HM Revenue & Customs

Annual Report and Accounts 2011-12

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HM Revenue & Customs
Annual Report and Accounts 2011-12

(For the year ended 31 March 2012)

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

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

Annual Report and Accounts presented to the House of Lords by Command of Her Majesty

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This is part of a series of departmental publications which, along with the Main Estimates 2012-13, the document Public Expenditure: Statistical Analyses 2012, and the Supply Estimates 2011-12: Supplementary Budgetary Information, present the Government's outturn for 2011-12 and planned expenditure for 2012-13.

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Non-Executive Chairman's report

I am very pleased to write this report about HMRC's improving performance during 2011-12, in what will be my last report as non-executive Chairman before I step down later in the year.

The last year was one of the strongest yet for the Department, in terms of its overall performance. It has achieved another record performance in tax revenues, raising £474.2 billion in 2011-12, some £4.5 billion more than in the previous year. Total yield from HMRC compliance activities also hit another record, £16.7 billion, an increase of £2.8 billion.

This is against a backdrop of tough economic conditions and the need to significantly redeploy and reduce its workforce to meet the targets set out in its Spending Review settlement. It is testament to the commitment and hard work of all of HMRC's staff that this has been achieved.

This doesn't mean HMRC can rest on its laurels. I acknowledge that the Department needs to continue making substantial improvements to its customer service, but I'm pleased to report that the past 12 months have been a big step in the right direction. HMRC answered significantly more calls to its contact centres than 2010-11 (74 per cent compared to 48 per cent in 2010-11) and improved its processing times for post, as well as claims for Tax Credits and Child Benefit. There were also record VAT and Self Assessment returns filed online.

These successes have been underpinned by HMRC's customer strategy, which has guided its approach to dealing with customers, ranging from individual taxpayers to the largest multinational companies. Investment in cutting-edge IT systems, which identify those who are potentially dishonest in their dealings with HMRC, has contributed to the record revenue results.

What is vital, if HMRC is to continue moving in the right direction, is to ensure that it continues upholding the commitment made in its Vision to close the tax gap and make the tax system feel simple and even-handed to its many customers. The Department has a number of challenging objectives ahead, if it is to keep to these fundamental principles. They include more support for small businesses, delivering Real Time Information to support the introduction of Universal Credit, a Joint Understanding Agent Project to address agents' concerns as well as continuing to reinvest the £917 million of our savings in compliance activities.

The reality is that HMRC is always even-handed in its dealings with large business but more work is needed to challenge the recent perception that this is not the case. I am confident that the appointment of a new Tax Assurance Commissioner will help to demonstrate even greater levels of transparency, accountability and scrutiny.

Across all these objectives, the Board of HMRC has supported, advised and challenged where appropriate, to ensure that delivery and implementation are relevant and robust. I am pleased to report that the Board has discharged its responsibilities, as detailed in its terms of reference. HMRC is fortunate to have a strong group of non-executive directors, who have not only participated in Board and sub-committee meetings, but also spent time with front-line staff. During 2011-12, the non-executive membership has remained at five, with executive membership reducing to four. An external board review was conducted in 2011 and its recommendations have been implemented. A further evaluation of Board performance and effectiveness is due to be carried out in Autumn 2012.

As a final comment, I want to say the Board expects new investment in staff development, such as the new tax academy, increasing career opportunities, particularly in its compliance work and providing better tools to do their job, such as more efficient IT, will make them feel well supported and proud to say they work for HMRC.

Mike Clasper
Non-Executive Chairman

Chief Executive's foreword

As the new Chief Executive of HMRC, I am pleased to publish a set of annual reports and accounts that show strong performance across the Department.

Despite difficult economic conditions, total tax revenues reached £474.2 billion during 2011-12. We also paid out more than £42 billion in benefits and payments.

We have done this by continuing to focus on our three strategic priorities – maximising tax revenues, stabilising and improving the customer experience and reducing costs sustainably.

As a Department, we are investing hundreds of millions of pounds into our compliance activities to ensure that everyone pays their fair share. Significantly, this work brought in £16.7 billion during 2011-12. This puts us well on course to bring in an extra £20 billion per year by 2015.

In addition, we prevented £1.49 billion of personal tax credit payments from being lost to error and fraud. This is the highest level we have ever recorded and is a 40 per cent improvement on 2010-11, which was itself a record.

During the course of the year, we also signed groundbreaking tax agreements with countries such as Switzerland. We have also committed to improving transparency, accountability and scrutiny and are implementing changes to our governance of large tax settlements, which includes the creation of a new Tax Assurance Commissioner role.

In her introduction to last year's annual report and accounts, my predecessor, Dame Lesley Strathie, was clear that the service we gave our PAYE customers had fallen considerably short of what it should be. I am particularly pleased to report the measures that she put in place have delivered some very real performance improvements, although I recognise that we still have a long way to go.

During 2011-12, we handled 74 per cent of all calls to our contact centres. This is up from 48 per cent a year earlier and is our second-best annual performance since HMRC was created in 2005. We have also seen significant improvements in post processing and tax credits renewal turnaround times.

In terms of PAYE, our coding notice accuracy level is more than 98 per cent and we are confident that all 17.9 million legacy PAYE open cases will be cleared by December 2012. In addition, over 90 per cent of Self Assessment tax returns were filed on time, the best result since HMRC was created in 2005. Looking ahead, we are also on track for all employers to start sending us Real Time Information (RTI) data, which will improve PAYE accuracy and is a crucial element of the transition to Universal Credits.

We have done all of this during a period of considerable uncertainty for our staff, as HMRC becomes a smaller, more highly-skilled Department. The increased focus on compliance has created new opportunities for many, and we are committed to developing our people through our professions, although we recognise we have to do more to transform staff engagement. We need our people to feel well supported and proud to say they work for HMRC – and my senior team are committed to making that happen.

There is no doubt the coming year will bring its own challenges, but I am confident we can build on our achievements during 2011-12 and continue to improve the service we give our millions of taxpayers.

Lin Homer
Chief Executive

HMRC Purpose, Vision and Way

Our Purpose

- We make sure that the money is available to fund the UK's public services
- We also help families and individuals with targeted financial support

Our Vision

- We will close the tax gap, our customers will feel that the tax system is simple for them and even-handed, and we will be seen as a highly professional and efficient organisation

Our Way

- We understand our customers and their needs
- We make it easy for our customers to get things right
- We believe that most of our customers are honest and we treat everyone with respect
- We are passionate in helping those who need it and relentless in pursuing those who bend or break the rules
- We recognise that we have privileged access to information and we will protect it
- We behave professionally and with integrity
- We do our own jobs well and take pride in helping our colleagues to succeed
- We develop the skills and tools we need to do our jobs well
- We drive continuous improvement in everything we do

Chapter 1: What we collected and paid out in 2011-12

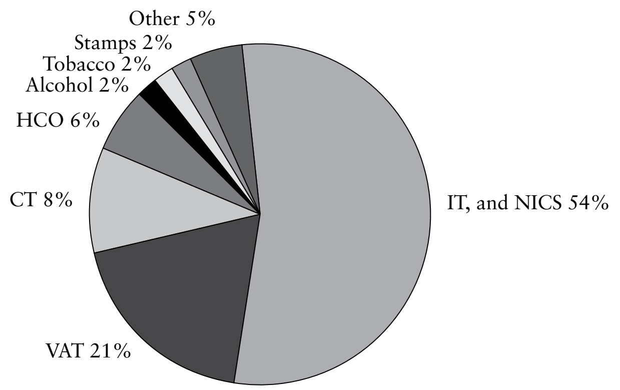
Collecting revenue

We collected £474.2 billion in 2011-12

Revenue collected (£bn)

Income Tax	151.8
National Insurance Contributions	101.6
VAT	99.6
Corporation Tax	40.1
Hydrocarbon Oils	26.9
Alcohols	10.1
Tobacco	9.9
Stamp Taxes	8.7
Other taxes, duties and revenue	25.5

Taxes and duties as a (rounded) percentage of total revenue



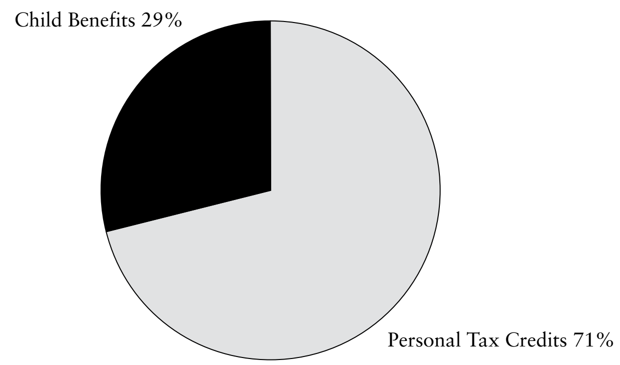
Paying entitlements

We paid out over £42 billion in 2011-12

Entitlements paid in 2011-12 (£m)

Personal Tax Credits	30,390
Child Benefit	12,221

Entitlements as a (rounded) percentage of Total Entitlements



For further information please refer to the Resource Accounts at page 34 and Trust Statement at page 119.

Chapter 2: Highlights of 2011-12

Compliance activities

We increased the total yield from our compliance activities in 2011-12 to £16.7 billion, an increase of £2.8 billion on 2010-11. This is more than double the compliance yield we achieved in 2005.

In October 2011 we signed a breakthrough tax agreement with Switzerland that we expect to bring in billions of pounds in extra revenue from offshore accounts.

By March 2012, our reinvestment in tackling criminals had resulted in 545 individuals being charged and 413 being convicted, with a court success rate of 92 per cent. The total amount of additional receipts and revenue loss prevented as a result of our investigations was in excess of £1 billion.

In 2011-12 we banked 39.4 million payments. Against a target to bank 99 per cent of items on the day of receipt we achieved 99.8 per cent.

We won a landmark Supreme Court Case in May 2011. The ruling defeated an avoidance scheme that involved buying software that qualified for tax allowances. We estimate that we will collect in the region of £1.8 billion as a result of this ruling.

Customer service

A record 9.45 million Self Assessment tax returns were filed on time this year, with 90.4 per cent of taxpayers meeting the deadline. The figure is up four per cent (representing about 700,000 returns) on last year and is the highest on-time filing result since HMRC was created in 2005. A new online filing record was set with 7.65 million returns coming in through the internet, 80.9 per cent of the total. At its peak our online service handled more than 440,000 submissions in a single day.

We handled 74 per cent of all calls to our contact centres in 2011-12, a significant improvement on 2010-11, although we acknowledge that further improvements in customer service standards are required.

We cleared 11.7 million PAYE open cases, where our systems had not previously been able to reconcile customer records to ensure the correct amount of tax was paid at the end of the year. We are on track to clear all remaining legacy cases by the end of 2012.

We are also on track for all employers to start sending us Real Time Information (RTI) data about their employees by October 2013. RTI will improve the operation of PAYE and also support the successful introduction of Universal Credit – the Government's flagship welfare programme.

Personal Tax Credits

We prevented losses of £1.49 billion in 2011-12. We also helped more tax credit customers renew at their first attempt, reducing demand on our helplines by more than two million calls.

Debt collection

We continue to adopt a sympathetic approach to businesses that have genuine short term difficulties in paying the tax they owe, and to do what we can to help. In March 2012 we had nearly 600,000 Time to Pay arrangements in place amounting to £1.4 billion in value.

Professional skills

We launched our new Tax Academy in March 2012 as the next step in building tax professional tax skills among our 18,000 tax professionals.

April 2011 saw the launch of the Operational Delivery Profession, which covers 43,500 of our staff that work in customer-facing roles. It will help improve customer service by building professional capability and achieving industry-wide standards for excellent performance in the workplace.

Sustainable development achievements

We achieved the second largest saving (measured in tonnes of carbon) of any government department, cutting our emissions by 13.4 per cent, or 22,408 tonnes against a target of 10 per cent, in the 12 months to May 2011.

We won a 2011 Business in the Community ‘Big Tick’ award in recognition of our success in cutting business travel, through the use of new technology for enhanced video and telephone-conferencing facilities.

Our commitment to reducing carbon emissions from our vehicle fleet was acknowledged in 2011 when we won the Energy Savings Trust’s Fleet Heroes award for the third year running.

The introduction of our ‘closed loop’ recycling means that all of our confidential waste paper is now recycled into new printer and copier paper. Our online ‘swap shop’ ensures that unwanted office supplies are reused.

In 2011-12 our staff delivered 5,837 days of support for local communities through volunteering activity, including helping our most vulnerable customers, and in supporting the Government’s aim to increase youth employability.

Our staff donated £872,825 for good causes directly from their pay, earning us the top public sector position among public sector organisations in the 2011 National Payroll Giving Excellence Awards. In recognition of the work we have done to promote ‘payroll giving’, we received a gold quality mark from the Institute of Fundraising.

Further fundraising success came from the BBC’s 2011 Children in Need appeal. Our employees raised £121,613 and volunteers from a number of our contact centres took calls from the public for donations totalling £318,519.

Chapter 3: Who we are and how we are organised

We collect and administer:

Direct taxes:

- Capital Gains Tax
- Corporation Tax
- Income Tax
- Inheritance Tax
- National Insurance Contributions

Indirect taxes:

- Customs and Agricultural duties
- Excise duties including Air Passenger duty, Hydrocarbon Oils, Alcohols, Tobacco, Betting and Gaming duties
- Environmental taxes including landfill tax, climate change levy and aggregates levy
- Insurance Premium Tax
- Petroleum Revenue Tax
- Stamp Duty
- VAT

We pay and administer:

- Child Benefit
- Personal Tax Credits

Other responsibilities:

- Bank Levy
- Money Laundering Regulations
- National Minimum Wage
- Recovery of Student Loans

How we are organised:

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act 2005. Mike Clasper is the non-executive Chairman and Lin Homer is the Chief Executive. Dave Hartnett is Permanent Secretary for Tax.

- The non-executive Chairman is responsible for strategic direction and standards, and with the Board (attended by HMRC's executive and non-executive directors) is responsible for effective governance of HMRC.
- The Chief Executive is responsible for delivery and expenditure and, with members of the Executive Committee (ExCom), is responsible for running HMRC.
- The Permanent Secretary for Tax is the senior tax professional in HMRC and Deputy Chief Executive.

Both the Board and ExCom are supported by a number of sub-committees charged with specific responsibilities. For further information please see the Department's Governance Statement at page 44.

Border responsibilities:

The UK Border Agency is responsible for protecting the United Kingdom's borders against illicit and harmful trade, including illegal import or export of drugs, counterfeit or illicit alcohol, tobacco and other illicit goods.

HMRC has responsibility for policies and activities associated with collecting duties at the frontier and processing information about international trade.

Chapter 4: How we performed

Introduction

This section sets out a summary of the Department's performance for 2011-12. It includes an assessment of performance against HMRC's published business plan indicators, as well as other key performance indicators.

Many of the indicators used to assess HMRC's performance were newly introduced in 2011-12. Performance results for 2011-12 will not always therefore be directly comparable to results in 2010-11. Where that is the case, footnotes explain the key differences in methodology.[1]

Overview

We delivered a strong performance and set of results in 2011-12 against a backdrop of tight financial constraints. Our performance was significantly improved across all major business areas, and in many cases we achieved record results. Highlights included:

- Raising a record £16.7 billion of additional revenues from our compliance activities, £1.7 billion above target for the year, 20 per cent up from the previous year, and more than double the compliance yield achieved in 2005 when HMRC was formed.
- Preventing the highest ever levels of Personal Tax Credits error and fraud losses amounting to £1.49 billion to March 2012. This was 40 per cent higher than we achieved in 2010-11.
- Improving customer service standards, with our second best ever contact centre performance at 74 per cent of call attempts answered, and delivering significant improvements in the speed with which we handled customer correspondence. We recognise the need to further improve customer service standards.
- Those improved service standards are being felt by our customers, with the results of customer experience surveys showing slight improvement from the start of the year.
- A reduction in the number of working days lost through sickness absence of around 22 per cent from 2010-11 levels.

1 Further technical explanations for HMRC's performance measures are available at:http://www.hmrc.gov.uk/about/bus-plan-qds.htm

SPENDING

Budget	£million	
	2011-12	2010-11
Total Departmental Expenditure Limit (DEL)	See Core Table 1	
of which Resource DEL (excl. Depreciation)		
Up to top 5 contributory elements		
Purchase of goods and services within Resource DEL		
Payroll within Resource DEL		
Grants within Resource DEL		
of which Capital DEL		
Up to top 5 contributory elements		
Total Annually Managed Expenditure (AME)		
Up to top 5 contributory elements		

Financial Indicators	2011-12	2010-11
Accuracy of Cash Forecasting (+/– %)	1.27	2.60
Working Capital Forecast (% variance of Actual v Forecast)	–10.2	10.4
Net Book Value (% variance of Actual v Forecast)	–0.50	–0.09

Common Areas of Spend		2011-12	2010-11
Estate Costs	Total office estate (thousand m^2)	977	1,093
	Total cost of office estate (£m)	276.17	312.18
	Cost per FTE (£)	4,035	4,475
	Cost per m^2 (£)	283	286
Procurement	Total Procurement Spend (£m)	1469.8[2]	1399.8
	Price of standard box of A4 white copier paper (£/2500 sheets)[3]	11.34	9.68
	Average price of energy (£/kWh)	0.07	0.05
IT	Total 3rd Party ICT Cost (£m)	826.2[4]	782.9
	Cost of desktop provision per FTE (£)	703	855
Corporate Service Cost	Human Resources (£m)	54.2	60.5
	Finance (£m)[5]	6.3	14.8
	Procurement (£m)[6]	56.1	93.0
	Legal (£million)[7]	58.8	47.7
	Communications (£m)	14.0	13.9
Fraud, Error, Debt[8]	Total Identified Fraud (£bn)	16.68	13.90
	Total known Errors (£m)	Not available	Not available
	Total Debt (£bn)[9]	27.30	29.54
	Debtor Days	N/A	N/A
Voluntary and community sector (VCS)/ Small and medium enterprises (SME)	Procurement spend with SME (£m)	34.4	23.4
	Procurement spend with VCS (£m)	0.737	0.123
	Grants to VCS (£m)	2	2

Major Projects	Cost
Project A: Enforcement & Compliance	£767m
Project B: Real Time Information	£195m
Project C: One Click	£115m
Project D: Open Case Clearance	£57m
£m whole life cost of ALL major projects	£1,135m

2 This includes 13 months payment for our ICT spend (see below) and a one-off contract negotiation settlement for estates costs of £30 million. Excluding these our total procurement spend in 2011-12 is £1,377 million (a 1.6 per cent reduction on 2010-11).

3 The price of copier paper in 2011-12 includes the delivery charge. On a like-for-like basis costs increased by 8.5 per cent year-on-year compared to market price increases of 13 per cent as a result of savings negotiated through the Government Office Supplies Contract.

4 Due to changes in the date of payment, the 2011-12 costs include payment for 13 months of ICT provision. On a like-for-like basis (April to March) our 2011-12 ICT spend is £719 million (a 0.7 per cent reduction on 2010-11).

5 2011-12 Finance Costs exclude the £5 million cost of Internal Audit.

6 2011-12 Procurement Costs are lower following the delegation of post and stationary budgets of approximately £33 million.

7 2011-12 Legal Costs include a provision of £11.5 million of AME legal costs for litigation cases.

8 Error and Fraud is made up of Cash Collected and Revenue Protected. As it is not possible to determine if an error is a genuine error or if it is deliberate and should be classified as fraud, HMRC is not able to separate out fraud and error and so has reported a combined total figure under the total identified fraud heading.

9 This represents HMRC ‘receivables’: taxpayer or trader established liabilities where at the year-end of the reporting period payments have not been received. This will include liabilities for which payment is not yet due.

RESULTS		
Input Indicators **Unit costs of (£):**[10]	2011-12	2010-11
Collecting Income Tax (Self Assessment and Pay As You Earn)	0.97	1.00[11]
Collecting Corporation Tax	0.76	0.72
Collecting National Insurance Contributions	0.28	0.31
Collecting VAT	0.60	0.70
Administering Personal Tax Credits	1.55	1.76
Administering Child Benefits	0.58	0.68
Impact Indicators	2011-12	2010-11
Cash collected from compliance (£bn)[12,13]	8.20	13.90
Revenue protected (£bn)	8.48	
Tax gap – difference between all the tax theoretically due and tax actually collected	2009-10 7.9% (£35bn)	2008-09 8.1% (£39bn)
Payment on time – proportion of businesses and individuals (excluding employees who pay tax through PAYE) who pay tax on time – we will use VAT as a lead indicator (%)	83.2	74.3
Debt roll rate – proportion of tax debt (CT, SA, Employers' PAYE) arising in the year that is cleared within 90 calendar days (%)[14]	95.2	93.5
Personal Tax Credits Error and Fraud – amount of tax credits money claimed by people who are not entitled to it	2010-11 8.1% (£2.27bn)	2009-10 7.8%[15] (£1.95bn)
Customers find us straightforward to deal with (composite survey score out of 100)[16]	72.8	N/A – no previous comparable measure
Cost for our customers when they deal with us. The increase/decrease (–) in cost for our customers when they deal with us, (£m) (Year to date cost impacts at 31 March 2012)[17]	54.2	N/A – no previous comparable measure
Structural Reform Plan Actions	2011-12	
Total number of actions completed during the year	22	
Total number of actions overdue at the end of the year	1	
Number of overdue actions that are attributable to external factors	0	

[10] Unit costs represent the cost in pence per £1 of tax collected or benefit paid. It is the administration costs including depreciation net of Appropriations in Aid allocated to each head of duty/tax regime. The calculation includes expenditure extracted from the HMRC Resource Accounts, which is then divided by receipts collected or payments made, as published in the HMRC Trust Statement.

[11] The 2010-11 cost of collecting Income Tax has been restated to exclude the income received from penalties.

[12] From 2011-12 onwards we will differentiate between two types of additional revenue brought in from compliance activity:
- Cash collected: The total amount of tax that HMRC collects from activity to tackle those individuals and businesses that have not paid the tax that is due as a result of tax enquiries identifying evasion; and
- Revenue protected: The value protected by activities including: seizing illicit goods, preventing erroneous payments, deterring future non-compliance, addressing avoidance loopholes etc.

The 'additional revenue' measure employed in 2011-12 is slightly different to the 'compliance yield' measure reported in 2010-11. Comparing the two measures requires both positive and negative re-calibrations which, for 2010-11, had no overall net effect. Therefore the two measures are broadly comparable.

[13] The figures do not include exceptional items. Exceptional items are identified as cases that are (a) an unusual occurrence that is unlikely to be repeated; (b) of such a size that to report it within our normal results would distort the underlying trend of performance; and (c) not included within HMRC's revenue targets, as it could not have been predicted. Exceptional items generated £4.3 billion additional revenue in 2011-12, but have not been included in the performance against targets shown above to avoid distorting our performance.

[14] The debt roll rate is not available until at least 90 days after the end of the reporting period. The figures shown above are for the calendar years 2010 and 2011.

[15] When we publish our initial estimates some of the cases in the Error and Fraud Analytical Programme, upon which these estimates are based, have not had their compliance enquiry completed and we include a projection for the additional amount of error and fraud we expect to find in them. We re-visit this projection once these cases have been completed and re-publish the estimates if the headline rate of error and fraud favouring the claimant changes by more than +/- 0.2 percentage points. In 2009-10 the revised estimate showed a 0.4 percentage point increase on the initial estimate and hence we have republished.

[16] The quarterly HMRC Customer Survey 2011-15 started in Q2 2011–12 and replaced the HMRC Customer Survey 2007-11. A number of changes were made to the methodology between the surveys. The impact on results of these changes has been modelled and the data from the 2007-11 survey has been adjusted to make the results consistent across the surveys. The current measure is made up of the first three quarters of the 2011-15 survey and one quarter of the 2007-11 adjusted results to produce an annual measure. Further details on the measure are published at (http://www.hmrc.gov.uk/research/cust-exp-2010.pdf).

[17] Measures the change to overall ongoing costs (£million) to compliant business and individual customers of new or revised customer journeys, resulting from changes to HMRC's products and processes. These costs are measured in terms of time and money necessary to comply with HMRC obligations. Reductions in ongoing costs of £52.1 million were offset by exceptional increases of £106.3 million: cost increase arises mainly from two key policy measures which directly support fiscal consolidation: Restrictions to Pensions Tax Relief (£80 million) and Bank Levy (£20 million).

RESULTS		
Input Indicators **Unit costs of (£):**[10]	2011-12	2010-11
Total number of actions ongoing	12	
Total number of actions in the business plan that have yet to start	0	

PEOPLE			
Whole Department Family – Workforce Size		31 Mar 2012	31 Mar 2011
Payroll Staff	Department and Agencies	**See Core Table 5**	
	Non-departmental public bodies		
	Department Family		
Average Staff Costs			
Contingent Labour	Department and Agencies	**See Core Table 5**	
	Non-departmental public bodies		
	Department Family		
Department and Agencies Only		Year ended 31 March 12	Year ended 31 March 11
Workforce Shape (% of total workforce)	Administrative Assistants and Administrative Officers	53.2	52.1
	Executive Officers	22.6	23.4
	Higher and Senior Executive Officers	18.4	18.8
	Grade 6/7	5.2	5.2
	Senior Civil Servants	0.53	0.53
	Part Time	34.9	31.2
Workforce Dynamics	Recruitment Exceptions	2,598	2,207
	Annual Turnover Rate	5.6	4.7
Workforce Diversity (% of total workforce)	Black and Minority Ethnic	8.1	7.6
	Women	58.6	58.8
	Disabled	16.3	16.4
Workforce Diversity Senior Civil Servants only (% of SCS workforce)	Black and Minority Ethnic	2.4	2.3
	Women	35.8	33.0
	Women (Top Management Posts)	28.3	25.9
	Disabled	6.7	7.2
Attendance[18] (Average Working Days Lost)	Actual	7.64	9.65
	Standardise[19]	Not yet available	9.2
Department only; People Survey Metrics		2011 survey	2010 survey
Engagement Index (%)		40	34
Theme scores (%)	Leadership and Managing Change	23	17
	My Work	54	49
	My Line Manager	61	57
	Organisational Objectives & Purpose	72	64

[18] The combined average working days lost for HMRC and Valuation Office Agency (VOA) at 31 March 2011 was 9.5 and at 31 March 2012 was 7.59.

[19] This is weighted in accordance with Cabinet Office principles to reflect the grade structure of the Department. The standardised AWDL for 2011-12 is not yet available and will be published by the Cabinet Office shortly.

Additional Key Indicators

	2011-12	2010-11
Debt		
Debt Balance[20] (£bn)	15.4	19.3[21]
Personal Tax Credit error and fraud		
Losses prevented through activity to tackle Personal Tax Credits error and fraud[22] (£bn)	1.49	1.05
Customer experience		
% of call attempts handled by Contact Centres	74.4	48.0
% of post received by HMRC cleared within 15 working days of receipt	65.5	50.9
% of post received by HMRC cleared within 40 working days of receipt	92.3	85.3
% of post cleared within 15 working days that met quality standards	91.8	91.9
Online take up rates: % of returns received/filed online		
SA	80	78
VAT	81	67
Corporation Tax[23]	96	42

[20] The Debt Balance is an internal management figure which represents the total of amounts overdue for payment and which are collectible now. The Debt Balance is heavily influenced by the amount of new debt we receive so it is not a performance measure. It is however useful in terms of understanding outstanding and collectible debt.

[21] The 2010-11 Debt Balance has been restated from £18.6 billion due to a system problem that resulted in an understatement of the PAYE element of the Debt Balance.

[22] Losses prevented relate to the period April 2011 to March 2012. 2011-12 Tax Credit award renewals will take place between April and July 2012, and so final results for 2011-12 losses prevented will not be available until August 2012. The figure shown above for 2010-11 gives the value of losses prevented at the end of March 2011; the total value of losses prevented for TC claims in 2010-11 was £1.40 billion.

[23] For 2011-12 online filing for Corporation Tax became mandatory for most customers.

Chapter 5: Regulation, executive agencies and the public

This chapter covers the Department's interaction with business, administrative burdens, the Valuation Office, (an executive agency of HMRC) and complaints to the Parliamentary Ombudsman.

Better Regulation Reporting

HMRC is committed to better regulation and reducing the administrative burden on business. We are implementing a new approach to making tax policy, tax simplification, and reducing customer costs.

In 2011-12, we published 40 consultation documents and more than 170 Tax Information and Impact Notes in support of improved policy making.

We continue to work closely with the Office for Tax Simplification (OTS) to identify further simplifications to the tax system. In response to the OTS reviews on small business taxation, we are consulting on a simpler system for small businesses to calculate tax, and on simplified business expenses. At Budget 2012, we also published 'Making tax easier, quicker and simpler for small business'. This document sets out our commitments to helping small businesses find tax easier to understand, simpler, quicker to do and with greater certainty.

Our goal is to reduce costs for customers in meeting their tax obligations over the Spending Review period. In 2011-12 reductions in ongoing costs of £52 million were offset by exceptional increases of £106 million, resulting in a net increase of £54 million. Bank levy and restructuring pensions savings tax relief are two key policy measures which directly support fiscal consolidation. They account for almost all the increase in costs by raising over £6.5 billion a year.

Valuation Office Agency

The Valuation Office Agency (VOA) is an executive agency of HMRC. Over the last year it started to implement its new strategy to underpin its work for the remainder of the Spending Review 2010 period and beyond.

The Agency's four strategic objectives are:

- Target and achieve customer trust;
- Drive quality and consistency through improved processes;
- Develop and sustain the right capabilities; and
- Sustainably reduce costs and improve value for money.

In 2011-12 the VOA changed its organisation structure to national business streams to mirror its customer base and introduced more centralised processes to improve efficiency and deliver the most consistent services to customers.

Complaints to the Ombudsman in 2010-11

Number of HMRC cases received by the Ombudsman	1,671
Number of HMRC complaints accepted for investigation	12
Number of investigations reported on	17
Number of cases upheld in full	4 (24%)
Number of cases upheld in part	6 (35%)
Number of cases not upheld	7 (41%)
Number of Ombudsman recommendations complied with	23
Number of Ombudsman recommendations not complied with	0

Most complaints are dealt with by HMRC, with a small proportion being referred via MPs to the Parliamentary Ombudsman. In 2010-11, we received 79,274 complaints compared to 77,166 in 2011-12 (Figures include VOA complaints of 2,553 and 2,335 respectively).

The Ombudsman will normally look at a complaint once it has been considered by the Adjudicator, who acts as a fair and unbiased referee looking into complaints about HMRC.

Details of complaints made to the Adjudicator in 2011-12 will be included in her annual report due to be published in July 2012.

In 2010-11 the Adjudicator took on 1,225 cases for investigation in addition to the 2,041 cases on hand. 2,272 investigations were completed of which 51 per cent were upheld either wholly or in part.

Chapter 6: Sustainability

HMRC Sustainability Report for the year ended 31 March 2012

INTRODUCTION

This is HMRC's first Sustainability Report. It incorporates non-financial and financial environmental data from both HMRC and our executive agency, the Valuation Office Agency (VOA).

As at 31 March 2012, HMRC occupied 391 offices in 284 locations across the United Kingdom (UK) and employed 74,983 people (Full Time Equivalents (FTE) 66,466). We also had 43 non-office properties at 29 locations. The VOA occupied 72 locations and employed 3,737 people.

Sustainability remains a priority for our leadership team with our Chief Finance Officer (CFO) acting as Environment Champion for the Department. Progress against environmental targets is monitored monthly and reported to HMRC's Performance Committee, and is subject to senior management challenge. HMRC's Ethics and Responsibilities Committee meet quarterly to perform an assurance role by monitoring progress on environmental objectives. This committee is chaired by a non-executive director.

The main purpose of this report is to record our performance against the Government's 'Greening Government Commitments' http://sd.defra.gov.uk/gov/green-government/commitments/ink. The format conforms to HM Treasury's sustainability reporting requirements.

GREENHOUSE GAS EMISSIONS		2011-12	2010-11
		tCO_2e,000s	
Non-Financial Indicators	Total gross emissions	143	166
	Total net emissions	133	155
	Gross emissions Scope 1 (direct)	6.0	7.0
	Gross emissions Scope 2 and 3 (indirect)	137	159
		kWh,000s	
Related Energy Consumption	Electricity: Non-Renewable	170,720	187,032
	Electricity: Renewable	18,594	20,216
	Gas	121,339	176,441
	Oil	12,946	20,485
	Whitehall District Heating	2,852	3,526

		£,000	
Financial Indicators	Expenditure on Energy	29,649	25,702
	Carbon Reduction Commitment, Administration costs Energy Efficiency Scheme	1.3 1,800 (accrued)	2.2
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting (GCOF), for air travel)	25	99
	Expenditure on official business travel	31,352	22,148 (excludes VOA)

PERFORMANCE COMMENTARY (including measures)

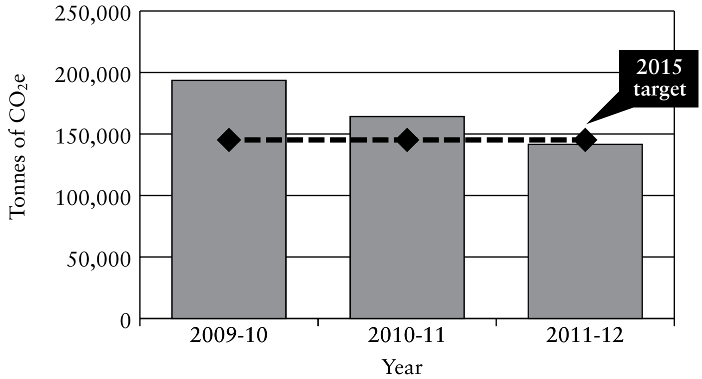
We have made good progress against the government's five-year target to reduce greenhouse gas emissions by 25 per cent from our estate and business travel combined. Between 2009-10 and the end of 2011-12, we recorded a 27 per cent reduction in emissions. We achieved a 13.4 per cent reduction in carbon emissions, equivalent to 22,408 tonnes against a government target of 10 per cent during the twelve months to 13 May 2011.

Some of the savings in emissions from our offices can be attributed to our estates rationalisation programme, voltage optimisation, lighting improvements and a successful behaviour change campaign. Further savings have come from changes to our information technology, such as increasing the temperature in our server rooms to reduce the need for air conditioning.

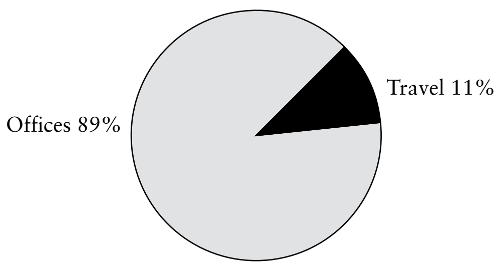
We have set our own travel reduction targets and expect staff to use sustainable options, such as enhanced video and telephone-conferencing facilities to reduce our business-travel footprint. Where travel is necessary there has been a noticeable shift from road to rail. Road travel emissions over the year have decreased by 11.6 per cent while rail travel emissions have increased by 6.2 per cent. When road travel is necessary we encourage our staff to use our low-carbon, fuel efficient 'pool' cars.

We are also required to make a 20 per cent reduction in the number of domestic flights we make by 2015. At the end of 2011-12, we had achieved a 37 per cent reduction.

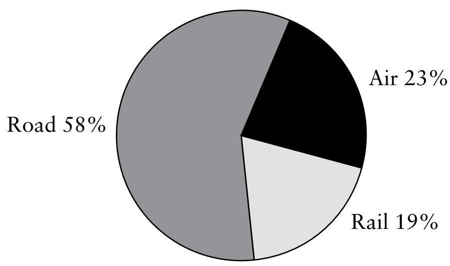
Progress against Greening Government Commitment to reduce Greenhouse Gas Emissions from offices and travel by 25 per cent by 2015.



Split of emissions between offices and travel



Split of emissions between road, rail and air travel



CONTROLLABLE IMPACTS COMMENTARY

We have included emissions from offices and business travel (air, rail and road). Fugitive emissions (e.g. air conditioning and refrigeration) are not reported but we are planning to monitor them in the future.

WASTE			2011-12	2010-11
			tonnes, 000s	
Non-Financial Indicators	Total waste		11.2	12.8
	Waste	Landfill	4	3.8
		Reused/Recycled	7.1	8.7
		Incinerated with energy recovery	0.12	0.3
			£,000	
Financial Indicators	Total disposal cost		588	594.8
	Waste	Landfill	356	305.5
		Reused/Recycled	228	279
		Incinerated with energy recovery	4	11
Copier Paper			**2011-12**	**2010-11**
			A4 reams, 000s equivalent	
Non-Financial Indicators ('000 A4 reams equivalent)			649	727
			£,000	
Financial Indicators (£k)			1,390	1,417

PERFORMANCE COMMENTARY (including measures)

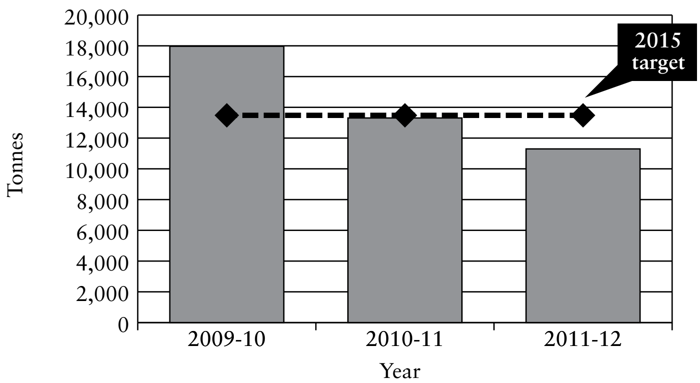
The five-year government target requires us to make a 25 per cent reduction by 2015 in the waste we generate. Current progress shows a 37 per cent reduction at the end of 2011-12, compared with the baseline year of 2009-10.

We have introduced a number of initiatives to help us achieve this reduction. They include:

- a recycling scheme in the majority of our offices for paper, cans and plastic as well as toner cartridges and batteries;
- an innovative 'closed loop' recycling scheme, which recycles our confidential waste paper into the copier paper we use in our offices;
- recycling, reselling and redeploying 1,038 tonnes of our information technology waste during 2011-12; and
- introducing an on-line 'swap shop' facility for staff to offer unwanted office supplies to other offices across the organisation.

We made a 24 per cent reduction in our copier paper usage during 2011-12, compared with our 2009-10 baseline. This was 14 percentage points above the government target of 10 per cent. The installation of duplex printers, for double-sided printing, has contributed to these savings.

Progress against Greening Government Commitment to reduce waste by 25 per cent by 2015.



CONTROLLABLE IMPACTS COMMENTARY

We are unable to obtain a split for our data between hazardous and non-hazardous waste.

FINITE RESOURCE CONSUMPTION – Water			2011-12	2010-11
			m³, 000s	
Non-Financial Indicators	Water Consumption (Office Estate)	Supplied	752	843
			£,000	
Financial Indicators	Water Supply Costs (Office Estate)		4,408	6,048 (excl. VOA)

PERFORMANCE COMMENTARY (including measures)

We have made good progress reducing our water consumption. Against the 2009-10 baseline we achieved a 23 per cent drop in consumption.

From 2011-12, we also measured our water consumption by FTE (the number of full time equivalent employees).

CONTROLLABLE IMPACTS COMMENTARY

The overall reduction in water consumption has been achieved through estate rationalisation projects and a behaviour change campaign. It is set against an increase in water consumption within some HMRC business locations where twilight/shift working has been introduced.

BIODIVERSITY AND NATURAL ENVIRONMENT

To supplement the first phase of habitat assessments at our five biodiversity enhancement pilot sites, we surveyed our bat populations and carried out an additional amphibian survey at our Lawress Hall site, which adjoins a large pond. We updated our biodiversity action plan and are in the process of negotiating its implementation with our estate partners. We are prioritising sites across our estate for future biodiversity improvement.

SUSTAINABLE PROCUREMENT INCLUDING FOOD

We maximise the use of Government Procurement Service contracts and work collaboratively with our suppliers to embed sustainability throughout our supply chain.

Key achievements

- moving our car fleet to low carbon, fuel efficient vehicles;
- furniture and office supplies now comply with the UK Government's timber procurement policy and government buying standards;
- our 'closed loop' recycled paper concept has been mandated across Central Government. We currently recycle 22,000 tonnes of paper through the closed loop process, with a target of 70,000 tonnes as others join;
- 95 per cent of paper is either FSC or PEFC certified or contains high recycled content fibre;
- information technology procurement meets government buying standards; and
- procurement staff have increased their awareness of equality standards, sustainability and ethical sourcing.

Our key suppliers benchmark their environmental, social and economic performance by using the online tool, CAESER (Corporate Assessment of Environmental, Social and Economic Responsibility).

CLIMATE CHANGE ADAPTATION AND MITIGATION
The successful delivery of HMRC and VOA's key objectives is dependant on our ability to manage the risks that arise from climate change and build capacity to address those risks in relation to business continuity, service delivery and the estate. The approach to business continuity is impact based. All threats, including climate change, are considered when implementing business continuity strategies. The impact of extreme weather on our ability to serve customers, enable staff to work in a safe environment and move assets around the UK are all considered in our planning and longer term strategies. We also have to be prepared to take action at short notice. For example, during the prolonged period of bad weather in February 2012, we relaxed temporarily the rules preventing farmers from using red-diesel in tractors to grit roads. This was done to help keep rural communities moving. Across the estate, we have produced a project plan to tackle climate change. It includes the need for regular assessments to identify the risks from drought, subsidence, flooding and higher temperatures, and makes provision to mitigate any significant risks identified.

SUSTAINABLE CONSTRUCTION
We have a policy in place to apply the Building Research Establishments Environmental Assessment Method (BREEAM) to any future capital build and major refurbishment projects. We have completed two BREEAM assessments to help us understand how buildings, previously built to BREEAM standards, are performing.

PEOPLE
Office moves: we conducted sustainability appraisals of office moves, part vacations and rationalisations to identify and minimise any significant environmental impacts from the moves. **Community activity**: our staff gave 5,837 of volunteering days during 2011-12 to assist their local communities. **Green volunteers**: we have over 450 'green volunteers' spread across our estate. They offer advice, change behaviours at work, promote best practice and publicise environmental initiatives.

ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)
In 2011-12 we renewed ISO14001 certification for our Longbenton site in Newcastle and maintained the same certification at our headquarters' office at 100 Parliament Street, London. We have improved our national estate environmental management system by expanding our environmental policies, processes and practices.

Notes:

- The above report has been prepared in accordance with guidelines laid down by HM Treasury in 'Public Sector Sustainability Reporting' published at www.financial-reporting.gov.uk
- Emissions accounting includes all Scope 1 and 2 emissions along with separately identified emissions related to official travel. DEFRA conversion rates have been used to account for greenhouse gas emissions.

Mainstreaming Sustainable Development

HMRC is committed to supporting the Government's sustainable development objectives and we aim to act in a sustainable way in everything we do. We have embedded sustainability into the principles which govern the development of HMRC's strategic framework. We are also building the capability of our change programme managers, supporting them in identifying and measuring the environmental consequences of major programmes.

Our key purpose – to make sure that the money is available to fund the UK's public services, and to help families and individuals with targeted financial support – is central to the Government's aim to put the UK on a path to strong, sustainable and balanced growth. We are working hard to maximise tax revenues, which pay for schools, hospitals and a host of other essential services, and to improve the extent to which individuals and businesses receive the credits and payments to which they are entitled. We are also making it easier for businesses and individuals to deal with us, reducing business burdens and costs and supporting economic growth.

Our responsibility for the administration of environmental taxes means that we play a particularly important role in protecting the environment and supporting initiatives to slow the rate of climate change. We are also striving to deliver our services in more sustainable ways, for example by reducing the environmental impact of business travel and providing our customers with paperless information through new electronic media, including webinars, e-learning products and You Tube videos.

With a large estate covering the UK and Northern Ireland, we are one of the 'big four' government departments, making a significant contribution to sustainable operations and procurement in the public sector. The progress we are making to reduce HMRC's environmental impact in the way we manage our large estate is set out in our Sustainability Report above.

Tax Impact Assessment and Rural Proofing

Tax Impact Assessment (TIA) is a policy process we use to make sure that the impact of any potential tax change in tax policy is evidence based. It is an integral part of the new approach to Tax Policy Making and is mandatory for all tax and National Insurance Contributions (NIC) policy changes.

All policy proposals are tested against a range of impacts, for example the impact on the Exchequer, the economy, individuals, households, businesses and the impact on the third sector, as well as operational, equality and other impacts.

Rural proofing is considered under the other impacts category. Internal guidance is available to ensure that rural impacts are understood and addressed.

The consultation process allows interested parties to raise concerns over the other impacts policy may have. Most impacts from tax policies are national and with proper consideration have not had a detrimental effect on rural areas.

While there are no specific policies that have been designed to promote good practice, some have been beneficial in certain circumstances, for example the decision to allow farm vehicles to grit roads during times of severe weather without fear of prosecution for the use of red diesel.

Chapter 7: Other data

Numbers of Senior Civil Service (SCS) staff by pay band

Grade	Numbers at 1 April 2012	Difference from 2011	Percentage change	Notes
Out on secondment	14	–1	6.7% decrease	These 14 are not included in the total
Permanent Secretary	2	0	no change	
SCS3	8	0	no change	Two are Fixed Term Appointments(FTA), two are on Temporary promotion (TP) from SCS2
SCS2	40	2	5.3% increase	Three are FTAs, five are on TP from SCS1
SCS1	310	–8	2.5% decrease	Five are FTAs, six are on TP from G6
Total	360	–6	1.6% decrease	

The size of the SCS in HMRC has reduced from 400 at 31 December 2009 to 347. Further reductions are expected this year as a number of transitional posts come to an end. In addition there are 13 SCS posts in the VOA, making the total number of SCS posts 360.

We have consolidated pay band SCS1 to absorb the SCS1A and therefore no longer report these separately.

We have filled the five most senior management layers of our new operating model through a rigorous selection process designed to make sure that we have the right people with the right skills in key roles and to enhance our overall leadership capability.

Recruitment practice

All external recruitment is subject to a rigorous and robust approval process. The increase in recruitment over previous years was predominantly short duration fixed term appointments. At SCS level, six posts were filled through external campaigns.

An audit of our recruitment activity by the Civil Service Commission found we had good compliance with the Commission's recruitment principles.

Redeployment activity

We have prioritised the redeployment of suitable people from across the Department into revenue generating roles.

A total of 772 people whose role had ended joined the redeployment pool. Another 530 people were redeployed within HMRC, with 258 leaving on exit schemes, 20 moving to other government departments, and 50 leaving the Department for other reasons.

Health and Safety

We continuously improve our Health and Safety (H&S) governance arrangements and make sure that performance data is routinely reviewed by our sub-committees and our Executive Committee, and that detailed H&S risk information is provided on a monthly basis to senior managers and H&S committees, including trade union safety representatives.

We introduced a new occupational health contract in February 2012, which includes a secure online referral facility, giving managers quicker advice about the health of their staff, helping prevent and protect against ill health and reducing sick absence.

We have set up a reasonable adjustment support team that helps managers make timely and consistent decisions on adjustments for disabled staff.

The wellbeing of staff is important to us and we have improved the support relating to the challenges and stresses in work and at home. We have signed up to the Civil Service Physical Activity Challenge to encourage staff to be more active in line with the government chief medical officer's guidelines. We continue to support local office wellbeing initiatives, and improve our partnerships with not-for-profit organisations like the Civil Service Benevolent fund and promoting the carers' passport scheme.

Reporting of Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR): reports to the HSE	
Fatal injuries	0
Major injuries	26
Dangerous occurrences	0
Over three day injuries	124
Diseases	1
TOTAL RIDDOR	**151**

NON-RIDDOR incidents	
Upper Limb Disorders	246
Stress	790
Slip/trip/fall	686
Violence and verbal abuse	371
Other	2,290
TOTAL NON-RIDDOR	**4,383**

Consultancy and temporary specialist staff

The Department engages professional service providers for: consultancy, contingent labour, learning, legal services, translation, interpretation and research. We use these firms where there is a need to buy in skills or expertise; typically when we do not have the necessary skills internally or where a different external expert opinion on complex issues is required.

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

We are supporting the Cabinet Office Centralised Category Procurement programme taking place across central government. This programme and effective demand management in line with austerity measures from May 2010 has seen a significant reduction in spend on consultancy. We also continue to look for ways of achieving savings and we have introduced new procurement tools to improve our data analysis and continually educate our business areas, sharing best practice in the employment of consultants.

Spend on consultancy has reduced in 2011-12 to £1.1 million; this is from £10.1 million in 2010-11 and from £47 million in 2009-10.

Publicity and Advertising

Strict controls on marketing expenditure introduced in 2010-11 continued throughout 2011-12 with less than £4 million spent on paid-for marketing activity. The main focus was on prompting customers to renew their Tax Credits claims on time, encouraging people to file and pay before the Self Assessment deadlines, and compliance campaigns aimed at plumbers, electricians and people trading online.

Detentions and warrants

Detentions and applications for warrants for further detention	**2011-12**
Number of persons:	
Detained after arrest	181
Detained for more than 24 hours and subsequently released without charge	0
Number of persons for whom warrants for further detention were:	
Applied for	9
Granted	9
In this instance, the number of persons:	
Charged	7
Released on payment of a compound settlement	0
Released for other reasons	2[1]

1 In these cases it was decided to progress the case by the gathering of information and then for the suspect to be summoned to court rather than charged following arrest.

Chapter 8: Core Tables

Table 1: Total departmental spending (£'000)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Outturn	Outturn	Outturn	Outturn	Estimated outturn	Plans	Plans	Plans
Resource DEL								
Section A: HMRC Administration	3,669,504	3,709,865	3,596,631	3,345,192	3,311,468	3,288,630	3,237,857	3,094,502
Section B: Departmental Unallocated Provision	–	–	–	–	–	37,038	36,887	35,445
Section C: VOA Administration	–5,636	–7,972	–5,699	–21,816	–2,837	2,000	–	1
Section D: Utilised Provisions	72,928	58,704	60,626	71,495	56,271	52,371	44,858	38,697
Section E: National Insurance Fund	374,271	413,760	433,818	411,362	340,644	332,949	313,613	302,104
Total Resource DEL	**4,111,067**	**4,174,357**	**4,085,376**	**3,806,233**	**3,705,546**	**3,712,988**	**3,633,215**	**3,470,749**
Of which:								
Pay	2,653,772	2,609,514	2,507,232	2,428,613	2,370,874	2,279,185	2,263,961	2,095,867
Net current procurement[1]	1,304,446	1,332,974	1,353,704	1,104,240	1,025,228	1,080,144	1,019,733	1,029,449
Current grants and subsidies to the private sector and abroad	468	18,845	9,199	41,223	11,816	28,537	15,337	2,337
Current grants to local government	–	–	–	–	–	–	–	–
Depreciation[2]	177,178	201,731	203,386	215,373	217,296	227,000	239,000	252,000
Other	–24,797	11,293	11,855	16,784	80,332	98,122	95,184	91,096
Resource AME								
Section F: Social Benefits and Grants	10,731,599	11,310,962	12,179,253	12,259,046	12,134,533	12,580,000	10,890,000	11,055,000
Section G: Providing payments in lieu of tax relief to certain bodies	83,655	121,057	154,513	176,852	101,532	67,019	59,677	62,401
Section H: Filing Incentive payments	126,084	181,470	100,069	–	–	58	42	41
Section I: HMRC Administration	100,754	82,384	106,926	64,776	3,967	30,001	30,001	30,001
Section J: VOA – Payments of rates to LAs on behalf of certain bodies	29,700	29,083	32,049	39,603	47,537	54,608	63,605	72,601
Section K: VOA Administration	5,026	7,486	5,416	5,126	1,139	1	1	1

	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Estimated outturn	2012-13 Plans	2013-14 Plans	2014-15 Plans
Section L: Utilised Provisions	–117,067	–166,843	–141,317	–185,491	–56,271	–52,371	–44,858	–38,697
Section M: Personal Tax Credit	20,030,879	24,097,719	27,600,898	28,870,775	29,914,314	30,365,000	30,402,828	30,813,660
Section N: Other Reliefs and Allowances	394,953	411,514	416,046	492,718	634,429	547,835	618,817	1,066,491
Total Resource AME	**31,385,583**	**36,074,832**	**40,453,853**	**41,723,405**	**42,781,180**	**43,592,151**	**42,020,113**	**43,061,499**
Of which:								
Pay	–	–	–	–	–	–	–	–
Net current procurement[1]	40,876	35,102	46,172	49,995	76,523	54,608	63,605	72,601
Current grants and subsidies to the private sector and abroad	26,494,108	30,302,497	34,609,424	35,965,199	38,028,760	39,042,065	37,488,250	38,518,928
Current grants to local government	–	–	–	–	–	–	–	–
Net public service pensions[3]	–	–	–	–	–	–	–	–
Take up of provisions	156,115	167,082	234,910	136,108	14,376	30,000	30,000	30,000
Release of provisions	–117,067	–167,252	–175,507	–196,050	–142,802	–57,371	–44,858	–38,697
Depreciation[2]	16,765	16,177	–3,034	40,054	–9,270	2	2	2
Other	4,794,786	5,721,226	5,741,888	5,728,099	4,813,593	4,522,847	4,483,114	4,478,665
Total Resource Budget	**35,496,650**	**40,249,189**	**44,539,229**	**45,529,638**	**46,486,726**	**47,305,139**	**45,653,328**	**46,532,248**
Of which:								
Depreciation[2]	193,943	217,908	200,352	255,427	208,026	227,002	239,002	252,002
Capital DEL								
Section A: HMRC Administration	233,966	271,151	214,312	161,073	215,064	140,731	113,666	120,296
Section B: Departmental Unallocated Provision	–	–	–	–	–	1,443	1,222	1,286
Section C: VOA Administration	9,955	7,314	14,432	7,334	5,156	7,862	7,312	7,018
Total Capital DEL	**243,921**	**278,465**	**228,744**	**168,407**	**220,220**	**150,036**	**122,200**	**128,600**
Of which:								
Net capital procurement[4]	243,922	278,465	228,744	168,407	220,220	148,593	120,978	127,314
Capital grants to the private sector and abroad	–1	–	–	–	–	–	–	–
Capital support for local government	–	–	–	–	–	–	–	–
Capital support for public corporations	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	1,443	1,222	1,286
Capital AME								
Section F: Social Benefits and Grants	167,746	188,259	306,302	226,677	86,255	5,000	–	–
Section L: Utilised Provisions	44,139	108,139	80,691	113,996	–	–	–	–
Total Capital AME	**211,885**	**296,398**	**386,993**	**340,673**	**86,255**	**5,000**	**–**	**–**

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Outturn	**Outturn**	**Outturn**	**Outturn**	**Estimated outturn**	**Plans**	**Plans**	**Plans**
Of which:								
– Capital grants to the private sector and abroad	211,885	296,398	386,993	340,673	86,255	5,000	–	–
– Net lending to the private sector and abroad	–	–	–	–	–	–	–	–
– Capital support for public corporations	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
Total Capital Budget	**455,806**	**574,863**	**615,737**	**509,080**	**306,475**	**155,036**	**122,200**	**128,600**
Total departmental spending[5]	**35,758,513**	**40,606,144**	**44,954,614**	**45,783,291**	**46,585,175**	**47,233,173**	**45,536,526**	**46,408,846**
of which:								
Total DEL	4,354,988	4,452,822	4,314,120	3,974,640	3,925,766	3,863,024	3,755,415	3,599,349
Total AME	31,597,468	36,371,230	40,840,846	42,064,078	42,867,435	43,597,151	42,020,113	43,061,499

1 Net of income from sales of goods and services.
2 Includes impairments.
3 Pension schemes report under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.
4 Expenditure on tangible and intangible fixed assets net of sales.
5 Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Table 2: Public spending control (£ million)

	2011-12 Main estimate	2011-12 Supplementary estimate	2011-12 Final Provision	2011-12 Outturn
Resource Del				
Voted				
HMRC Administration	3,313	40	3,353	3,311
Departmental Unallocated Provision	38	–38	0	0
VOA Administration	7	0	7	–3
Utilised Provision	58	0	58	56
Non-Voted				
National Insurance Fund	400	–52	348	341
Resource AME				
Voted				
Social Benefits and Grants	12,255	–98	12,157	12,134
Providing Payments in lieu of tax relief to certain bodies	103	9	112	101
e-filing incentive payments	0	0	0	0
HMRC Administration	30	0	30	4
VOA – payments of rates to LAs on behalf of certain bodies	45	3	48	47
VOA Administration	0	2	2	1
Utilised Provisions	–58	0	–58	–56
Non-voted expenditure				
Personal Tax Credits	30,045	589	30,634	29,914
Other relief and allowances	455	151	606	634
Capital Del				
HMRC Administration	278	–22	256	215
Departmental Unallocated Provision	3	–3	0	0
VOA Administration	6	0	6	5
Capital AME				
Social Benefits and Grants	0	98	98	86

Table 3: Capital employed (£ million)

	2007-08[1] Outturn (IFRS)	2008-09[1] Outturn (IFRS)	2009-10 Outturn (IFRS)	2010-11[2] Outturn (IFRS)	2011-12 Outturn (IFRS)	2012-13 Plans (IFRS)	2013-14 Plans (IFRS)	2014-15 Plans (IFRS)
Assets and liabilities in the Statement of Financial Position at year end								
Assets								
Non-current assets	1,830	1,861	1,840	1,787	1,742	1,656	1,541	1,425
Property, Plant and Equipment	780	709	640	580	536	501	472	444
of which:								
Land	27	23	24	24	29	30	31	33
Buildings	487	400	360	329	285	262	240	217
Accommodation Refurbishments	55	57	74	70	85	85	83	80
Office and Computer Equipment	137	130	98	84	83	78	76	74
Vehicles	4	6	6	5	9	8	7	7
Furniture & Fittings	35	35	36	35	31	30	28	26
Assets under Construction	32	54	38	31	11	5	5	4
Scientific Aids	3	4	4	3	4	3	2	2
Intangible	1,050	1,152	1,200	1,207	1,206	1,155	1,070	981
of which:								
Software Licences	8	15	14	14	10	8	7	4
Developed Computer Software	869	900	1,003	1,058	1,031	999	936	856
Website Development Costs[3]	–	–	–	–	2	1	1	1
Assets under Construction	173	237	183	136	163	146	126	119
Receivables falling due >1 year	1	–	–	1,093	1,099	1,891	1,929	1,967
Current Assets[4]	553	748	287	886	854	723	707	692
Liabilities								
Current Liabilities[4]	–1,266	–1,503	–1,100	–1,919	–1,975	–1,963	–1,979	–1,998
Non-current liabilities	–492	–499	–201	–419	–410	–362	–344	–327
Provisions	–296	–296	–356	–296	–169	–126	–109	–98
Capital employed within Department	330	311	469	1,133	1,141	1,820	1,745	1,662

1 Certain figures have been restated for machinery of government changes.

2 The figures for 2010-11 have been restated to include receivables and payables for Tax Credits that transferred to the Resource Accounts from the Trust Statement in 2011-12 under clear line of sight.

3 Website developments costs, previously reported within developed computer software, have been reported as a separate intangible category in line with IFRS disclosure requirements.

4 The figures for years prior to 2009-10 include values for those penalties that have now transferred to the Trust Statement under clear line of sight.

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

Table 4: Administration budget (£'000)

	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Estimated outturn	2012-13 Plans	2013-14 Plans	2014-15 Plans
Section A: HMRC Administration	3,601,084	3,587,581	3,483,369	3,217,450	871,766	810,204	731,774	683,591
Section B: Departmental Unallocated Provision	–	–	–	–	–	37,038	36,887	35,445
Section E: National Insurance Fund	–	–	–	–	48,953	73,566	70,487	67,289
Section D: Utilised Provisions	72,928	58,704	60,626	71,495	40,850	32,371	24,858	18,697
Section C: VOA Administration	–6,530	–9,604	–6,343	–23,114	–	–	–	–
Total administration budget	**3,667,482**	**3,636,681**	**3,537,652**	**3,265,831**	**961,569**	**953,179**	**864,006**	**805,022**
Of which:								
Paybill	2,655,513	2,612,365	2,510,621	2,431,658	336,465	594,818	579,307	554,319
Expenditure	1,341,088	1,428,714	1,409,391	1,188,226	714,864	461,661	384,399	347,103
Income	–329,119	–404,398	–382,360	–354,053	–89,760	–103,300	–99,700	–96,400

Table 5: Staff Numbers

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn
Core Department			
Permanent Staff	72,953	67,533	64,483
Others[1]	742	264	2,591
Total	73,695	67,797	67,074
Valuation Office Agency (VOA)			
Permanent Staff	4,034	3,758	3,535
Others[1]	29	81	39
Total	4,063	3,839	3,574

[1] The 'others' figures for 2010-11 and 2011-12 now include values for contingent labour and consultants. 2011-12: Core Department 70, VOA 11. 2010-11: Core Department 69, VOA 19.

Note: This table reflects the average number of full-time equivalent persons employed during the year.

Country and regional analysis

1. **Tables 6, 7 and 8** show analyses of the department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in Chapter 9 of Public Expenditure Statistical Analyses (PESA) 2011. The figures were taken from the HM Treasury public spending database in November 2010 and the regional distributions were completed in early 2011. Therefore the tables may not show the latest position and are not consistent with other tables in the Annual Report.

2. The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities own expenditure.

3. TES is a cash equivalent measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2011.

4. The data are based on a subset of spending – identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions. Expenditure that is incurred for the benefit of the UK as a whole is excluded.

5. Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.

6. The functional analyses of spending in **Table 8** are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in chapter 9 of PESA 2011. These are not the same as the strategic priorities shown elsewhere in the report.

Table 6: Total identifiable expenditure on services by country and region, 2006-07 to 2010-11 (£ million)

	2006-07 outturn	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 outturn
North East	1,124	1,190	1,356	1,535	1,593
North West	3,074	3,300	3,764	4,297	4,456
Yorkshire and the Humber	2,280	2,410	2,771	3,171	3,291
East Midlands	1,830	1,924	2,212	2,532	2,626
West Midlands	2,401	2,566	2,955	3,392	3,521
East	2,121	2,237	2,565	2,938	3,042
London	3,088	3,505	4,054	4,702	4,895
South East	2,980	3,130	3,562	4,067	4,204
South West	1,957	2,044	2,337	2,670	2,767
Total England	**20,856**	**22,305**	**25,574**	**29,304**	**30,396**
Scotland	2,023	2,135	2,423	2,719	2,835
Wales	1,276	1,360	1,550	1,766	1,829
Northern Ireland	824	890	1,021	1,168	1,213
UK identifiable expenditure	**24,978**	**26,690**	**30,569**	**34,956**	**36,274**
Outside UK	**61**	**30**	**49**	**62**	**63**
Total identifiable expenditure	**25,039**	**26,720**	**30,618**	**35,018**	**36,336**
Non-identifiable expenditure	**4,469**	**4,299**	**4,329**	**4,186**	**3,811**
Total expenditure on services	**29,509**	**31,019**	**34,948**	**39,203**	**40,147**

Table 7: Total identifiable expenditure on services by country and region, per head, 2006-07 to 2010-11 (£ per head)

	2006-07 outturn	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 outturn
North East	440	465	527	594	611
North West	449	481	548	623	643
Yorkshire and the Humber	443	465	531	603	621
East Midlands	420	438	499	569	586
West Midlands	448	477	546	625	645
East	379	396	449	509	522
London	409	461	529	606	626
South East	362	377	426	482	493
South West	382	395	448	510	525
England	**411**	**436**	**497**	**566**	**582**
Scotland	395	415	469	523	543
Wales	431	457	518	589	608
Northern Ireland	473	506	575	653	674
UK identifiable expenditure	**412**	**438**	**498**	**566**	**583**

Table 8: Total identifiable expenditure on services by function, country and region, for 2010-11

	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	UK Identifiable expenditure	OUTSIDE UK	Total Identifiable expenditure	Not Identifiable	Totals
General public services																		
Executive and legislative organs, financial and fiscal affairs, external affairs	–1	–1	–1	–1	–1	–1	–3	–2	–1	–13	–1	–1	0	–14	0	–14	3,811	3,796
General public services n.c.e.[1]	4	11	8	6	12	10	30	18	12	110	7	5	1	123	0	123	0	123
Total general public services	3	10	7	5	11	8	27	16	11	97	7	4	1	109	0	109	3,811	3,920
Economic affairs																		
General economic, commercial and labour affairs	3	9	7	6	7	9	19	15	7	83	8	3	2	97	0	97	0	97
Mining, manufacturing and construction	3	0	0	0	0	0	0	0	0	3	31	0	0	34	0	34	0	34
R&D economic affairs	7	19	14	13	15	19	39	31	16	173	17	7	5	201	0	201	0	201
Total economic affairs	13	29	21	19	22	28	58	46	23	259	56	11	7	333	0	333	0	333
Environment protection																		
Environment protection n.c.e[1]	0	1	1	1	1	1	2	2	1	9	1	0	0	10	0	10	0	10
Total environment protection	0	1	1	1	1	1	2	2	1	9	1	0	0	10	0	10	0	10
Social protection																		
Old age	2	5	4	4	4	5	6	8	5	42	5	2	1	50	0	50	0	50
of which: pensions	*2*	*5*	*4*	*4*	*4*	*5*	*6*	*8*	*5*	*42*	*5*	*2*	*1*	*50*	*0*	*50*	0	*50*
Family and children	503	1,424	1,052	891	1,147	1,162	1,677	1,689	987	10,534	957	591	401	12,483	17	12,500	0	12,500
of which: family benefits, income support and tax credits	*503*	*1,424*	*1,052*	*891*	*1,147*	*1,162*	*1,677*	*1,689*	*987*	*10,534*	*957*	*591*	*401*	*12,483*	*17*	12,500	*0*	*12,500*
Housing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Social exclusion n.c.e[1]	1,072	2,988	2,206	1,706	2,336	1,836	3,125	2,443	1,740	19,451	1,810	1,222	802	23,285	46	23,331	0	23,331
of which: family benefits, income support and tax credits	*1,072*	*2,988*	*2,206*	*1,706*	*2,336*	*1,836*	*3,125*	*2,443*	*1,740*	*19,451*	*1,810*	*1,222*	*802*	*23,285*	*46*	*23,331*	*0*	*23,331*
Social protection n.c.e[1]	0	0	0	0	0	0	1	1	0	3	0	0	0	3	0	3	0	3
Total social protection	1,577	4,417	3,263	2,602	3,488	3,004	4,808	4,140	2,732	30,031	2,772	1,814	1,205	35,822	63	35,885	0	35,885
Total HM Revenue & Customs	1,593	4,456	3,291	2,626	3,521	3,042	4,895	4,204	2,767	30,396	2,835	1,829	1,213	36,274	63	36,336	3,811	40,147

[1] Not classified elsewhere

Consolidated Resource Accounts for the year ended 31 March 2012

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The Annual Report

Introduction

1. These Resource Accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000. They present the operating costs and financial position of HM Revenue & Customs (HMRC) for the year ended 31 March 2012 and include the Core Department and the Valuation Office Agency (VOA). Figures for the VOA are also published separately in their agency accounts (HC 267), which is available from The Stationery Office and which can be viewed at www.voa.gov.uk.

2. HMRC is responsible for collecting taxes, duties and National Insurance Contributions and for making payments of Tax Credits, Child Benefit, Child Trust Fund endowments and Health in Pregnancy Grants. HMRC is also responsible for collecting repayments of Student Loans, enforcing payment of the National Minimum Wage and for providing the Government business link portal.

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

4. Receipts and payments of direct and indirect taxes and National Insurance Contributions are accounted for in the Trust Statement which is on pages 119-149 of this publication.

5. Pension benefits are provided through the Civil Service pension arrangement (see note 1.17.1 and the Remuneration Report). Pension benefits are also provided through the Local Government Pension Scheme for a number of staff that are employed by the VOA (see note 1.17.2).

Departmental reporting cycle

6. Prior to 2011 regular reports on performance were made in the Departmental and Autumn Performance Reports, the last one being the Departmental Autumn Performance Report 2009 (Cm 7774). In 2011 the Department produced a combined Annual Report and Accounts (HC 981) that reported on its performance. Details of the Department's performance for 2012 can be found on pages 2-33 of this publication. These reports are available from The Stationery Office and the HMRC Internet site (www.hmrc.gov.uk).

Management Commentary

Clear Line of Sight

7. The Clear Line of Sight project is an initiative led by HM Treasury to align budgets, Estimates and accounts. For 2011-12 there are substantial changes to both 'The Statement of Parliamentary Supply' (page 70) and 'Note 2: Net Outturn' (page 84) as a result of the new Estimate structure under Clear Line of Sight.

8. The reporting of Personal Tax Credits and certain Corporation Tax Reliefs together with the negative tax element of Payments in Lieu of Tax Relief has moved from the Trust Statement to the Resource Accounts (see note 10 page 95). In addition, the funding of the Department's costs of collection of the National Insurance Fund is no longer recorded as income and is now shown as funding. There are also changes in the format of the Department's Estimate for the reporting of provisions utilised. The prior year comparative figures have been restated for these changes.

The financial impacts of these changes are disclosed at note 31 (page 118).

Realignment of Administration and Programme Expenditure

9. Following discussion and agreement with HM Treasury, the Department has changed the way it categorises certain costs between Administration and Programme to reflect activity on front line services. The financial impacts of this change on 'Note 8: Other Administration Costs' (page 92) and 'Note 9: Programme Costs' (page 93) are disclosed at note 32 (page 118). The prior year comparative figures have been restated for these changes.

Estate Management Strategy

10. The Department has developed an estate strategy to reduce the number of buildings it occupies in line with future operational requirements and civil estate benchmarks. The strategy will help HMRC obtain best value for money from the STEPS contract (see paragraph 25) which covers two thirds of the portfolio (by floor area) and ensure that investment funding to improve sustainability, workplace and IT infrastructures is targeted at those locations with a long term business presence. The strategy will also introduce changes to the nature of the office holding as more processes are automated and working practices evolve and become more flexible.

Pay Multiples

11. Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. The median represents the remuneration of that staff member that lies in the middle of the linear distribution of the total staff, excluding the highest paid director.

12. The banded remuneration of the highest paid director in HMRC in the financial year 2011-12 was £205,000-£210,000 (2010-11: £210,000-£215,000). This was 1:10.3 times (2010-11: 1:10.7 times) the median remuneration of the workforce, which was £20,184 (2010-11: £19,908).

13. In 2011-12: 7 (2010-11: 2) employees received remuneration in excess of the highest paid director. In each instance, this was due to severance payments that were received. Remuneration in 2011-12 ranged from £13,133 to £347,612 (2010-11: £12,883 to £224,941).

14. Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

15. The calculation for both 2010-11 and 2011-12 combines the remuneration of the workforce for both HMRC and the Valuation Office Agency. For both years the median figure falls within the HMRC Assistant Officer national pay range. The increase of the median point in 2011-12 equates to the £250 pay award to those on £21,000 or less. The year on year ratio reduction is due to the combination of the continuing SCS pay freeze, the reduction in the number and value of performance awards made, and also the reduction in the number of the HMRC SCS.

Personal data related incidents

16. The Cabinet Office's Interim Progress Report on Data Handling Procedures made a commitment that departments will provide information on risk management of data handling within their Annual Report.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation. There were no such disclosures excluded in 2011-12.

No data losses were formally reported by HMRC to the Information Commissioner's Office in 2011-12.

SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2011-12

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures. Figures for 2010-11 are shown in brackets.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.	6 (2)
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises.	28 (28)
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	– (–)
IV	Unauthorised disclosure.	45 (46)
V	Other.	– (–)

Statement on information risk

In 2011-12 there have been three more centrally managed security incidents impacting on Protected Personal Data than in 2010-11. Whilst acknowledging this slight rise, HMRC still feel that there is a downward trend in security incidents (and the impact of those security incidents on its customer base). During 2011-12 HMRC introduced a new centralised reporting tool for incident reporting. It is recognised that this new system has had a considerable impact on the awareness to report, and the quality of information held. It has also contributed to the 'lessons learning activity' that follows on from all incident management. This change, combined with our mandated education and awareness programmes, is thought to be the cause of the increase.

In the three years since 2009, HMRC has seen the impact of its centrally managed incidents reduce by over 70 per cent, with a reduction of nearly 20 per cent being achieved in the last year alone.

Further action on information risk

Whilst human, process and supplier error have not been entirely eradicated from our systems, the security landscape within HMRC has been transformed, and customer data security consciousness has been placed; and remains at the heart of the way HMRC works.

We recognise that Customer Data is our most important asset and HMRC remains vigilant to the threat of opportunistic and organised crime.

We will continue to target the security risks and threats to our organisation and we anticipate that the improvements that the new centralised reporting tool has delivered to our organisation will assist us greatly.

Financial position and results for the year

Supply Procedure

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

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

As a government department, HMRC is accountable to Parliament for its expenditure. Parliamentary approval for its spending plans is sought through Supply Estimates presented to the House of Commons. The Department is subject to gross expenditure control under the Parliamentary Vote system and has one Vote which is constructed on a resource account basis. A formal description (ambit) of the services to be financed by the Voted money is provided and services not covered by the ambit cannot be financed by the Voted money.

Comparison of Outturn against Estimate

18. The total Resource outturn for the year was £46,486.7m, £811.6m (1.7 per cent) below the Estimate. The total Capital outturn for the year was £305.8m, £53.8m (15.0 per cent) below the Estimate. The variances which exceed 10 per cent and those that are also significant in terms of value are explained below as required by the *Government Financial Reporting Manual* (*FReM*).

Resource Departmental Expenditure Limit (DEL)

B VOA Administration – The £9.8m (140.0 per cent) under spend was primarily due to lower than expected exit costs versus £7.0m of ring-fenced exit funding agreed at SR10, combined with the revised reporting of Appropriaton in Aid (A in A) under Clear Line of Sight meaning that excess income of £2.8m remains within Voted Resource DEL.

Resource Annually Managed Expenditure (AME)

G e-filing incentive payments – Outturn zero against Estimate £0.2m. A small amount of funding – on a cash basis – was included in the Estimate but was not required because in-year payments were covered by provisions raised at the end of 2010-11.

H HMRC Administration – Outturn was £26.0m (86.7 per cent) less than Estimate, due to a net gain of £10.5m from property revaluations (primarily due to a large gain for 100 Parliament Street, London) and a lower than expected need for new provisions of £15.5m, mainly due to a net write back of provisions for accommodation expenditure.

J VOA Administration – Outturn was £0.9m (45.0 per cent) less than Estimate due to a lower than expected need for new provisions.

L New Tax credits – Outturn was £719.7m (2.3 per cent) less than Estimate, primarily due to actual tax credit expenditure being lower than originally forecast.

Capital Departmental Expenditure Limit (DEL)

A HMRC Administration – Outturn was £41.3m (16.2 per cent) less than Estimate, primarily due to re-scheduling to later years across a range of programmes.

B VOA Administration – Outturn was £0.8m (13.3 per cent) less than Estimate, due to accommodation and IT costs being lower in year than initially expected.

Capital Annually Managed Expenditure (AME)

E Social Benefits and grants – The £11.7m (11.9 per cent) under spend was due to lower than expected residual claims for Child Trust Fund endowments.

Consolidated Statement of Financial Position

19. Details of the Department's assets and liabilities are reported in the Consolidated Statement of Financial Position (see page 72).

20. Significant assets and liabilities include:

- property, plant and equipment £536.1m (note 12);
- intangible assets £1,205.8m (note 13);
- receivables (amounts falling due within one year) of £803.3m (note 18);
- receivables (amounts falling due over one year) of £1,099.3m (note 18);
- payables (amounts falling due within one year) of £1,975.0m (note 20);
- payables (amounts falling due over one year) of £381.0m (note 20);
- provisions of £168.8m mainly relating to early departure costs (note 21).

Cash flow

21. The net cash inflow for the year was £20.4m as detailed in the Consolidated Statement of Cash Flows (see page 73).

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

		2011-12 £m		Restated* 2010-11 £m
Net Resource Outturn (Estimates)		**46,486.7**		**46,177.1**
Total Resource Budget Outturn		**46,486.7**		**46,177.1**
of which:				
Departmental Expenditure Limits (DEL)	*3,705.6*		*3,820.9*	
Annually Managed Expenditure (AME)	*42,781.1*		*42,356.2*	
Adjustments include:				
Child Trust Fund budgeted as Capital		86.3		340.7
Expenditure outside the budget		13.3		15.8
Consolidated Fund Extra Receipts		(1.1)		(17.0)
Barter deal prepayment release		(15.7)		(9.2)
Net Operating Cost (Accounts)		**46,569.5**		**46,507.4**

** Certain prior year figures have been restated as per note 31.*

22. The Department was allocated a pay settlement worth 0.5 per cent for 2011-12 and 0.47 per cent for 2012-13. The offer was not agreed with its trade unions. The Department paid the 2011 award in June 2011. The 2011 pay award was consistent with the outcome of the Spending Review and the Government's pay freeze policy, which came into effect for HMRC in 2011.

23. Child Benefit, Child Trust Fund and Health in Pregnancy Grant are accounted for within programme costs (see note 9) and the Consolidated Statement of Comprehensive Net Expenditure (see page 71).

The Government announced on 24 May 2010 that Child Trust Fund payments would be scaled back and then stopped, which was detailed in the Savings Accounts and Health in Pregnancy Act 2010. The Accounting Policy is reported at note 1.5 (see page 76).

The Government has also abolished Health in Pregnancy Grant and the Grant was not paid to women who reached the twenty-fifth week of pregnancy after 31 December 2010, to which the above Act also applied.

24. Details of the Department's significant provisions are reported in note 21 (see page 106).

25. The Department has eight Private Finance Initiative (PFI) contracts which are included within these Resource Accounts. The three most significant ones are:

- Mapeley STEPS Contractor Ltd contract for private sector provision of serviced accommodation across the majority of the Departmental estate for 20 years;
- Exchequer Partnerships contract for provision of serviced accommodation at 100 Parliament Street for 33 years;
- Newcastle Estates Partnership contract for provision of serviced accommodation at a number of sites in the Newcastle upon Tyne area, including the redevelopment of the Benton Park View site. This contract has two elements, one which will run for 25 years and the other for 28 years.

26. The Department has no remote contingent liabilities that are to be reported under Parliamentary reporting requirements.

27. In addition, the Department has a significant IT Public Private Partnership (PPP) contract, which is included within these Resource Accounts. Called 'ASPIRE' the contract is to deliver a significant proportion of HMRC's and VOA's IT infrastructure with Capgemini as the prime contractor and other outsourcing partners including Fujitsu. Under the contract, Capgemini provides user services for desktop, business applications management, enhancements and development, and projects as well as integration services for new projects (including the testing of applications and infrastructure). Fujitsu covers data centre operations, desktop installation and support,

Input/Output services (i.e. scanning & processing, printing & distribution) and disaster recovery. Other suppliers included in the contract include Accenture and British Telecom. However, Fujitsu, British Telecom, and Accenture perform their roles as subcontractors to Capgemini, who as the prime contractor is always accountable for the services performed under the contract.

Government Banking Service

28. The Government Banking Service (GBS) is part of HMRC and is responsible for providing banking transaction services to around 700 public sector customers. It also works with HM Treasury to minimise the cost of Government borrowing and supports Treasury cash management. Its creation was a result of the recommendations of the Chancellor's 2004 Departments Banking Review and The Bank of England's decision to withdraw from the provision of retail banking and clearing services. In 2006 both the Office of the Paymaster General (OPG) and the Government Banking Programme (GBP) were transferred to HMRC. The transition from OPG to the new Government Banking Service (Government Banking Programme) was completed in 2010-11 and the OPG banking services closed.

Under GBS's agreement with RBS and Citi, balances are swept from the commercial banks to the Bank of England and transferred to the Consolidated Fund. GBS customer balances are not included in HMRC's Statement of Financial Position on page 72, but are included in the accounts of the relevant government entities.

Management

Ministers and senior managers

29. The Governance Statement (see page 44) identifies those senior managers who are members of the Board.

Register of interests

30. Senior managers within HMRC, including the non-executives, are required to complete a declaration of any interests. No significant company directorships or other interests were held by Board members which may have conflicted with their management responsibilities. Note 27 to the accounts confirms that no member of the Board, including non-executives, have any related-party interests.

Internal Communications

31. The Department has a policy of actively informing and consulting its staff and their representatives through a number of well defined and established channels. A variety of channels are employed, including Hot Seat – an opportunity to send questions and feedback to the senior managers – staff telephone conferences with top managers, cascade team briefings, site-based communications events with senior managers, email alerts, corporate and business area intranet sites, intranet-based community forums, newsletters, a staff magazine, business e-zines, staff surveys and regular meetings and discussions with trade union representatives.

Public Sector Information Holders

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

Public Interest Matters

Diversity and equality

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

34. In January 2012 we published our first tranche of data in accordance with the requirements of the Equality Act 2010. The data shows the diverse make-up of our employees and highlights the actions we have in place to develop under-represented groups and address equality issues in the workplace. In support of our actions, we have Executive Committee Champions and employee networks in place for eight diversity strands. The networks offer people the opportunity to share experiences, comment on new initiatives and ensure that everyone in the workforce is treated fairly and can give of their best.

35. Our progress on diversity issues has been recognised in a number of ways: for the second year running, we recently gained first in the 'a:gender' public sector Index of organisations committed to transgender equality, our Disability Champion won the 'Leading Change in Diversity and Equality' category at the 2011 Civil Service Awards and we have been recognised in the Top 50 of Employers for Women following completion of the Opportunity Now equality benchmark.

36. Disabled staff are employed across all grades and locations. We operate the Guaranteed Interview Scheme and have recently introduced a new team dedicated to ensuring reasonable adjustments are put in place quickly and cost-effectively. We are rolling out new practices in respect of mental health issues to ensure that sufficient support mechanisms are available to managers and staff, and we are offering development opportunities for people from Black, Asian and Minority Ethnic (BAME) backgrounds.

37. We continue to improve access to our services for disabled customers and to raise awareness of their needs with our front line staff.

Employee Engagement

38. HMRC's 2011 people survey results show that the Department's biggest engagement challenges are still leadership and the management of change. There is no question that HMRC still has to improve morale and engagement and all senior leaders are taking responsibility for this. They are determined to improve leadership and the way change is handled. Actions are in place to take things forward, but it will take time.

39. HMRC's single Change Programme provides clear principles to guide all corporate communications about change. Leaders know that to really make change work, they need to involve people across the Department and create opportunities for them to connect with HMRC as an organisation. Honest and transparent communication is an essential part of the Change Programme. People are being given information and certainty about the changes that will affect them personally as soon as senior leaders are able to; while being open about the things they don't know, or haven't yet decided. To enable greater connectivity with frontline teams, site based communications have been introduced whereby senior leaders are communicating key messages face to face across the UK. As well as informing people about change, senior leaders are listening to them as part of a two way communication and involving and empowering them as far as possible.

40. The One HMRC, One Deal programme is setting out what employees can reasonably expect from HMRC as an employer and in turn, what HMRC can reasonably expect from them. Colleague insight research has been undertaken to help leaders to improve their understanding of what motivates their people and how best to communicate with them. Workshops are taking place with business units to help them understand what engagement is and how to apply the One HMRC, One Deal principles.

Social and community issues

41. We invest approximately £2m a year in partnerships with voluntary sector organisations, which provide advice and support for disadvantaged communities. This year we gave 5,837 days of employee time for work in the community with voluntary organisations and participation in civic duties such as magistrates and school governors. We work with UK and International agencies to develop and support effective civil governments overseas.

42. In November 2011 our staff raised over £121,000 for the BBC's Children in Need appeal. Contact Centre staff at Liverpool, Manchester and Lillyhall also volunteered to take telephone pledges on the appeal night from members of the public. Also in November 2011, we received a National Payroll Giving Excellence Award for the best public sector employee campaign. The award recognised that in each of the last four years over 10 per cent of our staff have donated to good causes via our payroll. Since 2007 this amounts to £2.7m.

Payment of suppliers

43. The Department is committed to the prompt payment of invoices. Payment is regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The Department paid 99 per cent (2010-11: 99 per cent) of supplier invoices within 30 days.

44. The Department aims to pay invoices within 5 days of receipt of goods and valid invoice. The Department paid 96 per cent (2010-11: 94 per cent) of supplier invoices within 5 days. The legal requirement remains at 30 days.

Auditors

45. The Comptroller and Auditor General audits these Resource Accounts in accordance with the Government Resources and Accounts Act 2000. The notional charge for these audit services as disclosed in these accounts is £0.8m (2010-11: £0.7m). In addition the Comptroller and Auditor General audits the Trust Statement and it has been agreed that it is also appropriate to reflect the cost of this audit in these Resource Accounts. For 2011-12 the cost of the audit of the Trust Statement amounted to £1.3m (2010-11: £1.2m). The total audit fee reported in these Resource Accounts is £2.1m (2010-11: £1.9m).

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

Lin Homer
Principal Accounting Officer

22 June 2012

Statement of Accounting Officer's Responsibilities

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

In preparing the accounts, the Principal Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

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

For 2011-12 the Principal Accounting Officer was Lesley Strathie for the period 1 April 2011 until 18 July 2011, Dave Hartnett for the period 19 July 2011 to 22 January 2012 and Lin Homer for the period 23 January 2012 to 31 March 2012.

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

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

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

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in *Managing Public Money* published by HM Treasury.

HMRC Governance Statement

1. Purpose of the statement

1.1 This statement describes:

- HMRC's high level governance arrangements.
- Our Board and Executive Committee arrangements and the ways in which we ensure the effectiveness of our committees.
- An assessment of our compliance with the Corporate Governance in Central Government Departments Code of Good Practice 2011.
- Our risk and control framework.
- Key developments in internal controls.
- The outcome of my review of effectiveness of internal control and the significant issues arising from this.

1.2 The governance arrangements outlined in the statement cover the period from 1 April 2011 to 31 March 2012. The risk and control arrangements outlined in the statement cover the year ending 31 March 2012 and up to the date of approval of the Accounts.

1.3 The Comptroller and Auditor General (C&AG) has qualified his opinion on the Resource Accounts on the regularity of expenditure in respect of personal tax credits error and fraud (see paragraph 9.3). Whilst this is a new qualification for the Resource Accounts, HMRC's Trust Statement has been qualified since the inception of tax credits. Following the transfer of tax credits from the Trust Statement to the Resource Accounts under HM Treasury's Clear Line of Sight initiative (further detail can be found in paragraphs 7 and 8 of the Annual Report to the Resource Accounts), the qualification has moved to the Resource Accounts.

2. Ministerial arrangements

2.1 HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act (CRCA) 2005. HMRC's status as a non-ministerial department aims to ensure that the administration of the tax system is fair and impartial. The Department is accountable to the Chancellor of the Exchequer for the discharge of all its functions.

2.2 The Chancellor has delegated responsibility for oversight of the Department to the Exchequer Secretary to the Treasury as Departmental Minister for HMRC.

3. The Commissioners

3.1 The Commissioners are responsible under the CRCA for the collection and management of revenue, the enforcement of prohibitions and restrictions, as well as other functions e.g. payment of tax credits. They exercise these functions in the name of the Crown.

3.2 A list of the HMRC Commissioners during the reporting period is shown below:

	Period – If Not Full Year
Dame Lesley Strathie DCB	To 12 November
Dave Hartnett CB	
Stephen Banyard CBE	From 7 December
Simon Bowles	From 7 December
Melanie Dawes	To 18 October
Mike Eland CB	
Steve Lamey	

3.3 Approval was sought of the Prime Minister and The Queen for Lin Homer and Jim Harra to be appointed as Commissioners. This was pending at 31 March 2012.[1]

4. How We Run HMRC

4.1 HMRC has a governance structure with a non-executive Chairman leading the Board and a Chief Executive running the Department. The top team also includes the Permanent Secretary for Tax.

Chairman

4.2 Mike Clasper is the non-executive Chairman and leads the HMRC Board. The Board provides strategic leadership, approves business plans, monitors performance and ensures the highest standards of corporate governance.

Chief Executive

4.3 I am the Chief Executive and Permanent Secretary of HMRC. I am responsible for providing leadership and direction to the Department. I run all aspects of HMRC's business, ensuring delivery of the Department's objectives and driving continuous improvement. I am the Principal Accounting Officer (PAO) and am accountable to Parliament for the Department's expenditure and performance.

Permanent Secretary for Tax

4.4 Dave Hartnett is the Permanent Secretary for Tax. He works to the Chief Executive and is the senior tax professional in HMRC. He has specific well defined accountabilities in the areas of tax policy and tax strategy. He is also the Deputy Chief Executive.

The Board

4.5 The Board comprises members of the Executive Committee and non-executive Board members.
Its membership and attendance records during this period are as follows:

1 Lin Homer and Jim Harra were appointed as Commissioners on 1 May 2012. This will be formally noted in the 2012-13 Governance Statement.

		Period – if not full year	Board	Audit & Risk Committee	Ethics & Responsibility Committee	People Committee
Mike Clasper CBE	Non-Executive Chairman		7/7			4/4
Dame Lesley Strathie DCB[2]	Executive member	To 9 November	2/3			
Lin Homer CB	Executive member	From 23 January	1/1			
Dave Hartnett CB	Executive member		7/7			
Simon Bowles	Executive member		7/7			
Melanie Dawes	Executive member	To 7 October	3/3			
Mike Eland CB	Executive member		6/7			
Ian Barlow[3]	Non-Executive member	From 21 February	1/1	5/6		
Colin Cobain	Non-Executive member		7/7	6/8		
Philippa Hird	Non-Executive member		7/7		4/4	4/4
Phil Hodkinson	Non-Executive member		5/7		4/4	
John Spence OBE	Non-Executive member		7/7	7/8		
Mark Haysom CBE[4]	Non-Executive member	To 31 March 2011		2/2		
Chris Pond	Externally appointed independent advisor				4/4	
Gary Kildare	Externally appointed independent advisor					4/4

4.6 The Board's role is to develop and approve HMRC's overall strategy, approve final business plans and advise the Chief Executive on key appointments. It also performs an assurance role and advises on best practice.

4.7 The non-executive Board members were all appointed following recruitment exercises held in accordance with Cabinet Office guidance. They contribute to Board discussions; provide guidance and advice to the Executive team; support and challenge management about the department's strategic direction; and monitor and review progress. They do this primarily through their attendance at Board and sub-committee meetings but also through visits and meetings with staff.

4.8 The Board met seven times during the reporting period. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Executive Committee

4.9 The Executive Committee (ExCom) meets once a month. It oversees the breadth of HMRC's work and is responsible for implementing performance improvement and change agendas. Its members have portfolios of responsibility that span each line of HMRC business and corporate service function.

[2] Lesley Strathie was on long term sick leave from July 2011and stepped down as Chief Executive and member of the Board and Executive Committee on 9th November 2011. Mike Clasper deputised for her on the Executive Committee between August and January.
[3] Prior to 21 February 2012, Ian Barlow attended Audit and Risk Committee meetings as an externally appointed independent advisor.
[4] Mark Haysom stood down as a non-executive Board member on 31 March 2011 but attended two further Audit & Risk Committee meetings to fulfil his commitments with regards to the Annual Accounts.

4.10 ExCom also meets monthly as ExCom (Performance) to exercise its oversight of departmental performance. Within a dedicated performance hub based on PaceSetter principles, it interrogates HMRC performance against targets, identifies exceptions and looks at ways to improve performance in all areas including both customer service and value for money.

4.11 Terms of reference and summary minutes are published on the HMRC Internet site.

4.12 Its membership and attendance records during this period are as follows:

		Period – If Not Full Year	Attendance at ExCom Actual/ Potential	Attendance at ExCom (Performance) Actual/Potential
Dame Lesley Strathie DCB	Commissioner. Chief Executive and Permanent Secretary	To 9 November	4/4	2/4
Lin Homer CB	Chief Executive and Permanent Secretary	From 23 January	2/2	2/3
Dave Hartnett CB	Commissioner. Permanent Secretary for Tax		9/12	8/11
Stephen Banyard CBE	Commissioner. Acting Director General Personal Tax		11/12	10/11
Simon Bowles	Commissioner. Chief Finance Officer		12/12	11/11
Melanie Dawes	Commissioner. Director General Business Tax	To 7 October	7/7	5/5
Mike Eland CB	Commissioner. Director General Enforcement and Compliance		12/12	9/11
Mike Falvey	Chief People Officer		12/12	9/11
Anthony Inglese CB	General Counsel and Solicitor		11/12	7/11
Steve Lamey	Commissioner. Director General Benefits and Credits		11/12	11/11
Mike Norgrove CBE	Acting Director General Business Tax	From 10 October	5/5	5/6
Phil Pavitt	Director General for Change and Chief Information Officer		9/12	10/11

Board Sub-Committees

4.13 The Board has three sub-committees, chaired by non-executive Board members, which provide independent assurance and advice. The sub-committees are Audit and Risk; Ethics and Responsibilities and People.

Audit and Risk Committee

4.14 The Audit and Risk Committee provides the Chairman, Principal Accounting Officer and the Board with independent advice and assurance on the effectiveness of the Department’s governance, risk and control arrangements.

4.15 During the year the committee reviewed the Internal Audit plan and the results of its work, monitoring the acceptance and implementation by management of its recommendations. They also reviewed the work of the National Audit Office (NAO), in their audit of our accounts and also a number of individual value for money reports they made during the year and the recommendations arising from these. At every meeting the Department’s risk register was reviewed and recommendations made for its further improvement. The key specific issues addressed by the committee during the year were: a system for monitoring all material recommendations made by the many external bodies that audit or review the Department’s work, including Parliamentary Committees; the controls and assurance over our major Change programme; and how our financial controls could be further improved.

4.16 The Audit and Risk Committee is chaired by John Spence. It met eight times during the reporting period: this includes one planned meeting which was inquorate due to the unavoidable absence of two members. The committee's terms of reference and summary minutes of meetings are published on the HMRC Internet site.

4.17 Standing invitees also attended Audit and Risk Committee meetings. These included the Chief Executive, Chief Finance Officer, Financial Controller, the Head of Corporate Risk Management, Director Internal Audit and representatives from NAO.

Ethics and Responsibilities Committee

4.18 The Ethics and Responsibilities Committee provides the Chairman, the Chief Executive (as Principal Accounting Officer) and the Board with independent advice and assurance that HMRC is acting responsibly and ethically on a range of stakeholder issues.

4.19 Examples of issues reviewed during the reporting period include examination of HMRC's customer segmentation strategy; complaints received by the Department or the Adjudicator; data security issues; work on community engagement, and carbon abatement.

4.20 The Ethics and Responsibilities Committee is chaired by Phil Hodkinson. It met four times during the reporting period. The committee's terms of reference and summary minutes of meetings are published on the HMRC Internet site.

4.21 Standing invitees were the Director Security and Information, Director Corporate Communications, Director IMS Finance and Director Personal Tax Customer and Strategy.

People Committee

4.22 People Committee provides assurance to the Board on the effectiveness of people management; that we are meeting our legislative responsibilities in relation to our people including Health and Safety, the Disability Discrimination Act, equal opportunities; and that People Function priorities support HMRC's strategic direction.

4.23 Examples of issues reviewed during the reporting period include HMRC's leadership, talent management, succession planning and diversity strategies; and management of the high level departmental risks relating to its people.

4.24 The committee was chaired by Mike Clasper to 30 June 2011 and by Philippa Hird from 1 July 2011. It met four times during the reporting period. The committee's terms of reference and summary minutes of meetings are published on the HMRC Internet site.

4.25 Standing invitees were the Chief People Officer, General Counsel and Solicitor, Director Local Compliance and Director Personal Tax Operations.

Executive Committee Sub-Committees

4.26 The Executive Committee is supported by four sub-committees; Change Delivery, Investment, People Matters and Tax.

Change Delivery Committee

4.27 Change Delivery Committee takes collective responsibility for ensuring the HMRC portfolio of programmes delivers the changes and benefits identified at their outset/authorisation. It has a wide remit to monitor and assure the progress of the HMRC change portfolio and works closely with Investment Committee.

4.28 Key issues covered by the committee during the year included acting as the Programme Board for the HMRC Change Programme. This included reviewing and assuring the progress made by the Change Programme in its first year; conducting regular programme reviews and deep dive reports into key areas.

4.29 The committee is chaired by the Director General for Change and Chief Information Officer. Membership of the committee consists of Director-level representatives of Executive Committee members. Phil Hodkinson, a non-executive Board member, shadows the committee. He attends meetings quarterly and reports to the Board on key issues.

4.30 The committee met 12 times during the reporting period and the Chair provided a report to the Executive Committee after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Investment Committee

4.31 The Investment Committee makes investment decisions on behalf of ExCom in line with HMRC's strategic direction, based on information and advice provided by the Design Assurance function, for all HMRC's change initiatives that affect our customers, lines of business, people, and IT systems.

4.32 Key issues covered by the committee during the year included reviewing a significant number of business cases in the context of HMRC's SR10 commitment and strategic priorities and establishing a robust baseline of programmes within the portfolio.

4.33 The committee is chaired by the Chief Finance Officer. Membership of the committee consists of Director-level representatives of Executive Committee members. Colin Cobain, a non-executive Board member, shadows the committee. He attends meetings quarterly and reports to the Board on key issues.

4.34 The committee met 15 times during the reporting period and the Chair provided a report to the Executive Committee after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

People Matters Committee

4.35 People Matters Committee provides support to ExCom by providing choices for key decisions with regard to on-going development and programme of work for the People Strategy, and supporting the Chief People Officer in designing and implementing people processes, including performance management.

4.36 Key issues covered by the committee during the year included attendance management and management capability across HMRC.

4.37 The committee is chaired by the General Counsel and Solicitor. Membership of the committee consists of the Chief People Officer and Director-level representatives of Executive Committee members. Philippa Hird, a non-executive Board member, shadows the committee. She attends meetings quarterly and reports to the Board on key issues.

4.38 The committee met twelve times during the reporting period and the Chair provided a report to the Executive Committee after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Tax Committee

4.39 The Tax Committee supports the Executive Committee by pro-actively co-ordinating tax issues within HMRC across its lines of business.

4.40 Key issues covered by the committee during the year included the identification and management of tax risks; governance of major tax settlements; negotiations on international tax agreements; and improvements in tax professionalism in HMRC.

4.41 The committee is chaired by the Permanent Secretary for Tax. Membership of the committee consists of Director-level representatives of Executive Committee members. Chris Pond, an externally appointed independent advisor, shadows the committee. He attends meetings quarterly and reports to the Board on key issues.

4.42 The committee met six times during the reporting period and the Chair provided a report to the Executive Committee after each meeting. Its terms of reference and summary minutes of meetings are published on the HMRC Internet site.

Our relationships with Arm's Length Bodies

4.43 HMRC has identified one arm's length body, the Environmental Trust Scheme Regulatory Body Limited (ENTRUST). ENTRUST is a not-for-profit private sector company which acts as regulator of the Landfill Communities Fund. It is approved by the Commissioners, via a Terms of Approval document, to carry out the function. The Commissioners' power to approve another body to perform the function of regulator on its behalf is through legislation set out in the Finance Act 1996. Governance arrangements are in place to ensure appropriate oversight by HMRC.

5. Effectiveness of our Committee Structure

5.1 In last year's HMRC Corporate Governance Report we reported on an independent formal review of HMRC's high level governance arrangements that had just been completed. This made a number of recommendations to enhance our governance arrangements and the effectiveness the Board, ExCom and their sub-committees.

5.2 The recommendations were designed to:

- Streamline and focus the Board, reducing its overall size.
- Clarify boundaries and relationships between governance bodies.
- Focus time commitments on priority areas.
- Enhance information flows and information sharing.
- Improve risk management.
- Improve the conduct of meetings.
- Share good practice across sub-committees.
- Improve record keeping.

5.3 The detailed recommendations were accepted by both the Board and ExCom; some of the changes recommended were made immediately while others have been implemented progressively. For example, work is in progress to hold annual self assessments for committees as recommended in the review. This approach was successfully piloted within the People Matters Committee and will now be rolled out to other ExCom sub-Committees.

5.4 In addition, ExCom reviews its own effectiveness on a regular basis as part of the arrangements for each meeting and periodically by other means, for instance coaching, workshops and external scrutiny.

5.5 A further evaluation of Board performance and effectiveness is due to be carried out in 2012-13.

6. Corporate Governance Code of Good Practice

6.1 I have assessed HMRC's compliance with the Corporate Governance in Central Government Departments Code of Good Practice 2011. I believe we comply with all of the key principles in the Code with the exception of the following areas which I will explain:

- As a non-Ministerial department we do not need to comply fully with the provisions in the Code for a Board led by a Minister and a lead non-executive Board member. We do, however, have a Board which has a balance of executive and non-executive members and which is led by a non-executive Chairman.
- We do not currently have a nominations and governance committee. We believe we achieve good governance through our existing Board sub-committee structure. In particular the terms of reference of the People and Audit and Risk Committees encompass all of the central elements of the Nominations & Governance Committee.

6.2 Internal Audit intends to perform a detailed review of HMRC's compliance with the Code of Good Practice in 2012-13. The outcomes of this review will be reflected in the 2012-13 Governance Statement.

7. Our risk and control environment

7.1 As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HMRC policies, aims and objectives. The rest of this statement will outline our risk and control environment, the key developments in the reporting period and the outcomes of the annual review of the effectiveness I have put in place.

Capacity to handle risk

7.2 Over the past twelve months, HMRC has continued to follow a consistent approach to corporate risk management that affirms its commitment to take the right risks and opportunities to support the delivery of its business objectives. It sets out the roles, responsibilities and expected behaviours of all members of the Department in doing this, and makes sure they are supported by the appropriate tools, training and guidance.

7.3 Each business area of the Department has a Lead Risk Champion, who works with the relevant senior management team to lead the approach, and a Business Risk Partner, who oversees risk management activities.

These stakeholders come together on a regular basis to make sure the approach is implemented consistently across the Department, learn from good practice and support the Executive Committee in effectively identifying and managing risk. A professional Corporate Risk Management function provides central support to help staff understand their respective roles and responsibilities for risk management, acting as a challenge function to ensure risk processes are working consistently and effectively across business areas.

7.4 During the year, the NAO issued a report on risk management in the 15 largest government departments, which includes examples of best practice from HMRC. The implementation of the Department's approach to risk management is the subject of periodic review by Internal Audit.

The risk and control framework

7.5 HMRC's approach to risk management and its Corporate Risk Management Strategy have been endorsed by the Executive Committee and the Audit and Risk Committee. The key components of the Strategy cover; Leadership and Culture to support open and active management of risk; Integration of risk management into core business processes; and Information to support risk-based decision-making.

7.6 The risk approach involves both a top down strategic view of risk and the upward reporting or escalation of risks. Management teams review their key risks, and consider whether risks need to be escalated to the next management level based on pre-defined escalation criteria. There is also a process for 'fast track' escalation of emerging risks to ExCom. Risks must have a clear accountable owner who is responsible for reviewing mitigating actions to ensure the risk is being managed within acceptable levels.

7.7 The framework is also fully integrated into how HMRC manages change. HMRC's Change Programme (see 8.2-8.3) has implemented risk governance that is consistent with the framework, and enables a clear line of sight between the various projects and programmes and core business. The Cabinet Office Major Projects Authority commented favourably on this approach.

Risk appetite

7.8 The HMRC approach to risk management ensures the Department identifies as far as possible the amount and type of risk it is carrying; and that senior managers are accountable for key risks to business objectives and are aware of how they are being dealt with. Tolerance levels for individual risks are considered within this context, also taking account of the parameters set by statutory regulations and Departmental policies, procedures and guidance. This ensures that any risks that may be above (or below) tolerance are highlighted to managers to respond appropriately.

HMRC's Risk Profile

7.9 The following have been considered by ExCom to be the most significant risks to the Department:

- **Transforming HMRC**; includes the short term imperative of getting people in place to deliver our SR commitments; the medium term requirement to ensure forecasted benefits and efficiencies will be delivered; and key deliverables such as Real Time Information (RTI).
- **Customer impact;** includes the effective anticipation of the impact of changes in HMRC operating models on customer service levels and experience alongside customers overarching behaviours
- **Reputation Management**; includes the use of our corporate communications frameworks effectively, whilst being able to respond appropriately to a crisis situation.
- **Workload, Capacity & Resource Management;** considers our approach to forecasting demand, balancing capacity and workload whilst considering the impact upon our customers and delivering our SR10 commitments.
- **Employee Engagement**; looks to progress HMRC employee engagement strategy through improved leadership capability and interaction at all levels of the department.
- **Employee Relations**; considers localised to national and sustained disruptions which may undermine operational efficiency and change delivery.
- **Cyber Threats**; seeks to ensure we are protected, as far as practicable, against criminal and organised cyber attacks.
- **Living Within Our Means;** both under spend and overspend pressures within our various limits are carefully monitored and controlled.

- **People, Skills and Technical Capability**; focuses on the longer term strategic challenge of having the right people in the right place with the right skills and technical capabilities to meet the needs of the future HMRC.

Information Risk

7.10 HMRC has made good progress on areas identified for improvement in its 2010-11 annual security assurance assessment, for example by placing Information Security Managers in each line of business to strengthen asset management.

7.11 Elsewhere governance and assurance activities have been enhanced throughout the course of the year. Additional focus has been given to HMRC's increasingly important online services, the Senior Information Risk Owner (SIRO) has sponsored a Cyber Risk Working Group which has joined up stakeholders across the Department and is working with the National Cyber Security Programme and other Government Departments to address risks to information and online fraud.

7.12 In 2011-12 more parts of the business, selected by their levels of exposure to information risk, are taking part in the annual assurance assessment than ever before. This process gives the Department a better overview of information risks and informs the ongoing improvements HMRC is committed to making to safeguard the information in its care such as:

- Securing HMRC's legacy information systems.
- Testing business continuity requirements.
- The management of information assets.
- Automating the control of user access to information systems.
- Examining information leaving HMRC networks via email.

7.13 Protecting the confidentiality, availability and integrity of our customers' information remains a strategic objective and HMRC's Investment Committee has shown this commitment by approving funding for change activity in its Security & Information Directorate.

7.14 Details of security incidents are published in paragraph 16 of the Annual Report to the Resource Accounts.

8. Key Developments in Internal Control in 2011-12

8.1 I will outline below the key developments in HMRC's control framework and their links with the most significant risks outlined in paragraph 7.9.

HMRC Change Programme (Transforming HMRC)

8.2 The HMRC Change Programme is being delivered through one plan, which is centrally managed but locally delivered. The operating model and governance of the Programme has been implemented and is working well. The approach is enabling an integrated and coherent approach to managing change that is aligned to our customer centric strategy. A Cabinet Office review has concluded that, given the scale and complexity of the task, the programme is in good shape at this stage of delivery and there are no significant gaps or weaknesses in the planning of the programme, or in the Department's awareness of the issues to be addressed. Details of our success in meeting the 2011-12 additional revenue targets can be found in Chapter 4 of the Annual Report.

8.3 We are actively managing a variety of issues that could impact on our ability to achieve our overall change targets. These include the production of some business cases being slower than expected, delays to delivery resulting in capital under spends, programmes revising their benefit forecasts and delays in Cabinet Office programme approvals. We are doing this by clarifying, strengthening and aligning local and central governance in key business areas.

Our service to our customers (Customer impact)

8.4 In recent times HMRC's service for some individuals has fallen short. While big challenges remain, we have worked hard to improve the service we give to our customers and service levels are significantly improved, though we recognise that significant further improvement is needed.

8.5 The National Insurance and PAYE Service (NPS) is now substantially stabilised and we are on track to clear all PAYE arrears. We recruited additional temporary staff in processing operations in 2011-12 and they will continue in post through 2012 to complete the task. We can demonstrate strong progress, for example: in July

2011 we started the 2010-11 End of Year reconciliation process for PAYE, which is much earlier than last year when we started in September. We completed repayments first and the full automated process went smoothly and was completed in December before the 2012-13 annual coding run.

8.6 We have also significantly improved the correspondence and telephone service we offer to SA and PAYE customers. At the end of 2011-12 we are delivering at or close to our service standard on post for the first time in 5 years and our telephone service level is 74.4 per cent call attempts handled for 2011-12 against 48 per cent in 2010-11.

Governance of large business tax settlements (Reputation Management)

8.7 HMRC is putting in place a number of changes designed to strengthen oversight and governance of significant tax disputes and to provide greater transparency, scrutiny and accountability to the process. These are in response to an NAO report on this issue and subsequent Public Accounts Committee (PAC) hearing. The changes include:

- A new assurance Commissioner will be appointed, with an explicit challenge role in the decision-making process on large tax disputes. This Commissioner will have no part in HMRC's engagement with specific taxpayers.
- A strengthening of our internal reviews of ongoing cases.
- A systematic programme of reviews of settled cases to learn lessons for the future.
- A strengthened role for the Audit and Risk Committee to review the findings of that programme and recommend follow-up actions.
- A published code of governance for tax dispute resolution.
- An annual report on HMRC's tax settlement work, signed off by the Audit and Risk Committee.

8.8 There will be no change in HMRC's position on taxpayer confidentiality.

Internal Fraud and Corruption (Reputation Management)

8.9 HMRC has continued the work we outlined in last year's Statement on Internal Control to embed an anti-fraud culture amongst staff and managers. We remain unique among central government departments in our approach to proactively detect internal fraud.

8.10 Developments this year include:

- Working with external bodies to ensure we are contributing to and learning from best practice across the public and private sector.
- Contributing to the development of the Government's Fraud Error and Debt agenda and forged clear links with colleagues in other Government departments.
- Agreeing with Her Majesty's Inspectorate of Constabulary that they should undertake an inspection of our systems and processes for dealing with internal fraud and corruption to assess their effectiveness and suggest possible improvements.

PAYE Open Cases (Workload, Capacity & Resource Management)

8.11 We made a commitment to the PAC to clear the remaining backlog of open cases by the end of 2012.

8.12 Before the problems with Annual Coding at the start of 2010, we had planned during 2010-11 to manually process priority legacy open cases (generated before NPS was implemented) focusing on 2007-08 underpayments and overpayments for low income customers. However, once resource was diverted to NPS stabilisation and recovery we were unable to keep to plan or to develop a technical solution sufficiently quickly. Therefore there were approximately 16.8 million open cases still outstanding at the end of 2010-11 (and 2006-07 under-payments could then not be recovered due to the time limitation of April 2011).

8.13 This year we have used a technical solution, based on NPS functionality, to automatically clear over 9.4 million open cases so far, with further cases continuing to be cleared this way. All cases that result in an underpayment are not collected – the time limit having expired for all years under review – but all repayments identified are made. This is the approach that was set out in advance to Ministers, the PAC and the Treasury Select Committee. By carefully balancing resources we have also used additional staff to work those cases that require manual intervention. To date we have reduced the number of outstanding cases by 12.56 million, and are on track to clear the remaining cases by the end of 2012.

8.14 Within our commitment to Parliament, we committed to recovering the maximum possible revenue from 2007-08 cases with a legal time limit for collection of March 2012. In practice we had to identify and work as many of them as possible last year before March 2011, in order to use the most cost effective route of collecting underpayments through the taxpayers' tax codes. Using a new interim IT process we identified more than the estimated 400,000 cases from 2007-08 and reviewed all these cases in 2010-11. In 2011-12 we also continued to work 2007-08 cases that could not have been identified by IT processes as they were identified while we were working through the general backlog of cases. It was not possible to place these into codes, so underpayments identified were collected via Self Assessment (SA). A further £10 million has been recovered in 2011-12 through the issue of 2007-08 SA returns.

Non-Matching National Insurance (NI) Contribution Items (Workload, Capacity & Resource Management)

8.15 End of year information HMRC receives from employers and pension schemes can include returns that cannot be matched to the relevant individual's record. This happens when the employer or pension scheme administrator has provided insufficient personal details about the individual. After automated tracing action these returns are placed in a suspense file until they can be matched to the correct record. HMRC will investigate potential missing or non-matched returns reported by individuals at any time.

8.16 An exercise is undertaken annually to monitor progress in driving down the volume of non-matching items (NMI) placed in the suspense file. The 2010-11 analysis showed a continued downward trend in NMI sent to the suspense file: the proportion of items sent to the suspense file in relation to the total volume of returns processed was 1.7 per cent compared to 2.0 per cent the previous year. This downward trend has been in evidence since 2004-05 when it stood at 5.0 per cent. Just under 1 million NMI (998,000) in 2010-11 were sent to the suspense file bringing the overall total added since 1975 to 121.5 million. The corresponding figure added for 2009-10 was 1.2 million.

8.17 Analysis shows that in 2010-11 the proportion of NMI added to the suspense file that individually, and without being added to contributions or credits from another source, cannot affect contributor benefits is now 91 per cent. The corresponding figure for 2009-10 was 90 per cent.

8.18 For the last two years most cases added to the suspense file do not have NI Contributions associated with them. Only 368,000 of the cases added to the suspense file in 2010-11 have earnings potentially subject to NI Contributions. This compares to 445,000 cases in 2009-10. (A substantial proportion of the returns received are reporting pension income on which no NIC is due).

8.19 HMRC will continue to work with employers and pension scheme administrators to maintain the steady fall in the annual proportion of NMI entering the suspense file. The focus of the Real Time Information (RTI) Programme Data Improvement Project is to address data quality issues. Significant progress has been made which we expect will lead to a further improvement.

Debt (Living Within Our Means/Workload, Capacity & Resource Management)

8.20 HMRC's net debt balance continues to fall, from £19.3 billion in March 2011 to £15.5 billion in March 2012, through a combination of improved collection performance and ongoing work to cleanse the debt book of amounts which are not yet due for payment. The HMRC debt strategy is designed to build on this progress by:

- Supporting payment on time compliance by making payment easy and by deterring late payment through the intelligent use of sanctions and by other means as necessary.
- Providing advice and support for otherwise compliant taxpayers in genuine but temporary difficulty; something we provide through Time to Pay.
- Ensuring that the actions we take where taxpayers have defaulted on payment obligations (without first contacting us) are both initiated and followed through promptly, are smart, and are appropriate to the risks and seriousness of the default. By 'smart' we mean that the actions we take are optimised according to the circumstances and past behaviour of individual taxpayers and the risks posed, and that subsequent actions are proportionate and are progressive in strength and tone.
- Increasing the work we are doing on segmenting and analysing the nature and causes of debt. This will allow us to review our scope to change or improve these, to redeploy resources to maximise collection of debt and to recognise and deal with uncollectable debt earlier.

Excise Movement and Control System (EMCS) (Workload, Capacity & Resource Management)

8.21 Customs IT systems must be available 24 hours a day, every day of the year, to ensure that international supply chains operate efficiently, to support the UK economy and to comply with EU legislation. After a number of system failures during 2011-12, HMRC has made several changes to the IT platform, in consultation with its users, to make it more robust and responsive to the needs of the customs business. Although the changes made will improve delivery, there are still risks of system failure. Mindful that the Olympic and Paralympics Games are taking place in 2012, HMRC will continue to monitor system performance and look to improve the platform design short and long term.

Attendance Management (Employee Engagement)

8.22 We reported in last year's Statement on Internal Control that high levels of sickness absence were affecting our reputation and our delivery objectives. Attendance Management continues to be a main issue of concern in HMRC.

8.23 The Attendance and Wellbeing project, introduced in 2011, has continued into 2012 and has led to changes and an increased and improved focus on tackling this issue across HMRC. Our approach to Attendance Management and Wellbeing is to:

- Help jobholders to stay in work wherever possible.
- Support the effective return to work.
- Drive overall improvements in performance and productivity in HMRC.

8.24 Developments include:

- The introduction of and wider use of HMRC Attendance Champions and the Managers Advice Service.
- The launch of a new Wellbeing strategy and action plan to support implementation.
- The introduction of a dedicated Wellbeing intranet page and communications plan.
- The introduction of a new process for first day sickness absence recording by managers, to enable more timely and accurate recording.
- Successfully encouraging Lines of Business to accept accountability for the engagement of their managers and people with the new process and senior managers promoting compliance and using Performance Management.

8.25 These developments have considerably helped to produce a reduction in departmental average working days lost (AWDL). The Department achieved a rolling average of 7.64 AWDL by 31 March 2012, exceeding its 2011-12 target of 7.94 AWDL and comparing very favourably with last year's figures of 9.65 AWDL. The challenge now remains to ensure HMRC has sufficiently embedded the changes in order to manage new cases appropriately and secure long term success.

HMRC Leadership (Employee Engagement)

8.26 Increasing our leadership and management capability remains a key priority for HMRC. Our overall engagement score increased to 40 per cent in 2011, compared to 34 per cent in 2010, yet our engagement scores still fall short of the Civil Service benchmark of 56 per cent. This is driving our strategy to improve confidence in senior leadership and their management of change. There remains much to do.

8.27 Current activities include:

- A review of engagement in HMRC by a leading expert was commissioned and reported in May 2012. This has provided key insights to leaders on how we can maintain the momentum of change that we have begun. It will be followed by agreeing a new approach, including behaviours and style of management, that will help us connect with our people and establish a shift in culture to a One HMRC approach that empowers more and engenders greater trust.
- A continued use of Pulse surveys every 2-3 months to regularly chart progress, and the development of consolidated, key metrics for leadership and engagement improvement across the Department.
- Publication of a new Skills Strategy, and a new Leadership and Management Strategy to provide a coherent, streamlined direction across the whole Department. This will drive a One HMRC, approach towards: developing management skills, talent and succession planning; driving a performance culture; and investing in our key leadership roles.

- Greater transparency and visibility around leadership and development investment through a new HMRC gateway to reduce duplicated effort and ensure return on investment. Leverage of efficiencies and best practice through Civil Service Learning as our core provider.
- Increased investment in all our talent programmes, flowing from a regular, co-ordinated and corporate talent development data gather and succession planning process from across HMRC.
- A site-based communications approach that continues to make leaders more visible.

Employee Relations

8.28 We consider the risk of disruptions which may undermine operational efficiency and change delivery to remain high. An Industrial Action Working Group continually monitors the risk. Business continuity planning is in place across HMRC to address targeted action and worst case scenarios. Clear and comprehensive guidance for managers is provided ahead of any action, and we are liaising with colleagues in Corporate Communications and Security and Information, on communications and business continuity.

Criminal attacks against our systems (Cyber Crime)

8.29 HMRC estimates losses in the region of £5-6 billion a year as a result of organised criminal attacks against our systems; frauds relating to Excise regimes, VAT Missing Trader Intra-Community (MTIC) fraud, and other Repayment frauds. HMRC is still in the process of developing methodologies for measuring some of these losses – especially for emerging threats such as cyber crime. The Tax Gap 2011 paper sets out our latest mid-point estimates only for those frauds where we have robust measures in place:

- £1.0 billion for VAT MTIC fraud.
- £2.1 billion for Tobacco.
- £1.0 billion for Alcohol.
- £0.7 billion for Oils.

8.30 Over the course of the Spending Review period, HMRC is investing around £100 million in additional activity and capabilities to tackle Organised Crime. We continue to have considerable success in tackling Organised Crime through tailored responses to specific threats, including:

- VAT MTIC fraud, where existing approaches have been expanded, with new teams carrying out visits to addresses where we suspect fraudsters are attempting to register for HMRC regimes in order to subsequently carry out repayment fraud. We are also creating new MTIC capabilities that will use innovative approaches, including Proceeds of Crime Act civil powers, to respond to the evolving tactics of the fraudsters.
- The HMRC Alcohol Strategy will strengthen the regulatory framework to stop fraud 'upstream' wherever possible. It will leverage legitimate business to choke off the supply of UK popular branded products available to illicit supply chains, and strengthen enforcement activity to dismantle illicit supply chains. HMRC has doubled the number of specialist civil investigators targeting alcohol fraud.
- The newly published HMRC Counter Fraud Strategy prioritises prevention approaches wherever possible. Security measures for our online regimes will be improved with the introduction of Transaction Monitoring to spot suspicious online behaviour. These will be supported by the new Cyber Crime Team and a new intelligence hub to share suspicious repayment data with other agencies and banks.

People, Skills and Technical Capability

8.31 HMRC's Workforce Management Programme is responsible for ensuring we meet the strategic challenge of having the right people in the right place with the right skills and technical capabilities to meet the needs of the future HMRC. This is supported by:

- A resourcing strategy to meet the resource requirements of the SR10 settlement by creating the foundation for a stable and skilled workforce across the Department.
- Improved resourcing data, including delivery plans for 2012-13 to 2014-15.
- A Skills Strategy Board to monitor capability build.

9. Review of Effectiveness

9.1 A number of specific sources inform and contribute to my review including:

- Individual statements from each member of the Executive Committee outlining the governance, risk and control arrangements in their business areas.
- The Governance Statement provided by the Chief Executive of the Valuation Office Agency and the review that underpins this.
- The review that underpins the production of the National Insurance Fund Governance Statements, which I sign separately.
- NAO Reports and The Report by the C&AG.
- The Director of Internal Audit's annual opinion to me as Principal Accounting Officer.
- External reports on HMRC produced by organisations including the Information Commissioner's Office, Her Majesty's Inspectorate of Constabulary, the Independent Police Complaints Commission and the Office of the Surveillance Commissioners.
- Formal assurance I receive from the SIRO that Information Risk has been appropriately managed in the conduct of HMRC business.
- The reviews that underpin the Managing Risk of Financial Loss project. This is run by the Chief Finance Officer and is HMRC's response to HM Treasury's requirement that Government Departments conduct Financial Process Assessments of their significant financial processes.

9.2 Taking all of these into account, as well as observations from the regular meetings of ExCom, ExCom (Performance) and the Audit and Risk Committee, from the Director of Internal Audit, and from the NAO, I recognise that there are a number of material control weaknesses. Of those I have identified the most significant are detailed below.

Significant Control Issues

Personal Tax Credit Error and Fraud

9.3 The C&AG has qualified his opinion on the regularity of the expenditure reported in the Resource Accounts in respect of tax credits error and fraud.

9.4 HMRC's Error and Fraud Strategy, implemented in April 2009, has a target to reduce error and fraud to no more than 5 per cent by March 2011. HMRC published the 2010-11 tax credit error and fraud statistics on 20 June 2012. The central estimate of the level of error and fraud favouring the customer was 8.1 per cent, a small increase from the revised 2009-10 estimate of 7.8 per cent but a reduction on the 2008-09 pre-strategy figure of 8.9 per cent. This equates to approximately £2.27 billion in 2010-11 that was paid out incorrectly to claimants due to error and fraud. This means that HMRC did not meet its target to reduce tax credit error and fraud to 5 per cent by March 2011.

9.5 Since 2008-09 we have increased revenue identified, as part of compliance interventions, from £253 million to £1.05 billion in 2010-11. HMRC is disappointed that its enhanced performance has not been reflected in the overall result but firmly believes that the principles of the strategy are sound – reductions in Income, Childcare and Disability risk over the period of the strategy shows we are making a difference. The levels of error and fraud have also fallen since the introduction of the strategy and would have been around £280 million higher in 2009-10 and £220 million higher in 2010-11.

9.6 We remain committed to the foundations of the strategy - Supporting customers, Preventing error and fraud, Tackling Non-Compliance & Professionalism – and the key principles of preventing error and fraud getting into the tax credit system in the first place ("Check First, Then Pay"), removing existing error and fraud and taking the necessary steps to ensure the incorrect claims do not re-enter the system.

9.7 In 2010 we set ourselves a challenging target to deliver £8 billion of losses prevented and to sustain the level of tax credit error and fraud to no more than 5 per cent of entitlement over the SR10 period. Whilst HMRC did not meet the 5 per cent target, we delivered £1.49 billion of losses prevented to the end of March 2012, the first year of SR10 and are on course to deliver a total of £1.8 billion of losses prevented by the end of August 2012. We are aiming to understand better the reason for the apparent gap between losses prevented and the levels of error and fraud. This will provide us with clarity about the changes we need to make to our strategy for bridging the gap and achieving the target reduction in the levels of tax credit error and fraud. We remain on track to meet the £8 billion target and are committed to achieving the reduction in the levels of tax credit error and fraud within the SR timeframe. Working with the Department of Work and Pensions, this will contribute to a reduction in the residual levels of error and fraud of £1.4 billion across the tax credits and benefits systems by 2015.

Personal Tax Credit Debt

9.8 At the end of 2011-12 the tax credit debt balance was £4 billion and £1.8 billion of new debt was created during the year. New debt is created as a natural part of the tax credit cycle, in particular the annual renewals process, as well as late reporting of change of customers' circumstances. However, there is also a direct link between the level of new debt created each year and the success of our error and fraud activity.

9.9 The new 2011-12 debt strategy sought to maximise value for money in collecting debt and was based upon a three pronged approach; prevent debt by reducing overpayments; collect more debt using a campaign based approach, based on affordability as well as utilising debt collection agencies; and identify and deal with uncollectable debt.

9.10 A key aspect of the tax credit Debt Strategy for 2011-12 was to address the older inactive debts that were not in a Time-to-Pay arrangement. Earlier in the year, and following consultation with the NAO, we conducted an extensive exercise to test how successful we might be in pursuing inactive debts and to identify the associated costs. This resulted in a recommendation to remit all inactive debts over 3 years old. The exercise resulted in remissions totalling £1.22 billion involving over 1 million aged and inactive overpayments.

9.11 This action against old, mainly uncollectible debt, has allowed HMRC to target more recent debts and take specific action according to the debt type as follows:

- A revised Campaign-based approach (building on lessons learnt from previous campaigns and recent outcomes from customer behaviour letter trials) to direct recovery debt.
- More upstream debt prevention and early collection within B&C.
- The use of Debt Collection Agencies (DCA) – Investment Committee agreed this approach in principle in January 2012 and funding for it is currently being explored.
- Coding out TC debts from PAYE from April 2012.
- Targeted action for debt generated through Error and Fraud interventions.

9.12 Our challenge for 2012-13 is to maintain tax credit debt levels at under £4 billion, whilst increasing the amount of tax credit debt we recover through a combination of recovery from ongoing awards and direct recovery activity. We are exploring options to increase our cross recovery rates as well as sustaining our 'get it right first time' approach to prevent errors entering the system. We are continuing to explore funding options to increase the use of DCAs to recover tax credit debt and we will continue to code out small tax credits debt by the adjustment of PAYE codes for those employed tax credit customers.

Pension Overpayments

9.13 The 33rd PAC Report included the NAO 'Review of errors in Guaranteed Minimum Pension (GMP) payments', an issue that had resulted from incorrect indexation within the five main Public Service Pension (PSP) schemes.

9.14 A joint Advisory Group was set up in January 2010 under the auspices of HMRC to define mutually acceptable proposals that would address the NAO recommendations. The group includes representatives from HMRC, DWP (PDCS) and the major Public Service pension schemes. Most of the NAO recommendations have been addressed by the Group, including the introduction of an entirely new process to help PSP schemes obtain GMP information where, for any reason, they consider they may not have received it via normal channels.

9.15 The process was introduced in June 2011. Whilst schemes represented on the Advisory Group intend to use the service not all are in a position to do so presently due to a need to make changes to their internal systems. Those that have used it (Teachers and Civil Service schemes) are of the opinion that it is working well and meeting their requirements, aside from a small number of exceptional circumstances where it is not practical to provide an automated response.

9.16 Based on advice from Accounting Officers, Cabinet Office decided to write off all past overpayments and correct pension awards going forward from April 2009.

Legacy Systems

9.17 Some of HMRC's older tax systems have limitations in relation to financial reporting. Reliance is placed on scans of certain Head of Duty systems to establish the aggregate levels of tax debt at year end. However, some of these scans were not designed to produce detailed information on transactions, losses and balances beyond the summary totals.

9.18 NAO have indicated their concerns over these reporting weaknesses and have also put forward the view that as new systems are implemented, then HMRC must address this issue. In particular, NAO have flagged the Enterprise Tax Management Platform, the strategic choice for future tax system development within HMRC, as providing the Department with the opportunity to develop appropriate levels of audit trail capacity. Though we expect to be able to go some way towards providing improved system reporting, it is unlikely that we will be able to address all weaknesses within present funding constraints which focus investment on legislative requirement or enhancing capacity to close the tax gap.

10. Conclusion

10.1 Based on the review I have outlined above I conclude that HMRC has a sound system of governance, risk management and internal control that supports the Department's aims and objectives.

Lin Homer
Principal Accounting Officer
22 June 2012

Remuneration Report

Remuneration Policy

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

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

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

In reaching its recommendations, the Review Body has regard to the following considerations:

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

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

Further information about the work of the Review Body can be found at www.ome.uk.com

Service Contracts

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

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

Details of the service contract for each member of the Department's Executive Committee are shown on page 62.

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

There have been no amounts payable to third parties for services of a senior manager in 2011-12. For reporting purposes, the term senior manager refers to those individuals who have served on either the Board or the Executive Committee.

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

Performance management system

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

In 2011-12 there were no changes to the SCS pay ranges and no increases in base pay.

Delivery of performance against objectives is rewarded through a non-consolidated performance award for those who make the biggest contributions. In 2011-12 non-consolidated performance awards were made to SCS in Group 1 only, based upon 2010-11 performance which was analysed as below.

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

- Group 1: top 25 per cent of performers;
- Group 2: next 40 per cent of performers;
- Group 3: next 25-30 per cent of performers; and
- Group 4: bottom 5-10 per cent of performers.

With effect from 2011-12 the performance groups have been amended to:

- Group 1: top 25 per cent of performers;
- Group 2: next 65 per cent of performers; and
- Group 3: bottom 10 per cent of performers.

Performance assessment is based on:

- The degree to which business objectives within the performance contract have been met or not;
- The degree to which the corporate, capability and development objectives in the performance contract have been met or not;
- The degree to which leadership behaviours and professional skills elements of the common framework have been demonstrated;
- Additional consideration of the degree of difficulty or ease of meeting the objectives in the light of actual events;
- Performance against these criteria should be considered in the round. It is not sufficient to deliver business results at the expense of good team leadership, or to deliver corporate objectives at the expense of managing poor performance.

Non-consolidated performance award decisions are monitored by gender, ethnicity, disability and working pattern to guard against bias. The value of non-consolidated awards paid in 2011-12 for performance in 2010-11 were set as fixed amounts SCS1 = £8,000, SCS2 = £10,000 and SCS3 = £9,000.

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

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

The Permanent Secretaries moderate the performance and non-consolidated awards for Director Generals with advice from the non-executive HMRC Chairman.

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

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

Policy on notice periods and termination payments

Standard SCS notice period

Notice

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

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

– Continuous service up to 4 years, a notice period of 5 weeks;

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

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

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

On the expiration of such notice, employment will terminate.

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

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

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

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

Details of the service contracts for each member of the Executive Committee who has served during the year

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

Officials	Date of appointment	End date of term	Unexpired term (months)
Lin Homer CB	23 January 2012	N/A	N/A
Dame Lesley Strathie DCB[1]	10 November 2008	N/A	N/A
Dave Hartnett CB[2]	18 April 2005	N/A	N/A
Stephen Banyard CBE	8 November 2010	N/A	N/A
Simon Bowles	17 March 2009	N/A	N/A
Melanie Dawes	23 November 2007	7 October 2011	N/A
Mike Eland CB[3]	18 April 2005	N/A	N/A
Mike Falvey	15 February 2010	14 February 2013	11
Anthony Inglese CB	8 March 2008	N/A	N/A
Steve Lamey[4]	18 April 2005	N/A	N/A
Mike Norgrove CBE	10 October 2011	N/A	N/A
Phil Pavitt	2 September 2009	1 September 2012	5

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

[1] Lesley Strathie was on long term sick leave from July 2011 and stepped down as Chief Executive and member of the Board on 9 November 2011.

[2] Dave Hartnett was appointed to the Executive Committee of the former Inland Revenue Department on 19 June 2000 prior to the creation of HMRC on 18 April 2005.

[3] Mike Eland was appointed to the Executive Committee of the former Customs & Excise Department on 8 January 2001 prior to the creation of HMRC on 18 April 2005.

[4] Steve Lamey was appointed to the Executive Committee of the former Inland Revenue Department on 18 October 2004 prior to the creation of HMRC on 18 April 2005.

The following sections provide details of the remuneration and pension interests of the most senior officials of the Department.

Remuneration:

Senior Officials	2011-12 Salary £000	2011-12 Bonus £000	2011-12 Benefits in kind (to the nearest £100)	2011-12 Total £000	2010-11 Salary £000	2010-11 Bonus £000	2010-11 Benefits in kind (to the nearest £100)	2010-11 Total £000
Mike Clasper CBE[1]	100-105	–	–	100-105	105-110	–	100	105-110
Lin Homer CB[2] (from 23 January 2012)	30-35 (175-180 full year equivalent)	–	–	30-35 (175-180 full year equivalent)	–	–	–	–
Dame Lesley Strathie DCB (to 9 November 2011)	105-110 (170-175 full year equivalent)	–	100	105-110 (170-175 full year equivalent)	170-175	–	200	170-175
Dave Hartnett CB	160-165	–	300	160-165	160-165	–	100	160-165
Stephen Banyard CBE	130-135	5-10	200	140-145	50-55 (130-135 full year equivalent)	–	–	50-55 (130-135 full year equivalent)
Simon Bowles[3]	180-185	–	200	185-190	180-185	5-10	100	190-195
Melanie Dawes (to 7 October 2011)	60-65 (120-125 full year equivalent)	–	200	65-70 (120-125 full year equivalent)	120-125	5-10	100	130-135
Mike Eland CB	145-150	5-10	300	155-160	145-150	5-10	100	155-160
Mike Falvey[4]	170-175	–	200	175-180	180-185	5-10	100	190-195
Anthony Inglese CB	135-140	–	200	140-145	135-140	15-20	100	150-155
Steve Lamey	205-210	–	300	205-210	205-210	5-10	100	210-215
Mike Norgrove CBE (from 10 October 2011)	55-60 (115-120 full year equivalent)	–	100	55-60 (115-120 full year equivalent)	–	–	–	–
Phil Pavitt[5]	180-185	5-10	200	185-190	175-180	10-15	100	190-195

	2011-12		2010-11
Band of highest paid Director's total Remuneration (£'000)	205-210	**Band of highest paid Director's total Remuneration** (£'000)	210-215
Median Total Remuneration	20,184	**Median Total Remuneration**	19,908
Ratio	1:10.3	**Ratio**	1:10.7

1 Mike Clasper was appointed on a three-year contract commencing on 1 August 2008. His contract has been extended to 31 January 2013.
2 Lin Homer joined the Department on 23 January 2012. She was paid by her former employer, the Department for Transport, until 31 January 2012.
3 Simon Bowles was appointed on a three-year contract commencing on 17 March 2009. His appointment was made permanent on 14 November 2011.
4 Mike Falvey was appointed on a three-year contract commencing on 15 February 2010. His salary for 2010-11 included a one-off payment of £7,292 relating to an annual leave adjustment. His bonus in 2010-11 included £9,321 in respect of work performed for the Department for Communities and Local Government prior to his appointment with HMRC.
5 Phil Pavitt was appointed on a three-year contract commencing on 2 September 2009.

Salary

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

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. They relate to performance in the previous year, therefore, bonuses paid in 2011-12 are based on 2010-11 performance and bonuses paid in 2010-11 are based on 2009-10 performance.

Non-Executive Board Members

The Department's Board comprises both senior operational management and external appointees. The remuneration of senior management is included above. External Board appointees' remuneration is detailed below:

		2011-12			2010-11	
	Fees £000	Benefits in kind (to the nearest £100)	Total £000	Fees £000	Benefits in kind (to the nearest £100)	Total £000
Ian Barlow (from 21 February 2012)	0-5 (25-30 full year equivalent)	–	0-5 (25-30 full year equivalent)	–	–	–
Colin Cobain	25-30	–	25-30	25-30	–	25-30
Mark Haysom CBE (to 30 June 2011)	5-10 (25-30 full year equivalent)	–	5-10 (25-30 full year equivalent)	25-30	100	30-35
Philippa Hird	30-35	–	30-35	30-35	100	30-35
Phil Hodkinson	30-35	400	35-40	35-40	100	35-40
John Spence OBE	30-35	–	30-35	30-35	100	35-40

Fees

The non-executive Board members receive fees of £30,000 per annum. Philippa Hird, Phil Hodkinson and John Spence receive an additional £5,000 per annum as they each chair a sub-committee of the Board. The fees detailed above also include, where appropriate, allowances that are subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue & Customs as a taxable emolument. The benefits in kind incurred by the Senior Officials detailed in this report related to hospitality provided at external development events. Phil Hodkinson had benefits in kind relating to taxable travel and subsistence payments.

Pension Benefits

	Accrued pension at pension age as at 31 March 2012 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2012 (to the nearest £000)	CETV at 31 March 2011[6] (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £100)
Mike Clasper CBE[1]	–	–	–	–	–	–
Lin Homer CB[2] (from 23 January 2012)	95-100	–[7]	1,686	1,645[10]	–[7]	–
Dame Lesley Strathie DCB[3] (to 9 November 2011)	85-90 (Plus 255-260 lump sum)	–[7] –[7]	1,729[8]	1,652	–[7]	–
Dave Hartnett CB[4]	80-85 (Plus 160-165 lump sum)	–[7] –[7]	1,724	1,701	–[7]	–
Stephen Banyard CBE[4]	65-70 (Plus 135-140 lump sum)	2.5-5.0 (Plus 0-2.5 lump sum)	1,367	1,279	44	–
Simon Bowles[5]	10-15	2.5-5.0	148	101	32	–
Melanie Dawes[3] (to 7 October 2011)	30-35 (Plus 100-105 lump sum)	0-2.5 (Plus 0-2.5 lump sum)	508[9]	491	4	–
Mike Eland CB[3]	65-70 (Plus 200-205 lump sum)	–[7] –[7]	1,521	1,436	–[7]	–
Mike Falvey[5]	15-20	2.5-5.0	128	95	20	–
Anthony Inglese CB[3]	60-65 (Plus 190-195 lump sum)	–[7] –[7]	1,470	1,387	–[7]	–
Steve Lamey[2]	15-20	0-2.5	305	257	22	–
Mike Norgrove CBE[3] (from 10 October 2011)	45-50 (Plus 140-145 lump sum)	0-2.5 (Plus 5.0-7.5 lump sum)	1,058	966[11]	37	–
Phil Pavitt[1]	–	–	–	–	–	–

1 Officer is not contributing towards the Civil Service pension scheme.
2 Member of the Premium Scheme, lump sum not applicable.
3 Member of the Classic Scheme.
4 Member of the Classic Plus Scheme.
5 Member of the Nuvos Scheme, lump sum not applicable.
6 The actuarial factors used to calculate CETVs were changed in 2011-12. The CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors, for consistency. The CETV at 31 March 2011 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.
7 Real increase is negative due to the rise in pensionable pay being less than inflation.
8 CETV at 9 November 2011.
9 CETV at 7 October 2011.
10 CETV at 22 January 2012.
11 CETV at 9 October 2011.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for **classic** and 3.5 per cent for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2012. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/my-civil-service/pensions/index.aspx

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Compensation for loss of office

No senior officials detailed in this report received compensation for loss of office during 2011-12.

Elements of the Remuneration Report have been audited, as required by the *Government Financial Reporting Manual*. Those elements audited are Salary, Allowances, Bonuses, Benefits in Kind and Pension Benefits.

Lin Homer
Principal Accounting Officer

22 June 2012

The Certificate and Report of the Comptroller and Auditor General

I certify that I have audited the financial statements of HM Revenue and Customs for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in Chapter 6: Sustainability, The Annual Report and Governance Statement, to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Basis for qualified opinion on regularity

The Resource Accounts record £29.9 billion of personal tax credits expenditure in 2011-12. As shown in Note 10.3 to the Resource Accounts the Department's latest estimate is that in 2010-11 error and fraud resulted in overpayments of between £2.08 billion and £2.46 billion (7.5 per cent to 8.8 per cent) of the final award by value to which claimants were not entitled. Note 10.3 also shows that the Department estimates that error led to underpayments of between £0.17 billion and £0.29 billion (0.6 per cent to 1.0 per cent) of the final award by value. Where error and fraud result in over or underpayment of personal tax credits, the transactions are not in conformity with the Tax Credits Act 2002 and related regulations which specify the criteria for entitlement to personal tax credits and the method to be used to calculate the award.

The Department currently has no estimate of the total level of error and fraud in the personal tax credits awards made in 2011-12 and therefore no evidence to demonstrate a lower estimate for overpayments and underpayments attributable to error and fraud in 2011-12. Accordingly, I have been unable to confirm that, in all material respects, personal tax credits awards are in conformity with the authorities which govern them and have been applied for the purposes intended by Parliament.

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

Qualified opinion on regularity

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

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2012 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Chapter 6: Sustainability, The Annual Report and HMRC Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have prepared a Report on HM Revenue & Customs 2011-12 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921. This includes, at paragraphs 4.6 to 4.22, further information on the qualification of my audit opinion on the regularity of personal tax credits expenditure.

Amyas C E Morse
Comptroller and Auditor General
27 June 2012

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

Statement of Parliamentary Supply

Summary of Resource and Capital Outturn 2011-12

		Estimate			2011-12 £m Outturn				Restated* 2010-11 £m Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: saving/ (excess)	Total
Departmental Expenditure Limit									
– Resource	2	3,418.9	347.5	3,766.4	3,364.9	340.7	3,705.6	54.0	3,820.9
– Capital	2	261.6	–	261.6	219.5	–	219.5	42.1	172.4
Annually Managed Expenditure									
– Resource	2	12,291.5	31,240.4	43,531.9	12,232.4	30,548.7	42,781.1	59.1	42,356.2
– Capital	2	98.0	–	98.0	86.3	–	86.3	11.7	340.7
Total Budget		**16,070.0**	**31,587.9**	**47,657.9**	**15,903.1**	**30,889.4**	**46,792.5**	**166.9**	**46,690.2**
Non-Budget									
– Resource	2	–	–	–	–	–	–	–	–
– Capital	2	–	–	–	–	–	–	–	–
Total		**16,070.0**	**31,587.9**	**47,657.9**	**15,903.1**	**30,889.4**	**46,792.5**	**166.9**	**46,690.2**
Total Resource	2	15,710.4	31,587.9	47,298.3	15,597.3	30,889.4	46,486.7	113.1	46,177.1
Total Capital	2	359.6	–	359.6	305.8	–	305.8	53.8	513.1
Total		**16,070.0**	**31,587.9**	**47,657.9**	**15,903.1**	**30,889.4**	**46,792.5**	**166.9**	**46,690.2**

Net Cash Requirement 2011-12

	Note	2011-12 Estimate	2011-12 £m Outturn	Voted outturn compared with estimate: saving/ (excess)	2010-11 £m Outturn
	4	**15,930.9**	**15,882.7**	**48.2**	**16,163.7**

	Note	2011-12 Estimate	2011-12 Outturn	Restated* 2010-11 Outturn
Administration Costs 2011-12	3	**936.5**	**922.1**	892.0

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.
An explanation of material variances between the Estimate and outturn are provided in the Management Commentary on page 38.
** Certain prior year figures have been restated as per note 31.*

Consolidated Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

			2011-12 £m		Restated* 2010-11 £m
	Note	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Administration costs					
Staff costs	7	339.8	339.8	384.6	384.6
Other costs	8	696.2	696.0	726.7	726.3
Income	11	(90.5)	(86.2)	(60.3)	(59.9)
Programme expenditure					
Staff costs	7	1,859.6	1,999.8	1,837.1	1,975.5
Other costs	9	43,807.2	43,905.9	43,695.0	43,774.5
Income	11	(88.6)	(285.8)	(98.7)	(293.6)
Net Operating Cost for the year ended 31 March 2012		**46,523.7**	**46,569.5**	**46,484.4**	**46,507.4**
Total expenditure		46,702.8	46,941.5	46,643.4	46,860.9
Total income		(179.1)	(372.0)	(159.0)	(353.5)
Net Operating Cost for the year ended 31 March 2012		**46,523.7**	**46,569.5**	**46,484.4**	**46,507.4**
Other Comprehensive Net Expenditure					
Net (gain)/loss on revaluation of property, plant and equipment		9.8	9.6	(4.0)	(4.1)
Net (gain)/loss on revaluation of intangible assets		–	(0.2)	(65.2)	(65.2)
Net (gain)/loss on impairments of non-current assets		–	–	–	–
Net (gain)/loss on revaluation of investments		–	–	–	–
Total Comprehensive Expenditure for the year ended 31 March 2012		**46,533.5**	**46,578.9**	**46,415.2**	**46,438.1**

** Certain prior year figures have been restated as per notes 31 and 32.*

Consolidated Statement of Financial Position as at 31 March 2012

	Note	31 March 2012 £m Core Department	31 March 2012 £m Core Department & Agency	Restated* 31 March 2011 £m Core Department	Restated* 31 March 2011 £m Core Department & Agency	Restated* 1 April 2010 £m Core Department & Agency
Non-current assets:						
Property, plant and equipment	12	524.8	536.1	568.4	580.6	640.5
Intangible assets	13	1,181.1	1,205.8	1,177.7	1,207.2	1,199.3
Financial assets	14,15	–	–	–	–	–
Receivables	18	1,099.3	1,099.3	1,092.9	1,092.9	924.4
Total non-current assets		**2,805.2**	**2,841.2**	**2,839.0**	**2,880.7**	**2,764.2**
Current assets:						
Inventories	17	–	2.2	–	2.6	5.4
Trade and other receivables	18	800.4	803.3	848.9	855.0	1,296.3
Other current assets		–	–	–	–	–
Financial assets	14,15	–	–	–	–	–
Cash and cash equivalents	19	29.9	48.3	17.8	27.9	38.5
Total current assets		**830.3**	**853.8**	**866.7**	**885.5**	**1,340.2**
Total assets		**3,635.5**	**3,695.0**	**3,705.7**	**3,766.2**	**4,104.4**
Current liabilities:						
Trade and other payables	20	(1,928.9)	(1,975.0)	(1,890.0)	(1,918.6)	(1,772.2)
Provisions		(101.2)	(104.9)	(193.3)	(202.9)	(225.3)
Other liabilities		–	–	–	–	–
Total current liabilities		**(2,030.1)**	**(2,079.9)**	**(2,083.3)**	**(2,121.5)**	**(1,997.5)**
Non-current assets plus/less net current assets/liabilities		**1,605.4**	**1,615.1**	**1,622.4**	**1,644.7**	**2,106.9**
Non-current liabilities:						
Provisions	21	(61.4)	(63.9)	(88.7)	(93.1)	(130.6)
Pension liability	22	–	(28.8)	–	(11.9)	(33.3)
Other payables	20	(380.5)	(381.0)	(418.2)	(418.7)	(447.9)
Financial liabilities	14	–	–	–	–	–
Total non-current liabilities		**(441.9)**	**(473.7)**	**(506.9)**	**(523.7)**	**(611.8)**
Assets less liabilities		**1,163.5**	**1,141.4**	**1,115.5**	**1,121.0**	**1,495.1**
Taxpayers' equity:						
General fund		1,023.8	1,028.7	922.9	938.4	1,333.6
Revaluation reserve		139.7	141.5	192.6	194.5	194.8
Pension reserve		–	(28.8)	–	(11.9)	(33.3)
Total equity		**1,163.5**	**1,141.4**	**1,115.5**	**1,121.0**	**1,495.1**

Lin Homer
Principal Accounting Officer

22 June 2012

** Certain prior year figures have been restated as per note 31.*

Consolidated Statement of Cash Flows for the year ended 31 March 2012

	Note	2011-12 £m	Restated* 2010-11 £m
Cash flows from operating activities			
Net operating cost		(46,569.5)	(46,507.4)
Adjustments for non-cash transactions	8,9	279.3	439.9
(Increase)/Decrease in trade and other receivables		45.3	272.8
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		–	–
(Increase)/Decrease in inventories		0.4	2.8
Increase/(Decrease) in trade and other payables		18.7	117.2
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		19.0	50.0
Use of provisions	21	(142.8)	(196.1)
Net cash outflow from operating activities		**(46,349.6)**	**(45,820.8)**
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(30.9)	(8.0)
Purchase of intangible assets	13	(190.3)	(164.7)
Proceeds of disposal of property, plant and equipment		0.4	0.3
Proceeds of disposal of intangible assets		–	–
Net cash outflow from investing activities		**(220.8)**	**(172.4)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		15,908.6	16,164.2
From the Consolidated Fund (Supply) – prior year		–	–
From the Consolidated Fund (non-Supply)		–	–
From the Trust Statement		30,390.0	29,464.9
From the National Insurance Fund		343.3	411.9
Payments to the National Insurance Fund		–	–
Advances from the Contingencies Fund		–	–
Repayments to the Contingencies Fund		–	–
Capital element of payments in respect of finance leases and on-balance sheet (SoFP) PFI contracts		(44.5)	(41.5)
Net financing		**46,597.4**	**45,999.5**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**27.0**	**6.3**
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		–	–
Payments of amounts due to the Consolidated Fund		(6.6)	(16.9)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**20.4**	**(10.6)**
Cash and cash equivalents at the beginning of the period	19	**27.9**	**38.5**
Cash and cash equivalents at the end of the period	19	**48.3**	**27.9**

** Certain prior year figures have been restated as per note 31.*

Consolidated Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

		Core Department				Core Department & Agency			
		General Fund	Revaluation Reserve[1]	Pension Reserve	Total Reserves	General Fund	Revaluation Reserve[2]	Pension Reserve	Total Reserves
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2010		16.2	192.6	–	208.8	27.8	194.8	(33.3)	189.3
Changes in accounting policy		1,305.8	–	–	1,305.8	1,305.8	–	–	1,305.8
Restated balance at 1 April 2010		**1,322.0**	**192.6**	**–**	**1,514.6**	**1,333.6**	**194.8**	**(33.3)**	**1,495.1**
Net Parliamentary Funding – drawn down		16,123.9	–	–	16,123.9	16,164.2	–	–	16,164.2
Net Parliamentary Funding – deemed		13.5	–	–	13.5	21.8	–	–	21.8
Liabilities in respect of assets brought onto the Consolidated Statement of Financial Position IAS 17		18.0	–	–	18.0	18.0	–	–	18.0
Funding from Trust Statement*		29,464.9	–	–	29,464.9	29,464.9	–	–	29,464.9
National Insurance Fund*		411.9	–	–	411.9	411.9	–	–	411.9
Supply (payable)/receivable adjustment		(17.7)	–	–	(17.7)	(22.3)	–	–	(22.3)
CFERs payable to the Consolidated Fund	5	(0.3)	–	–	(0.3)	(5.8)	–	–	(5.8)
Comprehensive Net Expenditure for the Year*		(46,484.4)	69.2	–	(46,415.2)	(46,507.4)	69.3	–	(46,438.1)
Non-cash Adjustments									
Non-cash charges – auditor's remuneration	8,9	1.9	–	–	1.9	1.9	–	–	1.9
Movements in Reserves									
Transfer between reserves		69.2	(69.2)	–	–	57.6	(69.6)	12.0	–
Pension Reserve actuarial (losses)/gains		–	–	–	–	–	–	9.4	9.4
Contributions to LGPS pension fund by DWP	22	–	–	–	–	–	–	–	–
Balance at 31 March 2011*		**922.9**	**192.6**	**–**	**1,115.5**	**938.4**	**194.5**	**(11.9)**	**1,121.0**
Net Parliamentary Funding – drawn down		15,859.4	–	–	15,859.4	15,908.6	–	–	15,908.6
Net Parliamentary Funding – deemed		17.7	–	–	17.7	22.3	–	–	22.3
Liabilities in respect of assets brought onto the Consolidated Statement of Financial Position IAS 17		–	–	–	–	–	–	–	–
Funding from Trust Statement		30,390.0	–	–	30,390.0	30,390.0	–	–	30,390.0
National Insurance Fund		343.3	–	–	343.3	343.3	–	–	343.3
Supply (payable)/receivable adjustment		(29.8)	–	–	(29.8)	(48.2)	–	–	(48.2)
CFERs payable to the Consolidated Fund	5	(1.1)	–	–	(1.1)	(1.1)	–	–	(1.1)
Comprehensive Net Expenditure for the Year		(46,523.7)	(9.8)	–	(46,533.5)	(46,569.5)	(9.4)	–	(46,578.9)
Non-cash Adjustments									
Non-cash charges – auditor's remuneration	8,9	2.0	–	–	2.0	2.1	–	–	2.1
Movements in Reserves									
Transfer between reserves		43.1	(43.1)	–	–	42.8	(43.6)	0.8	–
Pension Reserve actuarial (losses)/gains		–	–	–	–	–	–	(17.7)	(17.7)
Contributions to LGPS pension fund by DWP	22	–	–	–	–	–	–	–	–
Balance at 31 March 2012		**1,023.8**	**139.7**	**–**	**1,163.5**	**1,028.7**	**141.5**	**(28.8)**	**1,141.4**

1 The 31 March 2012 Core Department Revaluation Reserve Balance comprised £44.0m in relation to Intangible Assets (31 March 2011 £76.5m, 1 April 2010 £73.2m).

2 The 31 March 2012 Consolidated Revaluation Reserve Balance comprised £45.4m in relation to Intangible Assets (31 March 2011 £77.8m, 1 April 2010 £74.8m).

** Certain prior year figures have been restated as per note 31.*

Notes to the Departmental Resource Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2011-12 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The Resource Account is prepared on a going concern basis.

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

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

1.1 Accounting convention

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

1.2 Basis of consolidation

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

A list of all those entities within the Departmental boundary is given at note 29.

1.3 Tax Credits

1.3.1 Personal Tax Credits

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

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

Personal Tax Credits expenditure is recognised in the financial year in which claims are assessed and awards authorised. Authorisation is the point at which the obligation to pay Personal Tax Credits arises; payments are provisional until entitlement is finalised after the financial year end. Expenditure recognised during the financial year (1 April to 31 March) relates to provisional awards for the current award year (6 April to 5 April) and adjustments in respect of the previous award year, following completion of the annual finalisation exercise. There is a high level of uncertainty around the level of adjustments likely to arise during the finalisation exercise and so the results of this exercise are not estimated in the current year. Estimates of these adjustments based on trend analysis would not be reliable due to changes in economic climate and scheme eligibility rules.

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Receivables and payables are recognised as appropriate. Correcting payments are made in respect of underpayments; where money is owed to the Department, the underpayment is offset against the receivable.

Overpayments are treated as other receivables and are generally recovered from future Personal Tax Credits awards or through direct repayments. Further details relating to the accounting for Personal Tax Credits receivables are provided at Note 14 – Financial Instruments.

Payments of Personal Tax Credits prior to 31 March which relate to the following award year are treated as prepayments.

1.3.2 Corporation Tax Reliefs

Certain Corporation Tax Reliefs are included in these Resource Accounts:

Research & Development Tax Credits for Small and Medium Enterprises
Film Tax Relief
Land Remediation Relief
Vaccine Research Relief
Enhanced Capital Allowances

These reliefs can contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. The negative tax elements and, where appropriate the payment of entitlement of these reliefs, are reported on the basis of estimated payments adjusted for accruals.

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

1.4 Child Benefit

Child Benefit is accounted for as a programme cost in the Consolidated Statement of Comprehensive Net Expenditure. Payments to claimants are recorded from the time a claim for Child Benefit is approved and put into payment by HMRC and thereafter as each subsequent payment falls due. Appropriate accruals and prepayment adjustments are made in respect of all payments, to ensure that the expenditure arising from the entitlement period of each payment is recorded in the correct month. These adjustments are based on the number of days of the entitlement period falling within each calendar month.

Where an overpayment of benefit is established, a debt is created and programme expenditure in the Consolidated Statement of Comprehensive Net Expenditure is reduced accordingly. Where possible, overpayment of debt is recovered from future benefit entitlement. Debt which is deemed irrecoverable is written-off in accordance with the Department's normal remission policy, and recorded as expenditure within the Consolidated Statement of Comprehensive Net Expenditure.

1.5 Child Trust Fund

Child Trust Fund endowments provided assistance with the funding of long-term individual savings and investment accounts provided by approved financial institutions. Eligibility for an endowment arose when a claim for Child Benefit was approved. All eligible children born on or after 1 September 2002 up to and including 2 January 2011 were entitled to an initial endowment. However, the entitlement for children born in the 5 months up to 2 January 2011 was awarded at a lower initial endowment rate. In addition to the initial endowment, children in families where the family income was below the income threshold for Child Tax Credit purposes in the tax year of birth also qualified for a supplementary endowment.

In addition, eligible children on reaching their seventh birthday between 1 September 2009 and 31 July 2010 were entitled to a further endowment. Eligibility for a supplementary endowment was dependent on the family income being below the threshold for Child Tax Credit purposes in the tax year in which the child became seven years old.

Eligible children in receipt of the Disability Living Allowance (DLA) paid by the Department for Work and Pensions, received an annual endowment at either a lower or higher rate, depending on the level of the DLA award. The entitlement period for this award was 6 April 2009 to 5 April 2011.

Payments due, where they remain unpaid, are recognised as either payables (amounts falling due within one year) or as a provision.

1.6 *Health in Pregnancy Grant*

The Health in Pregnancy Grant scheme, which has now ended, provided financial assistance to women to help meet the additional costs encountered during pregnancy. Eligibility for the grant arose when a woman was certified by a health professional as having reached at least her twenty-fifth week of pregnancy on or before 31 December 2010.

1.7 *Financial Instruments*

A financial instrument is a contractual obligation which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Department has no equity instruments.

In accordance with IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*, the Department's financial assets are categorised as cash and cash equivalents, receivables, deposits and advances. These are measured at fair value at the inception of the contract.

Financial liabilities are measured at fair value at the inception of the contract and comprise trade payables, other payables and the accrual for Flexible Early Severance.

Statutory charges and payments (for example, amounts due from penalty and law cost receivables) are not recognised as financial instruments as these do not arise from contractual agreements and are outside the scope of the accounting treatment for financial instruments, in accordance with IAS 32, Appendix – Application Guidance, AG12.

The carrying values of financial assets and financial liabilities are disclosed in the Consolidated Statement of Financial Position and supporting notes.

Further details can be found at note 14.

1.8 *Property, plant and equipment*

1.8.1 *General*

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

1.8.2 *Property assets*

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

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

The majority of the freehold and leasehold property assets occupied by HMRC were acquired from the predecessor Departments by Mapeley STEPS Contractor Ltd in March 2001 under a twenty-year PFI contract (see note 23.3). These assets have been capitalised as finance leases under IFRIC 12. The buildings only have been treated as finance leases and the related land has been treated as operating leases. The Department has also capitalised its seven other PFI property interests as finance leases being service concession arrangements under IFRIC 12, with the exception of Benton Park View, of which only 75 per cent has been capitalised as the

Department for Work and Pensions is the joint tenant for the remainder of the property. The Department has capitalised both its short-term leases with third-party private landlords which Mapeley manages on its behalf, and its short-term leases held directly with third-party private landlords under IAS 17 where the relevant conditions are met.

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

Accommodation refurbishments at note 12 reports expenditure in respect of major capital refurbishments and improvements of properties occupied but not owned. HMRC policy from April 2005 is to capitalise refurbishments when the project costs exceed £150,000.

1.8.3 IT assets

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

1.8.4 Furniture

For the Core Department, the value and depreciation of furniture & fittings is estimated on the basis of the average number of staff accommodated, the average current furniture costs for each employee and the useful economic life ascribed to furniture assets. The valuation of furniture is reviewed every five years. Individually these assets have a low value, but collectively are material to these accounts. This methodology provides a reliable estimation of the actual value and the depreciation that would have been charged had the Department maintained detailed records for individual items of furniture. The use of this method avoids the Department having to incur significant costs in maintaining and validating detailed records.

1.8.5 Assets under construction

Assets under construction are separately reported in note 12. Costs are accumulated until the asset is completed and brought into service when the asset is transferred to the relevant asset class and depreciation commences.

1.9 Depreciation

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

1.9.1

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

1.9.2

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

1.10 Intangible assets

1.10.1 Licences

Computer software licences with a useful economic life greater than one year are capitalised as intangible non-current assets where expenditure of £5,000 or more is incurred. Software licences are amortised over the shorter of the term of the licence and the useful economic life. Renewable software licence fees payable at regular intervals are treated as expenditure and charged to the Consolidated Statement of Comprehensive Net Expenditure.

1.10.2 Developed computer software

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

1.10.3 Intangible assets under construction

Intangible assets under construction are separately reported in note 13. Costs are accumulated until the asset is completed and brought into service when the asset is transferred to the relevant asset class and amortisation commences.

1.11 Impairments of non-financial assets

In accordance with IAS 36 impairment losses are recognised when it is identified that the carrying amount of non-financial assets may not be recoverable in full. The amount of the impairment loss is the difference between the asset's carrying value and its recoverable amount. Where an impairment results from a loss in economic value or service potential, the loss is recognised as an operating cost in the Statement of Comprehensive Net Expenditure. Any revaluation reserve associated with the impaired assets is then released to the General Fund. Impairment losses that do not result from such consumption of economic benefits are first applied against any existing amounts in the revaluation reserve before any remaining loss is recognised as an operating cost.

Non-financial assets comprise property, plant and equipment and intangible non-current assets.

Impairments of financial assets are considered under IAS 39 *Financial Instruments: Recognition and Measurement*.

1.12 Inventories

Valuation of inventories are accounting estimates determined by applying the lower of cost and net realisable value in accordance with IAS 2.

1.13 Operating income

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

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

1.14 Administration and programme expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme, income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs as agreed with HM Treasury. The basis of analysis was significantly restructured for 2011-12 and as a result the comparative figures for 2010-11 have been re-stated on the same basis (see note 32).

Administration costs reflect the costs of running the Department. These include both administrative costs and associated operating income. Income is analysed between that which, under the administration budget, is allowed to be offset against gross administrative costs in determining the outturn against the administration budget, and that operating income which is not.

Programme costs reflect non-administration costs, including Child Benefit, Child Trust Fund and Health in Pregnancy Grant payments and other disbursements by the Department. All expenditure and associated operating income for the Valuation Office Agency is treated as Programme.

1.15 Cash and cash equivalents

These are cash and bank balances in respect of administering the Department and programme expenditure including that relating to Child Benefit, Child Trust Fund and Health in Pregnancy Grant, but exclude all tax and duty revenues collected. The latter are included in the Department's Trust Statement.

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

1.16 Foreign exchange

Balances held in a foreign currency, including Euro bank balances, are translated into Sterling using the Citibank rate on the last working day of the month. Other transactions denominated in a foreign currency are translated into Sterling at the rate of exchange ruling on the date of each transaction. Any exchange rate differences are posted to an expenditure account and are therefore dealt with in the Consolidated Statement of Comprehensive Net Expenditure.

1.17 Pensions

1.17.1 Principal Civil Service Pension Scheme (PCSPS)

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

1.17.2 Local Government Pension Scheme (LGPS)

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme (LGPS). The fund is administered by London Pension Fund Authority (LPFA) and the Mayor of London appoints its trustees. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Agency. The LGPS is accounted for as a defined benefit scheme. The Annual Report and Accounts of the LPFA can be found on their website, www.lpfa.org.uk.

The pension liability recognised in the Agency's Statement of Financial Position is the present value of the defined benefit obligation associated with the Agency's employees minus the fair value of the scheme assets attributable to the Agency.

The defined benefit obligation is valued annually by an independent actuary, using the projected unit method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees. To calculate this the actuary makes assumptions about mortality rates, employee turnover rates and projections of earnings for current employees. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds denominated in sterling and having terms to maturity approximating the terms of the related pension liability.

A formal valuation of the scheme's assets and liabilities for the purpose of setting employers' contributions is carried out every three years. The last formal valuation was as at 31 March 2010. The current employer contribution rate is 22.2 per cent of pensionable pay (2010-11: 18.8 per cent).

Current service costs, interest on the scheme liabilities, gains and losses on settlements or curtailments and the expected return on assets are charged to the Consolidated Statement of Comprehensive Net Expenditure in the period in which they occur. Past service costs are recognised as operating costs immediately.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged through reserves in the period in which they arise.

As part of our Service Level Agreement with them, Department for Work and Pensions (DWP) accepts that, were the The Rent Service pension fund liability to crystallise, then DWP would accept this liability and in so far as they could fund this themselves would do so and in the event that they could not fund this would seek additional funding from HM Treasury to address any shortfall. The VOA and by extension the Department is effectively indemnified against this liability.

1.18 Operating Leases

Leases which do not constitute finance leases are regarded as operating leases and the rentals are charged to the Consolidated Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease.

1.19 Employee Benefits

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

1.20 Provisions

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

1.21 Early departure costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who take early departure or retirement under the Civil Service Compensation Scheme. The Department has made provision in full for this cost. The estimated risk-adjusted cash flows are discounted at 2.8 per cent as set by HM Treasury (2010-11: 2.9 per cent).

1.22 Impairment of doubtful debt

In accordance with IAS 39 an impairment of doubtful debt is made when considered material following assessment of the recoverability of future cash flows, for example, in respect of legal costs that have been awarded to the Department. Impairments are also made to include those made in respect of penalty receivables (note 1.24) to allow for the remission of uncollectable penalties, in respect of Child Benefit receivables (note 1.4) and Tax Credits receivables (note 1.3) to allow for potentially irrecoverable amounts. All these impairments have been estimated having regard to the level of debts not recovered (see note 1.28).

1.23 Value Added Tax

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

1.24 Tax penalty income

Income arising from the levying of tax penalties is generally treated as Consolidated Fund Extra Receipts which since 2010-11 have been reported within the Trust Statement. However, HM Treasury has given authority for certain penalties relating to Income Tax, Corporation Tax and Capital Gains Tax, to be retained by the Department, i.e. kept by the Department to fund the costs of collection and they are reported in these Resource Accounts.

Penalties relating to National Insurance Contributions do not appear in these Resource Accounts. They are accounted for as income in the Trust Statement and paid over to the National Insurance Fund.

1.25 Third-party assets

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

Details of these assets are reported in note 28.

1.26 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the Department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

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

1.27 Newly applied and future accounting policy changes

Adopted in these Financial Statements

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

- IFRS 7 Financial Instruments disclosures (annual improvements). There are increased disclosures of the nature and extent of risks arising from financial instruments;
- IAS 24 Related party disclosures (amendment). The amendments clarify the definition of a related party which is in accordance with note 27.

The HM Treasury Clear Line of Sight (CLoS) Policy aims to align budgets, Estimates and accounts. As a result there has been an impact on accounts from 1 April 2011 as follows:

- The Resource Accounts now includes the reporting of Personal Tax Credits, certain Corporation Tax Reliefs, the negative tax aspects of Payments in Lieu of Tax Relief and changes to the funding elements relating to the National Insurance Fund. The use of tax revenues to fund Tax Credits is recorded in the Trust Statement as a disbursement. Funding from the Trust Statement for Tax Credits is recorded in the Resource Accounts as financing. Prior year values have been restated to reflect these changes. Please see note 31 for further information;
- Under CLoS, the new Estimate structure and associated reporting format significantly changes the presentation of the Resource Accounts, in particular the Statement of Parliamentary Supply and the associated note that analyses the Net Outturn by section;
- In addition, other changes in the format of the Estimate include the reporting of provisions utilised. The Estimate now includes additional lines to record the utilisation of certain provisions. The prior year comparative figures have been restated for these changes.

In 2011-12, as a result of the Spending Review 2010 discussions with HM Treasury, the Department has realigned its expenditure profile between administration and programme costs. Prior year figures have been restated, please see note 32 for further details.

Effective for future Financial Years

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

- IAS 1 Presentation of financial statements (Other Comprehensive Income), (effective 1 January 2013, not yet EU adopted). This requires changes to reporting of Other Comprehensive income and HM Treasury will consider if application enhances public sector reporting;
- IAS 19 Post employment benefits (effective 1 January 2013, not yet EU adopted). This introduces a number of changes on recognition, presentation, disclosure and modifies accounting for termination benefits;
- IFRS 7 Financial Instruments Disclosures (annual improvements): (effective 1 July 2011 but not applied to *FReM*). This introduces increased disclosure requirements for transfers of financial assets outside of the Department, if appropriate;
- IFRS 9 Financial Instruments: Classification, Measurement and impairments (effective 1 January 2013). IFRS 9 is a replacement of IAS 39 and simplifies the classification and measurement of financial assets; and addresses how impairments should be calculated and recorded;
- IFRS 13 Fair Value Measurement (effective 1 January 2013, not yet EU adopted). IFRS 13 is expected to provide consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS.

1.28 *Critical accounting judgements and key sources of estimation*

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

Highlighted below are those areas involving a higher degree of judgement or complexity, or where the assumptions and estimates are significant to the Resource Accounts:

Personal Tax Credit expenditure

Personal Tax Credits consist of Working Tax Credits and Child Tax Credits. HMRC statisticians provide receivable and payable balances to move Personal Tax Credits to an accruals accounting basis. Estimates provide the split of Working Tax Credits and Child Tax Credits and the apportionment of costs to Negative Tax and Payments of Entitlement. The apportionments are estimated by modelling the tax credit systems and financial data (see note 10).

Corporation Tax Reliefs

As stated in note 1.3.2 Corporation Tax Reliefs are estimated by the Department's statisticians. The models are based on a combination of projections utilising the most recent forecasts of economic variables on which future expenditure flows depend. Due to the areas of uncertainty involved, there will inevitably be differences between the estimated forecasts and actual future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models (see note 10).

Impairment of receivables

As required by IAS 39 *Financial Instruments: Recognition and Measurement*, the Department undertakes a review of its receivable balances and estimates the level of any impairment. Impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, the calculation of which differs depending on the type of receivable. The Department undertakes a review of its receivable balances and estimates the level of any impairment. The following receivables balances have been impaired: Personal Tax Credits, Child Benefit, penalties, law costs, and other receivables (see note 18).

The impairment of penalties and law costs is calculated by using an aged receivables report extracted from the system and then applying estimated collection rates (see note 1.22).

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

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

Relatively minor adjustments in assumptions can have a significant impact on reported figures. The maximum impact of a 1 per cent change in any of the recoverability assumptions would be an increase or decrease of £15 million of the impairment.

Revaluation of assets in accordance with Modified Historic Cost Accounting

Where required, the Department has historically revalued its IT software assets on the basis of indices published by The Office for National Statistics. An appropriate index series is selected which is considered to be a useful proxy for movements on the IT software value. The most recent index series utilised is K5EX based on average wage earnings for the 'Information & Communication' sector (see note 1.10.2).

Valuation of furniture

The asset value of furniture reported is based upon an accounting estimate of the value of assets used by the Department. This estimation is dependant upon several variables: a per capita unit value for each member of staff; the ratio of staff numbers to each unit of furniture; and the life of furniture over which depreciation is charged. In 2011-12 a review of the per capita unit value was undertaken and a revised value was identified with new targets being set for the ratio of staff numbers to units of furniture with reference to Full Time Equivalents (see note 1.8.4).

Employee leave accrual

In accordance with IAS 19 *Employee Benefits*, the employee leave accrual is derived by extracting data of outstanding employee leave at the financial year end from the source HR system and applying an estimated average salary rate (see note 1.19).

Provisions and Contingent Liabilities

The Department undertakes a quarterly review of provisions and contingent liabilities. The provisions include legal claims, early departure costs, Child Trust Fund and accommodation costs. These are estimated by appropriate business areas based on the likelihood of a liability materialising. In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision is recorded if it is considered that there is a more than 50 per cent probability of an obligation arising (see note 21). If the likelihood of a liability arising is between 5 per cent and 50 per cent then a contingent liability is disclosed (see note 25).

2. Net Outturn

2.1 Analysis of net resource outturn by section

									2011-12 £m	Restated* 2010-11 £m
	Outturn							Estimate	Outturn Total compared to Estimate Net Total	Outturn
	Administration			Programme						
	Gross	Income	Net	Gross	Income	Net	Total	Net Total		Total
Spending in Departmental Expenditure Limit										
Voted:										
A HMRC Administration	961.3	(89.8)	871.5	2,528.2	(88.3)	2,439.9	3,311.4	3,353.6	42.2	3,394.3
B VOA Administration	–	–	–	201.6	(204.4)	(2.8)	(2.8)	7.0	9.8	(5.2)
C Utilised Provisions	40.9	–	40.9	15.4	–	15.4	56.3	58.3	2.0	71.0
Non-voted:										
D National Insurance Fund	50.6	–	50.6	290.1	–	290.1	340.7	347.5	6.8	360.8
Other expenditure	–	–	–	–	–	–	–	–	–	–
Annually Managed Expenditure										
Voted:										
E Social Benefits and Grants	–	–	–	12,134.5	–	12,134.5	12,134.5	12,157.0	22.5	12,145.0
F Providing payments in lieu of tax relief to certain bodies	–	–	–	101.5	–	101.5	101.5	112.3	10.8	176.9
G e-filing incentive payments	–	–	–	–	–	–	–	0.2	0.2	–
H HMRC Administration	–	–	–	4.0	–	4.0	4.0	30.0	26.0	64.7
I VOA – payments of rates to local authorities on behalf of certain bodies	–	–	–	50.4	(2.8)	47.6	47.6	48.3	0.7	39.7
J VOA Administration	–	–	–	1.1	–	1.1	1.1	2.0	0.9	5.1
K Utilised Provisions	–	–	–	(56.3)	–	(56.3)	(56.3)	(58.3)	(2.0)	(71.0)
Non-voted expenditure										
L New Tax Credits	–	–	–	29,914.3	–	29,914.3	29,914.3	30,634.0	719.7	29,404.2
M Other reliefs and allowances	–	–	–	634.4	–	634.4	634.4	606.4	(28.0)	591.6
Total	**1,052.8**	**(89.8)**	**963.0**	**45,819.2**	**(295.5)**	**45,523.7**	**46,486.7**	**47,298.3**	**811.6**	**46,177.1**

* *Certain prior year figures have been restated as per note 31 and 32.*

2.2 Analysis of net capital outturn by section

	Outturn			Estimate	2011-12 £m	Restated* 2010-11 £m
	Gross	Income	Net	Net	Outturn Net Total compared to Estimate Net Total	Outturn Net
Spending in Departmental Expenditure Limit						
Voted:						
A HMRC Administration	216.0	(1.7)	214.3	255.6	41.3	165.0
B VOA Administration	5.2	–	5.2	6.0	0.8	7.4
C Utilised Provisions	–	–	–	–	–	–
Non-voted:						
D National Insurance Fund	–	–	–	–	–	–
Other expenditure	–	–	–	–	–	–
Annually Managed Expenditure						
Voted:						
E Social Benefits and Grants	86.3	–	86.3	98.0	11.7	340.7
F Providing payments in lieu of tax relief to certain bodies	–	–	–	–	–	–
G e-filing incentive payments	–	–	–	–	–	–
H HMRC Administration	–	–	–	–	–	–
I VOA – payments of rates to local authorities on behalf of certain bodies	–	–	–	–	–	–
J VOA Administration	–	–	–	–	–	–
K Utilised Provisions	–	–	–	–	–	–
Non-voted expenditure:						
L New Tax Credits	–	–	–	–	–	–
M Other reliefs and allowances	–	–	–	–	–	–
Total	**307.5**	**(1.7)**	**305.8**	**359.6**	**53.8**	**513.1**

An explanation of material variances between the Estimate and outturn are provided in the Management Commentary on page 38.

* *Certain prior year figures have been restated as per note 31.*

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

3.1 Reconciliation of net resource outturn to net operating cost

		Note 2	2011-12 £m Outturn	Restated* 2010-11 £m Outturn
Total resource outturn in Statement of Parliamentary Supply	Budget		46,486.7	46,177.1
	Non-Budget		–	–
			46,486.7	**46,177.1**
Add:	Capital spend – Child Trust Fund		86.3	340.7
	IFRS asset costs		13.3	15.8
			99.6	**356.5**
Less:	Income payable to the Consolidated Fund		(1.1)	(17.0)
	Barter deal prepayment release		(15.7)	(9.2)
			(16.8)	**(26.2)**
Net Operating Costs in Consolidated Statement of Comprehensive Net Expenditure			**46,569.5**	**46,507.4**

3.2 Outturn against final Administration Budget and Administration net operating cost

	2011-12 £m	Restated* 2010-11 £m
Estimate – Administration costs limit[1]	**936.5**	**3,324.1**
Outturn – Gross Administration Costs	1,052.8	1,010.9
Outturn – Gross Income relating to administration costs	(89.8)	(60.1)
Outturn – Net administration costs	**963.0**	**950.8**
Reconciliation to operating costs:		
Less: provisions utilsed (transfer from Programme)	(40.9)	(58.8)
Administration Net Operating Costs	**922.1**	**892.0**
Reconciliation to the Statement of Comprehensive Net Expenditure		
Adjustments:		
Administration IFRS asset costs	39.8	48.0
Consolidation adjustments	4.1	–
Barter deal prepayment release	(15.7)	–
Administration income payable to the Consolidated Fund	(0.7)	(0.1)
National Insurance Fund Administration Costs	–	111.1
Net Administration Costs in the Consolidated Statement of Net Expenditure	**949.6**	**1,051.0**

[1] The Administration Cost Limit for 2010-11 has not been restated for the revised treatment of Administration and Programme expenditure.

** Certain prior year figures have been restated as per note 31 and 32.*

4. Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2011-12 £m	2010-11 £m
Net cash requirement – Core Department and Agency	(15,882.7)	(16,163.7)
From the Consolidated Fund (Supply) – current year	15,908.6	16,164.2
From the Consolidated Fund (Supply) – prior year	–	–
Amounts due to the Consolidated Fund received in a prior year and paid over	(5.6)	(16.7)
Amounts due to the Consolidated Fund received and not paid over	0.1	5.6
Increase/(decrease) in cash held by Core Department and Agency	**20.4**	**(10.6)**

5. Income payable to the Consolidated Fund

5.1 Analysis of income payable to the Consolidated Fund

	Outturn 2011-12 £m		Outturn 2010-11 £m	
	Income	***Receipts***	**Income**	***Receipts***
Operating income outside the ambit of the Estimate[1]	(1.1)	*(1.1)*	(17.0)	*(17.0)*
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total income payable to the Consolidated Fund	**(1.1)**	***(1.1)***	**(17.0)**	***(17.0)***

5.2 Consolidated Fund Income

Consolidated Fund income shown in note 5.1 above does not include any amounts collected by the Department where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the Department's Trust Statement, see pages 119-149.

1 2010-11 includes £11.2m relating to changes to pension scheme benefits shown as 'Past Service Gains' in note 22. With the agreement of HM Treasury this non-cash item does not need to be paid to the Consolidated Fund.

6. Statement of Operating Costs by Operating Segment

Following the ending of the performance regime of Public Service Agreements and Departmental Strategic Objectives this note apportions current expenditure against the Operating Segments that are the main areas of business activity.

The reportable segments are the lines of business that are reported to the Chief Executive and the Board. These segments are the strands of activity in the management information reviewed by the Board and used by them to make decisions, presented as the Management Accounts and reported here in the same format. Other Segments includes Permanent Secretary for Tax, HMRC Central and HMRC Change Programme.

Management Accounts are prepared for expenditure and income which is reported to the Chief Executive and the Board. Information on all other net expenditure is included in note 6.1. This information is reported to the Board, however as it is Annually Managed Expenditure it is centrally managed and is reported in a different format than the reportable segments in the Management Accounts which compares budgeted spend to actual spend at the segment level.

	Gross Expenditure £m	Income £m	2011-12 Net Expenditure £m
Reportable Segment			
Benefits and Credits	155.0	(1.0)	154.0
Business Tax	224.3	(10.1)	214.2
Enforcement and Compliance	1,025.9	(23.0)	1,002.9
Personal Tax	793.8	(60.1)	733.7
Finance and Estates	527.6	(20.2)	507.4
Information Technology	1,032.9	(48.3)	984.6
Legal	62.3	(3.5)	58.8
People Function and Corporate Communications	111.0	(11.0)	100.0
Other Segments	87.6	(2.5)	85.1
Total	**4,020.4**	**(179.7)**	**3,840.7**

	Gross Expenditure £m	Income £m	2010-11 Net Expenditure £m
Reportable Segment			
Benefits and Credits	164.1	–	164.1
Business Tax	264.0	(15.6)	248.4
Enforcement and Compliance	1,027.4	(23.3)	1,004.1
Personal Tax	747.7	(65.5)	682.2
Finance and Estates	628.9	(19.7)	609.2
Information Technology	1,049.4	(28.0)	1,021.4
Legal	57.8	(2.6)	55.2
People Function	73.7	(0.8)	72.9
Other Segments[1]	75.0	(357.6)	(282.6)
Total	**4,088.0**	**(513.1)**	**3,574.9**

[1] Income reported in Other Segments for 2010-11 consisted mainly of Administration Charges to the National Insurance Fund that are now treated as funding in 2011-12.

6.1 *Reconciliation between Segment Information and Net Operating Cost in the Consolidated Statement of Comprehensive Net Expenditure and Note 2*

	2011-12 £m	Restated* 2010-11 £m
Total net expenditure reported by segment	**3,840.7**	**3,574.9**
Valuation Office Agency	(1.7)	(16.6)
Payments in lieu of tax relief	98.6	176.9
Payments of Local Authority Rates	47.5	39.6
Child Benefit, Child Trust Fund and Health in Pregnancy Grant	12,250.6	12,487.7
Personal Tax Credits	29,914.3	29,404.2
Corporation Tax Credits	623.8	579.1
Other Income Tax reliefs	11.6	10.6
NIF Related Elements[2]	–	409.9
IFRS elements not included in Management Accounts	13.3	15.8
Exclusion of capital expenditure reported in Management Accounts	(216.0)	(165.3)
Remaining reconciling items	(13.2)	(9.4)
Net Operating Cost per Statement of Comprehensive Net Expenditure	**46,569.5**	**46,507.4**
Capital spend – Child Trust Fund	(86.3)	(340.7)
Income payable to the Consolidated Fund	1.1	17.0
Other	2.4	(6.6)
Net Outturn per Statement of Parliamentary Supply	**46,486.7**	**46,177.1**

[2] This consists mainly of the restatement of the Department's treatment of the costs of collection in respect of the NIF, which is now treated as funding rather than income.

* *Certain prior year figures have been restated as per note 31.*

Explanation of the significant variances between 2011-12 and 2010-11 Management Accounts

The net spend of the Department overall as shown in the Management Accounts has increased from £3,574.9m to £3,840.7m. The significant variances are as follows:

- Business Tax – decrease in gross expenditure of £39.7m (15.0 per cent) mainly relates to a decrease in Shipbuilders' Relief. This is due to a reduction in the claims received;
- Finance and Estates – decrease in expenditure of £101.3m (16.1 per cent). This is due to a reduction in printing, postage and stationery costs which has been delegated to other business areas and Estates rationalisation is reducing the estate related costs;
- People Function and Corporate Communications – increase in expenditure of £37.3m (50.6 per cent). This is mainly due to the inclusion of Corporate Communications, an increase in severance payments and increased contracted out services (including Civil Service Shared Expert Services for Learning, Policy and Resourcing);
- Personal Tax – increase in expenditure of £46.1m (6.2 per cent). This is mainly due to an increase in paybill as a result of additional investment funding received to reduce workload backlogs;
- Business Tax – decrease in income of £5.5m (35.2 per cent). This is primarily due to a decrease in Shipbuilders' Relief recovered;
- Information Technology – increase in income of £20.3m (72.5 per cent). This is primarily due to recovery of accommodation costs from the 3rd party IT supplier;
- Other – decrease in income of £355.1m. This is primarily due to a change in the treatment of the NIF which is now recorded as funding rather than income;
- People Function and Corporate Communications – increase in income of £10.2m. This is due to the inclusion of Civil Service Resourcing (CSR) in People Function accounts. CSR is hosted by HMRC, and receives income from Government departments for providing centralised recruitment and related services for the Civil Service.

7. Staff numbers and related costs

Staff costs comprise:

	2011-12 £m			2010-11 £m
	Total[1]	Permanently employed staff	Others	Total
Wages and salaries	1,876.9	1,827.6	49.3	1,883.9
Social security costs	132.4	129.3	3.1	133.0
Other pension costs	330.3	327.9	2.4	343.2
Sub Total	**2,339.6**	**2,284.8**	**54.8**	**2,360.1**
Less recoveries in respect of outward secondments	(2.9)	(2.9)	–	(3.0)
Total net costs[2]	**2,336.7**	**2,281.9**	**54.8**	**2,357.1**
Of which:				
Core Department	**2,196.5**	**2,143.5**	**53.0**	**2,218.7**

1 Staff consist entirely of officials.
2 In 2010-11 and 2011-12 there was no charge to capital.

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HMRC is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2011-12, employers' contributions of £328,372,539 were payable to the PCSPS (2010-11: £340,094,640) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £678,178 (2010-11: £626,477) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £47,362, 0.8 per cent of pensionable pay (2010-11: £44,811, 0.8 per cent of pensionable pay), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

Contributions due to the partnership pension providers at the reporting period date were £153,380. Contributions prepaid at that date were nil.

85 persons (2010-11: 131 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £121,509 (2010-11: £203,661).

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Details of this scheme can be found in note 1.17.2 and note 22.

Average number of persons employed

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

	2011-12 Number			2010-11 Number
	Total	Permanently employed staff	Others	Total
Core Department	67,004	64,483	2,521	67,748
Valuation Office Agency	3,563	3,535	28	3,820
Staff engaged on capital projects	–	–	–	–
Total	**70,567**	**68,018**	**2,549**	**71,568**

7.1 *Reporting of Civil Service and other compensation schemes – exit packages*

Comparative data shown in brackets for previous year.

		Core Department			Core Department & Agency		
1	**Exit package cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**
2	<£10,000	6 (5)	4 (25)	10 (30)	6 (5)	5 (48)	11 (53)
3	£10,000 – £25,000	1 (8)	59 (76)	60 (84)	12 (8)	77 (230)	89 (238)
4	£25,000 – £50,000	– (1)	96 (101)	96 (102)	4 (1)	116 (140)	120 (141)
5	£50,000 – £100,000	– (1)	116 (58)	116 (59)	– (1)	129 (86)	129 (87)
6	£100,000 – £150,000	– (–)	72 (15)	72 (15)	– (–)	76 (19)	76 (19)
7	£150,000 – £200,000	– (–)	13 (2)	13 (2)	– (–)	13 (2)	13 (2)
8	£200,000+	– (–)	11 (3)	11 (3)	– (–)	11 (3)	11 (3)
9	Total number of exit packages by type	**7 (15)**	**371 (280)**	**378 (295)**	**22 (15)**	**427 (528)**	**449 (543)**
10	Total resource cost	**£66,481** (£268,041)	**£26,941,896** (£12,124,327)	**£27,008,377** (£12,392,368)	**£394,481** (£268,041)	**£29,365,896** (£18,064,327)	**£29,760,377** (£18,332,368)

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year in which the obligation becomes binding on the Department. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

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

The costs above include no ex-gratia payments, but include one special severance payment of £100k made by the Valuation Office Agency with approval of HM Treasury.

8. Other Administration Costs

	Note	Core Department		2011-12 £m Core Department & Agency		Core Department		Restated* 2010-11 £m Core Department & Agency	
Rentals under operating leases:									
Hire of plant and machinery		1.8		1.8		–		–	
Other operating leases		13.3		13.3		19.1		19.1	
			15.1		15.1		19.1		19.1
Interest charges:									
Finance lease contracts		43.5		43.5		50.3		50.3	
			43.5		43.5		50.3		50.3
PPP and PFI service charges:									
IT Service PPP contract payments		197.7		197.7		175.9		175.9	
Accommodation PFI contract payments[1]		112.4		112.4		123.2		123.2	
Indexation of liability on PFI deals		2.5		2.5		6.8		6.8	
			312.6		312.6		305.9		305.9
Non-cash items:									
Depreciation		68.5		68.5		82.6		82.6	
Amortisation		46.5		46.5		28.5		28.5	
Profit on disposal of property, plant and equipment		(0.3)		(0.3)		(0.1)		(0.1)	
Loss on disposal of property, plant and equipment		0.9		0.9		1.5		1.5	
Net revaluation loss		–		–		–		–	
Auditor's remuneration and expenses		2.0		2.0		1.8		1.8	
			117.6		117.6		114.3		114.3
Other expenditure:									
Travel, subsistence and hospitality		9.6		9.6		9.9		9.9	
Accommodation expenses		73.9		73.8		73.4		73.4	
Administrative staff related costs		0.7		0.7		0.4		0.4	
Printing, postage, stationery and office supplies		22.1		22.1		27.5		27.5	
Telephone expenses		41.3		41.3		34.1		34.1	
IT services and consumables		13.7		13.7		28.7		28.7	
Legal costs		0.1		0.1		0.5		0.5	
Consultancy		0.7		0.7		7.4		7.3	
Contracted out services		19.1		19.0		19.8		19.5	
Publicity		4.1		4.1		4.0		4.0	
Bank charges		9.8		9.8		15.8		15.8	
Other miscellaneous expenditure		12.3		12.3		15.6		15.6	
			207.4		207.2		237.1		236.7
Total			**696.2**		**696.0**		**726.7**		**726.3**

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

* *Certain prior year figures have been restated as per note 32. The split between Other Administration Costs and Programme Costs has been recorded accurately for 2011-12, however the figures restated for 2010-11 were not recorded using the same methodology and whilst expenditure in total for each expenditure category will be accurate there may be slight inconsistencies at this detailed level when making comparisons between Other Administration Costs and Programme costs.*

9. Programme Costs

	Note	Core Department	2011-12 £m Core Department		2011-12 £m Core Department & Agency	Core Department	Restated* 2010-11 £m Core Department		Restated* 2010-11 £m Core Department & Agency
Tax Credits									
Personal Tax Credits	10	29,914.3		29,914.3		29,404.2		29,404.2	
Corporation Tax Credits	10	623.8		623.8		579.1		579.1	
			30,538.1		30,538.1		29,983.3		29,983.3
Child Benefit, Child Trust Fund and Health in Pregnancy Grant									
Child Benefit		12,221.7		12,221.7		12,048.5		12,048.5	
Guardians Allowance (Funded from NIF)		2.0		2.0		2.0		2.0	
Child Trust Fund Endowments		–		–		226.6		226.6	
Health in Pregnancy Grant		(0.9)		(0.9)		104.3		104.3	
			12,222.8		12,222.8		12,381.4		12,381.4
Payments in lieu of tax relief									
Life Assurance Premium Relief, MIRAS		11.6		11.6		14.2		14.2	
Transitional payments to charities		48.6		48.6		123.2		123.2	
Stakeholder pensions		50.0		50.0		50.0		50.0	
			110.2		110.2		187.4		187.4
Payments of Local Authority Rates									
Payments of Local Authority Rates (POLAR)		–		50.4		–		42.0	
			–		50.4		–		42.0
Rentals under operating leases:									
Hire of plant and machinery		(0.9)		(0.9)		1.4		1.4	
Other operating leases		11.0		11.4		2.3		2.7	
			10.1		10.5		3.7		4.1
Interest charges:									
Finance lease contracts		8.6		8.6		8.9		8.9	
			8.6		8.6		8.9		8.9
PPP and PFI service charges:									
IT Service PPP contract payments		235.9		246.4		298.0		308.2	
Accommodation PFI contract payments[1]		54.6		64.4		53.2		63.7	
			290.5		310.8		351.2		371.9
Other Programme Costs									
Travel, subsistence and hospitality		30.1		35.0		29.4		34.0	
Accommodation expenses		34.8		45.3		39.6		49.7	
Administrative staff related costs		0.1		0.6		0.1		0.9	
Printing, postage, stationery and office supplies		49.0		50.5		48.8		50.1	
Telephone expenses		17.5		18.9		16.6		17.1	
IT services and consumables		41.1		42.5		1.0		2.1	
Consultancy		0.4		0.4		1.5		2.8	
Contracted out services		16.4		17.0		12.9		13.4	
Publicity		0.1		0.2		–		2.0	
Post Office services		12.7		12.7		14.8		14.8	
Legal and Investigation		49.1		49.2		41.6		41.9	
Shipbuilders' Relief		9.2		9.2		40.6		40.6	
Enforcement Costs		18.9		18.9		19.5		19.5	
Business Link Payments		32.3		32.3		37.1		37.1	
Bank charges via GBS		10.0		10.0		5.4		5.4	
NIF OGD Costs		57.7		57.7		55.7		55.7	
Other programme expenditure		97.5		92.4		90.5		82.8	
			476.9		492.8		455.1		469.9

9. Programme Costs (continued)

	Note				2011-12 £m Core Department & Agency				Restated* 2010-11 £m Core Department & Agency
	Note	Core Department			Core Department & Agency	Core Department			Core Department & Agency
Non-cash items									
Depreciation		4.6		8.2		6.2		9.2	
Amortisation		138.2		142.7		146.7		150.7	
Net revaluation loss/(gain)		(5.7)		(5.7)		–		–	
Net loss/(profit) on impairment of non-current assets		–		3.2		40.0		41.2	
(Profit)/Loss on disposal of property, plant and equipment		(1.6)		(1.6)		0.1		0.2	
Auditor's remuneration and expenses		–		0.1		–		0.1	
Other Pension Finance Costs	22	–		(0.8)		–		(12.0)	
Provision provided for in year	21								
Child Trust Fund		–		–		106.3		106.3	
Amounts provided for early departure costs		1.7		2.7		(3.2)		1.9	
Borrowing costs (Unwinding of discount) on provisions	21	2.4		2.5		2.2		2.2	
Other programme provisions		10.4		10.4		25.7		25.8	
			150.0		161.7		324.0		325.6
Total			43,807.2		43,905.9		43,695.0		43,774.5

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

Child Trust Fund Endowments and Health in Pregnancy Grant

Child Trust Fund endowments ceased for children born after 3 January 2011. The additional yearly payment to children qualifying for Disability Living Allowance ceased from 6 April 2011. Entitlement to Health in Pregnancy Grant ceased on 31 December 2010.

* *Certain prior year figures have been restated as per note 32. The split between Other Administration Costs and Programme Costs has been recorded accurately for 2011-12, however the figures restated for 2010-11 were not recorded using the same methodology and whilst expenditure in total for each expenditure category will be accurate there may be slight inconsistencies at this detailed level when making comparisons between Other Administration Costs and Programme Costs.*

10. Tax Credits

10.1 Analysis of Personal Tax Credit Expenditure:

	Child Tax Credits 2011-12 £m	Working Tax Credits 2011-12 £m	Total Tax Credits 2011-12 £m	Restated* Child Tax Credits 2010-11 £m	Restated* Working Tax Credits 2010-11 £m	Restated* Total Tax Credits 2010-11 £m
Tax Credits treated as Negative Taxation	3,367.1	1,052.6	4.419.7	3,901.0	1,484.2	5,385.2
Tax Credits treated as Payments of Entitlement	18,668.7	5,836.0	24,504.7	16,600.4	6,315.8	22,916.2
	22,035.8	**6,888.6**	**28,924.4**	**20,501.4**	**7,800.0**	**28,301.4**
Movement in impairment for doubtful debt	(396.8)	(287.7)	(684.5)	369.1	109.1	478.2
Write-offs	1,276.3	398.1	1,674.4	449.7	174.9	624.6
Total Tax Credits	**22,915.3**	**6,999.0**	**29,914.3**	**21,320.2**	**8,084.0**	**29,404.2**

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

Please see note 1.28 for the Estimation techniques used to determine the values for Negative Taxation and the Payments of Entitlement and how these are apportioned between Child Tax Credits and Working Tax Credits.

10.2 Personal Tax Credit Receivables

	Note	2011-12 £m	Restated* 2010-11 £m
Receivables as at 1 April		**4,676.6**	**4,460.6**
Overpayments identified on finalisation of awards		829.9	653.4
Overpayments identified from change of circumstances in year		1,019.1	952.7
Recoveries made		(837.7)	(765.5)
Remissions/Write-offs		(1,674.4)	(624.6)
Receivables as at 31 March		**4,013.5**	**4,676.6**
Provision for impairment for doubtful debt		(2,274.8)	(2,959.3)
Net Total	18	**1,738.7**	**1,717.3**

As a result of the finalisation exercise undertaken in 2011-12 further overpayments relating to tax credits paid in 2010-11 totalling £765.6m were identified. Adjustments made to payments in 2003-04 through to 2009-10 resulted in overpayments totalling £64.3m. These have been accounted for in 2011-12.

In accordance with the accounting policy for Personal Tax Credits (see note 1.3.1), amounts under or over paid in 2011-12 and identified during the finalisation exercise being undertaken in 2012-13 are not included in the above figures.

Remissions and write-offs in 2011-12 include £32.3m written-off in respect of organised fraud identified during the year.

10.3 Personal Tax Credits Error and Fraud

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

In June 2012, HMRC completed its testing on finalised awards for 2010-11, based on a random sample of some 4,000 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £2.08 billion and £2.46 billion (7.5 per cent to 8.8 per cent of the final award by value) being paid to claimants to which they were not entitled. In addition, HMRC estimates that error resulted in underpayments to claimants of between £170 million and £290 million (0.6 per cent to 1.0 per cent of the final award by value) to which they were entitled.

10.4 Corporation Tax Reliefs

	2011-12 £m	Restated* 2010-11 £m
Research & Development Tax Credits – Small & Medium Enterprises	368.9	334.6
Land Remediation Relief	38.6	48.6
Vaccine Research Relief	2.7	2.6
Film Tax Relief	213.6	193.3
Enhanced Capital Allowance	–	–
Total	**623.8**	**579.1**

10.5 Use of Estimates

Statistical models are used to derive certain estimated values. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns (see note 1.3 and 1.28).

* *Certain prior year figures have been restated as per note 31.*

11. Income

	2011-12 £m		Restated* 2010-11 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Administration Services	(57.1)	(52.9)	(41.2)	(38.4)
Banking Services	(16.3)	(16.3)	(14.4)	(14.4)
Other Income Types	(25.9)	(28.9)	(17.8)	(17.8)
Penalties	(50.0)	(50.0)	(54.6)	(54.6)
Subscriptions and Fees	(19.7)	(19.7)	(17.6)	(17.6)
IT and Telephony Charges	(10.1)	(10.1)	(13.4)	(13.4)
VOA Services	–	(194.1)	–	(197.3)
	(179.1)	**(372.0)**	**(159.0)**	**(353.5)**

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

	2011-12 £m			Restated* 2010-11 £m		
	Income	**Full Cost**	**Surplus/ (Deficit)**	**Income**	**Full Cost**	**Surplus/ (Deficit)**
Fees and Charges raised by the Valuation Office Agency (VOA)						
Rating & Council Tax	(161.8)	160.5	1.3	(160.8)	156.6	4.2
National & Central Services	(11.9)	12.1	(0.2)	(12.8)	12.7	0.1
Commercial Services	(15.5)	15.5	–	(16.6)	16.6	–
Local Housing Allowances & Fair Rents	(15.2)	14.9	0.3	(19.4)	7.2	12.2
Fees and Charges raised by the Core Department						
International Assistance[1]	(0.8)	2.4	(1.6)	(1.0)	2.6	(1.6)
Money Laundering Regime	(7.2)	7.3	(0.1)	(7.6)	7.5	0.1
Bank charges via GBS	(15.3)	18.9	(3.6)	(14.2)	15.5	(1.3)
National Minimum Wage	(7.0)	6.9	0.1	(7.8)	7.6	0.2
Collection of Student Loans	(5.6)	5.7	(0.1)	(5.0)	5.1	(0.1)
DWP Welfare Reform Agenda	(2.7)	2.7	–	(3.1)	3.1	–
DWP Pensions Reform Delivery Programme	(3.2)	3.1	0.1	(5.0)	5.0	–
Services provided to the Valuation Office Agency	(4.3)	4.3	–	(6.3)	6.3	–
Method of Payment Reform Programme	–	–	–	(1.2)	1.2	–
UK Border Agency	(24.6)	24.6	–	(16.6)	16.6	–
Child Maintenance and Enforcement Commission	(1.7)	1.7	–	(5.0)	5.0	–
Additional Statutory Paternity Pay	(1.5)	1.5	–	(1.6)	1.6	–
Civil Service Resourcing	(10.3)	10.3	–	–	–	–
Accommodation Recharges	(13.9)	13.9	–	–	–	–
Total	**(302.5)**	**306.3**	**(3.8)**	**(284.0)**	**270.2**	**13.8**

[1] For this service it is not the financial objective to recover the full costs.
* *Certain prior year figures have been restated as per note 31.*

12. Property, plant and equipment

	Land[1]	Buildings[1]	Accommodation Refurbishments[1]	Office & Computer Equipment	Vehicles	Furniture & Fittings[2]	Assets under Construction	Scientific Aids	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or valuation									
At 1 April 2011	24.0	596.2	145.4	359.6	16.8	58.4	30.6	6.7	1,237.7
Additions	–	–	–	33.9	4.6	1.7	9.6	0.9	50.7
Disposals	–	(26.3)	(6.7)	(116.0)	(1.7)	(1.6)	–	(2.9)	(155.2)
Impairments	–	–	–	(0.1)	–	–	–	–	(0.1)
Reclassifications[3]	–	–	26.0	0.4	–	0.6	(29.6)	2.0	(0.6)
Revaluation[4]	4.9	(47.7)	0.2	–	(3.9)	(3.0)	–	–	(49.5)
At 31 March 2012	**28.9**	**522.2**	**164.9**	**277.8**	**15.8**	**56.1**	**10.6**	**6.7**	**1,083.0**
Depreciation									
At 1 April 2011	–	(267.8)	(75.1)	(274.9)	(12.0)	(23.5)	–	(3.8)	(657.1)
Charged in year	–	(22.7)	(11.4)	(35.6)	(1.3)	(3.8)	–	(1.9)	(76.7)
Disposals	–	13.6	6.4	115.7	1.6	1.1	–	2.9	141.3
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–
Revaluation[4]	–	39.8	(0.1)	–	4.5	1.4	–	–	45.6
At 31 March 2012	**–**	**(237.1)**	**(80.2)**	**(194.8)**	**(7.2)**	**(24.8)**	**–**	**(2.8)**	**(546.9)**
Carrying amount at 31 March 2011	**24.0**	**328.4**	**70.3**	**84.7**	**4.8**	**34.9**	**30.6**	**2.9**	**580.6**
Carrying amount at 31 March 2012	**28.9**	**285.1**	**84.7**	**83.0**	**8.6**	**31.3**	**10.6**	**3.9**	**536.1**
Asset financing:									
Owned	28.9	–	84.7	29.7	8.6	31.3	10.6	3.9	197.7
Finance leased	–	–	–	53.3	–	–	–	–	53.3
On-Statement of Financial Position PFI contracts	–	285.1	–	–	–	–	–	–	285.1
Carrying amount at 31 March 2012	**28.9**	**285.1**	**84.7**	**83.0**	**8.6**	**31.3**	**10.6**	**3.9**	**536.1**
Of the total:									
Core Department at 31 March 2012	28.9	284.5	81.9	79.0	8.6	28.8	9.2	3.9	524.8
Valuation Office Agency at 31 March 2012	–	0.6	2.8	4.0	–	2.5	1.4	–	11.3
Carrying amount at 31 March 2012	**28.9**	**285.1**	**84.7**	**83.0**	**8.6**	**31.3**	**10.6**	**3.9**	**536.1**
Cost or valuation									
At 1 April 2010	24.0	605.6	145.0	399.4	17.7	66.8	38.2	8.5	1,305.2
Additions	–	–	0.1	30.8	0.1	1.6	2.9	0.1	35.6
Disposals	–	(9.1)	(6.7)	(75.0)	(2.0)	(13.7)	–	(2.6)	(109.1)
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications[3]	–	(0.3)	6.8	1.3	–	4.0	(10.5)	0.7	2.0
Revaluation[4]	–	–	0.2	3.1	1.0	(0.3)	–	–	4.0
At 31 March 2011	**24.0**	**596.2**	**145.4**	**359.6**	**16.8**	**58.4**	**30.6**	**6.7**	**1,237.7**
Depreciation									
At 1 April 2010	–	(246.1)	(70.8)	(301.7)	(11.5)	(30.5)	–	(4.1)	(664.7)
Charged in year	–	(25.8)	(10.4)	(47.2)	(2.3)	(3.9)	–	(2.2)	(91.8)
Disposals	–	4.3	5.9	74.2	1.8	10.7	–	2.5	99.4
Impairments	–	–	–	–	–	–	–	–	–
Reclassifications[3]	–	(0.2)	0.2	–	–	–	–	–	–
Revaluation[4]	–	–	–	(0.2)	–	0.2	–	–	–
At 31 March 2011	**–**	**(267.8)**	**(75.1)**	**(274.9)**	**(12.0)**	**(23.5)**	**–**	**(3.8)**	**(657.1)**

12. Property, plant and equipment (continued)

	Land[1]	Buildings[1]	Accommodation Refurbishments[1]	Office & Computer Equipment	Vehicles	Furniture & Fittings[2]	Assets under Construction	Scientific Aids	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Carrying amount at 31 March 2010	**24.0**	**359.5**	**74.2**	**97.7**	**6.2**	**36.3**	**38.2**	**4.4**	**640.5**
Carrying amount at 31 March 2011	**24.0**	**328.4**	**70.3**	**84.7**	**4.8**	**34.9**	**30.6**	**2.9**	**580.6**
Asset financing:									
Owned	24.0	–	70.3	21.7	4.8	34.9	30.6	2.9	189.2
Finance leased	–	–	–	63.0	–	–	–	–	63.0
On-Statement of Financial Position PFI contracts	–	328.4	–	–	–	–	–	–	328.4
Carrying amount at 31 March 2011	**24.0**	**328.4**	**70.3**	**84.7**	**4.8**	**34.9**	**30.6**	**2.9**	**580.6**
Of the total:									
Core Department at 31 March 2011	24.0	327.7	67.3	80.5	4.8	32.6	28.6	2.9	568.4
Valuation Office Agency at 31 March 2011	–	0.7	3.0	4.2	–	2.3	2.0	–	12.2
Carrying amount at 31 March 2011	**24.0**	**328.4**	**70.3**	**84.7**	**4.8**	**34.9**	**30.6**	**2.9**	**580.6**

[1] See note 1.8.2 for the accounting policy for property assets.
[2] See note 1.8.4 for the accounting policy for furniture.
[3] See note 13.
[4] See notes 1.1 and 1.8 for the accounting policy regarding revaluation of property, plant and equipment.

Freehold Land and Buildings 100 Parliament Street

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

Leased Land and Buildings

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

13. Intangible assets

	Licences £m	Software[1] £m	Website Development[1] £m	Assets under Construction £m	Total £m
Cost or valuation					
At 1 April 2011	35.8	2,137.0	–	135.6	2,308.4
Additions	0.7	0.2	–	189.5	190.4
Disposals	–	(21.9)	–	–	(21.9)
Impairments	–	(3.7)	–	–	(3.7)
Reclassifications[2]	–	161.1	2.0	(162.5)	0.6
Revaluation[3]	–	0.4	–	–	0.4
At 31 March 2012	**36.5**	**2,273.1**	**2.0**	**162.6**	**2,474.2**
Amortisation					
At 1 April 2011	(22.2)	(1,079.0)	–	–	(1,101.2)
Charged in year	(4.2)	(184.8)	(0.2)	–	(189.2)
Disposals	–	21.6	–	–	21.6
Impairments	–	0.5	–	–	0.5
Reclassifications	–	–	–	–	–
Revaluation[3]	–	(0.1)	–	–	(0.1)
At 31 March 2012	**(26.4)**	**(1,241.8)**	**(0.2)**	**–**	**(1,268.4)**
Carrying amount at 31 March 2011	**13.6**	**1,058.0**	**–**	**135.6**	**1,207.2**
Carrying amount at 31 March 2012	**10.1**	**1,031.3**	**1.8**	**162.6**	**1,205.8**
Asset financing:					
Owned	9.8	1,031.2	1.8	162.6	1,205.4
On-Statement of Financial Position PFI contracts	0.3	0.1	–	–	0.4
Carrying amount at 31 March 2012	**10.1**	**1,031.3**	**1.8**	**162.6**	**1,205.8**
Of the total:					
Core Department at 31 March 2012	10.1	1,009.6	1.8	159.6	1,181.1
Valuation Office Agency at 31 March 2012	–	21.7	–	3.0	24.7
Carrying amount at 31 March 2012	**10.1**	**1,031.3**	**1.8**	**162.6**	**1,205.8**
Cost or valuation					
At 1 April 2010	37.6	1,920.7	–	182.7	2,141.0
Additions	3.7	0.5	–	160.9	165.1
Disposals	(5.5)	(59.0)	–	–	(64.5)
Impairments	–	(56.1)	–	–	(56.1)
Reclassifications[2]	–	206.0	–	(208.0)	(2.0)
Revaluation[3]	–	124.9	–	–	124.9
At 31 March 2011	**35.8**	**2,137.0**	**–**	**135.6**	**2,308.4**
Amortisation					
At 1 April 2010	(24.1)	(917.6)	–	–	(941.7)
Charged in year	(3.6)	(175.6)	–	–	(179.2)
Disposals	5.5	59.0	–	–	64.5
Impairments	–	14.9	–	–	14.9
Reclassifications	–	–	–	–	–
Revaluation[3]	–	(59.7)	–	–	(59.7)
At 31 March 2011	**(22.2)**	**(1,079.0)**	**–**	**–**	**(1,101.2)**
Carrying amount at 31 March 2010	**13.5**	**1,003.1**	**–**	**182.7**	**1,199.3**
Carrying amount at 31 March 2011	**13.6**	**1,058.0**	**–**	**135.6**	**1,207.2**
Asset financing:					
Owned	13.2	1,057.8	–	135.6	1,206.6
On-Statement of Financial Position PFI contracts	0.4	0.2	–	–	0.6
Carrying amount at 31 March 2011	**13.6**	**1,058.0**	**–**	**135.6**	**1,207.2**
Of the total:					
Core Department at 31 March 2011	13.6	1,031.7	–	132.4	1,177.7
Valuation Office Agency at 31 March 2011	–	26.3	–	3.2	29.5
Carrying amount at 31 March 2011	**13.6**	**1,058.0**	**–**	**135.6**	**1,207.2**

1 Website development costs incurred prior to 2011-12 are reported within the cost of related software assets. Website development costs incurred from 2011-12 have been separately identified and reported.
2 See note 12.
3 See notes 1.1 and 1.10 for the accounting policy regarding revaluation of intangible assets.

14. Financial Instruments

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

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

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

14.a Credit Risk

The Department's objective is full recovery of debt and we actively pursue this recovery. Our policy is to operate normal credit control procedures for the management of risk of default by trade receivables through our Accounts Receivable function. Deposits and advances are recovered on completion of successful litigation.

Due to the nature of trade and other receivables, the Department views the credit risk associated with these receivables as negligible. No provision for impairment of debt is made in respect of other government departments. An appropriate impairment of receivables in respect of other areas is made where required taking into account recoverability.

14.b Collateral and other credit enhancements obtained

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

14.c Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk and interest rate risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Department is exposed to negligible currency risk and therefore does not undertake hedging operations. Currency transactions are translated at the spot rate on the transaction date. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Department does not face an interest rate risk as it has no investments or borrowings and its operations are financed by the Exchequer.

14.d Embedded Derivatives

The Department has conducted a review of all its material contracts and has concluded that there are no separable material embedded derivatives which require disclosure. The Department continues to monitor the position regarding embedded derivatives on a regular basis.

14.e Fair Value

The value of financial assets and financial liabilities carried at amortised cost is deemed to be a reasonable approximation of their fair value. In respect of Personal Tax Credit receivables, these have not been discounted to present value as it has been concluded that the effect would not be material and there is fundamental uncertainty in the estimate of future inflows which would make any such discounting insufficiently reliable. Further information in relation to Personal Tax Credits can be seen in note 1.3.1, note 10 and note 18. Assumptions on the recoverability of receivable balances are reviewed on an annual basis and appropriate adjustments for impairment are made.

14.f Capital disclosures

This section is not applicable to the Department.

15. Investments in other public sector bodies

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

16. Impairments

The Department conducts an annual impairment review and in 2011-12 no impairments have been made by the Core Department. In 2011-12 all impairments related to the Valuation Office Agency and full details can be found within the Valuation Office Agency account that can be viewed at www.voa.gov.uk

		Impairment taken through the Revaluation Reserve £m		Impairment charged to the Consolidated Statement of Comprehensive Net Expenditure £m	
	Note	**Core Department**	**Core Department & Agency**	**Core Department**	**Core Department & Agency**
Property, plant and equipment	12	–	–	–	0.1
Intangible assets	13	–	–	–	3.1
Impairment charged for the year ended 31 March 2012		–	–	–	**3.2**

		£m		£m	
		Core Department	**Core Department & Agency**	**Core Department**	**Core Department & Agency**
Property, plant and equipment	12	–	–	–	–
Intangible assets	13	–	–	40.0	41.2
Impairment charged for the year ended 31 March 2011		–	–	**40.0**	**41.2**

17. Inventories

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

	2011-12 £m		2010-11 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Inventories	–	2.2	–	2.6
	–	**2.2**	–	**2.6**

18. Trade receivables and other current assets

	2011-12 £m		Restated* 2010-11 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Amounts falling due within one year:				
Trade receivables	–	4.3	–	4.7
Deposits and advances	31.6	30.8	25.5	25.4
Value added tax	16.4	16.4	18.9	18.9
Other receivables – excluding Child Benefit, CTF, HiPG and Tax Credits[1]	9.6	8.0	10.9	11.5
Other receivables – Child Benefit, CTF and HiPG[2]	10.3	10.3	27.1	27.1
Other receivables – Personal Tax Credits[3]	639.4	639.4	624.4	624.4
Prepayments and accrued income – excluding Child Benefit, CTF and Tax Credits	10.0	11.0	27.9	28.8
Prepayments and accrued income – Child Benefit and CTF	11.9	11.9	41.9	41.9
Prepayments – Tax Credits	0.2	0.2	–	–
Penalties[4]	71.0	71.0	72.3	72.3
Amounts due from the Consolidated Fund in respect of Supply	–	–	–	–
	800.4	**803.3**	**848.9**	**855.0**
Amounts falling due after more than one year:				
Trade receivables	–	–	–	–
Other receivables – Personal Tax Credits[3]	1,099.3	1,099.3	1,092.9	1,092.9
	1,099.3	**1,099.3**	**1,092.9**	**1,092.9**

1 This figure is net of provision for impairment amounting to Core: £20.6m, Consolidated: £21.1m (2010-11: Core: £20.5m, Consolidated £21.1m)
2 This figure is net of provision for impairment amounting to Core: £23.0m (2010-11: Core: £10.3m)
3 This figure is net of provision for impairment amounting to Core: £2,274.8m (2010-11: Core: £2,959.3m)
4 This figure is net of provision for impairment amounting to Core: £104.7m (2010-11: Core: £132.6m)

Child Trust Fund Endowments and Health in Pregnancy Grant

Child Trust Fund endowments ceased for children born after 3 January 2011. The additional yearly payment to children qualifying for Disability Living Allowance ceased from 6 April 2011. Entitlement to Health in Pregnancy Grant ceased on 31 December 2010.

18.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12 £m	Restated* 2010-11 £m	2011-12 £m	Restated* 2010-11 £m
Balances with other central government bodies	38.5	31.9	–	–
Balances with local authorities	1.2	1.6	–	–
Balances with NHS Trusts	0.7	5.7	–	–
Balances with public corporations and trading funds	0.6	0.1	–	–
Subtotal: intra-government balances	41.0	39.3	–	–
Balances with bodies external to government	762.3	815.7	1,099.3	1,092.9
Total receivables at 31 March	**803.3**	**855.0**	**1,099.3**	**1,092.9**

* *Certain prior year figures have been restated as per note 31.*

19. Cash and cash equivalents

	2011-12 £m		2010-11 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Balance 1 April	17.8	27.9	26.5	38.5
Net change in cash and cash equivalent balances	12.1	20.4	(8.7)	(10.6)
Balance at 31 March	**29.9**	**48.3**	**17.8**	**27.9**
The following balances at 31 March were held at:				
Government Banking Service	27.9	46.3	16.1	26.2
Commercial banks and cash in hand	2.0	2.0	1.7	1.7
Balance at 31 March	**29.9**	**48.3**	**17.8**	**27.9**

20. Trade payables and other current liabilities

	2011-12 £m Core Department	2011-12 £m Core Department & Agency	Restated* 2010-11 £m Core Department	Restated* 2010-11 £m Core Department & Agency
Amounts falling due within one year:				
Other taxation and social security	(44.1)	(44.1)	(44.6)	(44.6)
Trade payables	(53.2)	(57.8)	(109.7)	(110.1)
Other payables – excluding Child Benefit, CTF, HiPG and Tax Credits	(38.5)	(38.5)	(30.1)	(30.3)
Other payables – Child Benefit, CTF and HiPG	(19.0)	(19.0)	(116.4)	(116.4)
Other payables – Personal Tax Credits	(709.3)	(709.3)	(603.5)	(603.5)
Accruals and deferred income excluding Child Benefit, CTF & Tax Credits	(318.5)	(341.6)	(357.2)	(375.1)
Accruals and deferred income – Child Benefit, CTF and HiPG	(263.2)	(263.2)	(231.0)	(231.0)
Accruals – Corporation Tax Reliefs	(409.4)	(409.4)	(336.8)	(336.8)
Current part of finance leases	(40.8)	(40.8)	(40.5)	(40.5)
Current part of imputed finance leases	(3.0)	(3.0)	(2.4)	(2.4)
Amounts issued from the Consolidated Fund for Supply but not spent at year end	(29.8)	(48.2)	(17.7)	(22.3)
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	(0.1)	(0.1)	(0.1)	(5.6)
receivable	–	–	–	–
	(1,928.9)	**(1,975.0)**	**(1,890.0)**	**(1,918.6)**
Amounts falling due after more than one year:				
Other payables, accruals and deferred income	–	–	–	–
Finance leases	(198.1)	(198.6)	(216.8)	(217.3)
Imputed Finance leases	(182.4)	(182.4)	(201.4)	(201.4)
	(380.5)	**(381.0)**	**(418.2)**	**(418.7)**

Child Trust Fund Endowments and Health in Pregnancy Grant

Child Trust Fund endowments ceased for children born after 3 January 2011. The additional yearly payment to children qualifying for Disability Living Allowance ceased from 6 April 2011. Entitlement to Health in Pregnancy Grant ceased on 31 December 2010.

20.1 Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2011-12 £m	Restated* 2010-11 £m	2011-12 £m	2010-11 £m
Balances with other central government bodies	(201.5)	(123.4)	–	–
Balances with local authorities	(0.1)	(0.3)	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	(4.1)	(4.2)	–	–
Subtotal: intra-government balances	(205.7)	(127.9)	–	–
Balances with bodies external to government	(1,769.3)	(1,790.7)	(381.0)	(418.7)
Total payables at 31 March	**(1,975.0)**	**(1,918.6)**	**(381.0)**	**(418.7)**

** Certain prior year figures have been restated as per note 31.*

21. Provisions for liabilities and charges

	2011-12 £m		2010-11 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Balance at 1 April	**(282.0)**	**(296.0)**	**(340.6)**	**(355.9)**
Provided in the year	(30.3)	(31.7)	(143.9)	(150.7)
Provisions not required written back	18.2	18.6	15.1	16.7
Provisions utilised in the year	133.9	142.8	189.6	196.1
Borrowing costs (Unwinding of discounts)	(2.4)	(2.5)	(2.2)	(2.2)
Balance at 31 March	**(162.6)**	**(168.8)**	**(282.0)**	**(296.0)**

Analysis of expected timing of discounted flows

	2011-12 £m		2010-11 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Not later than one year	(101.2)	(104.9)	(193.3)	(202.9)
Later than one year and not later than five years	(55.9)	(58.2)	(77.3)	(81.3)
Later than five years	(5.5)	(5.7)	(11.4)	(11.8)
Balance at 31 March	**(162.6)**	**(168.8)**	**(282.0)**	**(296.0)**

	Early departure costs £m	Child Trust Fund £m	Health in Pregnancy Grant £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	(32.5)	(20.0)	–	(48.5)	(0.3)	(3.6)	(104.9)
Later than one year and not later than five years	(55.1)	–	–	–	(2.5)	(0.6)	(58.2)
Later than five years	(5.7)	–	–	–	–	–	(5.7)
Balance at 31 March	**(93.3)**	**(20.0)**	**–**	**(48.5)**	**(2.8)**	**(4.2)**	**(168.8)**

21.1 Early departure costs

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS paying agent over the period between the early departure date and when the employee reaches age 60. The Department has provided for this in full at the point when the early retirement programme became binding by establishing a provision for the estimated payments, discounting by the HM Treasury discount rate of 2.8 per cent in real terms, and updated annually to reflect the unwinding of the discount.

21.2 Child Trust Fund

Child Trust Fund (CTF) endowments; eligibility to which ceased on 3 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £106.3m was made in 2010-11 for amounts that were forecast to become payable in respect of children qualifying for CTF endowments. Utilisations in 2011-12 total £86.3m.

21.3 Legal claims

A provision of £48.5m (2010-11: £37.3m) has been made for costs relating to various legal claims against the Department. The provision reflects all known claims, in excess of the de minimus limit for reporting of £0.1m, where legal advice indicates that it is probable that the claim will be successful and the amount of the claim can be reliably estimated. Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 25.

21.4 Accommodation costs

A provision of £2.8m has been made (2010-11: £11.3m) mainly for buildings-related claims giving rise to probable liabilities under tenancy agreements where the amount of the claims can be reliably estimated. Claims, which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 25.

21.5 Other

Provisions relating to various other claims against the Department amount to £4.2m (2010-11: £4.9m).

22. Pension liability

This pension liability, part of the Local Government Pension Scheme (LGPS), is in respect of staff previously employed by The Rent Service (TRS) but now employed by the Valuation Office Agency (VOA). For the purposes of International Accounting Standard 19, the VOA commissioned a qualified independent actuary to carry out an assessment of the TRS pension fund as at 31 March 2012. The results of the actuarial assessment are shown below.

Financial Assumptions	31 March 2012	31 March 2011
	% per annum	% per annum
RPI Increase Rate	3.3%	3.5%
CPI Increase Rate	2.5%	2.7%
Salary Increase Rate	4.2%	4.5%
Expected Return on Assets	5.9%	6.7%
Discount rate	4.6%	5.5%

Demographic and Statistical Assumptions

Life expectancy from age 65 (years)		31 March 2012	31 March 2011
Retiring today:	Males	21.4	21.3
	Females	23.9	23.8
Retiring in 20 years:	Males	23.4	23.3
	Females	25.8	25.7

	Expected Return on Assets	Fund value at 31 March 2012	Expected Return on Assets	Fund value at 31 March 2011
Assets		£m		£m
Equities	6.3%	**65.1**	7.4%	**62.9**
Target Return Funds	4.5%	**10.7**	4.5%	**11.0**
Alternative Assets	5.3%	**12.5**	6.4%	**12.8**
Cash	3.0%	**0.9**	3.0%	**2.7**
Corporate Bonds	–	–	5.5%	**1.8**
Total		89.2		91.2

Net pensions deficit as at	31 March 2012	31 March 2011
	£m	£m
Fair Value of Employer Assets	89.2	91.2
Present Value of Scheme Liabilities	117.7	102.8
Present Value of Unfunded Liabilities	0.3	0.3
Total value of Liabilities	118.0	103.1
Net Pension Deficit	(28.8)	(11.9)

Recognised in the Consolidated Statement of Comprehensive Net Expenditure

	31 March 2012		31 March 2011	
	£m	% of pay	£m	% of pay
Current Service Cost	0.9	20.1%	1.3	27.7%
Interest Cost	5.6	127.1%	6.6	142.6%
Expected Return on Employer Assets	(6.1)	-137.4%	(5.8)	-125.9%
Past Service Cost/(Gain)	–	–	(11.2)	-240.3%
Losses/(Gains) on Curtailments and settlements	–	–	0.4	8.5%
Total	0.4	9.8%	(8.7)	-187.3%
Actual Return on Plan Assets	0.9		6.1	

Recognised in Statement of Changes in Taxpayers' Equity

	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
	£m	£m	£m	£m	£m
Actuarial Gains/(Losses)	(17.7)	9.4	(14.4)	(16.4)	3.1
Increase/(Decrease) in Irrecoverable Surplus from Membership	–	–	–	–	–
Actuarial Gains/(Losses) recognised in Statement of Changes in Taxpayers' Equity	(17.7)	9.4	(14.4)	(16.4)	3.1
Cumulative Actuarial Gains and Losses	**(39.6)**	**(21.9)**	**(31.3)**	**(16.9)**	**(0.5)**

Statement of Financial Position	**31 March 2012**	**31 March 2011**
	£m	£m
Fair Value of Employer Assets	**89.2**	**91.2**
Present Value of Funded Liabilities	(117.7)	(102.8)
Net (Under)/Overfunding in Funded Plans	(28.5)	(11.6)
Present Value of Unfunded Liabilities	(0.3)	(0.3)
Unrecognised past service cost	–	–
Net Asset/(Liability)	**(28.8)**	**(11.9)**
Amount in the Statement of Financial Position		
Liabilities	28.8	11.9
Assets	–	–
Net Asset/(Liability)	**28.8**	**11.9**

Reconciliation of Defined Benefit Obligation	**31 March 2012**	**31 March 2011**
	£m	£m
Opening Defined Benefit Obligation	**103.1**	**123.3**
Current Service Cost	0.9	1.3
Interest Cost	5.6	6.6
Contributions by Members	0.3	0.3
Actuarial Losses/(Gains)	12.5	(12.1)
Past Service Costs/(Gains)[1]	–	(11.2)
Losses/(Gains) on Curtailments	–	0.4
Liabilities Extinguished on Settlements	–	–
Liabilities Assumed in a Business Combination	–	–
Exchange Differences	–	–
Estimated Unfunded Benefits Paid	–	–
Estimated Benefits Paid	(4.4)	(5.5)
Closing Defined Benefit Obligation	**118.0**	**103.1**

Reconciliation of Fair Value of Employer Assets	31 March 2012	31 March 2011
	£m	£m
Opening Fair Value of Employer Assets	**91.2**	**90.0**
Expected Return on Assets	6.1	5.9
Contributions by Members	0.3	0.3
Contributions by the Employer[2]	1.2	3.3
Contributions in respect of Unfunded Benefits	–	–
Actuarial Gains/(Losses)	(5.2)	(2.7)
Assets Distributed on Settlements	–	–
Assets Acquired in a Business Combination	–	–
Exchange Differences	–	–
Unfunded Benefits Paid	–	–
Benefits Paid	(4.4)	(5.6)
Closing Fair Value of Employer Assets	**89.2**	**91.2**

Amounts for the Current and Previous Accounting Periods	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
	£m	£m	£m	£m	£m
Fair Value of Employer Assets	89.2	91.2	90.0	70.5	83.9
Present Value of Defined Benefit Obligation	(118.0)	(103.1)	(123.3)	(87.4)	(85.1)
Surplus/(Deficit)	(28.8)	(11.9)	(33.3)	(16.9)	(1.2)
Experience Gains/(Losses) on Assets	(5.2)	(2.7)	16.0	(24.6)	27.7
Experience Gains/(Losses) on Liabilities	–	11.1	14.8	–	(35.9)

1 Past service cost above includes a negative cost of £11.2m. This has arisen because of the announcement by the Chancellor of the Exchequer in May 2010 that future indexation of pensions in payment will be in line with the Consumer Price Index (CPI), rather than the Retail Price Index (RPI) as has been past practice. Since CPI has in the past been on average lower than RPI, this has the effect of reducing the expected future cash flows in respect of pensions. As a result the Agency's liability to fund these pensions is reduced, creating a negative cost of past service.

2 Contributions by the Employer for 2011-12 includes £11,000 of contributions made to the scheme by the Department for Work and Pensions (DWP) regarding additional pension costs for employees of TRS who took early retirement in the year before that agency merged with the VOA.

As part of our Service Level Agreement with them, DWP accepts that were the TRS pension fund liability to crystallise, then DWP would accept this liability and in so far as they could fund this themselves would do so and in the event that they could not fund this would seek additional funding from HM Treasury to address any shortfall. The VOA and by extension the Department is effectively indemnified against this liability.

23. Capital and other commitments

23.1 Capital commitments

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

	2011-12 £m		2010-11 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Contracted capital commitments at 31 March not otherwise included in these financial statements				
Property, plant and equipment	2.5	2.6	2.6	2.7
Intangible assets	180.1	180.4	85.1	85.2

23.2 Commitments under leases

23.2.1 Operating leases

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

The Other commitments relate to a number of IT and vehicle leasing contracts. These include a contract for the management of the Customs Handling of Import Export Freight system (CHIEF) which is a data capture and validation system for international trade movements. The CHIEF contract runs for 5 years to 31 January 2015 with an option to extend the contract by up to 3 years. Other commitments also include a contract with Inchcape Fleet Solutions (IFS) for the Fleet Management including Service, Maintenance and Repair of motor vehicles over a 4 year period with a renewal option of a further 2 years. IFS also provide 20 per cent of the Department's leased vehicles under this contract. There are no purchase options within the lease agreements. There are options to both informally and formally extend each Lease Agreement. There are no specific escalation clauses relating to the lease agreements. The remaining vehicles leased by the Department are via a contract with Lex Autolease, again there are no purchase options within the lease agreements but there are options to formally extend each of the lease agreements. The payment of these lease costs to Lex Autolease go via IFS, our Fleet Management supplier.

	2011-12 £m		Restated* 2010-11 £m	
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Obligations under operating leases for the following periods comprise:				
Land and Buildings				
Not later than one year	107.5	119.4	133.4	145.8
Later than one year and not later than five years	402.5	418.3	522.6	533.6
Later than five years	375.6	376.7	623.5	626.8
	885.6	**914.4**	**1,279.5**	**1,306.2**
Other				
Not later than one year	13.9	14.1	12.6	13.0
Later than one year and not later than five years	24.3	24.4	36.6	36.9
Later than five years	–	–	–	–
	38.2	**38.5**	**49.2**	**49.9**

23.2.2 *Finance leases*

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

		2011-12 £m		Restated* 2010-11 £m
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Obligations under finance leases for the following periods comprise:				
Buildings				
Not later than one year	4.2	4.2	4.6	4.6
Later than one year and not later than five years	16.8	16.8	18.3	18.3
Later than five years	18.3	18.3	24.3	24.3
	39.3	**39.3**	**47.2**	**47.2**
Less interest element	(12.1)	(12.1)	(15.9)	(15.9)
Present value of obligations	**27.2**	**27.2**	**31.3**	**31.3**
Other				
Not later than one year	–	–	–	–
Later than one year and not later than five years	–	–	–	–
Later than five years	–	–	–	–
	–	–	–	–
Less interest element	–	–	–	–
Present value of obligations	–	–	–	–

23.2.3 *Finance leases – Consolidated Statement of Comprehensive Net Expenditure – Future commitments*

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

		2011-12 £m		Restated* 2010-11 £m
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Buildings				
Not later than one year	7.3	7.3	13.0	13.0
Later than one year and not later than five years	26.3	26.3	50.0	50.0
Later than five years	24.0	24.0	60.1	60.1
	57.6	**57.6**	**123.1**	**123.1**
Other				
Not later than one year	–	–	–	–
Later than one year and not later than five years	–	–	–	–
Later than five years	–	–	–	–
	–	–	–	–

* *Prior year figures have been restated to exclude RPI. Additionally the restatement excludes figures relating to the building known as 100 Parliament Street which is now reported under note 23.3 – Commitments under PFI and other service concession arrangements.*

23.3 *Commitments under PFI and other service concession arrangements*

23.3.1 Off-balance sheet (SoFP)

The Department has no off-balance sheet (SoFP) PFI contracts.

23.3.2 On-balance sheet (SoFP)

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

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

The NEP contract is subject to an annual uplift in January in relation to the Availability Charge (i.e. rent) and a further annual uplift relating to the Condition Payment (service charge) in April. Whilst there is a phased building specific expiry arrangement concluding October 2029, the contract contains options to extend the occupancy of buildings which can be exercised 3 years before the expiry of building occupancy agreements via negotiation with the landlord. There are a number of options to terminate the contract which include voluntary termination giving 12 months notice with compensation, termination for Force Majeure, termination for default without compensation and finally contractor insolvency.

The IT contract was originally for a 10 year period commencing on 1 July 2004. The contract incorporated an option to extend it up to a further 8 years. In 2007 the Department exercised the option to extend it for a further 3 years to 30 June 2017 in return for achieving certain pricing reductions.

The substance of each contract is that the Department has a finance lease and that payments comprise two elements – finance lease charges and service charges. The details of the finance lease charges are set out in the table below.

		2011-12 £m		Restated* 2010-11 £m
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Total obligations under on-balance sheet (SoFP) service concession arrangements for the following periods comprise:				
Not later than one year	88.6	88.7	93.9	94.0
Later than one year and not later than five years	231.0	231.7	242.0	242.6
Later than five years	522.3	522.9	563.0	563.8
	841.9	**843.3**	**898.9**	**900.4**
Less interest element	(444.8)	(445.7)	(469.0)	(470.0)
Present value of obligations	**397.1**	**397.6**	**429.9**	**430.4**
Present Value of obligations under on-Statement of Financial Position service concession arrangements for the following periods comprise:				
Not later than 1 year	41.6	41.6	40.8	40.8
Later than 1 year and not later than 5 years	83.0	83.2	97.8	98.0
Later than 5 years	272.5	272.8	291.3	291.6
Total Present Value of obligations	**397.1**	**397.6**	**429.9**	**430.4**

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

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-balance sheet (SoFP) PFI and other service concession arrangement transactions (there were no off-balance sheet (SoFP) transactions) was £623.3m[1] (2010-11: £502.0m) and the payments to which the Department is committed are detailed in the table below.

[1] This amount is included within the figures reported in note 8 and note 9 as PPP and PFI service charges.

		2011-12 £m		Restated* 2010-11 £m
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Not later than one year	605.6	605.9	613.4	613.6
Later than one year and not later than five years	2,337.4	2,338.2	2,309.9	2,310.9
Later than five years	1,047.0	1,047.8	1,840.5	1,841.7
	3,990.0	**3,991.9**	**4,763.8**	**4,766.2**

* *The restatement includes figures relating to the building known as 100 Parliament Street which was previously reported under note 23.2 Commitments under leases.*

23.4 *Other financial commitments*

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts) for various services. The commitments include a Strategic Partnership agreement with Accenture to help strengthen the in-house IT function within the Department to better support internal customers and other government departments. The contract started on 1 March 2010 and will run for three years. The payments to which the Department is committed, analysed by the period during which the commitment expires, are as follows.

		2011-12 £m		2010-11 £m
	Core Department	Core Department & Agency	Core Department	Core Department & Agency
Not later than 1 year	1.2	1.2	10.1	10.1
Later than 1 year and not later than 5 years	–	–	1.2	1.2
Later than 5 years	–	–	–	–
	1.2	**1.2**	**11.3**	**11.3**

24. Financial Guarantees, Indemnities and Letters of Comfort

The Department has entered into the following quantifiable guarantees, indemnities or provided letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39.

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

	1 April 2011	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2012	Amount reported to Parliament by Departmental Minute
	£m	£m	£m	£m	£m	£m
Guarantees	–	–	–	–	–	–
Indemnities	5.1	1.2	–	(0.9)	5.4	–
Letters of Comfort	–	–	–	–	–	–

The Department has not entered into any unquantifiable contingent liabilities.

25. Contingent assets and contingent liabilities disclosed under IAS 37

The Department has the following contingent liabilities:

- Shipbuilders' Relief – a contingent liability of £55.4m (2010-11: £61.7m) exists for potential future claims against the Department. This relief is disclosed as a contingent liability as when a contract to build a vessel is signed it creates a possible obligation that will only be satisfied if two future events occur; and the amount of the possible obligation cannot be measured with sufficient accuracy;
- Legal Claims – a contingent liability of £68.6m (2010-11: £81.2m) exists for costs that may be awarded should various legal cases in which HMRC is involved be determined against the Department. The contingent liability covers all such cases where the outcome is unknown or cannot be estimated reliably;
- Compensation – potential liability in relation to a Missing Trader Intra Community Fraud (MTIC) case totalling £10.2m (2010-11: £10.2m);
- Guaranteed costs – possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities £0.9m, 113 cases (2010-11: £0.9m, 120 cases);
- Compensation – a new contingent liability for 2011-12 of £17.7m arising from an ongoing possible need to make appropriate payments if the delayed release of some National Insurance Contributions rebates have resulted in financial underperformance of investments;
- Personal Tax Credits – the Department has a contingent asset and liability arising from the finalisation process of claims which takes place in the following year whereby claimants confirm their actual income and other circumstances. This process finalises the award for the award year that has ended and where the payments made do not match the revised entitlement based on the final information provided, this will give rise to under or overpayments which are accounted for as soon as identified. Estimates of these under or overpayments based on trend analysis would not be reliable due to changes in economic climate and scheme eligibility rules;
- The Department has a further number of contingent liabilities amounting to £3.2m (2010-11: £8.1m).

26. Losses and special payments

26.1 Losses Statement

				2011-12				Restated* 2010-11
	Core Department		Core Department & Agency		Core Department		Core Department & Agency	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
Losses are made up of:								
Personal Tax Credits remissions	*2,908,160*	1,617.3	*2,908,160*	1,617.3	*1,817,761*	600.0	*1,817,761*	600.0
Personal Tax Credits write-offs	*45,483*	57.1	*45,483*	57.1	*18,560*	24.0	*18,560*	24.0
Child Benefit irrecoverable overpayments	*70,739*	28.7	*70,739*	28.7	*60,298*	10.2	*60,298*	10.2
Law costs remissions	*27,012*	3.0	*27,012*	3.0	*21,343*	2.8	*21,343*	2.8
Tax penalty remissions	*156,619*	66.3	*156,619*	66.3	*29,224*	15.2	*29,224*	15.2
Others	*2,245*	1.5	*2,258*	6.0	*2,728*	8.0	*2,734*	8.0
Total	***3,210,258***	**1,773.9**	***3,210,271***	**1,778.4**	***1,949,914***	**660.2**	***1,949,920***	**660.2**

Details of cases over £250,000

Personal Tax Credits

In 2011-12 there were 2 bulk remission exercises as well as business as usual activity which resulted in total remissions/write-offs of £1,674.4m. These can be broken down as follows:

- The first bulk remission exercise was conducted in two parts and was in respect of historic and inactive debt. Debts in excess of 3 years old that had no payments received within the preceding 12 months were in scope for this exercise. The initial stage was carried out in September 2011 and captured cases from the Debt Management and Banking (DMB) Integrated Debt Management System (IDMS). In total, 870,651 overpayments were remitted totalling £1,051m. The second part was completed in March 2012 and captured debts that were 'pending' in the National Tax Credit system, 162,178 overpayments were remitted totalling £164.7m;

- The second bulk remission exercise was in respect of low affordability debts remaining from DMB Campaigns 2009 and 2010. The campaign process includes an auto remission exercise for certain categories of debt that remain unpaid, and are not in a time to pay arrangement, following completion of the range of debt pursuit activity. This was conducted in February 2012 and remitted 209,438 overpayments totalling £202.8m;
- A further 1,711,376 cases with a total liability of £255.9m were also remitted/written-off as part of our business as usual processing activity as they were deemed uncollectable.

Child Benefit

In 2011-12 Child Benefit Operations and DMB worked collaboratively on a major debt reduction initiative. This initiative started in June 2011 and ran concurrently with business as usual Child Benefit debt referral and recovery work. The key feature of the initiative was to target over 27,000 dormant debt cases that had not been worked. Every customer was issued a letter requesting immediate repayment of their debt and were given the opportunity to discuss their overpayment or negotiate Time to Pay arrangements directly with HMRC staff as part of the recovery process. Where collection action was not possible the debt was remitted.

This exercise, along with business as usual write-offs has resulted in total Child Benefit remissions in 2011-12 of £28.7m (2010-11: £10.2m).

Other

£4.5m – The Valuation Office Agency impaired its Geographical Information System developed software asset. The total loss includes operating costs incurred in 2010-11 and 2011-12 for the running of the project (see the VOA 2011-12 accounts).

£0.3m – Exchange rate loss in respect of currency conversion.

* *Certain prior year figures have been restated as per note 31.*

26.2 Special Payments

				2011-12				2010-11
	Core Department		Core Department & Agency		Core Department		Core Department & Agency	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
Payments and accruals	*7,652*	3.7	*7,689*	4.0	*10,665*	5.3	*10,956*	5.5
New provisions	*5*	1.6	*5*	1.6	*8*	2.0	*8*	2.0
Increase in existing provisions		0.6		0.6		–		–
Write back of provisions		(0.9)		(0.9)		–		–
Total	***7,657***	**5.0**	***7,694***	**5.3**	***10,673***	**7.3**	***10,964***	**7.5**

Details of cases over £250,000

£1.0m – Utilisation of a prior year provision (£0.4m) and ex-gratia payment in respect of losses caused by control and enforcement action.

£0.7m – Utilisation of a prior year provision (£0.5m) and payment of a personal injury claim.

£0.4m – Compensation payments in respect of children who had not received their correct Child Trust Fund entitlement.

£0.3m – Utilisation of a prior year provision in respect of a payment for damages for unsuccessful legal proceedings.

27. Related-party transactions

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

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

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

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

28. Third-party assets

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

Neither the Department nor the Government generally have any beneficial interest in these funds. They are set out in the following table.

		2011-12		2010-11	
		Core Department	Core Department & Agency	Core Department	Core Department & Agency
Monies on deposit:					
Euro deposits – EC Twinning Projects	€	–	–	0.1m	0.1m

29. Entities within the departmental boundary

The entities within the boundary during 2011-12 were as follows:

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

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

30. Events after the reporting period

There are no reportable events after the reporting period. The financial statements were authorised for issue by the Principal Accounting Officer on 27 June 2012.

31. Impact of implementation of Clear Line of Sight changes

The Clear Line of Sight (CLoS) project is an initiative led by HM Treasury to modernise the public spending system to align Budgets, Estimates and Resource Accounts. The aim is make these more transparent, accountable and easier to understand.

Certain prior year values have been restated as a result of changes arising from the transition to the CLoS reporting. This now includes within the Resource Accounts the reporting of Personal Tax Credits, certain Corporation Tax Reliefs, the negative tax aspects of Payments in Lieu of Tax Relief and changes to the funding of elements relating to the National Insurance Fund.

A summary of the impact of these changes is shown in the table below.

Restatement of Consolidated Statement of Comprehensive Net Expenditure at 31 March 2011

	Previously published Resource Accounts as at 31 March 2011	Transfer of reporting of Personal Tax Credits from the Trust Statement	Transfer of reporting of Corporation Tax Reliefs from the Trust Statement	Change in presentation of funding from the National Insurance Fund	Changes in reporting of Payments in Lieu of Tax Relief	Restated at 31 March 2011
	£m	£m	£m	£m	£m	£m
Net operating cost	**16,103.8**	29,404.2	579.1	409.8	10.5	**46,507.4**

Restatement of Consolidated Statement of Financial Position at 31 March 2011

	Previously published Resource Accounts as at 31 March 2011	Transfer of reporting of Personal Tax Credits from the Trust Statement	Transfer of reporting of Corporation Tax Reliefs from the Trust Statement	Restated at 31 March 2011
	£m	£m	£m	£m
Net Assets as at 31 March 2011	**344.0**	1,113.8	(336.8)	**1,121.0**
Net Asset change consists of:				
Personal Tax Credits				
Receivables		4,676.6		
Impairment for doubtful debt		(2,959.3)		
Payables		(603.5)		
Corporation Tax Reliefs				
Research & Development Tax Credits (SME) accrual			(220.8)	
Film Tax Relief accrual			(116.0)	
		1,113.8	**(336.8)**	

32. Realignment of Administration and Programme Expenditure

The Department has changed the way it categorises certain costs in agreement with HM Treasury, to reflect activity on front line services. A summary of the changes that impact on Note 8 'Other Administration Costs' and Note 9 'Programme Costs' is shown in the table below.

	Note	Previously published Resource Accounts as at 31 March 2011	Transfer of reporting of Personal Tax Credits from the Trust Statement	Transfer of reporting of Corporation Tax Reliefs from the Trust Statement	Changes in reporting of Payments in Lieu of Tax Relief	Change in funding costs of the National Insurance Fund	Total changed to gross (before income)	Changes in categorisation	Restated at 31 March 2011
		£m	£m	£m	£m	£m	£m	£m	£m
Other Administration Costs	8	**1,479.5**	–	–	–	–	–	(753.2)	726.3
Programme Costs	9	**12,955.1**	29,404.2	579.1	10.5	55.7	16.7	753.2	43,774.5

Trust Statement

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Principal Accounting Officer's Foreword to the Trust Statement

Scope

HM Revenue & Customs (HMRC) is responsible for collecting taxes, duties and National Insurance Contributions and for making payments of tax credits, Child Benefit and Child Trust Fund endowments. HMRC is also responsible for collecting repayments of student loans, enforcing payment of the national minimum wage and for providing the Government business link portal. The Trust Statement reports the revenues and expenditures and assets and liabilities related to the taxes and duties for the financial year 2011-12 and reports the full year's activity of HMRC. The costs of running HMRC, payments of Child Benefit and payments of tax credits, are reported in the Departmental Resource Accounts.

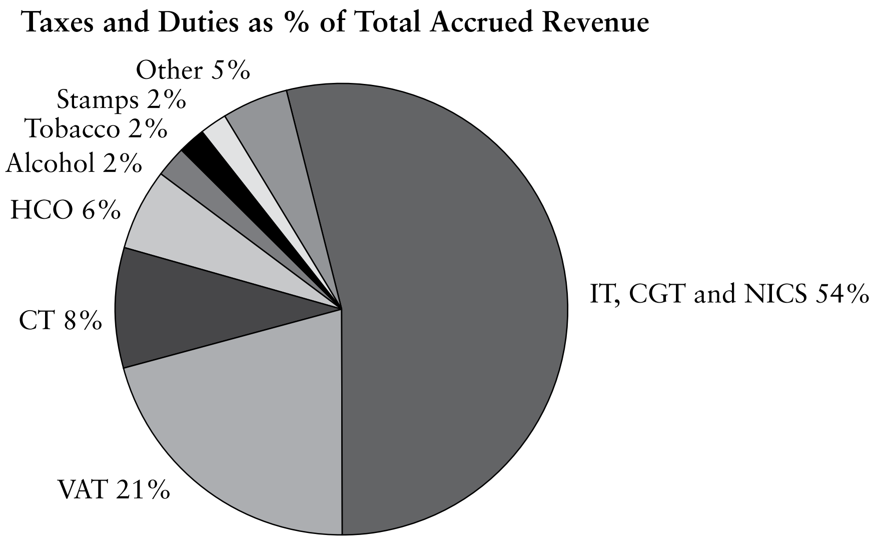
The revenues which HMRC has accounted for in this Trust Statement are:

- Income, Corporation, Bank Payroll, Capital Gains, Inheritance, Insurance Premium, Stamp and Petroleum Revenue taxes
- Bank Levy
- Value Added Tax (VAT)
- Hydrocarbon Oils duties
- Alcohol duties
- Tobacco duties
- Customs duties
- Betting and Gaming duties
- Air Passenger Duty
- Environmental taxes: Climate Change Levy, Aggregates Levy and Landfill Tax
- National Insurance Contributions (NICs)
- Fines and Penalties and
- Recovery of Student Loan repayments

Financial Review of 2011-12 Trust Statement

1. Total Revenue

Total revenues accruing in year were £474.2 billion: £4.5 billion (1.0 per cent) higher when compared to prior year, reflecting the highest accrued revenue to date. This is due to higher National Insurance Contributions and Capital Gains Tax, Value Added Tax, Alcohol Duties and Tobacco Products Duties, largely offset by lower Income Tax, Corporation Tax and Hydrocarbon Oils and Stamp Taxes.



The nine taxes and duties specifically named above (Income Tax, Capital Gains Tax & National Insurance Contributions [IT, CGT & NICS] being reported together) between them account for 95.6 per cent (rounded) of HMRC revenue in 2011-12

Total revenue accruing to the Department is shown before deduction of revenue losses, decrease in impairment of receivables and the movement in the provision for liabilities provided in the year. In order to analyse revenue from taxes and duties after these changes, the Statement of Revenue, Other Income and Expenditure should be viewed in conjunction with Notes 7.1 and 8.

	2011-12 £ billion
Total Revenue	474.2
Revenue losses and decrease in impairment of receivables (Note 7.1)	(4.5)
Movement in provision for liabilities (Note 8.1)	0.9
Total Revenue less items noted above	**470.6**

2. Clear Line of Sight

The HM Treasury Clear Line of Sight project aims to provide greater transparency in government finance. By aligning key financial documents, such as Departmental Estimates, Treasury Budgetary Controls and published accounts, all readers of financial publications will have a greater scrutiny of spending. As part of this project personal tax credits, corporation tax credits, enhanced capital allowances, life assurance premium relief and mortgage interest relief were moved from being accounted for in the Trust Statement (TS) to the Resource Accounts from 1 April 2011.

Figures in the TS have been restated to reflect these changes. Movement of significant balances are described in more detail in Note 1.6.

3. Comparison by tax type

3.1 Income Tax, Capital Gains Tax & National Insurance Contributions (NICs)

Income Tax, Capital Gains Tax and NICs accounted for 54.4 per cent of total revenue at £257.8 billion; £0.3 billion (0.1 per cent) lower than in 2010-11.

Income Tax revenue, at £151.8 billion was £5.7 billion (3.6 per cent) lower than in 2010-11 due to lower Self Assessment revenues.

However, it should be noted that the NICs component was, at £101.6 billion; £4.7 billion (4.9 per cent) higher than 2010-11, the highest on record.

Further, Capital Gains Tax was, at £4.4 billion, £0.7 billion (18.9 per cent) higher than in 2010-11.

3.2 Value Added Tax

Value Added Tax accounted for 21.0 per cent of total revenue at £99.6 billion, the highest on record, being £9.3 billion (10.3 per cent) higher than 2010-11.

This increase is primarily due to the change in the VAT rate which rose from 17.5 per cent to 20 per cent effective from January 2011. The increase in the VAT receipts from the Business Services and Oil, Gas and Mining sectors also contributed to the increase in receipts.

3.3 Corporation Tax

Corporation Tax accounted for 8.5 per cent of total revenue at £40.1 billion; £6.3 billion (13.6 per cent) lower than 2010-11.

This decrease is primarily due to a reduction in accrued revenue receivable.

The accrued revenue receivable balance at 31 March 2012 shows a decrease of £2.4 billion compared to 31 March 2011. This is due to the use of revised growth rates based on actual in-year receipts data.

3.4 Hydrocarbon Oils Duties

Hydrocarbon Oils accounted for 5.7 per cent of total revenue at £26.9 billion, £0.3 billion (1.1 per cent) lower than 2010-11.

This decrease is primarily due to record pump prices reducing demand for petrol.

3.5 Alcohols

Alcohol duties accounted for 2.1 per cent of total revenue at £10.1 billion, the highest on record, being £0.6 billion (6.3 per cent) higher than 2010-11.

This increase is primarily due to duty rate rises in March 2011, coupled with high out-turns attributable to increased activity by manufacturers prior to the March 2012 Budget.

3.6 Tobacco

Tobacco duties accounted for 2.1 per cent of total revenue at £9.9 billion, the highest on record, being £0.6 billion (6.5 per cent) higher than 2010-11.

This increase is primarily due to duty rate rises and cigarette duty restructuring in March 2011.

3.7 Stamp Taxes

Stamp Taxes accounted for 1.8 per cent of total revenue at £8.7 billion; £0.3 billion (3.3 per cent) lower than 2010-11.

This decrease is primarily due to a drop in share volumes and prices partially offset by a higher number of residential property transactions and higher commercial property prices.

3.8 Other Taxes, Duties and Revenues

The remaining minor taxes, duties and revenues account for 4.5 per cent of the total revenue at £21.1 billion; £1.2 billion (6.0 per cent) higher than in 2010-11.

3.8.1 Air Passenger Duty

Air Passenger Duty accounted for 0.5 per cent of total revenue at £2.6 billion, the highest on record, being £0.4 billion (18.2 per cent) higher than 2010-11.

This increase is primarily due to strong passenger growth during 2011-12, particularly for short-haul flights, following a decline during 2010-11 due to inclement weather, ash cloud and strikes.

3.8.2 Insurance Premium Tax

Insurance Premium Tax accounted for 0.6 per cent of total revenue at £3.0 billion, the highest on record, being £0.5 billion (20.0 per cent) higher than 2010-11.

This increase is primarily due to a tax rate rise in January 2011, coupled with rising car insurance premiums.

3.8.3 Petroleum Revenue Tax

Petroleum Revenue Duty Tax accounted for 0.4 per cent of total revenue at £2.0 billion; £0.4 billion (25.0 per cent) higher than 2010-11.

This increase in receipts is primarily due to the effect of a sustained rise in oil prices when compared to the previous period.

3.8.4 Bank Levy

Revenue for Bank Levy accounted for 0.3 per cent of total revenue at £1.5 billion.

The accrued revenue receivable balance has decreased by £95 million from 2010-11; the estimate has been revised to reflect actual receipts data.

4. Movement in Accrual Adjustments

4.1 Receivables and accrued revenue receivable (Note 5)

The total of receivables and accrued revenue receivable (ARR) – before impairments – decreased by £2.0 billion (1.8 per cent) between 31 March 2011 and 31 March 2012 to £108.5 billion.

Receivables decreased by £1.7 billion (6.8 per cent) to £23.2 billion. There were small decreases across most heads of duty which is mainly due to improved debt collection.

Accrued revenue receivable decreased by £0.3 billion (0.4 per cent) to £85.3 billion. The decrease for Corporation Tax (£2.4 billion) was offset by an increase in VAT (£1.4 billion) and minor variances in other taxes. The decrease in CT is due to the use of revised growth rates based on actual in-year receipts data.

4.2 Impairment of receivables (Note 7.4)

	2011-12 £ billion	Restated* 2010-11 £ billion
Receivables balance	23.2	24.9
Impairment	(6.4)	(7.1)

Impairments decreased by £0.7 billion (9.9 per cent).

This is mainly due to a decrease in overall receivables and improved debt collection rates which form the basis for the impairments calculation.

The impairment is calculated to provide a fair value of receivables in the Trust Statement, in effect reducing receivables to a value that is likely to be collected and providing for non-collectable debt.

Non-collectable debt includes legally due debt that is written-off or remitted (losses), in addition to debt that is discharged, amended or cancelled as information is received which reduces the liability or confirms that it is not legally due. The discharge, amendment and cancelled element results from liabilities being estimated by either the Department or the taxpayer and then subsequently amended once the true liability is known.

4.3 Provision for liabilities and contingent liabilities (Note 8)

Provisions were reviewed during 2011-12. Of the sum of £4,381 million provided last year £1,446 million was paid out during the year and it was identified that £1,264 million was no longer required. A new provision of £410 million has been added, giving a carried forward balance of £2,081 million – a £2,300 million reduction on last year.

Contingent liabilities were also reviewed during 2011-12 resulting in the estimates being reduced by £0.1 billion. In addition, new cases have been identified with an estimated value of £4.9 billion.

4.4 Payables, accrued revenue payable & deferred revenue (Note 6)

The total of payables, accrued revenue payable and deferred revenue increased by £2.8 billion (7.2 per cent), mainly due to an amount of £1.3 billion estimated as the element of PAYE open case repayments that relate to the financial year 2011-12 that will be repayable in 2012-13. This is the first year for which it has been possible to estimate this figure. There was also an increase of £0.8 billion in VAT payables and accrued revenue payable.

4.5 Revenue losses (Note 7.2)

Revenue losses decreased by £0.3 billion (5.5 per cent). There were decreases across most heads of duty resulting from improved debt collection.

5. Comparison of Movement over the last 8 years

	2011-12 £ billion	2010-11 £ billion	2009-10 £ billion	2008-09 £ billion	2007-08 £ billion	2006-07 £ billion	2005-06 £ billion	2004-05 £ billion
Total revenue	474.2	469.7	435.8	441.0	461.6	441.3	409.3	382.9
Variance to prior year	4.5	33.9	(5.2)	(20.6)	20.3	32.0	26.4	–
Variance to prior year (per cent)	1.0	7.8	(1.2)	(4.5)	4.6	7.8	6.9	–

Note: Total Revenue figures for the years 2004-05 to 2008-09 above differ from those published at the time, having been adjusted in 2009-10 to take account of the fact that, from 2009-10, Tax Credits Negative Taxation is reported as Expenditure in the Statement of Revenue & Expenditure, and so allow all years 2004-05 to 2011-12 to be compared on a like-for-like basis. The Total Revenue figure for 2010-11 has been adjusted to take account of the fact that Company Tax Credits are now also reported in theStatement of Revenue, Other Income and Expenditure.

Basis for the Preparation of the Trust Statement

The HM Treasury accounts direction, issued under Section 2 of the Exchequer and Audit Departments Act 1921, requires HMRC to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties and the revenue income and expenditure and cash flows for the financial year. Regard shall be given to all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury (including the Financial Reporting Manual) and the principles underlying, and International Financial Reporting Standards (IFRS).

HMRC has worked closely with HM Treasury to ensure that the accounting policies that underpin these accounts are comprehensive and appropriate.

Selection of Appropriate Accounting Policies for the Trust Statement and Use of Judgements and Estimates

As Principal Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. See Note 1.1.

Estimation of accrued revenue

The nature of tax legislation and our associated systems, mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. Because of the areas of uncertainty involved, there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in our models. We believe that the levels of variation are acceptable and this is verified each year by means of a validation exercise as more recent data becomes available. Further detail can be found in Notes 1.2, 1.3 and 5.

Legal Proceedings

The HMRC Litigation and Settlement Strategy is available via the HMRC website. The aim of the strategy is to make sure that disputes are conducted in a way that is professional, effective and that supports HMRC objectives to close the tax gap and provide customers with a clear understanding of the law.

HMRC is engaged in legal proceedings with taxpayers across a range of cases, including some where reference to the European Court of Justice may be required, as well as cases wholly within the jurisdiction of United Kingdom courts. The Department makes provision for these proceedings, which occur in the normal course of business, as summarised in Note 1.5, 'Provisions and contingent liabilities' and Note 8, 'Provision for liabilities and contingent liabilities'. HMRC may make additional significant provisions for such legal proceedings as required in the event of further developments in these matters, consistent with generally accepted accounting principles. Litigation is inherently unpredictable and, depending on the judgement of the relevant court, in some or all of these cases, there may be reductions in revenue and/or repayments of tax.

Provisions are made, after taking appropriate legal and other specialist advice, when a reasonable estimate can be made of the likely outcome of the dispute. At 31 March 2012, HMRC's aggregate provision for legal and other disputes was £2.1 billion. The ultimate liability for legal claims may vary from the amounts provided and depends upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

Other cases, where it is probable that HMRC will be required to settle the obligation and is unable to estimate reliably the amount, or where it is possible that HMRC will be required to settle the obligation, are classed as contingent liabilities – see Note 8.2.1.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 2 of the Exchequer and Audit Departments Act 1921. The auditor's remuneration for this is included in HMRC's Resource Accounts.

No non-audit work was carried out by the auditors for HMRC.

Lin Homer
Principal Accounting Officer
22 June 2012

Statement of the Principal Accounting Officer's Responsibilities in Respect of the Trust Statement

HM Treasury has appointed the Chief Executive as Principal Accounting Officer of HMRC with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Principal Accounting Officer for HMRC is responsible for ensuring that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Principal Accounting Officer is responsible for the fair and efficient administration of the tax system, including the assessment, collection and proper allocation of revenue.

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Principal Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for HMRC for the financial year 2011-12. In conforming with HM Treasury direction (see page 149 of this Trust Statement), the Trust Statement reports the revenue collected and expenditure in respect of taxes, duties, National Insurance Contributions, and Student Loan recoveries administered by HMRC during the year, together with the net amounts surrendered to the Consolidated Fund.

The Trust Statement is prepared on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis. The Trust Statement must give a true and fair view of the state of affairs of HMRC, including a Statement of Revenue, Other Income and Expenditure, a Statement of Financial Position, and a Statement of Cash Flows.

The Trust Statement includes a Governance Statement which sets out the governance, risk and control arrangements for HMRC. The Governance Statement process is firmly and clearly linked to the risk management process in HMRC.

In preparing the Trust Statement, the Principal Accounting Officer is required to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the account.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money.*

Governance Statement

The Department's Governance Statement, covering both the Resource Accounts and the Trust Statement, is shown on pages 44 to 59.

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

I have audited HM Revenue & Customs' (the Department's) Trust Statement for the year ended 31 March 2012 under the Exchequer and Audit Departments Act 1921. The Trust Statement comprises the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of the Principal Accounting Officer's Responsibilities in respect of the Trust Statement, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the HM Revenue & Customs' Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of taxes, duties, National Insurance Contributions, Student Loan recoveries, fines, penalties and related expenditures administered by the Department as at 31 March 2012 and of the revenue and expenditure and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Emphasis of matter: significant uncertainty in the estimates of accrued revenue receivable and accrued revenue payable

In forming my opinion on the truth and fairness of the Trust Statement, which is not qualified, I have considered the adequacy of the disclosures made in notes 5 and 6 on the uncertainty in the estimates of accrued tax revenue receivable of £85.3 billion and accrued revenue payable of £26.3 billion at 31 March 2012. As described in Note 5.1.5, there may be differences between these forecasts and future outturns. The Department has set out its expectation of the maximum likely uncertainty within this note and in my view the significant uncertainty is adequately disclosed.

Opinion on other matters

In my opinion:

- the information given in Principal Accounting Officer's Foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Amyas C E Morse
Comptroller and Auditor General
27 June 2012

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

Statement of Revenue, Other Income and Expenditure for the year ended 31 March 2012

	Notes	2011-12 £ billion	Restated* 2010-11 £ billion
Taxes and duties			
Income Tax		151.8	157.5
Value Added Tax	2.1	99.6	90.3
Corporation Tax		40.1	46.4
Hydrocarbon Oils duties	2.2	26.9	27.2
Alcohol duties	2.3	10.1	9.5
Tobacco duties	2.4	9.9	9.3
Stamp Taxes	2.5	8.7	9.0
Other taxes and duties	2.6	23.0	21.0
Total taxes and duties		**370.1**	**370.2**
Other Revenue and Income			
National Insurance Contributions	3.1	101.6	96.9
Student Loan recoveries	3.2	1.3	1.3
Taxation due from Isle of Man	4	0.4	0.2
Fines and penalties		0.8	1.1
Total Other Revenue and Income		**104.1**	**99.5**
Total Revenue		**474.2**	**469.7**
Expenditure			
Impairment charges	7.1	(4.5)	(3.5)
Movement in provisions	8	0.9	(1.6)
Total Expenditure		**(3.6)**	**(5.1)**
Disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(101.0)	(96.1)
Appropriation of revenue to Resource Account	1.6	(30.4)	(29.5)
Student Loan recoveries due to the Department for Business, Innovation and Skills	3.2	(1.3)	(1.3)
Total Disbursements		**(132.7)**	**(126.9)**
Total Expenditure and Disbursements		**(136.3)**	**(132.0)**
Net Revenue for the Consolidated Fund		**337.9**	**337.7**

* Certain prior year figures have been restated as per Note 1.6

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 133 to 148 form part of this Statement.

Statement of Financial Position as at 31 March 2012

	Notes	31 March 2012 £ billion	Restated* 31 March 2011 £ billion
Non-current assets			
Receivables falling due after more than one year	5	0.8	1.0
Current assets			
Receivables	5	16.0	16.8
Accrued revenue receivable	5	85.3	85.6
Total current assets		**101.3**	**102.4**
Total assets		**102.1**	**103.4**
Current liabilities			
Payables	6	14.5	13.6
Accrued revenue payable	6	26.3	24.6
Deferred revenue	6	0.8	0.6
Bank balance		1.9	1.1
Total current liabilities		**43.5**	**39.9**
Assets less current liabilities		**58.6**	**63.5**
Non-current liabilities			
Provision for liabilities	8	2.1	4.4
Net Assets		**56.5**	**59.1**
Movements on Consolidated Fund Account:			
Balance on Consolidated Fund Account as at 1 April		59.1	45.7
Net Revenue for the Consolidated Fund		337.9	337.7
Less amount paid to Consolidated Fund		(340.5)	(324.3)
Balance on Consolidated Fund Account as at 31 March		**56.5**	**59.1**

* Certain prior year figures have been restated as per Note 1.6

The notes at pages 133 to 148 form part of this Statement.

Lin Homer
Principal Accounting Officer
22 June 2012

Statement of Cash Flows for the year ended 31 March 2012

	Notes	2011-12 £ billion	Restated* 2010-11 £ billion
Net Cash Flow from Revenue Activities	A	339.7	323.9
Cash paid to Consolidated Fund		(340.5)	(324.3)
Decrease in Cash in this period	B	**(0.8)**	**(0.4)**

Notes to the Statement of Cash Flows

A: Reconciliation of Net Cash Flow to movement in Net Funds

	2011-12 £ billion	Restated* 2010-11 £ billion
Net revenue for the Consolidated Fund	337.9	337.7
Decrease/(Increase) in non-cash assets	1.3	(9.1)
Increase/(Decrease) in liabilities	2.8	(4.2)
(Decrease) in provision for liabilities	(2.3)	(0.5)
Net Cash Flow from revenue activities	**339.7**	**323.9**

B: Analysis of changes in net funds

	2011-12 £ billion	2010-11 £ billion
Decrease in Cash in this period	(0.8)	(0.4)
Net Funds as at 1 April (Opening Cash at Bank)	(1.1)	(0.7)
Net Funds as at 31 March (Closing Cash at Bank)	**(1.9)**	**(1.1)**

* Certain prior year figures have been restated as per Note 1.6

Notes to the Trust Statement

1. Statement of Accounting Policies

1.1 Basis of Accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921;
- the 2011-12 Financial Reporting Manual issued by HM Treasury; and
- the accounting policies detailed below.

The accounting policies have been developed by HM Revenue & Customs (HMRC) in consultation with HM Treasury and have been reviewed during 2011-12 and these policies have been applied consistently in dealing with items considered material in relation to the accounts. The Trust Statement is prepared on a going concern basis.

The 'tax gap' is not recognised in the Trust Statement. The tax gap is defined as the difference between tax collected and that which should be collected (the theoretical liability). The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and HMRC's interpretation of the intention of Parliament in setting law (referred to as the spirit of the law). The tax gap estimate is net of the Department's compliance activities. An equivalent way of defining the tax gap is the tax that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

The financial information presented in the primary statements is rounded to the nearest £0.1 billion. The financial information presented in the notes to the financial statements is rounded to the nearest £0.1 billion except for Certificates of Tax Deposit, Student Loan recoveries, tax revenue due to/from the Isle of Man, revenue losses, Landfill tax and provision for liabilities which are rounded to the nearest £1 million, due to the much smaller amounts of revenue accrued.

1.2 Accounting Convention

The Trust Statement has been prepared in accordance with the historical cost convention. Taxes and duties are accounted for on an accruals basis, except for Stamp Duty and National Insurance Classes 1A, 1B and 3, which are accounted for on a cash basis. In addition, some repayments are accounted for on a cash basis as detailed in Note 1.3. Accounting for these elements on a cash basis does not have a material impact on the accounts.

1.3 Revenue Recognition

Taxes and Duties Recognised on an Accruals Basis

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HMRC. Note 5 provides an explanation of accrued revenue receivable and Note 5.1 describes the circumstances and approaches used where estimation of accruals is needed.

Taxable events for the material/significant tax streams are as follows:

- Income Tax and National Insurance Contributions (except 1A, 1B and 3) – earning of assessable income during the taxation period by the taxpayer. Where payments are received in advance of Self Assessment returns, the estimate of the Income Tax component is based on prior year Income Tax liabilities

- Value Added Tax – undertaking of taxable activity during the taxation period by the taxpayer
- Corporation Tax – earning of assessable profit during the taxation period by the taxpayer
- Alcohol and Tobacco duties – date of production, date of import or movement of goods out of a duty suspended warehouse
- Hydrocarbon Oils Duty – production of taxable goods
- Stamp taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) – purchase of property or shares
- Bank Levy – chargeable equity and liabilities as reported in balance sheet at end of chargeable period

Revenues are deemed to accrue evenly over the period for which they are due.

Taxes Recognised on a Cash Basis

Taxes are recognised in the accounting period in which the tax receipt is received and are measured at the cash amount received for Stamp Duty and National Insurance Classes 1A, 1B and 3.

Repayments for Capital Gains Tax, Inheritance Tax, Petroleum Revenue Tax and Stamp Duty are made on a cash basis. These are recognised in the period the repayment is made.

Tax Credits

Tax Credits are now recognised in the Resource Accounts (see Note 1.6 for further details). Payments are funded from Revenue and therefore disclosed in the Trust Statement as an appropriation to Resource Accounts.

National Insurance Contributions

National Insurance Contributions are collected by HMRC on behalf of the National Insurance Funds of Great Britain and Northern Ireland, and the Health Services for England, Wales, Scotland and Northern Ireland. They are payable to the Funds and the Health Services when received. For 2011-12 an allocation has been made between Income Tax and Class 1 National Insurance Contributions based on the Department's best estimate of the amounts of each likely to be reported in employers' end of year returns. Hence during the year the payments to the fund are on an estimated basis. The allocations are re-assessed when the end of year returns are available and any adjustments to the amounts are made with actual information on the income tax and national insurance contribution split. At year end, the difference between the revised estimated NIC receipts and amounts which have been paid over to National Insurance Funds and NHS funds is recognised as payable or receivable as appropriate. Amounts due from taxpayers to HMRC but not received at the end of the reporting period are included as receivables in Note 5 and as accrued revenue payable in Note 6 in respect of the Funds and Health Services.

Student Loan recoveries

HMRC collects Student Loans that are recovered through the taxes system on behalf of the Department for Business, Innovation and Skills (BIS). Student loan recoveries are accounted for on the basis of estimated cash collected during the year. The actual amounts recovered during the year are only known after the year end when employers submit their annual returns. Estimates of receipts are made in year using an estimation model and at year end are updated based on the latest figures of employer returns processed. At the year end the difference between estimated receipts (recoveries) and pay-over to BIS is shown as a receivable or payable. Differences between estimated and actual recoveries are adjusted and accounted for in the following year.

Fines and penalties

This consists of income arising from the levying of tax fines and penalties.

HM Treasury has given authority for certain penalties relating to Income Tax, Corporation Tax and Capital Gains Tax to be appropriated in aid by the Department, i.e. kept by the Department to fund the cost of collection and they are reported in the Resource Accounts. These amounts are included in the appropriation of revenue to the Resource Accounts.

Penalties relating to National Insurance Contributions are accounted for as NIC income and paid over to the National Insurance Fund.

1.4 Receivables

Receivables are shown net of impairment. See Note 7.4 for more information.

1.5 Provisions and contingent liabilities

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount has been reliably estimated.

Contingent liabilities are cases where it is probable that HMRC will be required to settle the obligation but is not able to estimate the amount reliably, or where it is possible that HMRC will be required to settle the obligation. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the Department.

1.6 Restated totals for 2010-11

The prior year comparative data has been restated due to the following:

1. The HM Treasury Clear Line of Sight (CLoS) initiative aims to provide greater transparency in government finance. By aligning key financial documents, such as Departmental Estimates, Treasury Budgetary Controls and published accounts, all readers of financial publications will have a greater scrutiny of spending.

   Under this initiative the reporting of Personal Tax Credits and certain Corporation Tax Credits together with the negative tax element of Payments in Lieu of Tax Relief has moved from the Trust Statement to the Resource Accounts. The funding continues to be provided from Tax Revenues and is reported as appropriation to Resource Accounts.

2. In addition £266 million Income Tax revenue losses were omitted in error in 2010-11.

Prior year restated figures are shown below:

Statement of Revenue and Other Income and Expenditure

Item	Published 2010-11 £ billion	Restated 2010-11 £ billion
Income Tax**	157.2	157.5
Corporation Tax*	45.9	46.4
Total taxes and duties***	369.4	370.2
Total revenue***	468.9	469.7
Tax Credits*	28.1	-
Impairment charges***	(4.4)	(3.5)
Total expenditure***	(34.1)	(5.1)
Appropriation to Resource Account*	N/A	(29.5)
Total Disbursements*	(97.4)	(126.9)
Total Expenditure and disbursement ***	(131.5)	(132.0)
Net Revenue for Consolidated Fund***	337.4	337.7

Note: The published Tax Credits value was on an accruals basis but is restated on a cash basis.

Statement of Financial Position

Item	Published 2010-11 £ billion	Restated 2010-11 £ billion
Receivables falling due after more than one year *	2.1	1.0
Receivables*	17.4	16.8
Accrued revenue receivable (rounding only)	85.7	85.6
Prepayments*	0.2	-
Payables*	14.1	13.6
Assets less current liabilities*	65.0	63.5
Net Assets (less provision for liabilities)*	60.6	59.1
Net Revenue for the Consolidated Fund*	337.4	337.7
Balance on the Consolidated Fund*	60.6	59.1

Impairment of receivables

		Published 2010-11 £ billion	Restated 2010-11 £ billion
Losses***	Note 7.1 and 7.2	5.9	5.5
Impairment of receivables*	Note 7.4	10.0	7.1
(Decrease) in impairment of receivables***	Note 7.1 and 7.4	(1.5)	(2.0)

* Due to Clear Line of Sight changes
** Due to the restatement of losses
*** Due to a combination of both Clear Line of Sight changes and the restatement of losses

2. Taxes and duties due

2.1 Value Added Tax

	2011-12 £ billion	2010-11 £ billion
Gross VAT Revenue	174.9	155.5
Less: Revenue Repayable	(75.3)	(65.2)
Net VAT Revenue	**99.6**	**90.3**

VAT is structured in such a manner that taxpayers are also entitled to claim repayments; hence a breakdown of gross revenue and repayments is disclosed.

2.2 Hydrocarbon Oils duties

	2011-12 £ billion	2010-11 £ billion
Road Fuel	26.0	26.4
Rebated Fuel	0.9	0.8
Total	**26.9**	**27.2**

2.3 Alcohol duties

	2011-12 £ billion	2010-11 £ billion
Wine, Cider and Perry	3.7	3.4
Beer	3.5	3.4
Spirits	2.9	2.7
Total	**10.1**	**9.5**

2.4 Tobacco duties

	2011-12 £ billion	2010-11 £ billion
Cigarettes	8.8	8.5
Hand rolling tobacco	1.0	0.7
Cigars	0.1	0.1
Total	**9.9**	**9.3**

2.5 Stamp taxes

	2011-12 £ billion	2010-11 £ billion
Stamp Duty Land Tax	6.2	6.0
Stamp Duty Reserve Tax	2.2	2.8
Stamp Duty	0.3	0.2
Total	**8.7**	**9.0**

2.6 Other taxes and duties

	Note	2011-12 £ billion	2010-11 £ billion
Capital Gains Tax		4.4	3.7
Insurance Premium Tax		3.0	2.5
Customs Duties		3.0	3.0
Inheritance Tax		2.8	2.7
Air Passenger Duty		2.6	2.2
Petroleum Revenue Tax		2.0	1.6
Betting and Gaming		1.6	1.6
Bank Levy		1.5	0.7
Landfill Tax	2.7	1.1	1.1
Climate Change Levy		0.7	0.7
Aggregates Levy		0.3	0.3
Bank Payroll Tax		–	0.9
Total		**23.0**	**21.0**

Bank Payroll Tax ceased to be effective from 5 April 2010.

2.7 Landfill Tax

The Landfill Tax revenue of £1,076 million (2010-11: £1,137 million) is net of £68 million (2010-11: £65 million) contributions made to environmental bodies by landfill operators, under the Landfill Communities Fund (formerly the Landfill Tax Credit Scheme.)

Landfill Tax was introduced on 1 October 1996 as a tax on the disposal of waste through landfill. It is levied on landfill operators by weight of refuse disposed in landfill sites. The Landfill Communities Fund was introduced at the same time as the tax. It allows operators to claim tax credits for contributions they make to approved environmental bodies for environmental improvement works in the vicinity of landfill sites. The recipients spend the contributions which meet one of the objectives specified in the Landfill Tax Regulations. Operators can contribute up to 6.2 per cent (5.0 per cent in 2010-11) of their Landfill Tax liability and reclaim 90 per cent of the contributions they make as a tax credit. ENTRUST is a not-for-profit private sector company which acts as regulator of the Landfill Communities Fund and is an arm’s length body of HMRC.

3. Other revenue

3.1 National Insurance Contributions

	Note	Net Revenue 2011-12 £ billion	Net Revenue 2010-11 £ billion
National Insurance Fund – Great Britain		79.8	74.1
National Insurance Fund – Northern Ireland		1.6	1.5
National Health Services (NHS)		20.2	21.3
Total Revenue		101.6	96.9
Remissions and write-offs	7.2	(0.6)	(0.8)
Net Revenue due to the National Insurance Funds and National Health Services for the year		**101.0**	**96.1**

	Cash Paid to NIFs/NHS 2011-12 £ billion	Cash Paid to NIFs/NHS 2010-11 £ billion
National Insurance Fund – Great Britain (GB)	79.6	77.1
National Insurance Fund – Northern Ireland (NI)	1.6	1.5
National Health Services (NHS)	20.0	21.3
Totals	**101.2**	**99.9**

Cash balances owing to/(due from) the National Insurance Funds (NIF) and NHS as at 31 March 2012 were:

- NIF Great Britain: £0.7 billion (opening balance at 1 April 2011: £1.0 billion)
- NIF Northern Ireland: (£0.1 billion) (opening balance at 1 April 2011: (£0.4 billion))

The combined balance of £0.6 billion is included within payables (Note 6).

National Insurance Contributions are paid over to the National Insurance Funds and National Health Services when received and not when accrued (as published in the GB and NI White Paper Accounts). The balances owing to/(due from) the National Insurance Funds (NIF) and NHS represent the difference between cash receipts and cash transferred to the NIF and NHS.

Almost all Pay-as-You-Earn (PAYE) payments are made as combined payments of income tax and Class 1 National Insurance Contributions without any notification at the time of the breakdown between the two. An allocation has been made between Income Tax and Class 1 National Insurance Contributions based on the Department's best estimate of the amounts of each likely to be reported in employers' end of year returns. The allocations are re-assessed when the end of year returns are available and any adjustments to the amounts due are made with actual information on the Income Tax and National Insurance Contribution split.

3.2 Student Loan recoveries

	2011-12 £ million	2010-11 £ million
Revenue	1,251	1,296
Payments	(950)	(1,460)
	301	(164)
Balance at 1 April	(146)	18
Balance at 31 March – Included payables/(receivables)	**155**	**(146)**

See Note 1.3 for more detail.

There is a net underpayment of £155 million to BIS at 31 March 2012 which is mainly due to a change in the frequency that HMRC payover to BIS. The final payment for 2011-12 was made in April 2012. Any further balance, with HM Treasury authorisation, will be rectified by increasing payments to BIS during 2012-13. Any adjustments to the annual figures will be reflected in next year's Trust Statement.

4. Taxation Revenue due from the Isle of Man

	£ million	2011-12 £ million	£ million	Restated* 2010-11 £ million
Opening payable/(receivable) (amount due to/(from) IoM)		(85)		10
IoM share of revenue receipts	317		375	
Revenue collected and retained in IoM	(722)		(658)	
Surplus revenue collected in IoM on behalf of UK		(405)		(283)
Payments received from IoM	496		198	
Payments made to IoM	–		(10)	
Net Payments during the year		496		188
Balance owed (from)/to IoM at 31 March included in (receivables)/payables		**6**		**(85)**

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man Governments whereby VAT and certain Customs and Excise duties (known as Common Duties) are pooled and shared on an agreed basis.

The Isle of Man Treasury is therefore entitled to a share of Common Duties collected in both the United Kingdom and the Isle of Man that are attributable to goods consumed or services supplied on the Island. This share is reduced by the Common Duties collected and retained by the Isle of Man and by UK costs of collection.

The 2010-11 figures shown in the note last year were based on estimates. The 2010-11 figures have been revised in this account to reflect the certified IOM Annual Account Figures.

The 2011-12 calculations are also based on reliable estimates but may change once the 2011-12 Annual Account is completed and certified by the Comptroller & Auditor General late in 2012.

In July 2011, a revised revenue sharing agreement was concluded wherein the IOM share for 2011-12 was fixed at £272 million. This revised agreement was implemented from August 2011 and appropriate year to date adjustments in favour of the UK were made.

5. Receivables and accrued revenue receivable

	Receivables as at 31 March 2012 £ billion	Accrued revenue receivable as at 31 March 2012 £ billion	Total as at 31 March 2012 £ billion	Restated* Total as at 31 March 2011 £ billion
Receivables and accrued revenue receivable due within one year:				
Income Tax	6.6	28.0	34.6	35.1
Value Added Tax	7.8	27.0	34.8	33.6
Corporation Tax	2.1	12.0	14.1	16.9
Hydrocarbon Oils duties	0.1	1.3	1.4	1.3
Alcohol duties	0.1	0.8	0.9	0.8
Tobacco	–	1.8	1.8	1.5
Stamp taxes	0.3	0.3	0.6	0.6
Bank Levy	–	0.6	0.6	0.7
Other taxes and duties	1.2	2.0	3.2	3.0
National Insurance Contributions	2.8	11.5	14.3	14.3
Isle of Man	–	–	–	0.1
Fines and Penalties	1.4	–	1.4	1.4
Other receivables	–	–	–	0.2
Totals before impairment	22.4	85.3	107.7	109.5
Less impairment	(6.4)	–	(6.4)	(7.1)
	16.0	**85.3**	**101.3**	**102.4**
Receivables due after more than one year:				
Inheritance Tax	0.6	–	0.6	0.7
Corporation Tax	0.2	–	0.2	0.3
Totals before impairment	0.8	–	0.8	1.0
Less impairment	–	–	–	–
	0.8	**–**	**0.8**	**1.0**
Totals before impairment	**23.2**	**85.3**	**108.5**	**110.5**
Less impairment (Note 7.4)	(6.4)	–	(6.4)	(7.1)
Total	**16.8**	**85.3**	**102.1**	**103.4**

* Certain prior year figures have been restated as per Note 1.6

Receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received at the Statement of Financial Position date. Examples of liabilities that are due but not overdue are VAT returns received prior to the Statement of Financial Position date, where electronic payment is due during the first week in April, and some assessments issued to taxpayers where a period of time (generally 30 days) is allowed for payment to be made.

Accrued revenue receivable represents taxes and duties relating to the financial year that are not yet due or received from taxpayers where these have not been included in receivables. The majority of these amounts have been estimated using statistical models based on projections of the most recent revenue flows and forecasts of economic variables on which future revenue flows depend.

In addition to receivables and accrued revenue receivables, HMRC have a number of taxpayer liabilities which have been postponed pending finalisation of enquiries. These items arise predominantly under PAYE/SA and Corporation Tax. For most cases the revenue cannot be measured reliably and the probability of an economic flow to HMRC is viewed as low. However to ensure all appropriate liabilities are disclosed, HMRC undertake a review of material postponed Corporation Tax cases. As a result of the review, an amount of £0.7 billion (2010-11: £0.7 billion) has been included in accrued revenue receivables where there is reliable evidence that the amount is due to HMRC.

5.1 Accruals measurement and Accounting Estimates

The underlying approach to accruals measurement is that revenues from taxation are deemed to accrue evenly over the period for which they are due. Revenues are recognised in the period in which the event that generates the revenue occurs.

Estimates have been provided to support the accrued revenue receivable balances and accrued revenue payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published. That is for Income Tax collected under PAYE, self assessment, Company Income Tax and Tax Deducted from Savings Income, Corporation Tax, Value Added Tax, Petroleum Revenue Tax, Stamp Duty Land Tax, Stamp Duty Reserve Tax, Bank Levy and National Insurance Contributions (Class 1 collected through PAYE and Class 4 collected through self assessment). Accounting estimates have also been provided to support the Value Added Tax and National Insurance Contributions accrued revenue payable balances.

In preparing our estimates we have to take account of and make judgements on, areas of uncertainty around those complex factors that determine future revenue flows. We utilise statistical models to derive the estimates, using a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. Though we have based these forecasts on what we believe to be the relevant inputs the areas of uncertainty involved mean there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in our models. We believe that the levels of variation are acceptable with a maximum likely overall uncertainty expected to be some £4 billion which does not significantly affect the reported position. This figure is equivalent to less than 1 per cent of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

We base this view of maximum likely overall uncertainty on a combination of evidence from the performance of the models over previous years and the judgement of professional departmental economists and statisticians having substantial experience of forecasting in the area of direct taxes.

The accuracy of the estimates included in the 2010-11 Trust Statement has been reviewed as more recent data has become available, and were within the levels of overall uncertainty quoted there.

Accrued revenue receivable is separately estimated for each revenue stream and component of Income Tax. The estimates used are those prepared for March 2012 Budget on the basis of the economic assumptions provided by the Office for Budget Responsibility. The most important of these assumptions were that profits from self-employment fell by 2.1 per cent in 2011-12 and dividend income rose by 11.9 per cent, while savings income fell by 5 per cent.

In respect of indirect taxes, accrued revenue receivable and accrued revenue payable are estimated for VAT, as the amounts involved are material. These include a significant amount of actual data available after 31 March which is included in the estimation calculations. Estimation techniques are not required for other indirect taxes and duties where actual data is available.

Descriptions of the estimation techniques and details of the underlying assumptions have not been provided for Petroleum Revenue Tax, Stamp Duty Land Tax, Stamp Duty Reserve Tax, Company Income Tax and Tax Deducted from Savings Income as the estimated monetary amounts are either relatively small or not deemed to be particularly sensitive to changes in the underlying assumptions.

5.1.1 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies, who previously paid QIPs, have from 2006-07 moved to paying their Corporation Tax liabilities in three instalment payments (TIPs). Separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies.

Onshore companies

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts. The principal assumptions are shown below:

	2011-12 (per cent)	2010-11 (per cent)
Proportion of Corporation Tax liability remitted with first QIP	24.9	26.5
Proportion of Corporation Tax liability remitted with second QIP	24.5	24.3
Proportion of Corporation Tax liability remitted with third QIP	28.0	26.3
Adjustment for overpayment of Corporation Tax liabilities	(12.0)	(12.0)
Adjustment for late payment of Corporation Tax liabilities	7.0	7.0

The proportions of Corporation Tax liability remitted with the first, second and third QIPs are now being separately calculated for each relevant accounting period. The proportions shown above are the overall weighted averages.

For accounting periods where no QIPs have been received, accrued revenue receivable has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in Corporation Tax liabilities. The annual growth rates applied are based on the economic assumptions that are provided by the Office for Budget Responsibility (OBR) and used to forecast Corporation Tax revenues for the March 2012 Economic and Fiscal Outlook, and are shown below:

	2011-12[1] (per cent)	2010-11[2] (per cent)
Annual Growth in Corporation Tax liabilities		
Onshore companies	(1.3)	6.1

1 This is the growth rate used in the 2011-12 Trust Statement and relates to the growth in 2012-13 liabilities compared to those in 2011-12.
2 This is the growth rate used in the 2010-11 Trust Statement and relates to the growth in 2011-12 liabilities compared to those in 2010-11.

North Sea companies

The accrued revenue receivable for 2011-12 is almost entirely attributable to companies with accounting periods ending December 2012. These are accounting periods for which no TIPs have been received and so the estimate is primarily based on prior year outturn liabilities adjusted for forecast growth in North Sea companies' Corporation Tax liabilities. The growth rate used for 2011-12 is shown below:

	2011-12[1] (per cent)	2010-11[2] (per cent)
Annual Growth in Corporation Tax liabilities		
North Sea companies	(13.0)	54.3

1 This is the growth rate used in the 2011-12 Trust Statement and relates to the growth in 2012-13 liabilities compared to those in 2011-12.
2 This is the growth rate used in the 2010-11 Trust Statement and relates to the growth in 2011-12 liabilities compared to those in 2010-11.

5.1.1.1 Bank Levy

In line with its June 2010 Budget announcement, the Government introduced a levy on banks and banking groups[1] chargeable equities and liabilities with effect from 1 January 2011. This followed publication of the draft Finance Bill on 9 December 2010 and consultation over the summer and autumn.

Banks and banking groups pay the Levy as part of their regular QIPs payments although the first payment in respect of 2011 liabilities was not received until after Finance Act 2011 received Royal Assent in late July 2011. Most banks and banking groups made their first payment in October 2011.

As the Bank Levy is based on annual balance sheet figures, accrued revenue receivable will be estimated by assuming the Bank Levy revenue accrues evenly throughout the banks' accounting periods.

The accrued revenue receivable figures have been estimated partly based on Bank Levy payments received up to the end of April 2012 and, where no QIPs have been received for particular accounting periods, they are based on OBR forecasts set out in the March 2012 Economic and Fiscal Outlook.

1 Banks and banking groups also includes building societies, building society groups and banking sub groups in non-banking groups.

5.1.2 *Income Tax collected under PAYE*

The PAYE accrued revenue receivable balance primarily relates to expected receipts from employers relating to the 2011-12 tax year which have not been received by year end. The level of uncertainty around these estimates is reduced as the Department is able to compare expectations to the actual level of employer receipts which have been received post year end.

Accrued revenue receivable for Income Tax collected under PAYE also includes amounts expected to fall due once end of year reconciliations of taxpayers' records have been completed. These amounts have been estimated based upon previous experience of the levels of underpayments from end of year reconciliations done in previous years, as there are no alternate sources of information to draw from. Changes in underlying assumptions that might affect this part of the estimate would include unexpected changes to the reported levels of taxable income and benefits; although these will vary on an individual basis, the underlying assumption is that across the population as a whole these differences will even out, reducing the level of uncertainty at a global level.

5.1.3 *Self Assessment Income Tax and National Insurance Contributions Class 4*

Accrued revenue receivable represents accrued tax liabilities for 2011-12 where payment is not yet due at 31 March 2012. The estimation process has three stages:

(i) estimation of accrued tax liabilities for 2011-12. The estimates used are those prepared for Budget 2012 on the basis of the economic assumptions provided by the Office for Budget Responsibility (OBR). The most important of these assumptions were that profits from self-employment fell by 2.1 per cent in 2011-12 and dividend income rose by 11.9 per cent, while savings income fell by 5 per cent. The IT SA forecast has been revised slightly to incorporate latest 'head of duty analysis' results (see below for more information), the class 4 NICs forecast is as published at Budget 2012 as changes due to latest head of duty analysis are very small;

(ii) deduction from the 2011-12 accrued tax liabilities of relevant payments by 31 March 2012. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total self assessment receipts of income tax, NICs Class 4 and capital gains tax between these three components. The breakdown is estimated from separate information on self assessment liabilities;

(iii) a further deduction for payments due by 31 March but not made by that date (these are included in the receivable balances). The amounts relate to payments on account due on 31 January. The breakdown of the total between income tax and NICs is made by statistical estimation.

5.1.4 *Value Added Tax*

VAT registered businesses in the UK are required to submit VAT returns either monthly, quarterly or annually one month in arrears of the end of the relevant accounting period. Consequently, some, but not all, information relating to VAT accrued revenue receivable and payable was available at the time of publication of these accounts.

To facilitate the creation of estimates for the remaining elements, historical time-series have been created to show the accrued revenue by month. Established statistical forecasting techniques have then been applied to construct estimates for the more recent periods based on the resulting trends. These have been combined with actual return data and adjusted to account for any payments or repayments relating to these returns that were made prior to the financial year end. This provides an estimate of accrued revenue receivable and payable via the regular return process. The statistical models selected on the basis of historical data provide a reliable indication of future accrued revenue receivable and payable.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments have been made to reflect VAT that is accounted for outside the process described above. The principal adjustments relate to import VAT, repayments made to government departments and Officers' Assessments of errors in submitted VAT returns. These are based largely on actual return information although some forecast element remains.

5.1.5 *Uncertainty Around the Estimates*

Statistical models are used to derive the estimates and these are based on a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what HMRC believes to be the relevant inputs, as previously described. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models. HMRC believes that the levels of variation are acceptable with a maximum likely overall uncertainty expected to be some £4 billion, which does not significantly affect the reported position. This figure is equivalent to less than 1 per cent of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

This maximum likely overall uncertainty is based on a combination of evidence from the performance of the models over previous years and the judgement of professional departmental economists and statisticians having substantial experience of tax forecasting.

6. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2012 £ billion	Accrued revenue payable as at 31 March 2012 £ billion	Deferred Revenue as at 31 March 2012 £ billion	Total as at 31 March 2012 £ billion	Restated* Total as at 31 March 2011 £ billion
Value Added Tax	1.8	10.4	–	12.2	11.4
Corporation Tax	10.3	0.3	0.2	10.8	10.9
Income Tax	–	1.3	–	1.3	–
National Insurance Funds and the NHS	0.6	14.3	–	14.9	14.9
Other revenue payables	0.4	–	0.6	1.0	0.4
Payments on Account	1.4	–	–	1.4	1.2
Total	**14.5**	**26.3**	**0.8**	**41.6**	**38.8**

* Certain prior year figures have been restated as per Note 1.6

Payables are amounts recorded as due at the end of the reporting period but payment has not been made in full.

There are three distinct types of accrued revenue payable. These comprise, firstly, amounts due to VAT traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period; secondly amounts of receivables and accrued revenue receivable that when received will be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services; thirdly amounts in respect of Corporation Tax and Income Tax likely to be repayable by HMRC pending finalisation of taxpayer liabilities.

Deferred revenue includes duties and taxes paid in the current year that relate to future accounting periods.

There are no payables which fall due after one year.

7. Impairment charges

In prior years this has been known as provision for bad and doubtful debts but this year has changed to impairment charges to reflect International Accounting Standards (IAS).

7.1 Breakdown of impairment charges

	Notes	2011-12 £ billion	Restated* 2010-11 £ billion
Revenue losses	7.2	5.2	5.5
(Decrease) in impairment of receivables	7.4	(0.7)	(2.0)
Total impairment charges		**4.5**	**3.5**

* Certain prior year figures have been restated as per Note 1.6

Impairment charges are made up of revenue losses and the movement in the impairment of receivables. The analysis of revenue losses is shown below:

7.2 Revenue losses

	Remissions 2011-12 £ million	Write-offs 2011-12 £ million	Total 2011-12 £ million	Remissions 2010-11 £ million	Write-offs 2010-11 £ million	Restated* Total 2010-11 £ million
Income Tax	756	743	1,499	675	937	1,612
Value Added Tax	13	1,907	1,920	48	1,941	1,989
Corporation Tax	3	500	503	2	633	635
Alcohol Duties	3	61	64	–	10	10
Tobacco Duties	–	1	1	3	–	3
Capital Gains Tax	4	38	42	3	36	39
National Insurance Contributions	74	579	653	66	757	823
Fines and Penalties	98	305	403	6	363	369
Other Remissions and Write-offs	6	80	86	5	18	23
Total Revenue Losses	**957**	**4,214**	**5,171**	**808**	**4,695**	**5,503**

* Certain prior year figures have been restated as per Note 1.6

Remissions are debts capable of recovery but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

For certain taxes only a partial split between remissions and write-offs is known. Where information is unavailable the percentage split of the known element is applied to the remainder to calculate a total estimated remission and write-off split.

7.3 Revenue Losses – Cases over £10 million

There were 21 cases, including 1 bulk write off case (31 cases in 2010-11) where the loss exceeded £10 million, totalling £1 billion. Specific details are shown below.

There were 10 write-offs of VAT, interest, surcharge and penalties relating to Missing Trader Intra-Community Fraud (MTIC) over £10 million each, totalling £202 million. All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 10 write-offs relating to Insolvency over £10 million each. They were for VAT, Corporation Tax, Income Tax and Excise Duty including interest, surcharge and penalties totalling £181 million.

There was a bulk remission of £25 million for Income Tax relating to 8,372 cases. These related to financial years 2006-07 and earlier where the debts were considered not cost effective to pursue and the remission was therefore progressed on a value for money basis.

7.4 Impairment of receivables

	2011-12 £ billion	Restated* 2010-11 £ billion
Balance as at 1 April	7.1	9.1
(Decrease) in impairment of receivables	(0.7)	(2.0)
Balance as at 31 March	**6.4**	**7.1**

* Certain prior year figures have been restated as per Note 1.6

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on HMRC's analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. The Department assesses the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The impairment of receivables is calculated to provide a fair value of receivables, in effect reducing them to a value that is likely to be collected and providing for non-collectable debt.

Non-collectable debt includes legally due debt that is written-off or remitted (losses), in addition to debt that is discharged, amended or cancelled, as information is received which reduces the liability or confirms that it is not legally due. The discharge, amendment and cancelled element results from liabilities being estimated by either the Department or the taxpayer and then subsequently amended once the true liability is known.

8. Provision for liabilities and contingent liabilities

8.1 Provision for liabilities

	Claims 2011-12 £ million	**Claims 2010-11 £ million**
Balance at 1 April	4,381	4,919
Provided in the year	410	2,558
Provision not required written back	(1,264)	(977)
Provision utilised in the year	(1,446)	(2,119)
Balance at 31 March	**2,081**	**4,381**

HMRC is involved in a number of legal and other disputes which can result in claims by taxpayers against HMRC. It is in the nature of HMRC's business that a number of these matters may be the subject of negotiation and litigation over several years. The Department, having taken legal and other specialist advice, has established provisions having regard to the relevant facts and circumstances of each matter and in accordance with accounting requirements. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations.

In addition to legal and other disputes this provision also includes probable repayments of tax for PAYE open cases amounting to £0.7 billion (2010-11: £2.5 billion) that will be made once the cases are reconciled.

The accounting policy on provisions and contingent liabilities can be found in Note 1.5.

8.2 Provision for contingent liabilities

8.2.1 Legal disputes

HMRC currently has 20 cases where the maximum potential tax revenue that could be repaid, before losses, capital allowances and other reliefs, is over £100 million. This covers a range of tax streams, including Corporation Tax, Income Tax, and VAT.

The total meeting the criteria for contingent liabilities for legal disputes is estimated at £14.5 billion compared to £9.7 billion as at 31 March 2011.

8.2.2 Consequences of oil and gas field decommissioning on revenues from UK oil and gas exploration and production

The Oil Taxation Act 1975, as subsequently amended, allows for Petroleum Revenue Tax (PRT) losses, including losses arising from the decommissioning of infrastructure associated with UK oil and gas fields subject to PRT, to be carried back indefinitely. As a result, there is always the possibility that losses arising from decommissioning will be set-off against the assessable profit arising for any chargeable period during the life of the field. The set-off must be made first against the assessable profit arising in the latest possible chargeable period with any balance of the loss offset against the profits of previous periods, working backwards until the losses are fully used or all profits for previous periods are covered. Consequently, the PRT charged for the periods to which the losses are carried back may be less than originally returned. Where generated losses give rise to a repayment of PRT, there are provisions for the repayment to carry a capped amount of interest.

The Corporation Tax Act 2010 allows a company incurring a loss in a trade to set that loss against profits of the same accounting period of the loss and of earlier accounting periods so far as they fall within the twelve months ending immediately before the loss making period begins and during which the trade was being carried on. To the extent the loss does not exceed a special allowance made for the accounting period in respect of general decommissioning expenditure of a ring fence trade, the carry back period is three years rather than twelve months. For accounting periods beginning on or after 12 March 2008, the carry back period for relief for such losses and terminal losses was extended to allow the losses to be carried back and set against ring fence profits of previous accounting periods back to 17 April 2002.

There is considerable uncertainty in the amount and timing of decommissioning costs which depend on a range of economic, technical and environmental factors, for example the effect of movements in oil and gas prices. The total future cost of decommissioning, based on the 2012 Oil & Gas UK Activity Survey, is uncertain but is currently estimated at around £33 billion (at 2011 prices) for the full expected life of UK oil and gas, over which period significant levels of revenue for the Exchequer have and continue to be generated (the previous estimate, in the 2011 Survey, was £29 billion). The estimated contingency cost to the Exchequer in relief against Petroleum Revenue Tax and Corporation Tax, based on the estimated £33 billion cost to the industry, is around £20 billion. A large percentage of this relief will not be realised in repayments, particularly in the case of Corporation Tax, as it will be deducted from future profits chargeable to tax and will serve to reduce future tax liabilities.

At Budget 2012, the Government announced that it will introduce legislation in 2013 giving it statutory authority to sign contracts with companies operating in the UK and UK Continental Shelf, to provide assurance on the relief they will receive when decommissioning assets. The Government is consulting on the precise form and details of such contracts and will also continue to work with industry with a view to refining projections of future decommissioning costs.

9. UK–Swiss Confederation Tax Agreement

The UK–Swiss Confederation Tax Agreement aims to regularise the Swiss assets of UK individuals and is expected to come into force on 1 January 2013. The Agreement will cover tax liability in the years 2003-2012 through a one-off payment for the past, and a future withholding tax from 2013 onwards. Assets will be in scope if they are beneficially owned by a UK resident taxpayer. This agreement was signed by the UK and Swiss governments on 6 October 2011. Legislation was included in the UK in Finance Bill 2012 which is expected to get Royal Assent in 2012; this will ensure that the agreement comes into force on 1 January 2013.

Subject to the agreement coming into force the Swiss banks will make an upfront payment of 500 million Swiss Francs in February 2013 in anticipation of monies due once the agreement starts to operate fully. This amount has not been included in the Trust Statement accrued revenue balances.

10. Certificates of Tax Deposits

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities. Relevant taxes and liabilities can be found on the HMRC website (www.hmrc.gov.uk). HMRC administers this scheme on behalf of HM Treasury, and the accounts of the National Loans Fund include the principal and accrued interest for all issued CTDs as at 31 March.

Delays in processing between the issue and redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in balances at the year end; these balances are included within receivables or payables on the Statement of Financial Position in the Trust Statement.

	CTD Issues 2011-12 £ million	CTD Redemptions 2011-12 £ million	CTD Total 2011-12 £ million	CTD Total 2010-11 £ million
Receipts	239	276	515	906
Payments	(233)	(268)	(501)	(905)
			14	1
Balance at 1 April			(5)	(6)
Balance at 31 March – Included in payables/(receivables)			**9**	**(5)**

11. RN Limited

RN Limited, a company registered in 1933, is used by HMRC as a nominee to hold charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement. RN Limited also holds as nominee and on behalf of HMRC assets that have been assigned to HMRC in settlement of debts.

12. Third Party Assets

The Department holds cash and other assets which have been seized in relation to ongoing legal proceedings. These assets do not belong to the Department and do not form part of these accounts, although where seized assets are forfeited without legal proceedings, proceeds are recognised as Penalty Income.

The Department also holds Euro deposits in relation to traders who are located outside the European Union but who are trading electronically via the internet with EU member states. Neither the Department nor the Government generally have any beneficial interest in these funds.

13. Related-Party Transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No Board member, key manager or other related parties have undertaken material transactions with the Department during the year.

14. Events after the reporting period

There are no reportable events after the reporting period. The financial statements were authorised for issue by the Principal Accounting Officer on 27 June 2012.

Accounts Direction Given by HM Treasury

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 2 OF THE EXCHEQUER AND AUDIT DEPARTMENTS ACT 1921.

1. This direction applies to those government departments listed in appendix 2.

2. The Department shall prepare a Trust Statement ('the Statement') for the financial year ended 31 March 2012 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ('FReM') which is in force for 2011-12.

3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the Department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties in so far as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 13). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Chris Wobschall
Deputy Director, Assurance and Financial Reporting Policy
HM Treasury
20 December 2011

National Audit Office

HM Revenue & Customs 2011-12 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2011-12 Accounts of HM Revenue & Customs

28 June 2012

Issued under Section 2 of the Exchequer and Audit Departments Act 1921

Amyas Morse
Comptroller and Auditor General
National Audit Office

27 June 2012

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Summary

About this report

1 This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General (C&AG) must assess the adequacy of the systems to assess and collect taxes.

2 This report forms part of our programme of audit work on HM Revenue & Customs (the Department). The programme includes our examination under section 2, our annual financial audit of the Department's accounts, and value-for-money studies which are the subject of separate reports to Parliament. Our work is designed to support effective parliamentary scrutiny of the Department's activities and to provide insight and make recommendations to help the Department meet its objectives.

3 The report is arranged in five parts:

- **The Summary** describes the scope of the audit and provides our overall conclusion and principal findings and recommendations in each area;
- **Part One** summarises the findings of relevant reports we have published in the last year and sets out some key facts and figures about revenue collected by the Department in 2011-12;
- **Part Two** covers progress in **stabilising the PAYE service** since the serious problems that emerged when the Department introduced the new National Insurance and PAYE service (NPS) system in 2009;
- **Part Three** covers the Department's performance in **managing tax debt**, including its progress in implementing a revised debt management strategy introduced in 2009-10; and
- **Part Four** examines the Department's progress in tackling error and fraud in respect of tax credits, and the effectiveness of its approach to managing debt arising from the tax credits system.

Scope of the audit

4 Section 2 of the Exchequer and Audit Departments Act 1921 requires the C&AG "to examine the accounts of HM Revenue & Customs (the Department) to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out". The C&AG is also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons. This report meets that requirement, taken alongside the C&AG's audit opinion on the Department's *Trust Statement* account, which records the tax revenues the Department has collected.

5 The C&AG provides a separate audit opinion on the Department's *Resource Account*, which records the Department's running costs and other spending, most significantly its spending on tax credits. Before 2011-12, tax credit expenditure and related balances were reported in the *Trust Statement*. From 1 April 2011, these are reported in the *Resource Accounts* to reflect changes in accounting policy resulting from the government's 'clear line of sight' project to align departmental budgets and accounts. For ease of reporting, we have included our examination of tax credits in this report.

Wider work supporting the C&AG's conclusion

6 In forming his conclusion, the C&AG considers a range of work that complements his section 2 examination, including the results of our financial audit of the Department's accounts and the findings of value-for-money work. Relevant work by the NAO published in the last year, which is summarised in Part One, include reports published under the C&AG's section 2 powers and value-for-money reports.

Reports published under the C&AG's Section 2 powers

7 We published the *Renewed alcohol strategy: a progress report* in January 2012. We concluded that the Department had achieved its key financial objective in the first year of the strategy but had not disrupted the supply chain for alcohol diverted illicitly on to the UK market.

8 In June 2012, we published a report on the reasonableness of five large tax settlements that had been the subject of Committee of Public Accounts' scrutiny following our report on the Department's 2010-11 accounts. Our original report had concluded that the Department had not followed its normal governance processes in agreeing these settlements. Our June 2012 report found that all five settlements were reasonable and the overall outcome for the Exchequer was good, but expressed concerns about the processes through which the settlements were reached.

Value-for-money reports

9 We have published five reports in the last year that evaluated the value for money of the Department's activities. Of particular relevance to the C&AG's conclusion in discharging his section 2 responsibilities were our reports *The expansion of online filing of tax returns* (November 2011) and *The compliance and enforcement programme* (March 2012).

Conclusion

10 While recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, we conclude that in 2011-12 HM Revenue & Customs has framed adequate regulations and procedure to secure an effective check on the assessment, collection and proper allocation of revenue, and that they were being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

Principal findings and recommendations

The PAYE Service (Part Two)

11 We have previously reported in last year's report on accounts the difficulties the Department faced in operating PAYE after introducing its National Insurance and PAYE Service (NPS) system.

Findings

12 **The Department is part way through its plan to stabilise the PAYE service.** It had many key activities to complete in 2011-12 to meet its target to be operating a normal PAYE service by March 2013. The Department:

- has met its target to process 6.7 million end-of-year reconciliations relating to the 2008-09 and 2009-10 tax years. The Department carries out end-of-year reconciliations on each taxpayer's record to determine whether the correct amount of tax has been paid;
- is on track to reconcile the 2010-11 and 2011-12 tax years by March 2013; and
- is also on track to clear outstanding reconciliations predating the introduction of NPS relating to tax years 2003-04 to 2007-08 by December 2012.

13 **Stabilising PAYE has come at a cost.** We reported last year on amounts of tax the Department decided to forego in order to keep workloads manageable. In 2011-12, it has remitted an additional £12.7 million relating to claims from taxpayers that it had failed to make proper and timely use of information available to it, bringing the total of those claims to £53.7 million. The Department originally estimated that it would cost £57.3 million to March 2013 to clear open cases and £23.6 million to stabilise PAYE. Its estimate for open case clearance remains unchanged although for stabilising PAYE this has reduced to £21.2 million.

14 **To operate PAYE successfully, the Department must be in a position to manage the work generated during the year.** Day-to-day management involves manually dealing with in-year changes to taxpayer records triggered by taxpayers and work items, which are generated automatically by the Department's NPS system. The Department estimates that without further automation, around 20.5 million work items would arise annually although it can only action around 13.5 million work items manually. To deal with the volume of work items, it has prioritised those that affect a taxpayer's end-of-year tax position, identified items that are duplicated elsewhere and managed the production of others. In 2011-12, it has undertaken an exercise to look at ways of automatically reducing or eliminating some of these work items and it is in the final stages of getting approval for a project to take this work forward.

15 **The Department has started a pilot to prepare for the full roll-out of 'Real Time Information' (RTI).** With RTI employers and pension schemes (collectively called employers) must report employee's income tax and National Insurance deductions as they pay them rather than at year-end. The timetable for full implementation is challenging and driven by the Department for Work and Pensions' timetable for rolling out Universal Credit from October 2013. The Department plans to test the system in a pilot that started in April 2012. At 31 May, 209 PAYE schemes covering 1.5 million individual records were using RTI. By October 2013, all employers and pension providers will be required to use it. The Department has examined ways to improve data quality, which is vital to the successful operation of RTI, and there are signs of improvement. The Department has yet to decide how far it will use RTI to improve the PAYE service and will use the pilot to inform this work.

Recommendations

16 **The Department should continue its work to understand the risks and tax effects of each work item.** This will assist in reducing the volumes created to a manageable level. It will also help it to prioritise their clearance, knowing the risks to the accuracy of data, levels of customer contact and the operation of the PAYE process.

17 **The Department must complete its current review of its PAYE operating model, considering the impact of RTI.** Without clarity on the future operating model, it is difficult for the Department to forecast the overall workload and the operational resources required. The Department will still have to undertake an end-of-year reconciliation of each taxpayer's record as employers will not report all data monthly under RTI. The Department needs to decide, taking account of emerging findings from the RTI pilot, on which changes notified under RTI it should update on taxpayer records in real time and whether it can carry out any of the work currently performed at the reconciliation stage earlier.

Tax debt management (Part Three)

18 **The value of tax debt at 31 March 2012 under active management stood at £13.3 billon, compared with £15.0 billion in the previous year.** During 2011-12, the Department continued to collect a significant amount of overdue tax – £37.9 billion compared with £33.3 billion in 2010-11.

19 **There has been a large increase in the amount of tax liabilities that the Department decided not to pursue ('remitted'), especially for income tax, over the last two years.** The Department 'remits' the liability when it decides not to pursue it, for reasons such as hardship or value for money. The Department remitted £756 million of income tax in 2011-12. The increase results from: the decision to increase temporarily the amount under which an underpayment is not pursued from £50 to £300 as part of its PAYE stabilisation process, the increased volumes of cases being reconciled over this period, and the recording by the new NPS systems of all underpayments below the amount not pursued as revenue losses which were not recorded previously.

20 **The Department has made progress in implementing the debt management strategy it introduced in 2009-10.** It is now using a campaign approach to group debts by characteristics such as their value, and pursues them through a set of tailored and time-limited actions. This has increased the amount of debt the Department can collect. However, presently it lacks the detailed cost information that would allow it to assess the value for money of different collection approaches.

21 **The Department has delayed implementing one key element of its debt management strategy – to tailor debt action to each taxpayer's characteristics and past behaviour – from April 2011 to October 2012.** This delay was due to the government's moratorium on IT projects in 2010 and the civil service recruitment freeze, which meant the Department could not recruit the specialist analysts it needed. The Department also cannot easily link together the debts from different tax streams owed by a single taxpayer because of a long-standing limitation in its IT systems. Linking of debts tends to occur only when the Department initiate court action or other enforcement proceedings.

22 The Department has increased its use of debt collection agencies, which between them collected £111.3 million of debt in 2011-12. This represents about £70.5 million more than the Department estimates it would have collected had it not employed such agencies to deliver additional capacity. The Department started using agencies in response to the Committee of Public Accounts' recommendations in its 2008 report on debt management.

Recommendations

23 The Department should identify the full cost of each of its debt collection activities to evaluate their cost-effectiveness and decide how best to allocate future resources. The Department is trying to better understand costs but, while it can identify the cost of using debt collection agencies, it does not yet know the full cost of its other activities.

24 The Department should continue to prioritise its work to undertake full risk profiling and customer segmentation of its debt balance, as recommended by the Committee of Public Accounts in its 2004 and 2008 reports. The Department has delayed implementing this until October 2012 as a result of the government-wide moratorium on new IT projects and civil service recruitment freeze of 2010.

Personal tax credits (Part Four)

25 The C&AG has qualified his regularity audit opinion on the Department's 2011-12 *Resource Accounts* because of material levels of error and fraud in payments of personal tax credits. The overall level of error and fraud in 2010-11 (the latest year available) indicates that payments of between £2.08 billion and £2.46 billion were made to claimants incorrectly because of error and fraud. Further amounts of between £170 million and £290 million are not being paid to claimants due to error.

26 The Department did not achieve its target to reduce the level of tax credits error and fraud to no more than 5 per cent of entitlements. The estimated level of error and fraud in payments made in 2010-11 was between 7.5 per cent and 8.8 per cent, (compared to between 7.0 per cent and 8.6 per cent in 2009-10). Based on the midpoint of 8.1 per cent, the Department did not meet its objective, set in July 2008, to reduce levels of error and fraud to no more than 5 per cent by 2010-11.

27 The Department considers it is on track to meet its target to achieve £1.7 billion through its interventions to prevent and detect error and fraud in tax credit awards for 2011-12. However, it has overstated some of its achievements. The Department had recorded over £1.5 billion of impacts from its interventions, at 31 March 2012, and is projecting losses prevented will total over £1.7 billion by the end of July 2012. Our review indicates that there are some inaccuracies and inconsistencies in the recording of these losses causing the Department to overstate achievement.

28 **The relationship between the Department's estimate of the levels of error and fraud and the proxy losses prevented from its in-year interventions is not clear.** Losses prevented increased by £223 million between 2009-10 and 2010-11, but the Department's estimate is that the level of error and fraud increased by approximately £200 million between these years.

29 **The Department met its target to reduce tax credit debt to £4 billion at 31 March 2012.** The Department has reduced the gross level of tax credits debt from £4.7 billion at 31 March 2011 to £4 billion at 31 March 2012. Much of this can be attributed to remitting debt during 2011-12 of £1.7 billion including remissions of inactive debt over three years old. This is consistent with the recommendations made by the Committee of Public Accounts that the Department write off debt where there is a value-for-money case for doing so.

30 **The Department's large debt remission in 2011-12 has tackled some long-standing balances but much of the remaining tax credit debt is old and unlikely to be recoverable.** The Department estimates that £2.3 billion of the £4 billion tax credit debt shown as outstanding at 31 March 2012 is unlikely to be recovered. It has inadequate management information on the age profile and recoverability of this debt.

31 **The Department's campaigns approach has had limited success in collecting tax credits debts more promptly.** The Department's plans to manage personal tax credits debt more actively have met with some limited success, and it faces challenges in improving its collection rate given its obligations not to cause hardship through its approach to debt recovery.

Recommendations

32 **The Department needs to undertake an investigation into the results of the error and fraud analysis programme for 2010-11.** The results indicated an unexpected increase in the level of error and fraud in finalised awards, which the Department needs to understand and use to revisit its strategy.

33 **The Department needs to improve the accuracy of calculating and recording the outcome of its interventions to tackle error and fraud in tax credits awards.** It needs to ensure that it accurately captures and reports any claimed losses prevented and better understands the link between these results and the levels of error and fraud in tax credits awards.

34 **The Department should analyse its remaining balance of tax credits debt to see whether it can recover individual debts.** Much of the debt balance of £4 billion recorded at 31 March 2012 is old and unlikely to be collectable. The Department needs to prepare a robust analysis of the age and collectability of debt and collect what is value for money to do so before it considers writing it off.

System-wide recommendations and observations

35 There are broad themes that link our recommendations on PAYE, debt management and tax credits and recommendations made in our 2011-12 value-for-money work. These themes also apply to other aspects of tax administration not directly covered in this report, and we recommend that the Department seeks to apply the lessons covered in this report more widely across the full range of its activities.

36 The Department should:

- **improve its analysis of the costs and benefits of its interventions, such as debt campaigns, and initiatives to reduce tax credits error and fraud;**
- **use better understanding of risks, such as risk profiling of taxpayers, to prioritise and target its activities; and**
- **be clearer, before implementing significant structural changes, about what its future operating model will be. It should set out how its business will be changed by the implementation of RTI and Universal Credit, for example.**

37 The Department's vision for 2015 is to create a tax administration that is more efficient, flexible in its response to customers and more effective in bringing in revenues. This will be challenging as the Department faces a great deal of change during the period. Whilst it has a Business Plan, a customer-centric strategy and a change programme which is seeking to coordinate delivery of major projects, the Department does not have an organisation-wide operational strategy. This strategy would set out how it will deliver tax administration in the future, supported by planning of resources, communications with customers and changes to working practices. It would help the Department to establish the interdependencies between projects and develop an integrated response. The strategy would also help address and mitigate some of the operational difficulties outlined in this and our other recent reports.

Part One

Departmental performance in 2011-12 and the C&AG's work on the Department

1.1 This part of the report discusses:

- tax revenues in 2011-12;
- the UK-Switzerland tax agreement; and
- summarises the work we have published on the Department's activities.

Tax revenues in 2011-12

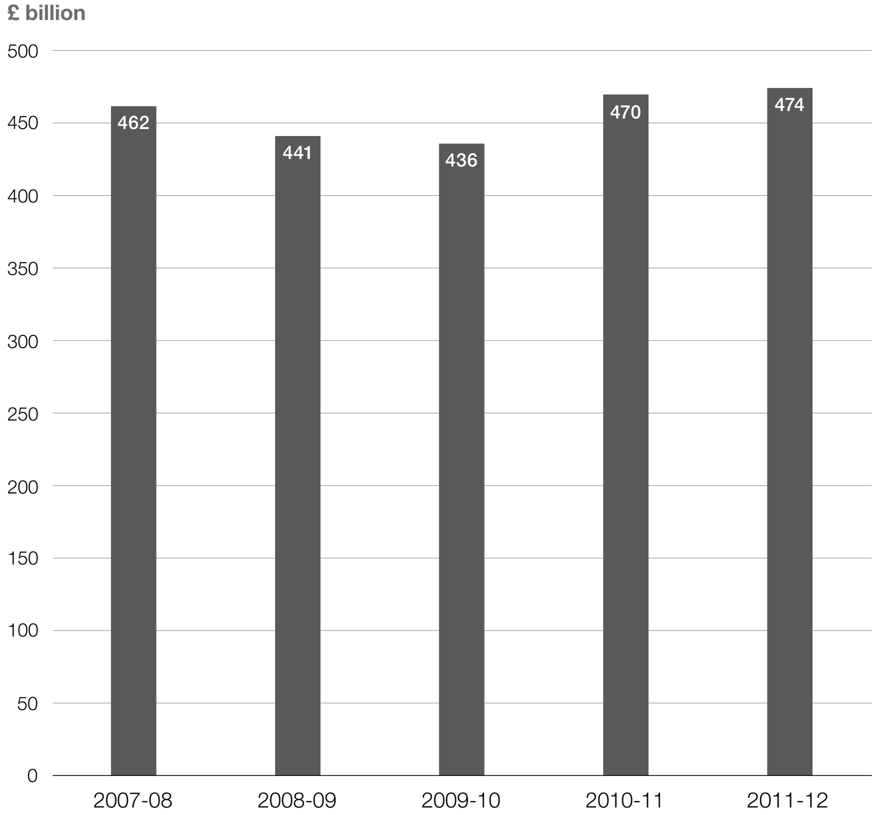
1.2 In 2011-12, total revenues accruing to the Department were £474.2 billion, £4.5 billion (0.96 per cent) more than in 2010-11. **Figure 1** shows the tax revenues reported in the Department's *Trust Statement*[1] in the last five years. The *Trust Statement* reports the revenues and expenditure, and assets and liabilities related to taxes and duties.

1.3 **Figure 2** on page R14 shows the changes in tax revenues between 2010-11 and 2011-12. Tax revenue has continued to recover from the effects of the recession in 2008-09 and 2009-10. VAT revenue has increased by £9.3 billion, largely due to the rate increase from 17.5 per cent to 20 per cent and increases in revenue from the oil, gas and business services sectors. Revenue from corporation tax has decreased as a result of turbulence in the financial sector, partly offset by increased revenue from offshore companies because of higher oil and gas prices. Tax revenues for income tax and National Insurance have fallen from 2010-11. This is largely because the previous year's figure includes an overestimate of self-assessed income tax liabilities, which has been corrected in the current year. Other taxes and duties have risen as a result of rate rises for tobacco duty, alcohol duty, air passenger duty and insurance premium tax.

1 *HM Revenue & Customs annual report and accounts 2011-12*, July 2012; *HM Revenue & Customs annual report and accounts 2010-11*, HC 981, July 2011; *HM Revenue & Customs 2009-10 accounts,* HC 299 July 2010; *HM Revenue & Customs 2008-09 Accounts,* HC 464, July 2009; *HM Revenue & Customs 2007-08 Accounts,* HC 674, July 2008.

Figure 1
Total revenue 2007-08 to 2011-12

Total revenue in 2011-12 was £474.2 billion, £4.5 billion more than in 2010-11



NOTES
1 The total revenue figure for 2010-11 varies from the published accounts because of changes in accounting policy as a result of the government's 'clear line of sight' project to align departmental budgets and accounts.
2 Total revenue figures for the years 2007-08 and 2008-09 vary from those published in the respective Trust Statement Accounts, which include tax credits as negative taxation within revenue for those years.
3 Total revenue in 2007-08 and 2008-09 excludes revenue from fines and penalties.

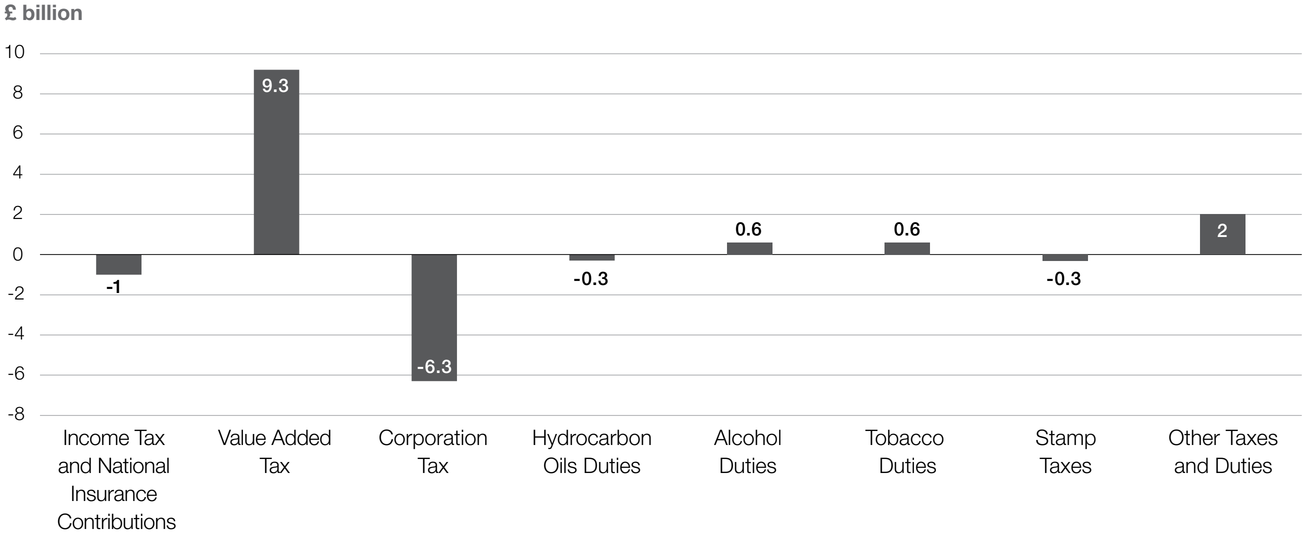
Source: HM Revenue & Customs

UK-Switzerland tax agreement

1.4 On 6 October 2011, the UK and Swiss governments signed an agreement to tackle offshore tax evasion. The agreement aims to settle the past tax liabilities of UK individuals who hold Swiss assets through a one-off payment covering liabilities and will also establish a new withholding tax to collect future amounts due. Those who have already paid their tax can instruct their banks to disclose their details in order not to suffer the one-off levy. Any person under current investigation, or subject to a previous relevant investigation, cannot benefit from the clearance of past tax liabilities and there will be no clearance of past liabilities for those involved in criminal attacks on the tax system or for anyone whose Swiss assets are the proceeds of non-tax crime.

Figure 2
Changes in 2011-12 tax revenues compared with revenue in 2010-11

VAT has increased by £9.3 billion between 2010-11 and 2011-12



Source: HM Revenue & Customs

1.5 The agreement is expected to come into force in 2013, once both countries have completed the necessary parliamentary steps. Subject to the agreement coming into force the Swiss authorities, for the relevant Swiss paying agents, will make an up front payment of 500 million Swiss francs in anticipation of monies due once the agreement starts to operate fully. This has been disclosed in the 2011-12 Trust Statement accounts.

Summary of NAO publications in the last year

1.6 Against the background above, in 2011-12 we published the following reports.

Reports published under the C&AG's section 2 powers

1.7 In January 2012, we published the *Renewed alcohol strategy: A progress report*[2] in response to parliamentary interest in the issue of alcohol duty fraud. The Department estimated that evading alcohol duty could have cost the taxpayer over £1 billion in 2009-10, and that fraud was on the rise. Our report concluded that the renewed strategy to deal with alcohol fraud was more comprehensive than what went before. Also the Department achieved its key financial objective in the first year of the strategy, achieving £433 million of financial benefits against a target of £390 million. However, we found that the Department was not working successfully with industry to disrupt those who were illegally diverting duty-unpaid alcohol back into the UK market. We also found there was a low level of criminal sanctions against those committing fraud. The Department has no explicit objective in its strategy to increase the number and impact of criminal investigations and prosecutions.

2 Comptroller and Auditor General, *Renewed alcohol strategy: A progress report,* Session 2010–2012, HC 1702, National Audit Office, January 2012.

1.8 Our report recommended that the Department should:

- improve the quality, depth and analysis of performance information used to support its strategy;
- produce and publish credible estimates of the tax gap for beer and wine;
- improve the effectiveness of its work with industry to reduce the volume of beer at risk of diversion into illicit markets; and
- set an objective to increase the number and impact of criminal investigations and prosecutions.

1.9 In June 2012, we published a report[3] on the reasonableness of five large tax settlements that were subject to scrutiny by the Committee of Public Accounts following our report on the Department's 2010-11 accounts. Our original report[4] had concluded that the Department had not followed its normal governance processes in agreeing these settlements. Our follow-up report found that all five settlements were reasonable and the overall outcome for the Exchequer was good, but expressed concerns about the processes through which the settlements were reached.

Value-for-money reports

1.10 We have published five value-for-money reports in 2011-12, each of which is summarised below. The reports focus on issues that are key to the Department's ability to operate with reduced resources.

1.11 *Pacesetter: HMRC's programme to improve business operations.*[5] The Department's Pacesetter programme aims to improve its business processes. We found that the programme had improved productivity through new ways of working. We recommended that the Department should prioritise applying Pacesetter to the areas of greatest potential benefit and do more to integrate the programme with its wider change and cost reduction plans.

1.12 *Reducing costs in HMRC*[6]. The Department must generate cumulative cash savings of £1.6 billion in its running costs between 2010-11 and 2014-15. We found that while the Department has a clear vision for how it will look in 2015 and knows its main running costs, there were gaps in its understanding, such as on the link between costs and values. It must address these gaps to create the conditions to achieve value for money over the next four years. The Department agreed with this and we will follow up its progress in 2012-13.

3 Comptroller and Auditor General, *Settling Large Tax Disputes,* Session 2012-13, HC 188, National Audit Office, June 2012.
4 *HM Revenue & Customs annual report and accounts 2010-11*, HC 981, July 2011.
5 Comptroller and Auditor General, *Pacesetter: HMRC's programme to improve business operations,* Session 2010–2012, HC 1280, National Audit Office, July 2011.
6 Comptroller and Auditor General, *Reducing costs in HMRC*, Session 2010–2012, HC 1278, National Audit Office, July 2011.

1.13 *The expansion of online filing of tax returns*[7]. We found that the Department was on track to deliver the programme to time and budget, and that there was evidence that the Department was achieving savings as a result. We recommended that it should collect more detailed cost information to assess whether it had maximised the benefits of using online returns.

1.14 *Core skills at HMRC*[8]. We concluded that the Department could get better value for money if it directed its £96.5 million investment in skills more systematically at business priorities. Staff skills would have been a factor in the improvement of business results, although there is not a direct evidential link between business results and training and development activity. We recommended that it should take a more strategic and informed approach to its investment, aligning skills needs and training more clearly with business objectives and holding business areas to account for performance.

1.15 *HMRC: The compliance and enforcement programme.*[9] We found that the programme had helped the Department to substantially increase tax yield to March 2011, achieving net additional yield of £4.32 billion. We recommended that the Department could better achieve value for money from its investment in compliance work by developing a fuller understanding of the impact of projects and helping people to use new technology by providing the right training at the right time.

1.16 We are currently examining four subject areas. Three of these look at the three principal commitments under the Department's change programme. These are to improve customer service, to reduce its operating costs and to re-invest money from its efficiency savings to generate increased tax revenue. The fourth will further analyse and evaluate the effectiveness of the Department's actions to reduce tax credits error and fraud, following up and expanding on Part Four of this report.

7 Comptroller and Auditor General, *The expansion of online filing of tax returns,* Session 2010–2012, HC 1457, National Audit Office, November 2011.

8 Comptroller and Auditor General, *Core skills at HMRC,* Session 2010–2012, HC 1595, National Audit Office, December 2011.

9 Comptroller and Auditor General, *HMRC: The compliance and enforcement programme,* Session 2010–2012, HC 1588, National Audit Office, March 2012.

Part Two

The PAYE service

2.1 Pay As You Earn (PAYE) is the Department's largest tax collection process. In 2011-12, it collected £151.8 billion in income tax and £101.6 billion in National Insurance contributions, of which nearly 90 per cent was collected through PAYE. There are approximately 39 million individuals with an active PAYE employment record, including 10 million receiving pension income, administered through 2.1 million PAYE schemes. Each year the Department processes around 60 million returns for separate employments and pensions. In June 2009, the Department implemented the new National Insurance and PAYE Service (NPS) system to replace its former PAYE computer system. It brings together individuals' tax records into a single taxpayer record. The Department encountered significant difficulties in administering PAYE after implementing NPS, which we covered in our report on the Department's 2010-11 accounts.[10] The Committee of Public Accounts has also been critical of the roll-out.[11] The Department committed to stabilising the PAYE Service by the end of March 2013, and has also begun a programme to improve the PAYE service through capturing information from employers in real time.

2.2 This part of the report covers how the Department:

- plans to achieve a stabilised PAYE service by the end of March 2013; and
- is preparing to roll-out Real Time Information.

The National Insurance and PAYE service

2.3 Employers currently pay PAYE deductions for all their employees to the Department monthly based on tax codes from the Department. However, employers only provide detailed information on the deductions made for each employee after the end of each tax year. The Department then reconciles the tax due with the payments received throughout the year to ensure employees have paid the correct amount of tax. This sometimes results in under or overpayments of tax, for example where employee circumstances have changed in-year. **Figure 3** overleaf shows the PAYE process.

10 *HM Revenue & Customs annual report and accounts 2010-11*, HC 981, July 2011.
11 HC Committee of Public Accounts, *HM Revenue & Customs: PAYE, tax credit debt and cost reduction,* Fifty-eighth Report of Session 2010-12, HC 1565, December 2011.

Figure 3
Key stages in the PAYE annual cycle

Four main activities take place annually within the PAYE system

Annual coding	In-year processing	End-of-year returns	End-of-year reconciliation
Before the tax year	During the tax year	After the tax year	
HM Revenue & Customs issues coding notices to both individuals and employers, based on latest information. Employers apply the new tax coding to individuals to determine net pay and tax deductions. Individuals contact HM Revenue & Customs with questions relating to their new tax coding.	Employers deduct tax (using tax code) and National Insurance contributions and pay these to HM Revenue & Customs. Employers send HM Revenue & Customs information about employees starting or leaving. HM Revenue & Customs updates its records for employee movements and provides employers with a tax code for new employees.	Employers send HM Revenue & Customs information about total amount of tax and National Insurance deducted and paid over in the year, together with details of employment income and deductions by employee. HM Revenue & Customs matches monthly deductions paid to the amounts declared in the end-of-year returns.	HM Revenue & Customs matches returns for individuals to its records and reconciles their tax and National Insurance deductions with their employment income. HM Revenue & Customs updates its record of pay and tax details and issues a revised tax coding notice, where necessary. Where additional tax is payable, HM Revenue & Customs may adjust the tax code for a subsequent year to collect the balance through the PAYE system, or the individual can pay the amount in full immediately. HM Revenue & Customs repays any overpayments of tax.

Source: National Audit Office

2.4 NPS structures PAYE records around the individual rather than the employer or pension scheme as under the previous PAYE system, bringing together all of an individual's sources of income. The benefits of this are to:

- increase the number of individuals starting the year on the correct tax code, reducing the number of over and underpayments identified at the end of the tax year;
- increase the Department's ability to complete its end-of-year reconciliation of taxpayers' records automatically;

- allow the Department to focus its manual processing on clearing exceptions caused by unexpected data or missing information, or where processing is overly complicated or not cost-effective to automate; and
- increase taxpayers' certainty in their tax affairs that they are paying the right amount of tax throughout the year, regardless of changes in their employment.

2.5 We, and the Committee of Public Accounts, have previously reported in detail on the difficulties encountered in how PAYE operates after the Department introduced NPS.[12] The Department's phased release of NPS meant that it could not automatically reconcile individuals' PAYE records until April 2010. This led the Department to defer its reconciliation of approximately 39 million taxpayer records for 2008-09 until September 2010. This delayed clearing these records and the identifying under and overpayments of tax by over a year. Problems in the quality of data transferred from the predecessor system led to it having to suspend production and issue of annual tax codes in January 2010.

Plans to stabilise the PAYE service

2.6 The Department plans to stabilise the PAYE service by the end of March 2013, where the Department would be dealing with only three open tax years at any point in the year (Figure 3). Over 12 months the Department would:

- reconcile taxpayer accounts for the previous tax year;
- make some in-year adjustments to reflect changes in circumstances, thereby keeping taxpayer accounts up to date; and
- calculate and issue correct tax codes for the following tax year.

2.7 The Department intends to achieve this by:

- clearing the 6.7 million outstanding end-of-year reconciliations for 2008-09 and 2009-10 by March 2012;
- clearing outstanding reconciliations predating the introduction of NPS relating to the 2003-04 to 2007-08 tax years by December 2012; and
- completing end-of-year reconciliations for both the 2010-11 and 2011-12 tax years by March 2013 by accelerating the processing timetable.

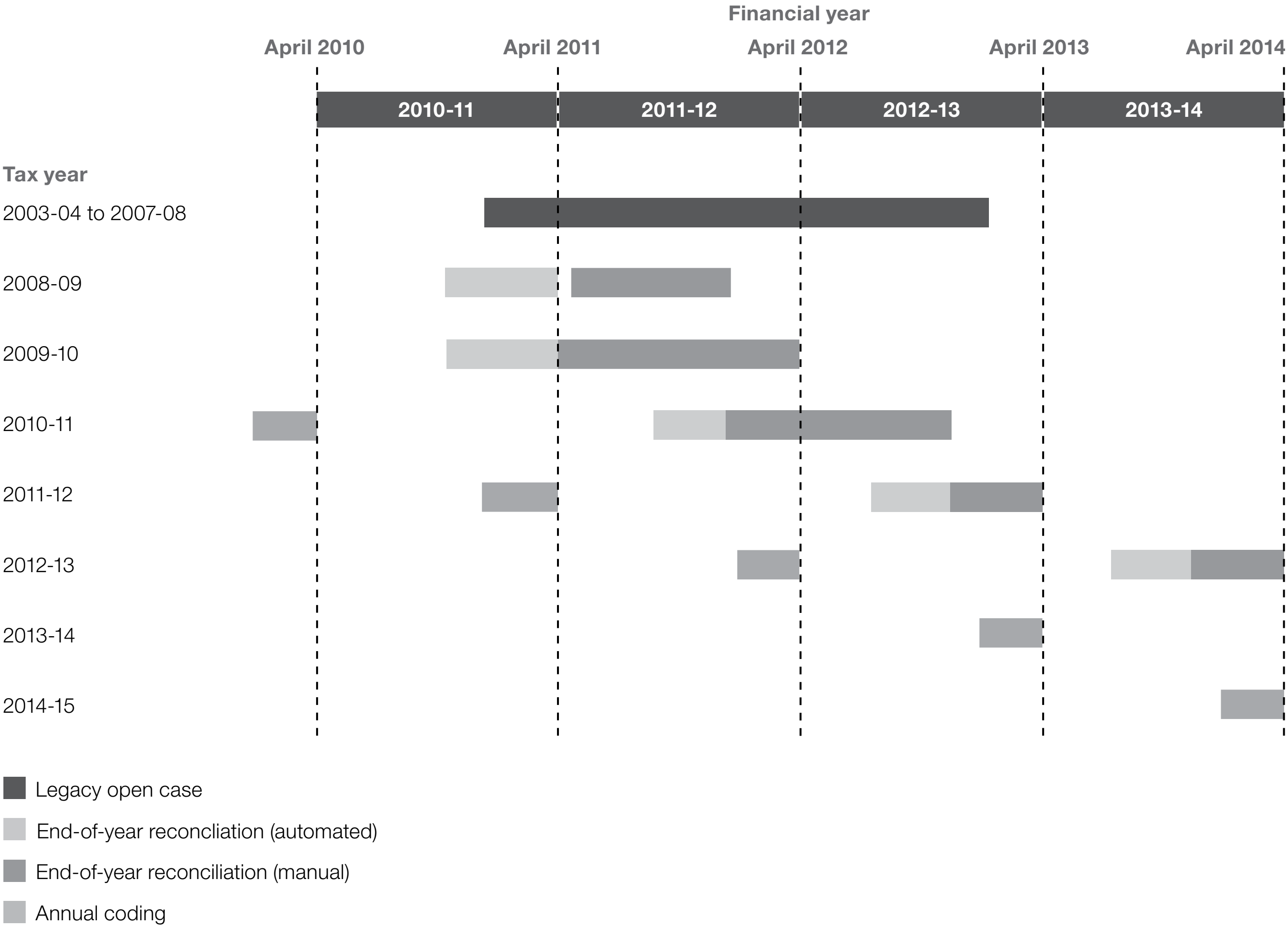
2.8 **Figure 4** overleaf illustrates the Department's planned timetable to deliver a stabilised PAYE service by 2013.

2.9 The Department originally estimated that it would cost £57.3 million to March 2013 to clear open cases and £23.6 million to stabilise PAYE. Its estimate for open case clearance remains unchanged although for stabilising PAYE this has reduced to £21.2 million.

12 *HM Revenue & Customs annual report and accounts 2010-11*, HC 981, July 2011.

Figure 4
PAYE stabilisation timeline

The Department had many key activities to progress during 2011-12



NOTES

1 In 2010-11, the Department completed the majority of annual coding for 2011-12 and end-of-year reconciliations for 2008-09 and 2009-10 where all information for automated reconciliation was available, in addition to processing 2007-08 underpayments from legacy open cases. In 2011-12, the Department planned to complete the manual end-of-year reconciliations for 2008-09 and 2009-10, progress the clearing of legacy open cases and start the end-of-year reconciliation for 2010-11.

2 In-year PAYE processing is a year-round activity and is not represented in the diagram.

Source: National Audit Office

Processing end-of-year reconciliations

2.10 The Department met its target to complete the end-of-year reconciliation of the 2008-09 and 2009-10 tax years by March 2012 (paragraph 2.7). It started these reconciliations in September 2010, completing the automated stage on target by March 2011. In 2011-12, it manually reconciled 6.7 million records. The exercise identified 5.6 million overpayments, amounting to £1.9 billion, and 1.1 million underpayments, amounting to £1.1 billion.

2.11 As we reported last year, the difficulties in the roll-out of NPS resulted in the Department foregoing some tax:

- The Department temporarily raised the threshold for reclaiming underpayments of tax for 2008-09 and 2009-10, and those predating the introduction of NPS (2003-04 to 2007-08) from £50 to £300, excluding an estimated £266 million from recovery. From 2010-11 and subsequent years, it restored the £50 threshold. We examine remissions in paragraph 3.11.
- Some taxpayers have successfully claimed under Extra-Statutory Concession A19[13] that the Department failed to make proper and timely use of information available to it. From September 2010 to 31 March 2012, it received 166,244 claims, to a value of £185 million of which 41,766 were successful at an estimated value of £53.7 million. Since we last reported in June 2011, £12.7 million of this has been remitted.
- In addition, the Department decided to forego tax from 250,000 pensioners whose tax code did not reflect all their state pension income as they could have reasonably claimed the concession described above. The Department does not have an estimate of the value of tax foregone as a result of this decision.

2.12 The Department has started to reconcile tax records for 2010-11 and 2011-12, in line with its plan to operate a 'business as usual' PAYE service by March 2013. So far it has reconciled 30.3 million records relating to 2010-11. From these it has identified 3.8 million overpayments amounting to £1.5 billion, and 1.6 million underpayments amounting to £0.9 billion. While the 2011-12 exercise is at an early stage of completion, the Department expects to complete reconciliations from both years within its March 2013 target.

13 An Extra-Statutory Concession is a relaxation which gives taxpayers a reduction in tax liability to which they would not be entitled under the strict letter of the law. Concession A19 is a concession relating to arrears of tax arising through official error, specifically where the Department has not used the information in a timely manner.

Improving the accuracy of annual tax codes

2.13 The Department encountered significant problems when it issued the annual tax coding notices for 2010-11 using NPS, which led to it suspending production of coding notices. For the 2011-12 and 2012-13 coding exercises, the Department has improved the accuracy and timeliness of the codes by reviewing and repairing potentially inaccurate codes. This year the Department needed to review one million items at risk of inaccurate coding. This is substantially less than the previous year where it had reviewed 11 million items. The Department estimates that 97.2 per cent of 2012-13 tax codes were accurate.

Clearing outstanding reconciliations that predate the introduction of NPS

2.14 The Department has committed to clearing all 17.9 million unreconciled legacy system cases (that is those predating the introduction of NPS) by December 2012. When we last reported in 2010-11, it had cleared 1.1 million. In 2011-12, it cleared 11.7 million open legacy cases leaving 5.1 million cases to clear by December 2012. The Department considers that it is on track to achieve its target.

2.15 The rapid progress of case clearance to date has been possible because large volumes of cases were straightforward and could be cleared in bulk automatically within NPS. The remaining 5.1 million cases are likely to be more complex and therefore more likely to require resource intensive manual work and take longer to complete, slowing the clearance rate. The Department had planned for this and has measures in place that it considers will ensure that it meets the December 2012 deadline. It monitors forecast to actual clearance rates and adjusts resources accordingly. It has also created specialist teams to work on different types of cases.

2.16 The Department estimates that, after clearing the legacy open cases from the 2003-04 to 2007-08 tax years, it may have identified up to £2 billion in overpaid tax.

Managing in-year changes

2.17 The successful stabilisation of the PAYE service requires more than NPS running effectively, the Department also needs to manage its administrative processes well. In addition to completing the annual coding and reconciliation exercises, it has to administer in-year changes to taxpayer records, triggered by taxpayers either through correspondence or telephone, and work generated by the NPS system from in-year processing (collectively called work items) as well as responding quickly to customer contact.

2.18 The Department estimates that the NPS system produces some 20.5 million work items per year, more than its capacity to handle. There are around 150 different types of work item, for example changes to an individual's taxable benefits such as a new company car, and some can be complex and costly in terms of time and manpower to resolve. In 2010-11, the Committee of Public Accounts was concerned that, even with a stabilised PAYE service, the system would generate large backlogs of items. It recommended that the Department determine exactly how it will manage potential in-year changes going forwards so that it amends taxpayer records as people's circumstances change.

2.19 The Department faces resourcing pressures which add to the challenge of dealing with this large volume of work. While stabilising PAYE and implementing Real Time Information (RTI is discussed in paragraphs 2.25 to 2.30), the Department must also reduce staff numbers in the Personal Tax area, which includes PAYE, from 24,900 to 16,400 and reduce costs by £209 million by 2014-15.

2.20 The Department has two strategies to deal with the backlog of work – a short-term process management strategy, and a longer-term process improvement strategy.

Short-term actions

2.21 In the short term, the Department's strategy to deal with the volume of taxpayer-generated in-year changes was to use some of the additional 2,500 temporary staff it recruited to help clear backlogs predating the introduction of NPS for a limited period, and to help with the peak of telephone contact in July to September. It plans to retain these staff until March 2013. This action has improved performance in responding to postal and telephone correspondence in 2011-12, shown in **Figure 5**, although the Department is some way from meeting its targets.

Figure 5

2011-12 performance in responding to telephone and postal contact from customers, and its targets

The Department's performance in responding to customer contact relating to income tax has improved

Measure	2011-12 (%)	2010-11 (%)	Target (%)
Calls answered	74.0	48.0	90.0[2]
Post handled within 15 working days	63.7	36.8	80.0

NOTES

1 Performance is based on contact received on all income tax not just PAYE. This is because the Department does not record performance on PAYE separately.

2 Ninety per cent represents the Department's longer-term target for 2014-15 for answering telephone calls.

Source: National Audit Office analysis of HM Revenue & Customs' data

2.22 To manage the current volumes of NPS-generated work items, the Department has: staggered when NPS produces items through the year; prioritised those that would have an end-year effect on an individual's tax position; and stopped around five million items being generated on the basis that these items would not affect customers' final tax positions, and can be dealt with as part of the normal end-of-year reconciliation process. The Department estimates these changes, with the level of resources planned for 2014-15, offer it the capacity to process around 13.5 million (87 per cent) of the remaining 15.5 million items, assuming five million are prevented from being generated from an original 20.5 million.

Longer-term action

2.23 In order to provide a longer-term solution to the backlog of work items, in 2011-12 the Department undertook an exercise to look at ways of automatically reducing or eliminating some items. As of June 2012, it is in the final stages of the approval process for a project which will automate or eliminate around 2.5 million items and prevent NPS generating a further four million annually. It considers this would make the workload manageable in future.

2.24 However, a sustainable position is dependent on both the future volumes of work items created and the resource available to deal with these items. If the project does not proceed or if the project does not deliver the anticipated reductions in work items, the Department will have an ever increasing backlog of work items to clear as volumes will continue to exceed clearance capacity. This will impact the accuracy of customers' records, leading to increased customer contact and have an adverse impact on its performance targets. The Department does not have a contingency plan should these workload reductions not materialise other than to continue its work on developing further process improvements and to reallocate resources from other activities to continue manual clearance.

Preparing to fully implement Real Time Information

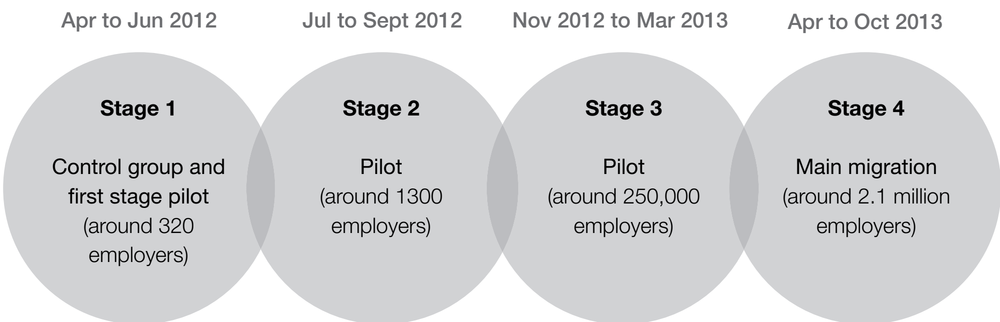
2.25 The next major change for the PAYE service is introducing Real Time Information (RTI), where employers must report employees' income tax and National Insurance deductions as they pay them rather than at year-end. Under RTI, some elements of the PAYE process will no longer be required, such as employer end-of-year returns and in-year forms for starters and leavers. It should also reduce the time to complete end-of-year reconciliations, increasing the number of automated reconciliations. However, end-of-year reconciliations will still be needed, as, for example, the Department would only be notified of benefit in kind information, such as company cars, at the end of the tax year.

2.26 The timetable for implementation of RTI is challenging, as shown in **Figure 6**. The Department for Work and Pension's timetable to implement Universal Credit is driving the timetable to roll-out RTI. The Department for Work and Pensions requires real time PAYE information on employment and pension income to award and adjust Universal Credit. It is rolling out Universal Credit from October 2013 to 2017. All employers and pension providers need to be using RTI by October 2013 to meet this timetable. The Department met its milestone to start its RTI pilot in April 2012 with ten employers. By July 2012, it expects a further 310 employers will be using RTI. At 31 May 2012, 209 PAYE schemes covering 1.5 million individual records were using RTI.

2.27 The Department originally intended that employers would give employee information and payments together through the Bacs[14] payment system. However, payroll providers were concerned that there was not enough time to fully implement the Bacs system by October 2013. To manage this risk, the Department devised an interim solution where employers send employee information separately from payments. The Department then matches employee information and payments separately.

Figure 6
The timetable for rolling out Real Time Information

All employers have to be using Real Time Information by October 2013



NOTE
1 'Employers' includes both employers and pension schemes.

Source: HM Revenue & Customs

14 Bacs is the UK scheme for the electronic processing of financial transactions.

2.28 The Department recognises that poor data quality was a key cause of the problems when issuing previous annual coding notices. It also recognises that it must improve both the quality and frequency with which it receives information to fully realise the benefits of NPS, operate RTI and contribute to the successful operation of Universal Credit. In its 2010-11 report, the Committee of Public Accounts concluded that the Department needed to focus on improving data quality. As a result, the Department completed a data quality review and implemented various measures to improve data quality, among these it has reviewed its NPS records and has started a data quality project working with employers on their data. It has decided that upon entering RTI, employers will have to match their employee records against those of the Department to ensure that data held on NPS is accurate. The Department has seen an improvement in the automatic matching of employers' records (P14) to individuals' records on NPS. In the 2010-11 tax year, 98.3 per cent of records matched compared with 2009-10 when 97.9 per cent of records matched.

2.29 RTI offers the Department the prospect of tracking changes in income and employment in-year, ensuring that individuals remain on the correct tax code when employments change and thereby reducing the risk of identifying under and overpayments during the end-of-year reconciliation process. The Department has yet to decide how far it will use RTI within its in-year PAYE processing. It plans to use information gained during the pilot exercise to inform its view.

2.30 The Committee of Public Accounts was also concerned when implementing RTI the Department should consider employers in small- and medium-sized enterprises and assess the impact on them in the pilot exercise. The Department intends to have representation from small- and medium-sized entities at each pilot stage.

Part Three

Tax debt management

Introduction

3.1 We reported on tax debt management in our report on the Department's 2009-10 accounts. It had recently introduced a new debt management strategy and we reported that there were early signs of improvement in debt collection rates.

3.2 This part sets out:

- how the Department manages tax debt;
- the Department's performance in managing the debt balance in 2011-12; and
- what progress the Department has made to implement its debt management strategy.

How the Department manages tax debt

3.3 The Department aims to make it easier for taxpayers to pay their tax liabilities and to take a firm line with those who fail to pay, thereby helping to maximise tax revenues. It seeks as far as possible to prevent taxpayers building debt by accruing tax liabilities. This part of the report examines tax debt that occurs when a tax liability remains outstanding after the due payment date. It is defined by the Department as, amounts which are overdue for payment, which remain due for payment and which are legally enforceable.

3.4 Tax debt is not shown separately in the Department's *Trust Statement* but is included within a larger figure described as 'receivables'. Receivables are all tax liabilities that are unpaid, whether or not payment is overdue. A large proportion of the receivables balance is accounted for by sums which the Department considers are not yet due for payment. The gross receivables balance decreased from £24.9 billion at 31 March 2011 to £23.2 billion at 31 March 2012. We focus here on the proportion of this balance – £13.3 billion – which the Department defines as 'tax debt' and is therefore actively managing in order to maximise recovery. The majority of this debt is being cleared by a specialist unit within the Department, the debt management and banking directorate (the directorate).

3.5 Managing tax liabilities and debts is an important part of administering tax to avoid higher administration costs and lower rates of recovery. Most debts relate to self-assessed Income Tax, employers' PAYE, National Insurance, corporation tax and VAT.

Departmental performance in managing the tax debt balance

3.6 At 31 March 2012, the Department's debt balance relating to taxes and duties was £13.3 billion, 11 per cent below the balance of £15.0 billion at the end of 2010-11 (**Figure 7**). This sum excludes tax credit debt, arising when the Department identifies that customers have been overpaid tax credit, which we examine in Part Four.

3.7 During 2011-12, the Department managed £62.9 billion of debt, slightly less than in 2010-11 (£63.0 billion). It collected £37.9 billion, 14 per cent more than in 2010-11 (£33.3 billion).

3.8 The Department's measure of how effectively it manages debt is the 'debt roll rate'. It is a measure of speed of clearance and reports the percentage of new debt cleared by the Department within 30 or 90 days of becoming collectable and overdue. It is a comparable measure to those used by businesses in the private sector. The roll rate includes income tax and corporation tax. It does not include other taxes, or debt managed outside the directorate. In 2011-12, 95.7 per cent of tax debt was cleared within 90 days, compared with 93.3 per cent in 2010-11.

3.9 The Department may clear a debt in one or more of four ways (**Figure 8**):

- Collected. The Department collects the debt either in full or by instalment arrangement.
- Revenue losses remitted. The Department decides not to pursue a tax debt, such as because of hardship or value for money.
- Revenue losses written-off. The Department assesses the debt to be irrecoverable because there is no practical way to pursue the liability, for example, the taxpayer cannot be traced or has gone bankrupt.
- A reassessment of the liability. The Department amends or cancels the debt as further information is received that determines the taxpayer's final liability.

3.10 While the Department's collection rate has improved, the reduction in the debt balance is also due to its ongoing work to improve the accuracy of amounts recorded in its debt management systems.

Figure 7
Debt collection in 2011-12 compared with debt collection in 2010-11

The Department has collected £37.9 billion of tax debt, £4.6 billion more than in 2010-11

	2011-12 (£bn)	2010-11 (£bn)
Total revenue	474.2	469.7
Debt:[1]		
Debt brought forward from prior year	15.0	17.9
New debt created in-year	47.9	45.1
Total debt managed in-year	62.9	63.0
Debt cleared by:		
Collected	37.9	33.3
Revenue losses written-off and remitted[2]	5.2	5.5
Amendments, cancellations and other adjustments	6.5	9.2
Debt balance at 31 March	**13.3**	**15.0**

NOTES
1 The debt balance is a subset of the receivables balance shown in the Department's *Trust Statement* account. The receivables balance at 31 March 2012 was £23.2 billion.
2 Figure 9 is a more detailed breakdown of write offs and remissions.

Source: HM Revenue & Customs

Figure 8
Debt roll rate

Of all debts included in the measure, 95.7 per cent of debt was cleared within 90 days

	January 2012 (%)	January 2011 (%)
Debt cleared within 30 days	92.8	92.8
	November 2011 (%)	**November 2010 (%)**
Debt cleared within 90 days	95.7	93.3

NOTES
1 As full year data for 2011-12 was not available at the time of writing, we have used the most up-to-date information available. The roll rate is calculated on a cumulative basis.
2 The roll rate includes income tax and corporation tax managed within the debt management and banking directorate. It does not include VAT or debt managed outside the directorate.

Source: HM Revenue & Customs data

3.11 In 2011-12, the Department remitted £957 million of tax liabilities compared with £808 million in 2010-11 (**Figure 9**), and wrote off £4.2 billion. Most of the increase in tax liabilities remitted over the last two years was for income tax, where the Department remitted £756 million in 2011-12, compared with £675 million in 2010-11 and £91 million in 2009-10. Following the introduction of NPS, the Department had to reconcile 2008-09 and 2009-10 tax years together and it identified an increased number of underpayments in 2010-11 and 2011-12 as it cleared the reconciliation backlog as part of PAYE stabilisation (paragraph 2.7). The Department applies a threshold to PAYE (currently £50) and does not pursue tax underpaid below this threshold amount on value-for-money grounds. However, to minimise the impact of the reconciliation backlog on customers the Department temporarily increased the threshold to £300, further increasing the amounts remitted. We discuss tax foregone in PAYE in paragraph 2.11. The new NPS system records all underpayments below the threshold as revenue losses; previously, up to 2009-10, such amounts were not recorded. This change has also contributed to the increased level of remissions.

Figure 9
Revenue losses in 2011-12 compared with revenue losses in 2010-11

The table shows the revenue losses for each tax, split between write-offs and remissions

				Restated[1]		Restated[1]
	Remissions 2011-12 (£m)	Write-offs 2011-12 (£m)	Total 2011-12 (£m)	Remissions 2010-11 (£m)	Write-offs 2010-11 (£m)	Total 2010-11 (£m)
Income tax	756	743	1,499	675	937	1,612
VAT	13	1,907	1,920	48	1,941	1,989
Corporation tax	3	500	503	2	633	635
Alcohol duties	3	61	64	–	10	10
Tobacco duties	–	1	1	3	–	3
Capital gains tax	4	38	42	3	36	39
National Insurance contributions	74	579	653	66	757	823
Fines and penalties	98	305	403	6	363	369
Other remissions and write-offs	6	80	86	5	18	23
Total revenue losses	957	4,214	5,171	808	4,695	5,503

NOTE
1 2010-11 remittance figures are restated to correct a prior year understatement.

Source: HM Revenue & Customs

3.12 In 2011-12, the Department also remitted substantially more debt resulting from unpaid fines and penalties, from £6 million in 2010-11 to £98 million in 2011-12. This was largely due to its decision to remit PAYE penalties which it judged were not cost-effective to pursue.

3.13 The Department writes off debt when there is no practical or legal way to recover the amounts due, for example when a debtor becomes insolvent. Debts may also be written-off when the Department determines that the debt is irrecoverable, for example as a result of 'missing trader' fraud.[15] In 2011-12, the Department wrote off £4.2 billion, £481 million less than in 2010-11.

Progress in implementing the revised debt management strategy

Improvements arising from the revised strategy

3.14 During 2009-10, the Department began to implement a revised debt management strategy (the strategy) which aimed to target collection activities more effectively to increase the likelihood of recovery, improve the speed of collection, and reduce costs. The strategy was also to help prevent taxpayers getting into debt by supporting them better before their tax liabilities became overdue and communicating more effectively with them so that any queries were resolved and debt paid without needing multiple contact. To implement this revised approach the Department aimed to improve its debt collection processes through:

- a campaigns-based approach;
- better understanding of taxpayer behaviour;
- developing its channels of customer contact, particularly by telephone;
- improving its information systems; and
- improving the quality of its information on debt balances.

3.15 The Department has made progress in a number of areas in implementing its revised debt management strategy (**Figure 10** overleaf), particularly in rolling out its campaigns-based approach. Previously the directorate used a standard debt collection process for all debts, sending automated debt reminders initially, following up with telephone calls, in writing and through visits. The directorate used this approach regardless of the type of debt, with limited differentiation by value and risk of non-payment. In contrast, a campaign is an individually designed, time-limited set of actions taken for a particular tax stream's debts. It involves segmenting debts into groups, such as by value and behaviour of groups of taxpayers, and tailoring collection activities to each group.

15 Missing Trader fraud is a type of VAT fraud, which in its simplest form involves a business obtaining a VAT registration number in the UK for the purposes of purchasing goods free from VAT in another EU member state. The business sells the goods at a VAT inclusive purchase price in the UK and then goes missing or defaults without paying the output tax due to the Department. The amounts are legally collectible and classed as debts, but because of their nature they may not be recovered.

Figure 10
Summary of progress made in implementing the debt management strategy introduced in 2009-10

The majority of the activities within the debt management strategy have been progressed

Key components	Progress
Adopting a campaigns-based approach	At 31 May 2012, 20 campaigns had been completed and a further 16 were live. See paragraph 3.15.
Better understanding of individual taxpayer behaviour to segment the debtor population, then applying risk-based targeting of interventions	Significant delays. Original delivery date April 2011, forecast delivery date October 2012. See paragraphs 3.18–3.20.
Increased telephone capacity	The Department has substantially increased the capacity of the debt management telephone centre. See paragraph 3.25.
Other components	**Progress**
New payment methods	Taxpayers can now pay using debit cards, credit cards and direct debit as well as by cash and cheque. The Department did not accept the Committee of Public Accounts' recommendation in May 2009 that it should trial systems such as PayPal.
New penalty regime	The Department revised its penalty regime to align penalties across taxes and to improve overall compliance by differentiating penalties according to taxpayer behaviour. It started to use the new PAYE penalty regime for the 2010-11 tax year. The Department considers that it has seen improvements in payment behaviour but it has not yet evaluated the impact of the regime in reducing debt. For example, when fully implemented, it may result in a high volume of low-value debt that is difficult to collect and may ultimately be remitted.
Greater access to arrangements to be given more time to pay	The Business Payment Support Service supports viable businesses experiencing short-term financial difficulties to comply with their tax obligations. See paragraph 3.21.
Recovery through tax codes	From October 2011, the Department can recover debts under £3,000 through employee's tax codes.
Charging for Court costs	Effective from April 2012.
Expanding out of hours working over the telephone and face to face.	In response to the Committee of Public Accounts' recommendation of May 2009, the Department has expanded out-of-hours calls to different taxpayer groups, such as self-employed tradesmen. It has no plans to increase capacity further or extend the hours of face-to-face contact.

Source: National Audit Office

3.16 At 31 March 2012 around £36 billion of debt had been put into a campaign, collecting £18.2 billion. In 2009-10, the Committee of Public Accounts recommended that the Department establish a consistent set of measures, including cost and effectiveness to allow it to make comparisons across campaigns and over time. The Committee also recommended that the Department do activity-based costing. The Department committed to developing activity-based costs within its campaigns approach.

3.17 The Department currently measures the success of each campaign by the collection rate, but has not yet developed broader measures to assess the effectiveness of individual campaigns. Initial evidence suggests that using tailored letters, involving staff and a flexible approach has meant the Department collects debts more quickly, in overall terms. However, the Department is not able to demonstrate how cost-effective campaigns are compared to the previous debt collection process, or which activities are most cost-effective for which types of debt. In addition, the Department has not resolved a long-standing limitation of its systems, which makes it difficult to link different debts owed by the same taxpayer. Linking of debts tends to occur only when the Department initiate court action or other enforcement proceedings. The Department considers that its new debt analysis capability (paragraph 3.18) should improve its ability to link debts where it makes sense to do so.

Profiling taxpayer behaviour

3.18 In its reports on debt management in 2004 and 2009,[16] the Committee of Public Accounts recommended the Department use risk profiling of taxpayers to better target collection activities. A key component of the Department's debt strategy is to be able to systematically analyse debt balances and debtor behaviours. This is called 'analytics'. The Department could then assign a score to each taxpayer by risk level and analyse the taxpayer's debts and payment history, and the outcome of previous actions taken to collect debt. It could then assess taxpayer's ability to pay and the risk of non-payment or insolvency. It would also use the information to tailor debt collection activities towards those actions most likely to be effective. For example, a customer who has never been in debt before would be subject to a different approach from a customer who has frequently been in debt but never paid until threatened with enforcement.

3.19 The Department has delayed fully implementing analytics from April 2011 to October 2012. The delay is due to the government's moratorium on IT projects in 2010 and the civil service recruitment freeze, which meant the Department could not recruit specialist analysts. Consequently, the Department has been unable to risk profile individual taxpayers and to tailor interventions to maximise collection according to individual taxpayer behaviour. In October 2011, the Department delivered a major part of the project which has enabled the Department to bring together debt information from different IT systems into a common format. The Department plans to start using the system to do behavioural risk analysis from October 2012.

16 HC Committee of Public Accounts, *HM Revenue & Customs: management of tax debt*, Twenty-sixth Report of Session 2008-09, HC 216, June 2009 and HC Committee of Public Accounts, *The recovery of debt by the Inland Revenue*, Forty-ninth Report of Session 2003-04, HC 584, November 2004.

3.20 The Department does design its campaigns to take account of the behaviour of customer groups. It has run a number of trials informed by behavioural economics theories. In these trials, letters tailored to the individual taxpayer's circumstances have increased collection rates by up to 7.6 per cent and response rates by up to 20 per cent depending on the form of words used.

Time-to-pay arrangements

3.21 The Department can grant taxpayers more time to pay their debts where this improves the likelihood of the tax ultimately being collected and is cost-effective. To help businesses in temporary financial difficulty during the recession, the Department launched its Business Payment Support Service in November 2008. The service aims to speed up the time it takes to make decisions when businesses apply for a 'time-to-pay' arrangement. The average amount of debt in time-to-pay arrangements in 2011-12 was £908 million, compared with £1,327 million in 2010-11. The number of time-to-pay arrangements agreed has decreased from 254,285 at 31 March 2011 to 222,071 at 31 March 2012. The Department is planning to improve how it centrally tracks and monitors time-to-pay cases.

Building capacity to enhance implementation of the strategy

3.22 The Department's debt capability and capacity have been enhanced by contracting out work to debt collection agencies. Its main reason for using agencies has been to provide additional flexible capacity. Following a pilot in 2009, the Department appointed four agencies from July 2010. This was on a payment-by-results basis. The agencies primarily focus on smaller value debts where taxpayers have not responded to initial follow-up letters from the Department. The Department has increased the number of agencies it uses to ten during 2012.

3.23 In 2011-12, the Department transferred £566.6 million of debt to agencies. During the year, agencies collected £44.3 million of that debt in addition to £66.9 million of the £445.1 million sent in the previous year. By March 2012, agencies had also agreed payment terms for a further £58.6 million of debt placed with them. The value allocated to debt collection agencies in-year represents less than 1 per cent of the total debt managed in 2011-12. In 2012-13, the Department plans to transfer £530 million of debt to agencies.

3.24 The Department has completed limited analysis of the effectiveness of using agencies to collect different types of debt compared with the Department collecting the debt itself. The difference varies according to the tax stream and age, or value, or both, of the debt. It has also evaluated how much additional cash has been collected compared with the amount that would have been collected had agencies not been used to deliver additional capacity. In 2011-12, it found that 77 per cent more cash was collected, while an evaluation in the previous year found that an additional 57 per cent had been collected. The Department plans to use this information to set specific targets and to select the most appropriate debts for agency recovery.

3.25 The Department has also used its debt telephone centres to support the campaigns-based approach. In 2011-12, debt telephone centres handled six million calls, an increase of 9 per cent on 2010-11. The proportion of calls answered by debt telephone centres has increased from 76.2 per cent in 2010-11 to 88.4 per cent in 2011-12. Meanwhile, the Department trained staff on other debt collection activities to increase their effectiveness in progressing cases. However, there are specialist areas within the directorate where the volume of debt exceeds their capacity to pursue all the cases they are sent. The directorate is currently considering how best to deal with this issue.

Management information

3.26 The Department is working on ways to improve its information on internal costs and performance so that it can manage debt more effectively. For example, it has information on the cost of using debt collection agencies, but does not have good information on the cost of other approaches. It must identify the cost of each collection activity before it can assess the value for money of different collection approaches.

Part Four

Personal tax credits

Introduction

4.1 In 2011-12, the Department spent around £30 billion on Child and Working Tax Credits (personal tax credits), which offer financial support to more than six million families, supporting around nine million children.

4.2 The personal tax credits scheme is designed to be flexible enough to react to changes in claimants' circumstances. However, claimants do not always understand their obligations to tell the Department when their circumstances change and to report their actual income and circumstances at the end of the tax year. Claimants may make errors in their applications, which result in incorrect payment awards. For example, claimants may misunderstand what they should report as income, or miscalculate their childcare costs. Claimants' final entitlement, based on their actual income and circumstances in the year, can only be calculated after the end of each year. If claimants have been paid more than they were entitled to, overpayments and debts arise which the Department then seeks to recover.

4.3 In February 2011, the government announced its intention to introduce a new 'Universal Credit' to replace many of the current working-age benefits, including working and child tax credits, with a single means-tested payment. The Department for Work and Pensions plans to launch Universal Credit in October 2013, with all existing tax credits claimants moved on to it by 2017.

4.4 This part describes how the Department's accounts report personal tax credits; explains why the C&AG has qualified his audit opinion in 2011-12 and reviews the actions the Department is taking to:

- reduce personal tax credits error and fraud;
- manage personal tax credits debt; and
- prepare for the implementation of Universal Credit.

Accounting for personal tax credits

4.5 The Department has reported personal tax credits in its 2011-12 *Resource Accounts*[17] for the first time. The *Resource Accounts* record all the Department's running costs and wider expenditure. Previously the Department's *Trust Statement*, which records the tax revenue it has collected, reported personal tax credits. This change comes from the Treasury's 'clear line of sight' initiative which is designed to align budgets, estimates and accounts to improve parliamentary oversight and control. Total expenditure recorded in the Department's 2011-12 *Resource Accounts* is £46.5 billion, of which £30 billion was on personal tax credits.

The C&AG's audit opinion

4.6 In forming his audit opinion on the Department's Resource Accounts, under the Government Resources and Accounts Act 2000, the C&AG is required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them (his regularity opinion).

4.7 The C&AG has qualified his regularity opinion on the Department's 2011-12 *Resource Accounts* due to the material level of error and fraud in personal tax credits expenditure. This expenditure has not been applied to the purposes intended by Parliament and does not conform with the requirements of the Tax Credits Act 2002. The Act specifies the criteria which govern entitlement to personal tax credits and the method to be used to calculate the amounts to be paid. Transactions do not conform with the governing legislation and are therefore irregular for one of two reasons:

- error or fraud results in payments of personal tax credits to households which are not entitled to those credits; or
- error or fraud results in under or overpayments which differ from the entitlement specified in the legislation.

4.8 Although this is the first year in which the Department's *Resource Accounts* have been qualified in respect of the regularity of personal tax credits expenditure, the Department's *Trust Statement*, in which personal tax credits were reported in previous years, received similar qualified audit opinions since the scheme commenced in 2002-03. The C&AG has consequently reported on personal tax credits every year since personal tax credits were introduced.

17 *HM Revenue & Customs annual report and accounts 2011-12,* July 2012.

Reducing personal tax credits error and fraud

4.9 Note 10.3 to the Department's *Resource Accounts* discloses the Department's best estimate of all error and fraud within the personal tax credits system. **Figure 11** shows that the Department's estimate of the overall level of error and fraud in finalised awards increased from between 7.0 and 8.6 per in 2009-10 to between 7.5 and 8.8 per cent in 2010-11. This equates to payments of between £2.08 billion and £2.46 billion being made to claimants incorrectly because of error or fraud and further amounts of between £170 million and £290 million not being paid to claimants due to error. The levels of error and fraud are material within the context of the £30 billion spent on personal tax credits in 2011-12.

Figure 11
HM Revenue & Customs' estimates of error and fraud

The estimated percentage of error and fraud within finalised awards has increased during 2010-11 compared to the previous year

	2010-11	2009-10[3]	2008-09
Value of finalised awards	27.9bn	£26.4bn	£23.6bn
Error and fraud favouring the claimant (overpayments):[1]			
Percentage of finalised awards[2]	7.5–8.8%	7.0%–8.6%	8.3%–9.6%
Value	£2.08–£2.46bn	£1.85–£2.28bn	£1.95–£2.27bn
Error favouring the Department (underpayments):			
Percentage[2]	0.6–1.0%	0.9%–2.0%	0.8%–1.3%
Value	£0.17–£0.29bn	£0.23–£0.53bn	£0.20–£0.31bn

NOTES

1 The Department estimates levels of error and fraud based on the examination of a random sample of 3,352 finalised awards under its annual error and fraud analytical programme. As awards for 2011-12 are not due to be finalised until July 2012 and in some cases later, the Department will not be able to complete its error and fraud analysis of these awards until summer 2013.

2 The percentages shown in Figure 11 represent the estimated ranges of error and fraud as a percentage of finalised personal tax credits entitlement. Ranges are used as the estimated midpoints are subject to margins of error. The Department publishes child and working tax credits error and fraud statistics each year from where further details may be obtained at: www.hmrc.gov.uk/stats/personal-tax-credits/menu.htm

3 The Department has updated the 2009-10 estimates using final results after initial error and fraud statistics were published in June 2011. It has revised the estimate for error and fraud in 2009-10 awards upwards from between 6.6 and 8.1 per cent to between 7.0 and 8.6 per cent.

Source: National Audit Office analysis of HM Revenue & Customs data

4.10 In July 2008, the Department announced a target to reduce personal tax credits losses due to error and fraud to no more than 5 per cent of the value of finalised entitlement by March 2011. In June 2012, the Department announced that, based on the midpoint of 8.1 per cent in its estimate of the overall level of error and fraud in finalised awards, it had not achieved this target. Error and fraud levels for 2010-11 fell in respect of childcare costs, income and disability, but increased substantially in respect of undeclared partners and improper payments relating to children.[18] The Department is now investigating the reasons for this unexpected reverse in the previous trend of annual reductions in the level of error and fraud. The Department will use the results of that investigation to determine if and how it should modify its strategy to achieve the 5 per cent target by 31 March 2015.

4.11 The Department had identified escalated risks around undeclared partners prior to the publication of the latest estimates. During 2011-12, it enhanced controls by validating claim details against third party data held by credit reference agencies. It had not anticipated a heightened risk associated with paying tax credits for non-eligible children and had not developed significant new initiatives in this area.

Error and fraud strategy

4.12 The Department's approach, launched in April 2009, seeks to: provide better support to claimants by helping them through the claim and renewals process, confirming that information held is accurate; prevent error and fraud from entering the system at key stages in the process; and tackling non-compliance by targeting high risks claims for compliance and other enquiries.

Better support to claimants

4.13 In 2011-12, the Department contacted 341,000 claimants to check whether information held was correct and to update it as necessary. It focused on those categories of claim where error and fraud is most prevalent – childcare costs, declaring partners, overstating working hours, disability claims, and eligible children. The Department estimates that these interventions to confirm whether information is accurate have prevented £232 million of error and fraud in 2011-12.

Preventing error and fraud

4.14 The Department increased its focus on preventing error and fraud from entering the system at the application, change of circumstances and renewals stages. Primarily, it validated data before making awards. During 2011-12, the Department made 528,000 checks (55 per cent more than in the previous year), and prevented £321 million (£238 million in 2010-11) of error and fraud from entering the personal tax credits system.

18 Parental claims for children may be ineligible if, for example, the child is no longer in full-time education.

Tackling non-compliance

4.15 The Department continues to identify tax credits claims for compliance and other enquiries, using specified verification and risk-scoring criteria when it processes awards. It examines awards post-payment by comparing tax credits data to other systems and targeting specific areas of concern including where income stated for tax credits does not match income stated for other taxes. Through these improved risk-management processes, the Department identified £408 million of error and fraud in the system in 2011-12. In these circumstances the Department corrects the awards and seeks to recover overpayments.

4.16 As indicated in **Figure 12**, in the last year, the total value of losses prevented has increased by 21 per cent from £792 million to £961 million as the total number of checks and other interventions has reduced from 1.8 million to 1.4 million. The Department has consciously shifted its activity from providing better support to claimants and tackling non-compliance, to preventing error and fraud. The Department is now more successful in preventing error and fraud in new awards and renewals than in changes of circumstances reported by claimants. The Department is considering the merits of developing an alternative approach to enable them to better identify cases most likely to contain error and fraud. Currently, it uses a manual process to prioritise cases for investigation and possible corrective action.

Figure 12
Outcomes of interventions to reduce error and fraud

The value of losses prevented has increased by 21 per cent from £792 million in 2010-11 to £961 million in 2011-12, as the total number of checks and other interventions has reduced from 1.8 million to 1.4 million

	2011-12		2010-11		2009-10	
Interventions	Number (000s)	Estimate of loss prevented (£m)	Number (000s)	Estimate of loss prevented (£m)	Number (000s)	Estimate of loss prevented (£m)
Better support to claimants[1]	341	232	470	215	524	40
Preventing error and fraud[1]	528	321	340	238	104	173
Tackling non-compliance[1]	485	408	984	339	653	356
Total	1,354	961	1,794	792	1,281	569

NOTE
1 Each category includes an amount arising from interventions undertaken by Compliance, Operations and Customer Contact Directorate. Some of these measures impact on more than one area and have been allocated to the most appropriate category.

Source: National Audit Office analysis of HM Revenue & Customs data

Measuring in-year error and fraud performance

4.17 The Department can only measure the personal tax credits error and fraud in any year once the awards for that year are finalised. It has, therefore, developed proxy indicators to allow it to track ongoing progress in reducing error and fraud in-year. The indicators measure by how much each award is amended as a result of the Department's interventions (£961 million), as well as assessing the wider deterrent effect (£97 million) and benefits accruing in previous years (£432 million). Together these add to the total of £1.5 billion achieved to 31 March 2012. The Department has a target to identify £1.7 billion of error and fraud by July 2012, once the majority of 2010-11 awards are finalised. The Department believes it will achieve this target.

4.18 We have previously recommended that the Department improve the accuracy and reliability of measuring losses prevented by its interventions. During 2010-11, the Department issued new guidance and training for personal tax credits teams on measuring interventions and introduced new assurance arrangements. Despite some improvement, we have continued to find inconsistent measurement and occasions where staff inaccurately recorded results of interventions, resulting in both over- and under-reporting of losses prevented in 2011-12.

4.19 A proportion of the losses prevented claimed by the Department is not being realised. This is because the Department has not always made the required changes to records on the tax credits system to reduce the claimant's awards and future payments. In the sample of new application interventions we tested, we found that 10 per cent had not been corrected in the system, resulting in incorrect awards continuing to be paid. In addition, terminated awards may subsequently be reinstated when claimants clarify their situations, but the losses prevented calculations are not adjusted to reflect these changes because the Department does not consider that there is a need to make adjustments for changes occurring after the initial measurement point.

4.20 The relationship between the Department's estimate of the levels of error and fraud and the proxy losses prevented derived from its in-year interventions and the error and fraud result is not clear. Losses prevented increased by £223 million between 2009-10 and 2010-11, but the Department's estimate is that the level of error and fraud increased by approximately £200 million between these years. The Department is now reviewing the relationship between its claim for losses prevented and the outcome of its annual measurement of error and fraud in tax credit awards, to determine why expected reductions in error and fraud did not occur.

4.21 The Chancellor of the Exchequer wrote to the Department's Accounting Officer in March 2012 confirming the priorities for the Department in the coming year. These include an expectation that the Department continues its efforts to sustain the level of tax credits error and fraud at no more than 5 per cent of entitlement over the current spending review period (that is, until March 2015). This assumed that the Department had met its target to reduce error and fraud on 2010-11 finalised awards to no more than 5 per cent, which it did not achieve. The Department will use the results of its investigation of the current methodology to determine if and how it should modify its strategy to achieve the 5 per cent target by 31 March 2015.

4.22 In October 2010, as part of the spending review, the Department and the Department for Work and Pensions launched a *joint fraud and error strategy*.[19] Within the context of the strategy, and as part of the 2010 spending review, the Department has a target to prevent £8 billion of personal tax credits losses, through interventions up to 31 March 2015. The targets are particularly challenging as the amounts increase year on year. They will be harder to achieve as the Department reduces staff numbers and implements policy changes tightening the eligibility criteria.

Managing personal tax credits debt

4.23 In 2011-12, the Department set itself a target to reduce the gross personal tax credits debt balance from £4.7 billion to £4.0 billion by March 2012, falling to £3.7 billion by March 2015. The Department also has a target to recover £0.8 billion of recoverable debt in 2012-13, without using additional resources, and prevent a further £0.1 billion of new debt arising.

4.24 As disclosed in the 2011-12 *Resource Accounts*, the Department has met its personal tax credits debt balance target of £4.0 billion. Some of this debt is unlikely to be recoverable, and the Department has accordingly made a provision for irrecoverable debt of £2.3 billion [to confirm] at 31 March 2012 (£3.0 billion at 31 March 2011).

4.25 The £0.7 billion reduction in total debt between 31 March 2011 and 31 March 2012 is the net effect of £1.8 billion of new debts identified in-year offset by £0.8 billion of recoveries and £1.7 billion of debt remissions. In his 2010-11 Report, the C&AG stated that the Department intended to review and remit uneconomic and unenforceable personal tax credits debt where there was no possibility of collection. The Committee of Public Accounts recommended that the Department write off debt where there is a value-for-money case for doing so.[20]

4.26 During 2011-12, the Department remitted debt balances of £1.7 billion. The Department had previously considered that much of this balance was not recoverable and had reflected this in previous years' trust statements. Of this sum £1.2 billion related to debts where there had been no activity over the previous 12 months on terminated and other awards over three years old. The remainder related to more current cases where debt collection had proven to be unsuccessful or uneconomic. The Department estimated that it could have recovered up to £0.16 billion of the £1.3 billion of inactive debt. However, it did not consider this to be cost-effective as it would have required the Department to divert resources away from pursuing other higher priority debts or tackling error and fraud. The Department secured HM Treasury approval for the write-off in June 2012.

19 *Tackling fraud and error in the benefits and tax credits systems,* Department for Work and Pensions, HM Revenue & Customs, October 2010.

20 HC Committee of Public Accounts: *HM Revenue & Customs: PAYE, tax credit and cost reduction*, Fifty-eighth Report of Session 2010–2012, HC 1565, December 2011.

4.27 The Department has inadequate management information on the age profile and recoverability of tax credits debt. Our analysis of the Department's debt balance at 31 March 2012 indicated that the level of irrecoverable debt could be substantially higher than it had initially estimated. As a result, the Department revisited its calculations and increased the provision in its accounts for irrecoverable debts at 31 March 2012 by £638 million, from £1,637 million to £2,275 million between the initial and final versions of the Resource Accounts.

4.28 Personal tax credits debt will continue to increase if the Department does not take any further steps to better recover and clear debt. In 2011-12, the Department generated £1.8 billion of new personal tax credits debt by identifying overpayments from the award finalisation process and from changes reported by claimants or identified in-year through error and fraud interventions. Personal tax credits debt levels are likely to increase further from the government's Budget changes affecting eligibility.[21] The Department estimates that it is likely to generate £1.6 billion of new personal tax credits debt in 2012-13 and, without any further intervention, total debts could increase to £6.5 billion by 2014-15.

4.29 The Department is developing a number of strategies and initiatives, geared around debt collection, to address existing and new tax credits debt. These include:

- allocating additional resources to target the collection of tax credits debt including the use of enhanced segmentation data to improve the design and effectiveness of debt campaigns;
- increasing the use of operational staff to pursue debts at the point that these are created;
- exploring the feasibility of using private sector support through innovative payment models; and
- reviewing policy options to ensure that its debt recovery strategy appropriately differentiates between those customers committing fraud and those making genuine errors.

4.30 The Department's latest tax credits debt campaign again focuses on new debt. For this campaign, which commenced in autumn 2011 and will continue until the end of July 2012, the Department has categorised the debt into segments. This enables the Department to tailor how it pursues debt, depending upon the claimant's circumstances and ability to pay. At the end of March 2012, of the 817,000 cases (value £870 million) in the debt campaign, the Department has tackled 407,000 (value £353 million). This included cases where the Department had agreed repayments under time-to-pay arrangements, as well as debts recovered in full and cancelled debts. Full repayments of debts had been made in some 18,000 cases (£13 million) with time to pay arrangements set up for a further 339,000 items with a value of £283 million. Converting tax credits debt into cash remains challenging and needs to be set in the context of the Department's obligation not to cause hardship through its approach to debt recovery.

21 The level by which income can increase before it impacts on the level of award has been reduced from £25,000 in 2010-11 to £10,000 from April 2011, and £5,000 from April 2013. Overpayments that were previously out of scope for recovery will be pursued and will increase the number of cases being included in future debt campaigns.

4.31 In addition to its debt campaign, the Department has been piloting several new approaches to recovering debts including directly recovering debts through PAYE coding. During 2012-13, the Department expects to recover up to £4 million in this way.

Preparing to implement Universal Credit

4.32 In February 2011, the government announced its intention to introduce a new Universal Credit to replace many of the current working-age benefits, including working and child tax credits, with a single means-tested payment. Universal Credit is designed to simplify the benefits system, creating a single streamlined working-age benefit. This should be easier for people to understand, and easier and cheaper for staff to administer, thereby reducing the opportunities for error and fraud and improve work incentives.

4.33 The Department for Work and Pensions will introduce Universal Credit in October 2013. The Department will phase out the majority of all new claims to the current tax credits scheme by April 2014. Existing tax credits claimants will subsequently be migrated to Universal Credit. The process is scheduled to be completed by 2017.

4.34 The Department is working with the Department for Work and Pensions to help design Universal Credit, share lessons learned and minimise the risk of error and fraud. The Department has not yet decided how it will migrate existing tax credits awards to Universal Credit and how it will treat outstanding debts when it has migrated awards.

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