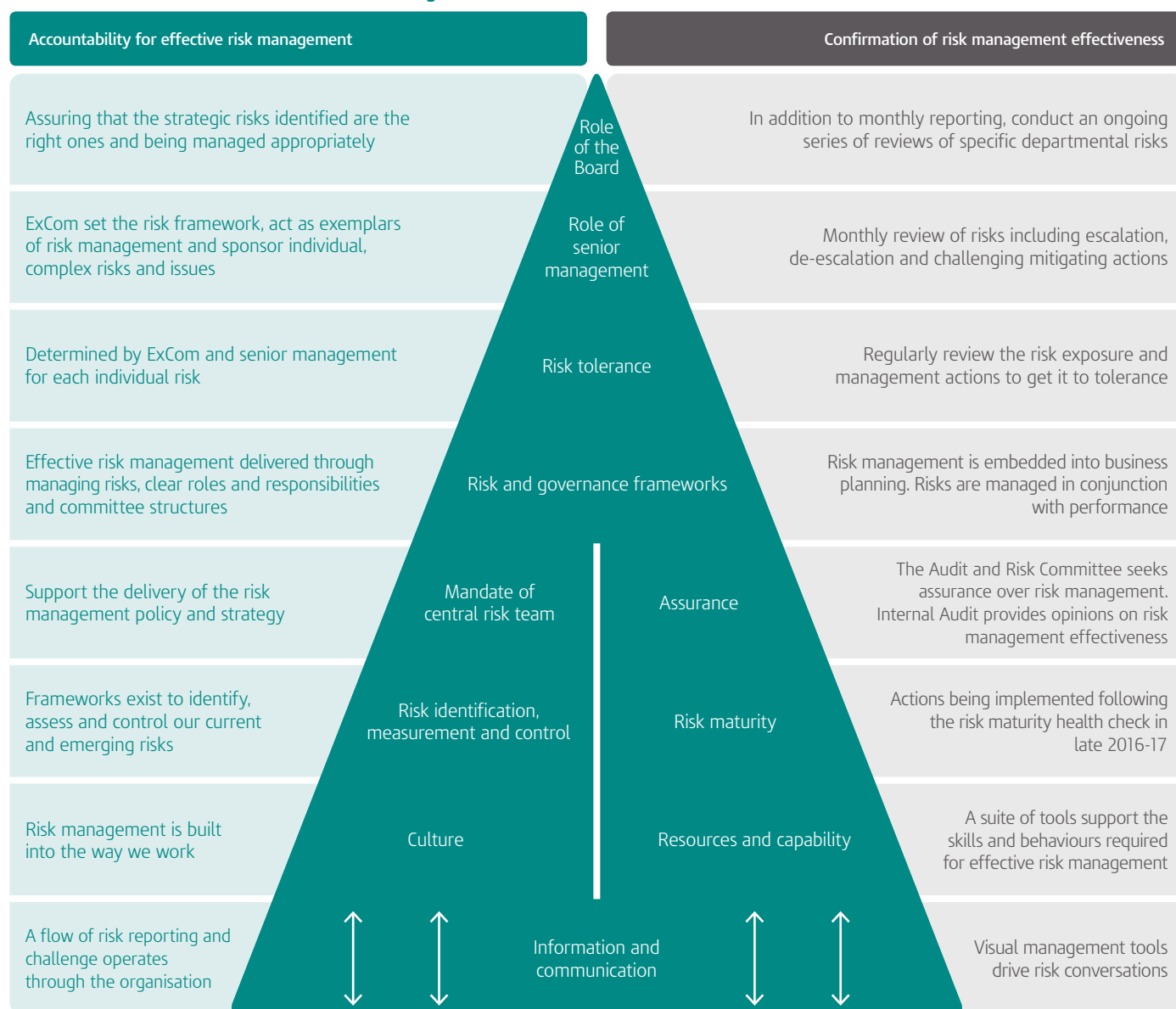
Managing risks to our objectives

To help ensure we achieve our strategic objectives, it's vital that we manage risks at all levels of HMRC from operational decision-making on individual cases through to managing change and strategic-level risks. This section explains how we identify and then address those risks.

Our risk framework

Everyone in HMRC, from the Board down, has a clear role to play in managing risks to our objectives, making risk discussions integral to good business management. Each risk has an owner, action owners and a set cycle of assessment and review. Senior leaders take regular stock of the progress on mitigating actions and any need for escalation. Our risk framework (figure 20) shows how we manage risk in HMRC, and sets out how we receive assurance that our risk management is working effectively.

Figure 20: Our risk framework



Continuous improvement

We are continuously looking for opportunities to enhance our risk management arrangements. In 2017-18, drawing on the new 'Management of Risk in Government: A framework for boards', we have:

- supported ExCom and the Board in an annual review of the risks facing HMRC, using the guidance in the new framework. As a result, we identified an additional ExCom level risk around 'Funding and Affordability'
- introduced good practice around building organisational resilience, with an emphasis on how this can reduce the impact of risks when they do occur
- further refined our visual management tools, so that ExCom can see the information they need in order to take informed action
- developed the risk management advice we provide to our workforce by adding to our easy-to-use guides on different aspects of risk management.

We plan to implement further improvements in 2018-19, including:

- continuing to research and adapt good risk management practice from private and public sectors
- developing and introducing a single risk and control tool across the organisation to help us monitor and manage risks more effectively.

How we are dealing with our top ten risks

Our ten top risks are enduring, complex and cross-cutting. These risks had, and will continue to have, the potential to affect:

- revenues for the Exchequer
- levels of confidence in the department
- our reputation with the public
- delivery of our objectives and our ability to achieve the benefits and efficiencies required by our Spending Review settlement.

Each of our top risks is sponsored by a member of ExCom. Figure 21 describes our top ten risks and the key steps we took to manage them in 2017-18.

Figure 21: How we're dealing with our top ten risks

Principal risks	Key mitigating actions
Capacity, capability and engagement of our people	
We may not have the right number of highly-skilled and engaged people in the right roles and professions, in the right places at the right time leading to a failure to deliver our business objectives.	<p>During the year we have continued to develop our people, looking at the skills we will require in the future. We:</p> <ul style="list-style-type: none"> delivered an accredited tax apprenticeship, revised our workforce plans and developed strategies for recruiting and retaining staff, making best use of data to understand attrition and its root causes started to modernise our approach to learning and have explored advances in technology, looking at roles that can be automated so that our people can move to more value-added work engaged our people in designing a fresh approach to managing performance and, as part of building our regional centres, have explored new ways of working to make the most of our new environment, improve our working culture and embed our values into everything we do.
Catastrophic loss of buildings and services	
We suffer a significant incident that impacts systems, people or buildings leading to disruption to our tax collection and customer services and corresponding loss of public confidence.	<p>To manage this risk we:</p> <ul style="list-style-type: none"> completed the design of the new HMRC Business Continuity operating model and are trialling new software in support of a 2018 rollout undertook a programme of assurance and engagement with suppliers on their security management standards including specific conversations on recent high profile malware attacks continued to develop our capability to effectively scan and enumerate the existence of IT vulnerabilities on the estate as part of a wider ongoing programme of Cyber Security Technical Controls.
Delivering transformation	
We may not deliver a more modern tax administration with service improvements and efficiencies that allows us to exploit digital channels to improve customer service, tackle more quickly those who do not engage with us or bend or break the rules, and live within our financial allocations	<p>As a department we are delivering a transformation programme on an unprecedented scale. Managing this effectively is crucial to our future success.</p> <p>To manage this risk we:</p> <ul style="list-style-type: none"> maintained a deliverable and affordable Transformation Portfolio, aligned to HMRC's strategic direction - including proactive ongoing prioritisation of the portfolio to support delivery of new demands, including EU exit actively monitored and managed resources ensured transformation activities are embedded in HMRC's overall business plans.

Continued

Principal risks	Key mitigating actions
Exploiting information	
We may fail to respond effectively to the business intelligence available to us (for example: compliance insight or reasons for customer contact) leading to reduced revenue collection, a growth in the tax gap and/or weaker customer service.	<p>To ensure the data we hold is reliable, up-to-date and acted upon we have:</p> <ul style="list-style-type: none"> • focused on modernising our data storage and exploitation facilities by moving from one large repository, towards smaller, modular platforms that can easily change and adapt to meet our future data needs • continued to implement a data quality programme to cleanse data and address the root cause of poor data quality • improved our analytical capability to ensure we exploit all the data we hold to maximum effect, using the best available tools and techniques.
External perception/loss of trust	
We may be seen by our stakeholders as ineffective, inefficient or as not treating everyone impartially, leading to weaker compliance and potentially an increase in the tax gap.	<p>To manage this risk, we continued to:</p> <ul style="list-style-type: none"> • work internationally to close tax loopholes and cut tax avoidance • develop our online services to help individuals and small businesses • work to ensure fair media treatment of our work in tackling non-compliance, addressing misconceptions and inaccuracies.
Funding and affordability	
There is a risk that due to challenges in achieving our business plans, exacerbated by unfunded commitments, HMRC is unable to deliver its strategic objectives and/or live within its budget.	<p>To manage this risk we:</p> <ul style="list-style-type: none"> • conducted in-year reviews to address funding pressures with recommendations discussed by ExCom including making the case for additional funding from HM Treasury, reprioritising our transformation activity and identifying other cost reduction options • built financial capability across HMRC enabling more insightful information in management accounts and business cases, with which decisions can be underpinned • integrated planning including articulation of one clear strategy and a suite of workforce, delivery and financial plans.
Implications of EU negotiations on tax administration	
HMRC fails to identify and prepare for the challenges/opportunities of the UK's new relationships, leading to an insufficient ability to secure revenue, make payments and meet customer needs on exit from the EU.	<p>To ensure we understand and proactively prepare for UK's new relationship with the EU, HMRC has:</p> <ul style="list-style-type: none"> • focussed on developing and delivering detailed solutions for varying negotiated exit scenarios to provide support to Ministers and the ongoing negotiations • established a strong cross-Whitehall presence at senior levels and has fed into and participated in EU exit negotiations • managed risks to delivery, reviewing risks monthly at senior levels, releasing capacity from within the Transformation Portfolio onto prioritised deliveries including EU exit work within the department.

Continued

Principal risks	Key mitigating actions
Influencing customer behaviour	
We may fail to understand and influence customer behaviour in a way that maximises revenues and transforms our customer service, leading to inaccurate forecasting of customer demand, not living within our SR15 settlement and missed opportunities to design our customer-facing systems to promote tax compliant behaviour and make digital services the option of choice.	<p>To manage this risk, we:</p> <ul style="list-style-type: none"> continued to ensure that the products available in the online Personal Tax Accounts fully meet our customers' needs supported our customers to stay online through ongoing improvements to our Virtual Assistant and Webchat tools reviewed the content and the necessity of our communications with our customers, ensuring these share key-messages, are easy to understand and do not trigger unnecessary demand.
Loss of customer data	
People may gain unauthorised access to our information assets through malicious electronic attack, human intent or an accidental event due to inadequate information risk control, leading to a significant loss of customer data. This may harm our ability to manage the tax and customs systems and result in a loss of public confidence and potential regulatory and legal action against the department.	<p>The safety of customer data is paramount in our thinking. To manage this risk, we:</p> <ul style="list-style-type: none"> have made preparations for the introduction of General Data Protection Regulations (GDPR) in May 2018 by initiating a data audit to ensure asset owners are in place and they understand and meet their responsibilities continued to invest in our cyber security mitigations to protect our digital services and customer data and to respond to new and increasing threats; including improved cyber-crime monitoring and profiling to prevent unauthorised access developed robust guidance and procedures to ensure when HMRC exits old estate we protect and secure customer data assets at all times.
Relevance of the tax system to the economy	
As a result of HMRC not recognising and addressing the opportunities and risks arising from the impact of the wider environment on its business and tax base, there is a risk that our product and process design, decisions and tax system may become out of step with social, economic, technological and demographic developments, leading to loss of confidence/integrity in the tax system and/or a reducing tax base, leading to a reduction in tax revenues.	<p>To manage this risk, we have:</p> <ul style="list-style-type: none"> identified, and continue to identify, future trends through horizon scanning of our external environment. These summarise the changes which could have an impact on HMRC's work and include the implications of wider policy development and any relevant external events. We also continue to use two further key controls - the Tax Gap and our Strategic Picture of Tax Risk - which give us insight on our main compliance risks used our compliance risk insight to discuss and agree appropriate actions.

Principal Accounting Officer's report

HMRC's Chief Executive, Jon Thompson, has been appointed by HM Treasury as Principal Accounting Officer for the department. In this role, he conducts an annual review of the effectiveness of our governance, risk management and internal control. A number of specific sources contribute to this annual review, which Jon Thompson sets out in the following report.

Financial responsibilities within HMRC

As HMRC's Principal Accounting Officer, I delegate financial authority to each of HMRC's Directors General, through annual letters of delegation, to manage the budget for their business areas within agreed financial limits and Managing Public Money guidelines. Our Directors General are supported by their finance directors and finance business partners and operate a cascade of delegations of these financial authorities within their business areas. Financial authority limits and HMRC policy requirements are set at each stage of delegation.

This scheme of delegations is supported by HMRC's financial controls framework, developed last year, which ensures that we adhere to control standards in all our financial processes and enhances financial control within HMRC. The framework helps mitigate the risk of financial loss through error or fraud. It also helps ensure the integrity of our financial statements by helping to reduce the risk of fraud, error and financial misreporting.

Statements and reports made by Executive Committee (ExCom) members

Each member of ExCom provides an annual statement of assurance setting out the governance, risk and control arrangements in their business areas. These statements are reviewed by Internal Audit, Corporate Governance and Corporate Risk Management Teams and the key findings are discussed by me and by ExCom. HMRC's Audit and Risk Committee also provides assurance of these statements. The Tax Assurance Commissioner prepares a Tax Assurance Report, which can be found on pages 86 to 97.

Additional Accounting Officers

I receive assurance from HMRC's Additional Accounting Officers:

- Melissa Tatton has responsibility for the Valuation Office Agency (VOA) administration and payments of rates to local authorities on behalf of certain bodies
- Jim Harra has responsibility for the Scottish and Welsh rates of income tax
- Justin Holliday has responsibility for the signature of the Account of Duties Collected in the Isle of Man
- Patrick Whittome, HMRC Director of Finance Operations, has responsibility for the signature of the Account of R.N. Limited.

The VOA provides a separate governance statement and I take assurance from this and from the review which underpins it.

Security

ExCom receives weekly security incident reports, which include details of any personal data-related incidents we report to the Information Commissioner's Office, as specified on page 134. A regular security incident report is also presented to the Audit and Risk Committee.

I also receive formal assurance from HMRC's senior information risk owner that information risk has been appropriately managed in the conduct of HMRC business.

National Insurance Funds

There are two National Insurance Funds, one for Great Britain and one for Northern Ireland. Each has its own annual report and accounts, including a governance statement, 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.

Quality assurance of business critical models

In response to the 2013 MacPherson review of quality assurance of government analytical models*, we have enhanced our approach in this area. This includes developing new, high-level departmental guidance and local procedures for assurance of models proportional to their risks. The department has also made several improvements in response to NAO guidance on the governance and quality assurance of business critical models in HMRC. We have sharpened HMRC's definition of what constitutes a business critical model, reflecting financial scale and MacPherson's contextual factors. We have also developed new guidance to clarify HMRC's minimum

expectations of model governance before HMRC's Audit and Risk Committee monitors the quality assurance of our business critical models annually.

* www.gov.uk/government/uploads/system/uploads/attachment_data/file/206946/review_of_qa_of_govt_analytical_models_final_report_040313.pdf

Control framework

HMRC continues to evolve and embed its control environment. We are working further to enhance this through our control framework project, which is driving forward a number of improvements and clarifying processes to ensure that HMRC's control environment evolves as the department does. We have made improvements to review our controls, map processes, redefine our delegation and integrated assurance frameworks (including articulating the 'three lines of defence' model) and develop a communications and training plan. I expect to see this work progress in 2018-19.

Internal Audit

The Director of Internal Audit's opinion to me, as Principal Accounting Officer, is 'limited assurance', the same as in recent years. She highlighted the following to me in her annual report:

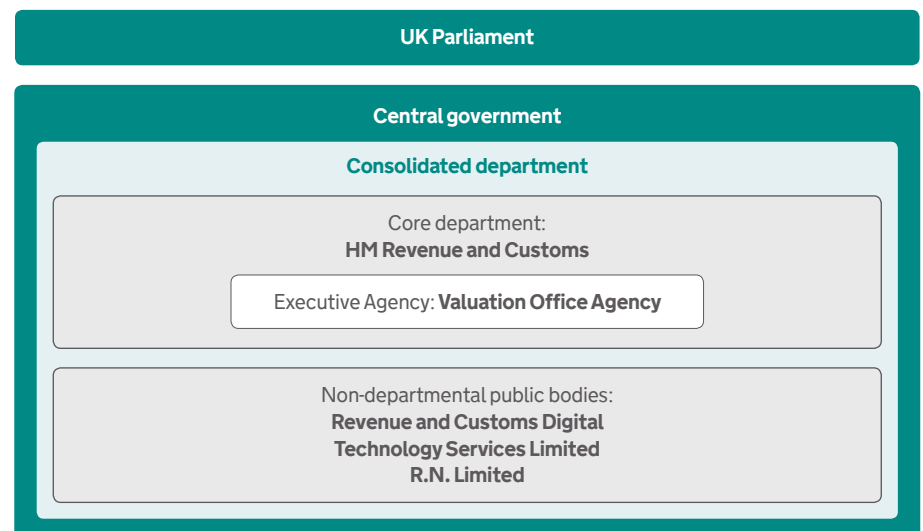
- In governance terms, the year has built on the foundations set by the prior year's reorganisation of business groups. There has been further change within the Executive Committee but roles are clearly understood, enhanced by the development of a new delegation framework
- HMRC's overall level of risk exposure remains challenging, reflecting the ongoing strain of EU exit preparations combined with its ambitious transformation agenda. However, the risks are clearly understood and there is evidence they are being actively managed. HMRC management has taken steps this year to prioritise activity within its change portfolio. This reflects the need to continue delivering business as usual, while being mindful of EU exit preparations, with limited resources both in financial terms and in the capacity of the organisation to oversee and manage transformation
- Individual internal audit findings show a similar pattern of assurance to the previous year. Areas of good control continue to be found at a business/operational level across the department. However, there still remain some operational weaknesses in common processes which affect a number of business groups. The common recurring themes focus around people management, specifically capacity, capability and role definition, and are magnified to some extent by the challenges introduced by preparing for the EU exit. Improving controls in these areas requires effective collaboration across business group boundaries
- Last year the Accounting Officer and Chief Financial Officer initiated a programme to deliver a step change in the control environment. This aims to deliver a more rigorous scheme of delegated authorities, define an enterprise process map, apply more rigorous process ownership and accountability and develop more comprehensive integrated assurance activity. Much of the framework behind these changes has now been developed, although the significant benefits anticipated to the control environment will only be recouped if staff across HMRC consistently adopt and apply the new framework and tools. Control effectiveness will be further enhanced as individual processes are reviewed and simplified.

Accountability relationships with arm's length bodies

HMRC has three arm's length bodies: Valuation Office Agency (VOA), which is an executive agency of HMRC, Revenue and Customs Digital Technology Services Limited (RCDTS Ltd), and R.N. Limited – which are all non-departmental public bodies.

In 2017-18, HMRC conducted a review of its arm's length bodies in order to ensure each body was well run and that risks to HMRC are well understood and managed. The review considered: sponsor team arrangements, a review of framework documents, service level agreements and terms of approval, the latest set of accounts, risk management processes and financial arrangements. I am satisfied that each of HMRC's arm's length bodies has systems in place which meet the appropriate standards of governance, decision-making and financial management.

Figure 22: HMRC accountability system



Valuation Office Agency (VOA)

VOA is an executive agency of HMRC and provides valuations and property advice to the government and local authorities in England, Scotland and Wales. The majority of the VOA's funding comes from HMRC via the Estimate.

Monitoring of performance: Melissa Tatton was appointed as CEO and Additional Accounting Officer for the VOA in September 2017*. Melissa is a member of HMRC's Executive Committee (ExCom) and, from November 2017, a Commissioner of HMRC. Melissa undertakes a quarterly business review with me covering performance, risks and issues. HMRC's ExCom Performance Hub and ExCom Transformation performance pack include VOA data, and assurance is provided by HMRC's Internal Audit function.

* Penny Ciniewicz was the Chief Executive of the VOA until 4 September 2017.

HMRC has a dedicated sponsor team for the VOA as well as a dedicated ExCom sponsor, Justin Holliday. The team have a good understanding of the VOA and the risks posed and provide me with an update on a monthly basis. I am content that our oversight is working well and that our work to strengthen governance arrangements and integrate corporate services will bring further benefits and efficiencies to both the VOA and HMRC.

The Chair of HMRC's Audit and Risk Committee attends at least two meetings of the VOA Audit and Risk Assurance Committee (ARAC) each year, and the Chair of the VOA ARAC is invited to attend at least one HMRC A&RC meeting annually. VOA Executive Board members are part of HMRC functional leadership teams in HMRC's Chief Digital and Information Officer (CDIO), Chief People Officer (CPO) and Chief Finance Officer (CFO) business areas and we hold working level meetings on a regular basis.

The VOA provides quarterly financial statements to HMRC that are consolidated into HMRC's accounts for HM Treasury returns and end of year statutory accounts. The VOA produces its own statutory accounts which are audited by the National Audit Office who then place reliance on that when auditing HMRC's consolidated statutory accounts.

Accountability for spending: Melissa Tatton is accountable to Parliament for ensuring the propriety and regularity of the public finance within her charge, including meeting the requirements of Managing Public Money, HM Treasury or Cabinet Office guidance and fulfilling requirements of the Public Accounts Committee or other Parliamentary select committees or authorities. As Principal Accounting Officer, I am accountable for ensuring a high standard of financial management and strategic oversight.

Revenue and Customs Digital Technology Services Limited (RCDTS)

RCDTS is a private company limited by guarantee with no share capital, and was set up to facilitate phased IT insourcing. It is owned and controlled by HMRC through arrangements with the Treasury Solicitor. It is a separate legal entity with an arm's length relationship with HMRC, demonstrated by a Framework Agreement and services and funding agreements. The RCDTS Board has five directors, all of whom are HMRC employees.

RCDTS has received funding from HMRC in the form of a long-term repayable loan. There is a funding facility between HMRC and RCDTS which details the terms of the agreement. The funding has been provided for general working capital and investment purposes for the supply of IT services to HM Treasury. RCDTS invoices HMRC for the services it provides. RCDTS is non-profit making company recharging all costs to HMRC (which is its only customer).

Monitoring of performance: HMRC has put in place a sponsor team for RCDTS to provide me with assurance as Accounting Officer of the company. The sponsor team advises HMRC and ExCom and, where appropriate, acts on our behalf in managing the financial risk and return of RCDTS, by challenging and supporting the Board and RCDTS in achieving its objectives. It interacts with RCDTS at an operational level by ensuring its compliance with the Master Services Agreement and this Framework Agreement.

Accountability for spending: The HMRC finance and operations team are responsible for keeping the accounts for RCDTS. The team also keeps a control register for RCDTS where all controls are listed and monitored.

R.N. Limited

R.N. Ltd is a private company limited by shares. The shares of the company are held in trust by the Treasury Solicitor. R.N. Ltd holds assets associated with tax debts as nominee and trustee of the Commissioners of HMRC. The R.N. Ltd Board has five directors, all of whom are HMRC employees. The Accounting Officer is Patrick Whittome, HMRC Director of Finance Operations, who has authority delegated by the Commissioners to give directions to the Treasury Solicitor in relation to the shareholding of R.N. Ltd.

There is a formal agreement between HMRC and R.N. Ltd and ExCom-level sponsorship from Justin Holliday. The scale of the organisation does not require a formal sponsor team to be in place although the finance operations team maintains oversight. The running costs of R.N. Ltd are met by HMRC.

Monitoring of Performance: The R.N Ltd Board meets on a quarterly basis. All Board meetings discuss strategy and monitor the success of the strategies R.N. Ltd has in place as well as any associated risks. The finance operations team monitors the risks and provides regular updates to HMRC.

Accountability for spending: R.N. Ltd has no specific budget but assets managed by the company amount to £21.6 million. The HMRC finance and operations team are responsible for keeping the accounts for R.N. Ltd. The team also keeps a control register for R.N. Ltd where all controls are listed and monitored.

Other organisations

Entrust is the regulator (since 1 October 1996) of the Landfill Communities Fund (LCF), a tax credit scheme which enables Landfill Operators to contribute money to enrolled Environmental Bodies to carry out projects that meet environmental objects contained in The Landfill Tax Regulations 1996 (Regulations). Entrust is funded by a levy on contributions to Environmental Bodies, which is set annually by HMRC and announced at Budget. While Entrust is not an arm's length body of HMRC, it has a close relationship to HMRC in a similar way to other bodies. HMRC has oversight of its business plan and operating model.

Accountability for major contracts and outsourced services*

HMRC has a number of major contracts that are significant in ensuring that it can deliver its core services. We have a contract with Mapeley STEPS Contractor Limited (Mapeley) to provide accommodation and other services. Our IT services are provided through contracts with Capgemini, Fujitsu, Accenture and Kcom. The approximate annual value of the Mapeley contract is £137.8 million and the approximate value of the IT contracts referred to is £154.6 million in total.

* The scope of this section is limited to major contracts and outsourced services. HMRC does not distribute grants to devolved administrations, local government or any other local organisations. The department does not offer grants to any private or voluntary sector bodies. In addition, HMRC does not have any delivery partnerships with commercial or civil society sector organisations.

Mapeley

We obtain and ensure value for money from our Mapeley STEPS contract by using a set of value for money and performance measures, as well as a benchmarking and governance structure that regularly monitors, evaluates and reports on value for money in-year and for the whole life of the contract. We take management action through various contractual mechanisms, including a performance measurement system that enables HMRC to make financial deductions from Mapeley for failure to achieve key performance targets and through commercial negotiations in respect of current performance and future opportunities.

IT contracts

To deliver better value for money, we exited our former Aspire contract for IT provision and replaced it with a number of smaller, more flexible contracts using an ecosystem of existing and new suppliers. This disaggregation was achieved by a combination of novating key supplier sub-contracts directly under our control, and by competing services within the IT marketplace. These contracts also allow HMRC to take better advantage of digital innovations and keep pace with technology trends of the future. We are achieving further value for money through embedded contractual mechanisms, such as benchmarking, as well as ensuring any new contracts are smaller in scale, shorter in length, easier to exit and therefore more easily competed. This model is on target to save HMRC £200 million a year by 2020-21 on a like-for-like basis.

Grants to private voluntary sector bodies*

In 2017-18 HMRC administered the second year of a three year funding scheme to the Voluntary and Community Sector (VCS). The scheme totalled £1,670,494 and there were eight awards to organisations made under it. Further information regarding the scheme and award details is held on the Government Grants Register.

* HMRC does not distribute grants to devolved administrations, local government or any other local organisations. In addition, HMRC does not have any delivery partnerships with commercial or civil society sector organisations

The scope of this funding is to support our customers who need extra help, understanding and complying with their obligations and claiming their entitlements, including those who are currently digitally excluded. The VCS organisations help customers form or rebuild a relationship with HMRC which enables them to engage directly with us in the future.

The scheme is administered in line with the Cabinet Office Standards for grant funding. There are elements that need to be aligned more strongly and this will be addressed in any future funding rounds. The current scheme is administered through a dedicated account management process with regular reporting milestones.

Update on control challenges reported during 2016-17

Error and Fraud Adding Capacity (EFAC)

Last year we reported that we had contracted with an external supplier, Concentrix, to review and correct tax credits claims and help reduce levels of error and fraud by adding capacity to our own compliance efforts. Following a decline in performance, HMRC and Concentrix agreed to exit the contract in November 2016. All of the cases being worked on by Concentrix were taken back by HMRC and have now been resolved. We have not continued with any added capacity contracts for benefits and credits since then. The control issue is no longer ongoing and has therefore been closed.

Current control challenges

Tax credits error and fraud

Over the past year, we have actively managed the issue of tax credits error and fraud, which poses a risk to delivery of our core work in this area. The Comptroller and Auditor General has qualified his opinion on HMRC's Resource Accounts due to material levels of error and fraud in the payment of personal tax credits. While HMRC has had some success in reducing the level of error and fraud, which hit an all-time low of 4.4% in 2014-15, it rose to 4.9% in 2016-17, in our most recent published results*. Error and fraud rates were reported as a control challenge in 2016-17 and while these rates remain material, tax credits error and fraud will continue to be a fundamental control challenge for HMRC. The error and fraud statistics for 2017-18 will be published in June 2019 and I expect the levels of tax credits error and fraud to again remain material.

The annual cycle and year-end reconciliation process that are part of the design of the tax credits system present opportunities for claimant error and fraud. Tax credits are being replaced by Universal Credit, and therefore opportunities to resolve this issue through a major system, product or process change are significantly limited. We will continue to discuss our work to minimise error and fraud with the National Audit Office during the course of 2018-19.

HMRC has worked to understand the causes and levels of error and fraud and to develop solutions to address them within our existing resource. This includes focusing on ways to promote voluntary compliance alongside mainstream compliance interventions, within resourcing constraints. We also worked with stakeholders to improve customer service and our compliance response.

* The first estimates of the level of error and fraud in 2015-16 were published in June 2017, and estimated that the level of error and fraud favouring the claimant was 5.5% of finalised tax credits entitlement. These first estimates were based on incomplete data, and as a result HMRC revisits the estimates each year to take account of any information received after the original publication and the outcome of cases still in progress when the estimate was produced. After review, the level of error and fraud favouring the claimant reduced to 4.8%. In light of results from the 2015-16 review, HMRC decided to look again at previous years' estimates and found that 2014-15 also needed revising (other years were not affected). The inclusion of additional data for 2014-15 reduced the estimated level of error and fraud favouring the claimant to 4.4% of finalised tax credits entitlement.

We closely monitor operational outcomes from compliance activity to provide an in-year indication of performance against our error and fraud target and take action where necessary. We have also adopted a risk control framework, as recommended by the National Audit Office, to develop other measures to challenge error and fraud. This has assisted in identifying risks arising from undeclared partners and incorrect reporting of self-assessed income. We have also implemented education and reminder campaigns to further support and guide customers to claim correctly.

HMRC continues to work closely with DWP on opportunities to smooth the transition to Universal Credit and to manage error and fraud ahead of and during that process.

Conclusion and compliance with the Code of Good Practice

I have assessed HMRC's compliance with the Corporate Governance in the Central Government Departments' Code of Good Practice 2011. The code focuses on governance arrangements for ministerial departments and there are elements which are not directly relevant to HMRC due to our statutory framework and status as a non-ministerial department – for example, Commissioners make arrangements for the conduct of their proceedings and the delegation of functions (Section 12 and Section 14, CRCA 2005) and ministers attending the Board. However, we comply with the spirit and principles of the code and by this, and other means, good governance is achieved in HMRC.

Our corporate governance arrangements have continued to evolve during the year. An organisation of HMRC's size and complexity will always have multiple risks to manage at any one time, but I am satisfied that the governance arrangements that were in place throughout 2017-18 have been sufficient to continue managing risks effectively. Based on the review outlined above, I conclude that HMRC has a sound system of governance, risk management and internal control that supports our aims and objectives for 2018-19.



Jon Thompson
Principal Accounting Officer
6 July 2018

How we resolve tax disputes: Tax Assurance Commissioner's Report

Foreword

I am committed to ensuring that HMRC handles tax disputes in accordance with its Litigation and Settlement Strategy (LSS) – in other words, avoiding unnecessary disputes, conducting them in a non-confrontational, collaborative and transparent way and resolving them to collect the tax that is due under the law without unnecessary delay.



I take pride in the even-handed approach the department brings to dispute resolution and the quality of work that people in HMRC put into resolving disputes fairly. Last year I reported on how the department works and settles cases. This year I've extended the report to explain how cases are selected for enquiry, and thereby provide additional assurance of the whole life of a tax dispute from its inception to its resolution.

HMRC aims to avoid tax disputes. For example, where appropriate, it gives rulings and clearances to provide certainty before a taxpayer files their return. And where the department does get into dispute with a taxpayer, it prefers to settle this by agreement. Its tax professionals work with customers and agents to seek to resolve tax disputes, and it only litigates when it is unable to reach an agreement.

HMRC's governance arrangements allow Parliament and the public to be confident that the department secures the tax that is due under the law when resolving tax disputes. I recognise the importance of demonstrating clearly that disputes are resolved in accordance with the law and the LSS. As Tax Assurance Commissioner (TAC) I chair a panel of three Commissioners that makes the final decisions in our largest and most sensitive disputes. As I do not engage with taxpayers on their tax liabilities or have responsibility for the HMRC units that manage taxpayer's compliance, I am able, as part of our internal governance of dispute resolution, to assure decision-making in these. In addition to governing the decisions, this means I can identify opportunities to improve the department's policies and processes.

HMRC's Internal Audit team and Audit and Risk Committee also play a vital role in this process by providing internal assurance and challenge, and driving continuous improvement in the processes used to govern the management of tax disputes.

As head of HMRC's tax profession I am working to ensure that the department operates to the highest possible professional standards when handling tax disputes. From 1 October 2017 we piloted a new way of reviewing settled cases, with emphasis on both quality and governance of casework. This new process commenced on 1 April 2018 and will examine cases settled in the previous quarter (rather than in the previous year), enabling us to identify any issues faster and pass the learning to our tax professionals.

We are also increasing our focus on cases where the customer has asked for a statutory review of HMRC's decision so we can learn from these too. I look forward to reporting on outcomes from both these areas next year.

In 2017-18, the General Anti-Abuse Rule (GAAR) Advisory Panel issued opinions in respect of the first six cases referred to it. The independent panel provides a taxpayer safeguard by giving low cost, early opinions on whether tax arrangements can be regarded as reasonable, with the aim of reducing the number of disputes and the need to go to litigation. All cases referred to the Panel have been found in HMRC's favour, allowing HMRC to decide on whether to counteract the tax arrangements in question under the GAAR, as well as having significant impacts for abusive tax arrangements more widely.

The number of referrals to HMRC's panel of Commissioners and the Tax Disputes Resolution Board (TDRB) dropped in 2017-18. This reduction can be explained firstly by normal fluctuations (the number of referrals in 2016-17 was high compared with previous years); and secondly by the effect of streamlining governance processes, which reduced the number of cases seen by these boards.

This report shows that HMRC's internal review and governance processes are robust and effective in ensuring that it handles and resolves disputes even-handedly, in line with the LSS. The report nevertheless identifies some ways in which we can improve the quality and assurance of our disputes handling, which we are taking forward.



Jim Harra CB

Tax Assurance Commissioner

Our approach to tax disputes

We strive to help taxpayers get things right, but we know there will be occasions where HMRC and the customer disagree about the amount of tax that is due.

HMRC handles disputes in accordance with the law, our LSS and the governance framework explained in our published code of governance for resolving tax disputes. In October 2017, we updated the LSS and its associated commentary and made corresponding revisions to our 'Code of governance for resolving tax disputes'. Together these set out HMRC's framework for seeking to resolve tax disputes in accordance with the law by agreement through collaboration and civil law processes and procedures. They provide assurance that we treat taxpayers fairly and even-handedly, regardless of the size of the taxpayer or the complexity of their tax affairs.

Where there are grounds to believe that evasion is involved, we will consider whether a criminal investigation is appropriate. HMRC carries out criminal investigations where a strong deterrent message is needed, for the most severe offences, or where the conduct involved is such that a civil sanction alone will not suffice.

How we avoid unnecessary disputes

Our aim is to minimise tax disputes by helping customers to pay the correct tax at the right time, in accordance with tax law – and this involves everyone in HMRC. We design the tax system, support the honest majority through our customer services, and tackle the dishonest few who try to bend or break the rules. Many strands of our activity play a significant part in helping us minimise disputes, such as well-framed legislation, publishing guidance, and providing rulings and clearances. Our approach is to:

- **promote** compliance by designing it into our systems and processes, helping customers get things right from the very start
- **prevent** non-compliance by using the data we have to personalise services, automate calculations, prevent mistakes and block fraudulent claims
- **respond** to non-compliance by identifying and targeting where there might be tax at risk and using tough measures, including criminal investigation with a view to prosecution, to tackle those who try to cheat the system.

How we select cases

Generally, we make interventions based on a risk assessment. Our aims are to identify and rectify non-compliance, deter and prevent future non-compliance, encourage positive behavioural change in individual taxpayers and reassure the compliant majority that HMRC acts against those who deliberately try to cheat the system.

HMRC's Risk & Intelligence Service continuously collects and analyses data, information and intelligence from a wide range of sources. We use this analysis and insight to understand and manage risks to the tax system. We keep up-to-date with changes in the economy and society, and research into the hidden economy and taxpayer attitudes towards tax.

We are notified of tax avoidance schemes through the Disclosure of Tax Avoidance Schemes, VAT Disclosure and the new Disclosure of Avoidance Schemes: VAT and other Indirect Taxes regimes. We also use bespoke analysis and reviews to identify avoidance activity that may not be disclosed under one of the disclosure regimes.

In addition to our risk-based compliance interventions, we also randomly select a small number of cases to learn about general levels of compliance risk and to measure compliance levels within our main customer populations.

How we work cases

Our trained tax professionals work collaboratively with taxpayers and their agents to establish the correct tax position, and the vast majority of tax disputes are resolved by agreement, securing the tax that is due under the law in the most cost effective way. Where we cannot reach an agreement that secures the tax we believe is due, we will litigate the dispute in accordance with the principles set out in the LSS.

Alternative dispute resolution

In some circumstances, we may use alternative dispute resolution (ADR) methods, which use mediation to help taxpayers and our caseworkers to reach agreement in a way that secures the right tax due under the law at the least cost to HMRC and to its customers.

We consider and evaluate all the requests we receive for ADR. Where our mediators consider a case is not suitable for ADR, they refer it to one of the governance panels for a decision.

Figure 23: Alternative dispute referrals

	2017-18	2016-17
Total applications for ADR (either side can propose ADR)	1,411	1,265
Cases rejected by governance panels	667	515
Cases awaiting decision	120	321
Active cases	309	501
Cases resolved successfully	455	370
Cases going to litigation	98	96
Cases resolved through ADR*	82%	79%

* The number of cases resolved successfully as a percentage of the number of cases accepted for ADR which were closed during the year.

In 2017-18, ADR accelerated yield to HMRC totalling £40,761,175 and fully or partially resolved 82% of the cases referred to it, of which 85% were resolved within 120 days. By comparison, in 2016-17 ADR accelerated £25,192,145, and fully or partially resolved 79% of cases – 85% of these within 120 days.

Feedback from customers and their representatives about their ADR experience has been overwhelmingly positive, with 98% of customers and their representatives in 2017-18 saying they would recommend ADR (compared to 96% in 2016-17) and 94% were satisfied/very satisfied with the ADR process (95% in 2016-17).

Governing the resolution of disputes

In small cases, the case worker makes the decision on how to resolve the dispute. They do this with appropriate management oversight and, where relevant, advice from our specialists, including our lawyers. For larger cases, the decision-makers are departmental governance boards (see below: details of these can be found in our published code of governance) or, in the case of the largest and most sensitive disputes, a panel of three HMRC Commissioners.

Figure 24: HMRC case governance



In 2017-18, the Commissioners considered cases referred from the Tax Disputes Resolution Board (TDRB), some of which were first considered by the Transfer Pricing Board or Diverted Profits Board and also considered sample cases from the Customer Compliance Group Dispute Resolution Board (CCG DRB). These governance boards comprise members from across HMRC and include senior representatives from policy, technical and operational business areas and lawyers, independent of those who worked on the case.

Where tax risk exceeds £100 million, cases fall within the remit of the Commissioners and TDRB. If outside that then individual risks over £5 million fall within the remit of the CCG DRB.

Issues governance

We also have internal processes in place to enable us to manage issues that affect multiple taxpayers, in a consistent and even-handed manner.

Decisions on these issues are referred to our Contentious Issues Panel (CIP) and Anti-Avoidance Board (AAB), which comprise operational, legal and policy experts. In 2017-18:

- the CIP met ten times and considered 15 issues (14 times and 22 issues in 2016-17). The panel considered a variety of issues involving income tax, Corporation Tax, VAT Landfill Tax, Excise Duty and Customs Duty.
- the AAB met 14 times and considered 114 issues, including three issues considered via correspondence (nine times and 79 issues in 2016-17, including three considered via correspondence).

The Commissioners considered two referrals on issues one each from AAB and CIP and decided on strategies for handling the contentious issues concerned.

Published settlement terms

We may formally publish our position on disputed issues and invite taxpayers to resolve disputes in their specific cases on the published basis. We do this where the disputed point arises in a significant number of cases. This enables us to handle them efficiently whilst ensuring transparency and consistency. In 2017-18, we published settlement terms applicable to users of disguised remuneration tax avoidance schemes.

Decisions taken in 2017-18

HMRC Commissioners

Figure 25: Outcome of case referrals

	2017-18	2016-17
Referrals to the Commissioners	40	67
Taxpayer's position accepted	21	36
Taxpayer's position rejected	18	28
Conditional accept	0	1
Further work needed	1	2
£100m plus tax or £500m adjustment	29	47
Sensitive case or risk	3	8
Sample cases	8	8
Novel and unusual	0	4
Director referral	0	0

Figure 26: Tax under consideration in decisions referred to the Commissioners (£m)

	2017-18	2016-17
Taxpayer's position accepted	2,076	3,985
Taxpayer's position rejected	2,721	4,923
Remitted for further work	*	177
	4,797	9,085

* the amount cannot be determined at this stage. The Commissioners remitted one decision for further work.

In 2017-18, three Commissioners met 17 times (15 in 2016-17). Of the 40 (67 in 2016-17) referrals eight (eight in 2016-17) were referred directly from the CCG DRB, and 32 (59 in 2016-17) from the TDRB – of which one was carried forward from last year. During 2017-18, the Commissioners accepted the TDRB's recommendation in all 32 referrals (56 in 2016-17).

The Commissioners were impressed with the high quality work in the cases referred to them and the high standards of the case teams' presentations.

We continue to work to identify and implement improvements to our processes, guidance and training requirements.

Tax Disputes Resolution Board

Figure 27: Outcome of the referrals

	2017-18	2016-17
Referrals to TDRB	38	63
Referred to Commissioners		
Taxpayer's position accepted	18	34
Taxpayer's position rejected	11	23
Taxpayer's position conditional accepted	0	1
Total referred to Commissioners	29	58
Not Referred		
Remitted for further work	3	1
Guidance provided	0	1
Decision taken by TDRB under its remit	6	3
Total not referred to Commissioners	9	5

The Customer Compliance Group Dispute Resolution Board

Figure 28: Outcome of the total referrals to the CCG DRB

	2017-18	2016-17
Total referrals	94	137
Taxpayer position accepted	20	41
Taxpayer position accepted with conditions	0	3
Taxpayer position rejected	63	71
Board remitted for further work before re-referral	3	7
Referral sent to the Commissioners as a sample case	8	8
HRCF case management*	0	6
Board provided advice and guidance – no decision sought	0	1

* HRCF case management is not a function of CCG DRB – the previous year's entry relates to the LB DRB and is included here for consistency.

Analysis of 2017-18 referrals to HMRC Commissioners, TDRB and CCG DRB compared with past years

This year the Commissioners and TDRB dealt with fewer referrals than they did in 2016-17.

In 2016-17 the Commissioners dealt with a large number of referrals (67) and we are back to the numbers seen in previous years (22 in 2012-13, 48 in 2013-14, 54 in 2014-15, 43 in 2015-16).

We have compared the numbers of referrals through TDRB and CCG DRB (or its predecessor boards) over the last five years. Although the number of cases going through these governance boards was lower in 2017-18 than the previous year, we are satisfied that appropriate cases were referred within the remit levels of the boards.

Transfer Pricing Board and Panel

The Transfer Pricing Board (TPB) makes decisions on large or sensitive transfer pricing enquiries which do not require referral to the TDRB. It also makes recommendations to the TDRB about transfer pricing risks that fall within the TDRB's remit. The TPB is supported by the Transfer Pricing Panel (TPP) which makes decisions on transfer pricing enquiries that do not come within the TPB's remit. In some smaller cases a single transfer pricing expert examines the issue.

This year we are reporting on the referrals to the TPB and TPP. In 2017-18, the TPB considered 27 cases (32 in 2016-17). Comparatively, 2016-17 saw an increase in the number of large or sensitive transfer pricing cases under review compared with 2015-16 (22).

The TPP considered 158 resolution proposals (116 in 2016-17). The increase in the number of referrals reported this year results from referrals to the single transfer pricing experts being included in this year's figures for the first time.

Diverted Profits Board

The Diverted Profits Board looks at all risks arising from arrangements identified as potentially within the scope of the Diverted Profits Tax legislation. The Board comprises senior officials from a wide range of HMRC directorates. It met 21 times in 2017-18 (12 in 2016-17) and considered 16 proposals (11 in 2016-17) to resolve the diverted profit tax risks. They referred two (two in 2016-17) for further work and sent four (nine in 2016-17) on to the Commissioners via the TDRB.

Review of settled cases

We systematically review a sample of settled cases from across HMRC to test whether the appropriate governance and assurance processes were followed and whether we worked and settled our cases efficiently.

For this purpose, we operate a 'three lines of defence' model of risk management. The first line consists of the checks done by the line manager or authorising officer on case work while the case is still open or after it is closed. This also includes assurance by Directorate professionalism teams. Each Directorate has a programme in place to improve professionalism and customer experience that includes managers conducting risk based assurance of case quality to agreed standards. These first line checks are the starting point and an integral part of the three lines of defence. The second line is an independent review of a sample of closed cases and is undertaken by the central Customer Compliance Group Assurance Team. The third line is provided by Internal Audit's validation of some of the cases that have been reviewed by the second line.

Both the central Customer Compliance Group Assurance Team and Internal Audit report their findings to the TAC.

Results of the reviews

In 2017-18 the Customer Compliance Group Assurance Team tested and reported on 445 cases that were settled in 2016-17 (445 cases that had been closed in 2015-16 were tested and reported in 2016-17). Internal Audit positively validated the testing and reporting work that was done by the Assurance Team.

While the results continue to demonstrate a high level of adherence with the governance standards, this year does see a slight rise in cases failing to meet our expected standards. 79% of cases (350) were worked in accordance with governance processes (80% in 2016-17). In 16% of cases (72), we followed processes but with scope for some improvement (18% in 2016-17). In 5% of cases (23) there were one or more aspects that fell short of our expected standards (2% in 2016-17).

In cases where governance processes were not fully adhered to we have identified the main issues as being:

1. penalties or settlements have not been correctly authorised as required or there is an absence of audit trails to evidence said authorisations
2. assessments or penalties being authorised at the wrong levels
3. the recording of settlement figures entered onto our IT systems incorrectly
4. delays by HMRC and customers.

Acting on the results

We continue to drive improvement activity at all levels to ensure these issues are addressed.

Using the results of our annual reviews, our compliance teams have been able to take action to address identified areas for improvement as soon as possible. All the recommendations that came out of the 2016-17 review were implemented by operational areas during 2017-18.

To improve adherence to quality and governance processes over the past financial year, we have also introduced:

- better analysis of the results of audit and assurance so we can focus our improvement activity more effectively
- engaging with our tax professionals in a more structured way to identify and learn what can be changed to improve case handling
- further training to cover aspects of authorisations, audit trails, penalty behaviours and the calculation and recording of results onto our IT systems
- new learning products for tax professionals focussing on quality and governance aspects of casework.

We also recognise that reviewing cases on an annual basis can create a time lag between procedural casework errors being made, and recommendations for improvement being identified and acted on. Therefore as outlined in the introduction, on 1 April 2018, we implemented a new rolling settlement assurance programme that looks at cases settled in the previous quarter.

This new way of reviewing settled cases includes refined testing criteria and a more informative way of assessing how cases have been worked and whether there is scope for improvement. It provides more timely assurance and offers the opportunity for improvements to be identified and acted on sooner than under the previous annual review process.

Reviews and appeals

As part of their statutory rights, customers who disagree with an appealable decision we have made can ask us to review the decision or appeal to an independent tax tribunal or take both actions. Reviews and appeals are dealt with by tax, legal and accountancy professionals working together in a stand-alone directorate established in 2016 within our legal department.

How we review decisions

The statutory review system gives taxpayers a quick and easy way to have a decision reviewed by an officer who was not involved in making the decision, with the conclusions signed off by a manager or technician.

Reviews can uphold, vary, or cancel the original decision. Additionally, they can provide a further explanation to the taxpayer of the decision HMRC has taken. The system provides a quick, cost-effective opportunity to resolve disputes. The review system is open to all and is more often used by those taxpayers who do not have an agent. 79% of reviews were requested by unrepresented taxpayers (82% in 2016-17).

We might be asked to review decisions such as liability decisions, enquiry closure notices or refused claims. This often involves scrutiny of casework, law and the facts as presented by the taxpayer. Where the reviewer feels that more information or work is required, they can return the case to the decision-maker. However, most reviews are about relatively simple decisions such as automatically issued penalties for late filing of returns and/or late payment of tax. In such cases the review system is often the first opportunity for the taxpayer to provide relevant evidence that they should not have to pay the penalty; in particular, that they have a 'reasonable excuse'. This means that it is inevitable that a significant proportion of reviews/appeals will result in decisions for the taxpayer, usually leading to a penalty being cancelled.

Figure 29: Overview of outcomes of reviews

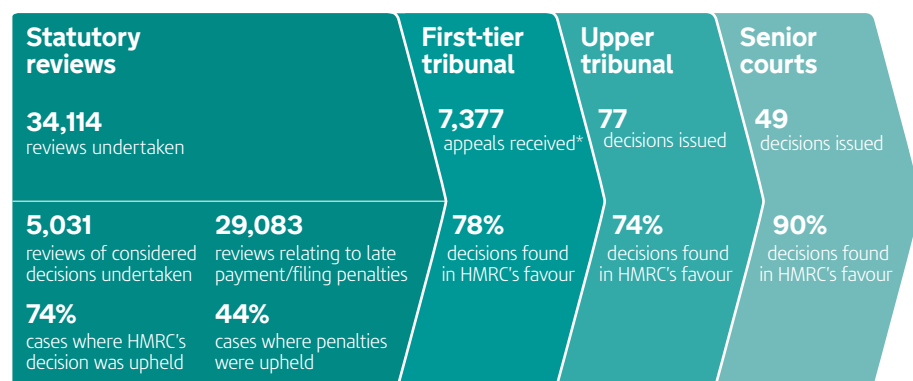
All cases	2017-18	2016-17*
Dealt with in the year	34,114	29,579
Original decision upheld	16,668	14,235
Varied	2,429	2,520
Cancelled	14,992	12,816
Other	25	8
Percentage where original decision was upheld	49%	48%
Number and percentage closed where the taxpayer was not represented by an agent	26,928 79%	24,248 82%
VAT Penalty cases including default surcharge cases		
Dealt with in the year	17,700	15,753
Original decision upheld	5,354	5,440
Varied	1,957	2,025
Cancelled	10,379	8,288
Other	10	—
Percentage where original decision was upheld	30%	35%
All other reviews		
Dealt with in the year	16,414	13,826
Original decision upheld	11,314	8,795
Varied	472	495
Cancelled	4,613	4,528
Other	15	8
Percentage where original decision was upheld	69%	64%

* Following further analysis some figures for 2016-17 have been restated to correct minor arithmetical errors.

Appeals

We will only settle a dispute where we can reach agreement with the taxpayer on the right tax due under the law, and where we cannot, we will litigate. We are very successful in litigation, especially in relation to tax avoidance schemes. In 2017-18 the independent appeal tribunal notified us of 7,377 appeals that it had received (6,559 in 2016-17). During the year 8,417 were settled either by formal hearing or by agreement before the hearing (4,462 in 2016-17).

Figure 30: overview of reviews and appeals in 2017-18



* 52% of appeals related to late payment/filing penalties and surcharges






At 31 March 2018 there were 25,291 appeals on hand (26,669 at 31 March 2017). Over 16,000 (16,500 in 2016-17) of the appeals to the First-tier Tribunal that we have in hand are stood over. This is where we and the taxpayer have agreed to put the appeal on hold waiting for a decision in a related case that is being litigated. As stood over cases are not actively progressed by the tribunal they can remain on hand for many years while the lead case is decided. In addition to this, the on hand figures include 9,000 lead cases actively making their way through the tribunal. So, we are either actively working the cases, progressing them within tribunal directions or are waiting for tribunal decisions to be issued. An appeal not stood behind a lead appeal would typically be resolved within 12 to 18 months.

Figure 31: Data relating to appeals for 2017-18

	2017-18					2016-17				
	First-tier Tribunal	Upper Tribunal	High Court	Court of Appeal	Supreme Court	First-tier Tribunal	Upper Tribunal	High Court	Court of Appeal	Supreme Court
Total	1,966	77	15	29	5	1,130	78	15	28	4
Decision for HMRC	1,420	55	12	24	3	867	62	10	19	2
Partial win*	104	2	2	2	1	79	3	1	3	0
Decision for customer	442	20	1	3	1	184	13	4	6	2
HMRC success rate	78%	74%	93%	90%	80%	84%	83%	73%	79%	50%

* Decision where substantive elements of HMRC's case succeeded.

Included in the figures above were decisions issued in 24 (26 in 2016-17) cases involving tax avoidance, with 23 (23 in 2016-17) decided in HMRC's favour – protecting tax revenue of around £3.2 billion (£2.1 billion in 2016-17). The tax protected in all litigation activity in the year was £37 billion (£15 billion in 2016-17).

-  HMRC's Litigation and Settlement Strategy: www.gov.uk/government/publications/litigation-and-settlement-strategy-lss
-  HMRC's code of governance for resolving tax disputes: www.gov.uk/government/publications/resolving-tax-disputes
-  Alternative Dispute Resolution: www.gov.uk/tax-disputes-alternative-dispute-resolution-adr
-  General Anti-Abuse Rule (GAAR): www.gov.uk/government/collections/tax-avoidance-general-anti-abuse-rule-gaar
-  Disclosure of Tax Avoidance Schemes (DOTAS):
www.gov.uk/guidance/disclosure-of-tax-avoidance-schemes-overview
www.gov.uk/government/uploads/system/uploads/attachment_data/file/665658/dotas-guidance1.pdf
www.gov.uk/government/statistics/tax-avoidance-and-disclosure-statistics
-  Information about the outcome in tax avoidance litigation cases: www.gov.uk/government/publications/tax-avoidance-litigation-decisions
-  Disguised Remuneration Settlement Terms: www.gov.uk/guidance/disguised-remuneration-settling-your-tax-affairs
-  HMRC's Criminal Investigation policy: www.gov.uk/government/publications/criminal-investigation/hmrc-criminal-investigation-policy

Our workforce

We're fundamentally transforming the way we work – so it's more important than ever for us to have the right people in the right places, in the right roles at the right time, and with the right skills to do their job.

This section sets out more details about the work we're doing to create a more professional, engaged and diverse workforce, with strong leadership and management, so we can maximise revenues due and meet the changing needs of our customers. It also sets out HMRC's staff costs during 2017-18, including wages, pensions and exit schemes.

People and skills

HMRC can't deliver its work without its people. We attract talented employees because our vital purpose, values and reputation inspire them. As we transform, we're supporting them to adapt to new opportunities and make the most of their talents, so they can build satisfying careers. Our approach to learning and engagement reflects our values and puts the individual experience of each person at the heart of everything we do.

Creating an engaged workforce

Last year our colleague engagement scores from the HMRC People Survey showed a significant improvement – our Employee Engagement Index increased by 3% to its highest ever score of 50%, and there were increases in eight of the nine themes measured in the survey. The final response rate for the 2017 HMRC People Survey was 67.4%.

We are developing a holistic approach to engagement, so we see the People Survey as a measurement of the progress we are making – but not the driver of everything we do. The biggest positive shifts in scores last year came when our people were encouraged to get involved and co-create new ways of working – for example, in identifying our values and developing a new approach to how we manage performance and development. Our approach is to demonstrate to all parts of HMRC the benefits of actively involving our people in change, and finding more opportunities for them to feel part of our transformation.

Since 2014, one of the key ways we've been involving and engaging our people is through a national conversation about our strategic direction, called 'Building our Future'.

In the first phases of Building our Future, we involved all our people in face-to-face events across the country. Then, in 2016-17 we ran around 50



3%

Increase in our employee
engagement scores

events across the country for more than 9,000 HMRC leaders and managers. These events increased understanding of HMRC's strategic direction among our leaders and the wider workforce and increased people's confidence in their leaders.

Building our Future is now changing. Last year we asked nearly 12,300 colleagues what they felt they needed to know to perform at their best, through 58 workshops, online surveys and dial-ins. They told us clearly that they'd like to continue having conversations with senior leaders about the things that are important to them.

As a result, we've introduced a continuous campaign of activity, including leaders visiting offices and holding cross-team conversations and national manager-led discussions about the most popular topics, a series of regional events, and consultation workshops that maximise opportunities for our leaders to interact with our people.

From October to March, 156 senior leaders' visits, each attended by a number of senior leaders, took place across 75 offices. Feedback shows 59% feel that leaders are listening to staff, 51% believe that leaders will act on the feedback given during the visits and 57% feel that the conversation they were involved in was of value to them.

As we move our workforce over the next few years into a network of new regional centres, it's more important than ever for us to nurture regional identity and communities among our people. So we're running a variety of regional engagement activities, from large-scale funded events to smaller local unfunded activities. We provided support and funding of around £380,000 for regional events, giving nearly 30,000 of our people the opportunity to be involved in activities.

Our people really enjoyed being involved in shaping the new approach to Building our Future – and we'll carry on consulting with our entire workforce on HMRC-wide topics as our transformation continues, so the things we're doing and talking about remain useful and relevant.

Building a highly-skilled organisation

The priority areas for building our skills and capabilities as a department are leadership and management, digital, data, customer-centred capabilities and delivering EU exit. This sits alongside building capabilities in our operational delivery, tax, policy, project delivery, digital data and technology and criminal justice professions. We're proud of the fact that all our people have the opportunity to improve their skills with five days of learning each year.

We had 22 different professions last year across HMRC and we're developing specialist skills throughout all of them. We established our twenty-third profession (insolvency) on 1 April 2018 and we have started forming our twenty-fourth (international trade).

We believe that our investment in HMRC's 'My Development' intranet site as a focal point for learning and development represents best practice in government – the site receives 4,500 to 5,000 visits per week and is regularly updated with new content. We're also investing in other tools and products to create modern learning opportunities, including intranet content and a mandatory online learning assessment to raise our people's awareness of the new General Data Protection Regulation before it came into force.

Training our tax specialists: HMRC's Tax Academy welcomed 223 trainees onto the Tax Specialist Programme in September 2017, giving us more than 950 trainees in total, our highest number ever. For these new trainees, the programme has been reduced from four to three years, and it's been restructured so they move sooner out of the classroom and learn how to apply their specialist training in a real operational environment. We're also placing greater emphasis on leadership and professional skills, and modernising the programme through greater use of electronic learning. Once again we are partnering with the Institute of Chartered Accountants of Scotland to pilot delivery of technical tax training externally, and we are evaluating both the internal and external delivery routes.

During the past year 140 of our 2012 cohort graduated successfully from the Tax Specialist Programme, obtaining a BA (Hons) in Professional Studies in Taxation, 64% of which were first class degrees.

Developing digital skills: Our ambition is for HMRC to become the most digitally-advanced tax authority in the world, so we're committed to improving the digital capability of all our people. We're making progress, because when we surveyed 8,000 of our people in 2016-17, 34% rated their digital skills at 'practitioner level', 73% at 'working level' and 94% at 'awareness level' – and this rose to 40%, 84% and 96% respectively when we asked them again in November 2017, surveying 10,000 people.

To support our digital transformation, we've trained 1,400 Digital Ambassadors across HMRC who support colleagues with their digital skills and help to introduce software changes successfully with our people. We also launched a 'Digital Passport' pilot in Bristol and East Kilbride in November 2017, a series of micro-learning challenges for digital skills and leadership.

We've had 20,100 visitors (around a third of our workforce) to 'My Digital Know How', our internal online hub for digital skills development. It features micro-learning challenges, curated links to a range of learning resources, and enables colleagues to share their digital knowledge. We're also developing a Digital Ambassador's learning zone, which will ultimately be shared with the wider HMRC community, and have introduced cyber security learning products for our people.

Bringing in new talent: We want to attract and retain the very best people, so that we remain a tax authority fit for the future. Apprenticeships are vital for this, as they bring in and develop fresh talent from right across society – and provide a structured way of giving people the skills, knowledge and behaviours we need. Crucially, it's not just new starters who can benefit from taking an apprenticeship – we also offer them to colleagues at various stages of their career, so they can learn new skills or move across professions.



223

New trainee tax specialists joined us this year

HMRC supports the Civil Service commitment to create 30,000 apprentices across government by 2020, and last year we recruited 1,078 apprentices in England. HMRC is also committed to providing apprenticeship opportunities for our workforce across the UK: we started 346 apprentices in the devolved administrations. We had 2,202 apprentices in total (last year and previous starters) at the end of March 2018, which accounts for 3.3% of our workforce.

We currently offer 30 different apprenticeships across 16 professions and have plans to bring in 20 more. We also led the development of the Tax Level 4 Apprenticeship standard and we are currently leading the development of the Tax Level 3 Apprenticeship standard and the Criminal Justice Level 4 standard.

Developing talent: We offer three in-house talent development programmes across the department – Spring, Leap and Ascend – each running for a 12 month period. Application numbers have increased year on year for all programmes. We also offer our embrace personal development programme – a nine-month programme to develop colleagues from our BAME (black, Asian and minority ethnic) community at junior grades.

Inspiring leadership and management

As HMRC modernises the way it works, it's more important than ever that we have leaders and managers with the skills to guide our people through a prolonged period of change.

Our online Leadership and Management Academy – which was designed and tested by leaders and managers across HMRC – now offers more than 250 learning resources and links to external resources across a wide range of topics, including leading change, managing people, technical skills and personal effectiveness. We also invest in courses led by Civil Service Learning and Workplace Wellness, offer a schedule of 20 face-to-face workshops, and provide an action learning set toolkit and workshop library so that leaders and managers can run their own events and learn from each other.

There is strong internal demand for our Manager Development Programme and in 2017-18 almost 13,000 people booked Leadership and Management training modules. We're also investing in Leadership and Management Apprenticeships at a range of different levels and as at 31 March 2018 had 339 Leadership and Management apprentices in total.

Reshaping our workforce

To make sure HMRC has the right people with the right skills for the future, we've improved our recruitment process for vacancy holders and candidates. This includes revamping our job adverts to attract more candidates with the right skills and reducing the time between advertising and hiring so we can fill posts more quickly.

During 2017-18 we recruited a total of 4,604 new employees (full-time equivalents) on either permanent or temporary contracts to ensure that we have the skills we need in our key strategic locations. At the same time, we promoted 4,002 people, including 188 Administrative Assistants who were promoted into more rewarding and challenging positions, as automation reduces the need for so many manual and support roles.

As we build our new network of modern regional centres (see page 41) we're moving out of a number of offices, including 26 offices which we vacated over the past year. While we expect the vast majority of our workforce to be able to move with us to our new workplaces, we know that there are colleagues who aren't able to, and it's a high priority for us that we support them through the often difficult process of leaving the department. Last year 632 people left under voluntary or compulsory exit schemes, 108 of which were funded from 2016-17 budget. From 1 April 2018, a further 237 exits will be funded through our 2017-18 budget.

Overall in 2017-18, our workforce decreased by 1,849 full-time equivalent employees to a total of 59,332, reflecting our long-term strategy to become a smaller, more highly-skilled organisation, working out of fewer locations. This figure includes HMRC and Revenue and Customs Digital Technology Services but excludes Valuation Office Agency.

Supporting the wider community

HMRC's work serves a vital purpose for the UK – but we also believe in encouraging our people to live our values outside work, through volunteering, community work and charitable giving.

Volunteering: We funded 5,018 days of employee time to assist in schools, voluntary groups, charities and other good causes during 2017-18. Our community volunteering programme focuses on youth employability, social mobility, tax education and digital inclusion.

One of our long-standing community partners is The Prince's Trust – and we're proud to have helped more than 40,000 young people from disadvantaged backgrounds through the programme: supporting them to develop valuable life skills and preparing them for employment. Our focus on social mobility is also reflected in our work with Hestia, Inspiring the Future and the National Mentoring Consortium, where we're helping to raise the career aspirations of participants.

As we move into our new regional centres, our network of Community Advocates is helping us to take up volunteering opportunities in our new neighbourhoods and make a positive impact for local residents.

Low Incomes Tax Reform Group (LITRG): We support LITRG, a charitable organisation, that works closely with HMRC to improve the tax system for people on low incomes with secondments. This provides an excellent opportunity for secondees to develop insight into LITRG's customers and gain a better understanding of customers on low incomes and their dealings with HMRC and other government departments.

Movement to Work: This is an employer-led work experience initiative, involving both public and private sector organisations. It aims to provide young people aged 18 to 24 who aren't in employment, education or training and who are receiving Job Seekers Allowance, with placements of between two and six weeks in an organisation, so they can develop their skills and knowledge in the workplace. We committed to offer 1,000 Movement to Work placements last year and again exceeded our target, achieving 1,217 placement offers.



5,018

Funded volunteering days for staff

Reservists: We support the government's aim of encouraging more civil servants to serve in the reserve forces – and our programme of engagement and promotional activities is regarded as best practice by Cabinet Office and Ministry of Defence.

We recognise the many benefits of reserves service and HMRC is widely recognised as an exemplar employer of reservists. Our Reserves Champion and Advocates actively promote the benefits of reserves service across the Civil Service, including delivering the reserves leadership workshops at Civil Service Live. In just three years since committing to the 'Reserves Challenge', the number of HMRC and Valuation Office Agency colleagues serving as reservists in the Army, Navy and Air Force has increased by around 70% to 120. There are also two serving reservists in Revenue and Customs Digital Technology Services.

Charitable giving: In 2017-18, our employees raised £1.3 million for a wide variety of charities, including more than £700,000 donated to 900 charities chosen by individual colleagues through our online payroll giving arrangements. In June, HMRC teams from across the UK raised more than £10,000 for the Charity for Civil Servants' Walking Challenge, walking 175,000 miles (the equivalent of seven times around the world) and winning the charity's top walking and fundraising awards.

In November 2017, we launched our annual campaign for the BBC's Children in Need appeal, raising more than £40,000 in employee donations. Volunteers in our contact centres at Bradford and East Kilbride also took telephone donations of almost £70,000 from the public on appeal night.

Diversity and inclusion

We want our workforce to understand and reflect the diversity of our customers so that we can use our collective experience to deliver a high-quality service for everyone.

To support our diversity and inclusion agenda, we have Executive Committee Champions and employee networks or consultation groups in place for eight diversity strands. These networks and groups offer people the opportunity to share experiences and comment on new initiatives. They help ensure that everyone in our workforce is treated fairly and can contribute their best.

We are pleased to be an acknowledged trailblazer in terms of our approach towards equality, diversity and inclusion. Our approach has gained continued recognition. For example, colleagues were honoured at this year's Civil Service Diversity and Inclusion Awards. They were recognised for their work to raise awareness within the department about disability issues facing colleagues as well as helping customers with diverse financial situations who come from a variety of social and cultural backgrounds.

The HMRC Staff Diversity Network for carers was also highly commended in the Employee Network Excellence Award category. Separately, HMRC was ranked in the top 50 of UK employers in the Social Mobility Employer index and was credited with Leader status in the UK's Disability Confident scheme.

Public Sector Equality Duty

In January 2018, we published our Public Sector Equality Duty annual report, in accordance with the requirements of the Equality Act 2010, showing employee diversity data together with evidence of how we support customer equalities. The data shows the diverse make-up of our employees. It also highlights the actions we have in place to address the under-representation of people from different groups within our workforce as well as equality issues in the workplace.

The customer equalities section of the report provides evidence of how we carry out our equality duties and show our progress towards achieving our customer equality objectives. Revised objectives covering the period 2016-20 were published in May 2016.

Our diversity data, apart from details about gender, is drawn from information voluntarily provided by our employees and is expressed in actual numbers of people, not full-time equivalents. By the end of March 2018, from a total of 64,764 employees, 42,898 (66.24%) had declared whether or not they were disabled, 49,079 (75.78%) had provided their ethnicity details and 37,505 (57.91%) had said what their sexual orientation was. The diversity data is therefore incomplete but we are taking steps across HMRC to encourage the voluntary provision of staff diversity data.

For purposes of anonymity, a new data standard was adopted for 2017-18 data where numbers are unrounded and percentages are shown to one decimal place for diversity data at HMRC level only. At lower levels numbers are rounded to the nearest 5 (except numbers less than 5 which will show '<5'). Percentages are based on actual values and are rounded to 0 decimal places. Percentages shown as '...' are where values are less than 5. As a result of this numbering convention, values and percentages will not always total as expected. This data standard did not apply for the 2016-17 data which is shown here and was published in last year's Annual Report and Accounts.

 To read more HMRC compliance with public sector equality duties 2016 to 2017 go to: www.gov.uk/government/publications/hmrc-compliance-with-public-sector-equality-duties-2016-to-2017

Figure 32: Male and female employees

	2017-18					2016-17				
	Female	% Female	Male	% Male	Total at 31 March 2018	Female	% Female	Male	% Male	Total at 31 March 2017
Directors General, Directors and Deputy Directors*	160	44.0%	205	56.0%	370	147	42.49%	199	57.51%	346
All other employees	35,609	55.3%	28,800	44.7%	64,394	38,098	55.73%	30,269	44.27%	68,367

* Directors General are grade SCS3, Directors and Deputy Directors are grades SCS2 and SCS1. Due to different reporting methods the total reported here for SCS will not correspond with the detail published on page 121.

Figure 33: Pay gap analysis

	Hourly rate for women	Hourly rate for men	Gender pay gap
Mean	£12.76	£13.94	8.4%
Median	£10.87	£12.37	12.2%

We have reported our gender pay gap for a number of years. In 2017, the government introduced legislation that made it statutory for organisations with 250 or more employees to report annually on their gender pay gap. HMRC reported on these requirements on 18 December 2017 by publishing them via the government's gender pay gap service website.

The gender pay gap figures above show the difference in the average pay between all men and women in HMRC for both base pay in the month of March and the bonuses received in the year April to March. The pay gaps are measured using both mean and median averages. The difference is expressed as a percentage of the average hourly rate of pay for employees.

These headline figures take no account of our grade structure, the different ratio of women and men within grade, or the different national and London pay rates. Therefore we broke the results down further in the report we published via the gender pay gap service website.


 To read more on HMRC's gender pay gap, go to: gender-pay-gap.service.gov.uk

Figure 34: Declared ethnicity category of employees

	2017-18				2016-17			
	BAME	% BAME	White	% White	BAME	% BAME	White	% White
Directors General, Directors and Deputy Directors*	15	4.9%	290	95.1%	11	3.93%	269	96.07%
All other employees	5,844	11.9%	43,235	88.1%	5,586	11.31%	43,787	88.69%

* Directors General are grade SCS3, Directors and Deputy Directors are grades SCS2 and SCS1

We offer development opportunities for people from Black, Asian and Minority Ethnic (BAME) backgrounds and other minority groups. We are committed to improving representation rates, particularly at senior levels, and have set aspirational goals at Senior Civil Servant (SCS) level and feeder grades (Grade 6 and Grade 7). The position at the end of March 2018 is set out in the table above. We have set out what leaders, managers and staff need to do to achieve our goals in our diversity and inclusion strategic action plan.

Figure 35: Declared disability status of employees

	2017-18				2016-17			
	Disabled	% Disabled	Non-disabled	% Non-disabled	Disabled	% Disabled	Non-disabled	% Non-disabled
Directors General, Directors and Deputy Directors*	15	5.1%	280	94.9%	11	4.06%	260	95.94%
All other employees	5,986	14.1%	36,617	85.9%	5,939	14.23%	35,788	85.77%

* Directors General are grade SCS3, Directors and Deputy Directors are grades SCS2 and SCS1

We employ disabled people across all grades and locations. We operate a Guaranteed Interview Scheme and have a team dedicated to ensuring reasonable adjustments. We also run disability awareness sessions across the department and continue to improve access to our services for disabled customers, raising awareness of their needs with our frontline employees.

Figure 36: Declared sexual orientation category of employees

	2017-18				2016-17			
	Heterosexual/straight	% Heterosexual/straight	Lesbian/gay/bisexual/other	% Lesbian/gay/bisexual/other	Heterosexual/straight	% Heterosexual/straight	Lesbian/gay/bisexual/other	% Lesbian/gay/bisexual/other
Directors General, Directors and Deputy Directors*	245	96.1%	10	3.9%	223	96.12%	9	3.88%
All other employees	35,482	95.3%	1,768	4.7%	33,894	95.34%	1,658	4.66%

We have a support and consultation group for people who identify as lesbian, gay, bisexual and trans (LGBT) or describe themselves as non-binary. We also have an active ExCom LGBT champion and 700 colleagues are members of our Role Models programme, promoting LGBT diversity and inclusion.

Health and wellbeing

In 2017, we saw the launch of five strategic priorities for health and wellbeing across the Civil Service, and HMRC has continued to develop tools to support our people's mental and physical wellbeing. We have a Director General-level Wellbeing Champion and we have increased the number of Mental Health Advocates in our department from 58 to 139, to improve how people access the support available as we move through a period of transformation.

During 2017-18, our activities included:

- a department-wide conversation with our people focussed on being more proactive about their own wellbeing
- an online health and wellbeing assessment to help employees identify small, realistic changes they can make
- a trial of health kiosks in a number of our buildings, including our new Croydon Regional Centre. The kiosks encourage our people to check their body mass index and blood pressure, monitor weight loss and also consider what changes they could make to improve their own wellbeing
- procuring new occupational health, employee assistance and eyesight testing contracts. The transition to the new contracts underpins the health and wellbeing of our people through the provision of sound and timely health and wellbeing advice and support
- launching staff-led regional mental health networks to help colleagues who are passionate about reducing the stigma around mental health to work together and make it easier for people to talk about their own experiences.

We are ensuring our wellbeing activity covers both our existing estate and our new regional centres by introducing wellbeing rooms, contemplation and collaborative working spaces. We have also worked with our Employee Assistance provider to pilot an Introduction to Mindfulness workshop.

We continue to raise awareness of mental health issues, and supported cross-government activity in relation to mental health, including developing a Civil Service mental health awareness workshop. We have supported campaigns such as Mental Health Awareness Week, Time to Change and Time to Talk Day.

We also have a range of support for managers and staff on managing stress and building resilience, and have set up a working group to consider how we better assess the causes of stress and improve the support available.

Published sickness absence data

We measure the average number of days lost to sickness absence, known as average working days lost (AWDL), based on the number of full-time equivalent employees. In 2017-18 we had an AWDL of 6.89 days. This means we are still meeting the target we set ourselves in 2016-17 of an AWDL of 7.0 days.

In September 2016, we implemented a new attendance management policy, aligned to the Civil Service employee policy, with revised guidance to support our managers in managing sickness absence proactively. We believe this has been successful in driving down absence, though some managers perceive it as prescriptive so we will be reviewing it to ensure managers understand where they can exercise discretion; it is possible that more discretion will lead to a slight increase in absences. We also continued to promote people's health and wellbeing, particularly since stress related absence consistently accounts for around one fifth of sickness absence. The AWDL trend over the last six months has seen a small but steady increase and we are exploring the causes and our potential response to this. We hope then to maintain AWDL at or below our target of 7.0 days in the 2018-19 reporting year.

Health and safety

Our managers and employees are supported by comprehensive health and safety arrangements and access to expert advice. To support our location moves, we have changed guidance, trained additional display screen equipment assessors and provided on the ground support for employees and managers. We've also carried out audit assurance to support health and safety management improvements and we updated driver safety guidance following an Internal Audit review.

Our Estates team is improving the way it manages our varied portfolio of buildings – as well as the construction, delivery and operation of our new regional centres – by introducing a revised organisational structure, new health and safety, fire safety and environmental management plans and improving the way we co-operate and co-ordinate with suppliers.

We encourage our employees to report accidents or instances of work-related ill health and we provide this information to directors to highlight trends and inform health and safety performance. The number of incidents reported increased by 7% last year, following a reduction of 3% in the previous year. We report certain incidents to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). Details of these and other incidents are shown opposite.

Figure 37: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (Northern Ireland 1997): reports to the Health and Safety Executive

	2017-18	2016-17
RIDDOR incidents		
Specified injuries	9	9
Diseases	1	4
Fatal injuries	0	0
Dangerous occurrences	1	4
Over three-day injuries (Northern Ireland)	0	1
Over seven-day injuries	30	21
Total	41	39
Non-RIDDOR incidents		
Stress	747	718
Slips/trips/falls	446	402
Violence and verbal abuse	343	371
Environmental	244	200
Road traffic accident	296	238
Bite (animal/insect)	51	54
Burns	107	80
Struck by moving/flying object	100	91
Upper limb disorders	69	69
Cut	65	52
Lifting/carrying injury	47	58
Exposure to hazardous substances	22	20
Acoustic	31	29
Electrical	45	30
Struck by moving vehicle	33	18
Contact with moving machinery	15	13
Fall from height	2	1
Other	324	335
Total	2,987	2,779

* Health and Safety incident categories are selected by the investigating officer on the reporting form. 'Other' is selected where none of the main categories are appropriate.

Our approach to 'whistleblowing'

We remain committed to ensuring the highest standards of conduct in all we do and the whistleblowing guidance is there to support employees who wish to raise a concern when they suspect wrongdoing. Our arrangements for managing whistleblowers continue to be monitored by our Executive Committee and Audit and Risk Committee. The data we capture monitors case numbers and outcomes, which are reported back to the Public Accounts Committee and the Cabinet Office on a quarterly basis.

We have continued to strengthen the profile of the whistleblowing policy and support provided during 2017-18 by:

- holding a bi-annual training event for our Nominated Officer cadre, sponsored by the SCS Head of the Nominated Officer cadre and including input from the Government Legal Department
- liaising with Nominated Officers from other government departments, as well as attending Cabinet Office whistleblowing events to share expertise and best practice
- using the Civil Service Employee Policy (CSEP) whistleblowing health check tool so we can better assess the effectiveness of our guidance
- using the People Survey results as an indicator to understand the effectiveness of the 'safe to challenge' initiatives. We have seen a 3% increase on the previous People Survey result to the question: "Are you confident if you raised a concern under the Civil Service Code in HMRC it would be investigated?"
- regularly reviewing our guidance to ensure it is kept up to date
- updating our data capture to ensure we are doing all that is possible to support whistleblowers and progress cases quickly
- producing a promotional message on every HMRC computer bi-annually, to remind our people how to raise a concern should they wish to do so.

Staff numbers and costs

Average number of persons employed¹

The average number of full-time equivalent persons employed during the year was as follows:

Figure 38: Average number of persons employed

	Permanently employed staff		Others	2017-18 Number Total	2016-17 Number Total
	Operational	Capital			
Core department	59,472	428	316	60,216	59,289
Valuation Office Agency	3,190	–	189	3,379	3,517
Revenue and Customs Digital Technology Services Limited	580	53	–	633	268
Departmental group total	63,242	481	505	64,228	63,074

The actual number of full-time equivalent persons employed at 31 March 2018 was 59,332 for the core department and Revenue and Customs Digital Technology Services Ltd – and 62,606 for the entire departmental group.

Staff costs¹

Our staff cost figures relate solely to officials. The salary of the minister who has responsibility for HM Revenue and Customs is paid out of central funds and can be found in the Resource Accounts of HM Treasury.

Figure 39: The costs of persons employed during the year

	Permanently employed staff	Others	2017-18 £m Total	2016-17 £m Total
Wages and salaries	1,880.7	16.1	1,896.8	1,876.1
Social security costs ²	188.8	1.0	189.8	176.1
Other pension costs	373.7	2.0	375.7	371.4
Sub-total	2,443.2	19.1	2,462.3	2,423.6
Less recoveries in respect of outward secondments	(6.1)	–	(6.1)	(6.1)
Total net costs	2,437.1	19.1	2,456.2	2,417.5

¹ This section has been subject to external audit.

² Social security costs include the Apprenticeship Levy which is £9.5 million for 2017-18 (2016-17: £0).

Reconciliation to staff costs in the Resource Account¹

In the Resource Account, staff costs do not include recoveries in respect of secondments, which are included as income, or the amount charged to capital².

Figure 40: Reconciliation to staff costs in the Resource Account

	2017-18 Total £m	2016-17 Total £m
Total net costs	2,456.2	2,417.5
Recoveries in respect of outward secondments	6.1	6.1
Less net costs charged to capital budgets	(26.7)	(20.6)
Sub-total	2,435.6	2,403.0
Travel, subsistence and hospitality	67.8	68.1
Recruitment and training	20.7	32.6
Early severance schemes	15.6	28.6
Staff and related costs in Consolidated Statement of Comprehensive Net Expenditure (see page 184)	2,539.7	2,532.3

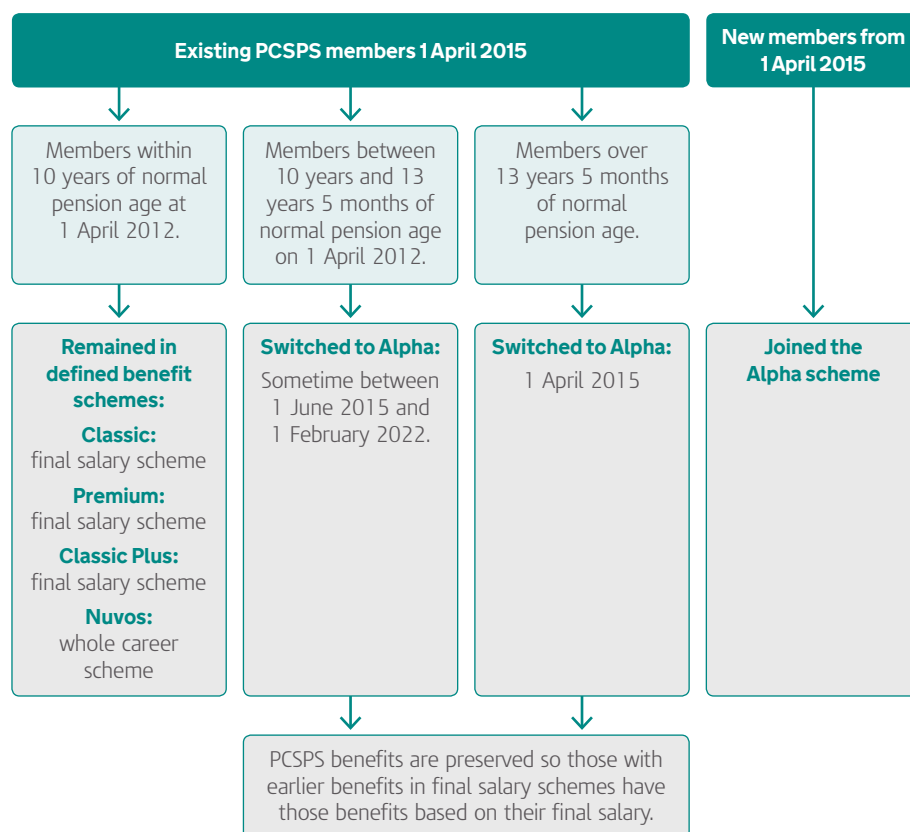
1 This section has been subject to external audit.

2 Capital spend reflects time spent building capital assets.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced, replacing Principal Civil Service Pension Scheme (PCSPS). The Civil Servants and Others Pension Scheme (CSOPS), known as Alpha, provides benefits on a career average basis. From this date members moved on the following basis:

Figure 41: Introduction of the Alpha Pension Scheme 1 April 2015



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).

Defined Benefit Schemes

These statutory arrangements are unfunded multi-employer defined benefit schemes with the cost of benefits paid for by funding that is voted on by Parliament each year. HMRC is unable to identify its share of the underlying assets and liabilities.

The Scheme Actuary usually reviews contributions every four years, following a full scheme valuation. The scheme was last valued as at 31 March 2012 and a valuation is currently in progress based on March 2016 data. You can find details in the Resource Accounts of the Cabinet Office: Civil Superannuation.



To read more about Civil Service Pensions go to www.civilservicepensionscheme.org.uk

Pensions payable under Classic, Premium, Classic plus, Nuvos and Alpha are increased annually in line with pensions increase legislation. Details of each pension scheme and the differences between them are shown below.

Figure 42: Pension benefits

Pension scheme	Pension age	Employee contributions (% of pensionable earnings)	Benefits accrual rate (for each year of service)	Lump sum (payable on retirement)
Classic	60	4.6 – 8.05	1/80th pensionable earnings	3 years initial pension
Classic +	60	4.6 – 8.05	1/80th final pensionable earnings to 30 September 2002. Thereafter, 1/60th.	3/80th final pensionable earnings to 30 September 2002. Thereafter, optional.
Premium	60	4.6 – 8.05	1/60th pensionable earnings	Optional
Nuvos	65	4.6 – 8.05	2.3% of pensionable earnings each scheme year	Optional
Alpha	The higher of 65 or state pension age	4.6 – 8.05	2.32% of pensionable earnings each scheme year	Optional

Additionally, members of Nuvos and Alpha have their accrued pension uprated in line with pensions increase legislation. In all cases members may opt to give up (commute) their pension for a lump sum up to the limits set by the Finance Act 2004.

For 2017-18, total contributions of £375,698,229 were payable to the PCSPS and CSOPS (2016-17: £371,412,182) at one of four rates in the range 20% to 24.5% of pensionable earnings, based on salary bands. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Partnership pensions

The partnership pension account is a defined contribution, stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will also match these up to a limit of 3% of pensionable salary. Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

For 2017-18, employers' contributions of £1,901,521 (2016-17: £1,553,229) were payable for partnership stakeholder pensions. In addition, employer contributions of £78,162 (2016-17: £65,096) were payable to the PCSPS for centrally-provided risk benefit cover.

In 2017-18, 87 individuals (2016-17: 143 individuals) retired early on ill-health grounds – and the total additional accrued pension liabilities in the year amounted to £82,625 (2016-17: £120,432).

Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

Valuation Office Agency (VOA)

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2017-18 were £737,119 (2016-17: £760,083). Full information about the VOA contributions can be found in the VOA Annual Report and Accounts.



To read more about the Valuation Office Agency employee contributions go to: www.gov.uk/government/organisations/valuation-office-agency

RCDTS Ltd

RCDTS Ltd has a contract-based defined contribution pension scheme which is administered by Aviva plc and overseen by the RCDTS Ltd Board. Contributions into this scheme for 2017-18 were £1,588,802 (2016-17: £719,672). A number of staff in RCDTS Ltd have contractual rights to the Principal Civil Service Pension Scheme under Fair Deal policy and RCDTS Ltd has Admitted Bodies status into the scheme, which is managed by the Scheme Management Executive within Cabinet Office. Contributions into this scheme for 2017-18 were £471,346 (2016-17: £233,596).



HMRC's Remuneration Report, which details the salary and pension benefits for members of the Executive Committee, can be found on page 120.

Reporting of Civil Service and other compensation schemes – exit packages¹

Figure 43: Exit packages 2017-18

Exit package cost band	Departmental group ²		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	4	69	73
£10,000 - £25,000	53	194	247
£25,000 - £50,000	8	300	308
£50,000 - £100,000	-	136	136
£100,000 - £150,000	-	18	18
£150,000 - £200,000	-	-	-
£200,000+	-	-	-
Total number of exit packages by type	65	717	782
Total resource cost (£000s)	1,004	25,945	26,948

Figure 44: Exit packages 2016-17^{3 4}

Exit package cost band	Departmental group ²		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	1 (1)	18 (18)	19 (19)
£10,000 - £25,000	9 (9)	184 (201)	193 (210)
£25,000 - £50,000	- (-)	398 (408)	398 (408)
£50,000 - £100,000	- (-)	153 (128)	153 (128)
£100,000 - £150,000	- (-)	5 (3)	5 (3)
£150,000 - £200,000	- (-)	1 (1)	1 (1)
£200,000+	- (-)	- (-)	- (-)
Total number of exit packages by type	10 (10)	759 (759)	769 (769)
Total resource cost (£000s)	116 (116)	28,430 (27,273)	28,546 (27,389)

¹ This section has been subject to external audit.

² Core department and agency figures are the same as departmental group, therefore Core department and agency not shown.

³ The prior year figures in the 2016-17 published account showed compulsory redundancies as 11 with a total resource cost of £129 thousand, and other departures agreed as 762 (£27,353 thousand). These figures have been adjusted above to account for instances where individuals were re-deployed and their exits rescinded after the date of submission of the accounts.

⁴ Figures shown reflect inclusion of top-up payments that have been made following the quashing at Judicial Review of the 2016 amendments to the Civil Service Compensation Scheme. Figures shown in brackets exclude these top-up payments.

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, those costs in excess of obligations usually met by the Civil Service Pension Scheme, are met by the department. 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 payment due to the individual on retirement. In certain circumstances, it also includes the cost associated with the increase in future liability to pay pension.

People off-payroll

We report to HM Treasury about off-payroll appointments of more than six months and more than £245 a day.

From 6 April 2017, reforms to intermediaries legislation (known as IR35) came into effect. These changed the rules for off-payroll people working in the public sector and moved the obligation to determine tax status from the contractor to the engager.

We have implemented changes to comply with the reforms and have determined the employment status of our contractors and conveyed these status views to our suppliers. Details of our contractors, who are in scope of the reformed legislation, are provided in figures 45 and 46:

Figure 45: All off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months

	HMRC	RCDTS	VOA
Number of existing engagements as of 31 March 2018	30	88	1
Length of existing engagements:			
Less than one year at time of reporting	9	34	Nil
Between one and two years at time of reporting	6	36	1
Between two and three years at time of reporting	10 ¹	18 ³	Nil
Between three and four years at time of reporting	5 ²	Nil	Nil
Four or more years at time of reporting	Nil	Nil	Nil

1 Relates to 10 individuals who provided specialist expertise to help deliver the Columbus Programme which transformed the way we work and our relationships with our IT suppliers. All 10 people left the department after the end of the financial year.

2 Relates to five individuals with specialist IT skills, not available in-house, who are supporting our Transformation programme. Work is under way to bring in new people to enable these specialist skills to be transferred.

3 Relates to 18 individuals who have been retained by RCDTS Ltd for their niche skills and specific knowledge that are essential for project deliveries. The company continues to convert these roles to permanent staff where possible.

Figure 46: All new off-payroll engagements, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than six months

	HMRC	RCDTS	VOA
New engagements, or those that reached six months in duration between 1 April 2017 and 31 March 2018	36	95	6
No. assessed where the intermediaries legislation applies	35	95	6
No. assessed where the intermediaries legislation does not apply	1	Nil	Nil
No. engaged directly (via a PSC contracted to the department) and are on the departmental payroll	Nil	Nil	Nil
No. of engagements reassessed for consistency/assurance purposes during the year	6	52	5
No. of engagements that saw a change to IR35 status following the consistency review	Nil	Nil	Nil

Figure 47: Board members, and/or, senior officials with significant financial responsibility between 1 April 2017 and 31 March 2018

	HMRC	VOA
Number of individuals who are Board members, and/or, senior officials with significant financial responsibility		
On payroll	92	11
Off payroll	Nil	1 ¹

¹ The appointment of an Interim VOA Chief Digital and Information Officer (and VOA Board member) was required to ensure business continuity during a crucial period for the delivery of major VOA IT projects and lasted for just over 4 months, ending 18 December 2017. The appointment was approved by the VOA's Accounting Officer as the most expedient solution to cover a period of unexpected, longer term leave for the Chief Digital and Information Officer.

Consultancy and temporary employees

HMRC uses professional service providers to help with specialist work – including consultancy, contingent labour (temporary workers), learning, legal advice, translation, interpretation and research services. Use of these services is limited to occasions when we do not have the necessary skills internally or where an independent external expert opinion on a complex issue is required.

External advisers provide us with specialist expertise to help with delivering our strategic objectives and major programmes. We use contingent labour to quickly deploy specialist expertise, drive change and deliver increased efficiency with tight resources.

HMRC continues to support the Cabinet Office guidelines to reduce the use of consultancy across central government. These guidelines, and the fiscal discipline measures introduced from May 2010, has seen a significant reduction in spend on consultancy. We are continuing to look for ways of achieving savings, introducing new procurement tools to improve our data analysis and sharing best practice in the employment of consultants with different parts of HMRC.

Although our spend on consultancy increased from £1,212,806 in 2016-17 to £2,957,366* in 2017-18, this should be viewed in the context of the major transformation agenda we are currently undertaking and is less than 0.22% of HMRC's annual external spend.

* Aligns with Cabinet Office definition of consultancy spend which differs from the numbers reported in the Resource Accounts.

Trade union costs

HMRC recognises the important role that trade unions can play in a modern workplace and we are committed to engaging constructively with them.

We recognise two unions for collective bargaining and staff representation: the Public and Commercial Services Union (PCS) and the Association of Revenue & Customs (ARC, a specialist section of the FDA specifically for HMRC employees).

These arrangements follow the principles laid down in the Trade Union and Labour Relations (Consolidation) Act 1992 and the Codes of Practice issued by ACAS under that legislation.

Figure 48: Relevant union officials in 2017-18

	Total number of employees who were relevant union officials during 2017-18	Total number of employees who were relevant union officials at year end 31 March 2018
PCS	1,417	1,064
ARC and Prospect	112	110

Figure 49: Percentage of time spent on facility time in 2017-18

Percentage of time	Number of employees
0%	0
1-50%	1,542
51%-99%	0
100%	0

Figure 50: Percentage of pay bill spent on facility time in 2017-18

Total cost of facility time	Total pay bill	Percentage of the total pay bill spent on facility time
£2,267,984	£2,432,820,789*	0.09%

* Paybill and salary figures comprise basic pay, allowances, overtime, non-consolidated performance payments and employer's National Insurance and superannuation payments

The figures disclosed above are calculated on an average salary basis, revised calculations on an actual salary basis will be disclosed on 31 July (see link below).



Further disclosure required for The Trade Union (Facility Time Publication Requirements) Regulations 2017 will be available here on 31 July 2018: www.gov.uk/government/publications/trade-union-facility-time

Remuneration report

This report contains information about HMRC's senior employees and covers our policies on salaries, bonuses and benefits in kind, as well as on performance assessment and contract termination.

Remuneration policy

The Senior Civil Service (SCS) are senior leaders employed across government, with a common framework of terms and conditions. SCS pay and conditions are not delegated to individual departments. Recommendations on SCS pay are provided by the Review Body on Senior Salaries in an annual report to the Prime Minister.

The government responds to its recommendations, and departments are then informed about its decision by the Cabinet Office. SCS pay and non-consolidated awards at HMRC are decided by the department's Remuneration Committee in line with this central guidance.

Before making its recommendation, the Review Body considers:

- 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 employees
- government policies for improving 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
- wider economic factors and the affordability of its recommendations.

Policy on notice periods and termination payments

We follow the standard policy for SCS notice periods and termination payments contained in the Civil Service Management Code.

Service contracts

There is a legal requirement that all Civil Service appointments must be made on merit, and on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission explain the limited circumstances when other appointments can be made.



The recruitment principles published by the Civil Service Commission explain the limited circumstances when other appointments can be made. This can be found at: civilservicecommission.independent.gov.uk/civil-service-recruitment

Executive members hold appointments which are open-ended unless otherwise stated in the remuneration tables. 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 those included in this remuneration report during 2017-18.

Senior Civil Service (SCS) employee numbers and approved posts

HMRC's ongoing transformation agenda, as well as changes to government policy, continue to drive the need to 'buy, borrow and build' a cadre of highly-skilled professionals.

We have 427 SCS employees in total – 405 within HMRC and 22 placed in the Valuation Office Agency (VOA). As of 1 April 2018, the total number of SCS posts (as opposed to individual employees) was 414. This comprised of 392 posts within HMRC and 22 VOA posts.

The difference between figures for posts and people is due to a number of reasons. For example, some people fill a post through job sharing while others may be on maternity leave or special leave.

Figure 51: HMRC and VOA Senior Civil Service (SCS) employee and post numbers

	HMRC	VOA	Total
SCS employee numbers	405	22	427
SCS posts	392	22	414

Figure 52: HMRC Senior Civil Service (SCS) employee numbers comparison

Grade	Number at 1 April 2017	Number at 1 April 2018	Percentage change
Permanent Secretary	2	2	0%
SCS3	9	9	0%
SCS2	53	54	2% increase
SCS1	294	320	9% increase
On loan/secondment	14	20	43% increase
Totals	372	405	9% increase

SCS structure and recruitment

Our performance management system is governed by the Cabinet Office. Below the posts of Permanent Secretary are three levels of Senior Civil Servant: Director General, Director and Deputy Director. These are underpinned by a job evaluation scheme that creates a consistent way of comparing the relative value of jobs within and across the departments.

Our governance framework, along with a review of our approach to recruitment, ensures that we are successful in attracting both internal (to HMRC and Civil Service) and external talent to key strategic roles.

A total of 53 HMRC and VOA posts were advertised during the last year, with a number of appointments made on promotion into and within the SCS from HMRC and across the Civil Service. Five posts were advertised across Whitehall and 48 posts were advertised via external recruitment campaigns. Our recruitment activity has centred on specialist and digital posts and we have had a particular focus on transformation and EU exit related appointments.

Remuneration committees

Our main Remuneration Committee comprises the Chief Executive, all Directors General, and an independent observer, and represents both HMRC and the Valuation Office Agency.

The committee makes performance decisions with respect to directors and signs off the sub-committee performance recommendations for deputy directors. The performance of HMRC's deputy directors is moderated at Director General-led remuneration committees, in line with Cabinet Office performance guidance, in order to meet the performance group allocations.

The Permanent Secretaries moderate the performance and non-consolidated awards for Directors General, with advice from an independent observer. The performance and reward arrangements for our Permanent Secretaries are managed by the Cabinet Office.

Pay awards

There are two elements that make up SCS pay: base pay and non-consolidated performance-related pay. Both elements are linked to performance, but are considered and awarded separately.

SCS members are ranked on their performance and are allocated to three performance groups: 'Top' (the top 25% of performers), 'Achieving' (the next 65% of performers) and 'Low' (the bottom 10% of performers).

Base pay awards

In line with Cabinet Office guidance:

- the base pay award is funded from 1% of the SCS basic paybill and implemented on 1 April 2017
- base pay awards were only paid to 'Top' and 'Achieving' performers.

We also paid an additional award to a limited number of SCS members paid towards the bottom of their pay range.

Non-consolidated performance awards

Rewards for exceptional delivery of performance against objectives is rewarded through non-consolidated end-of-year and in-year performance awards, for those who make the biggest contributions. In line with Cabinet Office guidance, non-consolidated end-of-year and in-year performance awards are funded from an agreed allocation of 3.3% of the SCS basic paybill:

- awards of £9,500 (SCS1); £12,500 (SCS2); and £17,000 (SCS3) were paid to 'Top' performers for 2016-17 performance on 1 April 2017; and
- in-year awards up to a maximum of £5,000 were paid to a small number of the SCS, based on performance during 2017-18.

Non-consolidated performance award decisions are monitored to guard against bias or discrimination.

Executive Committee (ExCom) and Non-Executive Board members

The following sections provide details of the service contracts, salaries and pension entitlements of the department's most senior officials. Where there is no end date of term, it means their appointment is on a permanent basis.

The individuals within this table are presented in line with our structure hierarchy. Details are shown for each individual, including those who have held more than one role within the year, by their current or last held role.

Figure 53: Senior officials single total figure of remuneration and pension benefits¹

Senior official	Salary (full year equivalent) (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits (£000)		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Jon Thompson Appointed to ExCom 4 Apr 2016 Chief Executive and Permanent Secretary	185-190	170-175 ² (185-190)	15-20	15-20	400	700	–	20-25	205-210	210-215
Jim Harra Appointed to ExCom 16 Apr 2012 Second Permanent Secretary (from 1 Jan 2018) Director General Customer Strategy and Tax Design (to 31 Dec 2017)	140-145	135-140	15-20	–	300	800	30-35	25-30	190-195	165-170
David Richardson Appointed to ExCom 1 Jun 2017 Director General Customer Strategy and Tax Design [Interim] (from 1 Jan 2018) Director General Customer Compliance [Interim] (to 3 Sep 2017)	60-65 (120-125)	–	–	–	100	–	60-65	–	120-125	–
Angela MacDonald Appointed to ExCom 7 Aug 2017 Director General Customer Service	95-100 ³ (160-165)	–	–	–	300	–	30-35	–	125-130	–
Penny Ciniewicz Appointed to ExCom 20 Jul 2015 Director General Customer Compliance (from 4 Sep 2017) Chief Executive of the Valuation Office Agency (to 3 Sep 2017)	130-135	125-130	–	–	400	100	25-30	70-75 ⁴	155-160	200-205 ⁴
Nick Lodge Appointed to ExCom 6 Aug 2012 Director General Transformation	135-140	135-140	–	–	300	900	5-10	25-30	145-150	165-170
Karen Wheeler Appointed to ExCom 3 Jul 2017 Director General Border Coordination ⁵	115-120 (150-155)	–	–	–	100	–	0-5	–	115-120	–
Justin Holliday Appointed to ExCom 9 Mar 2015 Chief Finance Officer	160-165	160-165	–	–	600	1,000	55-60	55-60	220-225	220-225
Esther Wallington Appointed to ExCom 1 Dec 2016 Chief People Officer	125-130	35-40 (105-110)	–	–	400	200	45-50	10-15	170-175	50-55
Gill Aitken Appointed to ExCom 27 Jan 2014 General Counsel and Solicitor	135-140	130-135	–	–	400	1,000	55-60	25-30	195-200	155-160
Jacky Wright Appointed to ExCom 16 Oct 2017 Chief Digital and Information Officer	80-85 (175-180)	–	–	–	100	–	–	–	80-85	–
Melissa Tatton Appointed to ExCom 4 Sep 2017 Chief Executive of the Valuation Office Agency	75-80 (130-135)	–	–	–	100	–	135-140	–	215-220	–

Continued

	Salary (full year equivalent) (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits (£000)		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Senior official										
Sir Edward Troup Appointed to ExCom 28 Aug 2012 Executive Chair ⁶ and Permanent Secretary (to 15 Jan 2018)	135-140 (170-175)	165-170	–	–	400	800	–	–	135-140	170-175
Rachel McLean Appointed to ExCom 22 May 2017 Director General Customer Service [Interim] (to 6 Aug 2017)	25-30 (140-145)	–	10-15	–	100	–	10-15	–	55-60	–
Ruth Owen Appointed to ExCom 1 Sep 2012 Director General Customer Service (to 6 Jun 2017)	25-30 (140-145)	140-145	15-20	–	100	800	5-10	50-55	50-55	195-200
Jennie Granger Appointed to ExCom 1 Oct 2012 Director General Customer Compliance (to 26 Jun 2017)	50-55 (150-155)	150-155	–	–	100	900	15-20	55-60	65-70	210-215
Mike Potter Appointed to ExCom 1 Aug 2016 Chief Digital and Information Officer [Interim] (to 15 Oct 2017)	75-80 (140-145)	95-100 (140-145)	10-15	–	300	600	30-35	35-40	120-125	130-135

1 This section has been subject to external audit.

2 Jon Thompson transferred to HMRC from Ministry of Defence (MoD) on 4 April 2016 but was paid by MoD until 30 April 2016. The figures shown in these accounts represent payments made by HMRC and therefore reflect the period from 1 May 2016.

3 Angela MacDonald transferred to HMRC from the Department for Work and Pensions (DWP) on 7 August 2017 but was paid by DWP on her existing payscale until 31 August 2017. The figures shown in these accounts represent payments made by HMRC.

4 The prior year pension figures have been recalculated due to a retrospective change in pensionable pay.

5 The role of Director General Border Coordination was newly created 3 July 2017.

6 Non-Executive Director Mervyn Walker has assumed the role of Chair of the Board from 1 Jan 2018.

The fees of the external appointees are detailed below. Non-Executive Board members are appointed for a fixed term of usually three years.

Figure 54: Non-Executive directors single total figure of remuneration¹

	Fees (full year equivalent) (£000)		Benefits in kind (to the nearest £000)		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Non-Executive director						
Mervyn Walker (Lead Non-Executive) (Chair of the Board from 1 Jan 2018) 1 Sep 2014 - 30 Jun 2020	20-25	20-25	300	100	25-30	20-25
Joanna Baldwin 1 Jan 2016 - 31 Dec 2018	15-20	15-20	400	200	20-25	15-20
Alice Maynard 1 Jul 2016 - 30 Jun 2019	15-20	10-15 (10-15)	100	100	15-20	10-15
Simon Ricketts 1 Sep 2014 - 31 Aug 2020	10-15	10-15	100	–	15-20	10-15
Juliette Scott 21 Nov 2017 - 21 Nov 2020	5-10 (10-15)	–	–	–	5-10	–
John Whiting 1 Apr 2013 - 31 Mar 2019	15-20	15-20	400	100	20-25	20-25

1 This section has been subject to external audit.

Salary¹

Salary covers both pensionable and non-pensionable amounts and includes gross salary; overtime; recruitment and retention allowances; reserved rights to other allowances and any other allowance to the extent that it is subject to UK taxation.

Fees¹

Fees also include any other allowance that is subject to UK taxation.

Bonuses

Bonus payments paid whilst serving on ExCom for exceptional work within the performance year. Year-end performance awards are based on performance achieved in post(s) held in the previous year and are made as part of the performance and pay award process. Bonus payments are considered non-consolidated pay awards.

Benefits in kind¹

The monetary value of benefits in kind covers any benefits provided by the department and treated by HMRC as taxable, such as hospitality provided at external development events.

Pension Benefits¹

Pension Benefits accrued during the reporting period are calculated as follows:

	Real increase in pension x 20
+	Real increase in any lump sum
–	Contributions made by the individual
=	The value of pension benefits accrued during the period

The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights. The value of the pension benefits can vary year to year due to a number of factors which include the date an individual joined or left the department, an individual receiving a higher pay increase in one year to another.

Fair pay²

The pay multiple is the ratio between the mid-point of the banded remuneration of the highest paid director in the department and the median remuneration of other HMRC and VOA staff. The median represents the employee that lies in the middle of the remuneration distribution of all employees, excluding the highest paid director.

This 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 full-year equivalent banded remuneration of the highest paid director in HMRC in 2017-18 was £205,000-£210,000 (2016-17: £205,000-£210,000). This was 8.47 times (2016-17: 8.57 times) the median, which was £24,502 (2016-17: £24,224). Remuneration ranged from £16,500-£17,000 to £205,000-£210,000 (2016-17: £16,000-£16,500 to £205,000-£210,000).

The 2017-18 median has increased marginally from 2016-17. This is due to the impact on our grade mix from a reduction in the number of administrative staff and middle managers, and to an increase in the number of senior managers. These changes are a consequence of the Building Our Future programme and our transformation in to a more digital organisation, as well as the increase in our preparation for EU exit.

¹ Salary, Fees, Benefits in kind and Pension benefits relate to 1 April – 31 March, restricted to their period serving on ExCom where different.

² This section has been subject to external audit.

Pension benefits

The pension figures quoted for officials below show pension earned in PCSPS or Alpha - as appropriate. Where the official has benefits in both the PCSPS and Alpha, the figure is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages. The accrued pension 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.

Figure 55: Pension benefits¹

Senior official	Accrued pension at pension age as at 31 March 2018 ² and related lump sum (£000)	Real increase in pension and related lump sum at pension age (£000)	Cash Equivalent Transfer Value (CETV) at 31 March 2018 ² (to the nearest £000)	CETV at 31 March 2017 ³ (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £100)
Jon Thompson⁴ Appointed to ExCom 4 Apr 2016 Chief Executive and Permanent Secretary	—	—	—	744 ⁴	—	23,100
Jim Harra⁵ Appointed to ExCom 16 Apr 2012 Second Permanent Secretary (From 1 Jan 2018) Director General Customer Strategy and Tax Design (to 31 Dec 2017)	60-65 (Lump sum 185-190)	0-2.5 (Lump sum 5-7.5)	1,291	1,182	29	—
David Richardson⁵ Appointed to ExCom 1 Jun 2017 Director General Customer Strategy and Tax Design [Interim] (From 1 Jan 2018) Director General Customer Compliance [Interim] (to 3 Sep 2017)	55-60 (Lump sum 165-170)	2.5-5 (Lump sum 7.5-10)	1,301	1,170	62	—
Angela MacDonald⁶ Appointed to ExCom 7 Aug 2017 Director General Customer Service	20-25	0-2.5	249	229	13	—
Penny Ciniewicz⁵ Appointed to ExCom 20 Jul 2015 Director General Customer Compliance (From 4 Sep 2017) Chief Executive of the Valuation Office Agency (to 3 Sep 2017)	35-40 (Lump sum 105-110)	0-2.5 (Lump sum 2.5-5)	716	648 ⁷	22	—
Nick Lodge⁵ Appointed to ExCom 6 Aug 2012 Director General Transformation	55-60 (Lump sum 175-180)	0-2.5 (Lump sum 0-2.5)	1,264	1,180	6	—
Karen Wheeler⁸ Appointed to ExCom 3 Jul 2017 Director General Border Coordination	60-65	0-2.5	1,204	1,191	2	—
Justin Holliday⁶ Appointed to ExCom 9 Mar 2015 Chief Finance Officer	55-60	2.5-5	834	757	22	—
Esther Wallington⁶ Appointed to ExCom 1 Dec 2016 Chief People Officer	15-20	2.5-5	195	164 ⁷	16	—
Gill Aitken⁵ Appointed to ExCom 27 Jan 2014 General Counsel and Solicitor	45-50 (Lump sum 125-130)	2.5-5 (Lump sum 7.5-10)	1,108	987	54	—

Continued

	Accrued pension at pension age as at 31 March 2018 ² and related lump sum	Real increase in pension and related lump sum at pension age	Cash Equivalent Transfer Value (CETV) at 31 March 2018 ²	CETV at 31 March 2017 ³	Real increase in CETV	Employer contribution to partnership pension account
Senior official	(£000)	(£000)	(to the nearest £000)	(to the nearest £000)	(to the nearest £000)	(to the nearest £100)
Jacky Wright⁹ Appointed to ExCom 16 Oct 2017 Chief Digital and Information Officer	—	—	—	—	—	—
Melissa Tatton⁶ Appointed to ExCom 4 Sep 2017 Chief Executive of the Valuation Office Agency	40-45 (Lump sum 100-105)	5-7.5 (Lump sum 12.5-15)	743	605	106	—
Sir Edward Troup⁹ Appointed to ExCom 28 Aug 2012 Executive Chair and Permanent Secretary (to 15 Jan 2018)	—	—	—	—	—	—
Rachel McLean⁶ Appointed to ExCom 22 May 2017 Director General Customer Service [Interim] (to 6 Aug 2017)	10-15	0-2.5	154	138	6	—
Ruth Owen⁶ Appointed to ExCom 1 Sep 2012 Director General Customer Service (to 6 Jun 2017)	50-55 (Lump sum 125-130)	0-2.5 (Lump sum 0 ¹⁰)	820	813	2	—
Jennie Granger⁶ Appointed to ExCom 1 Oct 2012 Director General Customer Compliance (to 26 Jun 2017)	15-20	0-2.5	276	253	11	—
Mike Potter⁶ Appointed to ExCom 1 Aug 2016 Chief Digital and Information Officer [Interim] (to 15 Oct 2017)	5-10	0-2.5	101	82	13	—

1 This section has been subject to external audit.

2 Unless stated otherwise, values reported are as at 31 March 2018 or the date the individual ceased to be a member of ExCom where earlier.

3 Unless stated otherwise, values reported are as at 31 March 2017 or the day before the individual was appointed to ExCom where later.

4 Member opted to have a Partnership pension account 1 October 2016, CETV is as at 30 September 2016.

5 Member of the Classic Scheme.

6 Member of the Alpha Scheme.

7 The prior year pension figures have been recalculated due to a retrospective change in pensionable pay.

8 Member of the Premium Scheme.

9 Member opted out of PCSPS.

10 A decrease in the range 0-2.5 has resulted from extra service not being sufficient to offset the increase in inflation.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (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 benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the 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.

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.



Jon Thompson

Principal Accounting Officer

6 July 2018

Public and stakeholder accountability

As a government department that touches the lives of virtually everyone in the UK, we take seriously our responsibility to be accountable to our customers, stakeholders and to external scrutiny bodies.

Here we set out how we are listening and responding to external opinion – and how we are managing and protecting the customer data that we hold.

Recommendations made by external scrutiny bodies

Every year, recommendations for HMRC are made by a number of external scrutiny bodies – the majority from the National Audit Office (NAO), the Public Accounts Committee (PAC) and the Infrastructure Projects Authority.

Central to our monitoring process of these recommendations is regular review by our Audit and Risk Committee. Our Chief Executive provides a report to each meeting of the Committee, updating it on the status of recommendations and whether any are overdue. The Committee then reviews progress and can call the Director General responsible to its meetings to explain why a recommendation has not been implemented within its target. Membership of the Audit and Risk Committee includes HMRC Non-Executive Directors. The National Audit Office attends our HMRC Audit and Risk Committee meetings.

Recommendations are categorised as either significant or routine, based on the greatest financial, operational, or reputational risk of not implementing them.

Last year, we implemented 113 significant and 197 routine recommendations. A full breakdown is set out below:

Figure 56: Significant recommendations: 2017-18

External body making recommendation	Opening balance ¹	New	Closed	Closing balance ²
NAO/PAC/TSC reports	15	15	26	4
NAO ³ Audit recommendations	11	12	19	4
Infrastructure Projects Authority	8	72	64	16
Others ⁴	3	5	4	4
Total	37	104	113	28

¹ Balance at 1 April 2017.

² Balance at 31 March 2018.

³ Section 2 audit recommendations and management letter recommendations.

⁴ The European Commission, The European Court of Auditors, HM Inspectorate of Constabulary, Office of the Surveillance Commissioner (now known as the Investigatory Powers Commissioners Office (IPCO)), H&S, UK Statistics Authority, GCHQ and Low Pay Commission.

Figure 57: Routine recommendations: 2017-18

External body making recommendation	Opening balance ¹	New	Closed	Closing balance ²
NAO/PAC/TSC reports	12	30	32	10
NAO ³ Audit recommendations	47	55	86	16
Infrastructure Projects Authority	0	22	20	2
Others ⁴	6	74	59	21
Total	65	181	197	49

¹ Balance at 1 April 2017.

² Balance at 31 March 2018.

³ Section 2 audit recommendations and management letter recommendations.

⁴ The European Commission, The European Court of Auditors, HM Inspectorate of Constabulary, Office of the Surveillance Commissioner (now known as the Investigatory Powers Commissioners Office (IPCO)), H&S, UK Statistics Authority, GCHQ and Low Pay Commission.

Responding to external opinion

We carry out a wide range of activities with organisations and individuals representing our customers, from Board-level meetings through to forums, events and detailed discussions between our policy teams and our external stakeholders.

This engagement is helping to keep our stakeholders involved in issues affecting them or our customers – whether they are business representative groups, professional accountancy bodies or charities that support customers who need extra help. It means we're able to listen to and act on their feedback, to ensure that their expertise is helping us to shape day-to-day and future work.

We also undertake annual qualitative and quantitative research with Parliamentarians, stakeholders and journalists. The results are enabling us to gauge stakeholders' perceptions of HMRC, track improvements over time and inform changes to help us keep stakeholders better informed. This insight is also helping to inform our future engagement work including, for example, the need to strengthen our support for Parliamentarians and their support staff.

Here are some of the key pieces of engagement work we've undertaken during 2017-18.

Executive Chair engagement programme

HMRC's Executive Chair until the end of 2017, Sir Edward Troup, met with his counterparts in organisations that represent our customers over the past 12 months, seeking feedback on our transformation programme and how we can continue to improve customer service. The programme has already helped to strengthen relationships with our stakeholders and, since Sir Edward's retirement in early 2018, it has transferred to other members of ExCom.

Consultative groups

We have a number of stakeholder consultative forums which seek expert advice and help shape the way we work; these include the Agents' Joint Initiative Steering Group and Voluntary Sector's Individual Stakeholder Forum. We consult with businesses, individuals, agents, representative bodies and charities that deal with customers who need extra help. The forums meet regularly to provide advice on a wide range of strategic and operational issues, as well as cross-government policies such as Tax-Free Childcare.

Annual Stakeholder Conference

We normally hold a main conference each year for our external stakeholders in order to build awareness of, and engagement with, our work. It's an opportunity to update our stakeholders and seek feedback from them on our performance and future plans. Our last event, held on 12 September 2017, was attended by nearly 100 of our key stakeholders, 93% of whom said that they subsequently had a better idea of how HMRC is performing. We are also keen to consider other ways to achieve good consultation and engagement.

Roundtable events

We have increased our engagement during 2017-18 through more interactive events, including:

- an EU exit roundtable for Heads of Policy at the big six accountancy firms to update them on HMRC's progress and readiness for EU exit related work
- a tax gap roundtable for UK tax academics to discuss the tax gap, providing an opportunity to seek their advice on how we can make this more easily understood by the public
- a breakfast discussion with CEOs of agent representative bodies to discuss HMRC's performance and transformation programmes.

Demonstrations of our new digital developments

We have held a number of demonstrations for stakeholders on our new digital developments. This includes a digital 'show and tell' on Making Tax Digital for Businesses in December 2017 for representatives from voluntary sector organisations. Events like this are helping to raise awareness of our new digital developments and providing feedback that helps to shape the digital services being created for our customers.

Engagement with Parliamentarians

We've been improving our engagement with Parliamentarians to help MPs deal with tax-related enquiries from constituents. This includes:

- presentations on the support HMRC offers MPs and their staff at House of Commons Information Service events
- drop-in surgeries at Portcullis House, enabling MPs to bring in HMRC-related constituent cases for experts from the tax credits and PAYE MP hotlines to help resolve.

Pilot online forum for agents

Our new online Agent Forum provides an opportunity for agents to raise questions, provide examples and receive updates on current issues, as well as access information on HMRC process changes and service updates. Agents may also suggest solutions, view recently cleared issues, and provide ideas for operational improvements.

The forum provides a valuable platform for agents to help one another, particularly on information about the use of commercial software products that interface with HMRC. The Agent Forum will continue to grow in 2018 with options to ask technical questions and receive answers from other forum members, as well as HMRC.

Engagement activity on EU exit

Following the UK's decision to leave the EU, we've worked with a wide range of stakeholders to understand the impact of changes resulting from EU exit. We've met more than 300 businesses during the last 12 months, holding roundtables across the UK and consulting with a wide range of industry sectors, representative bodies and businesses of all sizes.

Simultaneously, we've conducted visits to ports and other hubs and have been working closely with various infrastructure providers to understand better their concerns and views around EU exit. We also published the Future Customs Partnership Paper in August, setting out two potential future customs models. A significant contribution to the models came from round table conversations with a broad range of sectors and businesses from across the UK. The government also published the Customs Bill White Paper in September.

The Joint Customs Consultative Committee continues to meet regularly, providing invaluable insights into its members' attitudes around impacts, risks and priorities relating to EU exit. We continue to engage with existing forums, such as the Business Tax Forum and Midsize Business Forum, providing an opportunity for members to raise queries. In engaging with stakeholders, we've worked closely with other government departments, including HM Treasury, Department for Exiting the EU and Border Force (Home Office). We're committed to keeping these channels open during the coming year to ensure stakeholder voices are heard.

Sharing our data with others

HMRC collects and processes substantial volumes of data in support of our core purpose, administering the UK tax system. The value of the data we hold is widely recognised by others, particularly elsewhere in government, and we share our data, when appropriate, with other public bodies within a strict legal framework.

Sharing this data supports the effective delivery of existing policies (for example, combatting fraud in the welfare system and setting the right level of state benefits) and also serves to deliver public benefit where it informs the design and implementation of new policies.

In the past year we have worked with a variety of government departments and non-ministerial departments, notably the Department for Work and Pensions to continue to facilitate welfare reform and pension policy, the Home Office for developing immigration policy, the Department for Business, Energy and Industrial Strategy to support the UK growth agenda and the UK Statistics Authority to produce official statistics.

Whenever we share data, we thoroughly respect and safeguard the confidentiality of the data. All our information handling and sharing is governed by the Commissioners for Revenue and Customs Act 2005 and Data Protection legislation and we continue to keep pace with the Information Commissioners Office guidance and best practice.

A priority for HMRC during 2017-18 was to design a new operating model for a Data Sharing Service from 2018-19 onwards, which will help us to meet the greater demands of cross-government data sharing to facilitate prospective new data shares.

We continued to support the introduction of the new information sharing provisions in the Digital Economy Act 2017, so we can use the data we hold more effectively and continue to maximise the value of data sharing (as reflected in our Data Strategy) – both to HMRC and to support wider government policy. In particular, we established a top priority flagship data share with the Office for National Statistics to support their functions to produce official statistics and undertake research for the public good.

As HMRC transforms the way it works more broadly, we're also changing the way we hold our data – moving from product-centred to customer-centred approaches. This allows a more joined-up approach to data use and greater potential for more insightful data sharing in future.

We are increasingly using Application Programming Interfaces (APIs) to enable and govern the sharing that we do, in line with HMRC's Digital and API First strategies. In the past year we supported the development of a central Electronic Exchange of Social Security Information platform and built a national application providing a secure infrastructure to support the required electronic messaging for social security between European Union member states.

We continue to support the government-wide objective to reach an agreement for the UK leaving European Union and to establish the future relationship between the UK and EU, in particular around the information sharing needs to support wider HMRC activity and compliance. A top priority was our support to the passage of the Trade Bill to enable HMRC to share information with other government departments and other bodies to fulfil their public functions in relation to trade.

We continue to facilitate access to and use of HMRC's data by academics and researchers through our Datalab – a highly controlled environment in which approved research projects can be undertaken. In the past year, Datalab projects have explored such issues as income taxation, business growth and trade policy.

We also continue to publish key figures on our performance and activities, as well as findings of projects in our external research programme and a wealth of statistics releases online.

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.

Figure 58: Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office (ICO) in 2017-18

Date of incident (Month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
March (2017)	Unauthorised disclosure of information	Customer information	4	Customers are aware
Sept (2017)	Potential unauthorised disclosure of information	Customer information	5	Customers are aware

Other protected personal data-related incidents in 2017-18

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 2016-17 are shown in brackets.

Figure 59: Summary of other protected personal data related incidents in 2017-18

Category	Nature of incident	Total
I	Loss of inadequately-protected electronic equipment, devices or paper documents from secured government premises	0 (1)
II	Loss of inadequately-protected electronic equipment, devices or paper documents from outside secured government premises	4 (4)
III	Insecure disposal of inadequately-protected electronic equipment, devices or paper documents	0 (0)
IV	Unauthorised disclosure	26 (10)
V	Other	0 (0)

Statement on information risk

The number of security incidents impacting on protected personal data in HMRC increased from 15 to 31 in 2017-18 (including one ICO notification). The reason for this rise was implementation of an improved detection/reporting process for incidents in which an HMRC staff member inappropriately emailed customer data to their personal email address. The number of customers potentially affected by these incidents was 1,737 (previous year 1,285).

Further action on information risk

We deal with millions of customers every year and tens of millions of paper and electronic interactions. We therefore take the issue of data security extremely seriously and continually look to improve the security of customer information.

We investigate and analyse all security incidents to understand and reduce security risk, and we actively learn and act on our incidents – for example, by making changes to business processes relating to postal movements and undertaking assurance work with third party service providers to ensure that agreed processes are being carried out.

We also educate our employees to reinforce good data-handling processes through award-winning targeted and departmental-wide campaigns. These focus on reducing the risk of data loss and the likelihood of reoccurrence. All HMRC employees are required to complete mandatory security training, which includes the requirements of the Data Protection Act. By doing so, we can make sure HMRC is seen as a trusted and professional organisation.

General Data Protection Regulation (GDPR) in HMRC

HMRC appointed a Data Protection Officer in preparation for the GDPR which came into effect on 25 May 2018. We established a GDPR programme to help us demonstrate our compliance with the principles set out in the regulation – this included mandatory education and awareness activity for our entire workforce. We have also undertaken an information audit which showed the biggest challenges where further activity was needed on legacy IT systems.

During the spring 2018, the Department for Digital, Culture, Media & Sport reviewed progress across government in preparing for this new regulation and asked Deloitte to review the preparations of large departments including HMRC. Deloitte noted that HMRC's Data Protection Office is "staffed with experienced and skilled staff who understand the requirements of the GDPR and its applicability to HMRC". They also noted "HMRC has raised awareness of the GDPR across the department and has used an effective model to champion and promote the requirements across each functional area".

HMRC handles a large amount of data and is fully aware of its responsibilities for handling this appropriately and in line with the new legislation. While I am satisfied that an appropriate response has been made to the new legislation requirements, we are not complacent and data protection and management are areas which we will continue to monitor and to further develop our processes.



Jon Thompson

Principal Accounting Officer

6 July 2018

Parliamentary accountability

HMRC’s budget is set by Parliament – and our Consolidated Statement of Parliamentary Supply shows that we delivered within that budget.

In 2017-18, we delivered all of our business activities within parliamentary controls despite the volatility of entitlement to tax credits, which are challenging to estimate.

Consolidated Statement of Parliamentary Supply*

The Government Financial Reporting Manual requires us to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show outturn against the Supply Estimate we presented to Parliament, in respect of each of our budgetary control limits.

The Supply Estimate is our request to Parliament to fund our expenditure. The total amount the department spends consists of both a voted element, authorised by Parliament through the annual Supply Estimate procedure, and a non-voted element for categories of expenditure not subject to annual approval such as tax credit expenditure, but still closely controlled through the financial reporting and budgeting process. A full breakdown of the lines of the Estimate which form the voted and non-voted totals below are shown in SoPS note 1.

Parliament also controls our expenditure by further categorising it between Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME). DEL spending is tightly controlled by HM Treasury and firm multi-year plans are required, whereas AME spending is led by demand and therefore more volatile.

The figures in the areas highlighted within this statement are voted totals which are subject to parliamentary control. Although not a separate voted limit, any breach of our administration budget will also result in an excess vote.

* The Consolidated Statement of Parliamentary Supply and its related notes have been subject to external audit.

Figure 60: Budget structure and expenditure outturn (£m)

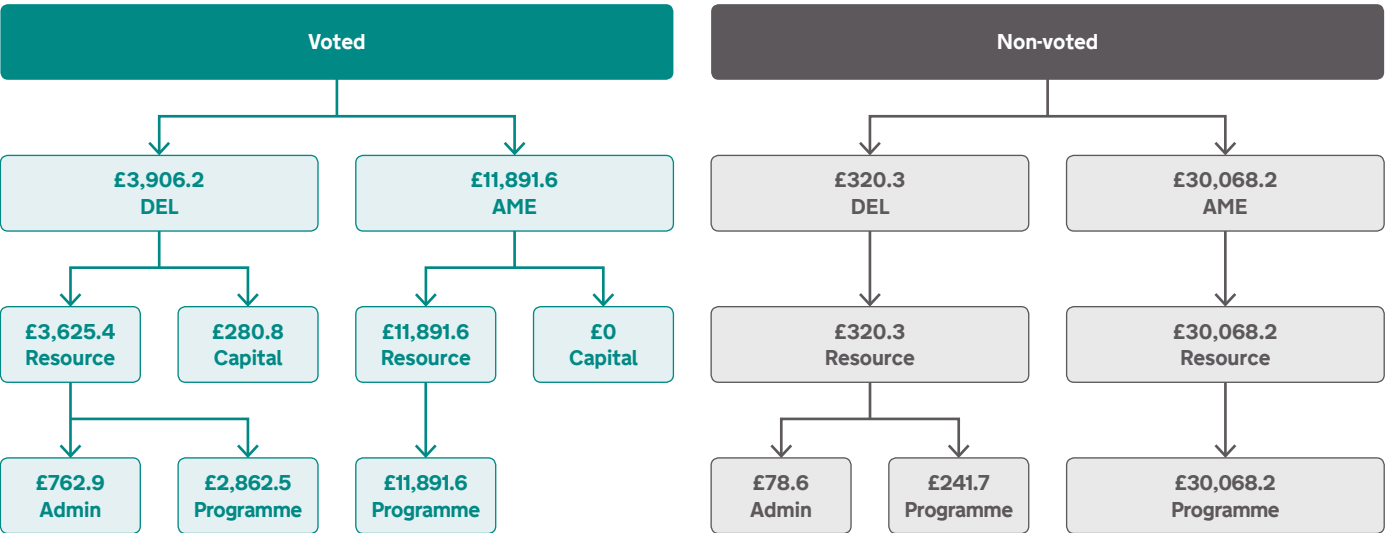


Figure 61: Summary of resource and capital outturn

								2017-18 £m	2016-17 £m
		Estimate			Outturn				
	SoPS note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted variance: saving	Total outturn
Departmental Expenditure Limit									
– Resource	1.1	3,691.4	290.0	3,981.4	3,625.4	320.3	3,945.7	66.0	3,835.5
– Capital	1.2	282.3	-	282.3	280.8	-	280.8	1.5	326.4
Annually Managed Expenditure									
– Resource	1.1	11,987.6	30,057.6	42,045.2	11,891.6	30,068.2	41,959.8	96.0	42,329.1
– Capital	1.2	-	-	-	-	-	-	-	-
Total budget		15,961.3	30,347.6	46,308.9	15,797.8	30,388.5	46,186.3	163.5	46,491.0
Of which:									
Total resource	1.1	15,679.0	30,347.6	46,026.6	15,517.0	30,388.5	45,905.5	162.0	46,164.6
Total capital	1.2	282.3	-	282.3	280.8	-	280.8	1.5	326.4
Total		15,961.3	30,347.6	46,308.9	15,797.8	30,388.5	46,186.3	163.5	46,491.0
								2017-18 £m	2016-17 £m
	SoPS note	Estimate			Outturn			Variance: saving	Outturn
Net cash requirement	3	15,894.6			15,506.0			388.6	15,316.2
Administration costs		870.6			841.5			29.1	871.3

Explanations of material variances between the Estimate and outturn are provided in SoPS note 1 on page 141. A reconciliation of total resource outturn to the Statement of Comprehensive Net Expenditure is provided in SoPS note 2 on page 142.

SoPS 1. Net outturn

We are required to ensure that our expenditure remains within the voted limits set by Parliament. This note provides details of how we performed against each line of the Estimate.

Voted expenditure includes the costs of running HMRC as well as payments to individuals for social benefits and payments in lieu of tax relief. It also includes certain rates payments, shown as Line I, made by the Valuation Office Agency. RCDTS Ltd expenditure and income is included within Lines A, B, C, H and K as appropriate.

HMRC also makes payments for which the funding is not subject to the vote system. This non-voted expenditure mainly relates to personal tax credits, other reliefs including certain corporation tax credits and our costs related to the National Insurance Fund.

HM Treasury requires us to further analyse our income and expenditure between administration, which relates to running the department (for example: human resources, finance, estates management) and programme, which relates to delivering our frontline services (for example: parts of HMRC that interact directly with our customers).

The following tables record our actual outturn expenditure for DEL and AME, voted and non-voted, against the limits set by Parliament for each line of the Estimate. Table 1.1 provides analysis of resource expenditure and table 1.2 of capital expenditure.



Valuation Office Agency activities can be found within their accounts:
www.gov.uk/government/organisations/valuation-office-agency

SoPS 1.1 Analysis of net resource outturn by section

Figure 62: Analysis of net resource outturn by section

	2017-18 £m								2016-17 £m	
	Estimate	Outturn								
		Administration			Programme		Outturn	Variance:	Outturn	
	Net total	Gross	Income	Net	Gross	Income	Net	Net total	saving/ (excess)	Total
Spending in Departmental Expenditure Limit										
Voted:										
A HMRC administration	3,528.7	794.8	(40.5)	754.3	2,821.6	(125.6)	2,696.0	3,450.3	78.4	3,505.2
B VOA administration	150.7	—	—	—	180.2	(36.7)	143.5	143.5	7.2	(2.7)
C Utilised provisions	12.0	8.6	—	8.6	23.0	—	23.0	31.6	(19.6)	17.5
Total voted	3,691.4	803.4	(40.5)	762.9	3,024.8	(162.3)	2,862.5	3,625.4	66.0	3,520.0
Non-voted:										
D National Insurance Fund	290.0	78.6	—	78.6	241.7	—	241.7	320.3	(30.3)	315.5
Total non-voted	290.0	78.6	—	78.6	241.7	—	241.7	320.3	(30.3)	315.5
Total spending in Departmental Expenditure Limit	3,981.4	882.0	(40.5)	841.5	3,266.5	(162.3)	3,104.2	3,945.7	35.7	3,835.5
Spending in Annually Managed Expenditure										
Voted:										
E Child Benefit	11,754.3	—	—	—	11,689.6	—	11,689.6	11,689.6	64.7	11,651.9
F Tax-Free Childcare	37.4	—	—	—	28.8	—	28.8	28.8	8.6	—
G Providing payments in lieu of tax relief to certain bodies	85.9	—	—	—	85.0	—	85.0	85.0	0.9	70.1
H HMRC administration	27.0	—	—	—	38.0	—	38.0	38.0	(11.0)	32.0
I VOA payments of Local Authority rates	93.0	—	—	—	80.8	(4.7)	76.1	76.1	16.9	63.9
J VOA administration	2.0	—	—	—	5.7	-	5.7	5.7	(3.7)	3.1
K Utilised provisions	(12.0)	—	—	—	(31.6)	-	(31.6)	(31.6)	19.6	(17.4)
Total voted	11,987.6	—	—	—	11,896.3	(4.7)	11,891.6	11,891.6	96.0	11,803.6
Non-voted:										
L Personal tax credits	26,230.3	—	—	—	26,363.0	-	26,363.0	26,363.0	(132.7)	27,143.6
M Other reliefs and allowances	3,827.3	—	—	—	3,705.2	-	3,705.2	3,705.2	122.1	3,381.9
Total non-voted	30,057.6	—	—	—	30,068.2	-	30,068.2	30,068.2	(10.6)	30,525.5
Total spending in Annually Managed Expenditure	42,045.2	—	—	—	41,964.5	(4.7)	41,959.8	41,959.8	85.4	42,329.1
Total voted	15,679.0	803.4	(40.5)	762.9	14,921.1	(167.0)	14,754.1	15,517.0	162.0	15,323.6
Total non-voted	30,347.6	78.6	—	78.6	30,309.9	—	30,309.9	30,388.5	(40.9)	30,841.0
Total	46,026.6	882.0	(40.5)	841.5	45,231.0	(167.0)	45,064.0	45,905.5	121.1	46,164.6



Full information about VOA payments of Local Authority rates can be found at: www.voa.gov.uk

SoPS 1.2 Analysis of net capital outturn by section

Figure 63: Analysis of net capital outturn by section

				2017-18 £m	2016-17 £m
	Estimate	Outturn	Outturn	Variance: saving/ (excess)	Outturn
	Net total	Gross	Income	Net total	Total
Spending in Departmental Expenditure Limit					
Voted:					
A HMRC administration	273.8	300.8	(27.5)	273.3	314.6
B VOA administration	8.5	7.5	–	7.5	11.8
C Utilised provisions	–	–	–	–	–
Total voted	282.3	308.3	(27.5)	280.8	326.4
Non-voted:					
D National Insurance Fund	–	–	–	–	–
Total non-voted	–	–	–	–	–
Total spending in Departmental Expenditure Limit	282.3	308.3	(27.5)	280.8	326.4
Spending in Annually Managed Expenditure					
Voted:					
E Child Benefit	–	–	–	–	–
F Tax-Free Childcare	–	–	–	–	–
G VOA – payments of rates to local authorities on behalf of certain bodies	–	–	–	–	–
H HMRC administration	–	–	–	–	–
I VOA payments of Local Authority rates	–	–	–	–	–
J VOA administration	–	–	–	–	–
K Utilised provisions	–	–	–	–	–
Total voted	–	–	–	–	–
Non-voted:					
L Personal tax credits*	–	44.1	(44.1)	–	–
M Other reliefs and allowances	–	–	–	–	–
Total non-voted	–	44.1	(44.1)	–	–
Total spending in Annually Managed Expenditure	–	44.1	(44.1)	–	–
Total voted	282.3	308.3	(27.5)	280.8	326.4
Total non-voted	–	44.1	(44.1)	–	–
Total	282.3	352.4	(71.6)	280.8	326.4

* The transfer of personal tax credit receivables balance to DWP results in Capital Grant in Kind entries that net to nil.

The total resource outturn for the year was £45,905.5 million, £121.1 million (0.3%) below the Estimate. The total capital outturn for the year was £280.8 million, £1.5 million (0.5%) below the Estimate. Explanations of material variances between the Estimate and outturn are provided below.

Resource Departmental Expenditure Limit (DEL)

C Utilised provisions – outturn was £19.6 million (163.3%) more than the Estimate. Utilisations of provisions are inherently unpredictable in terms of the timing and value of settlements. HMRC have an established process in place to regularly review and monitor provisions. The excess is a consequence of unpredictability, specifically in settling legal claims against the department.

D National Insurance Fund – outturn was £30.3 million (10.4%) more than the Estimate. Expenditure allocated to National Insurance work is variable depending on the combination of work we do on a range of taxes and contributions, which can be customer driven. All National Insurance spending is fully accounted for in the National Insurance Fund Accounts.

Resource Annually Managed Expenditure (AME)

F Tax-Free Childcare – outturn was £8.6 million (23.0%) less than the Estimate. This was new in April 2017, initial take up of the policy has not achieved anticipated levels.

H HMRC administration – outturn was £11.0 million (40.7%) more than the Estimate. This is primarily attributed to the under-estimation of the level of provision of staff exits required to meet our overall workforce plans.

I VOA – Payments of Local Authorities rates – outturn was £16.9 million (18.2%) less than the Estimate. This is mainly due to refunds of rate payments in respect of vacated properties.

J VOA administration – outturn was £3.7 million (185.0%) more than the Estimate. This relates to new provisions required for legal claims being greater than anticipated.

K Utilised provisions – outturn was £19.6 million (163.3%) more than the Estimate. Utilisations of provisions are inherently unpredictable in terms of the timing and value of settlements. HMRC have an established process in place to regularly review and monitor provisions. The excess is a consequence of unpredictability, specifically in settling legal claims against the department.

L Personal tax credit – outturn was £132.7 million (0.5%) more than the Estimate. This is because payments are driven by demand and entitlement, and therefore fluctuate throughout the year.

M Other reliefs and allowances – outturn was £122.1 million (3.2%) less than the Estimate. This is due to demand being less than anticipated for creative industries tax reliefs and research and development tax relief available to companies.

SoPS 2. Reconciliation of outturn to net operating expenditure

As certain items are treated differently in the Statement of Parliamentary Supply (SoPS) and the Statement of Comprehensive Net Expenditure (SoCNE), this note reconciles the net resource outturn from SoPS note 1.1 to the net operating expenditure in the SoCNE. These are detailed and explained below.

Figure 64: Reconciliation of net resource outturn to net operating expenditure

	SoPS note	2017-18 £m Outturn	2016-17 £m Outturn
Statement of Parliamentary Supply: Total resource outturn			
Departmental Expenditure Limit	1.1	3,945.7	3,835.5
Annually Managed Expenditure	1.1	41,959.8	42,329.1
Non-budget – additional payments to the National Insurance Fund	1.1	–	–
		45,905.5	46,164.6
<i>Excluded from SoPS Total resource outturn:</i>			
Expenditure: Transfer of personal tax credits receivables to DWP	1.2	44.1	39.4
Non-current assets granted to Cabinet Office	1.2	2.0	–
Child Trust Fund	1.2	–	–
Non-current asset costs outside of budgeting		23.1	31.5
Income: Non-current assets received from DWP		–	(2.8)
Developer contribution received to purchase non-current assets		(19.2)	(7.2)
Payable to the Consolidated Fund		(1.0)	(0.5)
		49.0	60.4
<i>Excluded from SoCNE Net operating expenditure:</i>			
Expenditure: Service concession arrangements liability repayment		(18.5)	(25.3)
		(18.5)	(25.3)
Consolidated Statement of Comprehensive Net Expenditure: Net operating expenditure		45,936.0	46,199.7

Explanation of additions and deductions

Transfer of personal tax credits receivables to DWP

The receivable balance relating to customers who have made a valid claim to Universal Credit, now administered by DWP.

Non-current assets granted to Cabinet Office

The value of non-current assets granted to Cabinet Office by way of a Capital Grant in Kind as they now host Civil Service Resourcing.

Non-current assets received from DWP

The value of non-current assets received from DWP by way of a Capital Grant in Kind as HMRC now host Government Gateway.

Developer contribution

The value of capital grants received as a result of property lease arrangements.

Non-current asset costs outside of budgeting and Service Concession arrangements

The National Accounts basis for recognising service concession arrangements is broadly similar to UK-Generally Accepted Accounting Practice (UK-GAAP), applying a risk-based test to determine the financial reporting. International Financial Reporting Standards (IFRS)-based recognition of service concession arrangements (International Financial

Reporting Interpretations Committee (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 HMRC sold to private sector contractors and subsequently leased back under a PFI contract were capitalised as finance leases under IFRIC 12.

Income payable to the Consolidated Fund

Income that is either in excess of limits included in the vote or is outside the scope of what is allowed to be retained. For these reasons, this income is excluded from the SoPS.

SoPS 3. Reconciliation of net resource outturn to Net Cash Requirement

Net Cash Requirement calculation only applies to core department and agency. This note reconciles the net resource and capital outturn to the net cash requirement in the Statement of Parliamentary Supply, showing the adjustments for non-cash items, movements in the Statement of Financial Position and other adjustments which include funding other than from the Consolidated Fund.

Figure 65: Reconciliation of net resource outturn to Net Cash Requirement

	SoPS note	Estimate £m	Outturn £m	Outturn compared to Estimate: saving/(excess) £m
Resource outturn	1.1	46,026.6	45,905.5	121.1
Capital outturn	1.2	282.3	280.8	1.5
Remove Arms Length Bodies (ALBs) resource and capital		—	—	—
Accruals to cash adjustments:				
Remove non-cash items:				
Depreciation and amortisation		(324.8)	(297.0)	(27.8)
New provisions and adjustments to existing provisions		(29.0)	(36.3)	7.3
Other non-cash items		(2.3)	(14.0)	11.7
Reflect movement in working balances:				
Capital grant in kind:				
Transfer of personal tax credit receivables to DWP		—	44.1	(44.1)
Increase/(decrease) in inventories		—	0.4	(0.4)
Increase/(decrease) in receivables		393.6	(318.6)	712.2
(Increase)/decrease in payables		(116.2)	(299.7)	183.5
Use of provisions		12.0	31.3	(19.3)
Other adjustments:				
Remove non-voted budget items:				
Funded outside the Vote		(30,347.6)	(29,802.3)	(545.3)
Finance lease liability repayment		—	5.7	(5.7)
Other		—	6.1	(6.1)
Net Cash Requirement		15,894.6	15,506.0	388.6

The net cash requirement outturn for 2017-18 was £15,506 million, £388.6 million (2.4%) below the Estimate. Explanations of material variances between the Estimate and outturn are provided on the next page.

New provisions and adjustments to existing provisions – varied by £7.3 million from the Estimate. This is due to a higher than expected need for new provisions.

Assets transferred to DWP – varied by £44.1 million from the Estimate This is the value of personal tax credit debt transferred to the Department for Work and Pensions to be collected through Universal Credit. Whilst the outturn is shown discretely, the related Estimate value is reported against the increase/(decrease) in receivables.

Receivables – varied by £712.2 million from the Estimate, largely due to a decrease in the level of personal tax credits debt compared to expected forecasts at the Estimate.

Payables – varied by £183.5 million from the Estimate, largely due to an increase in corporation tax relief and personal tax credits payable within the next year.

Use of provisions – varied by £19.3 million from the Estimate. Utilisation of provisions is inherently unpredictable in terms of the timing and value of settlements. HMRC has an established process in place to regularly review and monitor provisions. The excess is driven by the timing of, in particular, legal settlements against the department.

Other adjustments – varied by £557.1 million (1.8%) from the Estimate, this is an improvement on last year when this varied by £900.3 million (2.9%) from the Estimate. This is because payments are driven by demand and entitlement, and therefore fluctuate throughout the year.

SoPS 4. Income payable to the Consolidated Fund

SoPS 4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by HMRC, the following income is payable to the Consolidated Fund (cash receipts being shown in italics). This is income which is outside the ambit of the Supply Estimate and is required to be paid over to HM Treasury.

Figure 66: Analysis of income payable to the Consolidated Fund

	Outturn 2017-18 £m		Outturn 2016-17 £m	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
Income outside the ambit of the Estimate	1.0	<i>1.0</i>	0.5	<i>0.5</i>
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total amount payable to the Consolidated Fund	1.0	<i>1.0</i>	0.5	<i>0.5</i>

SoPS 4.2 Consolidated Fund income

Consolidated Fund income shown in SoPS note 4.1 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 page 164.

Regularity of expenditure¹

HMRC understands and complies with the concept of regularity, which is fundamental to the right use of public funds*.

The term regularity is used to convey the idea of probity and ethics in the use of public funds – that is, delivering public sector values in the round and applying the seven principles of public life**.

Regularity specifically encompasses compliance with all relevant legislation, delegated authorities and the guidance set out in HM Treasury's Managing Public Money publication.

The importance of operating with regularity and the need for efficiency, economy, effectiveness and prudence in the administration of public resources to secure value for public money, is the responsibility of our Principal Accounting Officer.

To discharge this responsibility, the following controls have been put in place***.

- Detailed annual business planning and delegation of budgets to Directors General in line with our Single Departmental Plan and the purpose for which Parliament intends.
- Formal delegation of budgets by Directors General to the appropriate level, supported by qualified finance directors.
- Detailed monitoring of expenditure and monthly reporting to the Chief Executive, Chief Finance Officer, ExCom and the Board, as well as HM Treasury.
- A professional finance community, with the task of guiding and supporting the right use of public funds and compliance with Cabinet Office controls guidance.
- Monthly publication of all spending of more than £25,000 as part of our commitment to transparency and open government.
- Close links with HM Treasury colleagues to ensure planned expenditure transactions do not set precedents that could cause repercussions elsewhere in the public sector.



* Full information about how HMRC manages public money can be found at:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf

** Full information about the seven principles of public life can be found at:
www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2

*** Full information about how HMRC manages public money with regularity can be found in para 1.5.3 at:
www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf para 1.5.3

¹ These disclosures have been subject to external audit.



Information on current control challenges around tax credit error and fraud can be found on page 84.

The table below provides details of the main estimate for HMRC spending and the supplementary estimate which provides the final estimate (budget) shown. It then shows the actual spend (outturn) against the final budget.

Figure 67: Public spending control (£million)¹

	Main Estimate	Supplementary Estimate (Adjustment)	Final Provision	2017-18 outturn
Resource DEL				
Voted				
HMRC administration	3,476	52	3,528	3,450
VOA administration	151	0	151	144
Utilised provisions ²	30	(18)	12	32
Non-voted				
National Insurance Fund	290	0	290	320
Total spending DEL	3,947	34	3,981	3,946
Resource AME				
Voted				
Child Benefit ³	11,579	175	11,754	11,690
Tax-Free Childcare	383	(346)	37	29
Providing payments in lieu of tax relief to certain bodies	85	1	86	85
HMRC administration	30	(3)	27	38
VOA – payments of rates to local authorities on behalf of certain bodies	93	0	93	76
VOA administration	2	0	2	6
Utilised provisions ²	(30)	18	(12)	(32)
Non-voted				
Personal tax credits	26,721	(491)	26,230	26,363
Other relief and allowances ⁴	3,525	303	3,828	3,705
Total spending AME	42,388	(343)	42,045	41,960
Capital DEL				
HMRC administration	236	38	274	273
VOA administration	11	(3)	8	8
Total capital spending DEL	247	35	282	281
Capital AME				
Child Trust Fund	0	0	0	0
Total capital spending AME	0	0	0	0

1 These disclosures have been subject to external audit.

2 Utilised provisions changes followed discussions with HMT as the timing and value of provisions is inherently uncertain. The voted DEL reduction leads to a corresponding increase in AME.

3 Child Benefit increased because the latest ONS population growth rates were higher than previously estimated.

4 Other relief and allowances increase due to higher than forecast research and development relief claims from both large and small companies.

Losses and special payments¹

These losses and special payments relate to the running of the departmental group. Full details on revenue losses can be found in HMRC's Trust Statement, see pages 173 to 174.

Losses are made up of remissions and write-offs. Remission is the process used to identify and separate money owed to HMRC which we have decided not to pursue – for example, on the grounds of value for money. Write-offs is the term used to describe money owed to HMRC that was considered to be irrecoverable – for example, because there were no practical means for pursuing it.

Figure 68: Losses statement

	Core department and agency		2017-18 Departmental group		Core department and agency		2016-17 Departmental group	
	<i>cases</i>	<i>£m</i>	<i>cases</i>	<i>£m</i>	<i>cases</i>	<i>£m</i>	<i>cases</i>	<i>£m</i>
Personal tax credits remissions	1,386,882	63.8	1,386,882	63.8	1,608,783	58.8	1,608,783	58.8
Personal tax credits write-offs	29,271	39.5	29,271	39.5	37,179	40.9	37,179	40.9
Child Benefit remissions and write-offs ²	29,755	11.1	29,755	11.1	38,139	16.6	38,139	16.6
Exchange rate losses	131	3.1	131	3.1	129	11.1	129	11.1
Others	4,566	(0.1)	4,566	(0.1)	6,077	0.4	6,077	0.4
Total	1,450,605	117.4	1,450,605	117.4	1,690,307	127.8	1,690,307	127.8

In 2017-18, £103.3 million of personal tax credit debt was remitted/written-off as it was uncollectable. For further information on tax credits see the Resource Accounts on pages 201 to 202 (note 4).

In 2017-18, the department wrote-off £11.1 million of Child Benefit debt that was uncollectable.

Exchange rate losses – HMRC operates the VAT Mini One Stop Shop (MOSS) program which collects VAT on behalf of EU member states. Due to the way the scheme works, money is collected and paid to member states in accordance with a strict timetable. For 2017-18 this has resulted in exchange rate losses of £3.1 million (2016-17: £11.1 million).



For more information on MOSS please visit: www.gov.uk/guidance/register-and-use-the-vat-mini-one-stop-shop

Details of cases more than £300,000

There were no individual cases of more than £300,000.

¹ This section has been subject to external audit.

² Includes an estimate.

Special payments¹

These include compensation and ex-gratia payments in respect of personal injury, damage to property and those which result from the department's redress policy. For further information on reporting requirements please see guidance in Managing Public Money, see Annex 4.13.

Figure 69: Special payments

	Core department and agency		2017-18 Departmental group		Core department and agency		2016-17 Departmental group	
	<i>cases</i>	<i>£m</i>	<i>cases</i>	<i>£m</i>	<i>cases</i>	<i>£m</i>	<i>cases</i>	<i>£m</i>
Payments and accruals	20,955	3.1	20,955	3.1	18,559	3.0	18,559	3.0

Severance payments are included within special payments shown above. These are paid under certain circumstances to employees, contractors and others outside of normal statutory or contractual requirements, when leaving employment in the public service, whether they resign, are dismissed, or reach an agreed termination of contract.

For 2017-18, we made 10 payments totalling £158,133 (2016-17: five payments totalling £60,555) in respect of severance cases. The highest payment was £50,000 (2016-17: £22,000) and the lowest payment was £2,700 (2016-17: £3,000), the average payment was £15,813 (2016-17: £12,111).

Details of cases more than £300,000

There were no individual cases of more than £300,000.

Fees and charges¹

The fees and charges table on the following page lists the services HMRC provides to external and public sector customers where the full cost to HMRC exceeds £1 million. In accordance with HM Treasury guidance on managing public money, it is HMRC's financial objective to recover the full cost of each service unless otherwise stated. Disclosed in the table for each service is the income received, the full cost incurred and the amount of any surplus or deficit between the income received or full cost charged. Surpluses and deficits can arise for a number of reasons, including demand fluctuations or variations to HMRC costs during the year.

¹ This section has been subject to external audit.

Figure 70: Analysis of income where full cost exceeds £1 million¹

	2017-18 £m			2016-17 £m		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
Fees and charges raised by Valuation Office Agency (VOA)						
Local Housing Allowance and Fair Rents	9.5	9.5	–	10.2	10.2	–
Non-Domestic Rates and Council Tax ²	8.8	8.7	0.1	168.7	169.2	(0.5)
Property Services	13.1	13.0	0.1	14.7	14.7	–
Statutory Valuation Team	5.3	5.3	–	3.4	3.5	(0.1)
Fees and charges raised by the core department						
Accommodation Recharges	0.4	0.4	–	3.9	3.7	0.2
Anti-Money Laundering Supervision	11.8	11.6	0.2	10.0	10.5	(0.5)
Civil Service Resourcing ³	–	–	–	83.8	83.3	0.5
Collection of Apprenticeship Levy ⁴	0.7	1.1	(0.4)	2.9	2.9	–
Collection of Student Loans ⁵	15.7	15.7	–	8.4	8.3	0.1
DWP Welfare Reform Agenda	0.8	1.0	(0.2)	1.1	1.1	–
Government Banking Service	11.5	9.1	2.4	11.8	10.3	1.5
Government Gateway ⁶	0.6	1.6	(1.0)	–	–	–
National Minimum Wage	24.0	24.6	(0.6)	16.5	16.5	–
Single Tier Pension Reform	12.0	11.2	0.8	12.4	12.4	–
Tax-Free Childcare	8.2	7.9	0.3	4.9	4.9	–
UK Border Agency	14.2	14.1	0.1	15.3	15.3	–
For devolved administrations						
Northern Ireland Act Implementation ⁷	1.7	1.6	0.1	–	–	–
Scotland Act Implementation ⁸	4.5	4.8	(0.3)	6.2	6.2	–
Wales Act Implementation ⁷	1.6	1.9	(0.3)	–	–	–
Total	144.4	143.1	1.3	374.2	373.0	1.2

1 For 2017-18 the transactions between HMRC, VOA and RCDTS Ltd have been excluded for reporting purposes. This has resulted in the services provided to the VOA and RCDTS Ltd no longer being included in the table above. The 2016-17 figures have been restated to reflect this change.

2 HMRC are now funded for the services VOA provide to the Ministry of Housing Communities and Local Government. The income previously recorded here is now classified as supply funding.

3 Civil Service Resourcing transferred to the Cabinet Office with effect from 1 April 2017.

4 HMRC incurs costs in using the PAYE system to collect the Apprenticeship Levy on behalf of the Department for Education.

5 The 2016-17 figures for the Collection of Student Loans have been restated.

6 The Government Gateway transferred from DWP to HMRC as a machinery of government move.

7 The Corporation Tax (Northern Ireland) Act 2015 allows for the devolution of the power to set Corporation Tax rates to Northern Ireland. The Wales Act 2014 gave the Welsh Assembly the power to tax land transactions and disposals to landfill from April 2016 and, as amended by The Wales Act 2017, to set income tax rates from 2019-20 onwards. HMRC has incurred costs which are included in the Resource Accounts.

8 The Scotland Act 2012 and Scotland Act 2016 gave the Scottish Parliament powers over rates of income tax which have applied from 2016-17 onwards. This tax is accounted for within HMRC's Trust Statement, see pages 180 to 182. HMRC has incurred costs which are included in the Resource Accounts.



For further information please see the Income note of the Resource Accounts on page 204.

Remote Contingent Liabilities¹

These are remotely possible obligations that arise from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control.

The department has the following quantifiable remote contingent liabilities:

Figure 71: Indemnities (£m)

	1 April 2017	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2018	Amount reported to Parliament by departmental minute
Indemnities	5.4	0.4	—	(2.0)	3.8	—

The department has the following unquantifiable remote contingent liabilities:

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU.

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

During this two year period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

Managing Public Money requires that the full potential costs of indemnified contracts be reported to Parliament.

¹ This section has been subject to external audit.



Jon Thompson

Principal Accounting Officer

6 July 2018



HM REVENUE & CUSTOMS

Our accounts

HMRC's Trust Statement and Resource Accounts for 2017-18

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Foreword and Principal Accounting Officer's Responsibilities

HMRC is responsible for collecting the majority of tax revenue and its financial information is reported in two separate accounts:

- The Trust Statement: reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year.
- The Resource Accounts: reports the costs of running HMRC, including making payments of Child Benefit and tax credits. The Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd) results are consolidated into the Resource Accounts.

Basis for the preparation of the accounts

Both sets of accounts are prepared under HM Treasury direction on an accruals basis.

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, the revenue income and expenditure, and cash flows for the financial year.

Resource Accounts: The HM Treasury accounts direction, issued under the Government Resources and Accounts Act (GRAA) 2000, requires HMRC to prepare consolidated Resource Accounts to 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.

HMRC also complies with all relevant accounting and disclosure requirements given in Managing Public Money (MPM) and other guidance issued by HM Treasury. This includes the Government Financial Reporting Manual (FReM) and the principles underlying it, as well as International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Principal Accounting Officer's responsibilities

HM Treasury has appointed HMRC's Chief Executive as Principal Accounting Officer of HMRC, VOA and RCDTS Ltd, with overall responsibility for preparing the Trust Statement and Resource Accounts and for providing them to the Comptroller and Auditor General.

In preparing these accounts, the Principal Accounting Officer is required to:

- observe the accounts directions issued by HM Treasury, including the relevant accounting and disclosure requirements, applying suitable accounting policies on a consistent basis and explaining any material departures from the FReM
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by the Valuation Office Agency and RCDTS Ltd
- ensure that there is a high standard of financial management, including robust systems of internal control and that financial systems and processes promote the efficient and economical conduct of the business
- be responsible for the propriety and regularity of the public finances for which the Accounting Officer is answerable and for the keeping of proper records and safeguarding the department's assets as set out in MPM published by HM Treasury
- prepare the accounts on a going concern basis.

The Principal Accounting Officer confirms that this Annual Report and Accounts as a whole is fair, balanced and understandable. The Principal Accounting Officer takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Accounting Officers for the Resource Accounts

For 2017-18, the Principal Accounting Officer was Jon Thompson. Melissa Tatton, who succeeded Penny Ciniewicz from 4 September 2017 as Chief Executive of the Valuation Office Agency, is an additional Accounting Officer accountable for those parts of HMRC's accounts relating to specified lines of the Estimate and the associated assets, liabilities and cash flows. This appointment does not detract from Jon Thompson's overall responsibility for the department's accounts.

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

Estimate sections A, G-H and K-M: Jon Thompson, Chief Executive and Permanent Secretary.

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

More detail about the performance against the Estimate can be found in SoPS notes 1.1 and 1.2 in the Parliamentary Accountability Disclosures Section on pages 139 to 140.

Auditors

Both sets of accounts are audited by the Comptroller and Auditor General. The Trust Statement is audited under Section 2 of the Exchequer and Audit Departments Act 1921. The Resource Accounts are audited under the Government Resources and Accounts Act 2000.

The notional charge for both these audit services is disclosed in the Resource Accounts (see note 2). 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 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.



Jon Thompson

Principal Accounting Officer

6 July 2018

The Trust Statement audit report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I have audited HM Revenue and Customs' Trust Statement for the year ended 31 March 2018 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- The HM Revenue and Customs Trust Statement gives a true and fair view of the state of affairs of the collection and allocation of taxes, duties, National Insurance Contributions, Student Loan recoveries, fines, penalties and related expenditures and disbursements administered by HM Revenue and Customs as at 31 March 2018 and of the net revenue 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 regularity

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

Basis of opinions

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

Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Foreword and Principal Accounting Officer's Responsibilities, 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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921.

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HM Revenue and Customs's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on this. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements 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.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
10 July 2018

The Resource Accounts: The Certificate of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of HM Revenue and Customs and of its Departmental Group for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agency. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2017. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the 'Our Accountability' report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2018 and of the Department's and Departmental Group's net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, except for the estimated levels of fraud and error in Personal Tax Credits expenditure referred to in the basis for the qualified opinion on regularity paragraph, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

Note 4 to the Accounts records Personal Tax Credits expenditure of £26.4 billion in 2017-18. Where error and fraud result in overpayments and underpayments, the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular.

Due to the time taken to finalise awards, the Department's estimates of overpayments and underpayments of Personal Tax Credits for 2017-18 will not be available until June 2019. Therefore, the estimates of error and fraud in 2016-17 are the most up to date indication available of the level of error and fraud in Personal Tax Credits expenditure for 2017-18. For 2016-17, the Department estimates:

- overpayments of £1.32 billion (4.9% of related expenditure); and
- underpayments of £200 million (0.8% of related expenditure).

I consider these levels of overpayments and underpayments to be material to my opinion on the accounts.

I have therefore qualified my opinion on the regularity of Personal Tax Credits expenditure because of:

- the estimated level of overpayments attributable to error and fraud where payments have not been made for the purposes intended by Parliament; and
- the estimated levels of overpayments and underpayments in such expenditure which do not conform with the relevant authorities.

Basis of opinions

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

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Foreword and Principal 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.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and HM Revenue and Customs' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and HM Revenue and Customs' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

-
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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

I am required to obtain evidence sufficient to give reasonable assurance that the 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.

Other Information

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

Opinion on other matters

In my opinion:

- the parts of the 'Our Accountability' Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the 'Our Performance' Report or the 'Our Accountability' Report; and
- the information given in the 'Our Performance' Report and the 'Our Accountability' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have prepared a Report on HM Revenue and Customs' 2017-18 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1. This includes at paragraphs 3.3 to 3.4, further information on the qualification of my audit opinion on the regularity of Personal Tax Credits expenditure.

Sir Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
10 July 2018

Trust Statement

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March	Note	2018 £bn	2017 £bn
Taxes and duties			
Income tax	2.1	186.0	173.8
Value Added Tax	2.2	128.6	124.4
Corporation Tax	2.3	53.3	51.1
Hydrocarbon oils duties	2.4	27.9	28.0
Stamp taxes	2.5	16.6	15.4
Alcohol duties	2.6	11.5	11.3
Tobacco duties	2.7	8.8	8.7
Capital Gains Tax	2.8	7.8	8.4
Insurance Premium Tax	2.9	6.2	4.5
Other taxes and duties	2.10	24.5	23.0
Total taxes and duties		471.2	448.6
Other revenue and income			
National Insurance Contributions	3.1	130.5	122.5
Student Loan recoveries	3.3	2.4	2.2
Fines and penalties	3.4	1.7	1.6
Total other revenue and income		134.6	126.3
Total revenue		605.8	574.9
Less expenditure			
Impairment charges	4.4	(4.2)	(3.4)
Movement in provisions	7.1	(3.4)	(3.5)
Total expenditure		(7.6)	(6.9)
Less disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(130.0)	(122.0)
Appropriation of revenue to Resource Account	3.2	(29.5)	(30.4)
Student Loan recoveries due to the Department for Education	3.3	(2.4)	(2.2)
Taxation paid to the Isle of Man	3.5	(0.2)	(0.2)
Total disbursements		(162.1)	(154.8)
Total expenditure and disbursements		(169.7)	(161.7)
Net revenue for the Consolidated Fund		436.1	413.2

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 167 to 182 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2018 £bn	2017 £bn
Non-current assets			
Receivables falling due after one year	4.1	1.5	1.3
Current assets			
Receivables	4.1	21.9	20.5
Accrued revenue receivable	4.1	111.6	99.6
Total current assets		133.5	120.1
Total assets		135.0	121.4
Current liabilities			
Payables	5	19.6	17.1
Accrued revenue payable	5	33.4	31.9
Deferred revenue	5	1.8	1.8
Cash and other payables	5.1	1.3	0.9
Total current liabilities		56.1	51.7
Assets less current liabilities		78.9	69.7
Non-current liabilities			
Provision for liabilities	7	18.8	14.2
Net assets		60.1	55.5
Movements on Consolidated Fund account:			
Balance on Consolidated Fund account as at 1 April		55.5	51.6
Net revenue for the Consolidated Fund		436.1	413.2
Less amount paid to Consolidated Fund		(431.5)	(409.3)
Balance on Consolidated Fund account		60.1	55.5

Jon Thompson

Accounting Officer

6 July 2018

The notes at pages 167 to 182 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	Note	2018 £bn	2017 £bn
Net cash flow from operating activities	A	431.1	410.0
Cash paid to the Consolidated Fund		(431.5)	(409.3)
Increase/(decrease) in cash in this period	B	(0.4)	0.7

Notes to the Statement of Cash Flows

A: Reconciliation of net cash flow to movement in net funds

For the year ended 31 March	2018 £bn	2017 £bn
Net revenue for the Consolidated Fund	436.1	413.2
(Increase)/decrease in non-cash assets	(13.6)	(5.9)
Increase/(decrease) in current liabilities	4.0	1.3
Increase/(decrease) in provision for liabilities	4.6	1.4
Net cash flow from operating activities	431.1	410.0

B: Analysis of changes in net funds

For the year ended 31 March	2018 £bn	2017 £bn
Increase/(decrease) in cash in this period	(0.4)	0.7
Net funds as at 1 April (opening bank balance)	(0.9)	(1.6)
Net funds as at 31 March (closing bank balance)	(1.3)	(0.9)

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 2017-18 Financial Reporting Manual issued by HM Treasury
- International Financial Reporting Standards 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 2017-18. 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 financial information presented is rounded to the nearest £0.1 billion, except for Scottish rate of income tax which is reported to the nearest £0.01 billion. In addition, Certificates of Tax Deposit, Isle of Man, and revenue are rounded to the nearest £1 million, due to the much smaller amounts disclosed in these notes.

1.2 Accounting convention

The Trust Statement has been prepared in accordance with historical cost convention. The majority of taxes and duties are accounted for on an accruals basis. As agreed with HM Treasury, Corporation Tax for smaller companies that do not pay by instalment and Capital Gains Tax are accounted for on a partial accruals basis, hence there is no accrued revenue receivable estimate in the Statement of Financial Position for these taxes. Stamp Duty and National Insurance Classes 1A and 1B are accounted for on a cash basis as also agreed with HM Treasury. In addition, some repayments are accounted for on a cash basis. Student Loans are also accounted for on a cash basis to reflect HMRC's role in the collection of Student Loan recoveries on behalf of the Department for Education. Accounting for these elements on a cash basis does not have a material impact on revenue.

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 7 provides an explanation of provisions and contingent liabilities. Revenues are deemed to accrue evenly over the period for which they are due.

The tax gap is not recognised in the Trust Statement. The tax gap is the difference between the amount of tax that should, in theory, be collected by HMRC (the theoretical liability), against what is actually collected. 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

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.

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.

Further accounting policies are explained under the relevant notes (starting at note 2).

2. Accounting policies and analysis

2.1 Income tax

For the year ended 31 March	2018 £bn	2017 £bn
Self Assessment	32.7	24.5
Other income tax revenue (including PAYE)	153.3	149.3
Total	186.0	173.8

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.

Given the significance of the new Scottish income tax arrangements a full disclosure note appears at note 13.

2.2 Value Added Tax

For the year ended 31 March	2018 £bn	2017 £bn
Gross revenue	215.0	206.8
Less: revenue repayable	(86.4)	(82.4)
Net revenue	128.6	124.4

The taxable event for Value Added Tax (VAT) 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

For the year ended 31 March	2018 £bn	2017 £bn
Total	53.3	51.1

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	2018 £bn	2017 £bn
Total	27.9	28.0

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	2018 £bn	2017 £bn
Stamp Duty Land Tax	12.9	11.4
Stamp Duty Reserve Tax	2.8	2.8
Stamp Duty	0.7	1.0
Annual Tax on Enveloped Dwellings	0.2	0.2
Total	16.6	15.4

Excludes Scottish Land and Buildings Transaction Tax which is devolved to Scotland and not accounted for in this Trust Statement.

The taxable event for stamp taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) is the purchase of property and additional residential properties or shares.

Stamp Duty revenues and repayments are recognised on a cash basis.

2.6 Alcohol duties

For the year ended 31 March	2018 £bn	2017 £bn
Wine, cider and perry	4.5	4.5
Beer	3.5	3.4
Spirits	3.5	3.4
Total	11.5	11.3

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	2018 £bn	2017 £bn
Cigarettes	7.3	7.4
Hand rolling tobacco	1.4	1.2
Cigars	0.1	0.1
Total	8.8	8.7

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 Capital Gains Tax

For the year ended 31 March	2018 £bn	2017 £bn
Total	7.8	8.4

The taxable event for Capital Gains Tax is the disposal of a chargeable asset leading to a taxable gain. Repayments for Capital Gains Tax are made principally on a cash basis and are recognised in the period the repayment is made.

2.9 Insurance Premium Tax

For the year ended 31 March	2018 £bn	2017 £bn
Total	6.2	4.5

The taxable event for Insurance Premium Tax (IPT) is the tax on premiums received under taxable insurance contracts. Any insurer receiving premiums in relation to taxable insurance contracts is engaged in a taxable business for the purposes of IPT.

2.10 Other taxes and duties

For the year ended 31 March	Note	2018 £bn	2017 £bn
Inheritance Tax		5.5	5.2
Air Passenger Duty		3.4	3.1
Customs Duties		3.2	3.6
Betting and gaming duties		2.9	2.7
Apprenticeship Levy	2.10.1	2.6	–
Bank Levy		2.5	3.9
Climate Change Levy		1.8	1.8
Bank Surcharge		1.7	1.5
Landfill Tax ¹		0.7	0.9
Aggregates Levy		0.3	0.4
Diverted Profits Tax		0.2	0.1
Capital taxes (UK Swiss agreement)		0.1	–
Petroleum Revenue Tax		(0.4)	(0.2)
Total		24.5	23.0

¹ Excludes Scottish Landfill Tax which is devolved to Scotland and is not accounted for in this Trust Statement.

2.10.1 Apprenticeship Levy

Apprenticeship Levy was announced at the Summer Budget 2015, and took effect from 6 April 2017. Legislation was introduced in the 2016 Finance Act to provide a levy chargeable on employers and payable through the PAYE scheme.

Revenue for 2017-18 represents the first full year of Apprenticeship Levy activity.

HMRC discloses the costs of administering the Levy and corresponding recharge of costs to the Education and Skills Funding Agency in its fees and charges table within the Annual Report on page 149.

3. Other revenue, income and disbursements (additional information)

3.1 National Insurance Contributions

For the year ended 31 March	Note	2018 £bn	2017 £bn
National Insurance Fund Great Britain (NIF GB)		102.6	97.0
National Insurance Fund Northern Ireland (NIF NI)		2.0	1.9
National Health Services (NHS)		25.9	23.6
Total National Insurance Contributions (NICs)		130.5	122.5
NIC losses	4.3	(0.5)	(0.5)
NICs due to NIF and NHS		130.0	122.0

National Insurance Contributions (NICs) are collected by HMRC on behalf of the National Insurance Funds (NIF) of Great Britain and Northern Ireland and the Health Services for England, Wales, Scotland and Northern Ireland. They are payable to the NIF 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 and 1B 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.

Please see the Resource Accounts, Consolidated Statement of Changes in Taxpayers' Equity, pages 188-189.

3.3 Student Loan recoveries

HMRC collects Student Loans on behalf of the Department for Education (DfE). The majority of Student Loans are collected through the PAYE tax system. An element of Student Loans are collected through the Self Assessment tax system. Any difference between the cash received and the cash paid to the DfE is shown as a payable (note 5 – other revenue payables).

3.4 Fines and penalties

This consists of income arising from the levying of tax fines and penalties. Penalties relating to NICs are accounted for as NIC income and paid over to the National Insurance Fund.

3.5 Taxation due to 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). As the IoM agreed share was more than the revenue collected and retained by the IoM, this resulted in the UK making payments to the IoM to ensure the IoM received the correct revenue. This will be shown as a disbursement. Where the IoM collect and retain more than the sharing agreement, the IoM will make payments to the UK. This will be shown as other revenue and income.

For 2017-18, payments to the IoM totalled £174 million and in 2016-17 £163 million.

4. Receivables, accrued revenue receivable and impairment charges

4.1 Receivables and accrued revenue receivable (ARR)

	Receivables as at 31 March 2018 £bn	Accrued revenue receivable as at 31 March 2018 £bn	Total as at 31 March 2018 £bn	Total as at 31 March 2017 £bn
Non-current assets				
Receivables due after one year:				
Inheritance Tax	1.5	–	1.5	1.3
Non-current assets before impairment	1.5	–	1.5	1.3
Current assets				
Receivables and ARR due within one year:				
Income tax	5.7	35.0	40.7	35.0
Value Added Tax	8.9	33.0	41.9	40.6
Corporation Tax	2.1	20.2	22.3	20.1
National Insurance Contributions	3.2	15.1	18.3	15.4
Other taxes and duties	8.9	8.3	17.2	15.4
Current assets before impairment	28.8	111.6	140.4	126.5
Less impairment of receivables (note 4.2)	(6.9)	–	(6.9)	(6.4)
Total current assets after impairment	21.9	111.6	133.5	120.1
Total assets before impairment	30.3	111.6	141.9	127.8
Less impairment of receivables (note 4.2)	(6.9)	–	(6.9)	(6.4)
Total assets after impairment	23.4	111.6	135.0	121.4

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. Receivables are shown net of impairments in accordance with the requirements of IAS 39.

Accrued revenue receivable represents amounts of taxes and duties where the taxable event has occurred but the return has not been received from the taxpayer by the end of the reporting period. For taxes where HMRC has received returns since the end of the reporting period, the department used this information to support its valuation of ARR. For those taxes where HMRC is yet to receive taxpayer returns, principally income tax (PAYE/SA) and Corporation Tax, the department has estimated ARR (see note 6).

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. HMRC undertakes a review of large postponed cases for Corporation Tax to ensure that revenue that meets the revenue recognition criteria, as set out in note 1.3 above, is recognised in the accounts. As a result, an amount of £1.7 billion (2016-17: £1.6 billion) has been included in accrued revenue receivables.

Further information on receivables can be found in the section 'our performance' - receivables, debt and losses (page 26).

4.2 Impairment of receivables

For the year ended 31 March	2018 £bn	2017 £bn
Balance as at 1 April	6.4	6.9
Increase/(decrease) in impairment of receivables	0.5	(0.5)
Balance as at 31 March	6.9	6.4

Receivables in the Statement of Financial Position are reported after impairment to reflect an amount that is likely to be collected. This amount 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.

4.3 Revenue losses

	Remissions 31 March 2018 £m	Write-offs 31 March 2018 £m	Total 31 March 2018 £m	Remissions 31 March 2017 £m	Write-offs 31 March 2017 £m	Total 31 March 2017 £m
Income tax	137	590	727	125	699	824
Value Added Tax	61	1,474	1,535	42	1,378	1,420
Corporation Tax	5	322	327	2	377	379
Alcohol duties	8	57	65	4	47	51
Tobacco duties	8	16	24	6	15	21
Capital Gains Tax	5	35	40	5	37	42
National Insurance Contributions	23	473	496	29	491	520
Fines and penalties	113	357	470	86	438	524
Other remissions and write-offs	7	46	53	4	82	86
Total revenue losses	367	3,370	3,737	303	3,564	3,867

Revenue losses occur when we formally cease collection activity. The vast majority are driven by individual and business insolvencies.

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.

Further information on losses can be found in the section 'our performance' - receivables, debt and losses (page 26).

Revenue losses – cases more than £10 million

There were 21 cases (19 cases in 2016-17) where the loss exceeded £10 million, totalling £471 million (£500 million in 2016-17). Details are shown below:

There were three write-off cases (one case in 2016-17) totalling £43 million (£18 million in 2016-17) and one remission case of £12 million relating to Missing Trader Intra-Community Fraud (MTIC). All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 12 write-offs (15 cases in 2016-17) relating to Insolvency, totalling £247 million (£372 million in 2016-17).

There was a bulk remission for SA penalties of £77 million relating to 82,830 cases, where it has been identified customers were no longer liable for SA.

There was a bulk remission of £27 million relating to 73,830 cases for multiple taxes and duties of penalties that were two years old, or older. These liabilities were considered not cost effective to pursue on a value for money basis.

There was a bulk remission of £11 million relating to 39,601 County Court cases where the majority were five years old or older. These liabilities were considered not cost effective to pursue on a value for money basis.

There was a bulk remission of £34 million relating to 5,396 cases for employer PAYE debts, which were five years old, or older, and most had ceased to trade. These liabilities were considered not cost effective to pursue on a value for money basis.

There was a bulk remission of £20 million relating to 12 VAT cases. These liabilities related to services provided by lawyers between 2009-12. There was a clear legitimate expectation that at the time these supplies were exempt from VAT. Therefore recovery was not seen to be justified nor prudent to pursue on a value for money basis.

4.4 Breakdown of impairment charges

Impairment charges are made up of revenue losses and the movement in the impairment of receivables.

For the year ended 31 March	Note	2018 £bn	2017 £bn
Increase/(decrease) in impairment of receivables	4.2	0.5	(0.5)
Revenue losses	4.3	3.7	3.9
Total impairment charges		4.2	3.4

5. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2018 £bn	Accrued revenue payable as at 31 March 2018 £bn	Deferred revenue as at 31 March 2018 £bn	Total as at 31 March 2018 £bn	Total as at 31 March 2017 £bn
Value Added Tax	2.9	12.2	–	15.1	14.5
Corporation Tax	8.8	0.9	0.3	10.0	9.9
Income tax	2.4	3.7	–	6.1	6.0
National Insurance Funds and the NHS	1.7	16.6	–	18.3	15.4
Other revenue payables	1.5	–	1.5	3.0	2.6
Payments on account	2.3	–	–	2.3	2.4
Current liabilities before cash and cash equivalents	19.6	33.4	1.8	54.8	50.8
Cash and other payables	1.3	–	–	1.3	0.9
Total current liabilities	20.9	33.4	1.8	56.1	51.7

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 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, income tax and other small taxes 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 which relate to future accounting periods.

This deferred revenue is recognised as payables on the Statement of Financial Position. There are no payables which fall due after one year.

5.1 Cash and other payables

This reflects the net position of cash in HMRC bank accounts and payments that have been authorised to issue but the money has not cleared through the banking process as of the 31 March.

6. Accruals measurement and accounting estimates

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, actual outcomes could differ from the estimates used.

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 2018 Spring Statement 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 produce 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. HMRC management believe that the levels of variation are acceptable, and any total understatement or overstatement is unlikely to exceed £6 billion, which does not affect significantly the reported position and is less than 1% of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

Each year HMRC reviews actual outturns against estimates to review the performance of its estimation models. In the last nine years the largest net overestimation has been £3 billion (0.50% of total revenue) and the largest net underestimation £5.6 billion (0.93% of total revenue). This is within the £6 billion figure quoted in the paragraph above. Due to the nature of tax legislation two of the most difficult taxes to estimate are Corporation Tax and Self Assessment income.

This uncertainty is based on a combination of evidence from the performance of the models over previous years and takes into account the changes to reflect the March 2018 Spring Statement Forecast 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

Due to late or missing submissions and for receipts relating to prior periods where the split between IT and NICs cannot be identified, some estimation of PAYE is required.

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 (SA) income tax and National Insurance Contributions Class 4

The SA accrued revenue receivable (ARR) is estimated to be £16.5 billion, this is included in the total income tax ARR of £35 billion included in note 4.1. The ARR represents amounts of tax liabilities where the taxable event has occurred but the return has not been received from the taxpayer by the end of the accounting period. The SA payment regime involves long filing and payment lags, so the ARR is proportionately much larger for SA than for PAYE and other taxes. The filing and payment lags mean that the ARR estimates for SA income tax and NIC4 are driven by Spring Statement 2018 forecasts of SA income tax and NIC4 liabilities and underlying economic determinants in these forecasts, rather than by receipts data.

The estimation process has three stages:

- (i) Estimation of accrued tax liabilities for 2017-18. Due to the nature of the SA regime, information from actual SA returns or associated tax payments relating to 2017-18 are not available at the point of estimation. The March 2018 Spring Statement SA income tax and NIC4 forecast has been revised slightly to incorporate the latest tax administration (head of duty) analysis results (see below for more information).
- (ii) Deduction from the 2017-18 accrued tax liabilities of relevant payments by 31 March 2018. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total SA receipts of income tax, NICs Class 4 and Capital Gains Tax.
- (iii) A further deduction for payments due by 31 March 2018 but not made by that date (these are included in the receivable balances). The amounts relate to payments on account due on 31 January of a given year. The breakdown of the total between income tax and NIC4 is made by statistical estimation.

There are a number of key economic factors that underpin the estimation of accrued tax liabilities set out in step (i) above. These include mixed income growth, average effective tax rate, PAYE deduction rate and dividend deduction rate. Sensitivity analysis has been applied to understand the degree of uncertainty if these variables were to change from the current estimates. For instance, a one percentage point change in all the main factors (above) would result in the ARR to change by £3.8 billion. However, based on historic data, a one percentage point change in average effective tax rate is unlikely. If the average effective tax rate changed by a 0.5 percentage point and there was a one percentage point change in the other variables, this would result in the ARR changing by £2.6 billion.

The main economic factors underpinning the SA income tax NIC4 ARR model, are mixed income growth and average effective tax rate. A one percentage point change in both of these would result in the ARR to change by £1 billion. However again, a one percentage point change in average effective tax rate is unlikely. If the average effective tax rate changed by only 0.5 percentage point and there was a one percentage point change in mixed income growth, this would result in the ARR changing by £0.5 billion.

6.4 Value Added Tax

A large amount of the VAT accrued revenue receivable and payable is based on actual receipts data and is not therefore subject to estimation uncertainty. It is necessary to estimate a small percentage as some returns relating to the current financial year are not available prior to publication of these accounts. An estimate is produced by calculating the value of these returns last year as a proportion of the total value of the returns in the preceding period last year. Those proportions are then applied to the value of returns for the corresponding period this year.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments need to be made so as to reflect VAT that is accounted for outside the process described above. These 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

The Corporation Tax ARR (CT ARR) amount of £20.2 billion is disclosed in note 4.1 includes an estimated amount of £17.4 billion. As with SA, CT payments are subject to a considerable lag, so the initial ARR estimate is subject to greater uncertainty, since there is less outturn data available. The key drivers of the ARR estimate calculations are outturn receipts to date and estimates for future levels of payments, repayments and net reallocations of past payments. Changes in these things can substantially affect the accuracy of the ARR estimates.

The CT ARR estimates are sensitive to the assumptions about levels of late payments and future payments companies will make. Increasing our assumptions about levels of late payments as a proportion of payments made in the instalments by one percentage point increases the estimate for the ARR at 31 March 2018 by £325 million. Increasing our assumptions for levels of future payments by one percentage point increases the estimate for the ARR at 31 March 2018 by £114 million.

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies pay their Corporation Tax liabilities in three instalment payments (TIPs). Therefore, separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies. A reliable accrued revenue receivable estimate for companies not making QIPs cannot be formed so is not included in the accounts.

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 changes in North Sea companies' Corporation Tax liabilities.

7. 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.

The contingent liabilities relate to legal cases for which the outcome is uncertain and HMRC consider that there is only a possible rather than probable likelihood that a payment will be required, or the amount cannot be reliably measured.

Provision for liabilities

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2017-18 £bn	Total 2016-17 £bn
Balance at 1 April 2017	7.8	6.4	14.2	12.8
Provided in the year	0.3	6.7	7.0	5.2
Provision not required written back ¹	(3.6)	–	(3.6)	(1.7)
Provision utilised in the year ¹	1.4	(0.2)	1.2	(2.1)
Balance as at 31 March 2018	5.9	12.9	18.8	14.2

¹ In respect of legal claims an accounting adjustment has been made to both "provision not required written back" and "provision utilised in the year" to reflect a repayment back to HMRC of an amount previously utilised.

Analysis of expected timing of cash flows

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2017-18 £bn
Amounts payable <5yrs	5.6	2.5	8.1
Amounts payable >5yrs	0.3	10.4	10.7
Balance as at 31 March 2018	5.9	12.9	18.8

7.1 Expenditure – movement in provisions

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2017-18 £bn	Total 2016-17 £bn
Total provided in the year	0.3	6.7	7.0	5.2
Provision not required written back	(3.6)	–	(3.6)	(1.7)
Net movement increase/(decrease)	(3.3)	6.7	3.4	3.5

7.2 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. Due to the inherent uncertainty in the estimate of the provision 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.

Provisions were reviewed during 2017-18.

Contingent liabilities

Contingent liabilities are disclosed at a value made in accordance with a best estimate based on the information available at the end of the reporting period. Those estimates are subject to change and, for some legal cases, are inherently uncertain. Regular review of the population of cases that comprises the contingent liability balance leads to cases being revalued, recognised as provisions, or removed from the contingent liability disclosures where the probability that HMRC will be required to make a payment to settle the liability is now considered to be remote.

As at 31 March 2018, HMRC has nine cases estimated to have a value of £6.0 billion (compared to 19 cases with an estimated value of £18.7 billion as at 31 March 2017) where the maximum potential tax repayment, before losses, capital allowances and other tax reliefs, is over £100 million. Each case may include a lead case with follower claimants and cover a range of heads of duty, including Corporation Tax, income tax and VAT.

The total value of estimates has reduced in 2017-18 for a variety of reasons, including revised costings, reduced likelihood of repayment and cessation of litigation action.

In general, potential claimants who may opt to follow a lead case, but are not yet known to HMRC or the Courts and which are difficult to quantify with sufficient reliability and consistency, are not recognised in the Accounts or disclosed in these notes. Potential wider adoption claims of this nature are deemed to fall outside accounting standards.

7.3 Exchequer liabilities arising from oil and gas infrastructure

There are two taxes levied on companies exploring and producing oil and gas from the UK Continental Shelf (UKCS): Petroleum Revenue Tax (PRT) and Offshore Corporation Tax (CT), the latter being comprised of two elements: Ring-fenced Corporation Tax and Supplementary Charge.

The legislation governing the losses from decommissioning costs (the Oil Taxation Act 1975) allows participators in an oil and gas field liable to PRT to carry-back decommissioning losses almost indefinitely against profits it has previously made from the field, or which previous participators in the field have made. This may result in the repayment of PRT. With respect to offshore CT, the Corporation Tax Act 2010 allows for a company's decommissioning loss to be carried back against its own historical profits dating back to April 2002. Again, this may result in a repayment of offshore CT.

Provision for oil and gas field decommissioning

A provision of £6.7 billion has been identified in the 2017-18 Trust Statement for PRT based on the estimated tax repayments by HMRC to companies incurring losses from decommissioning expenditure. This year the accounts also include a provision of £6.2 billion to reflect repayments of Offshore CT due to decommissioning losses as these are now identifiable and reliably measured (following improvements in forecasting). Therefore the total provision for oil and gas decommissioning is £12.9 billion.

These estimates are based on data from Oil and Gas Authority's (OGA) Asset Stewardship Survey and OGA's cost estimate for the decommissioning of oil and gas infrastructure from the UKCS. The economic determinants used were agreed with the Office for Budget Responsibility (OBR) at Spring Statement 2018 and the nominal rates used to discount the provision were published by HM Treasury in their Public Expenditure Statement 2017.

The provision utilised in-year is the PRT amount repaid on decommissioning expenditure in 2017-18.

8. Certificates of tax deposits

	CTD issues 2017-18 £m	CTD redemptions 2017-18 £m	CTD total 2017-18 £m	CTD total 2016-17 £m
Receipts	675	872	1,547	1,952
Payments	(682)	(870)	(1,552)	(1,947)
Net receipts/(payments)			(5)	5
Balance at 1 April			(1)	(6)
Balance at 31 March – included in (receivables)/payables			(6)	(1)

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.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 in the Statement of Financial Position in the Trust Statement.

From 23 November 2017, the CTD scheme has been closed for new purchases but existing certificates will continue to be honoured until 23 November 2023.

9. R.N. Limited

R.N. Limited is a registered company that administers, on behalf of HMRC, the holding of charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement. The company's parent undertaking and controlling party is HMRC.

R.N. Limited also holds 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. There is no designation order requiring R.N. Limited's financial statement to be consolidated within HMRC's Accounts. R.N. Limited's accounts can be viewed at Companies House.

10. 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 holds Euro deposits in relation to traders who have registered with HMRC to use the VAT Mini One Stop Shop (VAT MOSS) scheme. This entails the making of payments to HMRC who will then forward any relevant amounts onto the tax authorities in the member state(s) where the consumers of telecommunications, broadcasting and e-services are subsequently located. Neither the department nor the government have any beneficial interest in these funds.

11. 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.

12. Events after the reporting period

There are no reportable events after the reporting period. These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

13. Scottish income tax

Last year a note on the new Scottish rate of income tax appeared for the first time in the Accounts which included a provisional estimate for the financial year 2016-17. The final outturn figure for 2016-17 is now available and is shown in the note below broken down into its key components. The note finishes by providing a provisional estimate for 2017-18. This will be refined during 2018-19 as further information on revenue for the 2017-18 tax year becomes available. Updated figures will be provided in the 2018-19 Trust Statement.

13.1 Scottish rate of income tax 2016-17

The Scotland Act 2012 gave the Scottish Parliament the power to set a Scottish rate of income tax. Scottish rate of income tax (SRIT) applies to non-savings non-dividend (NSND) income. It allows the Scottish Government to change the amount of income tax that Scottish taxpayers pay and, as a result, the amount that the Scottish Government had to spend in Scotland.

SRIT replaced ten percentage points of each of the main UK rates of tax from the 2016-17 tax year. In that year the UK basic, higher and additional rates for NSND income were reduced by 10p in the pound for Scottish taxpayers. This reduction was replaced by a Scottish rate set at ten percentage points, so the overall rates paid by Scottish taxpayers remained the same as elsewhere in the UK.

A provisional estimate of £4.6 billion raised through the SRIT for 2016-17 was disclosed in last year's accounts. This reflected revenue solely relating to the ten percentage points of tax set by the Scottish Parliament, rather than all income tax paid by Scottish taxpayers. This figure was estimated as much of the actual data, for example outturn data for Self Assessment (SA), was unavailable at that point.

Now that most of the actual data is available, the final outturn figure of £4.35 billion for the funds raised through SRIT in 2016-17 is shown in table 1 below – this reflects revenue solely relating to the ten percentage points of tax set by the Scottish Parliament, rather than all income tax paid by Scottish taxpayers.

Table 1 SRIT final outturn figure for the tax year ending 5 April 2017

		£bn
SA established SRIT liability*		1.45
PAYE established SRIT liability		2.94
Estimated further SRIT liability:		0.11
Less amounts estimated for:		
Adjustment for uncollectable amounts	(0.03)	
Reliefs**		
Relief at Source (RAS)	(0.07)	
Gift Aid	(0.05)	(0.15)
Final SRIT revenue for the tax year 2016-17		4.35

* Includes an element of PAYE for SA customers

** These reliefs are those not allocated to individual taxpayer accounts.

The final outturn SRIT total above is the accrued revenue for 2016-17. In contrast to the initial provisional estimate which was calculated on a receipts aligned to liabilities basis, the final figure has been calculated using actual liabilities data. Whilst there is some minor estimation required in the calculation above where actual data remains unavailable, the final SRIT outturn figure provides a fair representation of the known tax liabilities for Scottish taxpayers in any given year. This is because HMRC has established approximately 97% of the tax liabilities for the year by the time the final outturn position is published.

A detailed explanation of how the final 2016-17 SRIT figure has been calculated, including those elements where an element of estimation has been required, is outlined in the HMRC Technical Note 'Scottish income tax: figures in the 2018 HMRC Accounts' – www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2017-to-2018. However, the key headings in table 1 are described below:

SA established SRIT liability

In table 1 above, the 'income tax liability for all individuals in SA' is established once their tax calculation has been conducted in SA by multiplying the NSND income, net of reliefs, by ten percent. This includes any individual in SA who also have had tax deducted at source from their pay or pension through PAYE.

PAYE established SRIT liability

For individuals who are in PAYE but not in SA, their income tax liability is established when their PAYE account is reconciled. For 2016-17 the liability for each Scottish individual in PAYE was calculated to show how much gross income tax was due at the basic rate and the higher rate of tax. No additional rate taxpayers are reconciled in PAYE, instead their liabilities are calculated through SA. For each individual, net SRIT and rest of the UK liabilities are calculated by allocating tax reliefs to SRIT and UK income tax proportionately, based on their gross liabilities. Total PAYE established SRIT liabilities is then calculated by summing the net SRIT amount across all Scottish taxpayers.

Estimated further SRIT liability

Although most of the 2016-17 tax liabilities have been established, there will still be some outstanding amounts identified which will be collected after the publication of the 2017-18 Accounts. In table 1 HMRC have estimated how much of the remaining liability it expects to collect based on a sample of HMRC taxpayer data over the years 2009-10 to 2015-16 to establish the historic pattern of liabilities reported late. There will be a small proportion of the SRIT liability that is never collected (as is the case with UK-wide revenues). This is shown separately as 'adjustment for uncollectable amounts' and comprises two elements.

- Adjustment for uncollected SA amounts is estimated based on the same sample of HMRC taxpayer data in the paragraph above and by applying the average from these historic collection rates to the established and unestablished SA liabilities as at April 2018.
- Adjustment for uncollected PAYE amounts is estimated by analysing data for the last four years and the PAYE schemes, who are known to have had an amount remitted or written off by April 2018. RTI data is then analysed for each of these PAYE schemes to calculate what proportion of total tax collected by these schemes is in respect of Scottish taxpayers in order to allocate the uncollected amount proportionally between SRIT and the rest of the UK.

Two tax reliefs also need to be factored into the calculation - 'Gift Aid' and pensions tax relief paid under the 'Relief at Source (RAS)' process.

- Gift Aid - An estimate of the Scottish taxpayer share of donations on which Gift Aid has been reclaimed has been made based on repayments made to charities up to April 2017, combined with a forecast of how much is expected after April 2017. The SRIT share has been calculated by analysing donations and postcode data.
- Pensions RAS - As part of the transitional arrangements until 2018-19, HMRC needs to estimate the amount of RAS tax relief which is attributable to Scottish taxpayers and include this in the calculation. After this point, it will be possible to use actual information from pension firms. The RAS for pension contributions in this SRIT calculation is determined by using information from annual returns and identifying individual contributions made by scheme members who have a Scottish postcode.

13.2 Scottish income tax 2017-18 onwards

The Scotland Act 2016 further enhanced the Scottish Parliament's tax raising powers, allowing the Scottish Parliament to set and change its own tax rate bands and limits, introduce new ones, and include a zero rate to all NSND income tax paid by Scottish taxpayers. These enhanced powers were introduced from tax year 2017-18.

In 2017-18 Scottish income tax rates and thresholds were set at the same levels as those applicable elsewhere in the UK, with the exception of the higher rate threshold which was set at £43,000 in contrast to the £45,000 level for taxpayers elsewhere in the UK. These further Scottish income tax powers also ensure that all monies (i.e. not just the ten percentage points represented by SRIT) in respect of Scottish income tax go to the Scottish Government.

The provisional estimate of revenue raised from Scottish income tax in 2017-18 is £11.9 billion. This figure has been estimated because actual data is unavailable, for example in respect of SA revenue for the 2017-18 tax year where minimal disclosure has been made to HMRC, and PAYE revenue for taxpayers whose accounts have not been reconciled before this document is published. It also includes estimates for the impact of budget measures, Gift Aid and other effects, such as the High Income Child Benefit Charge and broader demographic changes before the amount is apportioned between Scotland and the remainder of the UK.

The Scottish share of income tax liabilities is estimated using a simulation model based on the HMRC Survey of Personal Incomes which reflects data collected in 2015-16.

The methodology behind the estimate is broadly similar to that used for estimating the SRIT 2016-17 revenue. However, the estimate reflects the extension of income tax powers to all NSND income and the 2017-18 Scottish higher rate threshold differing from that for taxpayers elsewhere in the UK.

Further information available during 2018-19 will allow refinement of these calculations. Updated figures will be disclosed in the 2018-19 Trust Statement, allowing a final reconciliation for the prior tax year.

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 2018 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 2017-18.
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 8). 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 7(2) of the Government Resources and Accounts Act 2000 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.

Ian Bulmer

Deputy Director,

Government Financial Reporting

Her Majesty's Treasury

19 December 2017

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

For the year ended 31 March 2018

This statement summarises the expenditure incurred and income generated on an accruals basis. Other comprehensive expenditure and income includes changes to the values of non-current assets that cannot yet be recognised as income or expenditure.

Consolidated Statement of Comprehensive Net Expenditure

	Note	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Cash items:					
Personal tax credits	4.1	26,363.0	26,363.0	27,143.6	27,143.6
Corporation tax reliefs	4.4	3,702.9	3,702.9	3,379.7	3,379.7
Child Benefit		11,691.9	11,691.9	11,654.1	11,654.1
Tax-Free Childcare		28.8	28.8	—	—
Staff and related costs		2,507.7	2,539.7	2,526.6	2,532.3
Service charges		292.4	292.4	661.7	661.7
Goods and services		760.8	724.1	518.1	507.1
Payments in lieu of tax relief and rates		165.8	165.8	137.8	137.8
Other cash expenditure		233.8	234.5	243.7	243.3
Non-cash items:					
Transfer of personal tax credit receivables to DWP		44.1	44.1	39.4	39.4
Other		372.5	373.3	333.0	336.7
Total operating expenditure	2	46,163.7	46,160.5	46,637.7	46,635.7
Total operating income	5	227.7	224.5	438.0	436.0
Net operating expenditure		45,936.0	45,936.0	46,199.7	46,199.7
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs:					
Net gain/(loss) on:					
— revaluation of property, plant and equipment		(1.9)	(1.9)	5.9	5.9
— revaluation of intangible assets		28.0	28.0	2.5	2.5
Total comprehensive expenditure for the year		45,909.9	45,909.9	46,191.3	46,191.3

The notes on pages 190 to 217 form part of these accounts.

Consolidated Statement of Financial Position

As at 31 March 2018

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.

Consolidated Statement of Financial Position

	Note	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Non-current assets:					
Property, plant and equipment	6	495.2	495.6	527.9	528.5
Intangible assets	7	1,247.6	1,247.6	1,233.0	1,233.0
Receivables	10	1,466.5	1,456.8	1,674.7	1,664.8
Total non-current assets		3,209.3	3,200.0	3,435.6	3,426.3
Current assets:					
Inventories		2.3	2.3	1.9	1.9
Trade and other receivables	10	1,584.8	1,586.2	1,680.5	1,680.0
Cash and cash equivalents	11	69.4	69.4	41.2	41.2
Total current assets		1,656.5	1,657.9	1,723.6	1,723.1
Total assets		4,865.8	4,857.9	5,159.2	5,149.4
Current liabilities:					
Trade and other payables	12	4,160.4	4,148.6	3,843.6	3,830.1
Provisions	13	88.0	91.9	90.2	93.9
Total current liabilities		4,248.4	4,240.5	3,933.8	3,924.0
Total assets less current liabilities		617.4	617.4	1,225.4	1,225.4
Non-current liabilities:					
Payables	12	252.3	252.3	283.2	283.2
Provisions	13	72.0	72.0	64.7	64.7
Pension liability	14	(10.4)	(10.4)	(1.1)	(1.1)
Total non-current liabilities		313.9	313.9	346.8	346.8
Total assets less total liabilities		303.5	303.5	878.6	878.6
Taxpayers' equity and other reserves:					
General fund		192.3	192.3	769.8	769.8
Revaluation reserve		100.9	100.9	107.7	107.7
Pension reserve		10.4	10.4	1.1	1.1
Total equity		303.6	303.6	878.6	878.6

Jon Thompson

Accounting Officer

6 July 2018

The notes on pages 190 to 217 form part of these accounts.

Consolidated Statement of Cash Flows

For the year ended 31 March 2018

This statement shows the changes to the department's cash and cash equivalents during the reporting period. It shows how the department generates and uses these by classifying cash flows as operating, investing and financing activities. Cash flows arising from financing activities include Parliamentary Supply.

Consolidated Statement of Cash Flows

	Note	2017-18 £m	2016-17 £m
Cash flows from operating activities			
Net operating expenditure		(45,936.0)	(46,199.7)
Adjustments for non-cash transactions	2	417.4	376.1
(Increase)/decrease in trade and other receivables ¹		316.5	(224.7)
Personal tax credits receivables, adjusted for impairment, transferred to DWP	4.2	(44.1)	(39.4)
(Increase)/decrease in inventories		(0.4)	0.1
Increase/(decrease) in trade and other payables ¹		301.3	465.8
Use of provisions	13	(31.6)	(17.5)
Net cash outflow from operating activities		(44,976.9)	(45,639.3)
Cash flows from investing activities			
Additions to property, plant and equipment	6	(64.2)	(64.3)
Less additions to leased property, plant and equipment		1.0	7.6
Additions to intangible assets	7	(243.0)	(281.4)
Less additions to leased intangible assets		–	–
Proceeds of disposal of property, plant and equipment		0.1	0.5
Proceeds of disposal of intangible assets		–	–
Net cash outflow from investing activities		(306.1)	(337.6)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		15,534.2	15,319.9
From the Consolidated Fund (Supply) – prior year		–	–
From the Consolidated Fund (non-Supply)		–	–
From the Trust Statement		29,484.3	30,392.3
From the National Insurance Fund		318.0	299.0
Net financing from the Contingencies Fund and the National Loans Fund		–	–
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(24.3)	(30.6)
Net financing		45,312.2	45,980.6

Continued

	Note	2017-18 £m	2016-17 £m
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		29.2	3.7
Payments of amounts due to the Consolidated Fund		(1.0)	(1.4)
Excess cash paid to the Consolidated Fund		—	—
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		28.2	2.3
Cash and cash equivalents at the beginning of the period	11	41.2	38.9
Cash and cash equivalents at the end of the period	11	69.4	41.2

1 Figures are net of items not passing through the Consolidated Statement of Comprehensive Net Expenditure.

The notes on pages 190 to 217 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2018

This statement shows the movement in the year on the different reserves held by the department, analysed into General Fund, revaluation and pension reserves. The General Fund represents the total assets less liabilities of the department, to the extent that it is not represented by other reserves and financing items. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure. The pension reserve represents changes in the underlying assumptions used by the actuaries to determine the valuation of pension scheme liabilities, such as financial assumptions, market expectations, mortality rates and projected salaries.

Consolidated Statement of Changes in Taxpayers' Equity

	Note	Core department and agency				Departmental group			
		General Fund £m	Revaluation reserve ¹ £m	Pension reserve ² £m	Total reserves £m	General Fund £m	Revaluation reserve ¹ £m	Pension reserve ² £m	Total reserves £m
Balance at 31 March 2016		911.7	137.7	(7.8)	1,041.6	911.7	137.7	(7.8)	1,041.6
Net Parliamentary funding – drawn down		15,319.9	–	–	15,319.9	15,319.9	–	–	15,319.9
Net Parliamentary funding – deemed ³		37.4	–	–	37.4	37.4	–	–	37.4
Funding from Trust Statement ⁴		30,392.3	–	–	30,392.3	30,392.3	–	–	30,392.3
National Insurance Fund		307.8	–	–	307.8	307.8	–	–	307.8
Supply (payable)/receivable adjustment		(41.1)	–	–	(41.1)	(41.1)	–	–	(41.1)
Income payable to the Consolidated Fund		(0.5)	–	–	(0.5)	(0.5)	–	–	(0.5)
Net expenditure for the year		(46,199.7)	–	–	(46,199.7)	(46,199.7)	–	–	(46,199.7)
Other net comprehensive expenditure:									
Revaluation of property, plant and equipment		–	5.9	–	5.9	–	5.9	–	5.9
Revaluation of intangible assets		–	2.5	–	2.5	–	2.5	–	2.5
Transfer between reserves		40.2	(38.4)	(1.8)	–	40.2	(38.4)	(1.8)	–
Pension reserve actuarial (losses)/gains		–	–	9.9	9.9	–	–	9.9	9.9
Contributions to LGPS pension fund by DWP		–	–	0.8	0.8	–	–	0.8	0.8
Non-cash charges – auditor's remuneration	2	1.8	–	–	1.8	1.8	–	–	1.8
Balance at 31 March 2017		769.8	107.7	1.1	878.6	769.8	107.7	1.1	878.6

Continued

	Note	Core department and agency				Departmental group			
		General Fund £m	Revaluation reserve ¹ £m	Pension reserve ² £m	Total reserves £m	General Fund £m	Revaluation reserve ¹ £m	Pension reserve ² £m	Total reserves £m
Balance at 31 March 2017		769.8	107.7	1.1	878.6	769.8	107.7	1.1	878.6
Net Parliamentary funding – drawn down		15,534.2	–	–	15,534.2	15,534.2	–	–	15,534.2
Net Parliamentary funding – deemed ³		41.1	–	–	41.1	41.1	–	–	41.1
Funding from Trust Statement ⁴		29,484.3	–	–	29,484.3	29,484.3	–	–	29,484.3
National Insurance Fund		332.8	–	–	332.8	332.8	–	–	332.8
Supply (payable)/receivable adjustment		(69.3)	–	–	(69.3)	(69.3)	–	–	(69.3)
Income payable to the Consolidated Fund		(1.0)	–	–	(1.0)	(1.0)	–	–	(1.0)
Net expenditure for the year		(45,936.0)	–	–	(45,936.0)	(45,936.0)	–	–	(45,936.0)
Other net comprehensive expenditure:									
Revaluation of property, plant and equipment		–	(1.9)	–	(1.9)	–	(1.9)	–	(1.9)
Revaluation of intangible assets		–	28.0	–	28.0	–	28.0	–	28.0
Transfer between reserves		34.6	(32.9)	(1.7)	–	34.6	(32.9)	(1.7)	–
Pension reserve actuarial (losses)/gains		–	–	10.1	10.1	–	–	10.1	10.1
Contributions to LGPS pension fund		–	–	0.9	0.9	–	–	0.9	0.9
Non-cash charges – auditor's remuneration	2	1.8	–	–	1.8	1.8	–	–	1.8
Balance at 31 March 2018		192.3	100.9	10.4	303.6	192.3	100.9	10.4	303.6

1 The 31 March 2018 balance comprised £44.2 million in relation to property, plant and equipment assets (31 March 2017 £54.9 million, 1 April 2016 £67.3 million) and £56.7 million in relation to intangible assets (31 March 2017 £52.8 million, 1 April 2016 £70.4 million).

2 The pension reserve is in respect of VOA employees who are members of the Local Government Pension Scheme (LGPS).

3 This is any Supply drawn down in the previous year but not spent at that year-end and, therefore, is available to be spent in subsequent financial year.

4 Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement. Please see the Statement of Revenue, Other Income and Expenditure in the Trust Statement, page 164.

The notes on pages 190 to 217 form part of these accounts.

Notes to the departmental Resource Accounts

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

These financial statements have been prepared in accordance with the 2017-18 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, HM Revenue and Customs has applied the most appropriate to give a true and fair view.



www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018

1.2 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets.

1.3 Basis of consolidation

This account consolidates the results of the bodies falling within the departmental boundary as defined by the FReM. For HMRC these are core department, Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd).

1.4 Tax credits

1.4.1 Personal tax credits

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 award year (6 April to 5 April) and adjustments in respect of an estimate of the finalisation occurring following the year-end. The department's statisticians provide a range for the likely outcome of the finalisations and the mid-point of this range has been included as a receivable in the Account.

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 we have an existing receivable balance for a customer the underpayment is firstly offset against the receivable. Overpayments are treated as 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 4.

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 in the Losses Statement.

DWP has taken on the receivable balance associated with personal tax credits for customers who have made a claim to Universal Credit (UC). This balance is net of historic impairment. The receivable balance started to transfer in April 2016 and is planned to continue to transfer over the coming years as more customers move to UC. In line with the Government Financial Reporting Manual this transfer has been treated as a capital grant in kind and disclosed as such throughout the Financial Statements.

1.4.2 Corporation tax reliefs

The value of corporation tax reliefs (see note 4.4) 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 claims can be received up to 24 months after the accounting period end. 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.

1.5 Child Benefit

Child Benefit expenditure is recognised in the financial year a claim for Child Benefit is approved.

Where under or overpayments are identified adjustments are made to expenditure, with receivables and payables recognised appropriately. Overpayments are treated as receivables and the department seeks to recover these from future benefit entitlement or through direct repayment.

The Losses Statement is reported in the Accountability Section on page 147. Receivables which are deemed irrecoverable are remitted or written-off in accordance with the department's normal remission policy, and recorded as remissions and losses in the Losses Statement.

1.5.1 Child Benefit error and fraud

HMRC measures the overall level of error and fraud by investigating a random sample of claims, selected to be representative of the Child Benefit population.

1.6 Non-current assets

1.6.1 General

A £5,000 capitalisation threshold applies to all non-current assets except for furniture, vehicles, IT hardware, software licences and website development costs which are capitalised regardless of cost and accommodation refurbishments which are capitalised once costs exceed £150,000. 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.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets under construction are recorded at cost. Non-property assets are valued on a depreciated historical cost basis as a proxy for fair value had indices been applied, as they are of low value with short lives.

Assets are stated at cost less accumulated depreciation/amortisation and impairment losses. These are depreciated/ amortised at rates calculated to write them down to estimated residual values on a straight-line basis over their useful lives. All intangible assets are assessed to have a finite useful life over which they are amortised. Asset useful lives are normally in the following ranges:

Asset category – property, plant and equipment	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	Remainder of the lease
Office equipment	5 to 20 years
Computer equipment	4 to 7 years
Vehicles	5 to 8 years
Furniture and fittings	15 years
Scientific aids	3 to 10 years

Asset category – intangible assets	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

The useful life of all assets is considered on an annual basis and changed if required.

A formal impairment review is undertaken on an annual basis for buildings, accommodation refurbishments and developed computer software assets.

1.6.2 Property, plant and equipment

Property

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 contract. The interest element of the finance lease payment is charged to expenditure over the period of the lease at a constant rate in relation to the balance outstanding.

Private Finance Initiative (PFI) transactions where the department has control within a contract and a material residual interest, 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 Consolidated Statement of Comprehensive Net Expenditure, financing and service charges 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 20 year PFI contract (see note 9.2) and these assets have been capitalised as finance leases. Only buildings have been treated as finance leases and the related land has been treated as operating leases. The department has also capitalised other PFI property interests as finance leases being service concession arrangements. 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 where appropriate.

Buildings to which we are contracted under Building our Future locations strategy are operating leases. Further such leases will be reviewed on a case-by-case basis to ensure they are classified correctly.

Property assets have been stated at fair value using professional valuation on a rolling five year programme, all assets will be professionally revalued within this time period. The basis of the valuation is in accordance with the professional

standards of the Royal Institute of Chartered Surveyors: RICS Valuation – Global Standards 2017 and the RICS Valuation – Professional Standards UK (January 2014, revised April 2015). Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuers Standards.

IT

The IT non-current assets recognised by our IT partners and used in providing the IT service to the department have been capitalised as finance leases 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 VOA 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 VOA. Whilst consolidated figures will report the correct aggregate position this difference in approach is to be noted.

From 1 December 2015, RCDTS Ltd have taken over the provision of the management of third-party supplier contracts for IT hardware, software, service and consumables from our IT partners. As part of this service, IT hardware is purchased by RCDTS Ltd on behalf of the department and capitalised within these Accounts.

Assets under construction

Assets under construction are separately reported in note 6. In respect of the Building our Future locations strategy, this includes accommodation refurbishment and furniture assets. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and depreciation commences.

1.6.3 Intangible

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 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.

Assets under construction

Intangible assets under construction relate to software development by the department, our IT partners and RCDTS Ltd. Intangible assets under construction are separately reported in note 7. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and amortisation commences.

1.7 Pensions

1.7.1 Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS) known as Alpha, are unfunded and contributory. The departmental group recognises the expected cost of these elements. This is determined systematically and rationally over the period during which we benefit from employees' services by payment to the PCSPS and CSOPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and CSOPS. Further information can be found within the accounts of Civil Service Pensions.



Civil Service Pensions

www.civilservicepensionscheme.org.uk/about-us/resource-accounts/

1.7.2 Local Government Pension Scheme

A number of the Valuation Office Agency employees are members of the Local Government Pension Scheme.



Further information can be found within the Valuation Office Agency accounts (HC 1282) that can be viewed at www.gov.uk/government/organisations/valuation-office-agency

1.7.3 Partnership pensions

The partnership pension account is a stakeholder pension arrangement with employees able to choose a stakeholder pension product from a panel of providers.

1.7.4 Aviva Friends Life plc

A number of RCDTS Ltd employees are members of the Aviva Friends Life plc pension scheme.

 Further information will be found within the RCDTS Ltd accounts available at Companies House at: www.gov.uk/government/organisations/companies-house by 31 December 2018.

1.8 Provisions and Contingent liabilities

The department discloses provisions and contingent liabilities in excess of the de minimis limit for reporting of £0.1 million.

Where the time value of money is significant, provisions and contingent liabilities are stated at discounted amounts, as directed by Public Expenditure System (PES) (2017) 10 revised.

1.8.1 Early departure costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who have taken early departure or retirement under the Civil Service Compensation Scheme. The department has made provision in full for early retirement costs. The estimated risk-adjusted cash flows are discounted at 0.10% as set by HM Treasury (2016-17: 0.24%).

1.8.2 Remote contingent liabilities

For Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, are disclosed separately, in accordance with the requirements of Managing Public Money. Remote contingent liabilities are reported in the Accountability Section on page 150.

 **Public Expenditure Statistical Analyses 2017**
www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2017

1.9 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 VAT 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. Non-recoverable 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.

1.10 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 Child Tax Credit and Working Tax Credit. 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 available 2017-18 outturn figures as well as a number of assumptions, including the expected effects of new policy on current and future years and the impact on live tax credit awards of the migration of customers to Universal Credit. It is therefore subject to uncertainty and the estimate disclosed in note 4.2 represents the mid-point of the range (see note 1.4.1).

Estimates for the split of Child Tax Credit and Working Tax Credit (see note 4) are derived by modelling the tax credits systems and financial data.

Personal tax credits error and fraud

In arriving at our personal tax credits estimates we consider two types of uncertainty - variance, which is a consequence of the sample size, and bias. In particular, we seek to manage the risk of potential bias through customer non-response in several ways including; ensuring that compliance officers are in a position to make a valid decision without customer response, completion of extensive quality checks of error and fraud cases, and monitoring of the outcome of non-response cases against those where customers do respond.

For error and fraud in the claimant's favour, the difference in the proportion of cases that are incorrect is not statistically significant. Consequently HMRC have no concerns about non-response causing bias in the statistics for error and fraud favouring the claimant.

For error in HMRC's favour, the difference in the proportions is statistically significant, but for HMRC to consider making an adjustment we would need a high level of certainty that we would find more errors on these cases if the customer did respond, and no evidence is held to suggest this.

Consequently, no adjustment is made to the estimate of error and fraud favouring the claimant to account for non-response.

Child Benefit error and fraud

The Child Benefit Error & Fraud Analytical Programme (EFAP) exercise took a stratified random sample of 2,700 cases which were selected to be representative of the Child Benefit population. Claims will be deemed non-compliant by HMRC compliance officers in the following circumstances:

- Group 1. The claimant replies and the information provided proves ineligibility to Child Benefit; or
- Group 2. The claimant does not reply to requests for information during the estimation exercise.

Analysis of the non-respondents (Group 2) shows that around 60 per cent of non-respondents are likely to be eligible.

For cases where error and fraud was determined from the reply (Group 1 above) several themes are apparent. In particular, there are particular error and fraud risks due to violation of Full-Time Non-Advanced Education (FTNAE) status and also risks potentially related to migration.

Value of Child Benefit error and fraud and as a percentage of estimated Child Benefit expenditure

	2017-18	£m 2016-17
Group 1: Claimant reply proves ineligibility	50 (0.4%)	35 (0.3%)
Group 1 + Group 2: Claimant non-reply, assumed ineligible*	155 (1.3%)	110 (1.0%)
Removal of eligible component from Group 2	110 (0.9%)	65 (0.6%)

*includes an allowance for reinstatement of some claimants whose Child Benefit awards are terminated because they do not reply to requests for information during the estimation exercise and will subsequently provide it.

Corporation tax reliefs

As stated in note 1.4.2, corporation tax reliefs are estimated by the department's statisticians. The models are based on Corporation Tax returns to estimate the department's corporation tax relief liabilities, considering the most recent forecasts of economic variables and the nature of schemes in force for each year. The model is under continuous review to ensure it reflects experience and current economic factors. There is further detail in note 4.4.

Impairment of receivables

The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 10).

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on our analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. We assess 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 view of receivables, in effect reducing them to a value that is likely to be collected and providing for non-collectable debt.

To calculate the impairment, the receivable population is stratified into groups based on the type of debt and the collection activity being pursued, the most material of which are Cross Year Recovery and Direct Recovery. Historic recovery rates are applied to the gross carrying amount of the relevant receivables group to estimate the recoverable amount. The degree of impairment of debt is primarily linked to its age with older debts being most highly impaired.

Personal tax credit debts transferred to DWP for collection, at the point of a valid Universal Credit claim being received, are likely to be subject to lower impairment rates due to the availability of additional Direct Earning Attachment powers at the disposal of that department that are not available to HMRC.

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

Provisions and contingent liabilities

The department undertakes a quarterly review of provisions and contingent liabilities. These are estimated by appropriate business areas based on the likelihood of a liability materialising.

1.11 Impending application of newly issued accounting standards not yet effective

New and revised standards and interpretations have been issued but are not yet effective and have not therefore been adopted in this account.

The following standards - IFRS 9, IFRS 15, and amendments to IAS 7, will be adopted as applied by the FReM for 2018-19.

- IFRS 9 Financial Instruments - replaces IAS 39 Financial Instruments: Recognition and Measurement. Its core principle is to simplify the classification and measurement of financial assets, but it also considers impairment, classification and measurement of liabilities and hedge accounting.

HMRC currently only disclose personal tax credits receivables as a financial instrument. This financial asset is carried at amortised cost which is considered to be a reasonable approximation of fair value. HMRC will consider the impacts of IFRS 9 on the personal tax credits receivables balances detailed at note 4.2, specifically to assess whether the characteristics of personal tax credit receivables meet the conditions appropriate for measurement at amortised cost or should instead apply alternative options under IFRS 9 for measurement at fair value.

As part of our analysis we will review our business model for managing personal tax credit receivables, including the work we have done on strategic analysis of our customer groups from a risk perspective and the assets cash flow characteristics. This analysis will include an evaluation of how potential future events stemming from shifting

economic and social factors or policy change might impact on the impairment of our personal tax credit debt stock. To support this work, HMRC have developed the commission to all directorates to request quarterly positive evidence in respect of IFRS 9. Outside of personal tax credit receivables, HMRC do not expect the implementation of this standard to have a material impact.

HMRC will also be developing the forecasting mechanisms to account for fiscal events that might affect the financial instruments carried. Although this work still needs to be completed, the expectation is that personal tax credit receivables are likely to continue to meet the conditions that support measurement at amortised cost.

This being the case, we will also need to evaluate the credit risk characteristics of personal tax credit debt to inform our accounting policy judgements on the structure of the new IFRS 9 impairment model.

- IFRS 15 Revenue from Contracts with Customers - merges concepts from, and also replaces, IAS 11 Construction Contracts and IAS 18 Revenue. Its core principle is to ensure that an entity recognises revenue once its performance obligations under a contract have been satisfied.

HMRC are introducing a new integrated procurement system for 2018-19 that will identify appropriate contracts and their inherent performance obligations to enable revenue recognition. Since the revenue recognition point to be determined on completion of the performance obligations is unlikely to be significantly different from the application of our current policy, we are not expecting a material impact.

- IAS 7 Statement of Cash Flows - amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

HMRC do not anticipate significant changes arising from the adoption of this standard.

The date for adoption of the following standard, IFRS 16, is still to be determined by HM Treasury but our expectation is that it will be adopted as applied by the FReM for 2019-20.

- IFRS 16 Leases - replaces IAS 17 Leases and fundamentally changes the accounting treatment of leases for lessees. The current IAS 17 model which requires entities to distinguish between finance leases (on balance sheet) and operating leases (off balance sheet) will be replaced by a 'right of use' model that requires lessees to recognise nearly all leases on balance sheet with their associated liability. This will also necessitate review of existing and new contracts to identify lease and non-lease (i.e. service) elements.

HMRC have completed an impact assessment of their lease exposure and have created a project team to manage the transition to IFRS 16. HMRC are assessing live contracts to assess whether sufficient information exists to enable the assessment under IFRS 16 criteria. HMRC exposure falls primarily into two areas, Estates and IT. Key stakeholders from these business areas have been identified to assist with this work, alongside Legal and Commercial teams. HMRC continue to engage with HM Treasury to understand potential FReM adaptations to IFRS 16, and are investigating the impacts in the context of mandated adherence to IFRS and potential practical expedients upon transition.

Note 9 presents details of HMRC future lease commitments under IAS 17.

The date for adoption of the following standard, IFRS 17, is still to be determined by HM Treasury but our expectation is that it will be adopted as applied by the FReM for 2021-22.

- IFRS 17 Insurance Contracts - establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is with the European Financial Reporting Advisory Group; awaiting endorsement. Once endorsed, HM Treasury will review and implement procedures to ensure application across government. The FReM may require this to be reflected in HMRC's accounts from 2021-22.

2. Expenditure

	Note	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Personal tax credits	4.1	26,363.0	26,363.0	27,143.6	27,143.6
Corporation tax reliefs	4.4	3,702.9	3,702.9	3,379.7	3,379.7
Child Benefit					
Child Benefit ^{1, 2}		11,689.6	11,689.6	11,651.9	11,651.9
Guardian's Allowance (funded from National Insurance Fund)		2.3	2.3	2.2	2.2
		11,691.9	11,691.9	11,654.1	11,654.1
Tax-Free Childcare		28.8	28.8	—	—
Staff and related costs	Page 111				
Wages and salaries		1,870.5	1,896.8	1,871.7	1,876.1
Social security costs		186.9	189.8	175.6	176.1
Other pension costs		373.6	375.7	371.1	371.4
Less capitalised costs		(26.7)	(26.7)	(20.6)	(20.6)
Travel, subsistence and hospitality		67.2	67.8	67.8	68.1
Recruitment and training		20.6	20.7	32.4	32.6
Early severance schemes		15.6	15.6	28.6	28.6
		2,507.7	2,539.7	2,526.6	2,532.3
Service charges					
IT Public Private Partnership contract payments ³		153.2	153.2	501.0	501.0
Accommodation PFI and non-PFI contract payments		106.6	106.6	123.7	123.7
Indexation of liability on PFI deals		1.7	1.7	1.7	1.7
IT Public Private Partnership interest charges		1.4	1.4	3.7	3.7
Accommodation interest charges		29.5	29.5	31.6	31.6
		292.4	292.4	661.7	661.7
Goods and services					
Printing, postage, stationery and office supplies		54.3	54.6	63.4	63.4
Consultancy		3.5	3.6	5.2	5.2
Contracted out services		133.2	133.2	125.7	125.8
Publicity		3.3	3.3	6.2	6.2
Post Office services		4.7	4.7	8.3	8.3
Bank charges		19.6	19.6	21.3	21.3
IT services and consumables ³		436.7	398.9	171.4	160.2
Telephone expenses		41.3	42.0	50.6	50.7
Legal and investigation		38.3	38.3	45.1	45.1
Enforcement costs		25.9	25.9	20.9	20.9
		760.8	724.1	518.1	507.1

Continued

	Note	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Payments in lieu of tax relief and rates					
Life Assurance Premium Relief, MIRAS		–	–	0.1	0.1
Transitional payments to charities		40.0	40.0	40.0	40.0
Stakeholder pensions		45.0	45.0	30.0	30.0
Payments of local authority rates		80.8	80.8	67.7	67.7
		165.8	165.8	137.8	137.8
Other cash expenditure					
Accommodation expenses		107.8	107.8	112.3	112.3
National Insurance Fund other government department collection service		50.2	50.2	51.0	51.0
Shipbuilders' Relief		0.6	0.6	0.8	0.8
Hire of plant and machinery		0.3	0.3	0.3	0.3
Other operating leases		39.1	39.1	33.6	33.6
Developer Contribution		(0.8)	(0.8)	–	–
Payments to add capacity		–	–	(0.3)	(0.3)
Losses – excluding Child Benefit and personal tax credits		3.0	3.0	11.5	11.5
Special Payments		2.9	2.9	3.8	3.8
Other		30.7	31.4	30.7	30.3
		233.8	234.5	243.7	243.3
Non-cash items:					
Depreciation, amortisation and impairments					
Depreciation		80.8	80.8	77.5	77.6
Amortisation		239.0	239.0	228.9	228.9
Loss on impairment of non-current assets	8	4.2	4.2	3.7	3.7
		324.0	324.0	310.1	310.2
Provisions for liabilities and charges	13	36.3	37.0	20.7	24.3
Other non-cash					
Transfer of personal tax credits receivables to DWP		44.1	44.1	39.4	39.4
Transfer of non-current assets		2.0	2.0	–	–
Pension finance costs		1.8	1.8	1.7	1.7
Auditor's remuneration and expenses ⁴		1.8	1.8	1.8	1.8
Loss on disposal of non-current assets		4.8	4.9	0.9	0.9
Revaluation loss/(gain)		1.8	1.8	(2.2)	(2.2)
		56.3	56.4	41.6	41.6
Total non-cash items		416.6	417.4	372.4	376.1
Total operating expenditure		46,163.7	46,160.5	46,637.7	46,635.7

1 HMRC undertook a review for 2017-18 based on a random sample of 2,700 cases, selected to be representative of the Child Benefit population. As a result, HMRC estimates that error and fraud resulted in overpayments of 0.9% of Child Benefit expenditure being paid to claimants to which they were not entitled.

2 Child Benefit expenditure includes amounts paid to taxpayers earning greater than £50,000 per annum. It is estimated that £378 million (2016-17: £421 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2017-18. These income tax charges are accounted for in the Trust Statement.

3 The cessation of the Aspire contract in June 2017 required us to evaluate replacement IT contracts against the Public Private Partnership criteria. These new contracts do not meet this criteria and are therefore classified under IT services and consumables.

4 The NAO was not paid for any work of a non-audit nature during the period.

3. Statement of operating expenditure by operating segment

This note shows how resource expenditure is apportioned against the main areas of core business activity.

Each segment relates to a core business activity reported to the Chief Executive and the Board using relevant management information covering expenditure and income and which is used by the Board to make decisions.

3.1 Expenditure and income by reportable segment

	Gross expenditure	Income	2017-18 £m Net expenditure	Gross expenditure	Income	2016-17 £m Net expenditure
Reportable segment						
Customer Services	865.5	22.9	842.6	944.8	22.8	922.0
Customer Strategy and Tax Design	170.6	10.3	160.3	147.6	9.9	137.7
Customer Compliance	1,139.2	55.8	1,083.4	1,079.4	38.6	1,040.8
Solicitors Office and Legal Services	83.5	15.0	68.5	79.4	5.6	73.8
Border Coordination	2.3	—	2.3	—	—	—
Chief Digital and Information Officer Group	557.1	17.5	539.6	645.0	34.2	610.8
Chief Finance Officer Group	510.7	8.7	502.0	494.7	17.2	477.5
Chief People Officer, CEO and Corporate Communications Group	112.3	1.6	110.7	100.0	0.9	99.1
HMRC Transformation	266.3	30.1	236.2	234.7	9.9	224.8
Valuation Office Agency ¹	193.8	44.7	149.1	205.8	205.5	0.3
Total	3,901.3	206.6	3,694.7	3,931.4	344.6	3,586.8

3.2 Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

Information on all other net expenditure is included in the table below. This information is reported to the Board, however as it is centrally managed it 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.

Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

	2017-18 £m	2016-17 £m
Total net expenditure reported for operating segments	3,694.7	3,586.8
Payments in lieu of tax relief	85.0	70.1
Payments of Local Authority Rates	76.1	63.9
Child Benefit and Child Trust Fund	11,689.6	11,651.9
Personal tax credits	26,363.0	27,143.6
Corporation tax reliefs	3,702.9	3,379.7
Transfer of personal tax credits receivables to DWP	44.1	39.4
Capital grant	(17.2)	(10.0)
Depreciation/Amortisation ²	289.5	266.2
Civil Service Resourcing	—	(0.5)
Other	8.3	8.6
Net Operating Cost in Statement of Comprehensive Net Expenditure	45,936.0	46,199.7

1 In 2017-18 the VOA income has decreased significantly due to the VOA no longer receiving income from Ministry of Housing, Communities and Local Government. VOA services previously recorded as income are now classified as supply funding.

2 Excludes depreciation and amortisation relating to assets capitalised as finance leases.

4. Tax credits

Since 2011-12 both personal tax credits expenditure and certain corporation tax reliefs are reported in these Resource Accounts. Tax credits can comprise of 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. They can also contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. Personal tax credits are treated as public expenditure on social benefits for the National Accounts.

4.1 Analysis of personal tax credits expenditure

Personal tax credits consist of Child Tax Credit and Working Tax Credit.

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 is not complete until after the Account has been published and consequently there is uncertainty around the level of adjustments likely to arise. Finalisation also forms the basis for the provisional award for the subsequent year.

Analysis of personal tax credits expenditure

	Child Tax Credit	Working Tax Credit	2017-18 £m Total tax credits	Child Tax Credit	Working Tax Credit	2016-17 £m Total tax credits
Tax credits	21,180.6	5,075.6	26,256.2	21,511.4	5,444.2	26,955.6
Movement in impairment for receivables	39.3	(35.8)	3.5	119.4	(31.1)	88.3
Remissions/write-offs	74.0	29.3	103.3	74.8	24.9	99.7
Total tax credits	21,293.9	5,069.1	26,363.0	21,705.6	5,438.0	27,143.6

Please see note 1.10 for the estimation techniques used to apportion between Child Tax Credit and Working Tax Credit.



Background about the operation of personal tax credits can be found at www.gov.uk/government/organisations/hm-revenue-customs

4.2 Personal tax credits receivables

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Overpayments are treated as receivables and the department seeks to recover these from future personal tax credits awards or through direct repayment.

HMRC statisticians provide a range for the estimate of the results of the current year finalisation exercise. It is therefore subject to uncertainty and the estimate disclosed represents the mid-point of the range.

DWP has taken on the debt associated with personal tax credits for customers who have made a claim to Universal Credit (UC). The debt started to transfer in April 2016 and is planned to continue to transfer over the coming years as more customers move to UC. In line with the Government Financial Reporting Manual, this transfer has been treated as a capital grant in kind and disclosed as such throughout the Financial Statements. The debt has been calculated at fair value under IFRS 13 (Fair Value Measurement) which is the estimated value. The debt has then been impaired under IAS 36 (Impairment of Assets) and in line with HMRC and DWP policy, based on historical recoveries and write-offs.

Personal tax credits receivables

	Note	2017-18 £m	2016-17 £m
Receivables as at 1 April		7,320.6	7,098.1
Adjustment to prior year finalisation estimate		(297.8)	(187.3)
Estimated overpayment of awards prior to finalisation ¹		640.0	1,100.0
Overpayments identified from change of circumstances in year		790.2	979.2
Transferred to DWP ²		(188.0)	(145.6)
Recoveries made		(1,292.7)	(1,424.1)
Remissions/write-offs		(103.3)	(99.7)
Receivables as at 31 March		6,869.0	7,320.6
Impairment:			
– Provision		(4,220.1)	(4,322.8)
– Transferred to DWP ³		143.9	106.2
Net receivables at 31 March		2,792.8	3,104.0
Of which:			
Amounts expected to be recovered within one year	10	1,336.2	1,439.4
Amounts expected to be recovered in more than one year	10	1,456.6	1,664.6
Total		2,792.8	3,104.0

¹ The range of the estimate is £440 million to £840 million (2016-17: £900 million to £1,300 million).

Summary of receivables transferred to DWP

² Gross receivables	188.0	145.6
³ Impairments	(143.9)	(106.2)
Net receivables transferred to DWP	44.1	39.4

4.3 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. HMRC use a tried and tested estimation methodology for the calculation of the finalisation estimate supported by annual review.

In June 2018, HMRC completed its testing on finalised awards for 2016-17, based on a random sample of 4,000 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.21 billion and £1.44 billion (4.5% to 5.3% 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 of awards to which claimants were entitled of between £0.17 billion and £0.24 billion (0.6% to 0.9% of the final award by value).

4.4 Corporation tax reliefs

In certain circumstances, companies are permitted to reduce their tax liability by making a claim for corporation tax reliefs. In order to claim a relief, a company must be undertaking specific activities and meet the criteria set out for that relief. Certain corporation tax reliefs are reported in these Resource Accounts, as Annually Managed Expenditure. This treatment has been agreed with HM Treasury and relates to reliefs where there is (or could be), by virtue of their design, a payable element that is in excess of any negative taxation. Other corporation tax reliefs are reported in the Trust Statement.

Corporation tax reliefs

	2017-18 £m	2016-17 £m
Research and development tax credits – Large Companies 'Above the Line' (ATL)	1,498.5	1,379.2
Research and development tax credits – Small and Medium Enterprises	1,380.8	1,358.0
Film Tax Relief	427.8	387.2
High-end Television Tax Relief	170.0	112.2
Video Games Tax Relief	84.4	39.3
Theatre Tax Relief	52.1	44.9
Museums and Galleries Tax Relief ¹	32.5	–
Land Remediation Relief	26.6	28.5
Animation Tax Relief	14.6	11.0
Orchestra Tax Relief	10.5	10.0
Children's Television Tax Relief	5.0	7.2
Enhanced Capital Allowance	0.1	–
Vaccine Research Relief ²	–	2.2
Total	3,702.9	3,379.7

¹ This relief was introduced in 2017-18.

² This relief ceased in 2016-17.

For transparency purposes, HMRC have conducted sensitivity analysis around the most significant estimated values included above. The following table shows the impact on the estimate for Research & Development (R&D) expenditure of percentage changes in the key factors that underpin the assumptions in the calculation. The estimate includes both a cash and accruals component to account for the accruals to receipts lag. The accrual, being estimated based upon historic patterns is therefore inherently sensitive. Note 12 reports the accrual values derived from the estimation exercise.

Sensitivity analysis for R&D schemes

	Increase £m	Decrease £m
1 percentage point increase/(decrease) in value of the Office for Budget Responsibility business investment determinant for 2017-18	30	(30)
10 percentage points increase/(decrease) in total R&D expenditure incurred for Small and Medium Enterprises scheme in current year, as opposed to prior year	5	(5)
10 percentage points increase/(decrease) in total R&D expenditure incurred for Research and Development Expenditure Credit scheme in current year, as opposed to prior year	10	(10)

5. 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 is required to be paid to the Consolidated Fund. VOA services relate to income generated by the agency for the provision of valuations and property advice required to support taxation and benefits. Operating income is stated net of VAT.

Operating income

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Administration services ¹	78.7	75.5	146.1	144.1
Banking services	10.2	10.2	11.6	11.6
VOA services ²	36.5	36.5	196.9	196.9
Other income types	54.1	54.1	38.2	38.2
Subscriptions and fees	34.9	34.9	24.6	24.6
IT and telephony charges	13.3	13.3	20.6	20.6
	227.7	224.5	438.0	436.0
Of which:				
Income from services	125.4	122.2	354.6	352.6
Other operating income	102.3	102.3	83.4	83.4
Total	227.7	224.5	438.0	436.0

¹ In 2017-18 there is a significant reduction in administration services income due to Civil Service Resourcing being transferred to Cabinet Office.

² In 2017-18 the VOA the income has decreased significantly due to VOA no longer receiving Income from Ministry of Housing, Communities and Local Government. VOA services previously recorded as income are now classified as supply funding.

Please see fees and charges on pages 148-149 for lower level detail of these income streams.

6. Property, plant and equipment

	Land ¹ £m	Buildings ¹ £m	Accommodation refurbishments ¹ £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2017	52.5	533.8	163.1	322.9	19.9	55.3	53.6	3.5	1,204.6
Additions	—	—	0.7	8.8	0.7	2.9	51.1	—	64.2
Donations	—	—	—	—	—	—	—	—	—
Disposals	—	—	(2.4)	(69.4)	(2.2)	(5.8)	—	(0.4)	(80.2)
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	11.6	36.8	—	5.2	(47.5)	—	6.1
Revaluations ²	(1.5)	(7.8)	—	—	—	—	—	—	(9.3)
At 31 March 2018	51.0	526.0	173.0	299.1	18.4	57.6	57.2	3.1	1,185.4
Depreciation									
At 1 April 2017	—	(276.4)	(117.1)	(238.8)	(13.4)	(27.3)	—	(3.1)	(676.1)
Charged in year	—	(20.3)	(15.4)	(39.3)	(1.7)	(4.0)	—	(0.1)	(80.8)
Disposals	—	—	2.0	52.3	1.9	5.0	—	0.3	61.5
Impairments	—	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—	—
Revaluations ²	—	5.6	—	—	—	—	—	—	5.6
At 31 March 2018	—	(291.1)	(130.5)	(225.8)	(13.2)	(26.3)	—	(2.9)	(689.8)
Carrying amount at 31 March 2017	52.5	257.4	46.0	84.1	6.5	28.0	53.6	0.4	528.5
Carrying amount at 31 March 2018	51.0	234.9	42.5	73.3	5.2	31.3	57.2	0.2	495.6
The assets are financed as follows:									
Owned	51.0	—	42.5	68.9	5.2	31.3	57.2	0.2	256.3
Finance leased	—	—	—	4.4	—	—	—	—	4.4
PFI contracts	—	234.9	—	—	—	—	—	—	234.9
Carrying amount at 31 March 2018	51.0	234.9	42.5	73.3	5.2	31.3	57.2	0.2	495.6
Of the total:									
Core department	51.0	234.6	42.0	69.1	5.2	28.4	55.9	0.2	486.4
Valuation Office Agency	—	0.3	0.5	3.8	—	2.9	1.3	—	8.8
Revenue and Customs Digital Technology Services Limited	—	—	—	0.4	—	—	—	—	0.4
Carrying amount at 31 March 2018	51.0	234.9	42.5	73.3	5.2	31.3	57.2	0.2	495.6

	Land ¹ £m	Buildings ¹ £m	Accommodation refurbishments ¹ £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2016	52.5	528.2	166.5	326.6	20.2	50.8	25.7	5.1	1,175.6
Additions	–	–	–	14.3	1.3	4.9	43.7	0.1	64.3
Donations	–	–	–	–	–	–	–	–	–
Disposals	–	(5.9)	(4.4)	(33.3)	(1.6)	(1.4)	–	(1.7)	(48.3)
Impairments	–	(0.1)	–	(0.2)	–	–	–	–	(0.3)
Reclassifications	–	–	1.0	15.5	–	1.0	(15.8)	–	1.7
Revaluations ²	–	11.6	–	–	–	–	–	–	11.6
At 31 March 2017	52.5	533.8	163.1	322.9	19.9	55.3	53.6	3.5	1,204.6
Depreciation									
At 31 March 2016	–	(255.9)	(108.4)	(232.9)	(12.4)	(24.8)	–	(4.3)	(638.7)
Charged in year	–	(19.7)	(12.5)	(38.9)	(2.4)	(3.7)	–	(0.4)	(77.6)
Disposals	–	4.9	3.8	32.9	1.4	1.1	–	1.6	45.7
Impairments	–	0.1	–	0.1	–	–	–	–	0.2
Reclassifications	–	–	–	–	–	0.1	–	–	0.1
Revaluations ²	–	(5.8)	–	–	–	–	–	–	(5.8)
At 31 March 2017	–	(276.4)	(117.1)	(238.8)	(13.4)	(27.3)	–	(3.1)	(676.1)
Carrying amount at 31 March 2016	52.5	272.3	58.1	93.7	7.8	26.0	25.7	0.8	536.9
Carrying amount at 31 March 2017	52.5	257.4	46.0	84.1	6.5	28.0	53.6	0.4	528.5
The assets are financed as follows:									
Owned	52.5	–	46.0	56.5	6.5	28.0	53.6	0.4	243.5
Finance leased	–	–	–	27.6	–	–	–	–	27.6
PFI contracts	–	257.4	–	–	–	–	–	–	257.4
Carrying amount at 31 March 2017	52.5	257.4	46.0	84.1	6.5	28.0	53.6	0.4	528.5
Of the total:									
Core department	52.5	257.1	44.3	79.8	6.5	25.1	51.9	0.4	517.6
Valuation Office Agency	–	0.3	1.7	3.8	–	2.9	1.6	–	10.3
Revenue and Customs Digital Technology Services Limited	–	–	–	0.5	–	–	0.1	–	0.6
Carrying amount at 31 March 2017	52.5	257.4	46.0	84.1	6.5	28.0	53.6	0.4	528.5

1 See note 1.6.2 for the accounting policy for property assets.

2 See notes 1.2 and 1.6.2 for the accounting policy regarding revaluation of property, plant and equipment.

Property revaluation

Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue and Customs, whose services include providing valuation and estate surveying services to government departments.

7. Intangible assets

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2017	29.2	3,046.9	15.6	374.1	3,465.8
Additions	6.0	—	—	237.0	243.0
Disposals	(8.8)	(52.0)	—	—	(60.8)
Impairments	—	—	—	(4.2)	(4.2)
Reclassifications	25.2	258.0	3.2	(292.5)	(6.1)
Revaluation ¹	—	96.5	—	—	96.5
At 31 March 2018	51.6	3,349.4	18.8	314.4	3,734.2
Amortisation					
At 1 April 2017	(25.8)	(2,200.9)	(6.1)	—	(2,232.8)
Charged in year	(5.8)	(230.8)	(2.4)	—	(239.0)
Disposals	8.8	44.9	—	—	53.7
Impairments	—	—	—	—	—
Reclassifications	—	—	—	—	—
Revaluation ¹	—	(68.5)	—	—	(68.5)
At 31 March 2018	(22.8)	(2,455.3)	(8.5)	—	(2,486.6)
Carrying amount at 31 March 2017	3.4	846.0	9.5	374.1	1,233.0
Carrying amount at 31 March 2018	28.8	894.1	10.3	314.4	1,247.6
The assets are financed as follows:					
Owned	28.8	894.1	10.3	314.4	1,247.6
Finance leased	—	—	—	—	—
PFI contracts	—	—	—	—	—
Carrying amount at 31 March 2018	28.8	894.1	10.3	314.4	1,247.6
Of the total:					
Core department	28.8	878.6	10.3	310.0	1,227.7
Valuation Office Agency	—	15.5	—	4.4	19.9
Revenue and Customs Digital Technology Services Limited	—	—	—	—	—
Carrying amount at 31 March 2018	28.8	894.1	10.3	314.4	1,247.6

Continued

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2016	29.3	2,976.5	12.4	207.7	3,225.9
Additions	0.5	1.6	–	279.3	281.4
Disposals	(2.2)	(42.5)	–	–	(44.7)
Impairments	–	(7.3)	–	(0.9)	(8.2)
Reclassifications	1.6	104.4	3.2	(112.0)	(2.8)
Revaluation ¹	–	14.2	–	–	14.2
At 31 March 2017	29.2	3,046.9	15.6	374.1	3,465.8
Amortisation					
At 1 April 2016	(26.1)	(2,014.6)	(4.1)	–	(2,044.8)
Charged in year	(1.9)	(225.0)	(2.0)	–	(228.9)
Disposals	2.2	42.4	–	–	44.6
Impairments	–	4.6	–	–	4.6
Reclassifications	–	1.1	–	–	1.1
Revaluation ¹	–	(9.4)	–	–	(9.4)
At 31 March 2017	(25.8)	(2,200.9)	(6.1)	–	(2,232.8)
Carrying amount at 31 March 2016	3.2	961.9	8.3	207.7	1,181.1
Carrying amount at 31 March 2017	3.4	846.0	9.5	374.1	1,233.0
The assets are financed as follows:					
Owned	3.4	846.0	9.5	374.1	1,233.0
Finance leased	–	–	–	–	–
PFI contracts	–	–	–	–	–
Carrying amount at 31 March 2017	3.4	846.0	9.5	374.1	1,233.0
Of the total:					
Core department	3.4	838.4	9.5	363.1	1,214.4
Valuation Office Agency	–	7.6	–	11.0	18.6
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2017	3.4	846.0	9.5	374.1	1,233.0

¹ See notes 1.2 and 1.6.3 for the accounting policy regarding revaluation of intangible assets.

8. Impairments

The department has incurred the following impairments to non-current assets and assets held for sale during the financial year.

Impairments

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Charged to Statement of Comprehensive Net Expenditure				
Property, plant and equipment	–	–	0.1	0.1
Intangible assets	4.2	4.2	3.6	3.6
Assets held for sale	–	–	–	–
Impairment charged	4.2	4.2	3.7	3.7
Transferred from revaluation reserve				
Property, plant and equipment	0.8	0.8	–	–
Intangible assets	–	–	0.2	0.2
Assets held for sale	–	–	–	–

See note 1.6.1 for the accounting policy for impairments.

9. Capital and other commitments

9.1 Commitments under leases

Leases are categorised as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership, whereas an operating lease doesn't. 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.

9.1.1 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 other commitments relate to a number of IT and vehicle leasing contracts.

In accordance with HMRC's Building Our Future Location strategy, the operating lease balance includes the commitment for the regional centres in operation at Croydon together with commitments for "Agreements for Leases" for the other locations.

Regional Centre	Commitment value (£m)
Belfast	62.5
Birmingham	140.8
Bristol	72.9
Cardiff	126.6
Croydon	149.2
Edinburgh	110.4
Glasgow	130.8
Leeds	225.9
Liverpool	121.9
Manchester	63.6
Stratford	224.5

Obligations under operating leases

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Land and buildings				
Due within one year	98.2	98.2	85.1	85.1
Due between one year and five years	406.2	406.2	270.7	270.7
Due later than five years	1,279.0	1,279.0	268.8	268.8
	1,783.4	1,783.4	624.6	624.6
Other				
Due within one year	15.4	15.4	6.4	6.4
Due between one year and five years	24.3	24.3	11.8	11.8
Due later than five years	—	—	—	—
	39.7	39.7	18.2	18.2

9.1.2 Finance leases

The following commitments are in respect of assets that have been brought onto the department's Consolidated Statement of Financial Position 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.

Obligations under finance leases

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Buildings				
Due within one year	2.7	2.7	2.7	2.7
Due between one year and five years	6.1	6.1	8.8	8.8
Due later than five years	0.5	0.5	0.5	0.5
	9.3	9.3	12.0	12.0

9.2 Commitments under PFI and other service concession arrangements

9.2.1 Off-Statement of Financial Position

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

9.2.2 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 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 held with DWP, the building known as 100 Parliament Street and St. John's House, Bootle. They also include commitments for IT assets owned by Fujitsu to deliver the IT service contract.

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 £261.5 million (2016-17: £626.4 million). This amount is included within the figures reported in note 2 as PPP and PFI service charges.

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.

Details of the obligations for lease payments

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Minimum lease payments:				
Due within one year	47.2	47.2	61.2	61.2
Due between one year and five years	138.2	138.2	177.2	177.2
Due later than five years	295.8	295.8	313.4	313.4
Total minimum lease payments due in future periods	481.2	481.2	551.8	551.8

Details of the obligations for service elements

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Service elements due in future periods:				
Due within one year	214.6	214.6	189.2	189.2
Due between one year and five years	415.3	415.3	402.2	402.2
Due later than five years	283.5	283.5	323.7	323.7
Total service elements due in future periods	913.4	913.4	915.1	915.1
Total commitments	1,394.6	1,394.6	1,466.9	1,466.9

9.3 Capital commitments

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

Contracted capital commitments at 31 March not otherwise included in these financial statements

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Property, plant and equipment	0.4	0.4	14.1	14.1
Intangible assets	3.4	3.4	9.7	9.7
	3.8	3.8	23.8	23.8

9.4 Other financial commitments

The department has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements) for HMRC's contribution towards cross-government border group initiatives.

The payments to which the department are committed are as follows:

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Due within one year	0.1	0.1	—	—
Due between one year and five years	0.1	0.1	—	—
Due later than five years	—	—	—	—
	0.2	0.2	—	—

10. Trade receivables, financial and other assets

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Amounts expected to be received in more than one year:				
Personal tax credits	1,456.6	1,456.6	1,664.6	1,664.6
RCDS Ltd Funding ¹	9.7	—	9.9	—
Accrued income, other prepayments	0.2	0.2	0.2	0.2
	1,466.5	1,456.8	1,674.7	1,664.8
Amounts expected to be received within one year:				
Personal tax credits	1,336.2	1,336.2	1,439.4	1,439.4
Child Benefit ²	13.1	13.1	22.2	22.2
Trade receivables	5.5	5.6	5.4	5.5
Other receivables ³	30.0	30.1	10.4	10.4
Deposits and advances	23.9	23.9	55.5	55.5
Value Added Tax	15.8	15.5	17.3	17.5
Prepayments – Child Benefit	64.2	64.2	27.4	27.4
Accrued income, other prepayments	96.1	97.6	102.9	102.1
	1,584.8	1,586.2	1,680.5	1,680.0

1 HMRC has funded RCDS Ltd for general working capital and investment purposes. This has been accounted for as a long-term loan arrangement.

2 This figure is net of provision for impairment amounting to £15.8 million (2016-17: £25.3 million).

3 This figure is net of provision for impairment amounting to departmental group: £20.7 million (2016-17 departmental group: £22.0 million).

11. Cash and cash equivalents

Cash and bank balances relate to the administering of 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. Bank accounts are part of the Exchequer pyramid whereby balances are effectively held overnight with the Bank of England.

Cash and cash equivalents

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Balance at 1 April	41.2	41.2	38.4	38.9
Net change in cash and cash equivalent balances	28.2	28.2	2.8	2.3
Balance at 31 March	69.4	69.4	41.2	41.2
Of which balances were held at:				
Government Banking Service	68.2	68.2	40.9	40.9
Commercial banks and cash in hand	1.2	1.2	0.3	0.3
Balance at 31 March	69.4	69.4	41.2	41.2

12. Trade payables and other liabilities

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 98.9% (2016-17: 99.8%) 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 93.0% (2016-17: 96.8%) of supplier invoices within five days. The legal requirement remains at 30 days.

In 2017-18 interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £0 (2016-17: £0).

The department's figures included above for prompt payment of invoices are not subject to audit.

Trade payables and other liabilities

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Amounts expected to be paid within one year:				
Personal tax credits	717.9	717.9	562.3	562.3
Child Benefit	10.2	10.2	9.7	9.7
Trade payables	45.7	46.6	54.4	55.5
Taxation and social security excluding VAT	44.0	44.8	46.2	46.8
IT Public Private Partnership	3.8	3.8	15.6	15.6
Accommodation PFI	16.7	16.7	14.3	14.3
Accommodation non-PFI	2.0	2.0	1.9	1.9
Other payables	4.6	4.6	3.4	3.4
Accruals – corporation tax reliefs	2,582.2	2,582.2	2,423.2	2,423.2
Accruals – Child Benefit	259.1	259.1	235.9	235.9
Deferred income, other accruals	404.8	391.3	435.5	420.3
Amounts issued from the Consolidated Fund for Supply but not spent at year-end	69.3	69.3	41.1	41.1
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	0.1	0.1	0.1	0.1
receivable	—	—	—	—
	4,160.4	4,148.6	3,843.6	3,830.1
Amounts expected to be paid in more than one year:				
IT Public Private Partnership	1.4	1.4	15.1	15.1
Accommodation PFI	245.3	245.3	260.5	260.5
Accommodation non-PFI	5.6	5.6	7.6	7.6
	252.3	252.3	283.2	283.2

13. Provisions for liabilities and charges

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 has been reliably estimated.

Provisions for liabilities and charges

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Balance at 1 April	154.9	158.5	151.7	151.7
Provided in the year	60.2	61.2	40.5	44.1
Provisions not required written back	(24.0)	(24.3)	(19.9)	(19.9)
Borrowing costs (unwinding of discounts)	0.1	0.1	0.1	0.1
Net expenditure	36.3	37.0	20.7	24.3
Provisions utilised in the year	(31.2)	(31.6)	(17.5)	(17.5)
Balance at 31 March	160.0	163.9	154.9	158.5

13.1 Analysis of expected timing of discounted flows

	Core department and agency	2017-18 £m Departmental group	Core department and agency	2016-17 £m Departmental group
Not later than one year	88.0	91.9	90.2	93.9
Later than one year and not later than five years	60.5	60.5	63.1	63.1
Later than five years	11.5	11.5	1.6	1.6
Balance at 31 March	160.0	163.9	154.9	158.6

	Early departure costs £m	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	8.0	0.1	6.5	3.2	74.1	91.9
Later than one year and not later than five years	2.3	0.3	51.0	6.0	0.9	60.5
Later than five years	–	–	9.6	1.9	–	11.5
Balance at 31 March	10.3	0.4	67.1	11.1	75.0	163.9

13.2 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 0.10% in real terms, and updated annually to reflect the unwinding of the discount.

13.3 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 £0.4 million was retained for general CTF payment amounts forecast to become payable in respect of children qualifying for CTF endowments.

13.4 Legal claims

A provision of £67.1 million (2016-17: £78.4 million) has been made for costs relating to various legal claims against the department. The provision reflects all known claims, where legal advice indicates that it is probable that the claim will be successful.

13.5 Accommodation costs

A provision of £11.1 million has been made (2016-17: £12.6 million) for buildings related claims giving rise to probable liabilities under tenancy agreements.

13.6 Other

Provisions relating to various other claims against the department amount to £75.0 million (2016-17: £58.4 million).

14. 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 185).

 Further information can be found within the Valuation Office Agency accounts (HC 1282) that can be viewed at www.gov.uk/government/organisations/valuation-office-agency

15. Contingent liabilities

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

The department has the following quantifiable contingent liabilities:

Shipbuilders' Relief – a contingent liability of £0.4 million (2016-17: £1.8 million) 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 £85.3 million (2016-17: £86.2 million) 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.

Guaranteed costs – possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities £0.5 million, 80 cases (2016-17: £0.6 million, 78 cases).

Other – the department has a further number of contingent liabilities amounting to £56 million (2016-17: £12 million). This includes a new contingent liability of £42 million for potential voluntary and compulsory exit schemes relating to Building our Future.

The department has not entered into any unquantifiable contingent liabilities.

16. 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.

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 receivables and payables, these have not been discounted to present value as it has been concluded that the effect would not be material. When considering personal tax credits, there is also fundamental uncertainty in the estimate of future inflows which would make any such discounting insufficiently reliable. Further information in relation to receivables and payables can be seen in notes 10 and 12. Personal tax credits can be seen in more detail in note 4. Assumptions on the recoverability of receivable balances are reviewed on an annual basis and appropriate adjustments for impairment are made.

17. Related-party transactions

The department is the parent of the Valuation Office Agency as well as Revenue and Customs Digital Technology Services Limited (RCDTS Ltd). These bodies are both 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 Ministry for Housing, Communities and Local Government, the Department for Work and Pensions and the Welsh Government.

RCDTS Ltd provides a managed IT service to HMRC, funding is provided from HMRC to RCDTS Ltd.

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 party has undertaken any material transactions with the department during the year. Details of compensation for key management personnel can be found in the remuneration report within the accountability section.

18. Entities within the departmental boundary

 The Valuation Office Agency is a supply-financed agency, its Annual Report and Accounts are published at www.voa.gov.uk

 Revenue and Customs Digital Technology Services Limited is an Arms Length Body, its Annual Report and Accounts are published at www.gov.uk/government/organisations/companies-house

19. Investments in other public sector bodies

The department holds no loans, public dividend capital or other interests in public bodies outside the departmental boundary.

20. Events after the reporting period date

There are no reportable events after the reporting period. These accounts have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

Glossary to the financial statements

Accrued Revenue Payable (ARP) – these comprise three distinct types:

- amounts due to 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 will, when received, be passed to a third-party, for example 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.

Accrued Revenue Receivable (ARR) – this 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.

Administration costs – these relate to the internal administration costs of running the department, for example human resources, finance, estates management, and includes both costs and associated operating income.

Amortisation – this is the measure of consumption of the value of intangible assets. It is recorded as resource expense on a systematic basis over the associated assets useful life.

Annually Managed Expenditure (AME) – departments are allocated a separate annually managed spending limit. This is demand-led and therefore more volatile than DEL (Departmental Expenditure Limit) expenditure. Examples include expenditure such as tax credits and Child Benefit.

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

Consolidated Fund Extra Receipts (CFER) – this is income which is outside of the ambit of the supply estimate and is required to be paid over to HM Treasury.

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

Consolidated Statement of Changes in Taxpayers' Equity (CSocTE) – the statement which explains the movements in net assets between the beginning and end of a financial year.

Consolidated Statement of Comprehensive Net Expenditure (CSocNE) – the performance statement, reporting a summary of expenditure, income, gains and losses for the financial year.

Consolidated Statement of Financial Position (CSocFP) – the statement which provides a snapshot of the assets, liabilities and reserves as at the beginning and end of a financial year.

Contingent liabilities – these are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control.

Current assets – these are assets reported on the CSocFP that include cash, or any asset that is expected to be converted to cash within one year from the reporting date.

Current liabilities – these are obligations that are expected to be settled within one year of the reporting date.

Deferred income – this is income that relates to a future financial year and will be recorded in the CSocNE of that future year.

Deferred revenue – this includes duties and taxes received in the current year that relate to a future year.

Departmental Expenditure Limit (DEL) – departments are allocated a spending budget set at Spending Reviews on a three yearly basis. It comprises capital and resource elements. Resource DEL includes the running of the services and the everyday cost of resources such as staff. Capital DEL is for the purchase of non-current assets.

Depreciation – this is the measure of consumption of the value of property, plant and equipment. It is recorded as resource expense on a systematic basis over the associated asset useful life.

Excess Vote – is the means by which Parliament retrospectively authorises departmental overspends in terms of resources or cash and infringements of agreed protocols.

Finalisation (personal tax credits) – this is the process, occurring after the financial year-end, by which claimants confirm their actual income and other circumstances for the previous award year. The award is finalised for the award year that has ended and appropriate adjustments for under or overpayments of tax credits are made.

Force Majeure – a common clause in contracts that essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties occurs.

Financial Reporting Manual (FRM) – this is the HM Treasury technical accounting guide to the preparation of the financial statements that are prepared on an accrual basis.

IAS – International Accounting Standards. These were issued by the predecessor to the IASB.

IASB – International Accounting Standards Board.

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

IFRS Interpretations Committee (IFRIC) – the body that develops guidance, approved by the IASB, on appropriate accounting treatment of particular issues and scenarios.

Impairment – the process by which the value or collectability of assets is assessed for reporting purposes.

Indemnities – these will be ordered by the court, on behalf of the insolvency practitioner or solicitors, in case the department has incorrectly wound up a viable business. These indemnities are unlimited, although we calculate a likely value for reporting purposes. The calculation is based on the likely amount that a business could be awarded in proceedings and the likelihood of a successful claim for that amount being made. The indemnity will be in place until the case is settled and the liquidation confirmed.

Intangible assets – these are non-physical items used in the business that are expected to have a useful life in excess of one year, for example, website development costs and certain software licences.

Losses – these are receivables that are determined to be uncollectable and comprise remissions and write-offs. Remissions are receivables that we have decided not to pursue, typically on the grounds of value for money. Write-offs are receivables that are considered to be irrecoverable, for example because there is no practical means for pursuing them.

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

Negative taxation – this is the element of tax relief payable that is less than or equal to the recipient's tax liability.

Net Cash Requirement – this represents the amount of funding that the department is entitled to draw down from the Consolidated Fund.

Non-current assets – these are assets reported on the CSofP that, upon acquisition, are expected to be held for a period in excess of one year.

Non-current liabilities – these are obligations that are expected to be settled beyond one year of the reporting date.

Non-Voted expenditure – this is part of DEL and AME which is not authorised annually through the Supply Estimate. It occurs where Parliament has passed legislation that allows funding of a service on a continuing basis either directly from the Consolidated Fund or from other sources, for example the National Insurance Fund.

Payables – (formerly known as ‘creditors’) – these are amounts recognised as owing by the department at the end of the reporting period but for which payment has not been made.

Payments of entitlement – this is the element of tax relief payable that is in excess of the recipient’s tax liability, and is therefore in addition to any negative taxation element.

Private Finance Initiative (PFI) – a method of establishing public-private partnerships (PPPs) by funding public infrastructure projects with private capital.

Programme expenditure – these are typically the costs that the department directly incurs in delivering its policy objectives. It includes the payments such as tax credits and Child Benefit. All expenditure and associated operating income for the Valuation Office Agency is treated as programme.

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

Public-Private Partnerships (PPPs) – see Private Finance Initiative.

Receivables – (formerly known as ‘debtors’) – these represent all amounts recognised as owing to the department at the end of the reporting period but payment has not been received. A proportion of the receivable balance relates to revenue that is not yet overdue for payment.

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

Resource Accounts – the financial statements which report the cost of running the department and include payments of tax credits, Child Benefit and certain reliefs.

Statement of Parliamentary Supply (SoPS) – this is the primary parliamentary accountability statement and is unique to central government financial reporting. By expenditure category, it reports the net outturn (how much expenditure and income has been recognised) for the departmental group compared with the amounts approved by Parliament through the Supply Estimates process.

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

Suspended liability – a suspended liability is an indirect tax, penalty or surcharge that is under challenge, dispute or appeal. The value is currently included in the receivables but excluded from the debt balance as currently no recovery action can be taken.

Tax debt – Debt Management Directorate calculates and reports monthly the department’s debt balance which consists of debts that are overdue or where recovery action can be taken at this time. This provides key operational information for the management of overdue, recoverable debt. This differs to the debt reported in the financial statements which is termed ‘Receivables’ and is defined earlier in this glossary.

Trust Statement – the financial statement which reports the revenues, expenditure, assets and liabilities related to taxes and duties collected by the department.

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

Voted expenditure – this is part of DEL and AME which is authorised annually through the Supply Estimate.

Statistical tables

Table 1: Total departmental spending (£000)

This table provides further detail by category on HMRC spending.

	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Plans	2019-20 Plans
Resource DEL							
HMRC Administration	3,292,167	3,106,554	3,219,241	3,505,243	3,450,380	3,270,956	3,117,978
VOA Administration	-2,085	-2,420	-1,425	-2,743	143,476	151,301	122,301
Utilised provisions	33,160	31,057	29,793	17,500	31,631	30,000	30,000
National Insurance Fund	322,125	328,902	328,579	315,500	320,306	287,000	283,300
Total resource DEL	3,645,367	3,464,093	3,576,188	3,835,500	3,945,793	3,739,257	3,553,579
Of which:							
Staff costs	2,260,253	2,171,463	2,250,106	2,406,240	2,401,849	2,242,601	2,051,735
Purchase of goods and services	1,130,017	1,089,582	1,156,655	1,269,919	1,145,766	999,280	999,858
Income from sales of goods and services	-321,142	-342,428	-423,119	-426,857	-202,750	-177,400	-180,700
Current grants to persons and non-profit bodies (net)	4,012	4,214	20,463	2,841	2,327	16,526	13,797
Current grants abroad (net)	449	424	1,301	1,286	1,054	2,040	780
Rentals	225,422	184,626	201,221	203,739	195,611	215,829	204,152
Depreciation ¹	233,890	247,555	271,151	278,038	296,974	351,372	379,428
Change in pension scheme liabilities	2,788	2,975	291	1,828	1,847	—	—
Other resource	109,678	105,682	98,119	98,466	103,115	89,009	84,529
	3,645,367	3,464,093	3,576,188	3,835,500	3,945,793	3,739,257	3,553,579

Table 1: Public spending (£000)

	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Plans	2019-20 Plans
Resources AME							
Social Benefits and Grants	11,492,064	11,601,947	11,700,897	11,651,914	11,689,654	11,540,459	11,542,498
Tax-Free Childcare	–	–	–	6	28,783	777,200	866,325
Providing payments in lieu of tax relief to certain bodies	76,396	99,703	75,399	70,068	85,027	90,071	95,068
LISA	–	–	–	–	–	480,000	–
HMRC administration	24,631	70,610	28,547	32,000	37,975	30,000	30,000
Payments to add capacity	–	2,732	–	–	–	–	–
VOA – Payments of rates to local authorities on behalf of certain bodies	60,085	65,939	66,995	63,836	76,085	79,430	81,460
VOA Administration	825	963	2,902	3,100	5,690	2,000	2,000
Utilised provisions	-33,383	-31,068	-29,798	-17,412	-31,633	-30,010	-30,010
Personal tax credit	29,329,220	29,123,165	28,450,152	27,143,623	26,362,989	23,455,000	26,126,139
Other reliefs and allowances	1,624,497	1,997,314	2,898,728	3,381,936	3,705,182	3,854,769	3,815,153
Total resource AME	42,574,335	42,931,305	43,193,822	42,329,071	41,959,753	39,759,442	42,528,633
Of which:							
Purchase of goods and services	74,442	85,715	81,710	94,963	91,916	83,770	85,910
Income from sales of goods and service	-3,702	-4,064	-3,774	-3,764	-4,725	-4,340	-4,450
Current grants to persons and non-profit bodies (net)	41,963,365	42,037,716	41,977,679	40,706,128	36,665,624	39,633,782	42,397,948
Subsidies to private sector companies	551,816	764,666	1,126,492	1,531,740	2,204,456	44,240	47,235
Depreciation ¹	2,859	2,072	131	-2,144	1,854	–	–
Take up of provisions	20,219	69,501	30,771	26,137	41,811	30,000	30,000
Release of provision	-33,383	-31,068	-29,798	-18,912	-31,633	-30,010	-30,010
Change in pension scheme liabilities	–	–	–	–	–	2,000	2,000
Other resources	-1,281	6,767	10,611	-5,077	-9,550	0	0
	42,574,335	42,931,305	43,193,822	42,329,071	41,959,753	39,759,442	42,528,633
Resource budget							
Total resource DEL	3,645,367	3,464,093	3,576,188	3,835,500	3,945,793	3,739,257	3,553,579
Total resource AME	42,574,335	42,931,305	43,193,822	42,329,071	41,959,753	39,759,442	42,528,633
Total resource budget	46,219,702	46,395,398	46,770,010	46,164,571	45,905,546	43,498,699	46,082,212
Of which:							
Depreciation ¹	236,749	249,627	271,282	275,894	298,828	351,372	379,428

Continued

Table 1: Public spending (£000)

	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Plans	2019-20 Plans
Capital DEL							
HMRC Administration	211,019	223,985	220,162	314,622	273,268	240,800	220,660
VOA Administration	7,101	7,694	7,569	11,778	7,517	9,000	8,000
Total capital DEL	218,120	231,679	227,731	326,400	280,785	249,800	228,660
Of which:							
Purchase of assets	220,229	237,864	228,970	327,774	308,339	252,800	231,660
Income from sales of assets	-2,109	-6,185	-1,239	-1,374	-27,554	-3,000	-3,000
	218,120	231,679	227,731	326,400	280,785	249,800	228,660
Capital AME							
Child Trust Fund	223	11	5	4	2	10	10
Utilised provisions	—	—	—	—	—	—	—
Total capital AME	223	11	5	4	2	10	10
Of which:							
Capital grants to persons and non-profit bodies (net)	223	11	5	4	2	10	10
	223	11	5	4	2	10	10
Capital budget							
Total capital DEL	218,120	231,679	227,731	326,400	280,785	249,800	228,660
Total capital AME	223	11	5	4	2	10	10
Total capital budget	218,343	231,690	227,736	326,404	280,787	249,810	228,670

1 Includes impairments.

Table 2: Administration budget (£000)

This table shows HMRC administration expenditure, utilised provisions and the administration element of the National Insurance Fund. This table does not include programme expenditure.

	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Plans	2019-20 Plans
Resource DEL							
HMRC Administration	777,741	706,563	717,025	788,643	754,343	837,158	845,854
Utilised Provisions	26,156	18,831	13,642	8,596	8,596	14,000	14,000
National Insurance Fund	60,254	71,647	61,223	74,100	78,597	52,174	51,474
Total administration budget	864,151	797,041	791,890	871,339	841,536	903,332	911,328
Of which:							
Staff costs	306,449	311,376	328,875	359,968	329,804	319,058	300,381
Purchase of goods and services	401,842	354,374	417,815	474,151	350,347	416,884	431,267
Income from sales of goods and service	-68,469	-95,341	-126,465	-134,700	-40,483	-71,816	-71,310
Current grants to persons and non-profit bodies (net)	2,981	3,027	1,920	1,988	1,687	2,612	2,683
Rentals	139,403	116,203	90,869	95,355	103,038	123,597	126,978
Depreciations	67,232	96,617	68,609	68,359	88,050	99,836	107,808
Other resource	14,713	10,785	10,267	6,218	9,093	13,161	13,521
	864,151	797,041	791,890	871,339	841,536	903,332	911,328



National Audit Office

HM Revenue & Customs 2017-18 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2017-18 Accounts
of HM Revenue & Customs

Issued under Section 2 of the Exchequer and Audit
Departments Act 1921

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

10 July 2018

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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in Personal Tax Credits (%) R60

Coverage of this report

HMRC corporate document	Coverage of this report
Trust Statement	<p>HM Revenue & Customs (HMRC) reported £605.8 billion of tax revenue for 2017-18. We cover this in Part One.</p> <p>Under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General (C&AG) must certify whether the Trust Statement is true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended.</p> <p>The C&AG has concluded that:</p> <ul style="list-style-type: none">● the figures in the Trust Statement are true and fair; and● HMRC has used income and expenditure for the purposes Parliament intended. <p>The 1921 Act also requires the C&AG to consider whether HMRC's revenue systems to collect taxes are adequate. We found that HMRC's revenue systems are adequate subject to the observations in this report and our other reports to Parliament (paragraphs 25 and 26).</p>
Resource Accounts	<p>The cost of running HMRC in 2017-18 was £3.5 billion. HMRC paid £38.0 billion in benefits and credits, including £26.3 billion of Personal Tax Credits payments and £11.7 billion of Child Benefit. Under the Government Resources and Accounts Act 2000, the C&AG must certify whether HMRC's Resource Accounts are true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended.</p> <p>The C&AG concluded that:</p> <ul style="list-style-type: none">● the Resource Accounts are true and fair; but● there remains a material level of error and fraud in Personal Tax Credits expenditure (Part Three).
Annual Report	<p>HMRC reported £30.3 billion compliance yield in 2017-18.</p> <p>We reviewed compliance yield data with the agreement of HMRC.</p> <p>Our conclusions about compliance yield are in Part One.</p> <p>We review whether HMRC is getting value for money. We report our findings to Parliament under section 6 and section 9 of the National Audit Act 1983.</p>

Summary

HM Revenue & Customs performance, 2017-18

1 This report is our commentary on HM Revenue & Customs' (HMRC's) performance in 2017-18. We report findings from all our statutory audits of HMRC this year including audits of HMRC's financial statements, the adequacy of its systems for collecting revenue and the value for money it achieved from its spending. Each audit comes under different legislation (see Coverage of this report, page R4).

2 Our audit of HMRC covers the tax revenues the government raises and the benefits HMRC pays out. HMRC raised £605.8 billion of tax revenues in 2017-18 (some 85% of total revenues raised by government) and paid out £38.0 billion in benefits and credits (approximately one-fifth of the government's total benefit expenditure). The cost of running HMRC was £3.5 billion in 2017-18.

3 HMRC's objectives are to:

- maximise revenues due and bear down on avoidance and evasion;
- transform tax and payments for its customers; and
- design and deliver a professional, efficient and engaged organisation.

4 Each year, we choose parts of HMRC's business to report on in more detail. Last year's report considered HMRC's transformation plans and customer service performance.

5 This year's report has three parts:

- Part One considers HMRC's objective of maximising revenues and looks at the main components of the £605.8 billion raised during 2017-18;
- Part Two looks at HMRC's progress in transforming the way it administers tax and payments; and
- Part Three examines HMRC's progress in managing fraud, error and debt in Personal Tax Credits and Child Benefit and explains the basis of the Comptroller and Auditor General's (C&AG's) qualification of his regularity audit opinion on HMRC's Resource Accounts.

Summary findings

Tax revenues in 2017-18

6 HMRC reported total tax revenue of £605.8 billion in 2017-18, an increase of £30.9 billion (5.4%) on 2016-17. HMRC records revenues in the Trust Statement on an accruals basis (tax due rather than actual cash received). The £605.8 billion of total revenue includes £141.9 billion relating to amounts that were due to be received. £111.6 billion of this balance relates to accrued revenue. While some of the accruals balance can be derived from tax receipts relating to 2017-18 and collected after the end of the financial period, HMRC is required to produce estimates to establish the total tax that will be due where assessment and collection is yet to take place. These estimates are subject to a high degree of uncertainty, as explained in Note 6 of the Trust Statement.

7 HMRC estimates that the yield from its compliance activities in 2017-18 was £30.3 billion, against a target of £28.0 billion. HMRC achieved £28.9 billion of compliance yield in 2016-17 against a target of £27 billion. While the vast majority of tax revenue is paid to HMRC without the need for further intervention, some of the tax revenue is only received as a result of specific compliance actions taken by HMRC. Compliance yield measures the effectiveness of these compliance and enforcement activities. It is one of HMRC's main internal performance measures and is used to agree targets with HM Treasury for spending on compliance work. It comprises cash receipts expected, revenue losses prevented and estimates of assessed tax for future accounting periods as a result of compliance activities completed in the year.

8 HMRC has taken steps to increase the transparency and timeliness of its reporting during the year. Its *Measuring tax gaps* report was published four months earlier this year than in previous years, and information about the estimated cost of tax reliefs has been brought together in a more accessible way on the GOV.UK website.

HMRC's transformation plans

9 HMRC is two years into a major transformation programme to enable it to achieve its vision of becoming one of the most digitally advanced tax administrations in the world. In the Spending Review 2015, HMRC secured funding of £1.8 billion for transformation between 2016-17 and 2019-20.¹ In return, it committed to making cumulative efficiency savings of £1.9 billion by 2019-20 and to collecting £920 million of additional tax revenue by 2020-21. In July 2017, when we last reported on HMRC's transformation, we concluded that transformation would be challenging to deliver within the intended timescale. We recommended that HMRC should review its plans given pressures on costs and affordability (paragraphs 2.1 to 2.3).

¹ The £1.8 billion for HMRC's transformation comprises £1.3 billion new investment and the balance from existing budgets.

10 HMRC has made progress with its transformation plans. It has claimed annual efficiency savings of £410 million against its target of £380 million by 2017-18. Other achievements related to transformation by 2017-18 include additional tax revenue of £33.5 million, take up of online personal tax accounts by more than 14 million users and the setting up of the first new regional centre. HMRC has spent £882 million of its intended transformation budget of £989 million for the first two years of its plans (2016-17 and 2017-18) (paragraphs 2.17, 2.19, 2.22 and 2.24).

11 Delivery of HMRC's original plans was not realistic due to over-ambitious assumptions and the additional demands of EU Exit, which increased pressure on capacity. In autumn 2017, HMRC recognised that it was not realistic to continue with its existing plans. Its assumptions about reducing customer contact had not been borne out, and it had set an unachievable timetable in which to undertake a large amount of change simultaneously. The unforeseen additional demands arising from the decision for the UK to leave the EU added further pressure on HMRC's capacity to deliver its transformation plans and timetable. HMRC considered three factors compelling it to prioritise its activities: the size and complexity of its transformation portfolio, and the associated risks and dependencies; the number of projects within the portfolio being greater than HMRC's capacity to deliver them, exacerbated by the additional and more uncertain nature of the demands of leaving the EU; and the projected costs of its portfolio being greater than the available funding (paragraphs 2.4 to 2.5).

12 HMRC undertook a structured prioritisation exercise to release capacity, reduce risks to delivery and reduce the costs of transformation. Overall, the aim was to release capacity for other priorities. HMRC sought to achieve this by protecting short-term efficiency savings while still being able to deliver long-term transformational change. The main changes to HMRC's transformation plans resulting from the exercise included: reducing the scope of the Personal Tax Account project; reducing the number of customers HMRC planned to take out of self-assessment; deferring some parts of the Making Tax Digital for Business programme; extending the timetable for the programme to set up a new approach to compliance; and deferring refurbishment of two of the new regional centres.² The exercise led to a reduction in the number of projects from 267 to 128 (paragraphs 2.6 to 2.12).

² The aim of the Making Tax Digital for Business programme is to modernise tax administration for business through digital solutions.

13 The impact of HMRC's decisions has been to marginally reduce or delay the intended benefits of its transformation plans. HMRC prioritised those transformation projects that were intended to achieve efficiency savings in the remainder of the current Spending Review period to 2019-20. This resulted in important infrastructure and system projects being lower on the priority list, but still intended for delivery, as well as those projects with other benefits, such as improving the customer's interaction with HMRC. The prioritisation exercise has reduced HMRC's forecast efficiency savings from £717 million to £675 million each year from 2019-20. The target of £717 million remains the same, and HMRC expects that, ultimately, it will be able to meet this. This is because HMRC expects its business groups to achieve a greater proportion of efficiency savings than originally estimated, mainly by taking advantage of the improvements brought about by the various transformation programmes, rather than by the efficiencies arising directly from those programmes.³ The decisions following the prioritisation exercise have not led to any reduction in expected additional tax revenue. It is not clear yet what impact HMRC's prioritisation exercise will have on delivery of benefits across the whole organisation. HMRC has not yet been able to predict exactly which capabilities delivered by its transformation portfolio will give rise to all the expected benefits. To monitor this, HMRC is managing its projects as a portfolio, supported by processes to manage the benefits of the projects. HMRC has also still to determine the full impact of the prioritisation exercise on its customers (paragraphs 2.7, 2.9 to 2.10, 2.13 to 2.15 and 2.19 to 2.22).

14 HMRC's transformation plans remain ambitious but the delivery timeline may be more realistic. The prioritisation exercise allowed HMRC to release 51 staff for work related to EU Exit, 49 staff to its Customer Services Group and 15 to other activities, and reduce the cost of the portfolio in 2018-19 and 2019-20 by £191 million. HMRC still expects to spend £1.74 billion on transformation, slightly less than the original budget of £1.76 billion. The profile over the Spending Review 2015 period has changed, with spending in earlier years below earlier forecasts. HMRC has revised the arrangements for managing its portfolio, moving from managing it as a centralised portfolio to moving responsibility for delivery to its relevant business groups. Aligning its transformation activities more closely with business-as-usual activities should bring benefits, such as helping to improve understanding of the long-term benefits of change and the corresponding risks to delivery. However, under this model HMRC may find it more difficult to manage risks and dependencies across the portfolio, and make the necessary trade-offs between the business groups (paragraphs 2.14, 2.16 to 2.18 and 2.27 to 2.28).

3 HMRC has three main business groups: Customer Strategy and Tax Design, Customer Compliance and Customer Services.

Recommendations

15 HMRC should:

- **Review its transformation portfolio at least once a year, building on this year's prioritisation exercise, so it can respond to external and other changes, and adapt its plans accordingly.** These exercises should include reviewing its business cases, project initiation documents, benefit realisation plans and impact on customers, to ensure that projects are delivering the benefits identified at the start. They should also include closely monitoring the infrastructure and system projects, such as the Enterprise Data Hub, that were reduced in scope or delayed, to see what effect they will have on wider business efficiencies or delivery of other dependent projects.
- **Review whether its new model of managing its transformation portfolio in individual business groups is still allowing it to gain the benefits of effective portfolio management.** As part of this review, HMRC should assess the adequacy of its change control processes to ensure that projects remain aligned to strategic objectives.
- **Be clearer about the way it tracks the costs and benefits of its transformation portfolio and the changes led by operations to ensure it is monitoring the value for money of its investment in transformation.**

Progress in reducing error and fraud in Tax Credits and Child Benefit

16 The C&AG has again qualified his opinion on the regularity of HMRC's Resource Accounts due to the material level of error and fraud in Tax Credits expenditure. The most recent available estimates for 2016-17 indicate that overpayments have increased to 4.9% (£1.3 billion) of expenditure on Tax Credits (£26.3 billion), while underpayments have increased to 0.8% (£200 million) (paragraphs 3.6 to 3.7 and 3.9).

17 HMRC originally predicted a much greater increase in rates of error and fraud than it has now estimated for 2016-17. In November 2017, HMRC told the Committee of Public Accounts that it expected the estimated rate of error and fraud to rise to between 7% and 8% of expenditure on Tax Credits. This was because of a new test for self-employed claimants and the impact of the termination of the Concentrix contract. HMRC had overestimated the impact that the new test for self-employed claimants would have on levels of error and fraud (paragraphs 3.10 to 3.14).

18 Misreporting of income is the biggest cause of error and fraud overpayments. This now accounts for £355 million of total overpayments and has increased every year since 2012-13. HMRC has had some success in reducing error and fraud relating to children and undeclared partners since it revised its strategy in 2009 (paragraphs 3.17 to 3.20).

19 During 2017-18, 123,000 Tax Credits claimants transferred to Universal Credit. A further 2.7 million claimants will transfer by 2023. HMRC will also transfer £6.8 billion of Tax Credits debt to the Department for Work & Pensions to collect. The transfer creates uncertainties that HMRC will need to balance against its continuing responsibilities for administering Tax Credits, including providing good customer service and tackling error and fraud (paragraphs 3.23 to 3.27).

20 HMRC's estimates show an increase in error and fraud in Child Benefit for 2017-18, but HMRC has not yet completed its work to enhance the accuracy of its estimate. Of a total £155 million of estimated error and fraud, £105 million relates to claimants who fail to respond to HMRC to confirm their eligibility, and so are deemed ineligible and have their Child Benefit stopped. HMRC considers that other evidence available to it indicates that a significant proportion of these claimants may be eligible for Child Benefit. Other than these non-response cases, the main causes of error and fraud in Child Benefit relate to children who are no longer in full-time non-advanced education after their 16th birthday, and claimants who do not meet residency requirements (paragraphs 3.29 to 3.32).

Recommendations

21 HMRC should:

- **Further develop how it uses the information on error and fraud generated by its annual estimation exercise to target interventions, including to tackle the sustained increase in income-related error and fraud.** The annual exercise and follow-up activities generate a better understanding of the causes of error and fraud. Wider use of these data would help HMRC to forecast error and fraud more accurately and better inform its interventions.
- **Continue to work with the Department for Work & Pensions to clarify uncertainties to ensure that Tax Credit claimants' transition to Universal Credit is as smooth as possible, including during managed migration.** This will include re-profiling the pace and timing of migration activity, and business plans, following the recent announcement of a one-year extension to the roll-out of Universal Credit. HMRC will also need to consider how best to use its resources to maintain its focus on error and fraud.
- **Complete the improvements to its methods of estimating error and fraud in Child Benefit.** Gaining a better understanding of what the high proportion of non-response cases means in terms of error and fraud risk will allow HMRC to identify the appropriate interventions to reduce error and fraud in Child Benefit.

Our value-for-money and wider work on HMRC

22 In this report last year we examined HMRC's transformation plans and its customer service performance in 2016-17. On customer service, we concluded that HMRC had significantly improved its performance against its targets by deploying additional resources and using its workforce more flexibly. HMRC had also signalled its ambition to become a leading customer services organisation, while recognising that this will take time. We noted that HMRC had not yet defined what this meant and that, in the coming year, it planned to reduce costs further, which could put the service under pressure once again.

23 HMRC's Annual Report and Accounts show that it achieved six of its customer service targets in 2017-18, and narrowly missed the other two. HMRC's performance in processing Tax Credits and Child Benefit claims, and responding to customer post, was similar to 2016-17 levels. Its performance in answering phone calls fell from the high levels achieved in 2016-17, but it still met its targets for call-handling times. HMRC's performance against its digital targets – customer satisfaction with digital services and time taken to process electronic forms – fell just below target levels.

24 We published two other reports on HMRC between July 2017 and June 2018: *The Customs Declaration Service*; and *The Customs Declaration Service: a progress update*.⁴ These reports do not examine value for money, but focus instead on whether the Customs Declaration Service programme is deliverable. They highlight the risks and issues HMRC needs to manage to fully implement the new system by January 2019. In December 2017 we also published *A Short Guide to HM Revenue & Customs*.⁵ The short guide summarises what HMRC does, how much it costs, recent and planned changes and key themes from our reports.

⁴ Comptroller and Auditor General, *The Customs Declaration Service*, Session 2017–2019, HC 241, National Audit Office, July 2017; Comptroller and Auditor General, *The Customs Declaration Service: a progress update*, Session 2017–2019, HC 1124, National Audit Office, June 2018.

⁵ National Audit Office, *A Short Guide to HM Revenue and Customs*, December 2017.

Conclusion

25 In fulfilling our statutory duties under the Exchequer and Audit Departments Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, we conclude that in 2017-18 HMRC 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.

26 In addition to our statutory duties under the Exchequer and Audit Departments Act 1921, the C&AG has again qualified his regularity opinion on the Resource Accounts due to material levels of error and fraud in Personal Tax Credits. HMRC must continue its work to understand the causes of error and fraud and use this understanding to refine its interventions to reduce error and fraud sustainably, across Personal Tax Credits and Child Benefit. The migration of people claiming Personal Tax Credits to Universal Credit will bring further challenges in responding to error and fraud. HMRC's response will need to develop as migration continues.

27 HMRC is two years into an ambitious programme to modernise its business and transform the way it administers tax and payments. Since 2015, it has met its strategic objective to increase compliance yield each year. HMRC has improved its customer service, since the decline in performance we reported on in May 2016. It achieved its targets for handling customer calls and post in 2016-17 and 2017-18.⁶ Over the past year, HMRC has been preparing new customs and border arrangements for when the UK leaves the EU. This has placed significant demands on its capacity at a time when it is also carrying out its transformation plans. We will continue to monitor HMRC's progress in achieving its strategic objectives.

28 HMRC's transformation plans remain highly challenging, in terms of delivering the individual projects and achieving its efficiency targets, and in transforming the way it interacts with its customers. HMRC has responded to the risks to delivery that we reported last year by undertaking a systematic exercise to prioritise its projects. The resulting changes should help to reduce risks and release capacity for other priorities, but it remains to be seen whether HMRC has gone far enough. Risks to delivery remain, as HMRC's portfolio is still large and complex, and there are ongoing pressures from the work to prepare for the UK's exit from the EU. HMRC still expects to spend almost all of its transformation budget in the four years to 2019-20, even though it has stopped or delayed some of its projects.

⁶ Comptroller and Auditor General, *The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

Part One

Performance in 2017-18

1.1 This part considers HM Revenue & Customs' (HMRC's) performance against its strategic objective to maximise revenues due and bear down on avoidance and evasion. This is measured by the revenues reported in HMRC's Trust Statement, and compliance yield, which is disclosed in its Annual Report.

Tax revenue

Tax revenues in 2017-18

1.2 The total revenue HMRC reported in its Trust Statement in 2017-18 was £605.8 billion in 2017-18 (£574.9 billion in 2016-17) (**Figure 1** overleaf). HMRC records revenue in the Trust Statement on an accruals basis, other than for those taxes disclosed in Note 1.2 of the Trust Statement. Accounting for tax on an accruals basis means that the revenue figures reported relate to tax due on earned income or activities during the financial year, regardless of when the cash is received.

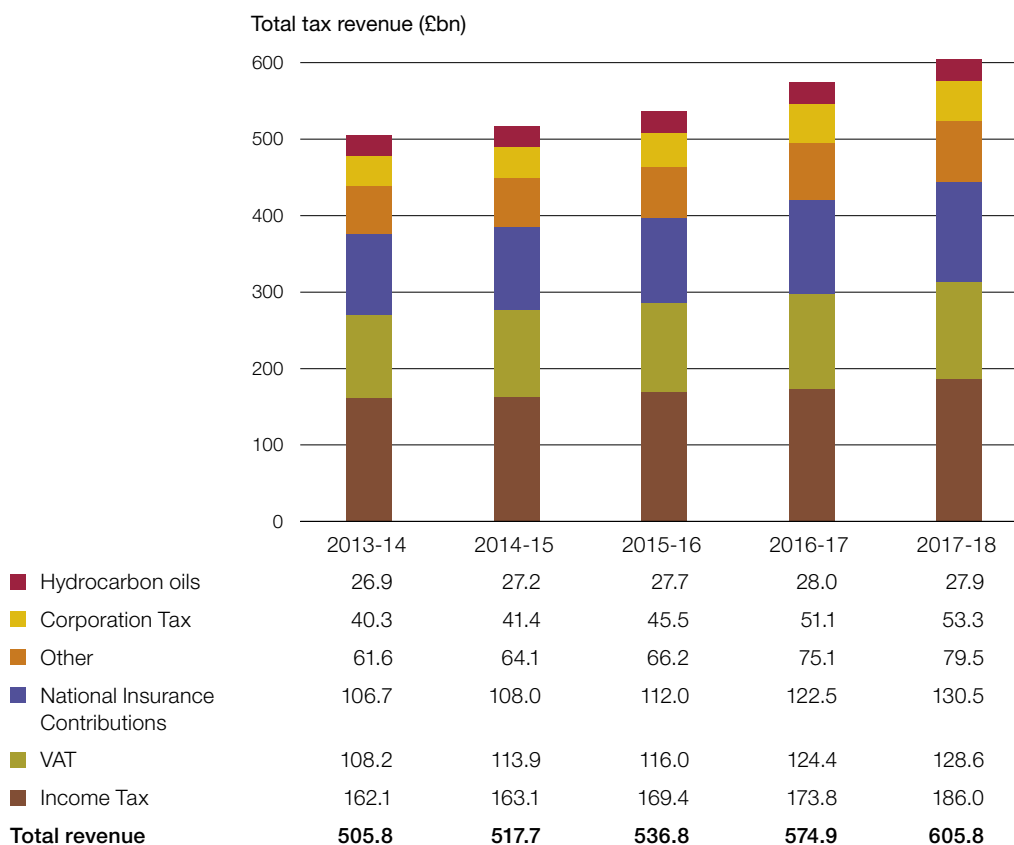
Repayments

1.3 The total revenue figure of £605.8 billion is net of £110.1 billion of repayments to taxpayers (£107.2 billion in 2016-17). Repayments are a necessary part of tax administration and can arise for a variety of reasons. HMRC may receive payments on account that can lead to repayments when the taxpayer's liability is assessed. VAT-registered taxpayers can claim back VAT on certain purchases they have made, where they relate to the sale of goods and services. In 2017-18, £86.4 billion (78.5%) of repayments related to VAT (**Figure 2** on page R15).

Figure 1

Tax revenues, 2013-14 to 2017-18

Tax revenues have increased in each of the past five years



Source: HM Revenue & Customs Annual Report and Accounts 2013-14 to 2017-18

Receivables, impairment and revenue losses

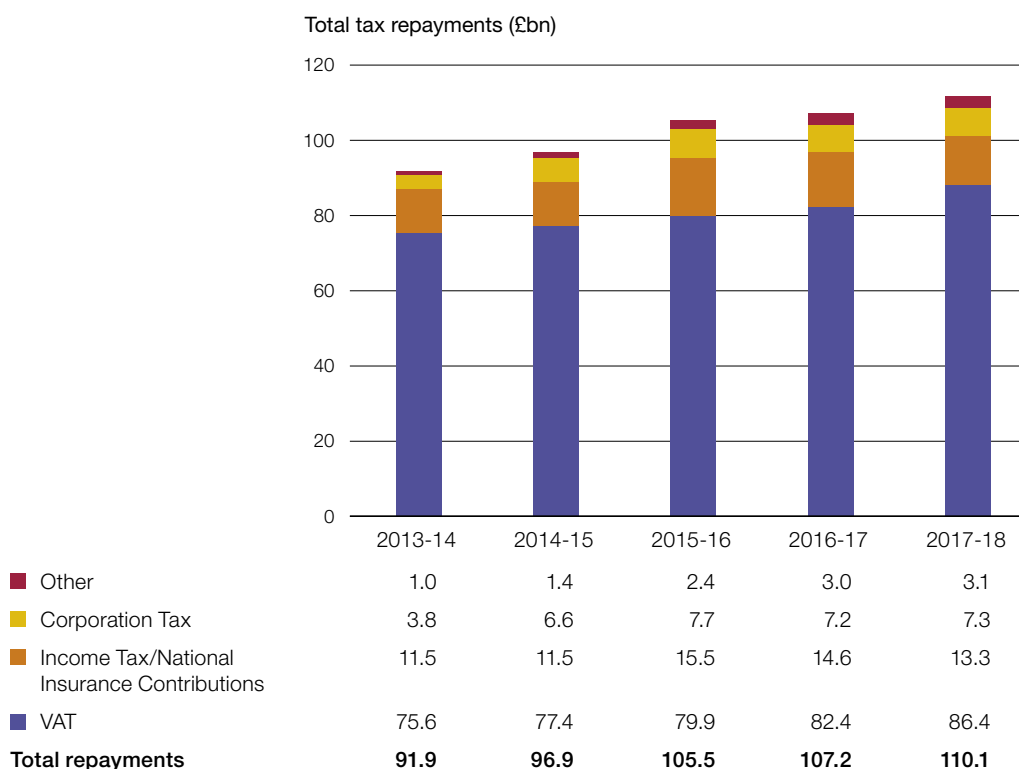
1.4 As at the financial year end (31 March 2018), HMRC was due to receive £141.9 billion – 23.4% of revenue (2016-17: £127.8 billion, 22.2%). This balance consisted of:

- £111.6 billion (2016-17: £99.6 billion) of taxes not yet due from taxpayers, but earned in the financial year (accrued revenue receivable); and
- £30.3 billion (2016-17: £28.2 billion) due from taxpayers but not yet received (receivables).

Figure 2

Repayments by tax type, 2013-14 to 2017-18

Repayments have increased in each of the past five years



Source: HM Revenue & Customs Trust Statements 2013-14 to 2017-18

1.5 Of the £111.6 billion accrued revenue receivable balance, 92.6% comprises taxpayer liabilities for Income Tax and National Insurance Contributions (£50.1 billion); VAT (£33.0 billion); and Corporation Tax (£20.2 billion). For Income Tax (Self-Assessment) and Corporation Tax in particular, the accrued revenue receivable amounts calculated by HMRC are subject to a high degree of estimation, as explained in Note 6 of the Trust Statement. They are calculated using models that are based on different assumptions about how much tax revenue will ultimately be due once the relevant tax returns have been received and the tax liabilities assessed.

1.6 We review those models and assumptions as part of our financial audit of HMRC, and are satisfied that the estimates are reliable and are reasonable based on the data available to HMRC at the time.

1.7 The receivables balance of £30.3 billion is money that taxpayers have not yet paid but have a liability to pay at the end of the financial year.

1.8 There is a risk that some of the £30.3 billion receivables balance will not be collected or may prove not to be due. Accounting standards require that the Trust Statement reflects this risk. As a result, HMRC has estimated that it may not be able to collect £6.9 billion (2016-17: £6.4 billion) of these receivables. When adjusted to reflect this impairment, the overall receivables balance due from taxpayers is £23.4 billion (2016-17: £21.8 billion).

1.9 In some cases HMRC assesses that the tax is unlikely to be collected. When this happens it is either written off, where there is no practical way to pursue it, or it is remitted, which is when HMRC decides not to pursue a tax liability on value-for-money or hardship grounds. HMRC wrote off £3.4 billion during 2017-18, and made a further £0.4 billion of remissions.

Provisions and contingent liabilities

1.10 HMRC recognises a provision in the Trust Statement where it considers that it is probable that it will need to repay taxes already paid to it in this and previous financial years in accordance with accounting standards. HMRC includes two categories of such probable repayments:

- **Legal claims**, where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on the court ruling. In 2017-18, HMRC repaid £39 million to taxpayers with respect to legal provisions (2016-17: £1.8 billion). As at 31 March 2018 HMRC expects it will have to repay £5.9 billion (2016-17: £7.8 billion).

HMRC also separately discloses contingent liabilities for legal claims, where it considers that it is possible that it will be required to repay tax. Contingent liabilities fell by 67.9% to £6.0 billion at 31 March 2018 (2016-17: £18.7 billion). This is due to revisions of estimates for current legal claims, reduced likelihood of payment for certain cases and cessation of litigation action.

During 2017-18, HMRC has strengthened the processes for providing the department with assurance over the liabilities recorded in the Trust Statement. HMRC's Tax at Risk Review Panel (TARRP) has developed further to bring together legal case managers, finance staff, and the analysts in the Knowledge, Analysis and Intelligence (KAI) Directorate, who are responsible for estimating liabilities for legal cases. The TARRP provides a forum for challenging those estimates and considering all the repayment cases relevant to the Trust Statement during the year.

- **Oil and gas field decommissioning costs**, where companies offset the losses from decommissioning oil and gas infrastructure in the North Sea against tax they have previously paid on those fields. These costs can be carried back to earlier tax years indefinitely, in contrast to other taxes that are time-limited.

As of 31 March 2018, HMRC has estimated that it will have to repay £12.9 billion of Petroleum Revenue Tax (PRT) (2016-17: £6.4 billion). This is the likely amount that HMRC will repay taxpayers and is based on an estimate of the decommissioning costs companies will incur. HMRC has developed a forecasting model to support this estimate and improvements to that model this year have allowed for an estimate of potential Corporation Tax repayments to be made for the first time. This is explained in Note 7.3 of the Trust Statement. The effect of this has been to increase the total oil and gas decommissioning provision to £12.9 billion, with £6.2 billion relating to the Corporation Tax element.

In 2017-18 the carry-back of decommissioning losses resulted in £0.2 billion of PRT being repaid to taxpayers.

Tax developments during the year

1.11 The following developments are reflected in these financial statements:

- The government introduced the Apprenticeship Levy from 6 April 2017. This is a levy on UK employers to fund new apprenticeships. It is set at a rate of 0.5% of an employer's annual pay bill in excess of £3 million. It is payable through Pay As You Earn (PAYE), alongside Income Tax and National Insurance. In 2017-18, £2.6 billion of revenue has been recorded in the Trust Statement for the Apprenticeship Levy. This is consistent with the forecast receipts published in the Spending Review and Autumn Statement 2015, in which the Apprenticeship Levy was first announced.
- Devolution – following the introduction of powers for the Scottish Parliament to set and collect a Scottish Rate of Income Tax (SRIT) on non-savings and non-dividend income, this year HMRC is reporting the finalised total of Income Tax arising from Scottish taxpayers for 2016-17: £4.4 billion of the total Income Tax collected during that year. This compares to the original estimate of £4.6 billion published in the Trust Statement last year.
- HMRC has also published in these accounts an estimate of Scottish Income Tax (SIT) due from Scottish taxpayers for 2017-18 under the revised Income Tax powers introduced by the Scotland Act 2016. This is currently estimated at £11.9 billion. The final amount will be published in the Trust Statement next year.
- The Welsh rates of Income Tax will be introduced from April 2019.
- On 6 April 2018 the Soft Drinks Industry Levy came into effect. This aims to encourage manufacturers to reduce the sugar content of their soft drinks. Receipts from the first year will be recorded in the 2018-19 Trust Statement, with £275 million forecast to be raised in the first year.

Tax gap

1.12 The tax gap is the difference between the amount of tax that should, in theory, be collected by HMRC and what HMRC actually collects. The accounting framework under which the Trust Statement is produced requires HMRC to exclude the tax gap from the financial statements.

1.13 The 2016-17 tax gap is reported in HMRC's *Measuring Tax Gaps 2018* document. This was published on 14 June 2018, four months earlier in the year than the 2017 edition. HMRC has estimated that the tax gap for 2016-17 was £33.5 billion (2015-16: £32.3 billion) (**Figure 3**). Figures have remained relatively static in the past three years, although the tax gap calculated as a percentage of the total theoretical tax due has fallen from 6.0% in 2014-15 to 5.7% in 2016-17.

1.14 In its twelfth report of the 2017-19 parliamentary session, the Committee of Public Accounts recommended that HMRC set target levels for reducing the tax gap. HMRC and HM Treasury ministers did not consider that this would be appropriate and noted that the tax gap is a "lagged measure (the Department's most recent estimates cover the tax year 2015-16), and cannot reflect the impact of the Department's compliance activity in a sufficiently timely way to be useful as a target".⁷

Tax reliefs

1.15 HMRC publishes information on the cost of principal and minor tax reliefs. As at January 2018, HMRC's forecast of the cost of principal tax reliefs for 2017-18 is £415.9 billion (**Figure 4** on page R20). HMRC's forecast of the cost of minor tax reliefs for 2017-18 is £865 million. HMRC notes that both of these forecasts are based on previous years' actual data. It recognises that estimates are subject to a high degree of uncertainty and are subject to a wide margin of error.

1.16 HMRC's total forecast of the costs of tax reliefs for 2017-18 is £416.8 billion (2016-17: £403.7 billion), an increase of 3.2%. The 2017-18 estimate reflects the costs of 105 reliefs, and a further 80 noted as having either a nil or negligible cost, with 239 reliefs for which HMRC has no available estimate of cost.

1.17 As noted on page 47 of the Annual Report, HMRC now publishes its statistics on the costs of tax reliefs on the 'Tax Relief Statistic' landing page of the GOV.UK website.⁸

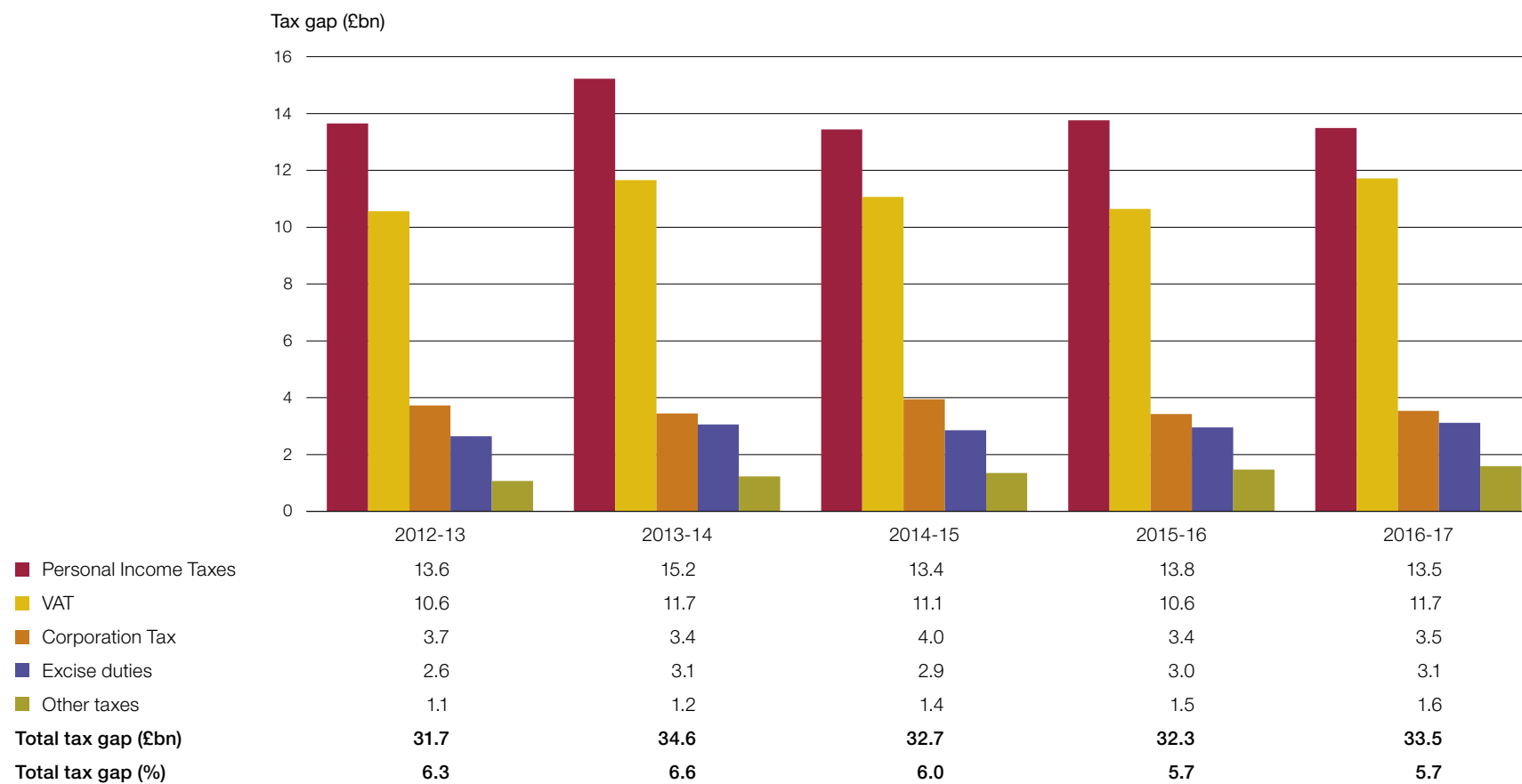
⁷ HM Treasury, *Treasury Minutes: Government response to the Committee of Public Accounts on the Twelfth to the Nineteenth reports from Session 2017-19*, Cm 9596, March 2018.

⁸ Available at: www.gov.uk/government/collections/tax-relief-statistics

Figure 3

Tax gap, 2012-13 to 2016-17

HMRC's estimate of the tax gap for 2016-17 is £33.5 billion

**Note**

1 Components of the tax gap do not add up to the total tax gap due to rounding.

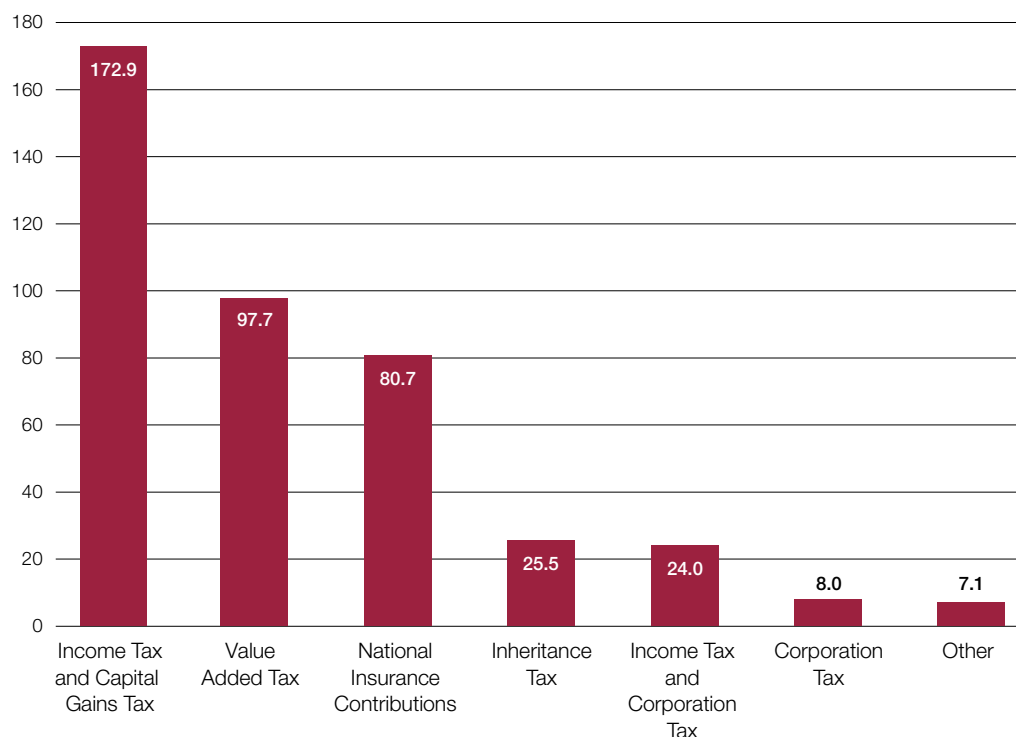
Source: HM Revenue & Customs, *Measuring Tax Gaps Tables*

Figure 4

Forecast cost of principal tax reliefs by tax type for 2017-18

HMRC forecasts that the cost of principal tax reliefs for 2017-18 is £415.9 billion

Principal tax reliefs (£bn)

Source: HM Revenue & Customs, *Estimated costs of principal tax reliefs*, January 2018

1.18 In response to the recommendations made in our report on HMRC's 2015-16 Accounts, HMRC has strengthened its governance arrangements to support the management and oversight of these reliefs.⁹ HMRC's Tax Reliefs Working Group has developed a framework and guidance for tax relief process owners to challenge the design of existing reliefs, confirming that they remain fit for purpose and operate as intended by legislation. The group works closely with KAI, helping to ensure that estimates of the cost of tax reliefs are reliable. The development and implementation of these new oversight and support processes were ongoing through 2017-18 and so we have not yet concluded on whether they are effective.

⁹ Comptroller and Auditor General, *HM Revenue & Customs 2015-16 Accounts, Report by the Comptroller and Auditor General*, National Audit Office, July 2016.

Tax compliance

Approach to tax disputes

1.19 HMRC's Annual Report includes the Tax Assurance Commissioner's (TAC) Report. The report details HMRC's approach to dealing with tax disputes. The largest and most sensitive disputes, which cannot be resolved by HMRC's case workers, can be referred to Dispute Resolution Boards and ultimately to HMRC's commissioners.

1.20 Further detail is included in the TAC Report, including details of the number of cases referred to these governance boards; the tax being considered in the cases referred to commissioners; and the outcomes of these cases.

1.21 The TAC Report notes that the commissioners met 17 times to review 40 cases during 2017-18. Commissioners are given detailed papers, prepared by case teams, who also attend those meetings, when considering cases. Standard templates are used to collate the key information about the background of cases, the tax being considered, proposals put forward by the taxpayer and legal opinion where this is appropriate.

1.22 The TAC Report also refers to HMRC's use of alternative dispute resolution (ADR). We found that this process was operating effectively. We recognise that, in certain circumstances, it can help both the taxpayer and HMRC to avoid resolving disputes through litigation, which can be a prolonged and costly exercise for both parties.

Compliance activities

1.23 Compliance activities can take many different forms, such as disrupting organised criminal gangs or tackling the use of tax avoidance schemes. They fall within three groups:

- Promote: where HMRC makes complying with tax law easier for the majority of its customers who are willing and able to comply with their tax obligations, for example by designing compliance into its systems and processes.
- Prevent: where HMRC stops non-compliance from entering the system.
- Respond: where there is non-compliance, HMRC detects and corrects it.

1.24 During 2017-18, HMRC continued to develop its compliance work. Its ambition is to ensure that the activities it undertakes are coherent and achieve the intentions set out in its various customer and supporting strategies. Ambitions include exploiting its existing data and risk assessment processes (including HMRC's Strategic Picture of Risk; and tax gap data) to direct resources to where they will have the greatest impact. More emphasis is to be given, wherever possible, to promoting compliance and preventing non-compliance.

1.25 The formation of the Customer Compliance Group (CCG) has provided greater opportunities for carrying out compliance work in a more coherent way. We have seen the development of a compliance strategy and an evolving compliance plan based on insight, data and analysis. However, it is too early to see clear evidence that HMRC has realised the full benefits that it anticipated. Prioritisation, design and delivery of its activities are still fragmented and aligned to the separate planning cycles of business groups, funding approvals and traditional operational plans.

Compliance yield

1.26 HMRC measures the effectiveness of its enforcement and compliance activities through compliance yield: its estimate of the additional revenues that HMRC considers it has generated, and the revenue losses it has prevented. It is one of HMRC's main performance measures and is used to agree targets with HM Treasury for spending on compliance work.

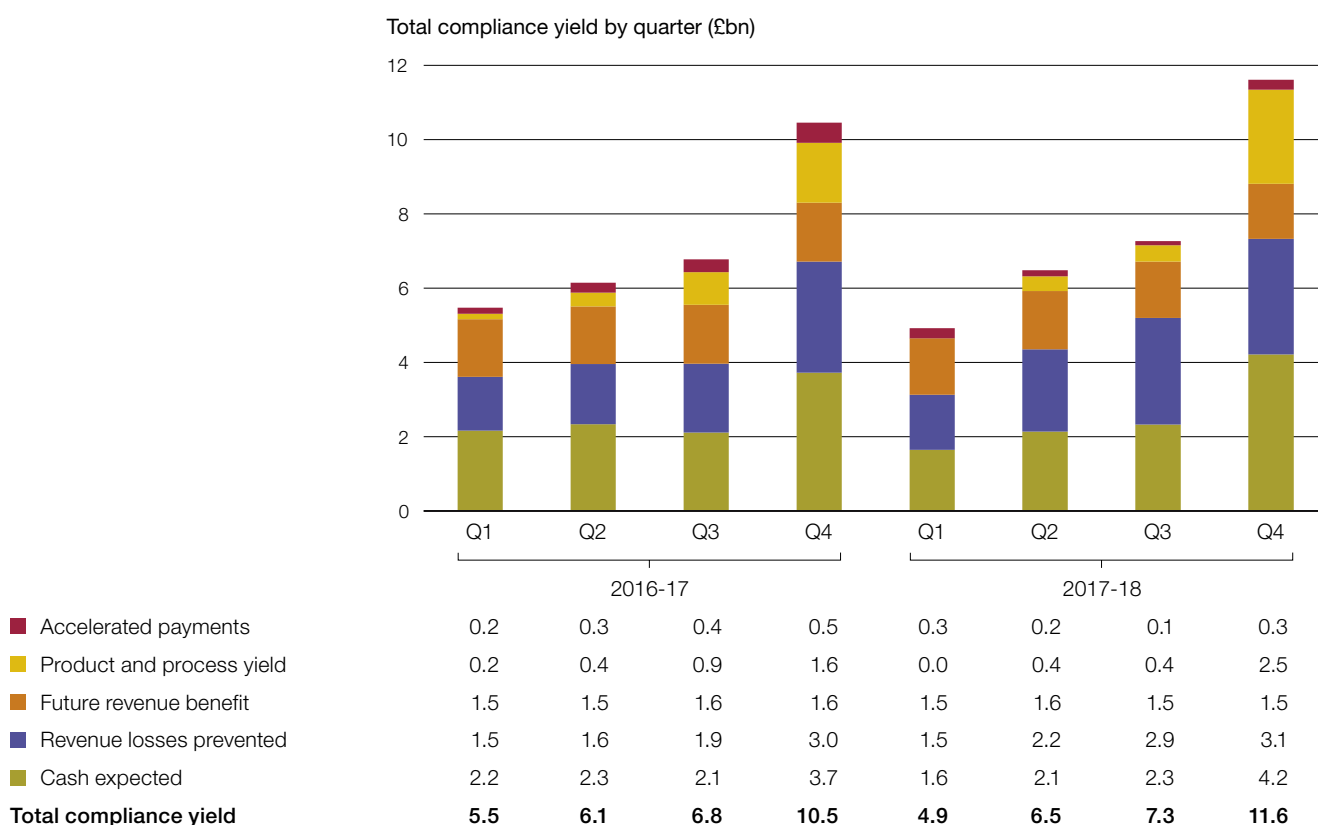
1.27 In 2017-18, HMRC achieved £30.3 billion (2016-17: £28.9 billion) of compliance yield against a target of £28.0 billion. HMRC reports the compliance yield it has recorded under five categories (**Figure 5**).

- Cash expected – £10.3 billion (34%): an estimate of the additional revenue due when HMRC identified past non-compliance;
- Revenue losses prevented – £9.7 billion (32%): the tax revenue HMRC has prevented from being lost to the Exchequer (for example, by stopping fraudulent repayments claims and disrupting criminal activity);
- Future revenue benefit (FRB) – £6.1 billion (20%): an estimate of the effect of HMRC's compliance work on taxpayers' future behaviour;
- Product and process yield – £3.4 billion (11%): the annual impact on net tax receipts of legislative changes to close tax loopholes; and changes to HMRC's processes which reduce opportunities to avoid or evade tax; and
- Accelerated payments – £0.8 billion (3%): the amount that users of avoidance schemes have paid to HMRC upfront while their dispute is being resolved, as well as an estimate of the behavioural change that this policy has generated.

Figure 5

Compliance yield reported by HMRC 2016-17 to 2017-18

HMRC reported £30.3 billion of compliance yield in 2017-18, more than in any previous year

**Note**

1 Components of the compliance yield do not add up to the total compliance yield due to rounding.

Source: HM Revenue & Customs, *Quarterly Performance Report*

1.28 In recent years, we have conducted in-depth reviews of the design and implementation of HMRC's compliance measure. These found that compliance yield is a reasonable proxy for assessing the impact of individual interventions and to support the allocation of resources. We also concluded that HMRC had established an adequate methodology for measuring yield and that it had effective processes to collate data and ensure quality in calculations of compliance yield. From 2016-17, following our recommendation, HMRC is reporting future revenue benefit in the year of impact rather than the year in which it is assessed. The new method is more consistent with the way in which compliance yield is reported, although there is still some uncertainty around the estimation.

1.29 In 2017-18, we have reviewed the governance arrangements in place for compliance yield. The governance structure includes a Measures Strategy Group; an Upstream Panel; and a Measures Consistency Panel. These all work to ensure the integrity of the measurement and scoring of the results of compliance activities. They are well-established groups with clearly defined terms of reference. During 2017-18, HMRC's Internal Audit team reviewed the governance and control arrangements for calculating and reporting compliance yield. For CCG, which is responsible for delivering around 90% of compliance yield, it noted that there are clear governance and control arrangements in place, supported by clear, comprehensive and accessible guidance. However, it raised some concerns about the way FRB cases are calculated and case-managed.

1.30 CCG has also established a 'Professionalism Forum'. The forum's terms of reference note that this is a "senior CCG forum set up to collaboratively influence, challenge and drive the improvement of professionalism standards across all CCG directorates". Its aim is to promote good practice; respond to quality and governance risks in CCG; and embed CCG's professionalism standards and quality assurance processes in the work of its operational teams.

1.31 HMRC publishes information on compliance yield each quarter. It agrees a target for compliance yield with HM Treasury each year and HMRC's compliance activities also contribute towards its objective, as set out in the Single Departmental Plan, of raising an additional £5 billion a year by 2019-20.

1.32 Figure 5 shows how compliance yield has been recorded through the year. As in previous years, the yield identified in quarter 4 of 2017-18 is the most significant, representing 38% of the total compliance yield figure. HMRC has recognised this and is reviewing why this profile occurs and how it can achieve a more even profile. The Large Business directorate, which makes the largest contribution to compliance yield (£8.7 billion in 2017-18), has made progress on this, reducing the proportion of yield recorded in quarter 4 from 59% in 2015-16 to 39% in 2017-18.

Part Two

HMRC's transformation plans

2.1 HM Revenue & Customs (HMRC) is two years into a transformation programme with the aim of becoming one of the most digitally advanced tax administrations in the world. HMRC aims to move to a fully digital tax system where all individuals and businesses can see their tax affairs in one place and carry out transactions digitally. To support this HMRC plans to simplify and automate its processes, make better use of data on taxpayers and modernise its working environment. HMRC's transformation plans as a whole consist of:

- 15 programmes that make up its transformation portfolio (the portfolio), with each programme consisting of a number of individual projects; and
- wider change led by HMRC's business groups (**Figure 6** overleaf).

2.2 Under the Spending Review 2015, HMRC committed to spending £1.8 billion on transformation between 2016-17 and 2019-20 and to:

- achieving £1.9 billion of efficiency savings over the four years (reaching annual efficiency savings of £717 million a year in 2019-20);
- reducing business customers' costs by £400 million over the four years to 2019-20; and
- collecting £920 million of additional tax revenue (including £310 million by 2019-20 and another £610 million in 2020-21).

2.3 In previous years we have highlighted the scale of the ambition of HMRC's transformation plans and the associated delivery risk. When we first reported on HMRC's transformation plans, in 2015, we noted that the plans were more complex and far-reaching than previous change initiatives.¹⁰ In 2016 we found HMRC had a strong rationale for its plans but that they carried a significant delivery risk.¹¹ Our 2017 report concluded that transformation as originally scoped would be challenging to deliver within the timescale.¹² We noted that HMRC had recognised that it needed to slow, stop or reduce the scope of activity to live within its budget. There were still pressures on its budget, but HMRC was managing the risk through ongoing prioritisation of its portfolio. We recommended that HMRC should review its plans given the pressures on the cost and affordability of programmes.

¹⁰ Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts, Report by the Comptroller and Auditor General*, National Audit Office, July 2015.

¹¹ Comptroller and Auditor General, *HM Revenue & Customs 2015-16 Accounts, Report by the Comptroller and Auditor General*, National Audit Office, July 2016.

¹² Comptroller and Auditor General, *HM Revenue & Customs 2016-17 Accounts, Report by the Comptroller and Auditor General*, National Audit Office, July 2017.

Figure 6

HMRC's transformation portfolio

Most of HMRC's transformation is being delivered through a portfolio of the 15 major programmes shown below

Programme	Description
Making Tax Digital for Individuals	Modernising tax administration for individuals through digital solutions. Making more data visible to customers through Personal Tax Accounts (PTAs) and developing HMRC's use of information provided through the PTAs.
Making Tax Digital for Business	Modernising tax administration for business through digital solutions. Allowing businesses to keep their records digitally and update HMRC quarterly.
Compliance for the Future	Building internal compliance capability at HMRC.
Customs Transformation	Preparing for the UK's exit from the EU by implementing a new Customs Declaration Service, replacing the existing system.
Building Our Future Locations	Creating 13 regional centres, redeploying staff and disposing of buildings.
Corporate Services	Removing bureaucracy, and introducing a self-service culture, lower service costs, shared services and improved experience for staff.
Benefits Transformation	<ul style="list-style-type: none"> • Tax-Free Childcare and Universal Credit – accounts to support parents' childcare costs; and to replace Tax Credits with Universal Credit. • Help to Save – access to government-backed savings accounts to help working people on low incomes build up their savings. • Future of Child Benefit – a new HMRC Child Benefit IT system to replace the existing system.
Policy Driven Change	Implementing policy initiatives not funded from Spending Review 2015.
Data Platform	Delivering data standards and improving data quality.
Enterprise Data Hub	Delivering a digital repository for storing and sharing data.
Digital Platform	Delivering a number of enabling platforms including Government Gateway and the digital tax platform.
Finance Platform	Enabling digital payments by customers, better internal reporting and a more efficient accounting system.
Process Platform	Developing processes to support future ways of working.
Securing Our Technical Future (formerly known as Columbus Cloud)	Moving to secure cloud-based computing and rationalising existing IT infrastructure.
People Capabilities	Developing people capabilities (culture, ways of working and career pathways) to support the future organisation.

Note

- 1 The composition of HMRC's portfolio has changed since we last reported in July 2017. The Columbus programme has been completed. The Customs Declaration Service is now one of the three main components of the Customs Transformation programme, along with the Borders Systems and the Contingency programmes. The Enterprise Data Hub programme used to be part of the Data Platform.

Source: National Audit Office analysis of HM Revenue & Customs documents

Prioritisation of transformation plans

Rationale

2.4 HMRC faces budgetary pressures every year and has had to prioritise and defer a number of projects so that its spending on transformation does not exceed available funding. As we noted in 2017, the UK's exit from the EU has added further pressure to the programme and timescale.¹³ At the end of 2017, HMRC acknowledged that delivering its transformation plans as originally envisaged was not realistic. At a Committee of Public Accounts session in November 2017, Jon Thompson, the Chief Executive of HMRC, stated "I do not believe it is credible for us to continue with the transformation programme as it is – all 250 projects of it. We have to take into account the fact that we now have to leave the European Union and we have further fiscal events. ... We simply cannot take 250 projects and then add on another 50 for Brexit."¹⁴

2.5 In response to its own risk assessment and to address a previous National Audit Office (NAO) recommendation on reviewing plans to align the transformation portfolio with the funding it has available, HMRC undertook a major exercise to prioritise the projects in its portfolio ('the exercise') to reduce costs and release capacity. This was mainly to deal with the impact of the UK's exit from the EU on HMRC but also to ensure its transformation plans could be delivered. The exercise recognised three factors that pointed to a need to prioritise: (1) the size of the portfolio and the number of risks and dependencies within it made it extremely complex; (2) the number of projects in the portfolio, given the additional EU Exit work, was greater than HMRC's capacity to deliver them; and (3) the cost of the portfolio was greater than available funding.

Prioritisation process

2.6 Prioritising HMRC's transformation portfolio is difficult, as many of the programmes and projects are interdependent and some are implementing necessary changes, such as the new customs system. To reduce some of the subjectivity in evaluating the projects, HMRC followed a clear and structured process in prioritising the projects in its portfolio (**Figure 7** overleaf). The exercise was completed in January 2018.

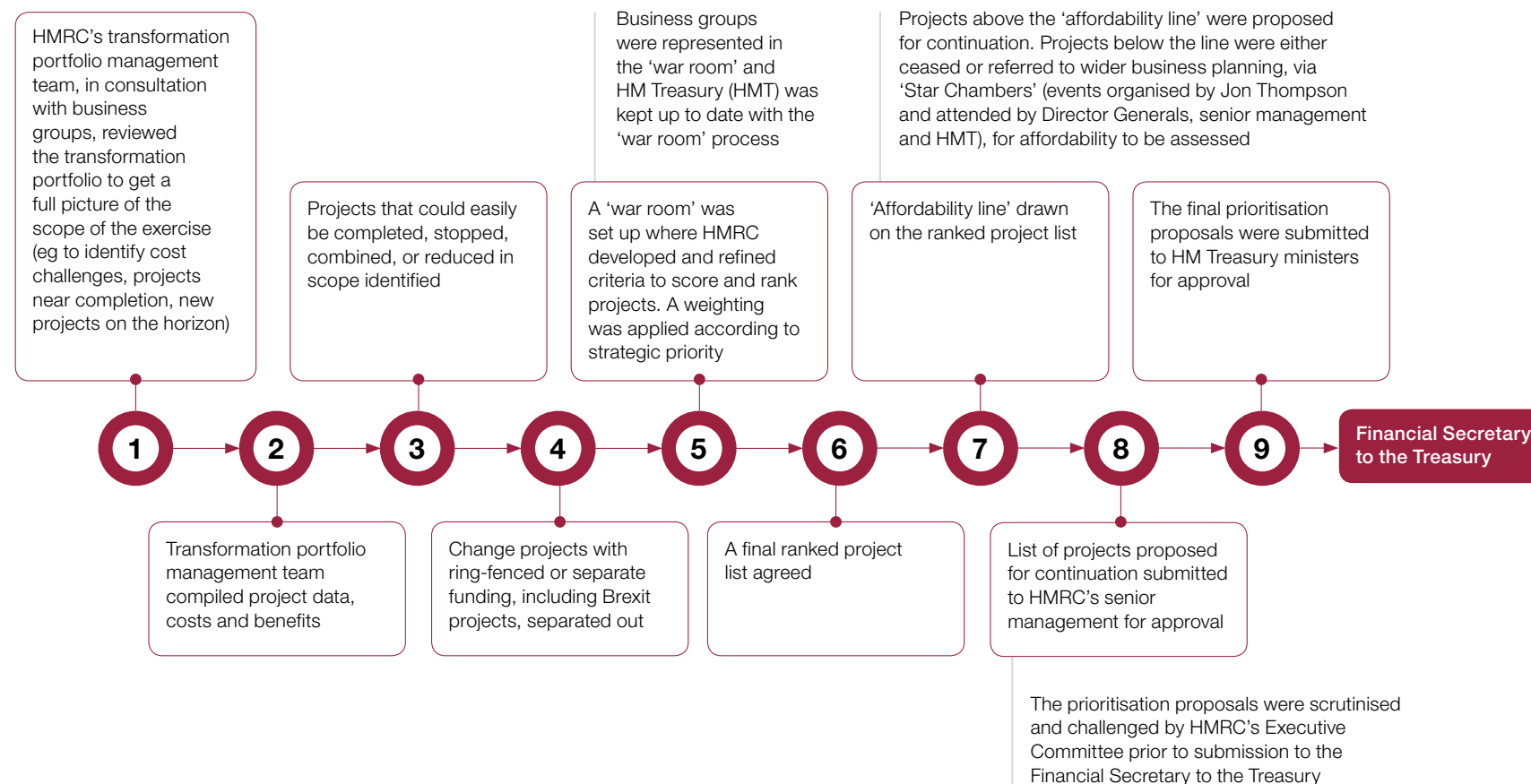
¹³ See footnote 12.

¹⁴ House of Commons, Committee of Public Accounts, *HMRC's Performance in 2016-17*, Twelfth Report of Session 2017-19, HC 456, January 2018.

Figure 7

Process used by HMRC for its prioritisation exercise

HMRC followed a clear and structured process

**Note**

- 1 The transformation portfolio management team manages the portfolio as a whole, monitors progress on budgets and delivery and ensures the flow of information to HMRC's Executive Committee.

Source: National Audit Office

2.7 HMRC used seven weighted criteria, both quantitative and qualitative, to assess the relative strategic importance of projects (**Figure 8**).

2.8 Our assessment of HMRC's overall approach to prioritising its transformation plans is at **Figure 9** overleaf. By following a clear methodology HMRC managed to achieve its stated objectives. HM Treasury had visibility of the process and provided a 'challenge role' throughout, for example in the discussions that took place in the 'Star Chambers' (see Figure 7).¹⁵

Figure 8

Criteria used in HMRC's prioritisation exercise

Some criteria were double or triple weighted

Criterion	Weighting	Definition
Brexit	Triple	Projects deemed urgent and mitigate an impending national risk.
Tax receipts	Double	Return on Investment (RoI) in additional tax revenue terms.
Efficiencies	Double	RoI in efficiency savings terms.
People and productivity	Single	The extent to which a project contributes to HMRC's ambition to be a 'great place to work'.
Corporate risk	Single	The extent to which current and future compliance revenues and tax receipts are protected.
Strategic alignment	Single	The degree to which the delivery of a project is core to HMRC's stated ambitions – without these projects HMRC will not transform.
Customer impact	Single	A measure of impact on customers to minimise deterioration in the quality of service.

Note

1 Some key criteria, such as interdependencies between projects and constraints on capability, were not formal methodological criteria but were covered in managerial discussions throughout the process.

Source: National Audit Office analysis of HM Revenue & Customs documents

¹⁵ 'Star Chambers' were meetings of senior HMRC officials where affordability was assessed.

Figure 9

National Audit Office's assessment of HMRC's prioritisation exercise

HMRC fully or partly delivered against all the NAO assessment criteria

Theme	Criterion	National Audit Office assessment
Objectives	Did HMRC set out clearly what it intended to achieve from its prioritisation exercise?	Yes. HMRC's aim was to create a revised portfolio that aligns with its strategy, is deliverable within capacity and is aligned to HMRC business planning.
Methodology	Was HMRC's prioritisation methodology clear and logical?	Partly. HMRC used a clear and logical methodology but the long-term impact of its decisions was not fully taken into account.
	Did the methodology take into account interdependencies?	Partly. Interdependencies between projects was not a formal methodological criterion but was covered in discussions throughout the process.
	Did HMRC consider capacity constraints in its prioritising of projects?	Yes. However, cost considerations were chosen as the main reason for prioritisation because costs are easy to quantify.
	Did HMRC consider sunk costs in its prioritisation of projects?	Yes. Two of the criteria ('tax receipts' and 'efficiencies') were calculated on a Return on Investment basis based on future costs. This approach favoured projects where a significant amount had already been spent.
Impact assessment	Did HMRC consider the impact on stakeholders in its prioritisation decisions?	Partly. One of the criteria used in the exercise was 'customer impact', which aimed to minimise deterioration in the quality of services. However, HMRC did not carry out a full customer impact assessment for its decisions on which projects to stop or defer.
	Has HMRC achieved what it intended to from prioritisation?	Yes. It has managed to release the capacity originally planned. HMRC has also managed to reduce the size of the portfolio and reduce costs.
	Does HMRC have assurance that its plans post-prioritisation are realistic?	Partly. HMRC's position is that the revised portfolio is deliverable, with an appropriate level of risk. HMRC will undertake annual prioritisation exercises to ensure that its plans remain deliverable.
	Is there a clear plan for the transition of capabilities to operations?	Yes. HMRC's new transformation management model is underpinned by the transfer of projects from its portfolio to the business groups (see paragraph 2.27).
Audit trail	Had HMRC maintained sufficient documentation of its prioritisation exercise to enable a comprehensive audit?	Partly. HMRC kept a record of key decisions in relation to the deliberations that took place in the 'war room' rather than full details of the discussions (see Figure 7).

Source: National Audit Office analysis

Results of prioritisation

2.9 The overarching objective of HMRC's exercise was to release capacity. This was primarily achieved through focusing on short-term benefits and making cost savings, rather than considering how to better deliver long-term transformational changes. HMRC ranked its projects based on its approved weighted criteria (**Figure 10**).

2.10 To achieve its Spending Review 2015 commitments, HMRC set its criteria to place a higher premium on making efficiency savings and collecting additional tax revenue than on other beneficial aspects of projects. The selected criteria resulted in important 'enabling projects' being lower on the priority list. These are projects, such as Enterprise Data Management, which are central to HMRC's aims to make better use of data. HMRC, nevertheless, proposed to continue funding these projects. To consider longer-term implications, HMRC used its 'strategic alignment' prioritisation criterion and return on investment, over a five-year period from 2018-19 to 2022-23 (underpinning HMRC's 'tax receipts' and 'efficiencies' prioritisation criteria), rather than net present value, over the whole life of projects, and payback period for prioritising projects.¹⁶

Figure 10
HMRC's ranking of projects

Criterion	High-ranking programmes/projects
Brexit	Customs Declaration Service.
Tax receipts	Making Tax Digital for Business, Customs Declaration Service.
Efficiencies	Strategic Risking (Compliance for the Future), HR Transformation.
People and productivity	HR Transformation, Regional Centres.
Corporate risk	Customs Declaration Service, Future of Child Benefit.
Strategic alignment	Customs Declaration Service, Making Tax Digital for Business, Strategic Risking (Compliance for the Future).
Customer impact	Customs Declaration Service, Making Tax Digital for Business, Student Loan Transformation.

Note

1 Projects due to Budgets and Spring or Autumn Statements (also known as fiscal events) and the UK's exit from the EU were excluded from the project ranking as they were deemed 'non-negotiable'.

Source: National Audit Office analysis of HM Revenue & Customs data

¹⁶ The net present value of a project is the sum of the present values of all the cashflows that arise over a period of time as a result of the project, including any initial investment. The payback period is the time a project will take to pay back the money invested in it.

2.11 HMRC reduced the number of projects in its portfolio significantly. It started with 267 projects at the beginning of 2017-18, dropping to 206 after a preliminary scoping review. Following the prioritisation exercise, which led to a further 78 projects being stopped or consolidated, HMRC reduced its transformation portfolio to 128 projects (**Figure 11**).

2.12 HMRC included a number of projects that were funded outside its transformation budget in its prioritisation exercise. These related to Autumn Statements and Budget announcements (34 projects such as the Fulfilment House Due Diligence Scheme) and the UK's exit from the EU (22 projects). This ensured that constraints on capacity, as well as cost, were adequately reflected in its final decisions on the composition of its revised portfolio.

Figure 11

Total number of projects in HMRC's transformation portfolio in 2017-18

HMRC's prioritisation exercise led to 78 transformation projects being consolidated or stopped

Category	Number of projects
Projects in the portfolio at the start of 2017-18	267
Plus new projects required for Brexit	22
Plus new projects due to fiscal events since Spending Review 2015	34
Plus new projects required for HMRC's transformation plans	25
Less projects completed in 2017-18	(111)
Less projects stopped or paused in 2017-18 following preliminary scoping review	(31)
Less projects consolidated as a consequence of prioritisation exercise	(70)
Less projects stopped as a consequence of prioritisation exercise	(8)
Projects in the portfolio at the end of 2017-18	128

Notes

1 The numbers in brackets are negative numbers.

2 Fiscal events comprise of Budgets and Spring or Autumn Statements.

Source: HM Revenue & Customs

The reprioritised transformation portfolio

2.13 The prioritisation process has affected most parts of the transformation portfolio (**Figure 12** overleaf). These decisions have consequences for the expected benefits and delivery timetable of HMRC's transformation plans and will affect customers. Expected transformation efficiency savings will be reduced and HMRC will achieve its transformation vision later than it expected.

2.14 HMRC's transformation plans remain ambitious, complex and challenging to deliver, particularly in light of the pressures imposed by the UK's exit from the EU, but the delivery timeline now appears more realistic and manageable. Following the prioritisation exercise, HMRC's latest assessment of its transformation portfolio, in March 2018, resulted in a change from an amber/red to an amber risk rating.¹⁷ The amber rating was primarily due to risks associated with the Enterprise Data Hub and Compliance for the Future programmes.

2.15 HMRC did not undertake a full analysis of the impact on its customers of its decisions to stop or defer projects. It plans to bring together a range of performance measures relating to its customers in its management information for its Executive Committee, from summer 2018. HMRC's transformation depends on many of its staff adapting to new work places, new tools and new ways of working focused on individual customers. This will require different skills and expertise. HMRC is developing a new internal communications strategy to reassert its commitment to its vision for transformation.

Capacity

2.16 By stopping and deferring a number of projects, HMRC has alleviated some of the pressure on capacity in its plans. HMRC has identified 21 key risk areas that have constrained capacity but are critical to delivering its transformation plans. HMRC monitors these risks on a regular basis. Before its prioritisation exercise, six areas relating to 'people capacity' and six areas of 'infrastructure or business capacity' were assessed and reported as 'red' risks. A red risk is defined as an area where demand is forecast to exceed capacity and is unlikely to be met on time and to quality. Following the exercise, only two of the risks in each area remained 'red'. HMRC expects, through careful sequencing of projects, to manage the remaining constraints. HMRC's exercise also allowed it to release 51 staff for work to prepare for the UK's exit from the EU, 49 staff for work in the Customer Services Group and 15 for other activities (**Figure 13** on page R35). In total, HMRC has about 1,100 staff working on EU Exit work.¹⁸

¹⁷ HMRC monitors the risks associated with its transformation portfolio and reports monthly. HMRC's amber risk rating means successful delivery appears feasible but significant issues already exist that require management attention – these appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun. HMRC's amber/red risk rating means that successful delivery of the project/programme is in doubt, with major risks or issues apparent in a number of key areas – urgent action is needed to ensure these are addressed, and establish whether resolution is feasible.

¹⁸ House of Commons, Treasury Committee, *Oral evidence: The UK's economic relationship with the EU*, HC 453, 23 May 2018, Q623. Available at: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/the-uks-economic-relationship-with-the-european-union/oral/83608.pdf>

Figure 12

The impact of the prioritisation exercise on HMRC's transformation programmes

Programme	Impact
Making Tax Digital for Individuals	Work to roll-out simple assessment and in-year tax code changes paused. Improvements to the online Personal Tax Account will focus on service improvements, with additional services added only where they reduce post and phone contact or deliver significant savings.
Making Tax Digital for Business	Digital reporting of Excise, Environmental, Insurance and Transport Taxes not directly linked to EU exit delayed. Convergence of business taxes from HMRC's current IT systems onto a single system slowed.
Compliance for the Future	Compliance for the Future to be delivered over five years rather than three.
Customs Transformation	Resource released to support Customs Transformation work from other transformation programmes.
Building Our Future Locations	Refurbishment of Newcastle Regional Centre deferred by two years to 2020-21. Nottingham refurbishment/acquisition of new building deferred to 2020-21.
Corporate Services	Planning, Performance and Risk project (to streamline internal processes) stopped.
Benefits Transformation	As no new tax credits claims will be made after January 2019, HMRC will not move ahead with an online service for new tax credits claims. Changes to the Child Benefit system will, for now, be limited to the underlying IT infrastructure, which needs replacing, rather than providing new digital services for claimants.
Policy Driven Change	Digitisation of services for smaller customer groups paused, including Tax Advantaged Venture Capital Schemes, Inheritance Tax online.
Data Platform	Project to enable HMRC to share data with government bodies and set-up a new service to deliver cross-government needs as envisaged in the Digital Economy Act stopped.
Enterprise Data Hub	No change as a result of prioritisation. Outside of this process, HMRC is reconsidering the scope of the project to replace HMRC's 12 existing data warehouses with a single, flexible, searchable data platform.
Digital Platform	Project to carry out digital research and development, including on robotics, stopped.
Finance Platform	Modernisation of reporting tools slowed. Implementation of a new asset management system stopped. Costs to re-tender HMRC banking contract absorbed by 'business as usual'.
Process Platform	No impact.
Securing Our Technical Future	The scope for moving to secure cloud-based computing and rationalising existing IT infrastructure to improve resilience and scalability being reconsidered.
People capabilities	No impact.

Note

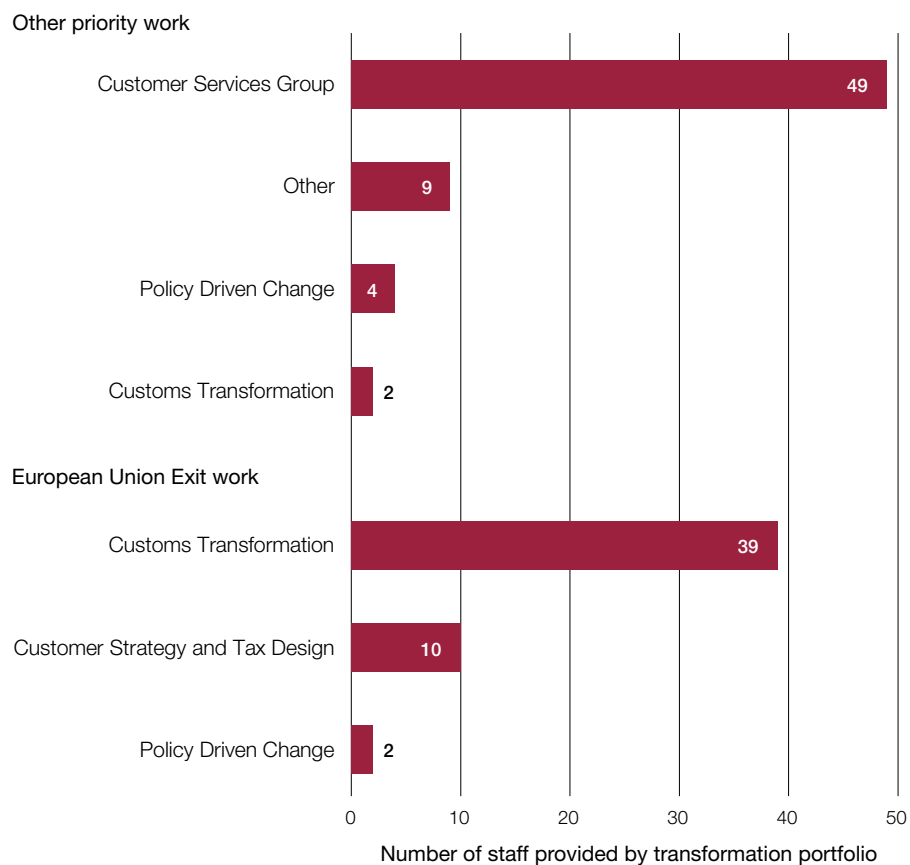
- 1 There was no impact on the Process Platform or People Capabilities as these were funded outside HMRC's Transformation Portfolio Group so were not included in this prioritisation exercise.

Source: National Audit Office analysis of HM Revenue & Customs documents

Figure 13

Capacity released, as at the end of March 2018, from transformation portfolio for European Union Exit work and other priority work

The diagram shows where staff released have moved to. The majority of staff released by the prioritisation exercise have moved to Customs Transformation

**Notes**

- 1 The 51 staff moved to EU Exit work were all project delivery professionals who used to work in either Making Tax Digital for Individuals or the Compliance for the Future programmes.
- 2 The 64 staff moved to other priority work used to work in Making Tax Digital for Individuals programme.

Source: HM Revenue & Customs

Transformation costs

2.17 The Transformation Portfolio Group's spending on programmes funded by SR15 (£539 million) was forecast to exceed the budget (£415 million) by 30% in 2018-19 (**Figure 14**). HMRC has now reduced the cost of its SR15-funded transformation portfolio by £191 million in 2018-19 and 2019-20, to make it affordable (reduced costs of £172 million from SR15-funded transformation programmes and a further £19 million from programmes that had their own funding). This has brought planned spending closer to budgets. HMRC still plans to spend £1.74 billion on its transformation over the period 2016-17 to 2019-20. This is 1% less than the SR15 budget of £1.76 billion.

Figure 14

HMRC's transformation budgets, actual spending and forecasts

HMRC plans to spend £1.74 billion of its £1.76 billion transformation budget by the end of 2019-20

	2016-17 (£m)	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	Total (£m)
HMRC's SR15 transformation budgets	542	447	391	381	1,761
Budgets allocated to HMRC's Transformation Portfolio Group	419	353	415	378	1,565
Transformation Portfolio Group spending on transformation	416	331	539	489	1,774
Reductions in forecasts as a result of prioritisation	n/a	n/a	-96	-76	-172
Transformation Portfolio Group spending on transformation after prioritisation	416	331	443	413	1,602
Other spending by HMRC on transformation (Chief Digital and Information Officer group – Columbus programme)	71	64	6	0	141
Total HMRC spending on transformation	487	395	449	413	1,744

Notes

- 1 Transformation Portfolio Group budgets only include budget allocations that are SR15 funded.
- 2 We reported HMRC's 2016-17 transformation spending as £507 million last year. This was the total spend for the Transformation Portfolio Group, so it included some programmes that were not SR15 funded and did not include the Columbus programme as this is managed by HMRC's Chief Digital and Information Officer group.
- 3 Spending on transformation is actual spending for 2016-17 and 2017-18; and forecast spending for 2018-19 and 2019-20, as at June 2018.
- 4 Totals do not exactly sum due to rounding.

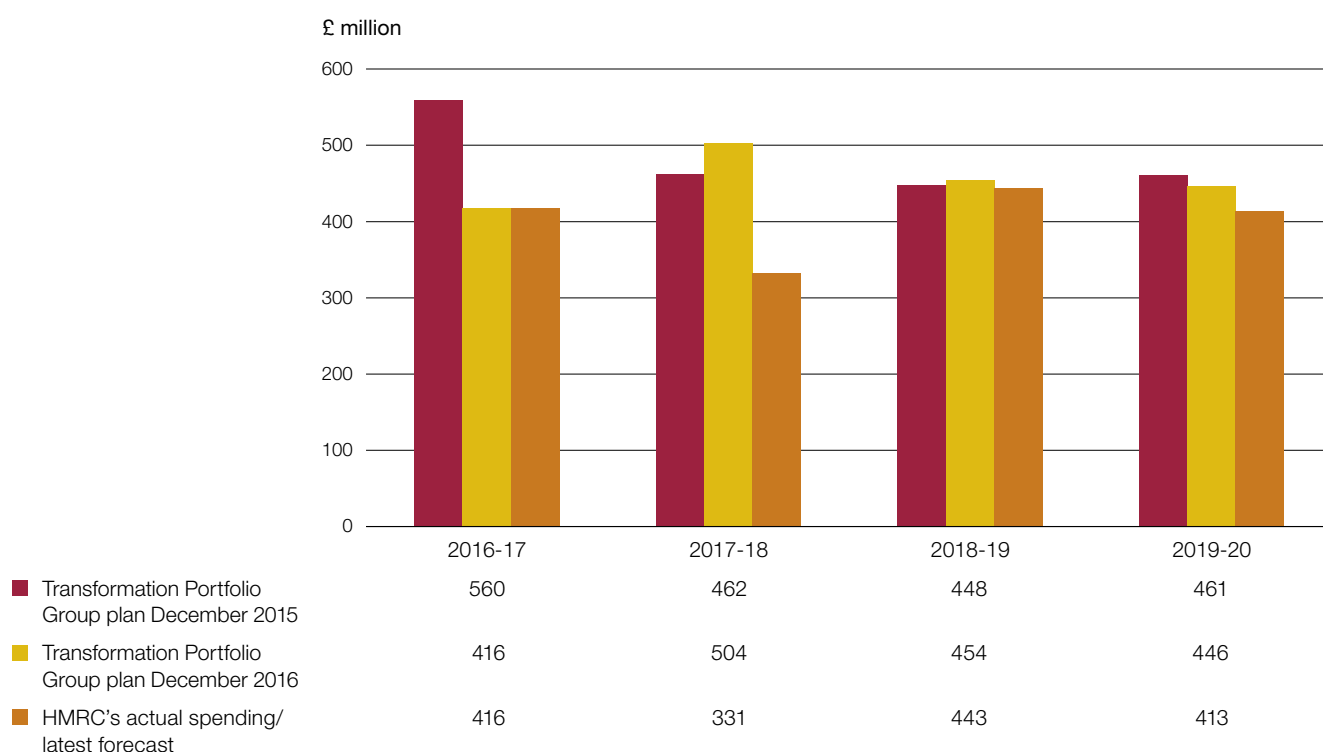
Source: National Audit Office analysis of HM Revenue & Customs data

2.18 HMRC has developed its plans and forecasts as its understanding of its transformation has matured. As a result the profile of how much it plans to spend over the SR15 period and when, has changed. Spending in earlier years has fallen from earlier forecasts (**Figure 15**).

Figure 15

HMRC's Transformation Portfolio Group planned spending over the Spending Review 2015 period

Spending in earlier years has fallen from earlier forecasts



Notes

- 1 This chart shows HMRC's internal plans for spending its SR15 transformation funding and its latest revised plan following its prioritisation exercise.
- 2 £416 million and £331 million are actual spending totals for 2016-17 and 2017-18 respectively. All other figures are forecasts as at June 2018.
- 3 The chart only includes spending by HMRC's Transformation Portfolio Group, so does not include spending on the Columbus programme by HMRC's Chief Digital and Information Officer group.

Source: National Audit Office analysis of HM Revenue & Customs data

Benefits from transformation

Sustainable efficiency savings

2.19 Over the first two years of Spending Review 2015 (2016-17 and 2017-18), HMRC made £591 million of sustainable efficiency savings against its target of £583 million (**Figure 16**). HMRC forecasts that its decisions following the prioritisation exercise will lead directly to a reduction in expected efficiency savings, from £717 million a year by 2019-20 to £675 million, although the target of £717 million remains the same. HMRC is confident that by targeting efficiency savings from operational activities, for example from its continuous improvement initiatives, it will be able to meet its target of £717 million by 2019-20. There may be further consequences for HMRC's ability to achieve wider business efficiencies.

2.20 As HMRC's understanding of its transformation programmes has developed, it has revised its forecasts of how much of its sustainable efficiency savings it can directly attribute to specific transformation programmes (**Figure 17**). Some of the efficiency savings realised by the business groups have been made possible by the outcomes of the programmes in the portfolio. It is not clear yet what impact prioritisation will have on delivery of benefits across the whole of HMRC. HMRC has not yet been able to predict exactly which capabilities enabled by the transformation programmes will give rise to all the expected benefits. To monitor this, HMRC is using a portfolio management approach supported by processes to manage benefits.

Figure 16
HMRC's sustainable efficiency savings

HMRC expects to achieve the savings that it committed to at the Spending Review 2015

	2016-17 (£m)	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	Total (£m)
SR15 efficiency savings target	203	380	566	717	1,866
Actual efficiency savings	181	410	n/a	n/a	
Reductions as a result of prioritisation	n/a	n/a	-21	-42	
Actual and forecast efficiency savings	181	410	582	675	1,848

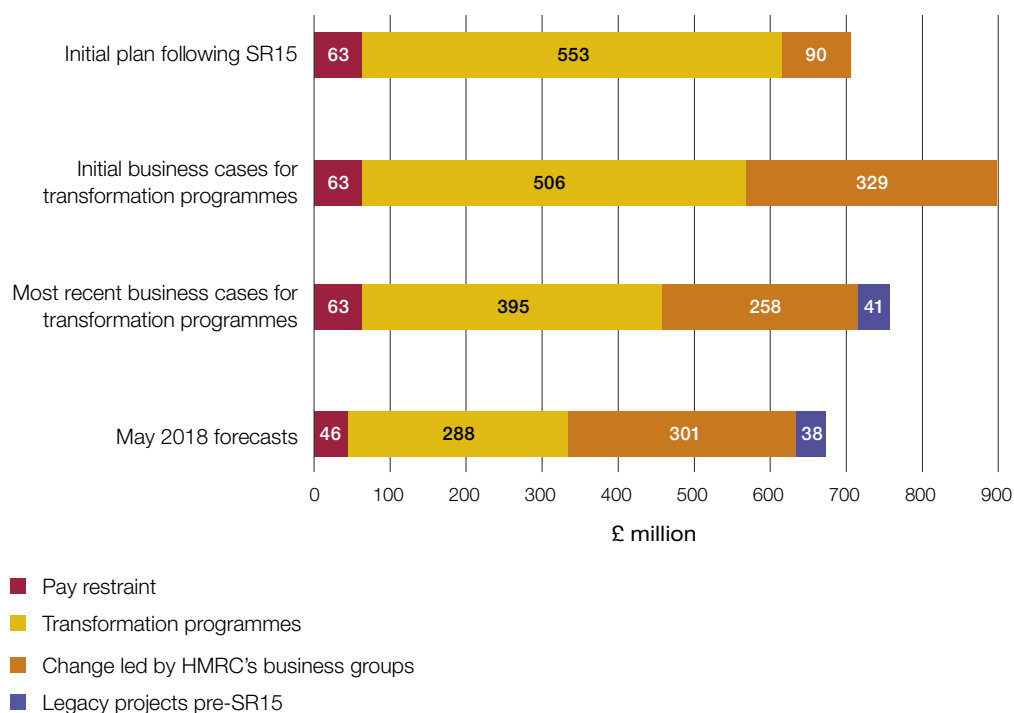
Notes

- 1 HMRC expects efficiencies to increase cumulatively over the SR15 period.
- 2 HMRC's 2018-19 forecast includes the impact of the prioritisation exercise and additional efficiency savings from across the organisation.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 17**Sources of HMRC's Spending Review 2015 efficiency savings**

A greater proportion of HMRC's efficiency savings than originally expected will be delivered by business groups rather than transformation programmes

**Notes**

- 1 Initial business cases were approved between December 2014 and July 2016.
- 2 The latest business cases were approved between November 2015 and October 2017.
- 3 'Pay restraint' savings originate from limiting pay increases to 1% a year over the four-year SR15 period (2016-17 to 2019-20 inclusive).
- 4 'Legacy projects' savings are from projects that pre-date the transformation programmes.
- 5 'Business groups' savings are those that are independent of HMRC's investment in its transformation.

Source: National Audit Office analysis of HM Revenue & Customs data

2.21 It can be difficult to demonstrate the impact of investment in transformation because transformation programmes often lack clearly defined end dates and assume that services will continue to improve and be refined. This can make it difficult to set clear baselines for realising benefits. A key test is whether stated benefits are based on genuine improvements to processes or whether they have been achieved through other means.¹⁹ This means there is a risk that organisations may reduce costs before they have made sufficient sustainable improvements in efficiency. HMRC seeks to reduce this risk by tracking the benefits of each programme and reviewing their validity and sustainability.

Additional tax revenue

2.22 Making Tax Digital for Business was originally expected to generate £920 million of additional tax revenue by 2020-21 by minimising error and failure to take reasonable care through digital record-keeping and quarterly digital reporting. The government's July 2017 decision to change the pace and scope of the roll-out meant that the additional tax revenue figures were updated accordingly (**Figure 18**). HMRC's revised estimate of the additional tax revenue that Making Tax Digital for Business will generate by 2020-21 is £480 million and this was protected by the prioritisation exercise. HMRC expects Making Tax Digital for Business to have generated £1 billion of additional tax revenue by 2023. HMRC has identified that its Making Tax Digital for Individuals programme, that had no estimate of additional revenue, will now give rise to £293 million in additional tax revenue over the SR15 period.²⁰ HMRC had realised £33.5 million of this by the end of March 2018.

Figure 18

Summary of changes to Making Tax Digital for Business announced on 13 July 2017

Making Tax Digital for Business is HMRC's programme to move businesses to digital record keeping with quarterly reporting of tax information to HMRC

Spending Review 2015	As announced on 13 July 2017
Mandatory for all businesses ¹	Businesses with turnover under £85,000 are exempted
Income Tax and National Insurance Contributions information to be provided from April 2018	No timetable but not before April 2020
VAT information to be provided from April 2019	No change
Corporation Tax information to be provided from 2020-21	No timetable but not before April 2020

Note

- 1 The only exceptions were employees or pensioners with a secondary income from self-employment or property whose gross income from this is less than £10,000 a year.

Source: National Audit Office analysis of HM Revenue & Customs documents

19 National Audit Office, *Transformation guidance for audit committees*, May 2018.

20 The additional tax revenue will primarily come from HMRC using bank and building society savings interest data to automatically pre-populate tax codes.

Cost reductions for businesses

2.23 Last year we reported that HMRC had forecast that complying with Making Tax Digital for Business would result in net costs for businesses in the short-term transitional period. However, there would be £100 million annual net benefits for businesses from 2021-22 (**Figure 19**). HMRC has published revised forecasts reflecting the impact of the government's decision to change the scope and pace of the roll-out. HMRC now forecasts that there will be lower transition costs, but that ongoing costs will outweigh ongoing savings for businesses by £37 million a year in the long term.

Delivery progress

2.24 HMRC has made progress in some areas (**Figure 20** overleaf). For example, more than 14 million people have accessed their new online Personal Tax Account, the first regional centre has opened and IT contracts have been replaced and improved. HMRC still has more to do to fully transform its operations.

Figure 19

Financial impact of the Making Tax Digital for Business programme on businesses

HMRC's latest forecast shows that the requirements of Making Tax Digital for Business will add costs for businesses in the long term

	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	2020-21 (£m)	2021-22 (£m)	2022-23 (£m)
HMRC's original forecast of the administrative burden on businesses	100	250	590	0	-100	-100
HMRC's revised forecast of the administrative burden on businesses	–	5	149	52	37	37

Note

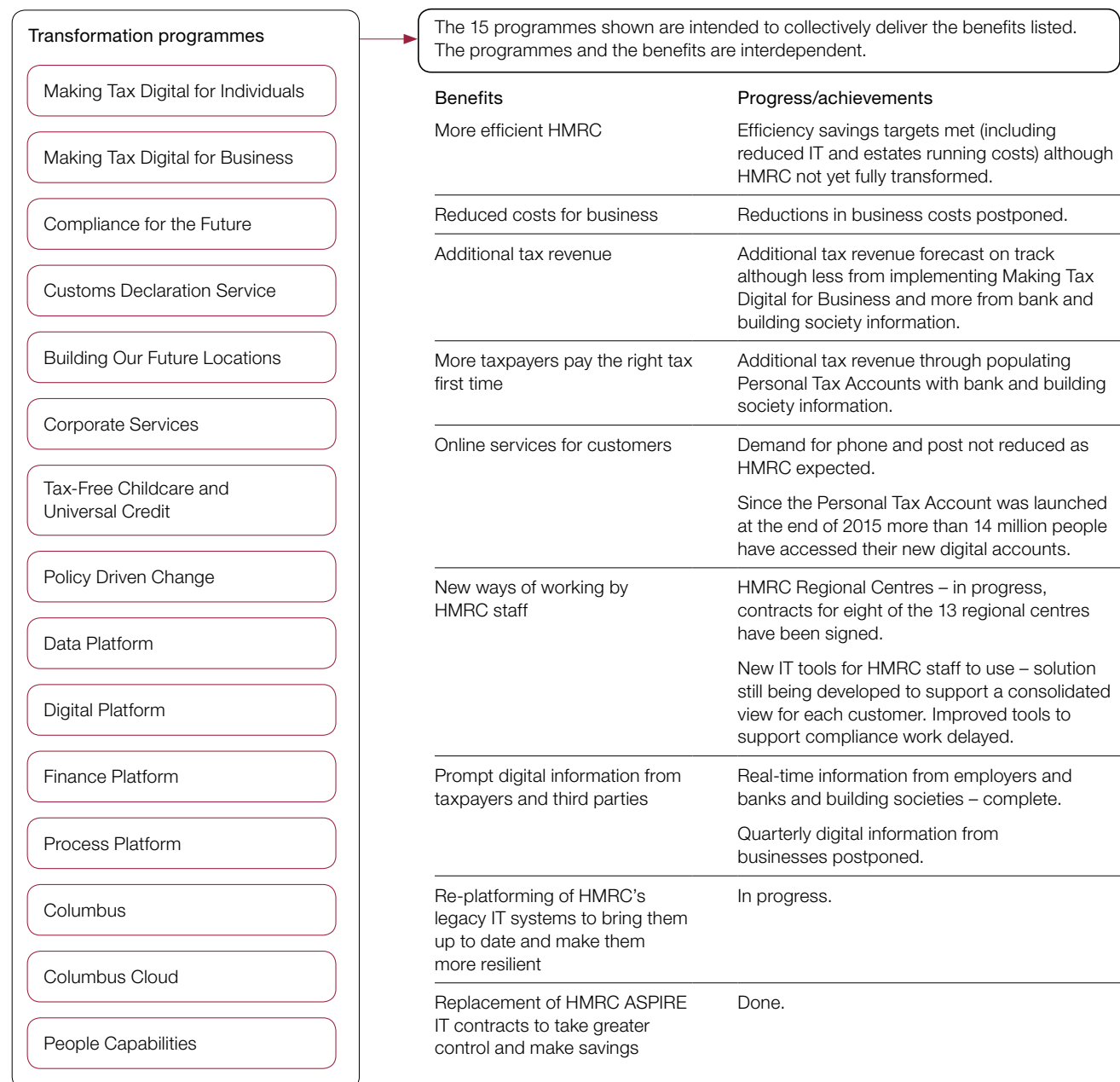
1 Negative numbers are savings for businesses and positive numbers are costs.

Source: HM Revenue & Customs

Figure 20

HMRC's progress in delivering the benefits from its transformation programmes

HMRC has made progress in delivering some benefits from its transformation portfolio, but it is still a long way from achieving its full ambitions

**Note**

- 1 The transformation programmes listed in this figure are those that resided in HMRC's portfolio in the first two years of the Spending Review 2015 period. Figure 6 shows the latest components of HMRC's transformation portfolio.

Source: National Audit Office analysis of HM Revenue & Customs documents

2.25 During 2017-18, HMRC monitored its transformation portfolio through a dedicated Transformation Executive Committee.²¹ The management information used by this transformation committee covered a range of areas: programme red/amber/green ratings, HMRC capacity, milestones, programme highlights, finances, benefits, risks and issues. **Figure 21** overleaf shows spending against budget and milestones deferred for HMRC's transformation programmes. The management information does not include a measure that links financial data on programmes with progress in delivering them. Information of this kind is important as it enables organisations to see whether progress is appropriately advanced given the amount spent. HMRC told us it considered correlations between different types of management information in discussions at working level and at the transformation committee.

Future plans for managing transformation

2.26 HMRC is further developing its understanding of how the projects in its portfolio relate to its overall vision for transforming its business. It is using a 'portfolio alignment tool' to enable it to map its high-level strategic objectives to its transformation plans and delivery commitments (**Figure 22** on page R45). HMRC considers that this analysis will help it to identify potential gaps in delivery of required capabilities to achieve its vision, and provide impact assessments to support prioritisation choices and the introduction of new work into the portfolio.

HMRC's new model for managing its transformation portfolio

2.27 After its prioritisation exercise, HMRC decided to change the way it managed its transformation portfolio. In April 2018, HMRC transferred responsibility for a number of its portfolio programmes to the business groups where the outcomes and benefits for its customers and staff will ultimately be delivered. For example, the Compliance for the Future programme will now be delivered by the Customer Compliance Group. HMRC has retained a central portfolio management team to help ensure the strategic coherence of HMRC's transformation plans as a whole, including managing interdependencies and accountability for delivering its SR15 commitments.

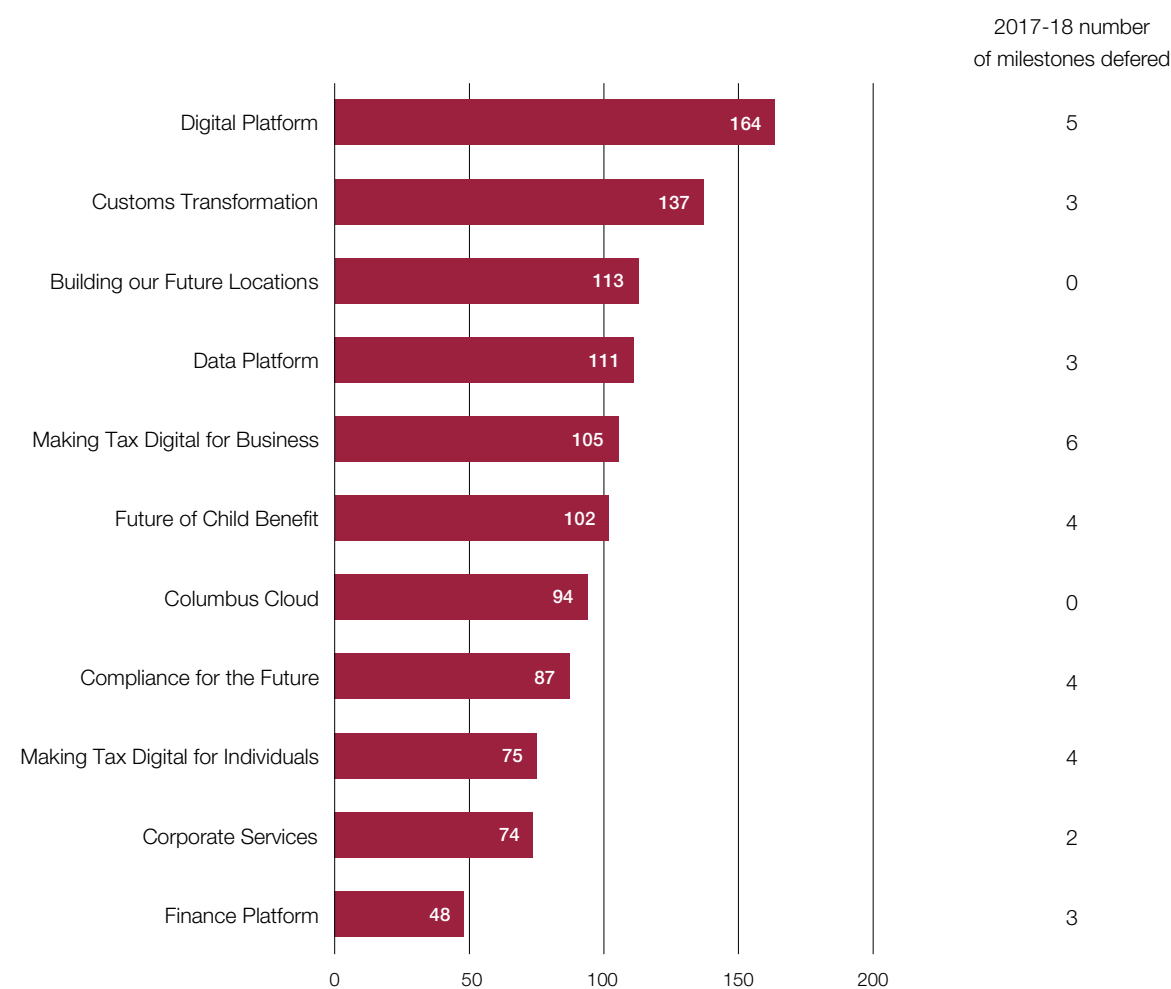
2.28 In our last report we showed that HMRC expected business groups to achieve savings as a result of transformation but that HMRC was not able to attribute these savings to the centrally-managed portfolio of transformation projects. Moving programme funding to business groups should improve accountability and allow HMRC to better understand the link between funding and outcomes. However, HMRC's increasingly decentralised model for managing its transformation portfolio is untested. HMRC may find it more difficult to manage risks, interdependencies and resources across the portfolio, and make the necessary trade-offs between the business groups.

²¹ Following the introduction of its new model to manage its transformation portfolio (paragraph 2.27), HMRC no longer has a dedicated Transformation Executive Committee. Discussions on the transformation portfolio are now held at HMRC's main Executive Committee.

Figure 21

Transformation programmes: spending against budget and milestones deferred in 2017-18

HMRC monitors spending against budget and milestones deferred for its transformation programmes on a regular basis



■ 2017-18 actual spend as a percentage of expected spend

Notes

- 1 The number of milestones deferred in the case of the Compliance for the Future programme reflects HMRC's decision to deliver it over a longer timeframe.
- 2 The number of milestones deferred on Data Platform is primarily due to HMRC's decision to pause the Enterprise Data Hub project (which is included in the Data Platform).
- 3 The number of milestones deferred in the case of the Making Tax Digital for Business programme reflects the ministerial decision to defer the scope and timing of its delivery.

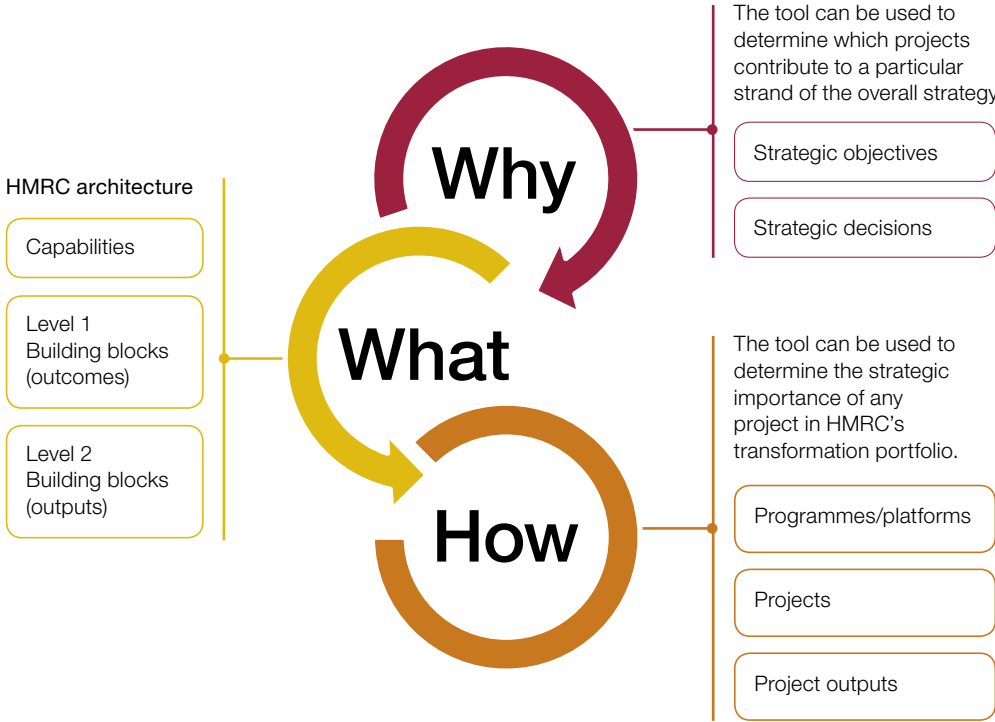
Source: National Audit Office analysis of HM Revenue & Customs documents

Figure 22
HMRC’s transformation portfolio alignment tool

HMRC expects its portfolio alignment tool to provide a framework that will create a line of sight from its strategic choices through to specific outputs within projects

Outline of HMRC’s portfolio alignment tool

Overall strategic objectives are ‘translated’ into capabilities, outcomes and outputs. This allows project outputs, as determined by business cases, to be mapped to the required strategic outputs.



Source: HM Revenue & Customs

Part Three

Benefits and credits

3.1 HM Revenue & Customs (HMRC) administers Personal Tax Credits (Tax Credits) and Child Benefit to provide support to families with children and to help ensure that work pays more than welfare. In 2017-18 HMRC spent £38.0 billion on these benefits and credits, 82% of total expenditure of £46.2 billion recorded in HMRC's 2017-18 Resource Accounts. Of this, £26.3 billion was spent on Tax Credits and £11.7 billion was Child Benefit. Tax Credits supported around 3.8 million families and around 6.8 million children, Child Benefit supported around 12.9 million children.

3.2 This part of our report covers:

- the qualification of the Comptroller and Auditor General's (C&AG's) opinion on the Resource Account due to material irregular Tax Credits expenditure;
- the estimated level of error and fraud in Tax Credits, including the analysis of these losses by risk area;
- HMRC's progress in addressing error and fraud in Tax Credits;
- the migration of Tax Credits to Universal Credit;
- the estimated level of error and fraud in Child Benefit; and
- we also report on the introduction of the Tax-Free Childcare scheme from April 2017, which provides assistance to families with the cost of childcare.

Qualification of the C&AG's audit opinion on the regularity of Tax Credits expenditure

3.3 Under the Government Resources and Accounts Act 2000, the C&AG must obtain enough evidence 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 (the C&AG's regularity opinion).

3.4 The Tax Credits Act 2002 specifies the eligibility criteria for Tax Credits and the way HMRC calculates the amounts to be paid. Where error and fraud result in overpayment or underpayment of Tax Credits to an individual who is either not entitled to Tax Credits or is paid at a different rate from that specified in the legislation, the transaction does not conform with Parliament's intention and is irregular. In respect of HMRC's 2017-18 financial statements, the C&AG has qualified his opinion on regularity due to the material level of estimated error and fraud in Tax Credits expenditure.

Tax Credits

3.5 Tax Credits are designed to support families with children; tackle child poverty; and help to make sure that work pays more than welfare. Tax Credits awards are based on initial estimates, and finalised at the end of the tax year. The process for finalising awards relies on claimants providing complete and accurate data, and HMRC calculating awards accurately. Error and fraud in Tax Credits has been a significant challenge for HMRC since the government introduced Tax Credits in 2003, which has led the C&AG to qualify his opinion on regularity every year since they were introduced.

Estimated level of error and fraud in Tax Credits

3.6 HMRC's latest estimate of the level of error and fraud in Tax Credits relates to 2016-17. This is because, in accordance with the normal Tax Credits annual cycle, awards for 2016-17 were finalised between April and July 2017 following the end of the tax year or in January 2018 for claimants required to submit a self-assessment for Income Tax. It is only after all claims are finalised that testing can be completed to estimate error and fraud.

3.7 HMRC estimates that in 2016-17 error and fraud resulted in overpayments of Tax Credits of 4.9% of expenditure, compared with 4.8% in 2015-16.^{22,23,24,25} Errors in Tax Credits resulting in underpayments increased to 0.8% of expenditure, compared with 0.6% in 2015-16. This equates to overpayments of £1.3 billion and underpayments of £200 million. As shown in **Figure 23** overleaf, the rate of error and fraud resulting in overpayments fell between 2010-11 and 2014-15, when it reached its lowest estimated level at 4.4%, but has since increased in both 2015-16 and 2016-17.

²² Note 4.3 to the HMRC Resource Accounts 2017-18.

²³ HMRC's published statistics refer to error and fraud resulting in overpayments – where claimants have received more than their entitlement – as 'error and fraud favouring the claimant', and error resulting in underpayments – where claimants have received less than their entitlement – as 'error and fraud favouring HMRC'. We use the terms overpayments and underpayments throughout this report. This is not the same as overpayments reported by HMRC during the year or that arise when Tax Credits awards are finalised. These overpayments arise because Tax Credits are calculated annually and are not included in the error and fraud statistics discussed here.

²⁴ Error and fraud figures quoted within the main body of this part are central estimates within a 95% confidence interval. This range reflects the uncertainty within the estimates. Detail on the estimate ranges is provided within the table in Appendix Two.

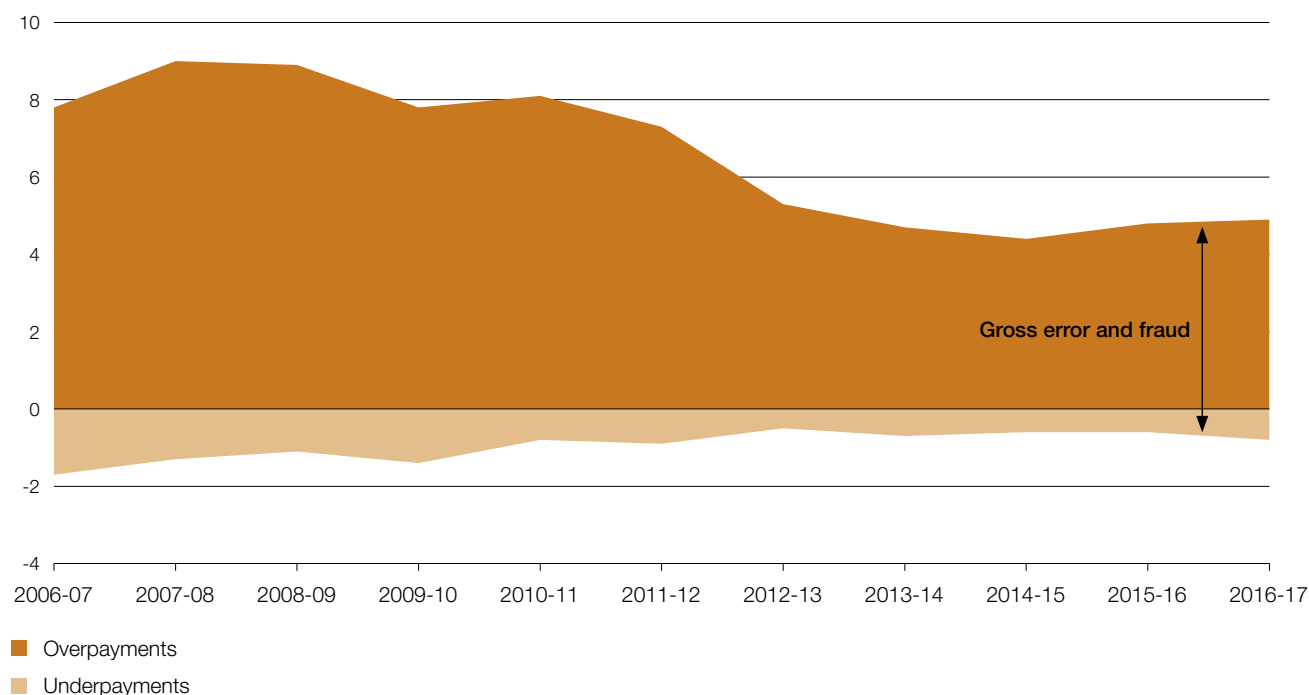
²⁵ The estimates for 2015-16 have been restated by HMRC. See paragraph 3.8.

Figure 23

HMRC's Tax Credits overpayment and underpayment estimates from 2006-07 to 2016-17

Error and fraud resulting in overpayments fell from 2011-12 until 2014-15, but has since increased

Overpayments and underpayments by percentage of total Tax Credits expenditure (%)

**Note**

- 1 Figures for 2014-15 and 2015-16 have been restated by HMRC; see *Child and Working Tax Credits error and fraud statistics 2014 to 2015*, June 2016 and *Child and Working Tax Credits error and fraud statistics 2015 to 2016*, June 2017 as updated in April 2018.

Source: National Audit Office analysis of HM Revenue & Customs data

3.8 In April 2018, HMRC restated the levels of error and fraud initially published for 2014-15 and 2015-16.²⁶ HMRC now estimates that the overpayments due to error and fraud in 2014-15 and in 2015-16 were 4.4% and 4.8% respectively. This compares with the previous estimates of 4.8% and 5.5%. In both years, underpayments were restated at 0.6% compared with the 0.7% previously reported. HMRC attributes both of these restatements to factors within the normal cycle of Personal Tax Credits. This includes time taken for appeals and the need to project the outcome for cases not completed at the time the estimates were published. HMRC has told us it intends to improve its processes to reduce the potential for restatements.

26 HM Revenue & Customs, *Child and Working Tax Credits error and fraud statistics 2015-16*, April 2018.

3.9 In forming his opinion on the regularity of Tax Credits expenditure, the C&AG has considered whether the error and fraud rates for 2016-17 provide sufficient evidence that error and fraud remains a material issue in 2017-18. On the basis of forecasts earlier this year HMRC expects that the level of error and fraud will increase when measured for 2017-18. The actual level of error and fraud will not be measured until June 2019, and so the estimate of error and fraud in 2016-17 remains the best estimate of the level of error and fraud in Tax Credits expenditure for the 2017-18 financial year.

Forecasting error and fraud

3.10 In November 2017, HMRC told the Committee of Public Accounts that it expected Tax Credits overpayments due to error and fraud to increase to between 7% and 8%, based on internal forecasts from June 2017.²⁷

3.11 HMRC had identified two specific issues which would lead to the forecast increase:

- The termination of the Concentrix contract in November 2016 was expected to add a further 1% to error and fraud due to Concentrix not undertaking the agreed level of interventions, the redeployment of HMRC staff from lower priority, business-as-usual activities to work on Concentrix compliance cases brought back in-house, and the inability to secure funding to replace the capacity provided by the Concentrix contract.
- A new test focusing on self-employed claimants working hours and income (the 'Commercial with a view to a profit' (C&P) test) applied from April 2016 was expected to reduce the cost of Tax Credits by more than £500 million in the period up to 2021 but increase error and fraud by approximately 1% in 2016-17.²⁸

However, the estimated level of error and fraud for 2016-17 is only 0.1% higher than the restated 2015-16 estimate.

3.12 Following its restatement of the error and fraud estimates for 2014-15 and 2015-16 in April 2018, HMRC reviewed its original error and fraud forecast for 2016-17 because the model is particularly sensitive to changes in:

- the level of error and fraud estimated to be in the system now; and
- the rate at which new error and fraud enters the system.

As a result, HMRC's internal forecast of overall error and fraud for 2016-17 fell from 7.4% to 5.8%. **Figure 24** overleaf provides a summary of the forecasts compared to the measured level of error and fraud, separately presenting amounts HMRC has attributed to Concentrix and the 'Commercial with a view to a profit' test.

²⁷ House of Commons, Committee of Public Accounts, Session 2017-19, *HMRC Performance in 2016-17*, 6 November 2017, Oral Evidence, Questions 187 and 198, and written evidence submitted by HMRC after the hearing in reference to Question 201, both available on the Committee's website.

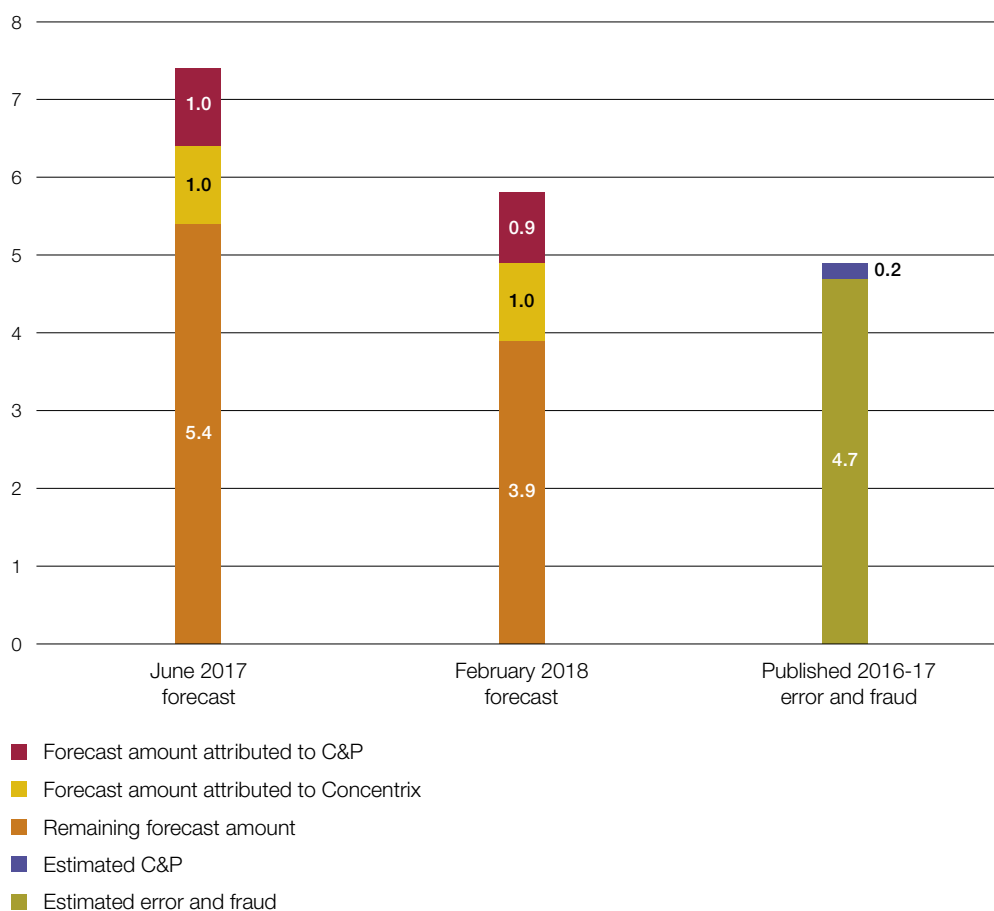
²⁸ The test requires that a claimant who is self-employed should be conducting their business on a commercial basis which is organised and regular, with a view to generating profit.

Figure 24

HMRC's forecasts for 2016-17 error and fraud compared with its published estimate

HMRC's forecasts were revised significantly but still overstated the expected rate of error and fraud because of variation relating to the 'Commercial with a view to a profit' (C&P) test

Changes in error and fraud forecasts (%)



Notes

- 1 After the amounts shown separately for C&P and Concentrix, the remainder of the forecast amount represents error and fraud entering the system from other sources.
- 2 The estimates for 2016-17 do not separately attribute a proportion of error and fraud to Concentrix, although HMRC considers this to contribute around 1% to the overall fraud and error estimate of 4.9%.

Source: National Audit Office analysis of HM Revenue & Customs forecasts and the published Tax Credits error and fraud statistics

3.13 The forecast amount attributed to Concentrix is HMRC's estimate of the impact of the failure of the contract. This amount cannot be directly tied to specific claimant cases or specific risk categories as part of the measurement exercise so it is not included in the published 2016-17 error and fraud rate as a separate measure. HMRC continues to estimate that the termination of the Concentrix contract has led to a 1% increase in error and fraud.

3.14 HMRC has attributed an error and fraud rate of 0.2% to the C&P test, some £55 million of overpayments, compared with the forecast of approximately 1%. In order to develop an expectation for the C&P component of the forecast, HMRC undertook a notional assessment in parallel with the 2015-16 error and fraud testing. This looked at whether cases would have passed or failed the C&P test based on the information held by HMRC, and without contacting the customer regarding the specifics of C&P. When reviewing cases for the 2016-17 estimate, claimants have had an opportunity to provide evidence to support their eligibility against the requirements of the test. HMRC believes that this additional information allows for more finely nuanced judgements than the original exercise, resulting in fewer cases being deemed non-compliant, and the rate of error and fraud ascribed to C&P being significantly lower than expected. This estimate is based on relatively small numbers of cases and so may change with further experience, in future years.

HMRC's approach to tackling error and fraud

3.15 HMRC continues to use a fraud and error framework to help structure its approach to tackling the causes of error and fraud, alongside its overall 'Promote, Prevent and Respond' approach to compliance.²⁹ This emphasises earlier interventions to reduce the level of error and fraud entering the system, rather than detecting it when it occurs. HMRC tells us that the overarching priority of its error and fraud strategy remains minimising losses to the Exchequer from Tax Credits.

3.16 As **Figure 25** overleaf suggests, the estimated level of error and fraud is sensitive to reductions in caseload volume and increases in error and fraud interventions.³⁰ The level of error and fraud has remained between 4.4% and 4.9% since 2012-13, mirroring the stabilisation in the level of interventions undertaken each year. This may suggest that the current volume and focus of interventions undertaken by HMRC is only sufficient to prevent an increase in error and fraud, and other activities (which would have a resource or opportunity cost) will be necessary to achieve a sustainable reduction in error and fraud.

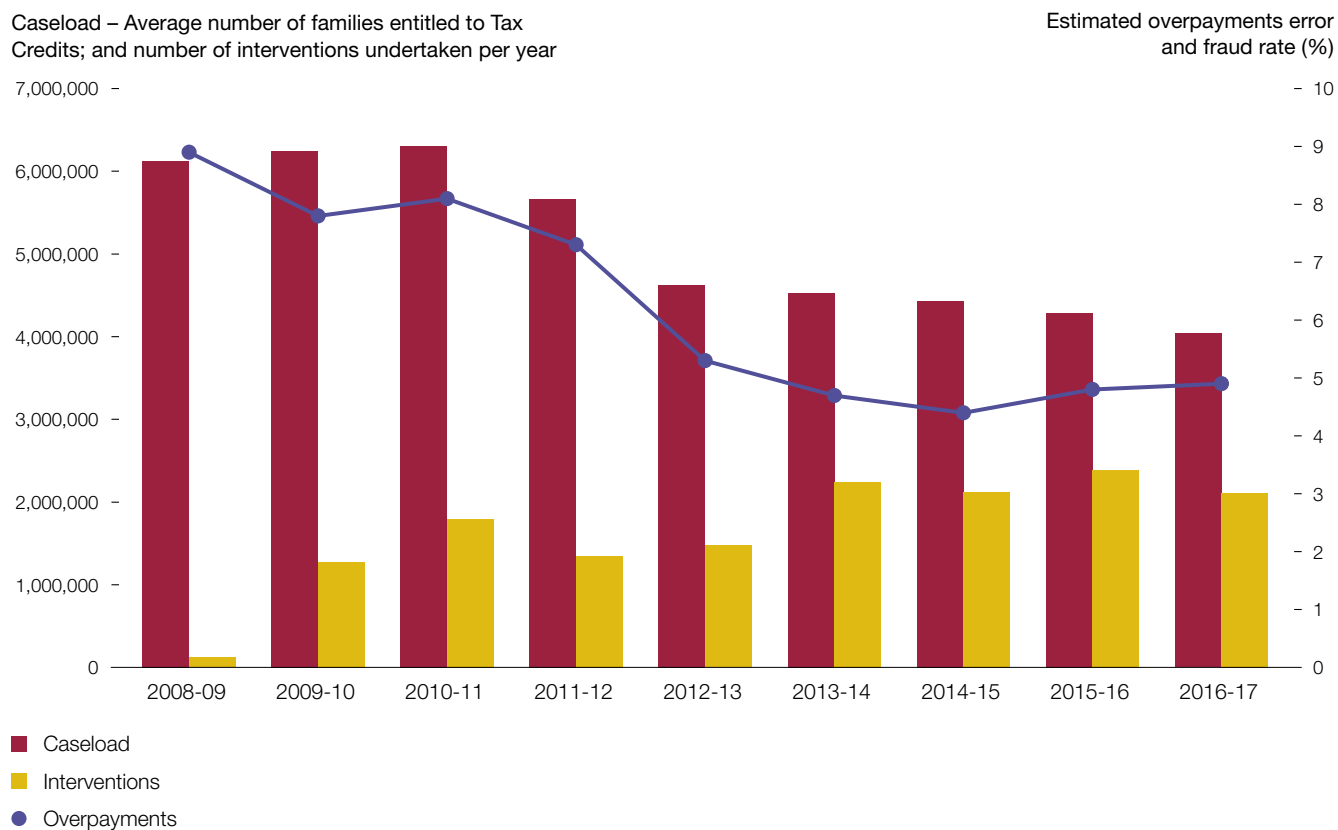
²⁹ The framework is set out in Comptroller and Auditor General, *Fraud and error stocktake*, Session 2015-16, HC 267, National Audit Office, July 2015.

³⁰ An intervention is an activity to ensure the accuracy of a Tax Credits claim. These range from routine customer contact to specifically targeted activities to validate claims at risk of error and fraud.

Figure 25

Tax Credits caseload, the volume of error and fraud interventions and the overpayments error and fraud rate from 2008-09 to 2016-17

The estimated level of error and fraud and the number of interventions relative to the caseload have both stabilised in recent years



Source: National Audit Office analysis of HM Revenue & Customs data

3.17 To inform its strategy and design future interventions, HMRC disaggregates the estimate of error and fraud into six risk categories to identify the underlying causes of error. HMRC uses this insight to structure and target its intervention activities across these risk categories. HMRC also analyses when error or fraud enters the system; whether at the point of a new claim, a change of circumstances or on renewal. This analysis allows it to develop, target and prioritise interventions and informs its view of what level of loss reduction may be possible.

3.18 Figure 26 overleaf shows HMRC's progress in addressing error and fraud in each of these risk categories over the last six years and the significant shift over time in the rates of error and fraud relating to the different categories. Risk categories vary in their complexity, and where and how in the process a claim is vulnerable to that risk. For example, the 'disability' or 'children' risk categories can be tackled by validating the claimant's disability status, and the claimant's responsibility for the children included in the claim. Data sets held by the Department for Work & Pensions (DWP) and HMRC can be used to validate these aspects of a claim, leading to lower levels of error and fraud due to these risk categories. By contrast, it is significantly harder to validate 'work and hours' or 'undeclared partner', and these risk categories cause more error and fraud.

3.19 The misreporting of income is now the largest cause of error and fraud, contributing £355 million of the £1.3 billion of overpayments, and £150 million of the £200 million of underpayments. Overpayments relating to the income risk have now risen consistently since 2013-14. The introduction of Real Time Information (RTI) on earnings in 2012-13 resulted in a large fall in the income-related error and fraud estimate. RTI enabled HMRC to more easily compare claimants' declared incomes to PAYE earnings information collected from their employers. However, HMRC's analysis of the 2015-16 results, conducted as part of its tracking exercise, has indicated that the recent increases in income error and fraud are being driven by under-declared income relating to employment, social security benefits, dividends and rents.

3.20 These trends will be explored further following the results of the 2016-17 measurement exercise and HMRC will need to build on its current compliance activities to realign interventions with the changing nature of the income risk. This may include use of relevant data sources from its own self-assessment tax data and data on benefits held by DWP.

3.21 To reduce error and fraud, HMRC has identified internal IT or process change projects that could make its interventions more effective. It has also identified where it could allocate additional resources to implement compliance processes to tackle the most significant causes of error and fraud. However, which interventions or change projects are taken forward to achieve a sustained reduction in error and fraud will be affected by HMRC's wider prioritisation of projects and how it allocates its resources.

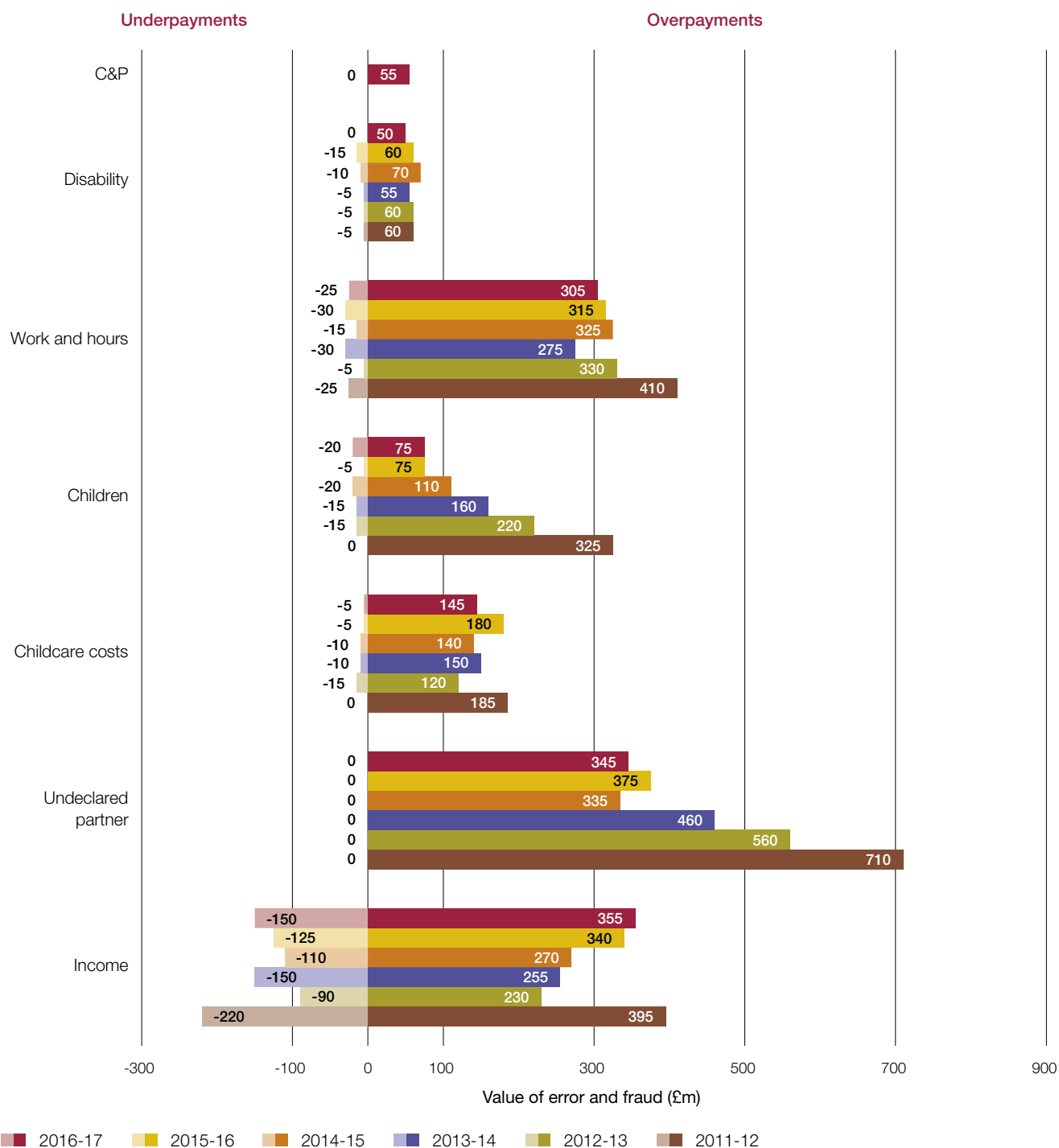
3.22 Some of these error and fraud responses would require amendments to Tax Credits policy or legislation to design out error and fraud risk. As an emphasis has been placed on Universal Credit to resolve the structural challenges of error and fraud in benefits and credits across government, it is unlikely there will be further Tax Credits policy or legislative change.

Figure 26

HMRC's Tax Credits overpayment estimates by risk category for 2011-12 to 2016-17

The misreporting of income is now the largest cause of error and fraud in overpayments and it remains the biggest cause of underpayments

Risk category



Source: National Audit Office analysis of HM Revenue & Customs data

Transfer of Tax Credits to Universal Credit

3.23 Under current plans, Universal Credit will fully replace Tax Credits by 2023. However, HMRC will remain responsible for administering Tax Credits until all claimants have either migrated to Universal Credit or left the Tax Credits regime.

3.24 During 2017-18 HMRC ended some 123,000 awards following claimants' transition to Universal Credit, bringing the cumulative transfer of claimants to some 224,000. HMRC is re-profiling its expectations for claimant transfer for the remaining 2.7 million Tax Credits claimants, following the recent announcement that Universal Credit roll-out will take a further year, until 2023.³¹

3.25 HMRC currently holds £6.9 billion of gross Tax Credits debt with an impaired value of £2.8 billion. As part of the transfer to Universal Credit, £6.8 billion of outstanding Tax Credits debt will move to DWP for recovery; £5.9 billion is expected to transfer by 2023, as claimants transfer to Universal Credit. It is not yet clear when a further £850 million of debt, relating to claimants no longer receiving Tax Credits, will transfer to DWP for collection. These transfers resulted in £188 million of gross debt moving to DWP during 2017-18, with an impaired value of £44 million, meaning some £289 million has transferred to DWP to date.

3.26 As DWP and HMRC develop the migration plan for Tax Credits claimants, HMRC will need to balance the challenges of the migration to Universal Credit with its continuing responsibilities for administering Tax Credits, including delivering good customer service and addressing error and fraud. HMRC and DWP are working together to understand the significant uncertainties in the transfer process, including:

- the rate at which cases are transferred from HMRC to DWP, which is likely to require significant and ongoing management across both departments to ensure the accurate and complete transfer of claimants and debt;
- the workforce pressures HMRC is expecting as staff transfer to DWP, including the timing of these transfers and the impact on the capacity for Tax Credit interventions;
- any potential impact that the nature and timing of the transfers could have on the complexity of the Tax Credit caseload as it winds down; and
- how and when the residual Tax Credits debt, relating to claimants no longer receiving Tax Credits or Universal Credit, will be transferred to DWP for collection.

3.27 HMRC continues to work on its response to these uncertainties and it is in the process of modelling the impact of the transfer of claimants to Universal Credit on the forecast levels of error and fraud. HMRC has a target for 2018-19, set by ministers and agreed with HM Treasury, to keep error and fraud from overpayments in Tax Credits below 5%.³²

³¹ Secretary of State for Work and Pensions, Written Statement HCWS745, 7 June 2018.

³² HM Revenue & Customs, *Single Departmental Plan*, May 2018.

Error and fraud in Child Benefit

3.28 Child Benefit has been administered by HMRC since 2003-04. In 2017-18 HMRC's expenditure on Child Benefit was £11.7 billion (£11.7 billion in 2016-17). As with Tax Credits, HMRC carries out work to estimate the level of error and fraud within Child Benefit. It estimates that the overall level of error and fraud resulting in overpayments in Child Benefit amounted to 1.3% of total expenditure, or £155 million (1.0% in 2016-17, £110 million), comprising two distinct categories:

- 0.4% (£50 million) where claimants respond to enquiries and are ineligible for Child Benefit (0.3% or £35 million for 2016-17); and
- 0.9% (£105 million) relating to claimants who fail to respond to HMRC's request for evidence to support their eligibility for Child Benefit (0.7% or £75 million for 2016-17).

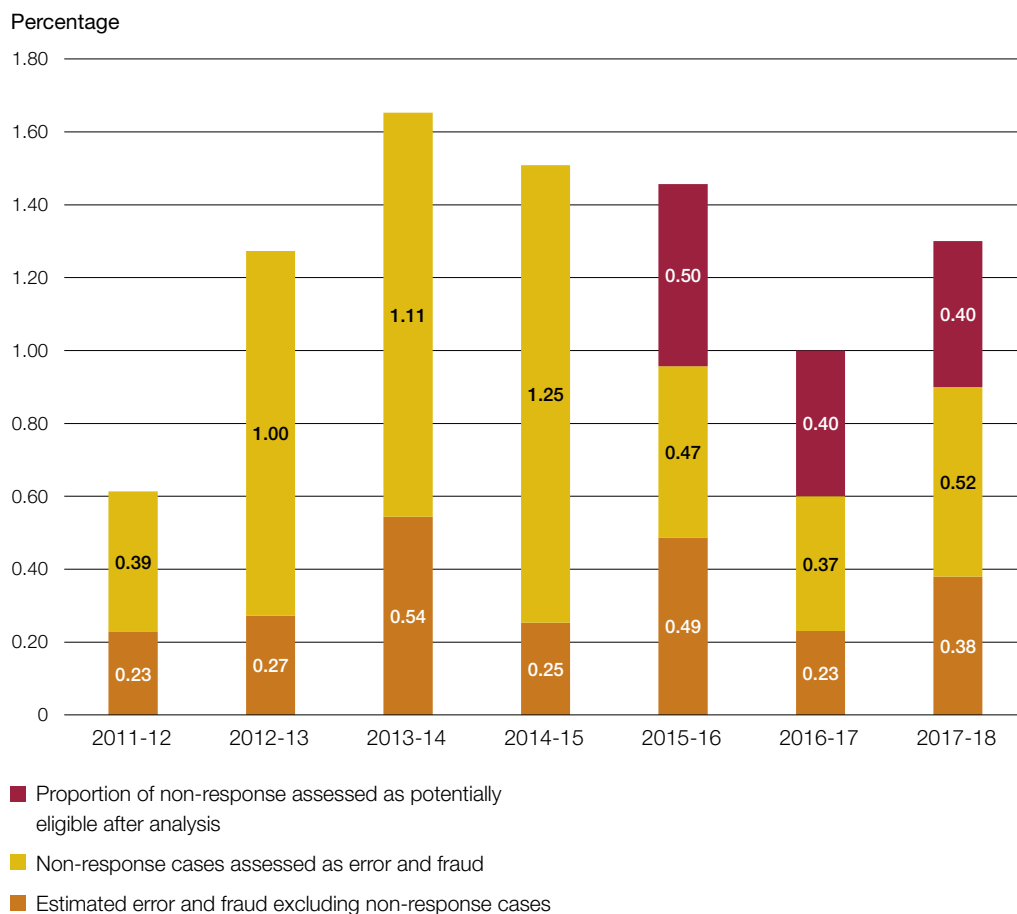
3.29 In the event of non-response the claim is deemed ineligible and the award terminated. Non-response cases are scored as error or fraud, although HMRC considers that this approach risks overstating the actual level of error and fraud where eligible claims are terminated. HMRC's best estimates of error and fraud in Child Benefit for the past six years can be seen in **Figure 27**, including the proportion attributed to non-response. Figure 27 also shows HMRC's analysis of non-response cases over the past three years, and what proportion of non-response claims may be eligible after taking into account other data to assess claimants' circumstances. For 2017-18, HMRC estimates that the rate of error and fraud after this analysis is around 0.9% or £110 million.

3.30 During 2017-18 HMRC has continued its work to identify whether non-response indicates error or fraud by further developing its analysis of non-response cases using data from HMRC and DWP systems. HMRC intends to continue to develop its analysis during 2018-19. It will test its results against a larger number of known cases in order to produce more robust estimates of the volume of non-response cases that represent error and fraud, with a view to incorporating this analysis into its future statistical estimates of error and fraud.

3.31 Other than these non-response cases, the main causes of error and fraud in Child Benefit are children no longer in full-time non-advanced education after their 16th birthday, and claimants who do not meet residency requirements. HMRC has applied the Fraud and Error Framework to identify options for tackling error and fraud. HMRC is also re-platforming the Child Benefit IT system during 2019 which, once completed, will also help identify opportunities to tackle error and fraud.

Figure 27**HMRC's Child Benefit overpayment estimates from 2011-12 to 2017-18**

Estimated overpayments in Child Benefit are 1.3% of total Child Benefit expenditure for 2017-18. Excluding non-response cases, confirmed error and fraud overpayments are 0.4% for 2017-18

**Notes**

- 1 HMRC has not set a target for reducing error and fraud within Child Benefit.
- 2 This graph presents the central estimate for error and fraud and its attributable elements. These estimates are based on a small number of cases: as a result, there is a large amount of uncertainty in the results, which is reflected in the wide confidence intervals around the central estimate.
- 3 Changes in methodology mean that estimates may not be directly comparable before 2014-15.
- 4 Non-response cases are scored as error and fraud although some may be eligible for Child Benefit based on indicators of eligibility using additional data from HMRC's and DWP's systems, paragraph 3.30. These are the cases indicated above in the 'proportion of non-response assessed as potentially eligible applying the decision tree'. Estimates for this proportion are only available from 2015-16 onwards.
- 5 HMRC applies a reinstatement adjustment, anticipating that some claimants will provide evidence of their eligibility after their Child Benefit award is terminated. This adjustment is based on past experience, and these cases are not included in the estimate of error and fraud presented in this figure.

Source: HM Revenue & Customs' Child Benefit Error and Fraud Analysis Programme statistics

Tax-Free Childcare

3.32 Tax-Free Childcare was introduced in April 2017 to assist with the costs of childcare. Under the scheme, parents can invest in an online account, receiving matching government funding of 20p for every 80p paid into the account (in effect a 'tax-free top-up'), which can then be used to pay for childcare from a registered provider.

3.33 Although HMRC phased the roll-out, beginning with children under four and disabled children under 17, IT issues caused some delays in delivering the programme that affected uptake. By 31 March 2018, 386,000 accounts had been opened out of an estimated 1.5 million eligible families, although this was also affected by HMRC's decision to pause the communication campaign that was designed to raise awareness of the scheme. These IT issues have led to £2.2 million in government top-up funding being paid directly to customers who were unable to access the 'tax-free top-up' through their online account. Redress payments of £131,000 have been paid to customers who have been inconvenienced by IT issues.

3.34 HMRC introduced an improvement plan in September 2017, alongside IT system fixes, to help stabilise the service. This has significantly reduced the level of complaints and queries. A further improvement plan in February 2018 looks at the next wave of service improvements, including a number of planned IT and process changes to be delivered in 2018 to improve the user experience and to implement some automated compliance controls. As volumes of customers increase during 2018-19, it will be essential that HMRC has resolved these issues to ensure a reliable service for customers.

3.35 HMRC has begun to gather evidence regarding the level of error and fraud within the Tax-Free Childcare population, and as the scheme enrolls further members this work will help to direct the development of the compliance framework.

Appendix One

Our evidence base

1 We reached our conclusions on HM Revenue & Customs' (HMRC's) performance using evidence collected between September 2017 and June 2018.

2 For Part One, and as part of our financial audit, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts. We analysed and discussed with officials the supporting data prepared by a variety of business units within HMRC. Our analytical review examined the numbers published in the financial statements plus supporting information provided during the course of the financial audit.

3 The evidence for Part Two's consideration of HMRC's plans for transforming its tax administration came from our reviews of the strategy, governance and risk management for HMRC's portfolio of programmes and projects, including:

- business cases;
- benefit forecasts;
- funding allocations;
- prioritisation documents;
- Infrastructure and Projects Authority documents; and
- interviews with key departmental staff.

4 Our review of HMRC's transformation was also informed by our good practice guide on transformation for audit committees, which we published in May 2018.³³

5 For Part Three, in addition to our financial audit work on Personal Tax Credits and Child Benefit, we reviewed HMRC's error and fraud statistical analysis and information on the performance of initiatives to reduce error and fraud in Tax Credits and Child Benefit payments. We interviewed key staff and reviewed documents on HMRC's plans and strategies for tax credit debt.

6 We also reviewed:

- HMRC's internal audit reports to understand the management of risks and challenges; and
- HMRC's corporate publications on compliance performance and on measuring the tax gap.

³³ National Audit Office, *Good practice guide, Transformation guidance for audit committees*, May 2018.

Appendix Two

Historical fraud and error rates
in Personal Tax Credits (%)

	Year of EFAP	Error and Fraud as a Percentage of Finalised Entitlement		
		Lower bound	Central estimate	Upper bound
Overpayments	2003-04	8.8	9.7	10.6
	2004-05	7.3	8.2	9.1
	2005-06	8.5	9.6	10.6
	2006-07	7.2	7.8	8.4
	2007-08	8.3	9.0	9.7
	2008-09	8.3	8.9	9.6
	2009-10	7.0	7.8	8.6
	2010-11	7.5	8.1	8.8
	2011-12	6.6	7.3	7.9
	2012-13	4.7	5.3	6.0
	2013-14	4.2	4.7	5.2
	2014-15	4.0	4.4	4.8
	2015-16	4.3	4.8	5.2
	2016-17	4.5	4.9	5.3
Underpayments	2003-04	1.6	1.9	2.3
	2004-05	1.4	1.9	2.4
	2005-06	1.4	1.9	2.4
	2006-07	1.3	1.7	2.1
	2007-08	1.0	1.3	1.6
	2008-09	0.8	1.1	1.3
	2009-10	0.9	1.4	2.0
	2010-11	0.6	0.8	1.0
	2011-12	0.6	0.9	1.2
	2012-13	0.2	0.5	0.7
	2013-14	0.6	0.7	0.9
	2014-15	0.5	0.6	0.7
	2015-16	0.5	0.6	0.7
	2016-17	0.6	0.8	0.9

Note

1 EFAP is the Error and Fraud Analysis Programme.

Source: HM Revenue & Customs, Knowledge, Analysis and Intelligence Directorate, Benefits and Credits Child and Working Tax Credits Annual Error and Fraud Statistics 2016-17