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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 Commisioner 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.

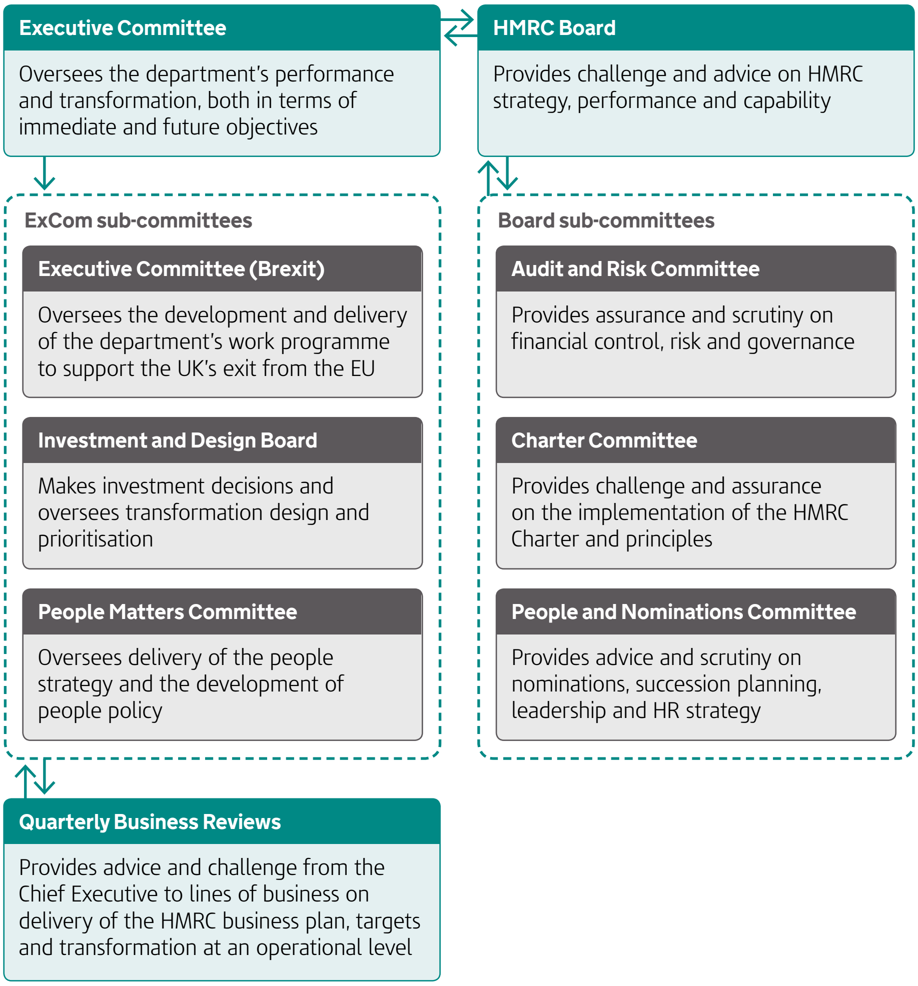
Our governance structure

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

- HMRC Strategy
- Customer journeys and channel shift
- Data Strategy
- Customer strategies

Planning and performance

- HMRC performance data and hub
- Business planning
- Chief Executive's hub

Transformation

- Prioritisation of Transformation Portfolio
- HMRC transformation data and hub

Risk management

- Risk report
- Annual risk overview
- Risk deep dives

People

- People priorities and workforce culture
- Capacity and capability
- People Survey results

Cross-cutting

- 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

2017-18 Annual Report and Accounts for:

- HMRC
- National Insurance Fund for Great Britain
- National Insurance Fund for Northern Ireland
- Revenue and Customs Digital Technology Services Limited

Controls and processes

- Whistleblowing process
- Improvements made to HMRC's financial accounting systems for tax and running costs
- Control framework
- Contract management
- Review of Arm's Length Bodies
- GDPR preparations
- Quality assurance of business critical models

Risk management

- Departmental risk reports
- HMRC risk management processes
- Deep dive on litigation risk

Audit and Assurance

- Director of Internal Audit's annual opinion
- Internal audit coverage and planning, management response to issues identified through audit and follow-up reports on audits with limited or unsatisfactory assurance
- The Tax Assurance Commissioner's Report
- Annual assurance statements made by ExCom members
- The National Audit Office (NAO) Planning and Completion Reports for the Annual Report and Accounts and NAO management letters
- Oversight of recommendations made by external bodies

Resilience and security

- Business continuity arrangements
- Personal data-related incidents reported in 2017-18
- IT health and security

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

- HMRC's People Strategy
- Leadership and talent management
- Workforce planning and location strategy
- Civil Service people results

- Diversity and Inclusion Strategy
- Performance management
- Rewards and Incentives Strategy
- Building our Future programme
- Organisation development

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 Scott[1]
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 Harra[1]
Commissioner of Revenue and Customs, Second Permanent Secretary, Tax Assurance Commissioner and member of the Board

Gill Aitken
General Counsel and Solicitor

Penny Ciniewicz[2]
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 Lodge[3]
Commissioner of Revenue and Customs, Director General Strategy

Angela MacDonald[4]
Commissioner of Revenue and Customs, Director General Customer Service

David Richardson[5]
Interim Director General, Customer Strategy and Tax Design

Melissa Tatton[6]
Commissioner and Chief Executive of the Valuation Office Agency

Esther Wallington
Chief People Officer

Karen Wheeler[7]
Director General Border Delivery Group

Jacky Wright[8]
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.

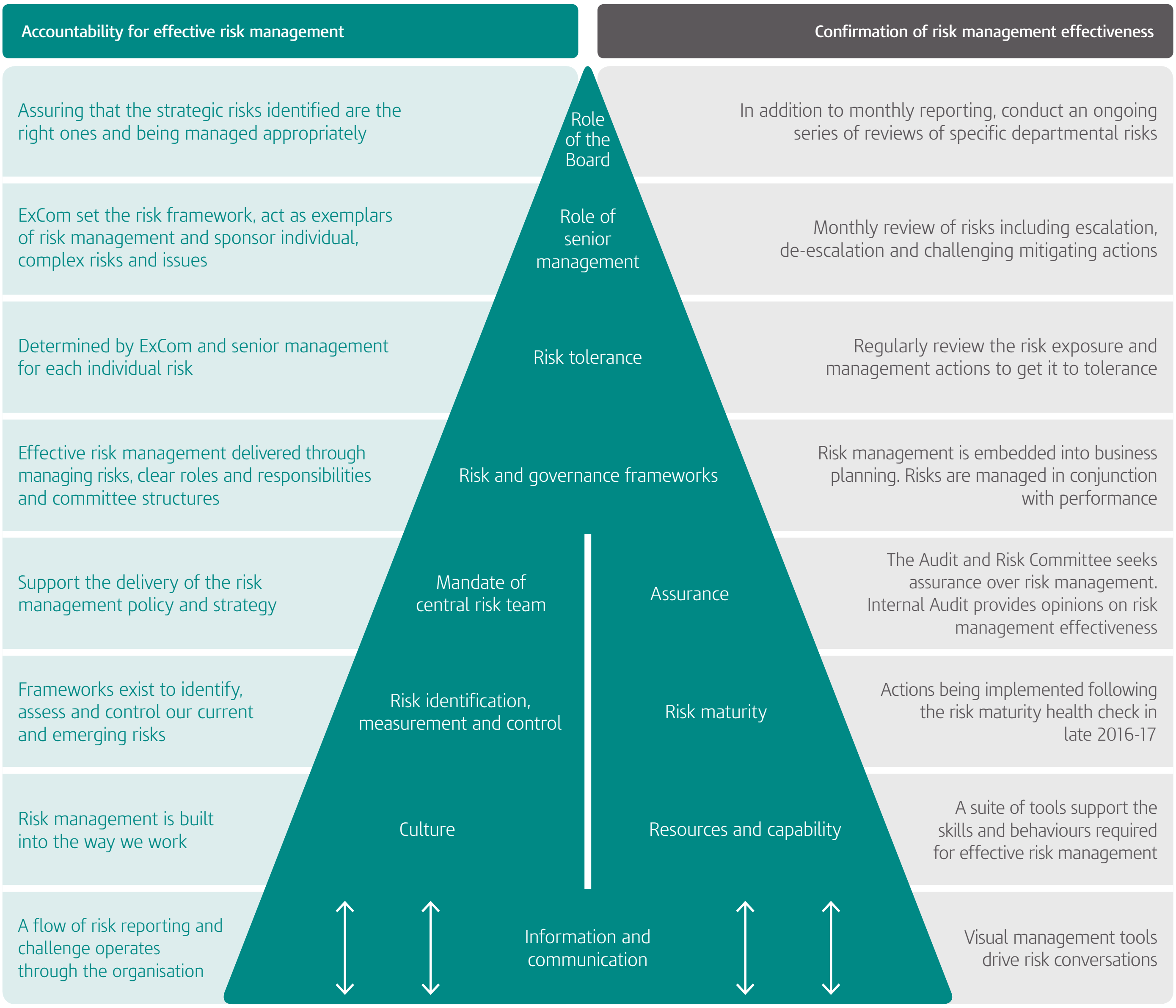
Managing risks to our objectives

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.	During the year we have continued to develop our people, looking at the skills we will require in the future. We: • 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.	To manage this risk we: • 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	As a department we are delivering a transformation programme on an unprecedented scale. Managing this effectively is crucial to our future success. To manage this risk we: • 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.	To ensure the data we hold is reliable, up-to-date and acted upon we have: • 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.	To manage this risk, we continued to: • 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.	To manage this risk we: • 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.	To ensure we understand and proactively prepare for UK's new relationship with the EU, HMRC has: • 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.	To manage this risk, we: • 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.	The safety of customer data is paramount in our thinking. To manage this risk, we: • 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.	To manage this risk, we have: • indentified, 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:

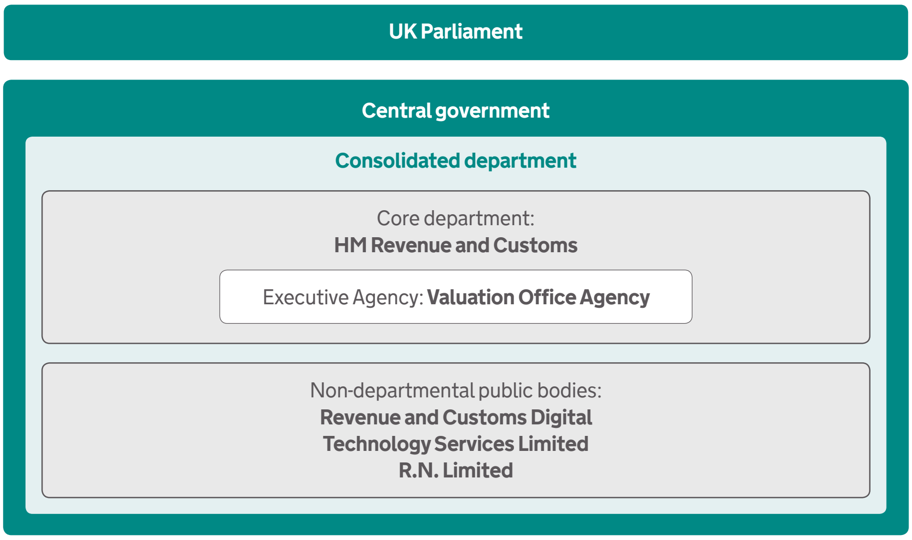
- In governance terms, the year has built on the foundations set by the prior year's reorganisation of business groups. There has been further change within the Executive Committee but roles are clearly understood, enhanced by the development of a new delegation framework
- HMRC's overall level of risk 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.

Jonathan Thompson

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 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
HRCP case management*	0	6
Board provided advice and guidance – no decision sought	0	1

* HRCP 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

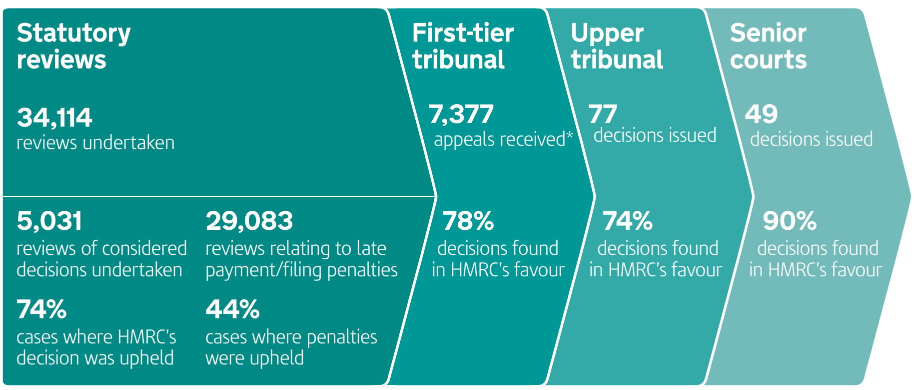
All cases	2017-18	2016-17*
Dealt with in the year	34,114	29,579
Original decision upheld	16,668	14,235
Varied	2,429	2,520
Cancelled	14,992	12,816
Other	25	8
Percentage where original decision was upheld	49%	48%
Number and percentage closed where the taxpayer was not represented by an agent	26,928	24,248
	79%	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
- liasing 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 employed[1]

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 costs[1]

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 Account[1]

In the Resource Account, staff costs do not include recoveries in respect of secondments, which are included as income, or the amount charged to capital[2].

Figure 40: Reconciliation to staff costs in the Resource Account

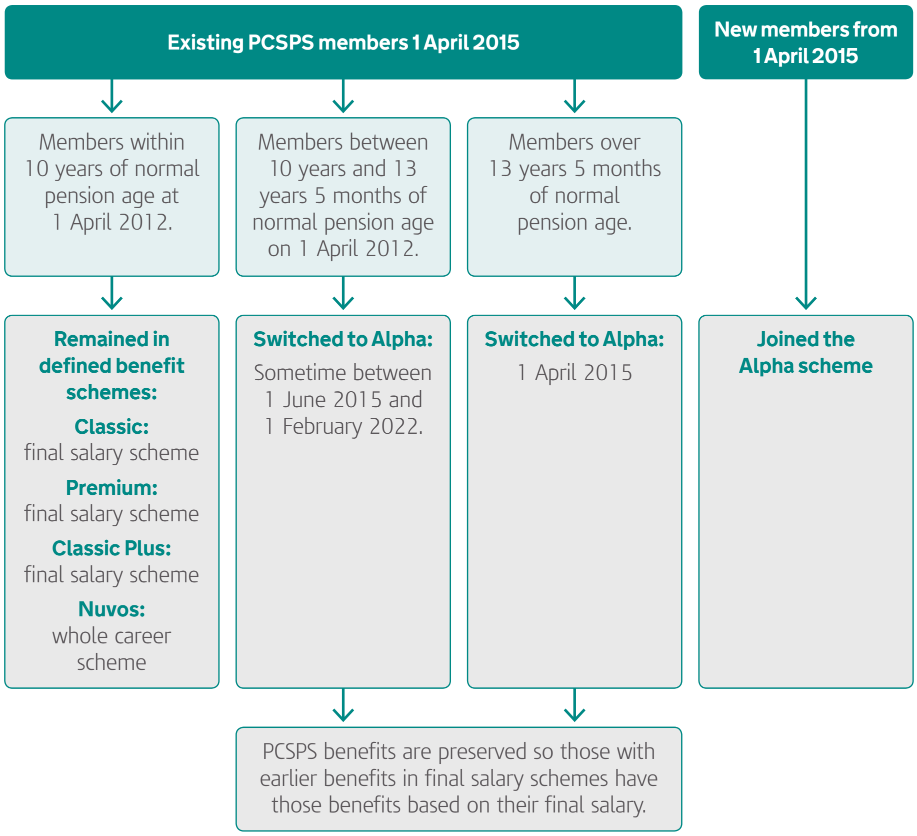
	2017-18 Total £m	2016-17 Total £m
Total net costs	**2,456.2**	**2,417.5**
Recoveries in respect of outward secondments	6.1	6.1
Less net costs charged to capital budgets	(26.7)	(20.6)
Sub-total	**2,435.6**	**2,403.0**
Travel, subsistence and hospitality	67.8	68.1
Recruitment and training	20.7	32.6
Early 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 packages[1]

Figure 43: Exit packages 2017-18

	Departmental group[2]		
Exit package cost band	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]

	Departmental group[2]		
Exit package cost band	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 benefits[1]

	Salary (full year equivalent) (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits (£000)		Total (£000)	
Senior official	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

Senior official	Salary (full year equivalent) (£000) 2017-18	2016-17	Bonus payments (£000) 2017-18	2016-17	Benefits in kind (to the nearest £100) 2017-18	2016-17	Pension benefits (£000) 2017-18	2016-17	Total (£000) 2017-18	2016-17
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 remuneration[1]

Non-Executive director	Fees (full year equivalent) (£000) 2017-18	2016-17	Benefits in kind (to the nearest £000) 2017-18	2016-17	Total (£000) 2017-18	2016-17
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.

Salary[1]

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.

Fees[1]

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 kind[1]

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 Benefits[1]

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 pay[2]

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 benefits[1]

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 Thompson[4] Appointed to ExCom 4 Apr 2016 Chief Executive and Permanent Secretary	–	–	–	744[4]	–	23,100
Jim Harra[5] 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 Richardson[5] 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 MacDonald[6] Appointed to ExCom 7 Aug 2017 Director General Customer Service	20-25	0-2.5	249	229	13	–
Penny Ciniewicz[5] 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 Lodge[5] 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 Wheeler[8] Appointed to ExCom 3 Jul 2017 Director General Border Coordination	60-65	0-2.5	1,204	1,191	2	–
Justin Holliday[6] Appointed to ExCom 9 Mar 2015 Chief Finance Officer	55-60	2.5-5	834	757	22	–
Esther Wallington[6] Appointed to ExCom 1 Dec 2016 Chief People Officer	15-20	2.5-5	195	164[7]	16	–
Gill Aitken[5] 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

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)
Jacky Wright[9] Appointed to ExCom 16 Oct 2017 Chief Digital and Information Officer	–	–	–	–	–	–
Melissa Tatton[6] 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 Troup[9] Appointed to ExCom 28 Aug 2012 Executive Chair and Permanent Secretary (to 15 Jan 2018)	–	–	–	–	–	–
Rachel McLean[6] Appointed to ExCom 22 May 2017 Director General Customer Service [Interim] (to 6 Aug 2017)	10-15	0-2.5	154	138	6	–
Ruth Owen[6] 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 Granger[6] Appointed to ExCom 1 Oct 2012 Director General Customer Compliance (to 26 Jun 2017)	15-20	0-2.5	276	253	11	–
Mike Potter[6] 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 sufficent 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.

Jonathan Thompson

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)

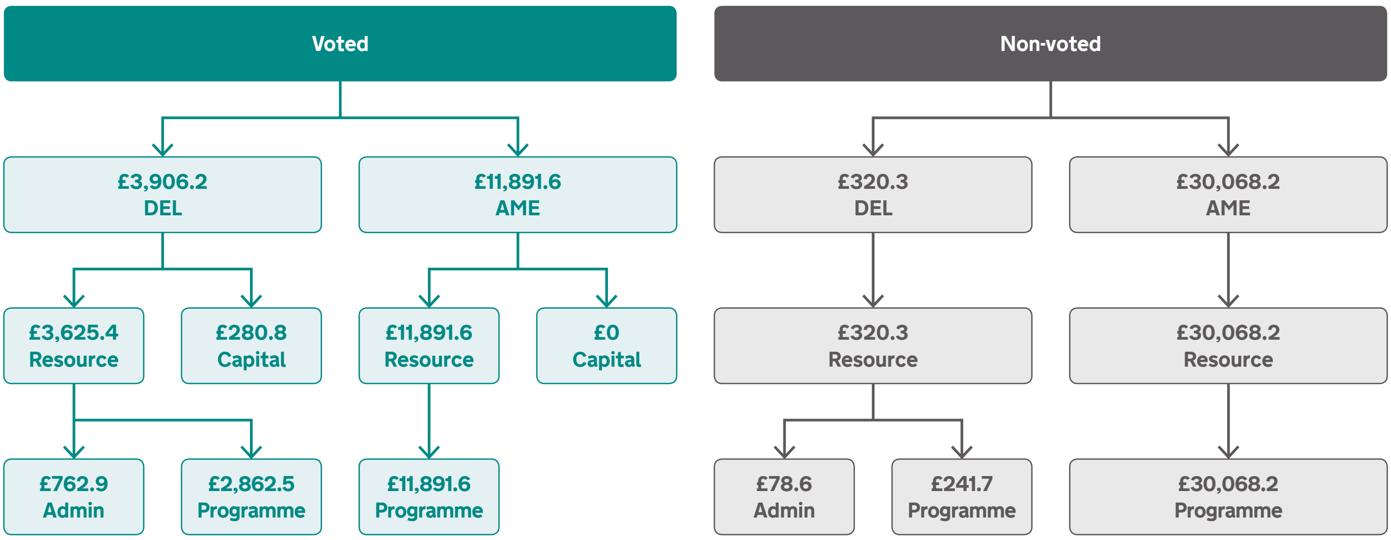


Figure 61: Summary of resource and capital outturn

								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						Outturn	Variance: saving/ (excess)	Outturn
		Administration			Programme					
	Net total	Gross	Income	Net	Gross	Income	Net	Net total		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	0.5	314.6
B VOA administration	8.5	7.5	–	7.5	1.0	11.8
C Utilised provisions	–	–	–	–	–	–
Total voted	282.3	308.3	(27.5)	280.8	1.5	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**	**1.5**	**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	1.5	326.4
Total non-voted	–	44.1	(44.1)	–	–	–
Total	**282.3**	**352.4**	**(71.6)**	**280.8**	**1.5**	**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**
Excluded from SoPS Total resource outturn:					
	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**
Excluded from SoCNE Net operating expenditure:					
	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	*Receipts*	Income	*Receipts*
Income outside the ambit of the Estimate	1.0	*1.0*	0.5	*0.5*
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total amount payable to the Consolidated Fund	**1.0**	***1.0***	**0.5**	***0.5***

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 expenditure[1]

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 payments[1]

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

	2017-18				2016-17			
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
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 payments[1]

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

	2017-18				2016-17			
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
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 charges[1]

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 million[1]

	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 Liabilities[1]

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