



HM Revenue
& Customs

Annual Report and Accounts 2013-14

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Governance Statement

Lead Non-Executive foreword



Ian Barlow

Lead Non-Executive

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

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

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

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

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

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

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

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

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

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

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

Ian Barlow

Lead Non-Executive

How we are structured

Our high-level governance



Committees

Audit and Risk

Scrutiny

People, Nominations
and Governance



Sub-committees

Portfolio Delivery

Investment

People Matters

Ministerial arrangements

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

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

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

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

HMRC Commissioners

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

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

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

Our committees

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

Non-Executive Board Members



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

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

All Board Members

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

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



Ian Barlow – Lead Non-Executive

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



John Whiting – Non-Executive Board Member

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



Edwina Dunn – Non-Executive Board Member

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



Philippa Hird – Non-Executive Board Member

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



Norman Pickavance – Non-Executive Board Member

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



Volker Beckers – Non-Executive Board Member

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



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

Other Non-Executives¹

Leslie Ferrar

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

Paul Smith

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

Roles and responsibilities

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

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

The Board provides:

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

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

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

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

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

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

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

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

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

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

Attendance at Board meetings

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

¹ Left the Board in September 2013.

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

The Executive Committee (ExCom)



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



More information
about ExCom is
available on
online at
<http://bit.ly/1kBOI9S>

Members

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

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



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

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



**Edward Troup — Tax Assurance Commissioner and
Second Permanent Secretary** (Commissioner)

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



Simon Bowles — Chief Finance Officer (Commissioner)

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



Jennie Granger — Director General Enforcement and Compliance
(Commissioner)

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



Ruth Owen — Director General Personal Tax (Commissioner)

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



Jim Harra — Director General Business Tax (Commissioner)

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



Nick Lodge – Director General Benefits and Credits (Commissioner)

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



Mark Dearnley – Chief Digital and Information Officer

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



William Hague – Chief People Officer

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

Roles and responsibilities

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

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

ExCom key issues

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

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

ExCom (Performance)

Chair Simon Bowles, Chief Finance Officer

Role and responsibilities

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

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

ExCom (Transformation)

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

Role and responsibilities

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

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

ExCom sub-committees

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

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

Change governance

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

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

Tax Committee

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

Attendance at ExCom meetings

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

¹ Mike Falvey was the Chief People Officer until he left HMRC in April.

² Dorothy Brown was the interim Chief People Officer from May to September, when William Hague took on the permanent role

³ Mark Hall was the interim Chief Information Officer from April to September, when Mark Dearnley took on the permanent role of Chief Digital and Information Officer.

ExCom sub-committees

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

¹ Superseded by Portfolio Delivery Board

ExCom sub-committees




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

¹ Superseded by Portfolio Delivery Board

Board sub-committees (Role and responsibilities)

Audit and Risk	Scrutiny	People, Nominations and Governance
<p>Provides assurance to the Board and the Principal Accounting Officer on the accuracy and precision of financial statements and the strength of risk management and control processes across HMRC. Its scope covers all aspects of HMRC business and those relating to the Valuation Office Agency (VOA), as escalated. The Chair of the Audit and Risk Committee will attend at least one meeting annually of the VOA Audit and Risk Committee.</p> <p>Advises the Board and the Principal Accounting Officer on:</p> <ul style="list-style-type: none"> • assurance processes and actions in relation to management of risks in an HMRC context • strategic processes for risk, control and governance • the accounting policies, the accounts, and the annual report of the organisation. This includes the Resource Accounts, Trust Statement and the National Insurance Fund Accounts • recommending follow-up action in response to reviews of processes in settled tax cases • the planned activity and results of both internal and external audit • the adequacy of management response to issues identified by audit activity • when necessary, proposals for tendering audit services from contractors who provide audit services to the Department • anti-fraud policies, whistle-blowing processes, and arrangements for special investigations. 	<p>A special sub-group of the HMRC Board, which carries out in-depth scrutiny of single issues referred to it by the Board</p> <p>The committee advises the Board and the Principal Accounting Officer on specific areas within the Board's remit</p> <p>Examples of issues that have been referred include:</p> <ul style="list-style-type: none"> • HMRC's strategies, policies, practices and measurement of performance and how they might best be developed and improved. 	<p>Provides advice and scrutiny for the Board and Chief Executive on:</p> <ul style="list-style-type: none"> • nominations arrangements within HMRC • succession planning for appointments to ExCom and the Board, so it can maintain an appropriate balance of skills and experience • the identification and development of leadership capability and high potential across the Department • the incentive and reward strategy for the Department • HR support for the Department's strategic direction and key HR performance indicators • HMRC's ability to meet its legislative responsibilities in relation to its people, including health and safety, the Equality Act and equal opportunities.

Board sub-committees

Audit and Risk	Scrutiny	People, Nominations and Governance
<p>Chair: John Whiting (Non-Executive)</p> 	<p>Chair: Volker Beckers (Non-Executive)</p> 	<p>Chair: Philippa Hird (Non-Executive)</p> 
<p>Issues covered: There has been a particular focus this year on:</p> <ul style="list-style-type: none"> assessing the process of risk management in the Department and ensuring the right challenges and assurances are in place, resulting in clearer separation of responsibilities between Audit and Risk Committee and the Board improving liaison with the NAO as external auditor - a series of workshops were held to supplement the usual liaison meetings and cover key relationship issues as they arose throughout the year considering areas of qualification or concern within the accounts and possible remedies, which were discussed and tracked throughout the year assuring wrongdoing processes, shaping and improving policies and implementation assuring the Annual Report and Tax Assurance Commissioner's Report identifying and assuring the processes around the Department's business critical models in the light of the Macpherson Report. 	<p>Issues covered: There has been a particular focus this year on:</p> <ul style="list-style-type: none"> change management programmes reviewing issues relating to the Department's stakeholders and customers - particularly around complaints handling. This has included looking at recommendations or advice from the Adjudicator, Ombudsman and consultative groups shaping the Department's security strategy. 	<p>Issues covered: There has been a particular focus this year on:</p> <ul style="list-style-type: none"> the outcome from the Department's people survey and improving engagement in the Department HMRC's capability to deliver the business plan - including professional capability, leadership and management reviewing the talent pipeline and succession planning pay strategy in the organisation attendance management the Department's strategy for its people.

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

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

There are several ways that HMRC manages risk, including:

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



The level of risk has decreased since 2012-13



The level of risk has increased since 2012-13





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




Revenue

Risk	Progress	What are we doing
Additional compliance revenue Delivering our Spending Review 2010 proposition for additional compliance revenues.		<p>The Spending Review revenue targets are on track to be achieved. They continue to be monitored by ExCom through its monthly performance hub meetings. Departmental performance measures are agreed with HM Treasury. Our methodology and systems underpinning the reporting of our measures in 2013-14, was reviewed by the National Audit Office. Controls in place to monitor and manage future revenue delivery targets include:</p> <ul style="list-style-type: none"> • business planning will be coordinated with our transformation agenda, the data strategy and the security strategy • effective workforce planning and management • use tax risk analysis to inform compliance planning and resource deployment • development and maintenance of tax risk picture for large businesses <p>Issues around the reporting of our performance against targets are set out on pages 9 to 13 'Maximising revenues'.</p>


Operations

Risk	Progress	What are we doing
Transforming HMRC Mobilising quickly and effectively to deliver the transformation agenda.	New risk	We have established the HMRC Change Portfolio to manage change programmes and projects, and to ensure they are aligned with our strategic objectives. We have: <ul style="list-style-type: none"> developed a blueprint for our transformation, which is aligned to our strategic direction organised projects and programmes and identified senior responsible officers at Director General level ensured the HMRC Change Portfolio is overseen at ExCom level.
HMRC Universal Credit programme Managing large-scale migration from tax credits to Universal Credit.		We continue to work extremely closely with both the Department for Work and Pensions (DWP) and HM Treasury on the HMRC Universal Credit programme. Actions include: <ul style="list-style-type: none"> working with DWP to identify contingency options to support the baseline planning assumptions membership of the Universal Credit Programme Board and other key DWP boards covering design, IT and volumetric analysis integrated planning is underway and risks are shared at two-weekly meetings with the DWP Universal Credit executive team contributing towards the design of the Universal Credit service to ensure it reflects the characteristics of tax credits.
Tax policy skills Capability or capacity in our policy community to meet the demand of our customers and enable HMRC's effectiveness.		We have policy governance groups to oversee this risk. Actions include: <ul style="list-style-type: none"> developing strategic tax product plans that explain our approach to coping with different resourcing pressures in different parts of the business running corporate exercises to identify risk areas and staff vacancies in policy, as well as organising fast stream graduates and shadowing placements across HMRC and HM Treasury developing a small pool of skilled flexible policy experts to support directorates within HMRC starting a longer-term piece of work to identify the risks and opportunities to resourcing policy in the future.


Operations

Risk	Progress	What are we doing
Supplier sustainability Key suppliers fulfil their contracts.		<p>Existing controls have been rigorously maintained and improved, taking into account funding, spending constraints and impact upon the supplier. Actions include:</p> <ul style="list-style-type: none"> • establishing a contingency planning group, overseen by the Chief Finance Officer and supported by independent financial opinion, assessments and costs options • regularly monitoring news sources and maintaining a close relationship with cross-government bodies to identify any significant developments with the supplier or market sector • regularly testing business continuity plans, and subjecting them to regular scrutiny by Internal Audit, to manage the impact of any contractor default • refreshing and updating our contingency plans, legal advice, and handling and commercial negotiation strategies. These are now subject to continuous review.
Business direction Developing a realistic, affordable and understood long-term vision for the Department that enables delivery of our long-term aims.		<p>We are continuing work on an overarching strategy aimed at embedding a realistic and affordable framework for decision-making across HMRC. We have:</p> <ul style="list-style-type: none"> • maintained links with transformation programmes throughout the Department to ensure alignment with our blueprint work on the future of HMRC • ensured that business and strategic planning is based on our future direction • communicated the strategy through engagement of HMRC senior leaders.
Workload, capacity and resource management Effectively forecasting demand and balancing capacity with workload.		<p>We are improving our ability to match workload volumes and resource availability, particularly in Personal Tax, where it has presented the biggest challenge. However, this risk requires further attention to keep it within tolerance. Actions include:</p> <ul style="list-style-type: none"> • a strengthened business planning process which more explicitly tackles capacity and workload issues with information about the resources we have at our disposal • taking a more active approach to managing staffing supply and demand across the business by the Workforce Management Programme.



Operations

Risk	Progress	What are we doing
Sustainable and affordable Personal Tax business model Delivering a sustainable and affordable business model, which maintains improved service delivery at a lower cost.		In Personal Tax, we have: <ul style="list-style-type: none"> identified that the delivery of a number of change benefits through the Business Process Re-engineering, Contact Transformation and digital programmes bring staff and cost savings developed a robust business plan which sets out how we will work differently to achieve our customer service ambition. This includes bringing in teams from across HMRC to support service levels at peak times reviewed our corporate services functions to see which staff could be redeployed into operational roles.



Customer service

Risk	Progress	What are we doing
Understanding customers Understanding the impact of changes to our operating model on customer service levels, experience and behaviour.		We continue to improve our customer understanding and use customer intelligence appropriately by: <ul style="list-style-type: none"> building our understanding of the cumulative changes on customers to help us manage the overall impact on our diverse customer base routinely seeking customer insight and feedback on all our proposed changes, and in digital in particular, involving end users in the design of our new services assessing the likely impact on service levels, costs and yield as the three key objectives of the Department and building our understanding of how service levels can influence compliance and tax yield making better use of our (and others') data, which will ensure we segment our customer base better, so we can offer differentiated and personalised services for customers, based on their tax risk and past behaviour.


People

Risk	Progress	What are we doing
<p>People skills and technical capability</p> <p>Staff in the right place with the right skills to deliver our strategic objectives.</p>		<p>We have redesigned our workforce delivery approach. However, there are still challenges for us in this area. We have:</p> <ul style="list-style-type: none"> improved the quality of our workforce data, including completing a strategic workforce planning review introduced a clear workforce planning governance structure run an internal capability assessment against four cross-government priority areas (leading change, commercial, digital, project and programme management) started to measure and evaluate our capability in the tax and operational delivery professions.
<p>Leadership and management capability</p> <p>The capability needed to deliver departmental transformation and improve business performance.</p>	<p>New risk</p>	<p>We have established a central team to co-ordinate our approach to building our leadership and management capability. Its early focus has been on addressing the skills gap around leading and managing change. We have:</p> <ul style="list-style-type: none"> completed an exercise to start measuring and evaluating our change leadership capability produced targets for a yearly improvement in capability from 2014-17 put in place the funding needed to support these improvements started the roll-out of a programme (Building our Future) which focuses on building the capability of all leaders and managers in HMRC.
<p>Employee relations</p> <p>Deterioration in industrial relations, sustained industrial action and unrest.</p>		<p>Our employee relations team co-ordinates activity across HMRC to manage this risk. We have:</p> <ul style="list-style-type: none"> maintained dialogue with unions and employee groups on a wide range of challenging issues that affect our people participated in the Cabinet Office Employee Relations Manager Group to develop best practice across government supported parts of HMRC which have time-critical business processes to manage any industrial action.



People

Risk	Progress	What are we doing
People engagement Staff engagement to deliver change and maximise performance.		Activity takes place at all levels to build the skills of our leaders and to help our people understand the vision around transforming HMRC. We have: <ul style="list-style-type: none"> • improved analysis of our annual People Survey and Pulse surveys data to maximise our approach to employee engagement • begun to plan to implement a programme to ensure that everyone in HMRC, regardless of grade or location, has access to senior leaders to hear and share information about the Department's transformation agenda • continued to use people impact assessments to support change management • developed our involvement with cross-government engagement networks to enable us to share good practice, develop tools and build engagement capability • carried on more work to improve HMRC's culture, to build trusted leadership and understand the sources of employee disengagement.
Health and safety Duty of care as employer and leaseholder towards employees, customers and building users.		We have a number of internal specialists who address this risk. They support managers and staff by providing technical advice, guidance and assurance programmes. We have: <ul style="list-style-type: none"> • updated the health and safety governance structure to meet business and legislative needs better, including reporting and reviewing health and safety performance at Board, ExCom and directorate levels • revised the guidance and support arrangements for site senior responsible managers • successfully delivered new third-party contracts for employee assistance and occupational health and well-being, without suffering any failure in service provision • launched mental health and well-being strategies, including measures to support our people and to reduce levels of sickness absence.



Reputation

Risk	Progress	What are we doing
Reputation management Effectively using communications and stakeholder management pro-actively to manage our reputation and to respond appropriately to a crisis situation.		<p>We adopt a proactive and open approach to engagement with media and stakeholders to promote understanding and better represent and explain HMRC's activities and position. We have:</p> <ul style="list-style-type: none"> hosted successful stakeholder conferences in July and November 2013 for our top 150 corporate stakeholders further embedded use of an online stakeholder tool to improve insight for stakeholder engagement monitored media coverage to deploy key messages effectively designed and delivered successful marketing campaigns for Self Assessment, tax credits, tax avoidance, and High Income Child Benefit Charge launched a dedicated Twitter account and YouTube e-learning to meet customer demand, particularly from small and medium-sized businesses engaged with cross-government communications networks using a 'reputation index' to measure stakeholder perceptions.

IT and security

Risk	Progress	What are we doing
Cyber threats Protection against cyber threats.		<p>We receive funding from the National Cyber Security Programme to mitigate this risk. We also report on overall delivery, including progress and benefits, to the Cabinet Office. We do not disclose the specific actions we take against cyber crime for security reasons.</p>
Information management Our culture and capability supports the data flows required to deliver digital by default.		<p>We are strengthening the ability to manage data more effectively to support the digital by default strategy agreed with ministers. Actions include:</p> <ul style="list-style-type: none"> embedding data management in HMRC strategy work drafting strategic data management principles to assess the position of data management across HMRC establishing new opportunities for knowing what data we have and working across boundaries to exploit it one of our Change Portfolio clusters is centred around improving our use of data.

IT and security

Risk	Progress	What are we doing
Protective security Protecting the confidentiality, integrity or availability of our assets.		We have developed a number of controls relating to our buildings and suppliers. Actions include: <ul style="list-style-type: none"> • developing a clear understanding of our supplier risks and our response to those risks • improving our knowledge of delivery and compliance with standards to develop additional assurance actions • having effective monitoring in place which reveals a low level of reported incidents.
Business continuity capability Following a significant event, our plans and arrangements are insufficient to enable delivery of key objectives.		We are working to develop a broader business continuity capability across the Department. Actions include: <ul style="list-style-type: none"> • developing a new business continuity strategy that identifies more than 20 actions to support management of risks • implementing a business continuity tool that standardises planning across HMRC. This is auditable and will increase visibility of plans and support assurance activity.

Current control challenges – statement by Principal Accounting Officer Lin Homer

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

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

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

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

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

Current control issues

Tax credits appeals

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

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

Management of pensions

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

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



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

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

Accelerated payment in tax avoidance cases

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

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

Customer service levels

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

Individual Identity Assurance (IDA)

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



Our ambition is to deliver consistent quality performance for our customers

Tax credits error and fraud

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

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

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

Actions

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

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

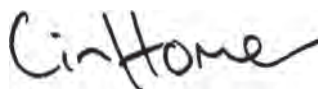
- individual statements from each member of the Executive Committee, outlining the governance, risk and control arrangements in their business areas
- the governance statement provided by the Valuation Office Agency and the review that underpins this
- the production of the Great Britain and Northern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

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

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

Conclusion

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



Lin Homer

Principal Accounting Officer
25 June 2014

Compliance with Code of Good Practice

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

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

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

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

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

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

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

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

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

Recommendations made by external scrutiny bodies

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

The Chief Executive presents a report to each meeting of the Audit & Risk Committee (A&RC), updating it on the status of recommendations and whether any are overdue. Recommendations are considered overdue if they have not been implemented by the date stated at the time of implementation¹. On 31 March 2014 there were 17 tier 1 and two tier 2 recommendations that were overdue. We have put in place action plans and agreed revised dates for all overdue recommendations, which are reviewed at each Audit and Risk Committee meeting.

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

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

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

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

Recommendations made by external scrutiny bodies

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

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

1 Balance as at 1 April 2013.

2 Balance as at 31 March 2014.

3 Operational constraints have led to a delay in implementation beyond the envisaged target date. All are reviewed at each Audit and Risk Committee meeting.

4 NAO cross-government reports since 1 January 2013 with recommendations appropriate to HMRC.

5 Section 2 audit recommendations and management letters.

6 Independent Police Complaints Commission (IPCC) and the Major Projects Authority.

7 Balance at 1 April 2013.

8 Balance at 31 March 2014.

9 Recommendations in the closing balance that were overdue at 31 March 2014.

10 Including Starting Gate and Project Assessment reviews.

11 Expected completion by 30 June 2014.

12 Four internal recommendations were incorrectly included at 31 March 2013 and in our Annual Report for 2012-13.

13 Omitted from the report to 31 March 2013 and the Annual Report for 2012-13.

14 Required inspection expected by 31 July 2014.

Directors' Report

Pension liabilities

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

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

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

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

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

Register of interests

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

Remuneration to auditors for non-audit work

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

Public sector information holders

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

Published sickness absence data

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

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

Personal data-related incidents

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

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

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

Other protected personal data-related incidents in 2013-14

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

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

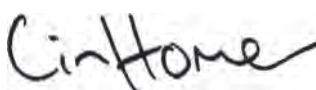
Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	4 (9)
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	7 (18)
III	Insecure disposal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

Statement on information risk

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

Further action on information risk

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



Lin Homer

Principal Accounting Officer
25 June 2014

Additional information

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

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

During 2013-14 we:

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

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

Transparency agenda

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

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

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

ROYAL STATISTICAL SOCIETY

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



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

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

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

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

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

Better regulation

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

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



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

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

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

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

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

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

Debt, complaints and powers

How we manage debt

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

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

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

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

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

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

Receivables (£billion)

	March 2014	March 2013
Tax credits receivables (note 6.2 of the Resource Account)	6.5	5.7
Trust Statement receivables (note 4 of the Trust Statement)	24.3	22.4
Total	30.8	28.1
Comprising of:		
Not yet due	7.5	7.1
Under dispute, appeal or investigation	3.5	2.9
Tax credits cross-year recovery	1.4	1.2
Contractual payment plans (includes coding out and intra-government debt)	1.7	1.7
Receivables excluding debt	14.1	13.0¹
In-debt pursuit or enforcement	16.7	15.1
Total	30.8	28.1

¹ Difference due to rounding

Complaints

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

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

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

When a customer is unhappy with the outcome of a complaint to HMRC they can take their case to the Adjudicator, who acts as a fair and

unbiased referee of complaints about HMRC and the Valuation Office. The current Adjudicator is Judy Clements OBE. There was a significant reduction in the number of complaints sent to the Adjudicator in 2013-14, down from 2,574 in 2012-13 to 1,087 last year.

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

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

Complaints to the Adjudicator and Parliamentary Ombudsman 2012-13

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

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

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

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

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

Detentions and warrants for further detention

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

Detentions and applications for warrants for further detention

	2013-14
Number of persons detained after arrest¹	
Detained after arrest by HMRC officers	421
Detained after arrest by other government agencies before adoption by HMRC	153
Detained for more than 24 hours and subsequently released without charge	Nil
Number of persons for whom warrants for further detention beyond 36 hours were:	
Applied for	Nil
Granted	Nil
Where a warrant for further detention beyond 36 hours was applied for, the numbers of persons:	
Charged	Nil

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

People

Number of Senior Civil Service staff in post by pay band

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

SCS numbers

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

SCS recruitment

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

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

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

Non-SCS recruitment

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

We are continuing to build our workforce of the future by redeploying people across the organisation, using team moves and recruitment campaigns. We promoted 5,100 people during 2013-14 and more than 3,200 of these were into compliance roles. This takes the total number of promotions during the spending review period to 11,000. In order to

support business delivery, including commitments in the 2013 Autumn Statement, we also extended more than 2,400 fixed-term appointments to 2014-15. We are continuing to move people into compliance posts and during 2013-14 a total of 1,327 were moved into new roles at 88 locations. We used reinvestment funding to recruit a further 579 staff into tax specialist posts at 59 locations.

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

Reporting on the tax arrangements of public sector appointees

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

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

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

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

All existing off-payroll engagements, outlined above, have been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

Table 2: All new off-payroll engagements, or those that reached six months in duration, between 1 April 2013 and 31 March 2014, for more than £220 per day and that last for longer than six months:

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

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

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

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

Health and safety

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

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

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

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

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

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

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

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

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

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

² Where the jobholder reported work as causal factor.

Consultancy and temporary staff

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

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

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

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



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

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

Communications

Publicity and advertising

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

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

Internal communications

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

Valuation Office Agency

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

The VOA's work enables:

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

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

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

The VOA has four strategic objectives:

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

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

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

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

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

Statistical tables

Table 1: Total departmental spending (£000)

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Plans	2015-16 Plans
Resource DEL							
HMRC administration	3,596,631	3,345,192	3,311,468	3,289,624	3,292,167	3,278,280	3,096,668
Departmental unallocated provision	-	-	-	-	-	35,445	34,631
VOA administration	644	1,298	5,835	-1,978	-2,085	1	-
Utilised provisions	54,283	48,381	47,599	40,954	33,160	38,697	34,827
National Insurance fund	433,818	411,362	340,644	334,541	322,125	302,104	296,960
Total Resource DEL	4,085,376	3,806,233	3,705,546	3,663,141	3,645,367	3,654,527	3,463,086
Of which¹:							
Staff costs	2,510,589	2,421,423	2,373,043	2,270,672	2,260,253	2,122,480	2,017,913
Purchase of goods and services	1,417,643	1,153,093	1,086,949	1,069,561	1,130,017	1,255,408	1,161,135
Income from sales of goods and services	-339,163	-310,604	-329,140	-313,498	-321,142	-376,209	-352,000
Current grants to persons and non-profit bodies (net)	8,572	40,628	11,240	29,944	4,012	1,743	972
Current grants abroad (net)	627	595	576	594	449	594	450
Rentals	271,867	259,820	265,590	262,455	225,422	247,415	234,455
Depreciation ²	203,386	215,373	217,296	226,075	233,890	252,000	256,473
Change in pension scheme liabilities	2,963	-	-	1,255	2,788	-	-
Other resource	8,892	25,905	79,992	116,083	109,678	115,651	109,057
Unallocated funds - resource	-	-	-	-	-	35,445	34,631
Resource AME							
Social benefits and grants	12,179,253	12,259,046	12,134,533	12,160,117	11,492,064	11,702,800	12,478,400
Providing payments in lieu of tax relief to certain bodies	154,513	176,852	101,532	57,134	76,396	172,199	185,207
Filing incentive payments	100,069	-	-	-	-	41	29
HMRC administration	106,926	64,776	3,967	19,596	24,631	30,001	30,000
Payments to add capacity	-	-	-	-	-	8,000	-
VOA - Payments of rates to LAs on behalf of certain bodies	32,049	39,603	47,537	55,747	60,085	72,601	74,190
VOA administration	5,416	5,126	1,139	-398	825	1	1
Utilised provisions	-141,317	-185,491	-56,271	-41,500	-33,383	-39,697	-34,827
Personal Tax Credit ³	27,600,898	28,870,775	29,914,314	29,699,832	29,329,220	29,695,400	30,623,400
Other reliefs and allowances	416,046	492,718	634,429	739,496	1,624,497	1,913,572	1,858,783
Total resource AME	40,453,853	41,723,405	42,781,180	42,690,024	42,574,335	43,554,918	45,215,183

Table 1: Total departmental spending (£000)

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

Table 1: Total departmental spending (£000)

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013 14 Outturn	2014-15 Plans	2015-16 Plans
Capital AME							
Social benefits and grants	306,302	226,677	86,255	547	223	1,000	-
Utilised provisions	80,691	113,996	-	-	-	-	-
Total Capital AME	386,993	340,673	86,255	547	223	1,000	-
Of which:							
Capital grants to persons and non-profit bodies (net)	386,993	340,673	86,255	547	223	1,000	-
Total Capital Budget	615,737	509,080	306,475	194,578	218,343	174,100	144,100
Total departmental spending⁴	44,954,614	45,783,291	46,585,175	46,322,157	46,201,296	47,131,543	48,565,895
Of which:							
Total DEL	4,110,734	3,759,267	3,708,470	3,631,097	3,629,597	3,575,627	3,350,713
Total AME	40,843,880	42,024,024	42,876,705	42,691,060	42,571,699	43,555,916	45,215,182

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

2 Includes impairments.

3 Personal Tax Credit figures for 2012-13 have been restated. Please refer to note 25.

4 Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Table 2: Public spending control (£million)

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

Table 3: Capital employed (£million)

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

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

2 The approach agreed with HM Treasury has been that certain penalty charges relating to income tax have been treated as income within the Resource Account and offset against HMRC expenditure. The treatment ceased from 1 April 2012 and the penalty charges are now reported within the Trust Statement as Consolidated Fund Extra Receipts.

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

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

Table 4: Administration budget (£000)

	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013 14 Outturn	2014-15 Plans	2015-16 Plans
Resource DEL							
HMRC administration	3,483,369	3,217,450	871,766	849,599	777,741	707,212	691,360
Departmental unallocated provision	-	-	-	-	-	35,445	34,631
Utilised provisions	54,283	48,381	40,850	32,971	26,156	18,697	22,400
National Insurance Fund	-	-	48,953	64,838	60,254	67,289	71,109
Total administration budget	3,537,652	3,265,831	961,569	947,408	864,151	828,643	819,500
Of which¹:							
Staff costs	2,510,589	2,421,423	335,549	303,503	306,449	317,693	300,000
Purchase of goods and services	861,565	643,079	413,024	391,306	401,842	335,679	358,000
Income from sales of goods and services	-316,102	-296,264	-88,623	-59,518	-68,469	-142,300	-127,000
Current grants to persons and non-profit bodies (net)	-	-	1,999	2,001	2,981	-	-
Rentals	271,867	259,820	178,377	195,916	139,403	159,526	151,170
Depreciation	201,586	213,166	66,611	55,000	67,232	63,400	64,500
Change in pension scheme liabilities	2,963	-	-	-	-	-	-
Other resource	5,184	24,607	54,632	59,200	14,713	59,200	38,199
Unallocated funds - resource	-	-	-	-	-	35,445	34,631

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

Table 5: Staff numbers

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

1 The 'permanent staff' figures include numbers of staff engaged on capital projects.

2013-14 Core Department; 51. (2012-13 and 2011-12: Core Department; 0)

2 The 'others' figures include values for contingent labour and consultants.

2013-14: Core Department; 125, VOA 9. (2012-13: Core Department; 105, VOA 12;

2011-12: Core Department; 70, VOA; 11)

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

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

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

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

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

Explanatory notes for table 8 on page 85

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

- Tables 6, 7 and 8 show analyses of the Department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in the November 2013 release. The figures were largely taken from the Online System for Central Accounting and Reporting (OSCAR) during the summer of 2013 and the regional distributions were completed by the following autumn (taking on board any revisions to departmental totals). Please note that totals may not sum due to rounding.
- 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.
- TES is a cash equivalent measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2013.
- The data feature both identifiable and non-identifiable 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 and cannot be disseminated by individual country or region is considered to be non-identifiable.
- 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.
- The functional analyses of spending in Table 8 are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in Chapter A of the CRA November 2013 release. These are not the same as the strategic priorities shown elsewhere in the report.

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

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