HM Revenue
& Customs

Annual Report and Accounts
2016-17









HM Revenue and Customs
Annual Report and Accounts 2016-17

(For the year ended 31 March 2017)

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

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

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Contents

Look out for these icons throughout this report

Read more content **within this report**

Read more content **online**

Your Charter – Our role

Your Charter – Our role

We want to give you a service that is fair, accurate and based on mutual trust and respect. We also want to make it as easy as we can for you to get things right.

'Your Charter' explains what you can expect from us and what we expect from you.

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

Your rights – What you can expect from us:

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

Your obligations – What we expect from you:

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

The Charter rights and obligations are part of our everyday work and are central to helping us maximise revenues, improve customer service and make sustainable cost efficiencies.

We report on our progress in the Charter Annual Report that can be found at **www.gov.uk/government/publications/your-charter-annual-report-2015-to-2016**

More information can also be found on **pages 38 & 70**.

Who we are and what we do

Our mission

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

Our vision

Our vision is to be a world class organisation.

Our values

We are professional: we are confident and expert in running HMRC, striving for clarity, consistency and excellence in our work, partnering with others and collaborating across teams to achieve great results, and enjoying what we do, proud to serve our customers and society.

We act with integrity: with high ethical standards, we are honest, fair, and even-handed in our treatment of others, exercising judgment and discretion, and holding ourselves to account for our actions.

We show respect: empowering and trusting our colleagues and customers to do the right thing, we are friendly, courteous, inclusive and considerate, and recognising, valuing and celebrating the views, qualities and achievements of others.

And we are innovative: we champion new and different ways of working to adapt and move with the times, having the courage and tenacity to challenge how things are done, committed to continuous improvement and to developing ourselves.

Our objectives

Our key objectives set out in our Single Departmental Plan are to:

- maximise revenues due and bear down on avoidance and evasion
- transform tax and payments for our customers
- design and deliver a professional, efficient and engaged organisation.

Our strategic principles

To guide our decision-making, we follow a set of strategic principles for everything we do:

- Customer-centric: we understand our customers through data and insight, so we can better tailor and target our support
- Simplicity: we design our systems, products and processes around customers, to make it as easy as possible for them to deal with us
- Integration: we design a tax system that integrates with third parties and business software
- Proportionate and even-handed: we deploy our resources in a fair and targeted way to ensure no one is out of reach
- Cost-efficient: we use digital services and smart data to work more efficiently, driving down the cost of the tax system for customers and the public purse.

We apply these not only to our core customer service and compliance work, but also to our other activities – from the tax credits and other benefits we administer, to our customs work and the support we provide to other public bodies and charities. We work and consult closely with a wide range of different groups and stakeholders, such as customer representatives and software developers, to make sure we are getting our strategy right.

What we do

We are one of the UK's biggest organisations. At 31 March 2017, we had around 61,800 full-time equivalent employees in 145 buildings across the UK, collecting tax and duties from more than 45 million individuals and 5.4 million businesses. Tax credits benefitted 4.1 million families and around 7.2 million children and Child Benefit supported around 12.9 million children.

The UK is one of the largest economies in both the EU and the world and we play our part by making it easier for business to trade. We work closely with HM Treasury to design effective tax and customs policies and we play a vital role in supporting wider government aims, such as using tax reliefs to support economic growth, facilitating international trade through our customs processes, enforcing the National Minimum Wage and working with devolved administrations on tax and other matters.

To do this, and deliver for our customers in a changing world, we are building on the skills and expertise of our people and working in more collaborative and flexible ways. We are putting the right people in the right places, doing the right work, with the right skills, using the latest digital tools.

Our achievements in 2016-17

Total tax revenues

£574.9bn

We brought in record total tax revenues for the seventh consecutive year

£38.1 billion more than last year

£28.9bn

compliance yield generated

91.7%

customer calls handled against our target of 85%

96.2%

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

9.6m

customers submitted their Self Assessment tax return online by 31 January deadline, a record amount, with 1.7 million filing via their Personal Tax Account

9.4m

customers have accessed their Personal Tax Account

71%

of our waste recycled. 98% of our waste diverted from landfill

83%

success rate in taking action through the courts and tax tribunals, protecting £15 billion in tax

5m+

Business Tax Accounts available to small business customers in the country, with millions of businesses already using the service to file, pay and obtain help

987,014

tax credits customers renewed online using our digital service compared to 754,900 in 2015

1,200+

apprentices recruited across 15 of our professions, including more than 900 in Operational Delivery

Introduction by Executive Chair and Permanent Secretary

Our Annual Report and Accounts sets out how we've performed over the past financial year and explains our continued transformation to become one of the most digitally-advanced tax, payments and customs administrations in the world.

It remains a great privilege to be leading HMRC at a time of such unprecedented change. As HMRC's Executive Chair, my role is to lead the Board and I have ultimate responsibility for the department's strategy, safeguarding our reputation and supporting the executive team who are responsible for the department's performance.

I continue to work closely with Jon Thompson who, as our Chief Executive, is responsible for the delivery of HMRC's strategy, including our transformation programme, objectives and performance, and, one year on from our appointment, I am pleased to say that we have continued to build on the excellent success of recent years.

In fact, this is HMRC's seventh successive year of increased tax revenues and another year in which we've generated record compliance yield.

Our ability to collect the money required to fund the UK's public services is, of course, the ultimate yardstick by which we will be measured, but the public rightly judge us on the quality of service we provide to the overwhelming majority of people in the UK who are honest and pay the right amount of tax on time.

At a time of intense public interest in the design and operation of the tax system, I am committed to cementing HMRC's reputation as one of the UK's premier public services and maintaining public confidence that we deal with all of our customers fairly, efficiently and impartially – from individual taxpayers to the largest multinational companies.

Clearly we have a lot to do, and we are very fortunate to have non-executives on the HMRC Board with a wealth of experience from senior positions within the public and private sector, to advise, support and challenge us. Lead Non-Executive, Ian Barlow, stood down at the turn of the year and I thank him for his energy over the four years he served, as he helped counsel our executive through some of the department's toughest challenges. I was delighted that Mervyn Walker agreed to succeed him and I am certain we will be grateful for his support in the coming months and years.

During the last year we were also sorry to see a number of talented senior colleagues move on, and I would like to pay tribute to William Hague, Mark Dearnley, Ruth Owen, Jennie Granger and Stephen Hardwick for the leadership and commitment they gave to HMRC in recent years, which has been instrumental in establishing and securing the performance levels and reputation set out in this report.

At the same time we also welcome Esther Wallington as Chief People Officer and Karen Wheeler as Director General for the new Border Planning Group. Our interim Directors General Mike Potter, Rachel McLean and David Richardson, and interim Director of Communications Poli Stuart-Lacey, are also leading on vital areas of our transformation while we recruit permanent replacements.

Lastly, and most importantly, I'd like to thank the many thousands of HMRC colleagues across the country whose commitment and hard work delivered last year's significant improvements to customer service and our record performance in collecting taxes.

With such a strong leadership team and a committed workforce, I am confident that HMRC will continue delivering its transformation efficiently and effectively over the next year and beyond.

Edward Troup

Edward Troup
Executive Chair and Permanent Secretary

Foreword by Chief Executive and Permanent Secretary

I am very pleased to present HMRC's Annual Report and Accounts for 2016-17, my second as Chief Executive and Permanent Secretary, telling the story of what has been the department's best ever year.

It has been a busy, challenging and incredibly rewarding first full year for me as CEO. While delivering record revenues to the Exchequer, HMRC has rarely been under more scrutiny or had more challenges to tackle.

From the Panama Papers, the processing of tax credits and the insourcing of our multi-million pound IT services, to parliamentary committees, reports, and debates; there has been media and political interest from around the country and the wider world. All this was set against a background of political change, with Brexit, a new Prime Minister and a government reshuffle, followed early in the new financial year by a general election and a new government.

Last year we surpassed expectations and exceeded targets, making real progress against the three key objectives set out in our Single Departmental Plan to:

- maximise revenues due and bear down on avoidance and evasion
- transform tax and payments for our customers
- design and deliver a professional, efficient and engaged organisation

By delivering record tax revenues and much-improved customer service, while increasing the pace of our ambitious transformation.

Maximise revenues due and bear down on avoidance and evasion

This is HMRC's seventh successive year of revenue growth, and we collected, protected and recovered more than ever before. This brought in a record £574.9 billion total tax revenues, £38.1 billion more than last year.

We also generated £28.9 billion of compliance yield, which is billions of pounds that would have otherwise been lost to the UK through fraud, tax avoidance and evasion. We have strengthened our grip on those who deliberately cheat the system and continue to pursue those who refuse to pay what they owe.

This resulted in 886 criminals and fraudsters successfully prosecuted, disrupting the activities of some of the most serious and organised criminal gangs, while our litigators handled more than 1,200 tax cases heard in courts and tribunals, being successful in 83% and protecting £15 billion in tax revenues.

We also agreed Time to Pay arrangements with individuals and businesses owing tax that secured more than £2.4 billion of revenue.

Transform tax and payments for our customers

We also delivered our best ever customer service last year by continuing to transform the UK's tax and payments system with simple, secure and personalised digital services for our customers.

We're now a seven-day customer service organisation, open to take calls and online queries every day of the week. We have given customers new, easier, faster ways to interact with us, with help and support available via Twitter, YouTube, webchat, and webinar, meeting our customers' desire for ever more convenient digital services.

We received around 50 million phone calls, answering in less than four minutes on average and maintained our improved management of 12 million customer letters, keeping post-on-hand at its lowest level for recent years.

When I introduced last year's Annual Report, we had just launched the Personal Tax Account online. Now more than nine million customers have accessed our online service and millions of small businesses are also able to deal with their tax affairs at the touch of a button. A record 9.6 million customers submitted their Self Assessment tax returns online, nearly one million tax credits customers renewed online and we prevented 500 million phishing emails from reaching our customers' inboxes. Our virtual online assistant was used by 2.2million customers.

We administer tax credits and Child Benefit payments to support families with children. Our priority is to pay customers on time and ensure that they receive their correct entitlement.

In 2014 we signed a contract with an external contractor, Concentrix, to help reduce levels of tax credits error and fraud. When we identified that their service provision was failing to meet the needs of our customers and our required standards, we took decisive action, bringing back 181,000 outstanding cases in September 2016 and redeploying staff to ensure customers were supported. In November 2016, HMRC and Concentrix agreed to exit the contract with immediate effect, with all compliance activity now being undertaken solely by our officials.

Design and deliver a professional, efficient and engaged organisation

Our continued drive to improve efficiency resulted in £181 million of sustainable cost savings during the year.

We've made real progress on what is the largest organisation change programme in Europe, which will ensure we have the right people with the right skills and tools in the right places to meet the challenges ahead.

As part of this programme, we closed 26 offices last year, reducing our estate to 145 buildings in 92 towns and cities as we move towards basing most of our people in just 13 state-of-the-art regional centres, plus a handful of specialist and transitional sites. We're almost ready to move into our first regional centre in Croydon and our new transitional site in Canary Wharf, and we hope to announce several more locations in the coming months.

We are transforming into one of the most digitally-advanced tax administrations in the world, becoming a digital-by-default organisation. We are securing efficiencies in IT spend by bringing development and delivery of IT and security under our direct control. We have already moved most of our services to faster, cheaper and more stable cloud-hosted platforms. We are consolidating previously disparate data sources, enabling our analysts to use specialist tools to exploit this information along with information from third parties to improve customer experience and compliance activities.

We successfully reorganised our directorates to better serve our customers and reflect our strategic priorities, creating three core business units – Customer Compliance, Customer Services and Customer Strategy and Tax Design, supported by professional corporate services teams.

How we work is key to improving our collective performance. During the year, we redefined the core values that underpin everything we do. Following discussions at Board and Executive Committee level, we engaged with HMRC's leaders and managers before inviting all of our people to share their views. The consistent themes that emerged at each stage of these discussions reassured us that we had a clear sense of what is important:

- **We are professional:** we are confident and expert in running HMRC, striving for clarity, consistency and excellence in our work, partnering with others and collaborating across teams to achieve great results, and enjoying what we do, proud to serve our customers and society
- **We act with integrity:** with high ethical standards, we are honest, fair, and even-handed in our treatment of others, exercising judgment and discretion, and holding ourselves to account for our actions
- **We show respect:** empowering and trusting our colleagues and customers to do the right thing, we are friendly, courteous, inclusive and considerate, and recognising, valuing and celebrating the views, qualities and achievements of others
- **And we are innovative:** we champion new and different ways of working to adapt and move with the times, having the courage and tenacity to challenge how things are done, committed to continuous improvement and to developing ourselves.

During the year we welcomed just under 8,000 new colleagues to the department, including more than 1,200 apprentices, and promoted more than 6,100 people into new roles.

And using colleague feedback we are making a number of changes to our people processes, including the performance management system, which has contributed to improvements in our employee engagement index scores for the year.

Brexit

The UK's exit from the European Union will have profound policy and operational implications across tax, benefits and customs regimes, and since the referendum we have been working closely with colleagues across Whitehall, including the Department for Exiting the European Union and Department for International Trade, to understand the implications for HMRC and ensure we are ready to deliver on day one.

There are likely to be changes to customs, VAT, excise, social security, direct taxes, data sharing and litigation. We will be working with HM Treasury to bring forward legislation to establish a new framework for the UK customs service and other areas as required, and will continue to engage with stakeholders to ensure that HMRC is able to help them understand and prepare for any changes in the way the tax, benefits and customs systems are administered.

Of course, none of the success we have achieved in the last few years could have been achieved without the hard work and professionalism of our staff. On behalf of the Board and senior leadership team, I wish to pay thanks to HMRC colleagues across the country and around the world for the passion and commitment they continue to show for our mission and our department.

Their efforts provide the foundations on which we continue to build towards a world-class organisation. The achievements set out in this report are evidence that we are moving in the right direction and I have every confidence in our ability to continue this impressive performance trend.

Jon Thompson
Chief Executive and Permanent Secretary

Small business customers

Made up of more than five million businesses with turnover below £10 million and fewer than 20 employees. It also includes micro-businesses that have turnover below £2 million and fewer than 10 employees.

£110bn*

Estimated receipts covering Corporation Tax, VAT and other regimes.

£85bn

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

£5bn**

Generated in compliance yield as a result of our compliance activity

11m

The number of people employed in the UK

4m

The number of customers registered for Self Assessment

£15.8bn***

Our indicative estimate of the tax gap for 2014-15

* Includes an estimated £39 billion of receipts from tax regimes that cut across small and mid-sized businesses

** See page 22 for more information around compliance yield assumptions

*** Our estimate of the tax gap for Small and Medium Enterprises is £18.3 billion for 2014-15. This includes both small businesses under the new definition and a proportion of what are now classified as mid-size businesses.

To read about more customer groups see **pages 28-29**

Performance – how we did and our plans

Key objective 1 – Maximise revenues due and bear down on avoidance and evasion

In summary...

For the seventh consecutive year we brought in record total tax revenues, this year amounting to £574.9 billion. In addition, we generated £28.9 billion of compliance yield last year which exceeded our target and comes from the action we took against individuals and businesses who attempted to break the tax rules. Our analysis indicates that we continue to maintain one of the lowest tax gaps in the world. We remain strongly committed to pursue those who do not comply, prosecuting 886 criminals and fraudsters last year. We have organised our activity around a number of distinct customer groups and we can target our efforts more specifically to their needs, ensuring that the vast majority of UK taxpayers comply with their obligations and pay what they owe on time. Last year we collected a record £44.3 billion in debt, an increase of £1.6 billion.

Maximising revenues

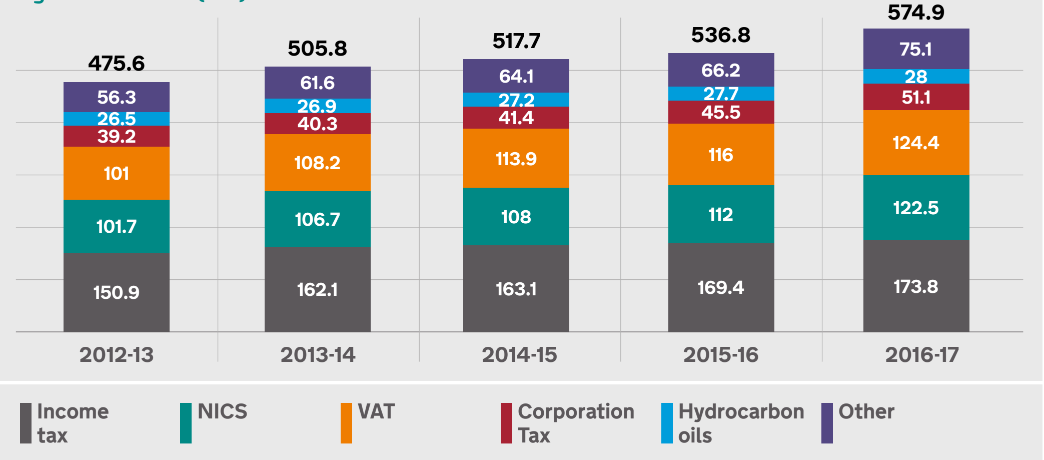
In 2016-17, total revenue increased by £38.1 billion, or 7.1%, to £574.9 billion.

In summary, and compared to 2015-16:

- Income tax (30% of total revenue), and National Insurance Contributions (21% of total revenue) increased 5.3% due to increases in employment levels, higher wages and changes to the way National Insurance Contributions are calculated for state pensions.
- Value Added Tax (22% of total revenue) increased 7.2% due to higher receipts for the oils, gas and mining sectors which can be explained by the increased price of oil. There was also strong growth in the construction and chemicals/pharmaceuticals sectors.
- Corporation Tax (9% of total revenue) increased 12.3% due to rising company profits.
- Hydrocarbon oils (5% of total revenue) increased by 1.1%.
- Alcohol (2% of total revenue) increased by 5.6% due to increases in duty rates, alongside a slight increase in consumer purchases for home consumption.
- Stamp Taxes (3% of total revenue) increased by 6.2% due to the introduction of a higher rate for additional properties and the continuing increase in house prices.
- Capital Gains Tax (1.5% of total revenue) increased by 15.1% due to the average gain per disposal of assets increasing by around 16%.
- Tobacco (1.5% of total revenue) reduced by 4.4% due to the fall in cigarette consumption.

A number of other taxes, including, Inheritance Tax, Insurance Premium Tax and Air Passenger Duty, accounted for the remaining 5%.

Figure 1: Revenue (£bn)



Full information of the tax revenue collected by HMRC can be found in the Trust Statement on **page 157**

The total amount of tax revenue that we should collect is driven by the overall level of activity in the economy and the rates of taxation, allowances and reliefs set by the Treasury.

The tax gap

The tax gap is the estimated difference between the amount of tax HMRC actually collects and the amount that in theory should be collected. It is impossible to collect every penny of tax that is legitimately owed for a variety of reasons – for example, we cannot collect tax from businesses that become insolvent, even if they owe outstanding tax.

The UK tax gap for 2014-15, published in Measuring Tax Gap 2016, which are the latest figures available, is estimated at 6.5% of total liabilities. There is an overall downward trend from 8.3% in 2005-06 to 6.5% in 2014-15.

30% of total revenue

£173.8bn Income tax

compared to £169.4bn the previous year

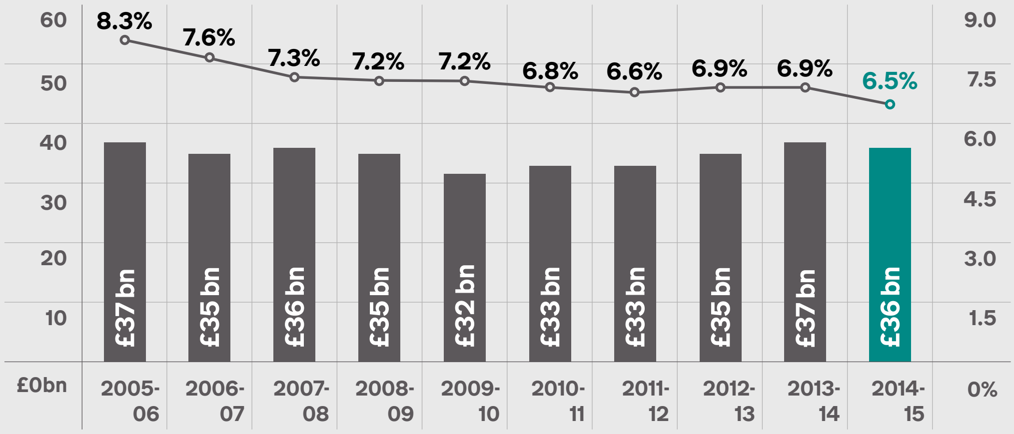
The UK tax gap is one of the lowest in the world and the chart below shows how it has remained at a consistently low level for a decade.

The percentage tax gap (compared to the cash figure) gives us a better insight into long term trends as it includes some of the effects of inflation, economic growth and changes to tax rates.

The UK is one of only a handful of countries in the world that attempts to estimate the tax gap each year including both direct and indirect taxes because of its complexity.

More technical information about how we calculate the UK's tax gap can be found here
www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2016-to-2017

Figure 2: Tax gap as a percentage of theoretical tax liabilities



The link between the tax gap and the revenue we generate through our compliance activities is not a straightforward one. For example, the tax gap reflects a single year, while some compliance cases can cover multiple years. It is possible that the amount of compliance yield we generate might increase, while the percentage tax gap remains the same, or reduces.

Compliance yield

Our compliance yield includes billions of pounds that would have otherwise been lost to the UK through fraud, tax avoidance and evasion. We have strengthened our grip on those who deliberately cheat the system and continue to pursue those who refuse to pay what they owe.

We apply appropriate civil and criminal sanctions to this dishonest minority. The decision to carry out a criminal investigation is based on a number of factors, for example the nature and scale of the alleged fraud or our ability to obtain evidence to prove the case.

Compliance yield includes not only cash expected but also an estimate of the amount of revenue we prevent from being lost, together with the impact of legislative changes, process improvements and our current compliance activity on future customer behaviour.

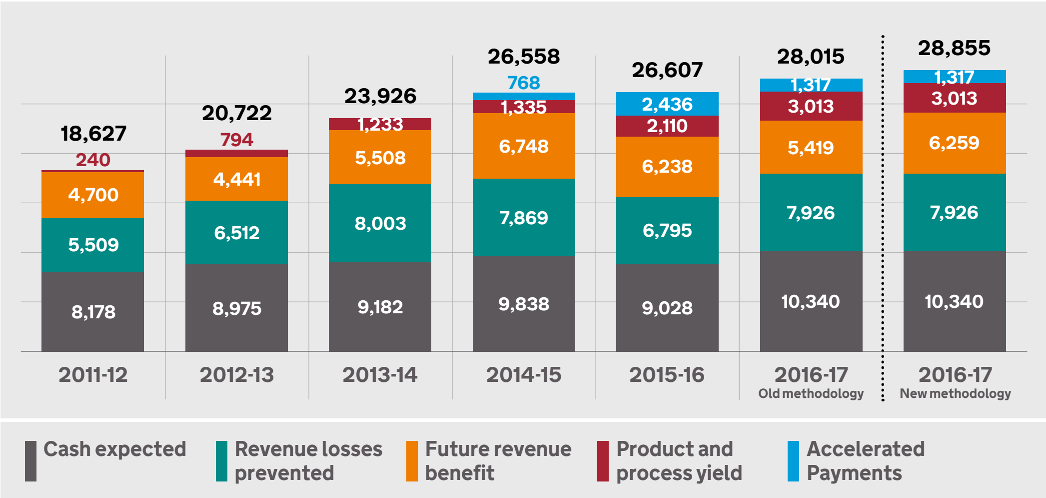
Compliance yield also captures the impact of the Accelerated Payments regime, which requires individuals or businesses involved in tax avoidance schemes to pay the disputed amount of tax up front, rather than keeping the money until the dispute is settled.

Compliance yield targets are set on an annual basis at the Budget. The 2016-17 target of £27 billion was set on the new methodology for reporting future revenue benefit and was announced in the March 2016 Budget. We generated £28.9 billion against this target.

Following a recommendation from the National Audit Office, we published a technical paper in July 2016 setting out the changes we were making to the reporting of future revenue benefit (FRB) **www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2016-to-2017**

The main components of our £28.9 billion compliance yield are:

- £10.3 billion of cash expected – the amount of additional revenue due when we identify previous non-compliance, reduced by a discount rate to reflect the fact that some of the amounts that we identify will not be collected, for example where a business becomes insolvent. While the amount of tax due from these cases is very clear, we cannot trace every compliance assessment through to final payment so there is an element of estimation involved in this figure
- £7.9 billion of revenue loss prevented – the value of our activities where we have prevented revenue from being lost to the Exchequer that impacts on our tax receipts. This includes stopping fraudulent repayment claims, totalling £4.8 billion and disrupting criminal activity, which amounted to £3.1 billion
- £6.3 billion of future revenue benefit – the estimated effect of our compliance interventions on customers' future behaviour
- £3 billion of product and process yield – the estimated annual impact on net tax receipts of legislative changes to close tax loop holes and changes to our processes which reduce opportunities to avoid or evade tax. This estimate is subject to independent scrutiny by the Office for Budget Responsibility
- £1.3 billion of revenue from Accelerated Payments notices – the disputed amounts of tax that people using tax avoidance schemes are now required to pay up-front within 90 days, as well as an estimate of the behavioural change that the policy has generated. Last year we issued more than 9,000 'follower notices' to tax avoidance users with an associated accelerated payment to a value of more than £520 million. Follower notices urge tax avoiders to settle their tax dispute after court rulings in similar cases find in our favour, or face a penalty of up to 50% of the value of their tax and/or National Insurance in dispute. We issued 99 follower notice penalties last year, with a collective value of £6 million.



If we calculate future revenue benefit using the old methodology (reporting future revenue benefit in the year we completed our compliance activities) our total compliance yield for 2016-17 would be £28 billion, of which future revenue benefit would be £5.4 billion. The new methodology records future revenue benefit against the year in which the exchequer benefit is expected and amounts to £6.3 billion.

Understanding our different customers

To continue being highly effective and efficient in maximising revenue and bearing down on tax avoidance and evasion, we need to understand what encourages customers to be compliant. We need to know what helps, or what discourages them from being compliant, and what risks they pose to not paying what they owe.

In order to target our efforts proportionately, we divide customers into a number of distinct groups, based on what we know about them. Customers can move between these groups as their circumstances change – the information on **pages 18, 28, 36, 44 and 52** summarises some of our activity related to these customer groups.

Not all of our systems automatically provide information broken down by our different customer groups and as a result we have made some assumptions to split our estimates of receipts and compliance yield where this is possible. Approximately £5 billion of compliance yield cannot be attributed to a specific customer group for various reasons, such as where policy changes result in yield that cuts across different groups.

Tackling avoidance, evasion and non-compliance

Organised criminals

Criminals target the tax system, attempting to defraud the Exchequer of revenue, particularly from VAT, alcohol, tobacco and oils taxes and duties. HMRC uses a range of law enforcement, tax investigation, asset confiscation and other powers to tackle organised crime groups, disrupting their activity, dismantling their organisations and taking the profit out of their fraud.

Over the past six years we have brought more than 500 serious organised criminals to justice. We generated or protected £3.2 billion* in compliance yield in 2016-17 as a result of our investigations and enforcement action against organised crime. Our latest estimate of the tax gap for this group is £4.8 billion for 2014-15.

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

Prosecutions

A total of 886 criminals and fraudsters were prosecuted in 2016-17, mostly for tax-related offences, serving a collective total of 806 years in prison. We are committed to increasing the number of criminal investigations that we can undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates, with the aim of increasing prosecutions in this area to 100 a year by the end of the Parliament.

886
Criminals and fraudsters prosecuted mostly for tax-related offences, serving a collective total of 806 years in prison

Accelerated Payments

Last year, as planned, we reached the end of our three-year programme of issuing Accelerated Payment Notices (APN) to users of eligible avoidance schemes. APNs are one of the most significant tools that we have to tackle avoidance by individuals and companies, removing their ability to defer payment of tax in ongoing disputes involving marketed tax avoidance schemes. Since 2014 we have issued more than 75,000 notices worth in excess of £7 billion and collecting nearly £4 billion.

During the last year we issued more than 30,000 notices, worth £2.3 billion, with total revenue generated of £1.3 billion. This included £180 million of estimated compliance yield protected by APNs, through making the use of avoidance schemes less attractive to existing and potential avoidance scheme users.

Full information about the Accelerated Payments regime can be found at:
www.gov.uk/guidance/follower-notices-and-accelerated-payments--2

Where a customer disagrees with an Accelerated Payment Notice, they have the right to make representations to us. Of the 75,000 notices issued we received a total of 40,000 representations.

So far we have considered more than 32,000 of these representations and around 90% of the notices were upheld as valid, with more than 80% confirmed in the original amount.

Three judicial reviews of the Accelerated Payments regime were heard last year, with the High Court confirming that the Accelerated Payments legislation, and our delivery of it, was legal, adding to the favourable decisions on two similar reviews heard in 2015-16. Two of these three decisions are currently subject to appeal.

Diverted Profits Tax

The Diverted Profits Tax was introduced in 2015 to strengthen UK defences against multinational companies that abuse international tax rules to shift their profits outside of the UK and avoid paying UK tax. It is an important measure for HMRC and is designed to encourage behavioural change in businesses. Last year diverted profits project teams developed new innovative ways of identifying, risk assessing and investigating profit diversion cases. During 2016-17 the yield from diverted profits tax, including additional amounts of Corporation Tax arising from behavioural change by businesses, totalled £281 million, which is broadly in line with the most recent published forecast of £275 million in the March 2015 budget. Of the £281 million, the amount raised from issuing DPT charging notices was £138 million.

Dealing with debt and other monies owed to us

How much debt is there?

The amount of overdue money owed to HMRC is a snapshot of the total amount of debt, owed at any given time that is both collectable and enforceable. It includes debt that has arisen throughout the year, as well as older debt outstanding from previous years.

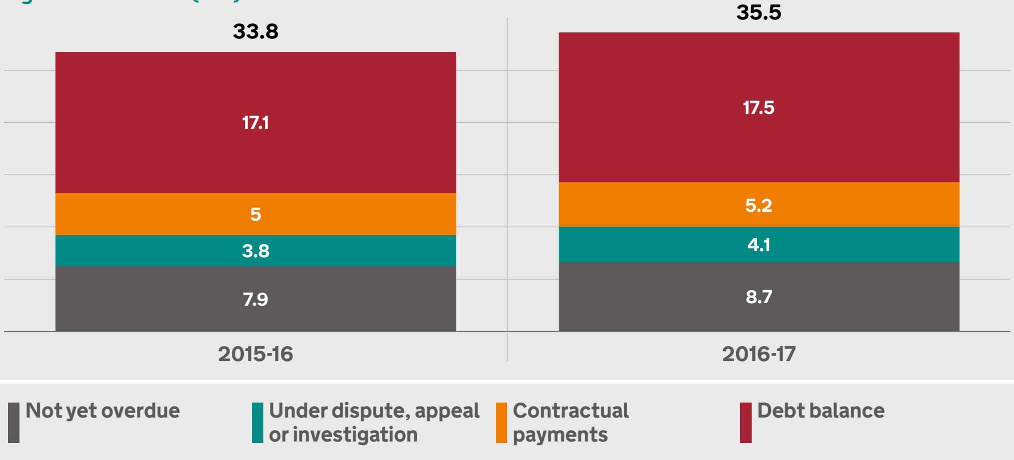
The total HMRC debt balance (tax and tax credits combined) was £17.5 billion at the end of last year, compared to £17.1 billion for March 2016 and is split as follows:

- The total amount of tax debt owed to HMRC at the end of last year was £13.2 billion, which is 2.3% of our £574.9 billion total tax revenue. This compares to £13 billion for March 2016. When we talk about debt it includes taxes, duties, penalties, and interest charges owed by individuals and businesses.
- The total amount of tax credits debt owed to HMRC by March 2017 was £4.3 billion, compared to £4.1 billion* for March 2016. We actively pursue the collection of tax credit debt with some debt also being passed to the Department for Work and Pensions (DWP) for collection.

* This excludes debt being recovered through ongoing personal tax credits awards.

The total amount of money due to HMRC for all taxpayer liabilities that are owed, even if they are not currently overdue, was £35.5 billion as at March 2017 compared to £33.8 billion as at March 2016.

Figure 4: Total due (£bn)



*Tax receivables £28.2bn.** For more information see **page 165** of the Trust Statement
***Tax Credit Receivables £7.3bn.** For more information see **page 191** of the Resource Accounts

Helping customers pay what they owe

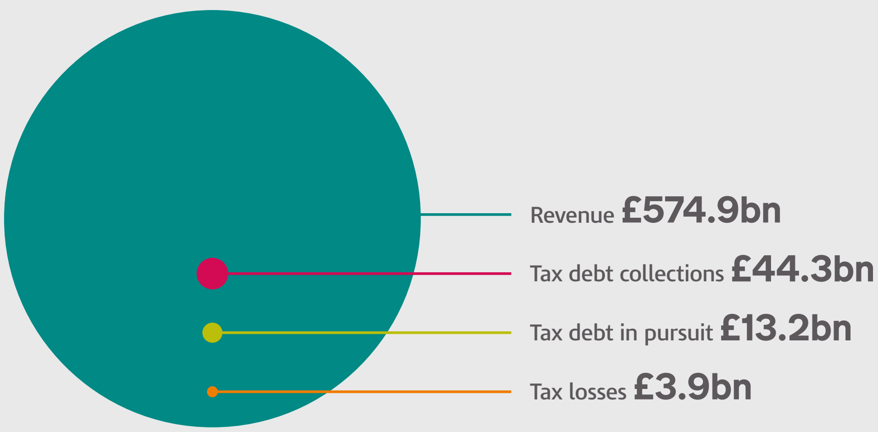
HMRC delivered a strong performance on debt collection in 2016-17 and collected a record £44.3 billion – an increase of £1.6 billion compared to 2015-16. We also achieved greater efficiency savings by delivering this work with a 5% reduction in the allocated budget.

We make it as easy as possible for our customers to pay what they owe, by offering a range of payment methods and facilities. Where individuals or businesses need more time to pay due to temporary financial hardship, we agree Time to Pay in order to get them on a sustainable payment track as soon as possible. At the end of March 2017, we had ongoing arrangements worth more than £2.4 billion – an increase of £500 million since April 2013.

Where customers are unable or unwilling to pay on time, we pursue outstanding amounts quickly and efficiently. Using our debt collection powers the majority of debt is repaid in the same year, but some is old debt from previous years that is recovered more slowly.

£2.4bn+
in Time to Pay arrangements

Figure 5: Debt in pursuit and losses compared to revenue (£bn)



We use private sector debt collection agencies (DCAs) to help with our debt collection activities. From August 2014, we increased our use of DCAs in the initial stages of tax credits debt collection to send letters, text messages and make telephone calls on our behalf. DCAs collected £425 million in overdue tax and tax credits payments in 2016-17 – an increase of £154 million on the previous year.

DCAs play an integral role in adding capacity to HMRC's debt collection function and their services are currently provided via the Debt Market Integrator (DMI), a cross government service. There is a robust monitoring and assurance regime in place ensuring professional, ethical and service standards are met. Our future use of this service will be driven by our overall strategy, plans and the results of future fiscal events.

Losses occur when we formally cease collection activity as they are either not economic to pursue or there is no practical means to pursue them, for example when companies or individuals have become insolvent.

For more information on tax losses see page **page 166** of the Trust Statement

Tax reliefs

Tax reliefs reduce tax for particular groups of people or for particular things. They operate in a variety of ways, for example by reducing the amount that is taxed or the rate of the tax. We publish estimates of the costs of tax reliefs annually as official statistics.

Estimates are provided for the following numbers of tax reliefs:

Figure 6: Principal tax reliefs (cost £50m or above)[1]

	2015-16	2016-17
Income Tax*	32	33
Corporation Tax	8	8
National Insurance Contributions	11	10
Capital Gains Tax	4	4
Inheritance Tax	6	6
Value Added Tax	26	26
Climate Change Levy	5	5
Stamp Duty Land Tax	4	4
Other	10	10
Total	106	106
Minor tax reliefs (cost less than £50m)	89	89
Total number of reliefs costed in current publication	195	195
Total number of reliefs costed in previous year's publication	183	N/a

* Includes 2 reliefs which also apply to Corporation Tax and 1 which also applies to Capital Gains Tax

The latest publication may be viewed here:
www.gov.uk/government/collections/tax-relief-statistics

In addition, a list is provided of a further 223 tax reliefs for which cost estimates are not available. The bulletin accompanying the published statistics explains the reasons why estimates of costs of some reliefs are not available.

Large business customers

Made up of the 2,100 largest and most complex businesses with an annual turnover typically exceeding £200 million. Many are complex groups of companies.

For more information around compliance yield assumptions see **page 22**

£125bn

Estimated receipts covering Corporation Tax, VAT and other regimes

£105bn

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

£8bn

Generated in compliance yield as a result of our compliance activity

40%

Approximate contribution to total tax receipts

50%

Approximate percentage under enquiry at any one time

£6.7bn*

Our indicative estimate of the large business tax gap for 2014-15

* Our estimate of the tax gap for customers with a turnover of more than £30 million is £9.5 billion for 2014-15 (referred to as large businesses in Measuring Tax Gaps 2016 publication). Under our new organisational structure, this covers large businesses and the majority of what we now classify as mid-sized businesses.

To read about more customer groups see **pages 36-37**

Key objective 2 – Transform tax and payments for our customers

In summary…

We are transforming the UK's tax and payments system with simple, secure and personalised digital services for our customers that helped deliver our best ever performance last year. We exceeded our targets across the board. More than 80% of customers told us they were 'satisfied' or 'very satisfied' with our digital services. More than nine million people accessed their Personal Tax Account. We handled more than 1.6 million webchats, and saw 92% of Self Assessment customers submit and pay their return online - more than ever before. For the first time we offered a permanent seven day a week service across our main helplines to make it easier for customers to contact us at a time that suits them. We answered customer calls in an average of under four minutes and exceeded our target for turning round customer post while receiving fewer new complaints.

Our expanding online services gave customers newer, easier, faster and more convenient ways to interact with us. We worked hard to build new digital services as alternatives to traditional ways for contacting us and ensuring customers are aware of these options, while also delivering strong performance within the more traditional routes of contact, such as phone or post. To ensure we were able to effectively monitor our digital service performance, we introduced three new digital targets for 2016-17, as well as a new customer helpline target focused on waiting times.

Tax accounts give individuals, businesses and their authorised agents a more convenient real-time view of their tax affairs, providing them with greater certainty about the tax they owe and payments they are due to receive. These reforms will deliver the biggest transformation of the tax system in a generation, making it more effective, efficient and easier for taxpayers.

2.2m
Customer queries answered by our virtual online assistant

21% of total revenue

£122.5bn National Insurance Contributions

generated compared to £112bn the previous year

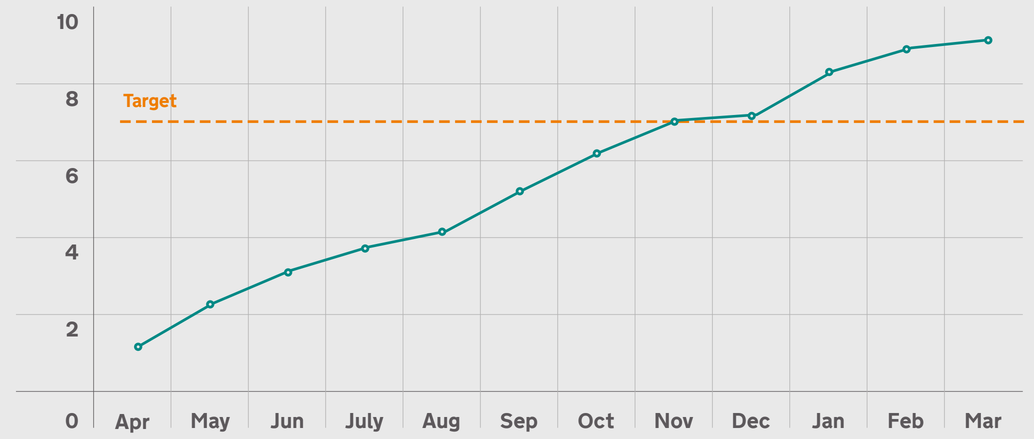
Use of our digital customer services

18,828
Total queries dealt with via social media last year, with only 29% needing referral to a phone adviser/online chat

Since December 2015 we have provided individuals with their own digital Personal Tax Account (PTA) and we will continue to promote the tax account as our range of online services expands.

Take up of the PTA has been very strong with the number of individuals using their account exceeding our target of seven million, by December. Functionality increased as new services were added across the year, and new user numbers continued to grow to 9.4 million by March 2017.

Figure 7: Increase in personal tax account new users 2016-17 (m)



Within the PTA, customers can correspond with us using forms that can be filled in and filed online, known as i-forms. We provided consistently good performance responding to i-forms across the year, replying to 99% within seven days against a target of 95%.

At the same time, we provided every small business customer in the country with access to their own digital Business Tax Account (BTA) and we expect most small businesses will be interacting with HMRC systems directly via accounting software, with roll-out completed by 2020-21.

We recruited more than 800 new staff to further enhance our customer service with the introduction of a seven-day service across our main helplines from January 2017 so that customers have more opportunity to contact us at a time that suits them. Similarly, we have extended webchat availability up to 10pm on weekdays, 8pm on Saturdays and 4pm on Sundays. We developed a dedicated online forum and phone line for new businesses and self-employed individuals to get help and support about filing and paying their taxes for the first time, and to provide help with the transition to using our digital services.

For individual and business customers who want to use digital services, but are unable to, we put in place support for those who are genuinely digitally-excluded so that they remain able to get the help they need. This included the introduction of 'co-browse', a facility for customers who need further help with understanding how to use digital services. Our Needs Enhanced Support (NES) service provides support to customers who we have identified as needing extra help. Since the start of 2016-17 the NES service has received just over 100,000 referrals from frontline staff and the voluntary community sector.

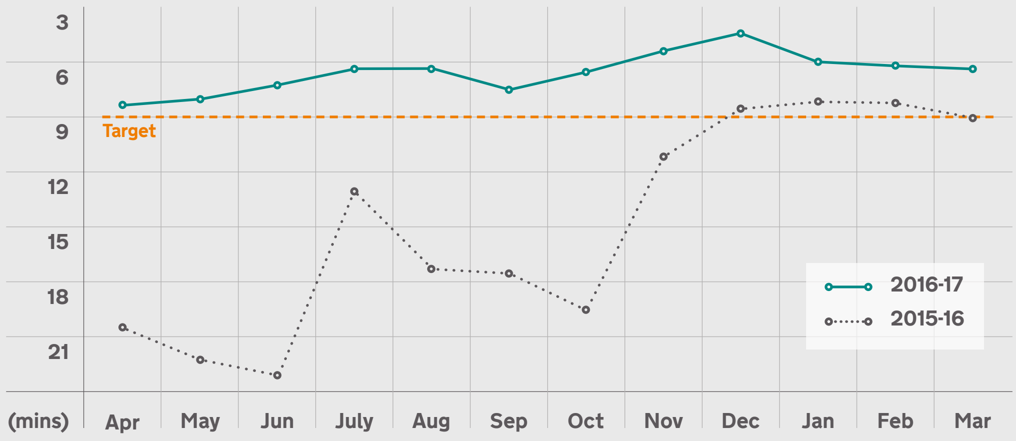
100,000+
Customers supported last year through our Needs Enhanced Support service, with 25,000+ appointments for face-to-face visits or specialist phone help

We wanted to achieve an average overall customer satisfaction rating of 80% for our digital services last year. The percentage of our customers that responded that they were either 'satisfied' or 'very satisfied' with the service, across all our digital services during 2016-17 was 83%.

Customer calls and post performance

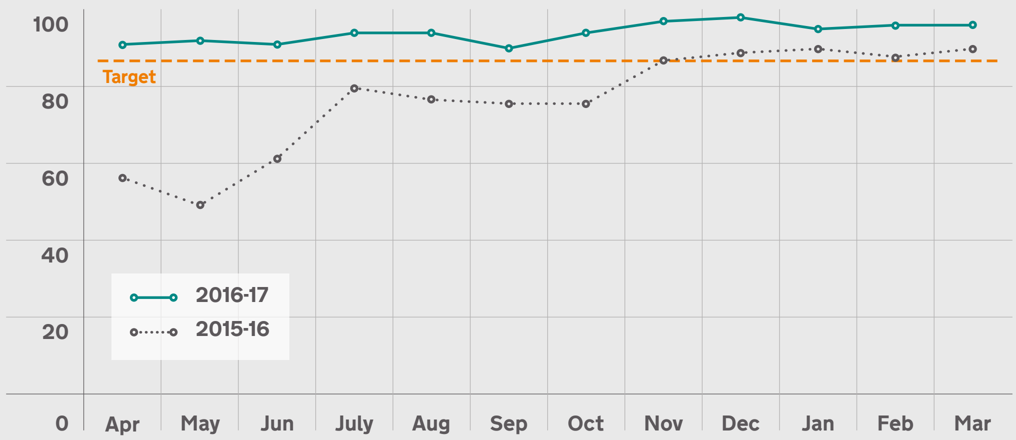
Our average speed of answering calls was strong across the year – 3 minutes 54 seconds against our target for the year of under six minutes. Our helplines have delivered consistently strong performance as a result of recruitment, more flexible working to deal with large fluctuations in demand and new online services that reduce the need for customers to call. We have introduced this new target on the average speed of answer, as call wait times give us a strong indication of how we are performing.

Figure 8: Average speed of answer – monthly



Our performance in call attempts handled was strong last year, with 91.7% of calls against our target of 85%.

Figure 9: Call attempts handled – monthly (%)



We met our target and turned around 81% of post within 15 working days against an 80% target. We also turned around 96.3% of post within 40 days, against our target of 95%.

Figure 10: Call attempts handled — yearly (%)

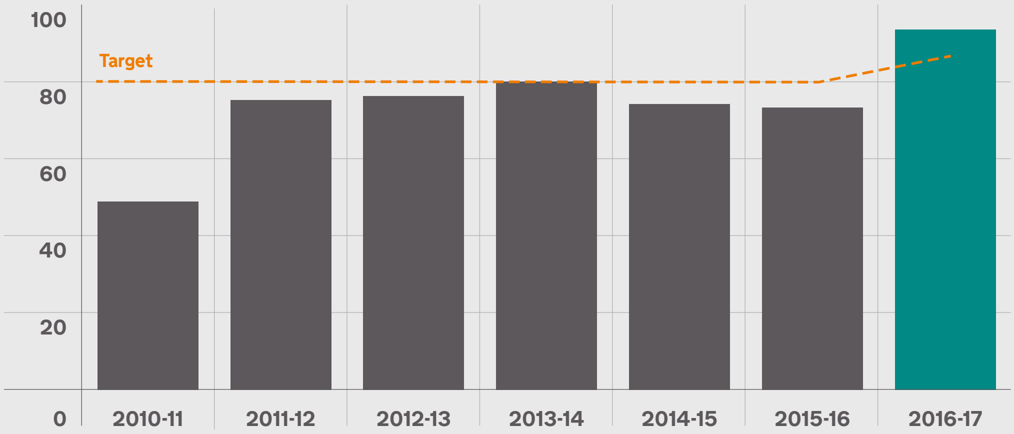
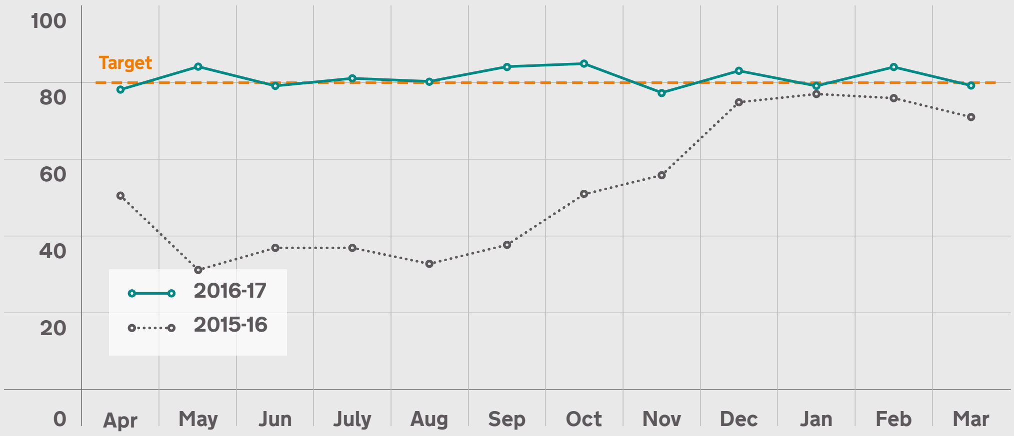
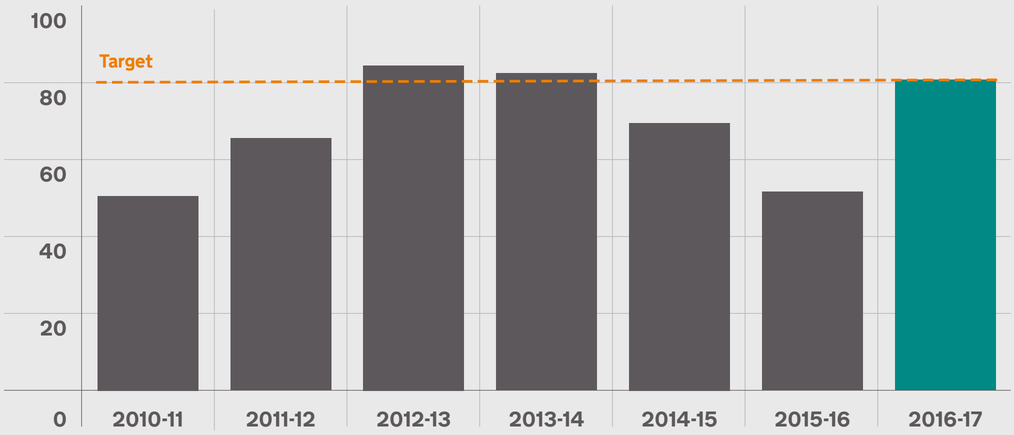


Figure 11: Post turnaround within 15 days (%)



A total of 10.4 million (93%) of our customers filed their Self Assessment return on time in January, an increase of 1% on the previous year. A record 9.6 million (92%) of those customers filed online, up 1% on 2015-16, with 1.7 million customers filing via their Personal Tax Account.

Figure 12: Post turnaround — yearly (%)



A technical note on how we measure digital, telephony and post performance can be found at:
www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2016-to-2017

Tax credits and Child Benefit

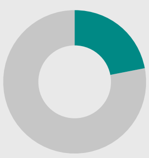
We are responsible for administering tax credits and Child Benefit to support families with children; tackle child poverty; and help to make sure work pays more than welfare. Our priority is to pay customers on time and ensure that they receive their correct entitlement. Last year we paid out £27.1 billion in tax credits and £11.7 billion in Child Benefit. Tax credits benefited 4.1 million families and around 7.2 million children and Child Benefit supported around 12.9 million children.

Almost 2.5 million people renewed their tax credits by the deadline of 31 July 2016, with around a million doing it online, an increase of more than 30% on the previous year. We maintained our performance in processing new tax credits and Child Benefit claims and change of circumstances for UK customers within an average of 16 days against a target of 22 days, and for international customers within an average of 52 days against a target of 92 days.

For 2015-16 and 2016-17, we had a target to identify and prevent losses in the tax credits system so that error and fraud was no more than 5% of paid entitlement. The percentage of error and fraud is measured after all claims have been finalised and results are published around 14 months after the end of the tax year. We track our progress via a measure known as Gross Losses Prevented (GLP). Our latest estimate of the overall level of tax credit error and fraud relates to 2015-16 and was 5.5% (£1.57 billion) of paid entitlement, while underpayments were estimated at 0.7% (£210 million) of total tax credits expenditure. Analysis is already underway to understand why error and fraud levels have increased.

Error and fraud in Child Benefit is lower than tax credits. Our latest estimate in 2016-17 is 1.0% (£110 million) of total Child Benefit expenditure. The vast majority (£75 million) of this amount relates to customers who do not reply to requests for information during the estimation exercise and who are automatically classed as error and fraud, even though they may be eligible for their Child Benefit payments. If all these non-responders were instead assumed to be eligible and taken out of the estimate, the error and fraud estimate would fall to 0.3% (£35 million). In practice it is likely that some of the non-respondents will be eligible and some non-eligible. For this year's exercise, we have assessed eligibility of all non-respondents using the full range of claimant data at HMRC's disposal. The exercise suggested that around one-third of non-respondents are likely to be non-eligible, which strongly suggests that the headline estimate should be considered an upper-estimate.

£38.8bn
Tax credits and Child Benefit paid out to support children and families



22% of total revenue

£124.4bn VAT generated

compared to £116bn in the previous year

We signed a contract with an external contractor, Concentrix, in 2014 to help reduce levels of tax credits error and fraud. In September 2016 all compliance activity was taken back and worked exclusively by HMRC and the loss of additional capacity, means we will not deliver the 5% error and fraud target for 2016-17.

Universal Credit is due to fully replace tax credits, though Child Benefit will continue to be administered by HMRC. New claims will be replaced by Universal Credit claims in line with the DWP's Universal Credit migration timetable. Tax credits claims are expected to steadily reduce as we continue to close claims on a geographical basis, with no more new tax credits claims being taken from October 2018 and no renewals of tax credits awards after March 2022.

Last year, 62,000 customers migrated to Universal Credit with 437 staff transferring to DWP. We currently expect around 220,000 customers to move to Universal Credit in 2017-18. As our customers migrate we will also see a reduction of staff within HMRC, with up to 4,000 members of staff and seven buildings from the current estate scheduled to transfer across to DWP in line with the phased migration timetable through to 2022. We also started migrating tax credit debts from HMRC to DWP, successfully transferring debts of £145.6 million.

Individual customers

Made up of more than 45 million people in the tax system that have an income below £150,000 and assets below £1 million, with around 30 million people liable to pay tax. We also administer tax credits and Child Benefits to support families and children.

For more information around compliance yield assumptions see **page 22**

£235bn
Estimated PAYE and NICs receipts collected

£3.5bn
Generated in compliance yield as a result of our compliance activity

£3.4bn
Our estimate of the tax gap for 2014-15. This includes wealthy customers

45m
The number of people in PAYE in the UK

10m
The number of people in Self Assessment

7m
The approximate overlap of people in both PAYE and Self Assessment

£39bn
Paid out in tax credits and Child Benefits

7.2m
Children and 4.1 million families supported by tax credits that we administer

12.9m
Children supported by Child Benefit that we administer

To read about more customer groups see **pages 44-45**

Complaints

Last year we received around 50 million telephone calls and 12 million letters from customers. Like all large organisations we do sometimes make mistakes or sometimes provide a level of customer service below expectations and receive complaints from our customers. Last year we received 77,279 new complaints – a reduction of just under 4% compared to the previous year. We fully or partially upheld 49.4% of these complaints and successfully resolved 98.6% of them within the department. Last year saw a large number of complaints received about the external contractor Concentrix, whose contract was subsequently terminated.

If a customer feels that our decision about their complaint is incorrect, they can contact the Adjudicator, who will consider their complaint independently. Around 1.4% of the complaints received by HMRC were referred on to the Adjudicator. Of these, 41% were fully or partially upheld, reflecting our improvement on the previous year and our continuing commitment to learn from complaints.

If a customer still remains dissatisfied following the Adjudicator's decision, they can approach the Parliamentary and Health Service Ombudsman via their MP. Of the 88 complaints which were investigated by the Ombudsman in 2015-16, nine were upheld and we complied with all recommendations. In their report published in December 2016, the Ombudsman said:

"…we welcome the leadership that HMRC has shown in valuing and learning from complaints…"

During the year we reviewed and updated our 'complaints ambition' to focus on three key themes:

- We listen to what our customers tell us when they complain and learn from and act on this feedback across HMRC
- We provide a responsive and fair complaints service that respects customer Charter rights and obligations
- We make complaining accessible and easy for our customers

To offer customers an easier way to make a complaint, we piloted an online complaints form for income tax customers. Feedback from customers has been positive and we will increase the availability of the online complaints form during 2017-18 to almost all customers.

We have also made good progress on learning from complaints feedback by making a number of product and process improvements. We invested in our complaints handling services by enhancing staff training, and changed our approach to ensure that complaints are resolved at the earliest possible stage. However, we aim to do better, and our complaints ambition will keep us focused on what we aim to achieve in 2017-18 and beyond.

Information about our role in Your Charter can be found on **page 6**.

Further information about HMRC's 'Your Charter' can be found at:
www.gov.uk/government/publications/your-charter

Information about how to complain to HMRC can be found at:
www.gov.uk/guidance/complain-to-hm-revenue-and-customs

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

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

Reducing red tape for business

Our target to reduce business costs by £400 million per year by March 2020 contributes to the government's commitment to reduce red tape for business by £10 billion. We have delivered net reductions of £29 million towards this target to date.

Measures that contributed to savings included paying Class 2 National Insurance Contributions for the self-employed through Self Assessment (£19 million saving); taxing employee benefits in kind through PAYE (£16 million saving); simplifying the administration of employee expenses (£9 million saving).

Gross savings of £61 million were offset by measures that increased burdens on businesses by £33 million, including pensions taper relief: annual allowance (£20 million cost); the common reporting standard (CRS) (£3 million cost); VAT prompt payment discount changes (£3.5 million cost).

There is a risk that we will not meet the £400 million target if we do not identify sufficient further reductions in business costs or if new measures increase burdens. We are working with the Office of Tax Simplification and the Administrative Burdens Advisory Board (ABAB) to identify and support a number of simplification and other initiatives that will reduce business costs.

96.2%
Customs checks cleared within two hours, against our target of 95%

Full information about the Administrative Burdens Advisory Board can be found at:
www.gov.uk/government/groups/administrative-burden-advisory-board

We are scrutinised by ABAB, an independent panel which supports small businesses by working with HMRC to challenge our performance against the cost reduction target. ABAB operate as an independent 'critical friend' to HMRC, offering constructive challenge and support where necessary. In its annual report, ABAB highlights the good progress we made in certain areas to simplify and improve tax administration, most notably in digital delivery, and urged HMRC to identify and grasp every opportunity to simplify associated processes within the design and delivery of Making Tax Digital. Their online feedback facility 'Tell ABAB' has provided us with helpful insights into where small businesses would like to see improvements in their dealings with us.

Feedback from businesses can be found at:
www.gov.uk/government/publications/your-charter

9% of total revenue

£51.1bn Corporation Tax

compared to £45.5bn in the previous year

Key objective 3 – Design and deliver a professional, efficient and engaged organisation

In summary…

Everything we deliver in HMRC is through our people. Our emphasis on having the right people with the right skills in the right places has meant that our workforce management was one of our top priorities in 2016-17. We are creating a world-class organisation fit for the future by delivering a more efficient organisation through investment of £2.1 billion in our people, technology and estate. By 2019-20, this investment will lead to efficiency savings of £717 million a year.

Our people and professions

We have an active network of 22 professions in HMRC, from tax, policy, operational delivery and project and programme management, to IT, finance and analysis. As well as developing professional skills and expertise within HMRC, we play an active part in cross-government functions, for example Operational Delivery, Estates and Digital.

We re-structured the department around the customer into three main groups – Customer Strategy and Tax Design, Customer Services and Customer Compliance – as well as a transformation group. These groups are supported by corporate services, including digital and information, communications, HR, finance, commercial and estates functions.

Strong leadership and management capability are needed as our leaders continue to take us through modernisation. We have continued to invest in all of our managers and leaders, around 36,000 people, through our Leadership and Management Academy and brought together information, guidance and tools in one place, making it easier for managers to find the information they need. We continue to offer all our people five days learning and development each year and during last year our staff achieved on average a total of seven days per person.

12,500+
Training days delivered by our Tax Academy, equating to more than 150,000 days of tax technical learning

Our engagement score increased by two percentage points from 45% in 2015-16 to 47% in 2016-17. We are working with teams who have made a step change in their engagement levels to share their good practice and help the rest of HMRC to move towards the Civil Service benchmark (59% in 2016). Last year, as part of our work to improve diversity and inclusion, we were awarded gold status from Business in the Community for gender and race diversity in the workplace.

We explain what HMRC is doing to enhance diversity and inclusion on **pages 114-116**.

Workforce

We had around 61,800 full-time equivalent employees by 31 March 2017. We ran significant recruitment campaigns during 2016-17, particularly into our customer compliance and customer service groups. Overall we recruited 7,714 full-time equivalent. We brought in 192 people onto our Tax Specialist Programme via graduate recruitment and more than 1,200 apprentices. Continuing with our programme of modernisation, we closed 26 offices during the year. Since 31 March 2016 we supported 741 people to leave under exit schemes (149 of those funded from 2015-16) through a mixture of voluntary and compulsory terms. From 1 April 2017 a further 112 people will leave, funded from 2016-17 budget. In total last year, more than 5,100 staff (full-time equivalents) left HMRC through a combination of natural and managed reductions.

The Surge Rapid Response team managed by HMRC won the Dame Lesley Strathie Award for outstanding customer service

Our locations

We continue to transform our estate into modern, adaptable workspaces, creating new Regional Centres, serving every nation and region in the UK. These centres will bring staff into more cost-effective buildings, while making it easier for HMRC teams to collaborate and modernise the way we work.

We currently occupy 145 buildings in 92 towns and cities. Through the Building our Future locations programme we are taking the opportunity to build the estate we need to achieve our data-led compliance ambitions, to improve the conditions that people work in and to create Regional Centres where we can attract, develop and retain staff in the future.

The quality and location of sites continue to be at the heart of our overall assessment of value for money and have been part of the underlying principles behind our Regional Centre decisions from the outset. In particular, we continue to be committed to locating our Regional Centres in city centre locations, to ensure good transport links, making it possible for more of our people to move with us. This also gives us a choice of buildings, offering us modern working environments and the first-rate IT and facilities we need.

We have already secured two of our Regional Centre sites in Croydon and Bristol; teams are due to begin moving into Croydon in the summer of 2017 and Bristol is now under construction. We have also signed leases on our specialist and transition sites at Telford and Canary Wharf, respectively.

We have preferred or shortlisted sites in all other eleven regional centre locations. Nine of these locations are already in advanced negotiations and all 11 will be delivered in line with our latest programme.

We completed the Salford showcase office, sitting alongside those already developed in Nottingham and Newcastle, to enable us to further test that the new space in Regional Centres fulfils our commitments on quality of design, fittings and services.

We expect the move to Regional Centres to save more than £300 million up to 2025, and result in annual cost savings of more than £90 million a year from 2026.

Our IT

We are transforming into one of the most digitally-advanced tax administrations in the world, so we become a digital-by-default organisation. As we transform, we are committed to reducing our operating costs and securing efficiencies in IT spend by bringing development and delivery of IT and security (including cyber) under our direct control. Our pioneering ‘Columbus’ programme is enabling us to develop our future operating model for IT which is based on a multi-supplier strategy, allowing us to take advantage of smaller, more flexible contracts with a range of suppliers. This will deliver better and cheaper IT at a sustainable cost for the future and bring us in line with modern technology organisations as we end our IT contract with Aspire in 2017.

We have already moved 60% of our services to faster, cheaper and more stable cloud-hosted platforms. We are consolidating previously disparate data sources, enabling our analysts to use specialist tools to exploit this information along with information from third parties to improve customer experience and support delivery of our Making Tax Digital transformation programme.

As we transform our estate we have rolled out 26,000 portable tablet devices enabling our people to work paper-free, more flexibly and more productively. We set up a process to take ideas from staff to make day-to-day processing tasks quicker and easier by doing some or all of the steps automatically using robotics.

We take the security of our customer data seriously. We are shaping and influencing how protective security is managed by working with other government departments on a number of security programmes. We have benefited from the government's National Cyber Security Strategy helping us to invest in enhanced technical defences, implement cyber security improvements, build staff expertise and deploy external cyber security services, all to protect the department and its customers.

Expenditure and providing value for money

We continue to drive down the day-to-day running costs of the tax system to deliver better value for money for taxpayers and the country.

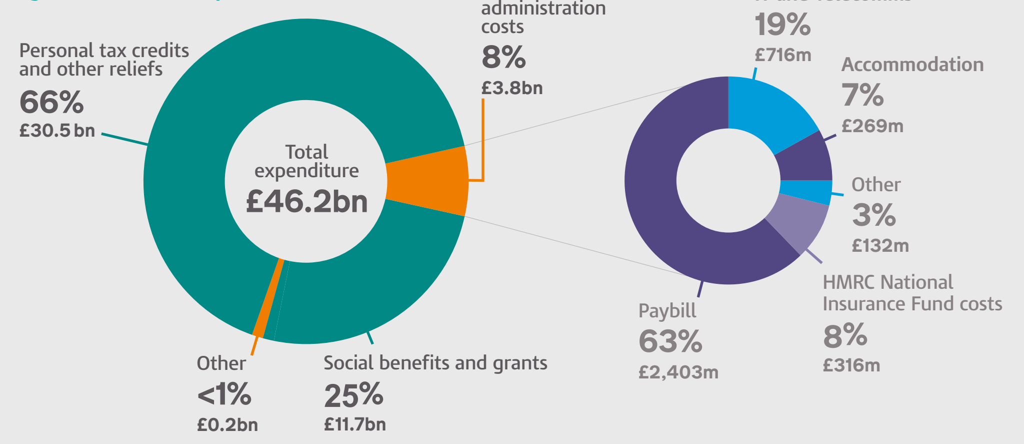
The total cost of running the department in 2016-17 was £46.2 billion consisting of £3.8 billion in administrative costs and the remaining £42.4 billion related to payments to our customers, including tax credits and Child Benefit.

The main items that make up administration costs are staff (£2.4 billion or 63%), IT (£716 million or 19%), National Insurance Fund (£316 million or 8%) and accommodation (£269 million or 7%).

The main items that make up our payments to customers are tax credits and other reliefs (£30.5 billion or 66%) and social benefits and grants (£11.7 billion or 25%).

Our future projected budget does not reflect the additional costs that may be incurred as a consequence of Brexit.

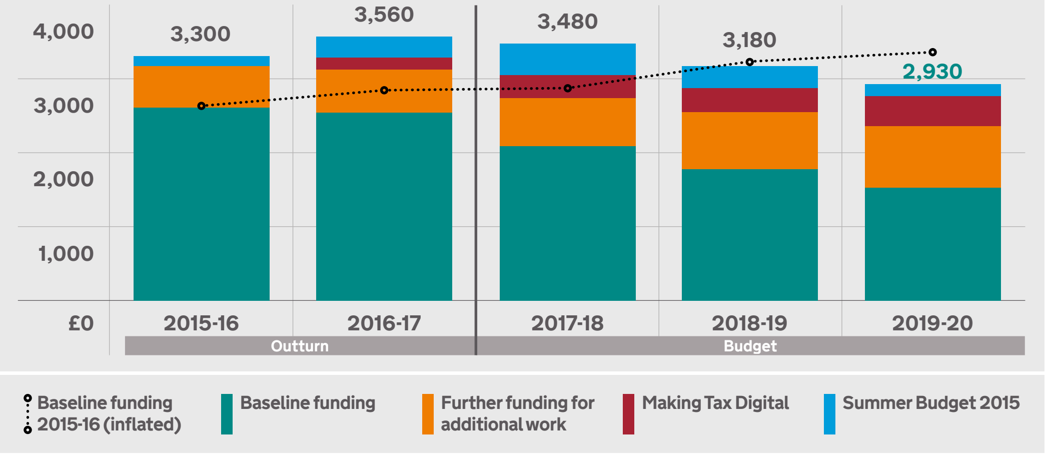
Figure 13: What we spend*



* Numbers may appear not to sum due to rounding
** The chart above reflects the Departmental Group position

Our Spending Review 2015 settlement provided us with additional funding to transform HMRC, making it quicker and easier for customers to report and pay their taxes online; and to tackle avoidance, evasion and non-compliance. Our baseline funding is reducing due to the sustainable efficiencies we are committed to deliver. At Budget 2016, the Government invested additional money to make it quicker and easier for individuals and small businesses to deal with HMRC.

Figure 14: HMRC's Expenditure 2015-16 to 2016-17, Budget 2017-18 to 2019-20*



* Excludes depreciation

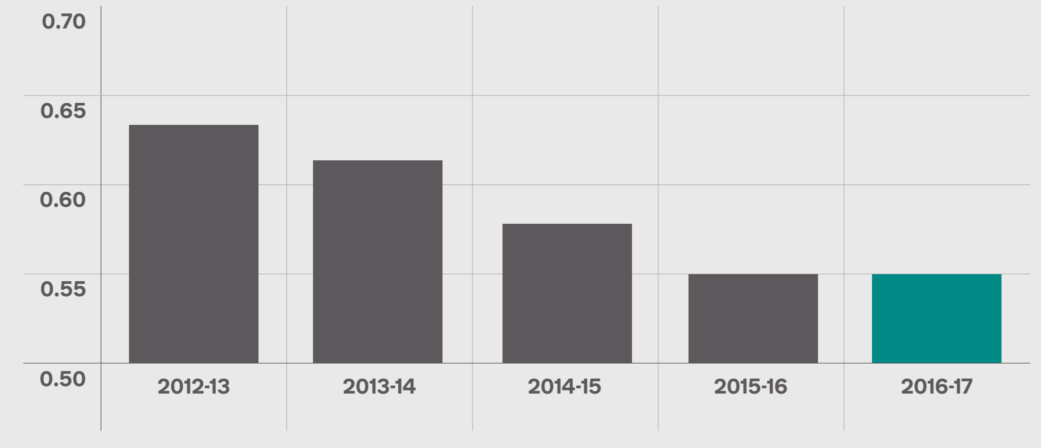
Efficiency

Last year we achieved cost savings of £254 million from changes to contracts and transformational savings from IT and exploiting the digitisation of services that were previously paper based. Other cost savings have been generated by amending our processes so that customers need to contact us less, and encouraging customers to take up online services, including online tax accounts, webchat and i-forms, where they would otherwise have contacted us by phone or letter.

We are committed to reducing our operating costs for the remainder of the Spending Review 2015 period, reaching £717 million of sustainable cost savings a year by the end of 2019-20. £181 million of last year's savings are sustainable and count towards this target.

The efficiencies we have delivered, together with increasing revenues, mean that the cost of collecting taxes in the UK is less than a penny for every pound collected – from 0.63 pence in the pound in 2012-13 to 0.55 pence in 2016-17 (ie every £100 we collect costs £0.55).

Figure 15: Overall cost of collection (pence per £ collected)



Mid-sized business customers

Made up of around 170,000 businesses with turnover of between £10 million and £200 million or with twenty or more employees, in addition to around 30,000 public bodies and charities. They make up less than 4% of UK business but employ more than 19% of the UK's workforce.

For more information around compliance yield assumptions see **page 22**

£40bn*

Estimated receipts covering Corporation Tax, VAT and other regimes

£75bn

Estimated PAYE and NICs receipts collected from mid-sized businesses but paid by individual and wealthy customers

£3.3bn

Generated in compliance yield as a result of our compliance activity

140,000

Corporation Tax registered businesses

70,000

VAT registered businesses

£5.2bn**

Our indicative estimate of the tax gap for 2014-15

* Includes an estimated £14 billion of receipts from tax regimes that cut across small and mid-sized business

** Our estimate of the tax gap for this group is covered partly by the large businesses published tax gap of £9.5 billion (a proportion of this relates to businesses with turnover between £30 million and £200 million) and partly by the published tax gap for Small and Medium Enterprises of £18.3 billion for 2014-15 (a proportion of which represents businesses with turnover between £10 million and £30 million).

To read about more customer groups see **pages 52-53**

Being a sustainable organisation

We are committed to the sustainability principles of economic, social and environmental improvement. From our work in collecting taxes and duties, which contributes to the wellbeing of society and cost savings across government, to our community engagement programmes that help young people prepare for the workplace, we are embedding responsible behaviours into everything we do.

Environmental performance

The 2010-20 Greening Government Commitments are challenging us to reduce the environmental impact of our estate and operations. These commitments also form part of our contribution to the global Sustainable Development Goals (SDGs). Our progress against a number of the commitments was recognised in 2016 with four national and international accolades: Green Apple, Global Green World, Green World Ambassador and Public Sector Sustainability awards.

Progress against the Greening Government Commitments

HMRC's Executive Committee and Environment Champion, and the Building Research Establishment provided the governance for our progress.

Figure 16: Reduce greenhouse gas emissions and domestic flights

	Starting point	2020 government target	Position at 31 March 2017
Greenhouse gas emissions	2010: 190,857 tonnes of CO_2e	45% reduction*	48% reduction
Domestic flights	2010: 54,741 flights	30% reduction	29% reduction

* This bespoke HMRC target contributes to the overall cross-government target of 32%

The greenhouse gas emissions target combines emissions from our buildings and business travel. LED lighting installations, green IT and improvements to our facilities management programme have contributed to the emissions savings across our estate.

As a large operational department spread across the UK, business travel remains a necessity. Our work in collecting additional revenues, and transforming the way we operate, has necessitated a 2% increase in miles travelled. We have kept this increase to a minimum through the use of non-travel alternatives, for example by replacing face-to-face meetings with almost 400,000 audio conference calls.

Figure 17: Improve waste management

	Starting point	2020 government target	Position at 31 March 2017
Waste arising	2010: 18,193 tonnes	overall reduction	60% reduction
Waste to landfill	2016-17: 7,363 tonnes total waste	<10%	2% to landfill
Waste recycling		overall increase	71% recycled

The reduction in our waste going to landfill and the increase in our recycling are our best performances in recent years. We continue to lead a cross-government pilot programme to reuse unwanted government assets, such as office supplies, stationery and furniture. This programme is contributing to our waste targets and generating cost savings.

24m
We saved 24 million litres of water compared with the previous year, the equivalent to 10 Olympic size swimming pools

Figure 18: Reduce water usage

	Starting point	2020 government target	Position at 31 March 2017
Water reduction	2010: 961,843m³	overall reduction	38% reduction
Water efficiency	2010: 13.17m³ per FTE	reduce to 7m³ per FTE	7.5m³ per FTE

Our ongoing success in tackling water leaks and out-of-hours usage has contributed to a further 4% reduction in our water consumption to date.

Figure 19: Reduce paper usage

	Starting point	2020 government target	Position at 31 March 2017
Paper reduction	2010: 852,831 reams A4 equivalent	50% reduction	56% reduction

6m
Reduction in sheets of paper used compared to the previous year

Further success has come from the need to print six million fewer sheets of paper compared with last year. This has been achieved through cutting the length of letters so that they fit on a single sheet of paper, making greater use of electronic communications with our customers, and portable tablet devices reducing the need to print documents for meetings.

We are also required to assess the environmental impact of our suppliers and our local surroundings.

Buying greener products and services

Where possible, we complied with government buying standards in sourcing our materials and assets. For example, we met all the requirements for IT, food, catering services and transport. While our office paper is 100% recycled, there continues to be an insufficient supply of competitively priced, recycled products to meet our other paper needs. We overcame this deficiency by opting for Forest Stewardship Council grade products, covered by a Carbon Balanced Certificate.

We measured sustainability risks and impacts in our supply chain and have seen our top performing suppliers gain accreditation for their work in mitigating the risk of modern slavery. We are making year-on-year progress to meet the government aspiration for 33% of our procurement spend to be with small and medium enterprises by 2020.

Climate change and biodiversity

We addressed the impact of climate change through working with the Environment Agency to identify and monitor offices at risk of flooding. Environmental considerations and climate change have also been factored into building works for our new Regional Centres, with a green roof installed at our Croydon office ahead of its opening. The roof will ease the burden on drainage systems by reducing surface water run-off.

Our actions on biodiversity have added insect hotels, log piles and meadow areas to key sites, as well as the cultivation of trees and hedgerows to benefit nesting birds.

Advertising

We spent about £5 million on advertising campaigns to support our operations last year. Paid-for advertising is a cost-effective way of prompting customers to take action to deadlines, and helps to reduce the cost of pursuing customers who have failed to comply on time. Over recent years, we have reduced advertising costs as we use no-cost and low-cost alternatives to large-scale marketing.

Our major campaigns focused on prompting tax credits customers to renew their claims on time by using the new online service, and encouraging Self Assessment customers to file and pay what they owe before the deadline. We encouraged people to open their Personal Tax Account online and also informed married couples how to claim the new Marriage Allowance. As in previous years, we ran an advertising campaign to recruit candidates for our graduate recruitment programme.

Our Self Assessment campaign contributed towards 93% of customers filing on time and 89% filing online. Our tax credits campaign also helped secure 80% of customers renewing on time and 39% online – a 12 percentage point increase on last year.

Education – Tax Facts

Our award-winning Tax Facts programme of tax education for teenagers is facilitating early engagement with our next generation of customers by helping them understand their future responsibilities as taxpayers and the importance of tax morality. It continues to be praised by educationalists for its easy to use resources for teachers and the valuable life skills it offers their students.

2017 award for education – from the Institute for Continuous Improvement in Public Services recognising the value of Tax Facts.

At the request of primary school teachers, we launched a new Junior Tax Facts programme for eight to 11-year-olds to make them aware of all the things in their local communities that are funded by taxes. The Personal Finance Education Group accredited the materials with its quality mark for resources of highest quality and educational value.

Our network of employees who volunteer as Tax Facts Ambassadors has been active in supporting teachers and charities in using the Tax Facts programme to help prepare young people for the financial realities of life. Tax Facts is also being used by an array of charitable bodies helping young people into the workplace. The programme is giving these young people the confidence to understand how the tax system will affect them when they start their first job or set up their own business. Charities involved include: the Prince's Trust and Career Ready.

The materials are easily accessible through YouTube, downloads and DVD, and demand continues to grow. The Institute for Continuous Improvement in Public Services recognised the value of Tax Facts with its 2017 award for education.

The materials are easily accessible through YouTube and can be found at:
www.youtube.com/playlist?list=PL8EcnheDt1zjoRLU0I8WEKqqNzdR3w2xI

Summary of Single Departmental Plan commitments

When we published our Single Departmental Plan in 2016 we committed ourselves to delivering further improvements to how we maximise revenues, improve customer service, make sustainable cost efficiencies and include and involve our people in how we meet these key objectives.

We delivered, or partially delivered, 27 (or 93%) of the 29 main external commitments made in our 2016-17 Single Departmental Plan, covering key areas of our work such as generating payments, and tackling fraud and error. We didn't deliver on the remaining two and these are explained in the relevant sections below.

Figure 20: Single Departmental Plan commitments

- ● (green) Commitment on track or complete
- ● (amber) Some risk to delivery
- ● (red) Commitment not on track

Status	Single Departmental Plan commitment
Maximise revenues due and bear down on avoidance and evasion	
Amber	We will raise an additional £5 billion a year by 2019-20 by tackling tax avoidance and aggressive tax planning, evasion and compliance, and by addressing imbalances in the tax system. We need additional people to deliver this commitment and we are recruiting compliance staff. Delivery is reliant on the timely take up and training of these new recruits to being fully productive. It is also dependent on OBR economic forecasts.
Green	We will ensure global companies pay their fair share in tax by supporting the government's leading role in the reform of international tax rules.
Green	We will review the international country-by-country tax reporting rules and consider the case for making this information publicly available on a multilateral basis.
Green	We will support the government in making it a crime when companies fail to put in place measures to stop tax evasion in their organisation, making sure that penalties are large enough to punish and deter.
Green	We will ensure developing countries have full access to global automatic tax information exchange systems and continue to build the capacity of tax authorities in developing countries.
Green	We will deliver additional compliance revenues through our compliance and enforcement activity of £27 billion in 2016-17.
Amber	We will increase the number of criminal investigations that HMRC can undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates, with the aim of increasing prosecutions in this area to 100 a year by the end of the Parliament. We need additional senior tax professionals to deliver this commitment. Delivery is reliant on the timely take up and criminal justice training of these recruits to being fully productive.
Red	We will continue to identify and prevent losses in the tax credits system so that error and fraud is no more than 5% in 2015-16 and 2016-17 as we support the transition to Universal Credit The loss of additional capacity from Concentrix means we forecast we will not deliver the 5% error and fraud target for 2016-17. Looking forward, we have made a number of changes to our processes for our 2017 compliance campaigns that are designed to improve the customer journey.

Continued

Status	Single Departmental Plan commitment
	Transform tax and payments for our customers
	We will deliver digital tax accounts, enabling customers and their authorised agents to see all their tax affairs in one place, and be able to check at any time that their details are complete and correct. Customers will be able to update tax information and tax credits and Child Benefit payments information through their digital tax account, while the interest earned on savings will be updated automatically without the need for customer input. Not all functionality is available to customers yet though we have over 10 million users of personal tax accounts allowing them to view and manage their personal tax affairs. Work is ongoing as we continue to develop and add new services
	We will ensure that by 2020 taxpayers will be able to see their complete financial picture in their digital account, just like they do in their online banking, with most businesses, self-employed people and landlords keeping track of their tax affairs digitally and updating HMRC at least quarterly via their digital tax account, as well as access for their authorised agents. Delivery of this commitment is dependent on legislative changes. We need to secure the inclusion of clauses within the Summer Finance Bill to avoid any delays to those plans.
	We will ensure the availability of a range of third party software products, to include free products for the most straightforward business, that link securely to HMRC systems. Delivery of this commitment is dependent on the development of third party software platform features. Any delays in those features could have knock-on effects to elements of other transformation programmes. We are mitigating this by ensuring this programme is close to full resource levels and the development of platform features are aligned to agreed budget and roadmap delivery plans.
	We will put in place support for those customers (individuals and businesses) who want to use digital services, but are unable to, and make provisions for those who are genuinely digitally excluded so that they remain able to get the support they need.
	We will continue working with HM Treasury and the Department for Work and Pensions on the transition to Universal Credit, making this as smooth as possible for claimants. To deliver this commitment HMRC will continue to support DWP in the migration of customers from tax credits and on to Universal Credit in line with DWPs timelines.
	We will continue preparing to implement tax-free childcare to support parents back into work or to work more hours. Not all functionality is available to customers yet. This service opened on Friday 21 April 2017 and for that first month the service was available 97% of the time. As with any new digital system, there remains functionality to be built and deployed in a short time frame which we are actively working on.
	We will increase the number of individuals using their digital tax account to seven million by April 2017.
	We will achieve an average of 80% customer satisfaction for our digital services by April 2017.
	We will reply to 95% of customer correspondence received via i-forms and the secure structured email facility in the Personal Tax Account within seven days.
	We will answer customer calls to our helplines within an average speed of answer of six minutes.
	We will achieve a consistent level of service, handling on average, at least 85% of call attempts.
	We will reply to at least 80% of customer correspondence and complaints within 15 working days.
	We will reply to at least 95% of customer correspondence and complaints within 40 working days.
	We will handle new tax credits and Child Benefit claims and changes of circumstances for UK customers within an average of 22 days.
	We will handle new tax credits and Child Benefit claims and changes of circumstances for international customers within an average of 92 days.

Continued

Status	Single Departmental Plan commitment
	We will reduce the annual cost of tax administration to businesses by £400 million by 2019-20. In order to meet this target we need to achieve net annual savings of approximately £100 million per year through to March 2020. As at March 2016 we had delivered £28m net savings and there is now a risk that we will not meet the £400 million target. We are working with the Office of Tax Simplification and the Administrative Burdens Advisory Board to identify and support a number of additional simplification initiatives that will reduce business costs.
Design and deliver a professional, efficient and engaged organisation	
	We are modernising our IT so that it supports the delivery of our transformation. Delivery of this commitment is dependent on compatibility with our internal systems. We are committed to modernising our IT and we are rolling out new tools to support this ambition but ensuring compatibility can delay some aspects of our IT modernisation.
	We are providing modern offices that are fit for our people now and in the future based across the UK. We are making progress in rationalising our estate and will move into the first of our new regional centres in Croydon in Summer 2017. We plan to announce the location of further regional centres later in 2017-18. These announcements are dependent on commercial negotiations concluding as planned.
	We will deliver sustainable cost savings of £717 million a year by the end of 2019-20, amounting to a total of £1.9 billion in cumulative sustainable efficiency savings over this Parliament, through the digitisation of tax collection and by employing a smaller but more highly skilled workforce. Last year we made £181 million of sustainable cost savings, which was lower than planned. We are identifying additional sustainable savings to improve the positon and remain confident we will deliver this commitment by the end of 2019 to 2020.
	We will improve employee engagement each and every year, continuing to work towards our ambition of achieving the Civil Service Employee Engagement Index benchmark (which was 59% in 2016).
	We will increase the percentage of staff each and every year, who feel they have the skills required to do their job effectively, working towards the Civil Service benchmark (which was 89% in 2016).

2% of total revenue

£11.3bn Alcohol duties

compared to £10.7bn in the previous year

Wealthy individual customers

Made up of customers who often have complex tax affairs, with significant amounts of tax revenue at stake. Includes individual customers with an annual income exceeding £150,000, or those with wealth worth more than £1 million.

For more information around compliance yield assumptions see **page 22**

£54bn
Estimated tax receipts collected

£27bn
Estimated PAYE and NICs receipts collected

£900m
Estimated compliance yield generated

£2.5bn
Additional revenues brought in from the wealthiest since 2010

£5m
Estimated extra investment in extending the current customer relationship manager model to wealthy individuals with £10-£20m of assets in 2016-17

70%
Estimated percentage of customers in this segment who use agents

Our estimate of the tax gap for wealthy customers is included with individual customers, see **page 36**

Our performance: key statistics

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

Figure 21: In summary — key performance indicators[1]

Maximise revenues due and bear down on avoidance and evasion	2015-16	2016-17
Cash expected from compliance	£9.0bn	£10.3bn
Future revenue benefit	£6.2bn	£6.3bn
Revenue loss prevented	£6.8bn	£7.9bn
Product and process yield	£2.1bn	£3.0bn
Accelerated Payments	£2.4bn	£1.3bn
Total compliance yield raised — the sum total of our compliance revenues	**£26.6bn[2]**	**£28.9bn**
Payment on time – proportion of businesses and individuals who pay tax on time – using VAT as lead indicator	87.5%	87.2%
	2014-15	2015-16
Tax credits error and fraud – amount of tax credits money claimed by people not entitled to it	4.8% (£1.37bn)	5.5% (£1.57bn)
	2013-14	2014-15
Tax gap – difference between all the tax theoretically due and tax actually collected	6.9% (£37bn)	6.5% (£36bn)

Transform tax and payments for our customers	2015-16	2016-17
Number of customers using Personal Tax Account	n/a	9.4m
% i-forms turnaround in seven days	n/a	99%
% overall customer satisfaction – digital services	n/a	83%
Average speed of answer	n/a	03:54
% of calls attempt handled by our contact centres	71.6%	91.7%
% of post received by HMRC that has been cleared within 15 working days of receipt	52.2%	81.0%
% of post received by HMRC that has been cleared within 40 working days of receipt	87.0%	96.3%
Average turnaround (days) of tax credits and Child Benefit UK claims	17	16
Average turnaround (days) of tax credits and Child Benefit international claims	63	52
Reduction in business customers' costs	n/a	£29m

Continued

1 Numbers may appear not to sum due to rounding
2 This value is based on our previous method of recording future revenue benefit (see page 23).

Unit costs (pence per £ collected/paid out)	2015-16	2016-17
Design and deliver a professional, efficient and engaged organisation		
Collecting income tax (Self Assessment and Pay As You Earn)	0.78	0.83
Collecting Corporation Tax	0.69	0.68
Collecting National Insurance Contributions	0.26	0.22
Collecting VAT	0.59	0.59
Administering tax credits	1.61	1.65
Administering Child Benefit	0.49	0.50
Sustainable cost savings	**£210m**	**£181m**

Future outlook – Devolution

The devolved legislatures already have some powers over taxation and recent legislative changes have introduced further powers that are having an increasing impact on the work of HMRC.

The Scottish rate of income tax operated for the first time last year, which HMRC administers as part of the UK's overall income tax system. This broke new ground for us and involved identifying, and then issuing Scottish tax codes to about 2.5 million Scottish taxpayers to ensure people paid the correct tax. Revenue estimates from the Scottish rate of income tax in 2016-17 are set out in note 2.1.1 of the Trust Statement and we will publish final figures next year.

We made further changes to our systems at the start of the 2017-18 tax year ahead of the Scottish Parliament gaining more powers to set income tax rates and thresholds. For the first time this year, the threshold for the higher rate of income tax is different in Scotland than the rest of the UK.

We worked closely with the Scottish Government, sharing expertise and seconding staff, when it set up its own revenue authority, Revenue Scotland. We continued to foster good working relations with Revenue Scotland following the replacement of UK Stamp Duty Land Tax and Landfill Tax in Scotland with the Land and Buildings Transaction Tax and Scottish Landfill Tax and in preparing for replacing Air Passenger Duty with Scotland's own Air Departure Tax in 2018.

We are working with the Welsh Government as they establish the Welsh Revenue Authority, which will administer new Welsh taxes to replace Stamp Duty Land Tax and Landfill Tax from April 2018. This involves seconding staff and sharing expertise, as well as working closely on the transition to the new taxes and ensuring consistent and coordinated communications to those affected. We have also started work on the introduction of a Welsh rate of income tax from April 2019, which we will administer.

The UK Parliament has agreed to devolve Corporation Tax rate-setting powers to the Northern Ireland Assembly, and these powers will be transferred once an incoming Northern Ireland Executive demonstrates that its finances are on a sustainable footing.

Jon Thompson
Accounting Officer
10 July 2017

The Valuation Office Agency

In summary…

The Valuation Office Agency (VOA) is an executive agency of HMRC. As the public sector's property valuation experts and advisers, the VOA helps people and businesses to pay the right property taxes and to receive targeted financial support. The Agency employs approximately 3,500 people, in 53 offices across England, Wales and Scotland. Last year, the VOA completed the revaluation of almost two million non-domestic properties for business rates purposes and laid the foundations for the introduction of Check, Challenge, Appeal, the new system for scrutinising and querying business rates.

The VOA are the public sector's property valuation experts and advisers, helping people and businesses to pay the right property taxes and to receive the right financial support. The Agency compiles and maintains the rateable values of almost two million properties for non-domestic (business) rates, and the council tax bands of 25 million domestic properties across England and Wales. This work enables local authorities to collect approximately £52 billion in revenue.

The VOA's property valuations enable the payment of housing benefits, the collection of key national taxes by HMRC and the setting of Fair Rents. The VOA also determines local housing allowance rates across England, provides independent property advice and valuations across the public sector and advises ministers on valuation and property matters.

Vision and objectives

The VOA's vision is: 'Our customers have confidence in our valuations and advice. We listen to and trust each other. Together, we make the VOA a great place to work.'

To help achieve this vision, the VOA has four strategic objectives:

- more **trusted**
- more **expert**
- more **digital**
- more **efficient**.

Performance

Last year the VOA completed revaluation of almost two million non-domestic properties for business rates purposes. The VOA published the proposed rateable values on 30 September 2016. Ratepayers were then able to check their own value and to highlight any factual inaccuracies or changes to their properties, so that the VOA could make any changes before the values came into effect on 1 April 2017.

The 2017 revaluation represented an important shift towards digital being the primary means of communication between the Agency and its customers, with more than one million unique visitors using the new 'Find Your Business Rates' system to view their valuations online and estimate their rates bills.

The VOA also prepared for the introduction of Check, Challenge, Appeal (CCA), a new way of formally challenging business rates valuations in England. The new system is designed to promote discussion and exchange of information between the VOA and customers earlier in the process, so that issues can be resolved at the earliest possible opportunity, reducing the need for appeals to be submitted. In introducing CCA, the VOA:

- worked closely with the Department for Communities and Local Government throughout the development process to ensure that the regulations to implement CCA met the government's aims and the needs of the Agency and its customer
- prioritised the introduction of the customer-focused elements of a digital system providing an effective, efficient and intuitive user experience
- undertook considerable engagement with other key stakeholders, including the Valuation Tribunal England, local government, businesses and the agent community to raise their awareness and understanding of CCA and how it would be delivered.

The new system was successfully launched on 1 April 2017. During the first year of the system's operation, the VOA will introduce further functionality to the online systems.

As well as conducting the revaluation and launching CCA, the VOA maintained the accuracy of the English and Welsh council tax and business rates lists. With new properties being built and existing properties being altered, the VOA cleared more than 450,000 council tax cases and 300,000 non domestic rating reports. It also worked closely with the English and Welsh Valuation Tribunals to clear appeals against the 2010 lists. More than 154,000 appeals were cleared, exceeding our aim of clearing 153,000. Detailed statistics summarising the number of council tax reports, band reviews, appeals and proposals received and cleared will be available as official statistics on GOV.UK in August 2017.

The VOA's Housing Allowances and Statutory Valuations teams met or exceeded all their targets on timeliness and quality. Since March 2017, the Office for National Statistics has been using CPIH, a consumer price inflation gauge that includes the measure of owner occupiers' housing costs based upon the VOA's data, as their most comprehensive measure of consumer inflation.

The Agency's Property Services team delivered valuations and property advice to clients across the public sector, generating more than £14 million in income. This team continues to work on high profile projects including the High-Speed 2 rail link.

Throughout last year, the VOA made progress in transforming the way it engages with its customers and delivery partners. Having improved its understanding of the reasons customers make contact and the channels they use, it has introduced a range of new digital services to help customers self-serve and share information with the Agency. These initiatives include enhancements to the VOA's gov.uk web pages, the new rent and lease details form, the Find Your Business Rates Valuation portal and the new Billing Authority Reports Service. These services have reduced costs and processing time for both customers and the Agency.

The VOA also implemented a new information sharing gateway with local government enabled by the Enterprise Act 2016.

As part of its far-reaching estates rationalisation programme, the VOA has been able to further reduce the number of offices it occupies from 70 at the start of this spending review period to 53, providing a more modern and flexible work environment for its people. Nine offices were closed during 2016-17.

The VOA's own Annual Report and Accounts will be published on gov.uk:
www.gov.uk/government/organisations/valuation-office-agency

Accountability – how we are managed and scrutinised

Governance Statement

Foreword by Mervyn Walker, Lead Non-Executive

This has been my first year as Lead Non-Executive Director (NED) at the department. Having joined as a Board Member in late 2014, I was pleased to be asked to take over as Lead NED after Ian Barlow retired at the end of December 2016. I would like to thank Ian for his commitment and contribution over his four years as Lead NED; for three of which he chaired the Board.

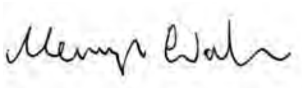
HMRC's performance continues to improve, bringing in an impressive record tax revenue for a seventh successive year. This is alongside an exciting year of change for the department - the first with a new Executive Chair, Edward Troup and a new Chief Executive, Jon Thompson. Under their leadership, the department has adopted a more streamlined Board structure, to help provide a better balance between Non-Executive and Executive members. The Board also welcomed Alice Maynard as a new Non-Executive Board Member, bringing a wide range of professional insight, including important third sector experience.

Change can impact on delivery but both within the department and outside, HMRC has made real achievements. We have expanded our online services to give customers faster and more convenient ways to interact with the department. Individuals were also provided with their own Personal Tax Account (PTA), and by March 2017, strong take-up of the PTA meant that new users had reached 9.4 million.

Every small business customer in the country has access to their own digital Business Tax Account. Moreover, after a challenging 2015-16, HMRC exceeded its target on average overall customer satisfaction for digital services, with 83% of customers responding that they were either 'satisfied' or 'very satisfied' with the service, across all of HMRC's digital services.

HMRC's ongoing transformation programme is ambitious, and while we must acknowledge that there is an element of risk, I am confident that it is the right approach to bring about real benefits to our customers. The remit of the NEDs is broad and continues to span the entire organisation. As the lead, I see our role to be, figuratively speaking, 'holding up the mirror' to the executive team, helping to support and constructively challenge the future direction of the department.

I look forward to continuing to work closely with NED and Executive colleagues over the coming year, as the department works towards becoming a truly world-class organisation and a leading example of a digital tax authority.



Mervyn Walker
Lead Non-Executive

Introduction

In summary…
We reviewed our corporate governance this year and made improvements which streamlined our arrangements and clarified accountabilities.

This Governance Statement sets out the governance, risk management and internal control arrangements for HM Revenue and Customs. It applies to the financial year 1 April 2016 to 31 March 2017 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance. It also provides the Accounting Officer System Statement for HMRC.

See figure 29 for Accounting Officer System diagram on **page 84**

How we are structured

Ministerial arrangements

HMRC is a non-ministerial department established by the Commissioners for Revenue and Customs Act (CRCA) 2005, which gives the legal powers and responsibilities of the department to Commissioners appointed by the Queen. HMRC's status as a non-ministerial department is intended to ensure that the administration of the tax system is fair and impartial.

HMRC is ultimately accountable to the Chancellor of the Exchequer for how we conduct our business. The Chancellor has delegated the responsibility for oversight of the department to the Financial Secretary to the Treasury, as departmental minister for HMRC. The current departmental minister is The Rt. Hon. Mel Stride MP. HMRC has a policy partnership with HM Treasury (HMT) to develop and deliver tax policy. HMT leads on strategic work and tax policy development, supported by HMRC. HMRC leads on policy maintenance and delivery, supported by HMT. The policy partnership covers policy work on all direct and indirect taxes and duties, National Insurance, tax credits and Child Benefit.

HMRC must comply with any directions of a general nature given by Treasury ministers.

Commissioners

Our Commissioners are responsible for the collection and management of revenue, the enforcement of prohibitions and restrictions and other functions, such as the payment of tax credits. They exercise these functions in the name of the Crown. The Commissioners are also entitled to appoint officers of Revenue and Customs who must comply with their directions. The way in which the Commissioners conduct their business is governed by the CRCA. Decisions relating to the resolution of our largest and most sensitive cases are decided by three Commissioners.

HMRC's current Commissioners are Jon Thompson, Edward Troup, Jim Harra, Nick Lodge, and Justin Holliday. Jennie Granger and Ruth Owen were Commissioners during 2016-17 but stood down in May and June 2017, respectively.

Executive Chair and Chief Executive

Our Executive Chair is Edward Troup. The role of Executive Chair was implemented on 2 April 2016 and reflects the non-ministerial status and scale of the department, the nature of its business, and the level of Board oversight. Edward chairs the HMRC Board and has ultimate responsibility for shaping the department's strategy with the Board, safeguarding the department's reputation and supporting the executive team in accounting for the department's performance. The Executive Chair also oversees our relationship with HM Treasury.

Our Chief Executive is Jon Thompson. The Chief Executive is responsible for the delivery of HMRC's strategy, including our transformation programme, objectives and performance. Jon chairs the Executive Committee and attends the Board. As Chief Executive, he is also accountable for improving customer service and managing the department's budget. Jon is the Principal Accounting Officer for HMRC, and his Accounting Officer responsibilities are set out on pages 81-89. The Chief Executive also leads HMRC's relationship with other government departments. Jon joined HMRC as Chief Executive and First Permanent Secretary on 2 April 2016.

Both the Executive Chair and the Chief Executive are Commissioners of Revenue and Customs.

Tax Assurance Commissioner

The role of Tax Assurance Commissioner (TAC) was introduced by HMRC in 2012 as part of a package of measures designed to strengthen the governance of tax disputes. The TAC provides assurance and transparency and has an explicit challenge role in decision-making in tax disputes. They are usually one of the three Commissioners who make decisions in the largest and most sensitive disputes, and in a sample of smaller cases. The TAC prepares an annual report on how HMRC's tax dispute resolution governance operated during the year (see pages 100 to 109). Previous TAC annual reports were published separately and are available on GOV.UK. The current TAC is Jim Harra, who replaced Edward Troup on 13 October 2016.

Non-Executive Directors

Non-Executive Directors have a broad base of experience and work in a variety of ways as requested including through Board and sub-committee attendance. Non-Executives also contribute their expertise outside the formal Board and sub-committee structures, for example, working closely with Executives on specific initiatives, buddying and risk deep dives. Non-Executive Directors assist with the programme boards for all of HMRC's major transformation programmes.

Mervyn Walker was appointed as the HMRC Lead Non-Executive Director in January 2017, replacing Ian Barlow who retired in December 2016. As Lead Non-Executive, he meets regularly with other Non-Executives to ensure their views are understood and that the Executive Chair is made aware of any concerns. The Lead Non-Executive Director also supports the Executive Chair in his role as Chair of the Board and liaises with the government-wide Lead Non-Executive Director. In addition, the Lead Non-Executive Director acts as a sounding board to the Executive Chair and Chief Executive as needed and is responsible for the development and appraisal of Non-Executives as effective Board members.

Our governance structure

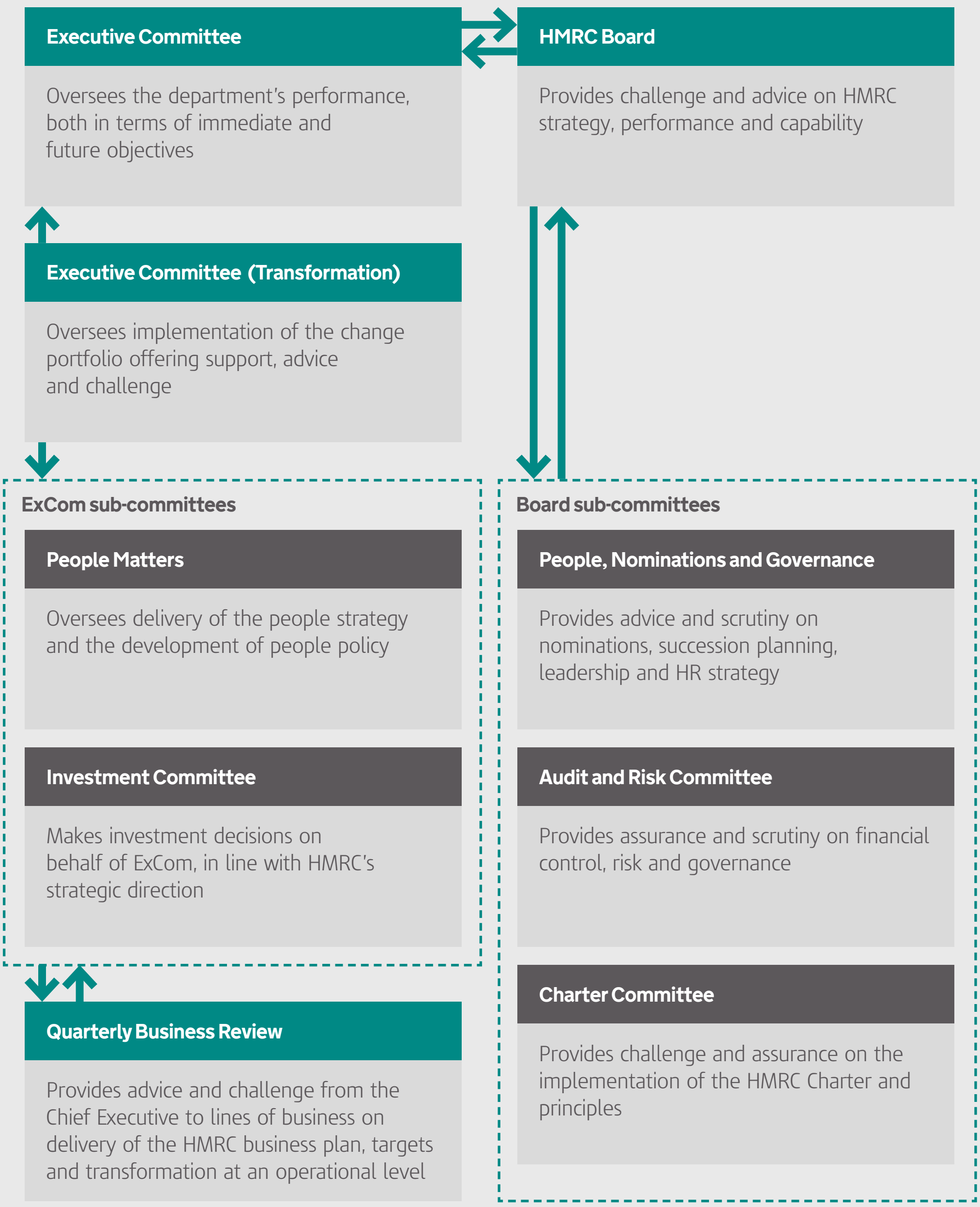
HMRC reviewed its corporate governance arrangements in early 2016 to ensure these best met the needs of the department and its evolving operating model. Changes were agreed by ExCom in June 2016 and implemented immediately afterwards. The changes are outlined in more depth below. At the top level, HMRC has a three layered system of governance:

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

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

The department's Board and committee structures are set out in the diagram below.

Figure 22: HMRC committee structure



Changes during the year

HMRC periodically reviews top-level governance and accountability arrangements to ensure corporate governance arrangements are fit-for-purpose, proportionate and meet organisational needs. The 2016 review made a number of recommendations, aimed at streamlining our overall arrangements and clarifying accountabilities.

Changes to the Board

In recent years, the membership of the Board had expanded to incorporate all HMRC executives in addition to five Non-Executive Board Members. The review proposed that this be refined to the Executive Chair, the Non-Executive Board Members, the Chief Executive, the Chief Finance Officer and the Tax Assurance Commissioner as the standing members, with other executives attending as the agenda on risks and decisions dictate. These proposals sought to ensure that the value of Non-Executives in supporting and challenging the executive is maximised. The Board agreed the proposals at their July meeting and the changes were implemented from the September meeting. No changes were proposed or made to Board sub-committees.

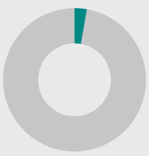
Changes to executive committees

At the start of the year, ExCom met monthly in four different forms, each with a different area of focus: ExCom, ExCom (Performance); ExCom (Transformation); and, ExCom (Customer). From June 2016 these were consolidated into two variants: ExCom and ExCom (Transformation). The focus provided by ExCom (Performance) and ExCom (Customer) have been integrated within the new structure. A review of performance is undertaken at each ExCom meeting, explicitly including customer service. Equally, ExCom (Transformation) considers the view of the customer and meeting customer needs as an integrated element of the Committee's work. ExCom (Performance) and ExCom (Customer) met twice and once respectively during the reporting period. Both meetings were chaired by the Chief Executive, Jon Thompson.

Improving executive accountability

ExCom have also strengthened the system of executive accountability by introducing quarterly business reviews (QBRs) covering each line of business area. These meetings are led by the Chief Executive, supported by the Chief Finance Officer, and attended by the relevant Director General and their senior team. The QBRs primarily focus on meeting business plan commitments including performance against our delivery and transformation commitments, risk management and resources. Staffing, skills and recruitment are also explored as a critical dependency of performance in many parts of the business. Through QBRs, ExCom have involved a wider leadership group in considering performance, addressing challenges and how we can continuously improve.

We are continuing to develop a strengthened delegation framework to assure ExCom and the Board that the department's overall strategy continues to deliver on our objectives.



3% of total revenue

15.4bn Stamp Taxes

compared to £14.5bn in the previous year

Executive Committee (ExCom)*

L to R above: *First row:* Jon Thompson; Jim Harra;
Second row: ExCom meeting Tuesday 9 May 2017; Nick Lodge;
Third row: Gill Aitken.

* ExCom as at 31 March 2017

Edward Troup
Commissioner of Revenue and Customs; Executive Chair, Permanent Secretary, and member of the Board

Jon Thompson[1]
Commissioner of Revenue and Customs; Chief Executive and Permanent Secretary, Accounting Officer, and member of the Board

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

Jennie Granger[2]
Commissioner of Revenue and Customs; Director General Customer Compliance

Ruth Owen[3]
Commissioner of Revenue and Customs; Director General Customer Services

Jim Harra
Commissioner of Revenue and Customs; Director General Customer Strategy and Tax Design, Tax Assurance Commissioner and member of the Board

Nick Lodge
Commissioner of Revenue and Customs; Director General Transformation

Esther Wallington[4]
Chief People Officer

Mike Potter[5]
Chief Digital and Information Officer (interim)

Gill Aitken
General Counsel and Solicitor

Penny Ciniewicz
Chief Executive of the Valuation Office Agency

Opposite:

1 Jon Thompson became CE after Lin Homer left on 4 April 2016
2 Jennie Granger left HMRC on 26 June 2017
3 Ruth Owen left HMRC on 27 June 2017
4 William Hague was Chief People Officer (CPO) until 31 August 2016. Joe Dugdale was Interim CPO from 1 September 2016 to 30 November 2016 and subsequently replaced by Esther Wallington
5 Mike Potter succeeded Mark Dearnley who was Chief Digital and Information Officer until 30 September 2016

Non-Executives

Mervyn Walker[1]
Lead Non-Executive Board Member

Joanna Baldwin
Non-Executive Board Member

Alice Maynard[2]
Non-Executive Board Member

Simon Ricketts
Non-Executive Board Member

John Whiting
Non-Executive Board Member

Leslie Ferrar
Non-Executive and Board Sub-Committee Member

Diane Herbert
Non-Executive and Board Sub-Committee Member

Paul Smith
Non-Executive and Board Sub-Committee Member

Further information about ExCom and Board membership is available on **GOV.UK**

1 Ian Barlow retired as Lead Non-Executive and Board Member on 31 December 2016 and was succeeded by Mervyn Walker.
2 Alice Maynard joined the Board on 1 July 2016

HMRC Board

Roles and responsibilities

As a non-ministerial department, the role of the Board is critical to the success of HMRC. The Board, comprised of a mix of executive and Non-Executive members, helps guide the department strategically and provides challenge and advice to the Executive Chair, the Chief Executive and executive team on their development and implementation of the strategy and the department's business plan and performance against that plan.

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.

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 six times in 2016-17, including one session dedicated entirely to shaping the department's future strategy. Board members also met with many HMRC teams in 2016-17 to gain insight into their day-to-day work and the challenges they face, including visiting frontline offices in Telford.

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 and transformation faced by the department, giving the Board clear oversight of how the department is performing against its objectives and business plan commitments. The Board regularly reviews ExCom's 'performance and transformation hubs' – a visual representation of the key indicators against which the executive judges our performance and transformation priorities. They also review the quality of data, and find it to be acceptable.

Figure 23: Board focus in 2016-17

Strategy and planning	Performance	Transformation
• HMRC Strategy (away day and other sessions) • Business planning • HMRC Reputation	• HMRC Performance data and hub • Chief Executive's Report	• HMRC Transformation Data and hub*

Risk	People	Cross-cutting
• Risk report* • HMRC Risk refresh • Risk Deep Dives • New Risk Framework for Government	• People and workforce planning	• Brexit

* standing items

Board effectiveness

The Board regularly reviews its own effectiveness as part of the arrangements for each meeting using structured questionnaires. The Board assessed progress against recommendations from previous reviews, to ensure there was continuous improvement in its effectiveness and impact. The 2015-16 review identified further enhancements including arranging for more dedicated time for Non-Executives, increasing the use of digital board papers, undertaking a skills audit of Non-Executives and revisiting the approach to ensure site visits are suitably tailored to Board members' areas of expertise. Arrangements for the Board changed in 2016-17 and a further formal review was undertaken following the implementation of those changes, which included an independent element, undertaken by a Non-Executive Board Member from another government department. The review found that the changes carried out during 2016 to strengthen the Board's membership and governance is paying dividends and that the Board was effective and well-placed to have a positive influence in continuing to guide the department during 2017. As a result of the review, the Board will meet more regularly (ten times per year). This change has already been implemented.

Members of ExCom liaise closely with 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.

Register of interests

HMRC maintains a register of interests to ensure that potential conflicts of interest can be identified. This is in line with the Code of Conduct for Board Members of Public Bodies. HMRC Board members and members of its sub-committees are required to declare any potential conflicts of interest on appointment and on an annual basis.

The Code of Conduct for Board Members of Public Bodies is available on:
www.gov.uk/government/publications/board-members-of-public-bodies-code-of-conduct

Where potential conflicts of interests are identified, Board members take no part in any discussions and are not involved in any decisions that relate to those interests. None of the HMRC Directors General or Non-Executive Directors hold any company directorships or other significant interests that might conflict with their responsibilities.

Board sub-committees

Work is delegated to three 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. The Board's supporting committees are:

- Audit and Risk Committee
- People, Nominations and Governance Committee
- Charter Committee.

Audit and Risk Committee

Chair: John Whiting (Non-Executive)

Audit and Risk Committee (A&RC) provides independent assurance to the Board and the Principal Accounting Officer on the integrity of financial statements and the comprehensiveness and reliability of assurances across HMRC on governance, risk management and the control environment. Its scope covers all aspects of HMRC business, and those relating to the Valuation Office Agency (VOA) as escalated to the Committee. The Chair of A&RC will attend at least two meetings annually of the VOA Audit and Risk Assurance Committee (ARAC), and the Chair of the VOA ARAC is invited to attend one HMRC A&RC meeting annually.

During the period of this report, A&RC considered a number of topics including:

- approval of the 2015-16 Annual Report and Accounts for: HM Revenue and Customs; National Insurance Fund for Great Britain; National Insurance Fund for Northern Ireland; and Revenue and Customs Digital Technology Services Limited, and consideration of the relevant NAO Audit Completion Reports and the NAO Management Letters
- changes throughout the period to ExCom-level risks, the process of risk management across the department, and assurance processes and actions in relation to management of risks
- risk maturity and the costing of risk activities
- the individual governance statements made by ExCom members
- the Head of Internal Audit's annual opinion for 2015-16; the comprehensiveness of internal audit coverage, the adequacy of management response to issues identified by audit activity, follow up reports on audits with limited or unsatisfactory assurance, and the Internal Audit Plan for 2016-17
- the Tax Assurance Commissioner's Report for 2015-16
- the department's whistleblowing and wrongdoing processes
- improvements taking place with HMRC's financial accounting systems for tax and running costs
- the department's progress in implementing internal and external recommendations made by external assurance bodies
- personal data related incidents reported to the Information Commissioner's Office in 2016-17
- the NAO Planning Report for the 2016-17 HMRC Annual Report and Accounts
- the quality assurance of Business Critical Analytical Models
- major accounting issues.

People, Nominations and Governance Committee

Chair: Mervyn Walker (Non-Executive)

People, Nominations and Governance Committee (PNG) provides advice and scrutiny for the HMRC Board on: HR's support for the department's strategic direction; and HMRC's ability to meet its legislative responsibilities in relations to its people including health and safety, the Equality Act and equal pay opportunities, and the effectiveness of governance and nominations arrangements within HMRC.

During the period of this report, PNG considered a number of topics including: Leadership; talent management; the diversity and inclusion strategy; future organisation design; Building our Future Phase 4 and 5 feedback; Civil Service People Survey results; strategic workforce plan; employment framework and HR policy simplification.

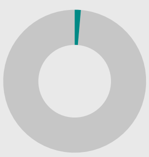
Charter Committee

Chair: Joanna Baldwin (Non-Executive)*

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

During the period of this report, Charter Committee considered a number of topics including: The Customer Service Investment Plan; Making Tax Digital (MTD) for Business and the MTD consultation document; tax compliance; complaints as well as input into the Charter Annual Report.

* Ian Barlow was chair of Charter Committee until 31 December 2016



1.5% of total revenue

£8.4bn Capital Gains Tax

compared to £7.3bn in the previous year

Executive Committee (ExCom)

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

Chair: Jon Thompson, Chief Executive

ExCom met 16* times, covering a wide range of strategic, operational, financial and customer related issues which required decision or discussion by the department's most senior leadership team.

Under the new governance arrangements, ExCom had oversight of the department's performance, both in terms of immediate and future objectives. Within a dedicated performance hub, displaying key performance indicators, it analyses HMRC's performance against targets and considers ways to improve performance in all areas, including customer service and value for money; and reviews the status of, and management actions for, departmental risks and issues.

Key issues covered included: Organisational Design and Regional Centres; workforce planning; compliance and the strategic picture of risk; recruitment; ExCom level risks; Brexit; IT strategy and relevant contracts; and compliance measures.

The committee regularly reviews its own effectiveness 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 effectiveness review of ExCom was carried out in early 2017, which found that ExCom is an effective decision-making forum for making the department's key strategic decisions and there has been progress following the previous ExCom review in terms of using digital papers and performance hubs. Recommendations from the latest review for future improvements include: ExCom holding more regular meetings at different HMRC sites away from London; improving transformation performance data and assurance; and delegating more work to sub-committees, which are in the process of being implemented.

* This includes two meetings for ExCom (Performance) and one for ExCom (Customer)

ExCom (Transformation)

Chair: Jon Thompson, Chief Executive

ExCom (Transformation) provides the most senior level of governance and ensures effective delivery of the department's transformational change, tracking the delivery of benefits to HMRC and its customers. It helps to ensure that the impact on customers is integrated across HMRC and that customers' views and feedback are monitored and managed.

It met 12 times during the reporting period. In addition to monitoring the delivery of the change portfolio within a dedicated transformation hub, key issues covered included: Building our Future Locations; One Government at the Border; Tax Free Childcare; Compliance for the Future; Enterprise Data Hub; Making Tax Digital; and the Customs Declaration Service.

ExCom sub-committees

ExCom delegates certain responsibilities to two sub-committees, Investment Committee and People Matters Committee.

Investment Committee

Chair: Justin Holliday, Chief Finance Officer

Investment Committee makes investment decisions on behalf of ExCom, in line with HMRC's strategic direction and change initiatives. During the year the committee examined programme and project business cases in HMRC's transformation portfolio, delegating authority for approving projects to programme boards for mature programmes where appropriate. The committee also considered requests to approve the award of contracts, and reviewed the finance and benefits status and associated risks and issues of programmes and projects within the portfolio.

People Matters Committee

Chair: Esther Wallington, Chief People Officer

People Matters Committee 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 the annual One HR work plan. During the year the committee considered and reviewed: the performance management system; the employee relations strategy; the mental health and wellbeing strategy: the talent nine box grid; Building our Future capability implementation plan for 2016-21; Building our Future Phase 4 and 5 feedback; progress and feedback on management matters; deep dive on secondments; employee benefits through a new contract with Edenred; review of the honours process; proposals for a talent oversight panel; proposals on removal of the grievance test and review of grievance procedure; changes to the absence management policy; HMRC reservist activity; and Civil Service People Survey results.

Transformation Board

At the beginning of the year, Transformation Board was a sub-committee of ExCom, chaired by Nick Lodge (DG Transformation) and reporting to ExCom (T). As part of the review of corporate governance arrangements and changes to HMRC's organisation design, ExCom agreed to delegate Transformation Board's functions to Nick Lodge in full. Transformation Board ceased to be a formal ExCom level sub-committee from June 2016. Transformation Board has continued as a line of business committee to manage and monitor delivery of the change portfolio and provides monthly updates to ExCom (T).

Figure 24: Meeting attendance by Executives and Non-Executives

	Board	Audit & Risk Committee	People Nominations and Governance Committee	Charter Committee	ExCom[1]	ExCom (Transformation)
Non-Executive Board Members						
Joanna Baldwin	6 (6)			4 (4)		
Ian Barlow	4 (4)			3 (3)		3 (3)
Alice Maynard[2]	5 (5)			1 (1)		
Simon Ricketts	7 (7)					
Mervyn Walker	7 (7)	7 (7)	4 (4)	1 (1)		4 (4)
John Whiting	7 (7)	7 (7)		1 (1)		
Non-Executives						
Diane Herbert	1 (1)		4 (4)	2 (4)		
Leslie Ferrar	1 (1)	7 (7)	4 (4)			
Paul Smith		7 (7)				
Executives						
Gill Aitken			4 (4)		13 (16)	10 (12)
Penny Ciniewicz					13 (16)	7 (12)
Mark Dearnley[3]	1 (1)				8 (9)	5 (6)
Joe Dugdale[4]			2 (2)[8]		3 (3)	3 (3)
Jennie Granger	1 (1)		4 (4)[8]	1 (1)[8]	10 (16)	10 (12)
William Hague[5]	1 (1)		1 (1)[8]		7 (8)	3 (5)
Stephen Hardwick					16 (16)	11 (12)
Jim Harra	3 (3)			3 (3)[8]	13 (16)	8 (12)
Justin Holliday	5 (6)	7 (7)[8]		1 (1)[8]	15 (16)	12 (12)
Nick Lodge	2 (2)				16 (16)	12 (12)
Ruth Owen	1 (1)			3 (3)[8]	14 (16)	11 (12)
Mike Potter[6]					5 (7)	6 (7)
Jon Thompson	7 (7)	2 (7)[8]			13 (16)	9 (12)
Edward Troup	7 (7)			2 (2)[8]	12 (16)	10 (12)
Esther Wallington[7]			2 (2)[8]		5 (5)	5 (5)

1 Includes ExCom (Performance) and ExCom (Customer) meetings
2 Alice Maynard joined the Board on 1 July 2016
3 Mark Dearnley left HMRC on 30 September 2016
4 Joe Dugdale was interim CPO from 1 September 2016 until 30 November 2016
5 William Hague left HMRC on 31 August 2016
6 Mike Potter took over as interim CDIO on 1 October 2016
7 Esther Wallington joined HMRC on 1 December 2016
8 Standing invitee

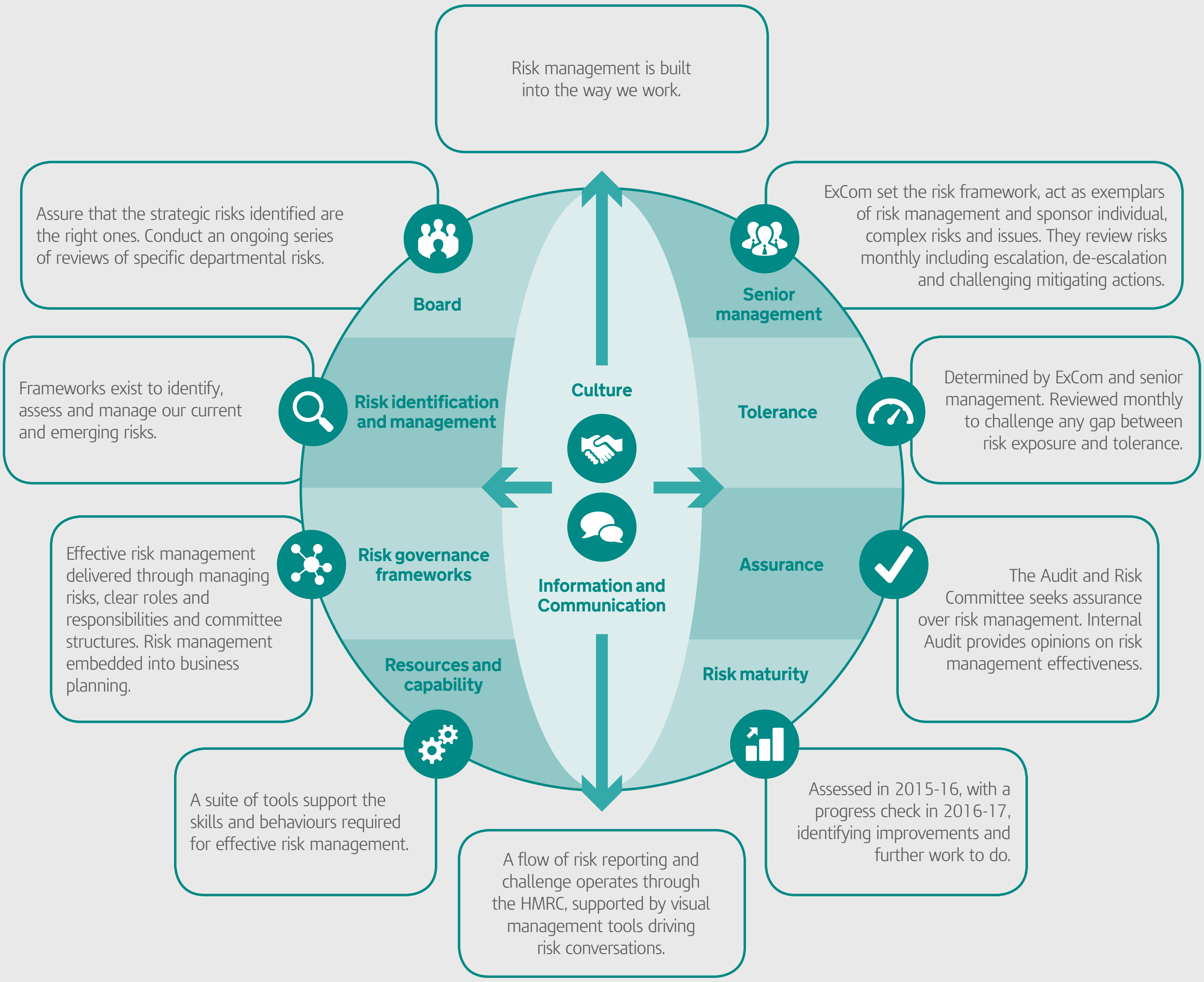
Note: Directors routinely deputise at ExCom meetings when an ExCom member is absent

Managing risks to our objectives

In summary...

Risk management operates at all levels in HMRC, from operational decision making on individual cases, through to strategic-level risks identified in our departmental risk register. This section explains how we identify and then address risks that have the potential to adversely impact our work and the delivery of our key objectives.

Figure 25: HMRC risk framework



There are several ways that HMRC manages risks, which we list below. In the last year we have:

- refined our visual management tools, such as 'flight paths', so that each ExCom level risk is presented consistently and provides the information ExCom require to take informed action
- developed training for all senior managers to help them understand that effective risk management is an integral part of good leadership
- reviewed the department's top risks to ensure that ExCom manage those which cut across multiple areas of the department and which could have the greatest impact on our ability to achieve strategic objectives
- worked with business planners to ensure key risks to our plans are identified, and managed early, through funded mitigations
- continued to make improvements following the 2015-16 risk maturity assessment, for example we have:
  - launched a new risk management policy statement
  - introduced new sub committees at directorate level, strengthening the line of sight on risk information and access to best practice examples
  - updated our risk management strategic plan, placing emphasis on the benefits of active management of risk
  - renewed our guidance, making it simpler to follow and promoting the culture and behaviours required for effective risk management
  - carried out a 'health check' to show the progress we have made in developing our risk maturity capability and to highlight where further work is required.

In 2017-18 we will be implementing further improvements identified by the health check. We will also work with Internal Audit following their review of the effectiveness of risk management of cross-cutting ExCom and Director General level risks and risk information across HMRC.

Development of a cross-government risk framework

We were heavily involved in the development of a cross-government risk management framework on behalf of the Chief Executive for the Civil Service. We expect this to be a highly valuable source of ideas to continually refresh and improve the management of risk in government. By doing so, we will be better placed to innovate and deliver better results for the public.

Within HMRC we have taken the opportunity to identify good practice already in place and the areas of the framework that we would like to adopt. The key areas we are considering include:

- asking the Board, on an annual basis, to consider the whole risk picture
- adopting the Framework's four lenses – internal, external, strategic and major project-approach
- placing greater emphasis on risk impact reducing actions
- understanding the costs of mitigating risks and the costs of those risks materialising.

We will report on our progress next year.

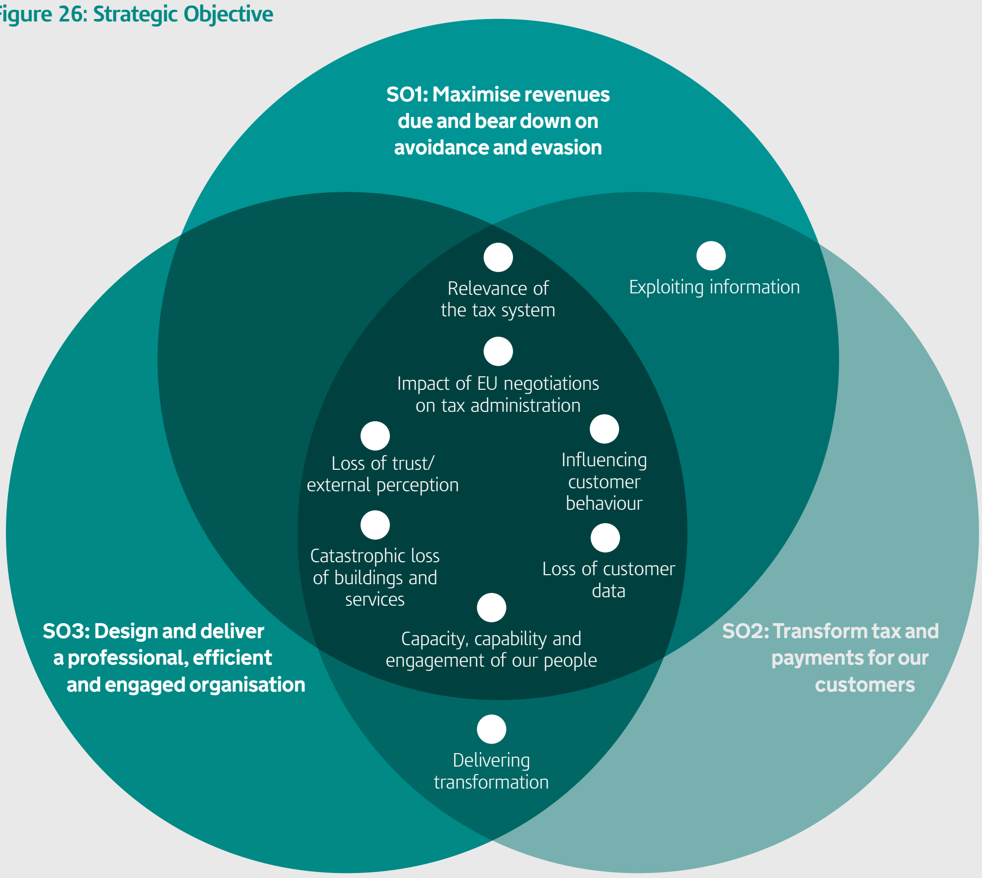
Risk overview

During the year we refreshed the departmental-level risks to ensure ExCom manage:

- the largest strategic risks
- those that cut across multiple areas within HMRC
- those where the risk to delivering them would impact upon more than one of our strategic objectives.

The diagram below shows how the nine risks ExCom currently manage, link to our strategic objectives.

Figure 26: Strategic Objective



These risks have the potential to affect:

- revenues for the Exchequer
- levels of confidence in the department
- our reputation with the public.

Figure 27: The risks to delivering our objectives: what they are and how we deal with them

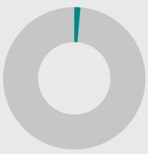
Principal risks	Key mitigating actions
Relevance of the tax system to the economy	
As a result of HMRC not recognising and addressing the opportunities and risks arising from the impact of the wider environment on its business and tax base, there is a risk that our product and process design, decisions and tax system may become out of step with social, economic, technological and demographic developments, leading to loss of confidence/integrity in the tax system and/or a reducing tax base, leading to a reduction in tax revenues.	To manage this risk we are continuing to: • identify future trends through horizon scanning of the external environment, and ensuring that findings are embedded into departmental strategy, policy and operational design • improve the Policy Partnership, working openly and collaboratively with HM Treasury to develop policies that deliver ministerial priorities and are assured against the changing external environment.
Exploiting information	
We may fail to respond effectively to the business intelligence available to us – e.g. compliance insight or reasons for customer contact – leading to reduced revenue collection, a growth in the tax gap and/or weaker customer service.	To ensure the data we hold is reliable, up-to-date and acted upon we are: • creating a modernised storage and exploitation facility for customer sources of data, held in a consolidated, linked and standardised manner • implementing a data quality programme to cleanse data and address the root cause of poor data quality • improving our tools and analytics across all HMRC data, to help with the identification of hidden relationships and profiling.
Influencing customer behaviour	
We may fail to understand and influence customer behaviour in a way that maximises revenues and transforms our customer service, leading to inaccurate forecasting of customer demand, not living within our SR15 settlement and missed opportunities to design our customer-facing systems to promote tax compliant behaviour and making digital services the option of choice.	To manage this risk we are: • building upon the successful launch of the Personal Tax Account to design digital services which fully meet our customers' needs • ensuring our customers are fully supported to stay online through the introduction of new digital services • reviewing and reducing the frequency with which we need to write to customers, as this can trigger unnecessary return contact • making use of communications mediums, such as social media and webinars to share key messages with our customers • investing in new technology to develop our frontline people as digital advocates to help them support customers to continue using our digital services.
External perception/loss of trust	
We may be seen by our stakeholders as ineffective, inefficient or as not treating everyone impartially, leading to weaker compliance and potentially an increase in the tax gap.	To manage this risk we are: • working internationally to close tax loopholes and cut avoidance • investing in improved post and phone handling with additional people during peak periods and longer opening hours • developing our online services for individuals and small businesses • working to ensure fair media treatment of newsworthy events involving HMRC.

Continued

Principal risks	Key mitigating actions
Capacity, capability and engagement of our people	
We may not have the right number of highly-skilled and engaged people in the right roles and professions, in the right places at the right time leading to a failure to deliver our business objectives.	During the year we have continued to develop our people, looking at the skills we will require in the future. We are: • developing our strategic workforce plans for each of our key business areas, to ensure the right number of people are recruited in the right locations to meet our future needs • developing our long-term capability plans, modernising our professional learning and using the refreshed Leadership Academy, to provide training, guidance and information to far more of our people than ever before • acting on employee feedback to identify and implement good practice across the organisation, making our processes more efficient and effective for customers and our people alike.
Delivering transformation	
We may not deliver a more modern tax administration with service improvements and efficiencies that allows us to: exploit digital channels to improve customer service; tackle more quickly those who do not engage with us or bend or break the rules; and live within our financial allocations.	As a department we are delivering a transformation programme on an unprecedented scale. Managing this effectively is crucial to our future success. We are: • building our capacity and capability through a range of interventions, such as: a major extension to our apprentice programme; bringing in external expertise; and continuous internal recruitment • providing more detailed information to HM Treasury and ministers regarding the effect of new initiatives on existing work, and carrying out scenario planning for various Brexit options • using feedback from six large consultation exercises over the summer of 2016 to influence the design of our digital processes and services.
Impact of EU negotiations on tax administration	
We fail to identify and prepare for the challenges/opportunities of the UK's new relationships, leading to an insufficient ability to secure revenue, make payments and meet customer needs on exit from the EU.	To ensure we understand and proactively prepare for the challenges and opportunities of the UK's new relationship we: • strengthened HMRC governance across the department, including establishing a central EU Exit Team, to develop a range of delivery options to support ministers' outcomes and to inform cross-Whitehall activities.

Continued

Principal risks	Key mitigating actions
Loss of customer data	
People may gain unauthorised access to our information assets through malicious electronic attack, human intent or an accidental event due to inadequate information risk control, leading to a significant loss of customer data. This may harm our ability to manage the tax and customs systems and result in a loss of public confidence and potential regulatory and legal action against the department.	The safety of customer data is paramount in our thinking. To manage this risk we are: • further developing our cyber-security command centres to help us identify and respond to cyber threats even more effectively • implementing new verification checks for our digital services to help prevent fraudulent use of customer accounts • driving the uptake of digital mail services to benefit from secure central data storage, thereby reducing the amount of customer-data assets physically held on our estate.
Catastrophic loss of buildings and services	
We suffer a significant incident that impacts systems, people or buildings leading to disruption to our tax collection and customer services and corresponding loss of public confidence.	To manage this risk we are: • improving IT resilience in our major systems through infrastructure virtualisation and the benefits of cloud technology • updating our business continuity operating model, so that is supports our transformation programmes, particularly those around IT and our future location strategy • implementing further improvements to our plans based on business continuity exercises undertaken during the year.



1.5% of total revenue

£8.7bn Tobacco Duties

compared to £9.1bn in the previous year

New risks and those removed from the ExCom level risk register during 2016-17

As well as reviewing the top level risks each month, ExCom refreshed the departmental risk register last year against our Spending Review commitments and our Single Departmental Plan. As a result, a number of the risks reported in last year's governance statement are now managed below ExCom level, as set out below:

Figure 28: Risks removed from the ExCom level risk register during 2016-17

Total revenue	Receipts are monitored and analysed as part of our monthly review of performance data.
Tax compliance	In part subsumed into the current ExCom-level risks Exploiting Information and Influencing Customer Behaviour. Yield is monitored and analysed as part of our monthly review of performance data.
Data exploitation	Subsumed by current Exploiting Information ExCom-level risk.
Customer service	Subsumed by current Influencing Customer Behaviour ExCom-level risk.
Managing our cyber security	Now managed at Director General level.
Customer understanding	Now managed at Transformation Board level.
Exploiting digital opportunities	Now managed at Director General level.
Delivering affordable and sustainable transformation	Subsumed by current Delivering Transformation ExCom-level risk.
Providing IT services	Now managed at Programme / Director General level.
Managing our people's performance	Subsumed by the current Capacity, Capability and Engagement of our People ExCom-level risk.
Delivering estates transformation	Now managed at Director General level.

Principal Accounting Officer's report

In summary…

Our Principal Accounting Officer Jon Thompson, concludes that our governance, risk management and internal control arrangements have supported effective risk management in 2016-17, and will support HMRC's aims and objectives for 2017-18.

I have conducted an annual review of the effectiveness of the department's governance, risk management and internal control. A number of specific sources contribute to this annual review which are set out below.

Responsibilities within HMRC

Through annual letters of delegation, I delegate financial authority to each Director General to manage the budget for their lines of business within agreed financial limits and Managing Public Money guidelines. Directors General are supported by their finance directors, and finance business partners and operate a cascade of delegations of these financial authorities within their lines of business. Financial authority limits and HMRC policy requirements are set at each stage of delegation.

Supporting this scheme of delegations is HMRC's financial controls framework, developed last year, which ensures that control standards are adhered to in all our financial processes and enhances financial control within HMRC; helps mitigate the risk of financial loss through error or fraud; and helps ensure the integrity of HMRC's financial statements by helping to reduce the risk of fraud, error and financial misreporting.

Statements and reports made by members of the Executive Committee

Each member of ExCom provides a statement setting out the governance, risk and control arrangements in their business areas. These statements are reviewed by Internal Audit, Corporate Governance and Corporate Risk Management and key findings discussed by me and by ExCom. Audit and Risk Committee also provides assurance of these statements. The Tax Assurance Commissioner prepares a Tax Assurance Report, which can be found in pages 100 to 109.

Additional Accounting Officers

I receive assurance from the Additional Accounting Officers – Penny Ciniewicz who has responsibility for sections B, I and J of the HM Revenue and Customs Estimate, relating to VOA administration and payments of rates to local authorities on behalf of certain bodies; Jim Harra for the Scottish rate of income tax, Justin Holliday for the signature of the Account of Duties Collected in the Isle of Man, and Patrick Whittome, HMRC Director of Finance Operations for the signature of the Account of R.N. Limited. The VOA provides a separate Governance Statement and I take assurance from this and from the review which underpins it.

Senior oversight and scrutiny

There are several senior forums which provide regular and robust oversight, scrutiny and assurance throughout the year -ExCom, ExCom (Transformation), quarterly business reviews, and Audit and Risk Committee.

Security

ExCom receives weekly security incident reports, which include details of any personal data-related incidents we report to the Information Commissioner's Office, as specified on page 95. A regular security incident report is made to the Audit and Risk Committee.

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

National Insurance Funds

There are two National Insurance funds, one for Great Britain and one for Northern Ireland. Each has its own annual report and accounts, including a governance statement, which I sign separately. Many of the activities relating to the transactions of the two funds are carried out by other departments and agencies (for example, the Department for Work and Pensions and the Department for Social Development in Northern Ireland) and I receive letters of assurance from the accounting officers of each of these.

Quality assurance of business critical models

We enhanced our approach in response to the 2013 Macpherson review of quality assurance of government analytical models, including the development of new, high-level departmental guidance and local procedures for assurance of models proportional to their risks. The Audit and Risk Committee monitors the quality assurance of our business critical models annually.

External Reports

External reports on HMRC, produced by external scrutiny bodies including the National Audit Office, Public Accounts Committee, Treasury Select Committee, Information Commissioner's Office, Her Majesty's Inspectorate of Constabulary, the Independent Police Complaints Commission and the Office of the Surveillance Commissioners. Details of the recommendations made by the NAO and other external reviews during the year can be found at page 91. Regular reports on the status of these recommendations are reviewed by the Audit and Risk Committee.

External assurance

Most aspects of our overall control environment are strong and embedded. However, we are working further to enhance this within an overall HMRC control framework under which all of our various control activities are integrated. To support our drive to improve our management of governance, risk, assurance and control across HMRC, we have sought external support to review and challenge the effectiveness of our operations and procedures. The findings broadly mirrored our own understanding, and identified a number of areas where we should seek to further improve compared to leading practice. Improvements we will be making over the coming year include reviewing our controls, refining our delegation and integrated assurance frameworks, and developing a communications and training plan.

Internal Audit

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

- In governance terms, the past year has been a time of significant change. The arrival of the new AO at the start of the year has initiated a change in tone at the top of the department and there has been a major reorganisation of business groups which is still settling down.
- HMRC's overall level of risk exposure, particularly linked to its transformation agenda and preparations to exit the EU, remains highly challenging. However risks are clearly understood and there is evidence they are being managed to good effect. Going forward HMRC will need to balance its demanding change portfolio against delivering business as usual with less resource.
- Individual internal audit findings show that although areas of good control are found at a business/operational level across the Department, there remain some operational weaknesses in common processes, for example around people management, specifically capacity, capability and role definition. Steps are being taken in these areas, although effective solutions can be slow to deliver when issues cross business group boundaries.
- The work in progress to improve our control framework is essential to addressing common control issues and will, if successfully delivered, continue the improving assurance trend and help to ensure the framework remains adequate and effective.

0.6% of total revenue

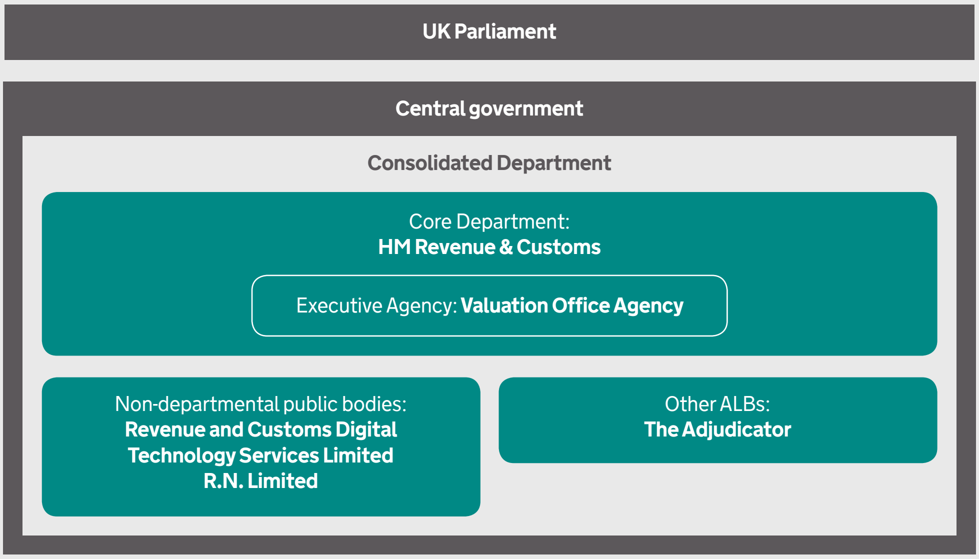
£3.6bn Customs Duties

compared to £2.9bn in the previous year

Accountability relationships with arm's length bodies

We have four arm's length bodies: Valuation Office Agency (VOA), which is an executive agency of HMRC; Revenue and Customs Digital Technology Services Limited (RCDTS Ltd) and R.N. Limited which are non-departmental public bodies, and the Adjudicator, who is an independent appointment. I am satisfied that each of them has systems in place which meet the appropriate standards of governance, decision making and financial management.

Figure 29: HMRC accountability system



VOA

A description of the VOA's work can be found on pages 56 to 57. The VOA are funded by HMRC via the HMRC Estimate for AME and Capital DEL. Last year, the VOA's resource funding was provided by the Department for Communities and Local Government (DCLG), Welsh Government, HMRC and DWP in return for the services VOA provides on their behalf. HMRC, as the Agency's sponsor, provided capital funding. In order to reduce the complexity of this funding model, in 2017-18 the majority of VOA's funding was aligned with HMRC's sponsorship, bringing the majority of the VOA's funding into one place. DCLG will continue to provide for the Agency's fair rents work (approximately £2 million per annum). The VOA also derives 7% of its income from charges for its services. It reports on its charging schemes in its annual reports. The VOA provide quarterly financial statements to HMRC that are consolidated into HMRC's accounts. The VOA produces its own statutory accounts which are audited by the National Audit Office. HMRC is currently putting in place a dedicated sponsor team for the VOA.

Penny Ciniewicz is an ExCom member and undertakes a Quarterly Business Review with me covering performance, risks and issues. ExCom review the VOA's performance in its Performance and Transformation hub. Penny is accountable to Parliament for ensuring the propriety and regularity of the public finance within her charge including meeting the requirements of HM Treasury and Cabinet Office guidance and fulfilling the requirements of Parliamentary select committees. As Principal Accounting Officer, I am accountable for ensuring a high standard of financial management and strategic oversight.

VOA's annual accounts can be found at:
www.gov.uk/government/organisations/valuation-office-agency

RCDTS Limited

RCDTS is a government-owned company supplying IT services to HMRC which is its only customer. Its governance structure is closely tied to that of HMRC and its Board is drawn from HMRC's senior leadership. RCDTS has received funding from HMRC in the form of a long term repayable loan, and the funding facility between HMRC and RCDTS details the terms of the agreement. The funding is provided for general working capital and investment purposes for the supply of IT services to HMRC. RCDTS is a non-profit making company recharging all costs to HMRC, and invoicing HMRC for the services it provides. RCDTS provide quarterly financial statements to HMRC that are consolidated into HMRC's accounts. RCDTS produces its own statutory accounts which are audited by the National Audit Office.

HMRC has put in place a sponsor team to provide assurance to me as Principal Accounting Officer, which advises and, as appropriate, acts on behalf of HMRC in managing the financial risk and return of RCDTS, which it does through challenging and supporting RCDTS in the achievement of its objectives. It interacts with RCDTS at an operational level by ensuring its compliance with the master services agreement and the framework agreement.

RCDTS Ltd's annual accounts can be found at:
https://beta.companieshouse.gov.uk/company/09679225

R.N. Limited

R.N. Ltd is a government-owned company founded in 1933 holding illiquid assets secured against tax debts on behalf of the Commissioners. These debts are fully reflected in the Trust Statement. There is no designation order requiring RN Ltd financial statements to be consolidated in HMRC's accounts. R.N. Ltd is fully controlled by HMRC and the running costs of R.N. Ltd are met by HMRC, since it is HMRC that directly benefits from that activity. R.N. Ltd has a separate board comprising of HMRC employees and is fully controlled by HMRC. Its accounting officer is Patrick Whittome, HMRC Director of Finance Operations.

R.N. Ltd's annual accounts can be found at:
https://beta.companieshouse.gov.uk/company/00279190

The Adjudicator

The Adjudicator is responsible for investigating complaints about HMRC, the VOA, The Insolvency Service and HM Treasury's Pension Wise. Helen Megarry is the current Adjudicator, and took over from Judy Clements on 11 April 2016. Helen reports to Edward Troup. HMRC provide the staff and funding for the Adjudicator's Office, which administratively is part of HMRC. ExCom receive monthly reports prepared by the Adjudicator's Office on both HMRC and the Adjudicator's performance.

Accountability for major contracts and outsourced services

HMRC has two major contracts which are significant in ensuring that it can deliver its core services, and these are Mapeley STEPS Contractor Limited (Mapeley) and the Aspire Contract. The approximate annual value of Mapeley is £157 million, and the approximate annual value of Aspire is £505 million.*

* See the Expenditure note on page 186 (Note 2 of the Resource Accounts) and reconcile to service charges

Mapeley

The department has a contract with Mapeley to provide accommodation and other services. HMRC obtains and ensures value for money (VfM) from its Mapeley STEPS contract by the use of a set of value for money and performance measures, benchmarking and a governance structure that regularly monitors, evaluates and reports whole contract life and in-year VfM. Management action is taken through the use of various contractual mechanisms, including a performance measurement system enabling HMRC to make financial deductions from Mapeley for failure to achieve key performance targets and through commercial negotiations in respect of current performance and future opportunities.

Aspire contract

As the Aspire contract, HMRC's long-running contract for IT services, has been moving towards its conclusion, HMRC has engaged in a series of contractual re-negotiations with its principal IT suppliers. These negotiations have enabled HMRC to achieve a series of price reductions. The changes have also been key in supporting HMRC as it transforms the way in which services are delivered to the department and its customers. At the same time HMRC has successfully re-procured a number of IT contracts which will deliver significant savings over the next few years and support the transformation of IT services.

Update on control issues reported during 2015-16

Customer service standards

Although we started the operational year with poor service levels on both post and phones, we gripped the issue and improved rapidly through the year. Call answering service levels at year end were up to 91.7% and we achieved agreed targets for both average speed of answering on phones and turnaround times on post across this operational year. The average speed of answering was 3 minutes 54 seconds in March 2017, and we dealt with 80.9% of post within 15 days cumulatively by March 2017. This control issue is therefore closed. This was no longer a significant control issue in 2016-17.

Workforce planning

HMRC's workforce plans needed significant improvements to enable effective recruitment of the right people at the right time to support our business. In 2016-17, we developed a sequenced delivery plan for business areas needing large recruitment campaigns. We also improved our assurance of numbers and plans against actual delivery using consistent, agreed management information, and improved our internal stakeholder engagement. We have in place Delivery Partner Account Management: Civil Service Resourcing and third party supplier (Manpower) are managed centrally with frequent and regular engagement at a number of levels ongoing. This issue is being resolved satisfactorily and is no longer a significant control issue in 2016-17.

Records retrieval

We provide a free of charge service to customers to provide dates of employment from National Insurance records. We do not have an obligation to provide this. Last year we received 110,000 requests and reminders for requests. Our on hand figure, as at March 2017 is around 12,000, which is down by 59,500 on the figure at March 2016. Customer waiting time is 84 working days, a significant improvement on the waiting time of 256 working days at March 2016. We are continuing to work closely with the Information Commissioner.

Current control issues

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

Error and Fraud Adding Capacity (EFAC)/Concentrix

In May 2014, HMRC contracted with an external supplier, Concentrix to review and correct tax credits claims and help reduce levels of error and fraud by adding capacity to HMRC's own compliance efforts. The level of customer service provided by Concentrix fell dramatically from 13 August 2016, with the number of calls being answered within five minutes dropping to less than 35% (monthly figure) against a target of 90%. This decline in performance was unacceptable and highlighted issues relating to the planning, quality and decision making of Concentrix. This led to rapid intervention by the department and also the announcement in September 2016 that HMRC would not renew the EFAC contract with Concentrix. To allow Concentrix to provide greater focus on resolving their telephony performance, in September HMRC took back 181,000 tax credit claims being worked by Concentrix that required finalising. In November, HMRC and Concentrix agreed to exit the contract with immediate effect. The NAO conducted a factual review of the EFAC contract and the customer service issues, the report of which was published on 17 January 2017.

Tax credits error and fraud

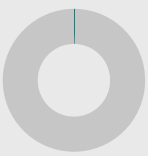
The Comptroller and Auditor General (C&AG) qualified his regularity opinion on HMRC's 2016-17 Resource Accounts, because of material levels of error and fraud in the payments of personal tax credits. The Annual Error and Fraud Analytical Programme covering the 2015-16 year showed levels of error and fraud at 5.5% of finalised entitlement and is still material though much reduced compared with earlier years. Rates of error and fraud for 2016-17 will not be available until June 2018. Nevertheless, I expect the levels of tax credits error and fraud to again remain material. The latest estimate of error and fraud at 5.5% of finalised entitlement in 2015-16 represents an increase of 0.7 percentage points compared to 2014-15 and 0.8 percentage points compared to 2013-14, when error and fraud was at its lowest level since the current personal tax credits scheme began in 2003-04. Despite a reduction of 3.4 percentage points (from 8.9% in 2008-09) the continued qualification of the accounts means I must consider this a fundamental control weakness.

From the autumn of 2016, given the non-renewal and then termination of the Concentrix contract, the savings gap had the potential to make it more difficult to achieve the 5% error and fraud target for 2016-17. This has had a significant impact on our ability to meet our target for Gross Losses Prevented in 2016-17, a proxy measure that allows the department to track in-flight progress and be confident in its ability to reduce levels of error and fraud in the tax credits system. In addition, the introduction of a strengthened test for self-employed tax credits claimants, which requires self-employment to be commercial, regular and organised with a view to making a profit, introduces a new area where customers can be non-compliant and will add to levels of error and fraud in 2016-17 alongside significant future savings.

We continue to review our products and processes to identify further opportunities to prevent error, fraud and overpayments getting into the system. We have made a number of changes to our processes for our 2017 compliance campaigns that are intended to improve the customer journey and have been designed in consultation with stakeholders, such as the Citizens Advice Bureau and the Low Incomes Tax Reform Group. Reports by the Work and Pensions Select Committee and the Public Accounts Committee made a number of recommendations – all of which were accepted by HMRC and are being implemented.

Other issues: Customs Undervaluation Fraud

While not currently a control issue, HMRC is closely investigating the allegation by OLAF (the European Union's anti-fraud office), in their report of March 2017, of undervaluation of imports of Chinese textiles into the European Union. HMRC is analysing the detail of the report but does not agree the calculations or recognise the conclusions drawn by OLAF and will respond to this report in due course. Working with Border Force, we are intensifying our operational response to undervaluation risk at the border.



0.5% of total revenue

£2.7bn Betting and Gaming Duties

the same as the previous year

Conclusion and compliance with the Code of Good Practice

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

The Corporate Governance in the Central Government Departments' Code of Good Practice 2011 can be found at **www.gov.uk/government/uploads/system/uploads/attachment_data/file/220645/corporate_governance_good_practice_july2011.pdf**

Our corporate governance arrangements have continued to evolve during the year. An organisation of HMRC's size and complexity will always have multiple risks to manage at any one time, but I am satisfied that the governance arrangements that were in place throughout 2016-17 have been sufficient to continue managing risks effectively. Based on the review outlined above, I conclude that HMRC has a sound system of governance, risk management and internal control that supports the department's aims and objectives for 2017-18.

Jon Thompson
Accounting Officer
10 July 2017

Recommendations made by external scrutiny bodies

In summary…
We value recommendations made by external scrutiny bodies and we closely monitor how they are implemented. We monitor recommendations made by the Public Accounts Committee, the Treasury Select Committee and the National Audit Office (NAO), and report them to our Audit and Risk Committee.

In recent years, we have extended our reporting to include a wider range of external bodies such as Infrastructure and Projects Authority (formerly the Major Projects Authority), European Court of Auditors and the Independent Police Complaints Commission. Our Chief Executive presents a report to each meeting of the Audit and Risk Committee (A&RC), updating it on the status of recommendations and whether any are overdue. The Audit and Risk Committee reviews progress and calls responsible Directors General to its meetings on occasions to explain why a recommendation has not been implemented promptly. We categorise recommendations as either significant or routine, based on the greatest financial, operational, or reputational risk of not implementing them.

From July 2016, we ceased using a two-tier system for the monitoring of external recommendations. Tier 1 recommendations were those made by HMRC's primary assurance providers, for example PAC, NAO etc. Tier 2 recommendations were those made by any other external body not within tier 1.

We provide information to the A&RC on:

- whether we have accepted or rejected external recommendations
- the number of recommendations implemented and new recommendations received since the last report
- how we plan to proceed with overdue recommendations that have not been implemented by the agreed date.

A&RC have noted that HMRC should always look to ensure that it agrees to realistic deadlines for the implementation of recommendations.

We consider recommendations overdue if they have not been implemented by the date agreed when they were accepted. Last year we implemented 110 significant and 156 routine recommendations, with two significant and five routine overdue recommendations, which have now been closed.

Figure 30: Significant recommendations: 2016-17

External body making recommendation	Opening balance[1]	New	Closed	Closing balance[2]	Overdue[3]
NAO/PAC/TSC reports	14	18	17	15	2
NAO cross-cutting reports[4]					
NAO Audit recommendations[5]	7	15	11	11	–
European Commission and European Court of Auditors					
HM Inspectorate of Constabulary					
Others[6]	27	66	82	11	
Total	**48**	**99**	**110**	**37**	**2**

Figure 31: Routine recommendations: 2016-17

External body making recommendation	Opening balance[1]	New	Closed	Closing balance[2]	Overdue[3]
NAO/PAC/TSC reports	2	17	7	12	
NAO cross-cutting reports[4]	4	1	5	0	
NAO Audit recommendations[5]	25	99	77	47	2
European Commission and European Court of Auditors	16	12	25	3	
HM Inspectorate of Constabulary	7	7	13	1	1
Others[6]	8	23	29	2	3
Total	**62**	**159**	**156**	**65**	**6**

1 Balance at 1 April 2016
2 Balance at 31 March 2017
3 Recommendations that have missed the envisaged implementation date due to operational reasons. All overdue recommendations are reviewed individually at each Audit and Risk Committee meeting.
4 NAO cross-government reports with recommendations appropriate to HMRC.
5 Section 2 audit recommendations and management letter recommendations.
6 Independent Police Complaints Commission, Infrastructure and Projects Authority, Health and Safety, Interception of Surveillance Commissioners, Office of Surveillance Commissioners, UK Statistical Authority, GCHQ, Low Pay Commission

Responding to external opinion

In summary…

We work proactively with different organisations that represent our customers – including business representative groups, professional accountancy and legal bodies, and the voluntary and charitable sector. Our engagement ranges from detailed discussions between policy teams and external stakeholders on the design of specific policies and services, through to larger-scale forums, events and information sharing to keep them updated on issues affecting them or our customers.

Stakeholder events

Annual Stakeholder Conference: we hold an annual conference for our external stakeholders to build awareness of, and engagement with our work. It's an opportunity to update stakeholders on our performance and provide information (and seek feedback) on our new products, services and tax rules. Our 2016 event was attended by nearly 100 of our key stakeholders, 96% of whom said that they now have a better idea of how HMRC is performing.

We also widened our engagement during 2016-17 through more interactive events and with new audiences, including:

- Demonstrations of our new digital developments: including a 'digital show and tell' in November 2016 for representatives from voluntary sector organisations. Events like this are helping to raise awareness of our new digital developments and to help shape the digital services being created for our customers
- Tax gap roundtable: we held our first roundtable event in January 2017 for leading UK tax academics to discuss the tax gap, providing an opportunity to seek their advice on how we can make this more easily understood by the public and ensure it continues to be one of the most robust tax gap data sets published anywhere in the world
- Digital consultation: we have been trialling new ways of reaching out to people to get them involved in the development of new policies. The use of an online survey for our suite of consultations on Making Tax Digital helped to generate one of the highest responses we have ever had for an HMRC consultation.

Consultative groups

We regularly seek advice and input from our stakeholders to help us with our day-to-day and future work. To help with this, we have a number of consultative forums for businesses, individuals, agents and representative bodies, which meet regularly to provide advice on a wide range of strategic and operational issues.

Insight

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

Executive Chair engagement programme

Edward Troup has been meeting with his counterparts in organisations that represent our customers over the past 12 months, to seek feedback on our transformation programme and how we can continue to improve customer service.

We welcome all feedback, formal and informal, and seek to ensure that our stakeholders have the opportunity to contribute to our work, and shape tax administration for the future.

Case studies:

Making Tax Digital for Business

We engaged extensively on the six Making Tax Digital (MTD) consultations, published in August 2016. Over the 12-week consultation period, we held 15 roundtable meetings across the UK, attended by 370 people, to communicate and discuss the proposals. We ran 12 public webinars and two 'Talking Points' webinars for agents, attracting more than 3,000 participants. We also took part in a wide range of externally-run conferences and events to reach as wide a group of stakeholders as possible.

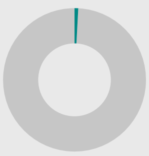
Feedback from these events has been instrumental in shaping the detail of the MTD changes set out in the responses published on 31 January 2017 and on key policy areas, such as the entry threshold for the new MTD for Business requirements.

Tax credits renewals

The annual tax credits renewals event, between April and July, is one of the biggest customer service challenges for HMRC. Every year, we require millions of customers, including some of the most vulnerable in society, to contact us to renew their tax credits.

The 2016 renewal campaign made greater use of stakeholders and partnerships than ever before. For the first time, we added partnership marketing to the campaign, providing messages to large employers, local authorities and other organisations to use in their own intranet messages, emails, web articles, newsletters and social media – with an audience reach of 1.5 million.

The campaign also worked closely with key stakeholder groups, including the Low Incomes Tax Reform Group, Citizens Advice, the Local Government Association, Gingerbread and the Social Security Advisory Committee. This included sharing briefing products and key messages and using weekly telephone calls with these organisations to refine our plans during the peak renewal period, to ensure that we reached the maximum number of customers in the best way possible for them.



0.9% of total revenue

5.2bn Inheritance Tax

compared to £4.1bn the previous year

Tax-Free Childcare

As part of the government's new childcare offer, Tax-Free Childcare will help support millions of working families with their childcare costs. To support its introduction in April 2017, we have prioritised engagement with childcare industry stakeholders from across the UK, seeking their input since our initial policy consultation in 2013.

As well as working with organisations representing parents and childcare providers, we have also engaged with employers, all UK childcare regulators, local authorities and others to help develop the offer. These organisations helped us to communicate details across the childcare industry ahead of launch.

We also attended external childcare provider events around the UK to explain the offer – reaching thousands of childcare providers directly. Our 'top things providers need to know' page on GOV.UK had more than 100,000 unique visits ahead of launch.

Brexit

Following on from the EU referendum result, we have been meeting with a broad range of stakeholders, including representative bodies, to listen to any concerns and issues. We established a sub-group, drawn from the main Joint Customs Consultative Committee (JCCC) Group, comprising 20 member organisations of businesses trading in goods, as well as customs service providers and port infrastructure operators. The sub-group considers representations from member organisations and obtains data from the industry on impacts, risks and priorities relating to Brexit. We have also utilised a broad range of existing stakeholder forums, such as Small Medium Enterprises Overview Forum and Business Tax Forum, as an opportunity for stakeholders to raise any questions and we'll continue to do so as the Brexit work continues.

Sharing our data with others

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

Such sharing supports the effective delivery of existing policies (e.g. in combatting fraud in the welfare system and setting the right level of state benefits) and also serves to deliver public benefit when it informs the design and implementation of new policies. In the past year we have worked with a variety of other government departments, notably the Department for Work and Pensions, facilitating greater use of PAYE data and providing a state pension calculator through the Personal Tax Account, HM Courts and Tribunal Service to support the collection of court fines and the Home Office for the development of immigration policy.

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

A priority during 2016-17 was our support to the passage of the Digital Economy Act, with provisions which enable more effective use of data held by HMRC. These changes complement our ambition (as reflected in the department's data strategy) to continue to maximise the value of data sharing – both to HMRC and to support wider government policy – by developing new processes to make greater and more effective use of the data we hold.

The current transformation agenda changes the way we hold our data, moving from product centred to customer centred, which allows a more joined up approach to data use and greater potential for more insightful data sharing in the future.

We are increasingly using Application Programming Interfaces (APIs) to enable and govern the sharing that we do, in line with HMRC's Digital and API First strategies.

We also continue to facilitate access to and use of data held by HMRC by academics and researchers via our Datalab (a highly controlled environment in which approved research projects can be undertaken). In the past year Datalab projects have explored such issues as savings wealth distribution, income taxation and business growth.

Personal data-related incidents

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

Figure 32: Summary of protected personal data-related incidents formally reported to the Information Commissioner's Office (ICO) in 2016-17

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
March (2016)	Loss of a package in the internal postal system	Customer information	200	Customers are unknown so have not been contacted
March (2016)	Non-delivery of a package through Royal Mail	Staff details	1	The individual was notified
June (2016)	Loss of a package in the internal postal system	Customer information	123	Customers are unknown so have not been contacted
July (2016)	Data saved to a shared access folder in error	Staff details	4	The individuals were notified
July (2016)	Non-delivery of a package to a storage facility	Customer details	300 (estimated)	Customers are unknown so have not been contacted

Other protected personal data-related incidents in 2016-17

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 2015-16 are shown in brackets.

Figure 33: Summary of other protected personal data related incidents in 2016-17

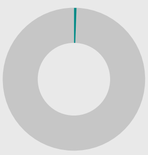
Category	Nature of incident	Total
I	Loss of inadequately-protected electronic equipment, devices or paper documents from secured government premises	**1 (1)**
II	Loss of inadequately-protected electronic equipment, devices or paper documents from outside secured	**4 (8)**
III	Insecure disposal of inadequately-protected electronic equipment, devices or paper documents	**0 (0)**
IV	Unauthorised disclosure	**10 (20)**
V	Other	**0 (2)**

Statement on information risk

The number of centrally-managed security incidents impacting on protected personal data in HMRC reduced from 31 to 15 in 2016-17. The number of customers potentially affected by these centrally-managed incidents was 1,285 (previous year 4,496).

Further action on information risk

We deal with millions of customers every year and tens of millions of paper and electronic interactions. We take the issue of data security extremely seriously and continually look to improve the security of customer information. We investigate and analyse all security incidents to understand and reduce security risk. We actively learn and act on our incidents; for example, implementing further changes in business processes relating to postal movements and undertaking assurance work with our third party service providers to ensure that agreed processes are being carried out. We educate our staff to reinforce good data handling processes by deploying departmental-wide as well as targeted award-winning education and awareness campaigns. This mitigating action focusses on reducing the risk of data loss and the likelihood of re-occurrence. All HMRC staff are required to complete mandatory security training which include the requirements of the Data Protection Act. By doing so we can make sure the department is seen as a trusted and professional organisation.



0.7% of total revenue

£3.9bn Bank Levy

compared to £2.8bn the previous year

Foreword and Principal Accounting Officer's Responsibilities

Introduction

HMRC is responsible for collecting the majority of tax revenue and its financial information is reported in two separate accounts. The Trust Statement reports the revenues, expenditures, assets and liabilities related to the taxes and duties for the financial year. The Resource Accounts reports the costs of running HMRC including making payments of Child Benefit and tax credits. The Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd) results are consolidated into the Resource Accounts.

Basis for the preparation of the accounts

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

Trust Statement

The HM Treasury accounts direction, issued under Section 2 of the Exchequer and Audit Departments Act 1921, requires HMRC to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of taxes and duties, the revenue income and expenditure, and cash flows for the financial year.

Resource Accounts

The HM Treasury accounts direction, issued under the Government Resources and Accounts Act (GRAA) 2000, requires HMRC to prepare consolidated Resource Accounts to give a true and fair view of the state of affairs of the department and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

Further guidance followed in the preparation of the accounts

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

Principal Accounting Officer's responsibilities

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

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

- observe the accounts directions issued by HM Treasury, including the relevant accounting and disclosure requirements, applying suitable accounting policies on a consistent basis and explaining any material departures from the FReM
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by the Valuation Office Agency and RCDTS Ltd
- ensure that there is a high standard of financial management, including robust systems of internal control and that financial systems and processes promote the efficient and economical conduct of the business
- be responsible for the propriety and regularity of the public finances for which the Principal Accounting Officer is answerable and for the keeping of proper records and safeguarding the department's assets as set out in MPM published by HM Treasury
- prepare the accounts on a going concern basis

The Principal Accounting Officer confirms that this Annual Report and Accounts as a whole is fair, balanced and understandable. The Principal Accounting Officer takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Accounting officers for the Resource Accounts

On 4 April 2016, the Principal Accounting Officer, Dame Lin Homer left the department and was succeeded by Jon Thompson. Penny Ciniewicz, Chief Executive of the Valuation Office Agency is an additional accounting officer accountable for those parts of the department's accounts relating to specified lines of the Estimate and the associated assets, liabilities and cash flows. This appointment does not detract from Jon Thompson's overall responsibility for the department's accounts.

The allocation of accounting officer responsibilities in the department was as follows:

Estimate sections A, C-H and K-M: Jon Thompson, Chief Executive and Permanent Secretary.

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

More detail about the performance against the Estimate can be found in SoPS notes 1.1 and 1.2 in the Parliamentary Accountability Disclosures Section on **pages 139-141**

Auditors

Both sets of accounts are audited by the Comptroller and Auditor General. The Trust Statement is audited under Section 2 of the Exchequer and Audit Departments Act 1921. The Resource Accounts are audited under the Government Resources and Accounts Act 2000.

The notional charge for both these audit services is disclosed in the Resource Accounts (see note 2). No non-audit work was carried out by the auditors for HMRC. So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Jon Thompson
Principal Accounting Officer
10 July 2017

How we resolve tax disputes – report by the Tax Assurance Commissioner

Governance – how we resolve tax disputes

In previous years the Tax Assurance Commissioner (TAC) has presented a separate annual report. This is the fifth anniversary of the strengthened tax dispute governance procedures introduced in 2012. The assurance of the decisions we take in tax disputes has become an integral part of the way we do business and, as originally envisaged by the Public Accounts Committee, will now be reported within this Annual Report.

I took over as the TAC on 13 October 2016 following Edward Troup's appointment as HMRC's Executive Chair. I assure that HMRC resolves tax disputes correctly. Our governance arrangements allow Parliament and the public to be confident that we secure the tax that is due under the law when resolving tax disputes. As TAC I chair the meetings of three HMRC Commissioners that take the decisions in our largest and most sensitive disputes. I am able to provide the challenge role when those key decisions are taken as I have many years of experience dealing with tax and have no direct management responsibility for the business areas that carry out our compliance work with taxpayers and no personal dealing with taxpayers on their tax affairs.

Where our governance and assurance processes have identified areas for improvement, we take relevant action. In particular I have followed up on the missed assessment point raised in the last report and have directed work be done to improve our tax dispute work. The further challenge role provided by HMRC's Internal Audit unit and our Audit and Risk Committee is also invaluable in driving continuous improvement in our management of tax disputes.

We are implementing Internal Audit's recommendation to move our assurance activity closer to "real time" – moving away from undertaking assurance activity on cases settled in the previous tax year and focusing on reviewing cases settled in the current year. This will enable us to respond to findings more quickly and introduce improvements to governance and quality in-year.

We consider how best to ensure the even handed and consistent application of new measures as they are introduced. For this year this has meant establishing the Diverted Profits Board, which provides the appropriate governance for this new tax brought in by the Government in our dealings with multi-national companies.

In previous years the TAC role has focused on how we resolve tax disputes. As our governance arrangements are thoroughly embedded I am now looking to develop the role towards gaining assurance of the whole life of a tax dispute from selection to settlement, in line with our published litigation and settlement strategy (LSS) and envisage reporting on this in future.

Jim Harra
Tax Assurance Commissioner

Our litigation and settlement strategy and guidance is available here
www.gov.uk/government/publications/litigation-and-settlement-strategy-lss

Tax disputes: Our approach

We strive to help all taxpayers get things right, but we know there will always be some differences of opinion about the tax due. It is important that we resolve our tax disputes in accordance with the law so that our customers understand that we take an even-handed approach whatever the type of dispute.

We carry out criminal investigations in accordance with our published criminal investigation policy*. Otherwise, civil interventions are usually the most appropriate and effective means of resolving disputes and securing the tax due. We handle civil tax disputes in accordance with our LSS and resolve them within the governance framework explained in our published code of governance for resolving tax disputes**. Together these provide assurance that we treat taxpayers fairly and even-handedly – no matter what the size or complexity of the taxpayer or their affairs.

* Our Policy on criminal investigation is available here
www.gov.uk/.../criminal-investigation/hmrc-criminal-investigation-policy

** Our Code of governance is available here
www.gov.uk/government/publications/resolving-tax-disputes

Alternative dispute resolution referrals

Where we have difficulty in resolving a dispute with a taxpayer, we may consider using alternative dispute resolution (ADR) methods to secure the right tax under the law. All the requests we receive for ADR are considered and evaluated. Where our caseworkers are of the view that a case is not suitable for ADR it is referred to a governance panel for consideration.

**Information about how to request ADR is available by visiting
www.gov.uk/tax-disputes-alternative-dispute-resolution-adr

Figure 34: Alternative dispute referrals

	2016-17	2015-16
Total Applications	1,265	581
Cases rejected by the panel	515	150
Cases awaiting decision	321	49
Active cases	501	148
Cases resolved successfully	370	262
Cases going to litigation	96	15
Cases resolved through ADR	79.39%	95%

This year application numbers increased as we offered ADR to a wider group of customers. We also began trialling ADR in disputes where there were binary, multiple and complex issues. In these cases we offered customers the opportunity to explore and explain facts to a greater extent than was previously available.

In the cases where no resolution by agreement was possible, the process added significant value by clarifying issues prior to any tribunal hearing.

Published offers

We may formally publish our position on disputed issues and invite taxpayers and their agents to resolve disputes in their specific cases on the published basis. We do this where the disputed point arises in a significant number of cases to handle them as efficiently whilst ensuring transparency about our position. There were no offers published this year.

Issues governance

We also have internal processes in place to deal with major contentious issues that affect multiple taxpayers. These processes allow us to take decisions that achieve consistent and even handed handling strategies.

Decisions on these issues are referred to our Contentious Issues Panels with operational, legal and policy experts sitting to consider the proposals.

Our Business and Personal Tax Contentious Issues Panel (CIPs), with the Anti-Avoidance Board (AAB), formed the governance under which we dealt with these issues during 2016-17. On 1 April 2017 the two Contentious Issues Panels were merged to form a single panel.

This year the CIPs met 14 times (15 in 2015-16) and considered 22 issues (24 in 2015-16). The panels heard a variety of issues involving income tax, PAYE, IHT, Corporation Tax, VAT, Climate Change Levy, Gaming Duty and Landfill Tax.

The AAB met nine times and considered 79 issues, including four issues considered via correspondence (eight times and 31 issues in 2015-16, including one considered via correspondence).

The increase in AAB meetings reflects the success we have achieved in identifying and tackling the promotion of non-disclosed avoidance schemes, and accelerating settlement in ongoing disputes. The majority of issues considered were in connection with handling or settlement strategies.

Tax disputes

Tax disputes are dealt with by our case workers who are trained tax professionals. We target our case worker resource to the tax at risk. We aim to work collaboratively with taxpayers and their agents and the vast majority of tax disputes are resolved by agreement, securing the tax that is due under the law. Where we cannot reach an agreement that secures the tax we believe is due, we will litigate the dispute.

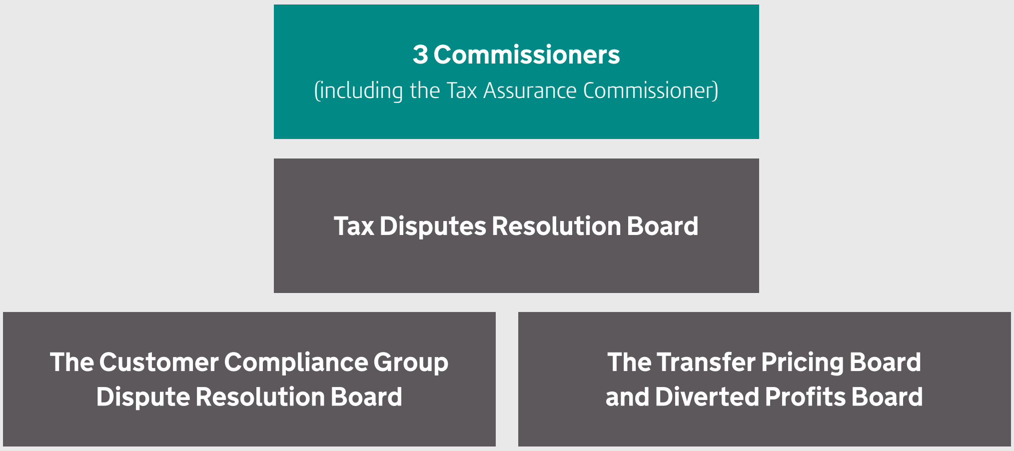
Our case governance

In smaller cases, the case worker makes the decision with appropriate management oversight and, where relevant, with advice from our specialists including our solicitors. For larger cases the decision makers are the lower level boards (details of these can be found in our published code of governance) or, in the case of the largest and most sensitive disputes, a panel of three HMRC Commissioners.

In 2016-17 three separate boards operated: Enforcement and Compliance, the Large Business and the Specialist Personal Tax Disputes Resolution Boards. From 2017-18 all compliance teams will report to one board, the Customer Compliance Group Dispute Resolution Board (CCG DRB), providing greater consistency in decision-making.

This year the Commissioners considered cases referred from the Tax Disputes Resolution Board (TDRB) and sample cases from the case governance boards and the Transfer Pricing (TPB) and Diverted Tax (DTB) Boards. These departmental boards draw their members from across HMRC and include senior representatives from policy, technical and operational business areas and solicitors.

Figure 35: HMRC case governance



Decisions by the Commissioners

Figure 36: Outcome of referrals from the taxpayers' position

	2016-17	2015-16
Outcome of referrals from the taxpayers' position	67	43
Taxpayer's position accepted	36	20
Taxpayer's position rejected	28	22
Conditional accept	1	0
Further work needed	2	1
£100m plus tax or £500m adjustment	47	29
Sensitive case or risk	8	3
Sample cases	8	9
Novel and unusual	4	1
Director referral	0	1

Figure 37: Tax under consideration in decisions referred to the Commissioners (£m)

	2016-17	2015-16
Taxpayer's position accepted	3,985	2,003
Taxpayer's position rejected	4,923	1,181
Remitted	177	0
	9,085	**3,184**

This year the Commissioners saw more issues and considered decisions with greater amounts of tax at risk than 2015-16. One of the reasons for the increase in referrals was that a greater proportion of cases required more than one decision.

The Commissioners were impressed with the high quality of the work in the cases referred to them and the standards of the case teams' balanced presentations. However, as with last year, some of the cases contained issues with the quality of the casework; for example missed opportunities for raising assessments to protect our position during the course of an investigation.

Work is underway to identify and implement improvements to our processes, guidance and training requirements to mitigate these issues.

The three Commissioners met 15 times (14 in 2015-16). Of the 67 (43) referrals 8 (9) were directly referred from the case governance boards, TPB and DPB and 59 (33) from the TDRB – 58 from this year and one carried forward from last year. During 2016-17, the Commissioners accepted the TDRB's recommendation in 56 referrals (31 in 2015-16). Of the remaining three cases, in one the Commissioners agreed in principle, subject to further information being obtained, and in the other two where the TDRB recommended acceptance of the taxpayer's position, the Commissioners instead remitted the cases for further work.

Tax Disputes Resolution Board

Figure 38: Outcome of the referrals

	2016-17	2015-16
Referrals to TDRB	63	40
Referred to Commissioners		
Taxpayer's position accepted	34	17
Taxpayer's position rejected	23	16
Taxpayer's position conditional accepted	1	0
Referred to Commissioners	58	33
Not Referred		
Remitted for further work	1	3
Guidance provided	1	2
Decision taken where CCG directors' referral	3	2
Not referred to Commissioners	5	7

The CCG DRB

Figure 39: Outcome of the total referrals to the CCG DRB

	2016-17	2015-16
Total referrals	137	139
Taxpayer position accepted	41	55
Taxpayer position accepted with conditions	3	2
Taxpayer position rejected	71	50
Board remitted for further work before the re-referral	7	12
Referral sent to the Commissioners as a sample case	8	9
HRCP case management	6	9
Board provided advice and guidance – no decision sought	1	2

The Transfer Pricing Board

The Transfer Pricing Board (TPB) makes decisions on large or sensitive transfer pricing enquiries. It also makes recommendations to the TDRB about transfer pricing risks which fall within the TDRB's remit. In 2016-17 it considered 32 cases (22 in 2015-16). The increase in referrals reflects a number of factors, including an increase in the number of large or sensitive transfer pricing cases under review.

The TPB is supported by the Transfer Pricing Panel (TPP) which makes decisions on transfer pricing enquiries that do not come within the remit of the TPB. In some smaller cases the issue is referred to a single transfer pricing expert. This year we are reporting on both the referrals to the panel and to the specialists. During 2016-17 the TPP considered 116 resolution proposals (45 in 2015-16). The increase in the number of referrals reported this year results from the referrals to the single transfer pricing experts being included in this year.

The Diverted Profits Board

This year the activities of the Diverted Profits Board are fully established. They look at all risks arising from arrangements identified as potentially within the scope of the Diverted Profits Tax legislation. The board is made up of senior people from a wide range of directorates. Since the diverted profits tax was introduced they have met 12 times. They considered 11 proposals to resolve the diverted profit tax issues, referring two for further work and sending nine on to the Commissioners via the TDRB.

Review of governance processes in settled cases

Each year we systematically review a sample of cases from across the department settled in the previous year. We test whether the appropriate governance and assurance processes were followed and whether we have settled our cases efficiently. We operate a "three lines of defence" model. The first line is the check done on settlement by the authorising officer; the second is done by central review teams, taken from our compliance teams, and the third line of defence is provided by Internal Audit who check a sample of the cases worked by the review teams. Both the review teams and Internal Audit report their findings directly to the TAC.

Findings

In 2016-17 the Customer Compliance Group programme tested and reported on 445 cases that were settled in 2015-16, from across the operational areas of the department (448 cases were tested in 2015-16). Internal Audit have worked closely with the business throughout the year and were able to positively validate the testing and reporting work done by the review teams.

The results show that 80% of cases (355) fully adhered to governance processes (77% in 2015-16). In 18% of cases (83), processes were followed but with scope for some improvement (21% in 2015-16). 2% of cases (7) contained one or more aspect that did not meet our expected standards (2% in 2015-16).

The results continue to demonstrate a high level of adherence with the governance standards.

This year the main weaknesses identified in the minority of cases where governance processes were not fully adhered to included:

1. Absence of audit trails and authorisations regarding penalties or at settlement stage
2. Authorisation at the wrong levels
3. Calculating/entering incorrect figures into IT systems
4. Delays

Whilst the results of themes 1 to 3 have been relatively static, there are signs of improvement in respect of reducing delays. We continue to work to seek improvements to all four areas.

Using the reports of the review teams and Internal Audit our compliance teams have been able to take action quickly to address identified operational weaknesses as soon as possible. All of the recommendations that came out of the testing in 2015-16 were implemented by operational areas during "2016-17.

We are implementing an Internal Audit recommendation that we move to a settlement assurance programme that looks at cases settled in the previous quarter (predominantly of the current year) to provide more timely assurance and quicker action to mitigate issues.

New initiatives introduced to improve adherence to governance processes included:

- Further training covering aspects of audit trails, penalty behaviours and the calculation and recording of results onto our IT systems
- Two new learning products focussing on quality assurance for managers of tax professionals and their teams.

Reviews, appeals and litigation

Where taxpayers disagree with an appealable decision that we have made they can ask us to review the decision or appeal to an independent tax tribunal, or take both actions. Appeals, reviews and litigation work is dealt with by our Solicitor's office and Legal Services teams consisting of tax, legal and accountancy professionals.

Reviews

The statutory review system gives taxpayers a quick and easy way to have a decision reviewed by an officer who was not involved in making the decision. Review conclusions are signed off by managers or technicians at least one grade above the reviewer.

This review may uphold, vary, or cancel the original decision and may provide a further explanation to the taxpayer. Reviews can provide an early, cost-effective opportunity to resolve disputes, and most taxpayers who ask for their decision to be reviewed do not go on to submit an appeal to the tribunal. The review system is open to all and is more often used by those taxpayers who do not have an agent (82% of reviews were requested by unrepresented taxpayers, 87% in 2015-16). This is an important part of the even handed approach we take towards taxpayers.

We may be asked to review decisions such as liability decisions, closure notices and refused claims. Reviewing these decisions often involves significant further discussion with taxpayers. However most reviews relate to relatively simple decisions concerning late filing and late payment penalties issued automatically.

VAT penalty decisions are a significant proportion of all reviews. Where a VAT return is late or VAT is paid late, we warn the taxpayer that future late returns or payments may lead to a penalty. Where a taxpayer defaults repeatedly, a default surcharge penalty is issued automatically. This penalty will be cancelled if the taxpayer has a reasonable excuse for the late payment or filing. As these penalties are issued automatically, the review system provides the opportunity for the taxpayer to provide the appropriate evidence.

Reviews are only requested on a very small portion of our decisions, for example we are asked to review less than one percent of the default surcharges penalties issued.

The outcomes of reviews help identify changes and clarifications that may be needed in our guidance or practice notes. Our review teams also conduct lessons learned exercises. Where we identify errors or mistakes we feed back to the decision maker highlighting the points in question.

Figure 40: Overview of dispute outcomes at review

	2016-17	2015-16
Review data all cases		
Dealt with in the year	29,497	27,027
Upheld and deemed upheld	14,153	11,581
Varied	2,520	2,562
Cancelled	12,816	12,856
Other	8	1
Percentage upheld	**47.98%**	**42.85%**
Number and percentage closed unrepresented by an agent	**24,248**	**23,312**
	82.28%	**86.25%**
VAT Penalty cases including default surcharge cases		
Dealt with in the year	15,664	16,302
Upheld and deemed upheld	5,440	5,713
Varied	2,025	2,103
Cancelled	8,288	8,485
Percentage upheld	34.73%	35.04%
All other reviews		
Dealt with in the year	13,833	10,725
Upheld and deemed upheld	8,795	5,895
Varied	495	459
Cancelled	4,528	4,371
Percentage upheld	**63.58%**	**54.97%**

This year we are not showing the data quarterly in this report as there are no significant quarterly trends to comment on.

This data is taken from information keyed into our IT systems. The difference of 515, between last year's reported figures and those used for comparison in this report, is due to the final data for 2015-16 being entered after the data snapshot.

Appeals

We will only settle a dispute where we can reach agreement with the taxpayer on what is the right tax under the law and where we cannot do so we will litigate.

We are very successful in litigation, especially in relation to tax avoidance schemes.

Last year the tribunal notified us of 6,559 appeals that it received (5,161 in 2015-16). During the year 4,462 were settled either by formal hearing or agreement before the hearing (3,917 in 2015-16).

At 31 March 2017 there were 26,669 appeals on hand. In over 16,500 of these cases we and the taxpayer have agreed to put the appeal on hold waiting for a decision in a related case that is being litigated. In all other cases we are either actively working the cases, progressing them within tribunal directions or are awaiting tribunal decisions to be issued.

In 2015-16 we provided details of cases heard at the First Tier Tribunal (FTT) and this year we also provide figures for the upper tribunal and courts.

Figure 41: Outcome of appeals heard

	2015-16 FTT	2016-17 FTT	Upper Tribunal	High Court	Court of Appeal	Supreme Court
Total	**1,041**	**1,130**	**78**	**15**	**28**	**4**
HMRC win	782	867	62	10	19	2
Partial win	72	79	3	1	3	0
Taxpayer win	187	184	13	4	6	2
Success rate	82.04%	83.7%	83.33%	73.33%	78.57%	50%

Included in the figures above were decisions issued in 26 cases involving tax avoidance, with 23 decided in HMRC's favour – protecting tax revenue of approximately £2.1 billion (26 cases, 23 decided in HMRC's favour and £3.1 billion protected in 2015-16). The tax protected in all litigation activity in the year was £15 billion.

Further details about the outcome in tax avoidance litigation cases can be found at **www.gov.uk/government/publications/tax-avoidance-litigation-decisions**

Remuneration and staff report – our people

Our people

Our people are vital to everything we do as an organisation and in order to deliver our mission and objectives we continuously invest in them.

We increasingly need excellent leaders to take us through our programme of modernisation and we continue to focus on leadership and management capability. We need to have the right people in the right place, at the right time, with the right skills to do their job. We achieve this through strategic workforce planning and workforce management, and by ensuring everyone has access to the learning and development they need.

We treat everyone with respect and recognise their contributions, rewarding good performance, and we focus on our people's health and wellbeing. We want our people to have interesting, rewarding and challenging roles and careers and we continue to invest in their learning and development, supporting them as they move to new roles and locations during modernisation.

Building our Future

Building our Future describes how and why HMRC is transforming and since 2014 has involved engaging our people in a national conversation about our strategic direction, enabling them to understand the future and take action to get us there.

Last year we held Phases 4 and 5 of Building our Future, each with around 50 events across the country, attended by more than 9,000 leaders. Phase 4 set out the critical role that leadership plays in delivering our modernisation, while Phase 5 focused on creating HMRC's values and culture and an identity for HMRC in each region. Feedback from these events shows an increase in leaders' understanding of our strategic direction and the reasons for change, and an increase in confidence in their roles as leaders.

In these phases, instead of rolling out Building our Future to the wider workforce through hundreds of centrally-organised cascade events, as we had in previous phases, we asked leaders to hold conversations with colleagues on a team and regional cross-team basis. To support this, we developed a new style of monthly Talking Points team discussions covering our four Building our Future themes – our people, our customers, digital, and data-led compliance. Leaders have been holding conversations across HMRC, using a digital polling tool to capture colleagues' ideas on HMRC's values, and regional leads have been provided with funding for wider regional events. In 2017-18, Phase 6 will focus on the role of leaders in HMRC in the context both of our culture and values and our new performance management system.

Leadership and management

Strong leadership and management capability will prove essential as our leaders continue to take the department through modernisation, and our Leadership and Management Academy intranet site houses all the HMRC learning developed to enhance these. Our Leading our Future programme contains both highly recommended and elective modules which are all available to all leaders and managers across the department – a target audience of around 36,000 people. The modules focus on the core leadership capabilities of being an inspiring, confident and empowering leader, with additional focus on more specific subjects such as digital and commercial, and leaders can identify their own requirements. Last year around 11,000 people attended Leading our Future modules.

Our Management Matters site incorporates all the information, guidance and tools necessary to support managers in developing themselves as managers, managing and leading their teams, and supporting business change; including new products introduced this year for new and returning managers.

We developed leader led masterclasses on managing and developing people and introduced a new management apprenticeship. We also simplified the booking process for all leadership and management products, making it easier for our people to access the learning they need.

Recruitment, promotions and exits

Last year we increased our staff numbers by 3,160 full-time equivalent roles to a total of 61,781. We recruited a total of 7,714 new employees (full-time equivalents) on either permanent or temporary contracts, ensuring we have the skills in the locations we need and creating a framework to deal with future resourcing needs as and when they arise. In graduate level recruitment we had 192 starters onto our Tax Specialist Programme in September.

More than 6,100 people were promoted, including 211 Administrative Assistants promoted into more challenging and sustainable Administrative Officer positions.

Continuing with our programme of modernisation, we closed 26 offices last year. Not everyone is able to stay with the department during modernisation and for those who cannot we support them as they leave HMRC. Since 31 March 2016 we have supported 741 people to leave under exit schemes (149 of those funded from 2015-16) through a mixture of voluntary and compulsory terms. From 1 April 2017 a further 112 people will leave, funded from 2016-17 budget. In total over the year, we lost more than 5,100 staff (full-time equivalents) through a combination of natural and managed reductions.

Apprentices and movement to work

HMRC see apprenticeships as a key component in building our future workforce, offering us a unique opportunity to deliver our workforce ambition by ensuring we attract, retain, reward and develop the best talent from right across our society. We currently offer apprenticeships in the operational delivery, leadership and management, digital, communications and security professions. All apprenticeships are built across government, with 'trailblazer' groups that develop standards in each profession. HMRC are currently leading to develop the Tax Apprenticeship standard. At the heart of our apprenticeship offers is quality teaching, learning and assessment. HMRC support the Civil Service commitment to create 30,000 apprentices overall by 2020. Last year, we recruited 1,263 apprentices across 15 professions, including 58 in Operational Delivery.

We again committed to offer 1,000 Movement to Work placements last year for young people aged 18 to 24 who are not in employment, education or training and who are receiving job seekers allowance. We exceeded our target again, achieving 1,177 offers of work placement.

Engagement

In the Civil Service People Survey for 2016 we had the highest response rate ever since the introduction of the annual survey in 2009 – a 68.8% response rate with 45,259 of our people participating to use the opportunity to have their say. This was a 3.5% point increase in response rate from the 2015 People Survey and our Employee Engagement Index increased by 2% points to an all-time high of 47% points. However, this is still below the Civil Service benchmark and we are working in collaboration with teams who have made a step change in their engagement levels, to use as role models and inspirations for the rest of HMRC.

Tax Academy

Last year our Tax Academy delivered more than 12,500 training days of Tax Technical learning for compliance and customer service roles. As training is delivered to groups of learners, this has provided HMRC with more than 150,000 days of individual learning. We provided learning to support the recruitment of more than 1,600 new recruits into compliance roles and more than 1,000 into customer service and delivered more than 7,000 events nationally to help build the capability of our tax and operational delivery professionals in HMRC. We also have 888 trainees on the tax degree programme training to become Grade 7 tax professional leaders and we delivered more than 26,000 days of training to these cohorts.

We released 410 products last year, which equates to 3,047 hours of new, modernised and maintained learning. Key achievements for the year have been to re-blend and shorten training programmes for Officers, Higher Officers and Grade 7 staff, also adding pilots with external learning providers. As a result the first stage of the tax degree programme has reduced from 24 to 15 months and the Officer and Higher Officer programme has reduced in length from 100 to 26 weeks. In March, Tax Academy was accepted on to the register of approved learning providers for apprenticeships, which means we are able to deliver learning as part of a tax apprenticeship.

Learning and development

Our 'My Development' intranet site is now the one-stop site where our people can access all the learning and development they require. Last year we have completely redesigned the site around the learner and have launched three brand new site sections including 'My Induction', with tips to steer a new starter through the essentials; 'My Digital Know-how', which will help people in HMRC use their IT skills to improve customer service; and 'My Job Skills', which is about helping everyone in HMRC be the best they can be in their role. We believe that our investment in our learning intranet represents best practice in government. We continue to concentrate on building capability in our priority areas and last year we redefined these to leadership and management, tax, customer service, digital, data science and talent; together with improving capability within our professions. We continue to offer all staff at least five days' learning and development each year and last year our staff achieved an average of 6.99 days; our 'My Development' site offers case studies to help individuals best target their own five days.

Digital skills

Within the 'My Development' intranet site we have introduced an HMRC digital zone called My Digital Know-how to help individuals build their digital confidence and capability; and to assess, build and share their digital skills. We also conducted a digital skills survey across a sample of around 8,000 staff to baseline digital skills across the department, giving a much bigger snapshot of digital capability than we have had previously. A package of support continues to roll out to improve staff capability including increasing the number of Digital Ambassadors – we now have more than 1,000 in place across 80 locations – and we have trained around 3,300 leaders to Lead in a Digital Workplace, which is a Leading our Future intervention.

Changes to our employee offer

Last year we implemented a new Attendance Management Policy within HMRC, aligned to the Civil Service Employee Policy, giving us greater consistency with other government departments; and have made changes to the HMRC Performance Management policy to make this more straightforward and less time-consuming, which will take effect in 2017-18. We introduced changes to our daily travel assistance guidance to facilitate people moving to Regional Centre locations ahead of our formal modernisation schedule. We also introduced a new employee discount scheme as part of a new cross-government contract allowing our people to receive discounts directly with selected stores and retailers.

Recognition

HMRC and VOA people were again recognised in the Queen's Birthday and New Year Honours lists for achievements including services to compliance and digital services and for voluntary and charitable work. In total 24 colleagues were recognised under the Order of the British Empire with two CBEs, four OBEs, 14 MBEs and four people receiving the British Empire Medal.

In addition to honours, colleagues can be recognised for their achievements by being nominated to attend one of the Queen's four royal garden parties. Last year 80 HMRC colleagues were invited to attend a garden party. The garden parties are a great way for the Queen to recognise the hard work of our colleagues who have helped the department achieve its objectives or given up their free time to do voluntary work.

Reservists

HMRC is supporting the government's aim to encourage more civil servants to serve in the reserve forces through a programme of engagement and promotional activities. Due to the success of this programme HMRC is now regarded by many as an exemplar employer of reservists. A number of our serving reservists are actively involved in promoting the benefits of reserves service across the Civil Service and in 2016 we held the first HMRC Reserves conference at HMS Forward in Birmingham. In just two years since committing to the Reserves Challenge the number of HMRC staff serving as reservists in the Army, Navy and Air Force has increased by 70% to 131.

Supporting our communities

We funded 4,990 days of employee time for community activity by encouraging our employees to work with schools, charities and voluntary organisations and participate in public duties, including as school governors and magistrates. We worked with a range of community organisations to help some of our customers go online for the first time. We supported teachers in delivering our award-winning tax education programme, Tax Facts, in schools. We also worked with The Prince's Trust, Street League, Inspiring the Future and the National Mentoring Consortium to raise the career aspirations and employability skills of young people from disadvantaged backgrounds.

Charitable giving

Our employees raised £1.48 million for a wide variety of charities, including more than £800,000 donated to good causes of their choice through our online payroll giving arrangements. In November, we won the award for the Best Government and Public Sector Campaign for the second consecutive year at the National Payroll Giving Excellence Awards. We also received the Institute of Fundraising's Gold Quality Mark for the ninth year running. Our annual campaign for the BBC's Children in Need appeal raised more than £50,000 in employee donations and volunteers in our contact centres at Newcastle, East Kilbride and Bradford took telephone donations of more than £190,000 from the public on appeal night, in November.

Diversity and inclusion

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

In January 2017, we published our annual report showing employee diversity data and evidence of how we support customer equalities in accordance with the requirements of the Equality Act 2010. The data shows the diverse make-up of our employees and highlights the actions we have in place to address the under-representation of groups and equality issues in the workplace.

The diversity data apart from gender is drawn from the voluntary declarations made by our employees. By the end of March 2017, from a total of 68,713 employees, 41,998 (61.12 %) had declared whether or not they were disabled, 49,653 (72.26 %) had provided their ethnicity details and 35,784 (52.08 %) had said what their sexual orientation was. The diversity data is therefore incomplete but we are taking steps across the business to improve declaration rates.

Figure 42: Male and female employees

	Female	% Female	Male	% Male	Total at 31 March 2017
Directors General, Directors and Deputy Directors*	147	42.49%	199	57.51%	346
All other employees	38,098	55.73%	30,269	44.27%	68,367

* Directors General are grade SCS3, Directors and deputy directors are grades SCS2 and SCS1

In support of our actions, we have Executive Committee Champions and employee networks in place for eight diversity strands.

The networks offer people the opportunity to share experiences, comment on new initiatives and ensure that everyone in the workforce is treated fairly and can give of their best.

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

We are proud to be recognised and acknowledged as a trailblazer in terms of our approach towards equality, diversity and inclusion. Our approach has gained external recognition and we have won a number of awards. For example, we won the Best Diversity Resource category in the 2016 Excellence in Diversity Awards in recognition of the variety of advice and support the department's Diversity & Inclusion Team provided to the business and across the Civil Service. We were awarded first place in the Inclusive Communications category of the Employers Network for Equality and Inclusion Awards 2016 and the department won the Championing Disabled People Award in the 2016 Civil Diversity Awards for the work the business did in developing and delivering its Raising Disability Awareness Masterclass. In addition, a:gender, the Civil Service support network for transgender and intersex colleagues awarded HMRC Gold Star status following a review of the department's transgender policy, processes and guidance.

Disabled staff are employed across all grades and locations. We operate the Guaranteed Interview Scheme and have an established team dedicated to ensuring reasonable adjustments. We continue to run disability awareness sessions across the department and we continue to improve access to our services for disabled customers and to raise awareness of their needs with our frontline staff.

Figure 43: Declared disability status of employees

	Disabled	% Disabled	Non-disabled	% Non-disabled
Directors General, Directors and Deputy Directors*	11	4.06%	260	95.94%
All other employees	5,939	14.23%	35,788	85.77%

* Directors General are grade SCS3, Directors and deputy directors are grades SCS2 and SCS1

We are also offering development opportunities for people from black, Asian and minority ethnic (BAME) backgrounds as well as other minority groups. We are committed to improve representation rates, particularly at senior levels. We have set ourselves aspirational goals at Senior Civil Servant (SCS) level and feeder grades (Grade 6 and Grade 7). The position at the end of March 2017 is set out in the tables below. We have set out what our leaders, managers and staff need to do to achieve our goals in our diversity and inclusion strategic action plan.

Figure 44: Declared ethnicity category of employees

	BAME	% BAME	White	% White
Directors General, Directors and Deputy Directors*	11	3.93%	269	96.07%
All other employees	5,586	11.31%	43,787	88.69%

* Directors General are grade SCS3, Directors and deputy directors are grades SCS2 and SCS1

Figure 45: Declared sexual orientation category of employees

	Heterosexual/ straight	% Heterosexual/ straight	Lesbian/gay/ bisexual/other	% Lesbian/gay/ bisexual/other
Directors General, Directors and Deputy Directors*	223	96.12%	9	3.88%
All other employees	33,894	95.34%	1,658	4.66%

* Directors General are grade SCS3. Directors and deputy directors are grades SCS2 and SCS1

Health and safety

The health and wellbeing of our people is important to us, and our focus this year has been on providing our people with the tools and support needed to maintain and improve their mental and physical wellbeing. We refreshed our wellbeing strategy, and appointed a Director General level Wellbeing Champion. We have encouraged our people to be more proactive about their wellbeing and, through an on-line health and wellbeing assessment, helped staff assess their own wellbeing and identify small, realistic changes they could make. We have also trialled health kiosks in a number of our buildings, which allow people to check their body mass index and blood pressure and consider what changes they could make to improve their wellbeing.

We have developed and launched a mental health strategy and continue to support and contribute to cross-government activity in this area, including development of a Civil Service mental health awareness workshop. We have continued to raise awareness of mental health issues and supported campaigns such as Mental Health Awareness Week, Time to Change and Time to Talk Day. Our refreshed stress management and resilience guidance and training helps staff and managers to work together to identify how to remove or reduce the causes of stress. We have also piloted a new process to make it easier to report, investigate and reduce work-related stress.

Managers and staff are supported by comprehensive health and safety arrangements and access to expert advice. We have extended our advice service to colleagues in the Valuation Office Agency following a successful trial and with other departments we have reviewed Health and Safety learning to better focus on capability and risk management.

We have robust arrangements for consultation on health, safety and wellbeing matters, and this happens through forums at national, regional and local level.

We have carried out assurance around personal safety reporting and facilitated Internal Audit assurance on mental health and driver safety.

Our estates team works with a number of private sector partners who provide property services across the HMRC estate. Each partner is responsible for ensuring compliance with health and safety legislation and we actively monitor their performance to ensure our people work in safe environments. H&S arrangements have been strengthened in Estates by the appointment of a specialist health and safety adviser, who provides expert advice on both the existing estate and the new Regional Centres.

We encourage our employees to report accidents or instances of work-related ill health and we provide this information to directors to highlight trends and inform health and safety performance. The number of incidents reported fell by 3% last year, building on the reduction of 8% in the previous year.

We report certain incidents to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). Details of these and other incidents are shown below.

Figure 46: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (Northern Ireland 1997): reports to the Health and Safety Executive

	2016-17	2015-16
RIDDOR incidents		
Specified injuries	9	9
Diseases	4	4
Fatal injuries	0	0
Dangerous occurrences	4	0
Over three-day injuries	1	2
Over seven-day injuries	21	33
Total	**39**	**48**
Non-RIDDOR incidents		
Stress	718	855
Slips/trips/falls	402	415
Violence and verbal abuse	371	383
Environmental	200	235
Road traffic accident	238	185
Bite (animal/insect)	54	45
Burns	80	91
Struck by moving/flying object	91	98
Upper limb disorders	69	55
Cut	52	66
Lifting/carrying injury	58	62
Exposure to hazardous substances	20	37
Acoustic	29	32
Electrical	30	25
Struck by moving vehicle	18	15
Contact with moving machinery	13	22
Fall from height	1	3
Other*	335	248
Total	**2,779**	**2,872**

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

Published sickness absence data

We measure the average number of days lost to sickness absence, known as average working days lost (AWDL), based on the number of full-time equivalent employees. In 2015-16 we had an AWDL of 7.58 days. We set ourselves a target to reduce this in 2016-17 to 7.0 days and we achieved this target with an AWDL for the year of 6.86 days.

In September 2016 we implemented a new attendance management policy within HMRC, aligned to the Civil Service employee policy, with revised guidance to support our managers in managing sickness absence proactively. We also continued to promote people's health and wellbeing. The AWDL trend over the year showed small incremental reductions month on month and our expectation remains that this will stabilise going forward, but that we expect to maintain AWDL at or below our target of 7.0 days in the 2017-18 reporting year.

Our approach to 'whistleblowing'

Whistleblowing is when someone raises a concern about wrongdoing, or an attempt to cover up wrongdoing, in an organisation where they work. Our arrangements for managing whistle-blowers are monitored by the Executive Committee and the Audit and Risk Committee and we report back on the effectiveness of our policy as well as attempts we have made to spread awareness to the Public Accounts Committee and the Cabinet Office.

We have continued in 2016-17 to improve our approach towards spreading awareness of the policy and investigating concerns, including:

- a dedicated whistleblowing awareness week in October, during which we hosted a 'raising a concern' message on every HMRC computer's lock screen
- adopting the CSEP whistleblowing health check tool in order to better assess whether both an effective process for raising a concern and a strong culture where employees feel confident to speak up is in place
- continued upskilling for our nominated officer cadre with input from the Government Legal Department and a talk from the institute of business ethics
- aligned our guidance with CSEP's by implementing a number of changes to our policy and guidance
- hosted a note on our whistleblowing policy page from HMRC Chief Executive Jon Thompson encouraging staff to report their concerns through the proper whistleblowing channels in place.

Remuneration and staff report

Average number of persons employed*

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

Figure 47: Average number of persons employed

	Permanently employed staff Operational	Capital	Others	2016-17 Number	2015-16 Number
Core department**	58,500	325	464	59,289	57,176
Valuation Office Agency	3,272	–	245	3,517	3,609
Revenue and Customs Digital Technology Services Limited	217	51	–	268	129
Total	**61,989**	**376**	**709**	**63,074**	**60,914**

* This section is subject to external audit

** This excludes Civil Service Resourcing staff of 1,413 (2015-16: 1,029) permanently employed operational staff. The increase is in part due to the recruitment of fast stream recruits. As this is the average, it does not equate to the number of persons employed at 31 March 2017

Staff costs*

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

Figure 48: The costs of persons employed during the year

	Permanently employed staff	Others	2016-17 £m Total	2015-16 £m Total
Wages and salaries	1,854.4	21.7	1,876.1	1,779.7
Social security costs	175.0	1.1	176.1	125.8
Other pension costs	368.7	2.7	371.4	356.2
Sub-total	**2,398.1**	**25.5**	**2,423.6**	**2,261.7**
Less recoveries in respect of outward secondments	(6.1)	–	(6.1)	(3.0)
Total net costs	**2,392.0**	**25.5**	**2,417.5**	**2,258.7**

* These disclosures have been subject to external audit

Reconciliation to staff costs in the Resource Account*

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

Figure 49: Reconciliation to staff costs in the Resource Account (£m)

	2016-17 Total £m	2015-16 Total £m
Total net costs	**2,417.5**	**2,258.7**
Recoveries in respect of outward secondments	6.1	3.0
Less net costs charged to capital budgets	(20.6)	(7.3)
Sub-total	**2,403.0**	**2,254.4**
Travel, subsistence and hospitality	68.1	60.6
Recruitment and training	32.6	26.7
Early severance schemes	28.6	6.1
Staff and related costs in Consolidated Statement of Comprehensive Net Expenditure	**2,532.3**	**2,347.8**

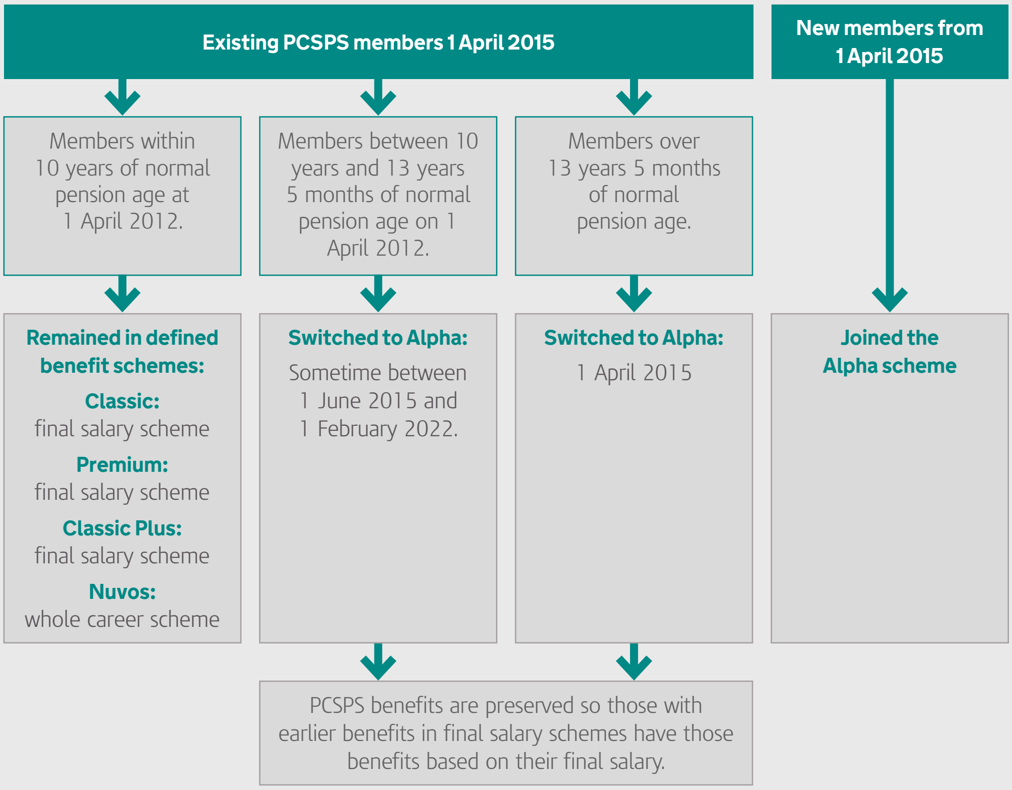
* These disclosures have been subject to external audit

The Consolidated Statement of Comprehensive Net Expenditure can be found in the Resource Accounts on **page 174**

Civil Service Pensions

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

Figure 50: Introduction of the Alpha Pension Scheme 1 April 2015



Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Defined Benefit Schemes

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

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

Full information about the Civil Service pension arrangements can be found at **www.civilservicepensionscheme.org.uk**.

Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Details of each pension scheme and the differences between them are shown in the table below.

Figure 51: Pension benefits

Pension scheme	Pension age	Employee contributions (% of pensionable earnings)	Benefits accrual rate (for each year of service)	Lump sum (payable on retirement)
Classic	60	3.8 – 8.05	1/80th pensionable earnings	3 years initial pension
Classic +	60	4.6 – 8.05	To 30 September 2002, 1/80th final pensionable earnings. Thereafter, 1/60th	To 30 September 2002, 3/80th final pensionable earnings. Thereafter, optional
Premium	60	4.6 – 8.05	1/60th pensionable earnings	Optional
Nuvos	65	4.6 – 8.05	2.3% of pensionable earnings each scheme year	Optional
Alpha	The higher of 65 or state pension age	4.6 – 8.05	2.32% of pensionable earnings each scheme year	Optional
Now Alpha (previously classic)	The higher of 65 or state pension age	3.8 – 8.05	2.32% of pensionable earnings each scheme year	Optional

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

For 2016-17, employers' contributions of £369,059,569 were payable to the PCSPS and CSOPS (2015-16: £354,768,774) at one of four rates in the range 20% to 24.5% of pensionable earnings, based on salary bands. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

More detail about the Remuneration Report, providing detail on the pension benefits for the members of the Executive Committee can be found on **pages 131 to 132**

Partnership Pensions

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

For 2016-17, employers' contributions of £1,553,229 (2015-16: £1,079,173) were payable for partnership stakeholder pensions. In addition, employer contributions of £65,096 (2015-16: £49,358) were payable to the PCSPS for centrally-provided risk benefit cover.

143 individuals (2015-16: 132 individuals) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £120,432 (2015-16: £142,359).

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

Valuation Office Agency

A number of the Valuation Office Agency's employees are members of the Local Government Pension Scheme. Contributions into this scheme for 2016-17 were £760,083 (2015-16: £785,138).

Full information about the VOA employee contributions can be found at **www.gov.uk/government/organisations/valuation-office-agency**

RCDTS Ltd

RCDTS Ltd has a contract-based defined contribution pension scheme which is administered by Aviva plc and overseen by the RCDTS Ltd Board. Contributions into this scheme for 2016-17 were £719,672 (2015-16: £117,005). A number of staff in RCDTS Ltd have contractual rights to the Principal Civil Service Pension Scheme under Fair Deal policy and RCDTS Ltd has Admitted Bodies status into the scheme which is managed by the Scheme Management Executive within Cabinet Office. Contributions into this scheme for 2016-17 were £233,596 (2015-16: £22,981).

Reporting of Civil Service and other compensation schemes – exit packages

Figure 52: Exit packages 2016-17*

	Core department and agency			Departmental group		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	1	18	19	1	18	19
£10,000 - £25,000	10	202	212	10	202	212
£25,000 - £50,000	–	410	410	–	410	410
£50,000 - £100,000	–	128	128	–	128	128
£100,000 - £150,000	–	3	3	–	3	3
£150,000 - £200,000	–	1	1	–	1	1
£200,000+	–	-	–	–	–	–
Total number of exit packages by type	**11**	**762**	**773**	**11**	**762**	**773**
Total resource cost (£000s)	**129**	**27,353**	**27,482**	**129**	**27,353**	**27,482**

* These disclosures have been subject to external audit

Figure 53: Exit packages 2015-16*

	Core department and agency			Departmental group		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
‹£10,000	15	1	16	15	1	16
£10,000 - £25,000	135	18	153	135	18	153
£25,000 - £50,000	1	32	33	1	32	33
£50,000 - £100,000	–	23	23	–	23	23
£100,000 - £150,000	–	1	1	–	1	1
£150,000 - £200,000	–	–	–	–	–	–
£200,000+	–	–	–	–	–	–
Total number of exit packages by type	**151**	**75**	**226**	**151**	**75**	**226**
Total resource cost (£000s)	**2,433**	**3,208**	**5,641**	**2,433**	**3,208**	**5,641**

* These disclosures have been subject to external audit

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

The numbers included in the table above include departures of staff who are members of the Local Government Pension Scheme. Their compensation arrangements are outside the scope of the Civil Service Compensation Scheme. The cost of their early retirements reflects the cost of providing any payment due to the individual on retirement. In certain circumstances, it also includes the cost associated with the increase in future liability to pay pension.

The figures quoted above for 2015-16 differ from those published (163 compulsory redundancies with a total resource cost of £2.694 million) to reflect instances where individuals were subsequently re-deployed and their compulsory redundancy notices rescinded.

Remuneration report

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

Remuneration policy

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

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

Before making its recommendation, the Review Body considers:

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

The Review Body also considers wider economic factors and the affordability of its recommendations.

Service contracts

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

Executive members hold appointments which are open-ended unless otherwise stated in the remuneration tables. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. No such compensation payments were made to those included in the remuneration report during 2016-17.

SCS Employee numbers

There are 393 SCS employees – 372 within HMRC and 21 placed in the Valuation Office Agency (VOA).

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

SCS posts

The total number of SCS posts as of the 1st April 2017 is 396. This comprised of 374 posts within HMRC and 22 VOA posts.

Figure 54: Senior Civil Service (SCS) employee numbers and approved posts

	HMRC	VOA	Total
SCS employee numbers	372	21	**393**
SCS posts	374	22	**396**

Figure 55: HMRC Senior Civil Service (SCS) employee numbers comparison

Grade	Number at 1 April 2016	Number at 1 April 2017	Percentage change
Permanent Secretary	2	2	0%
SCS3	8	9	12.5% increase
SCS2	53	53	0%
SCS1	267	294	10% increase
On loan/secondment	16	14	12.5% decrease
Totals	**346**	**372**	**7.5% increase**

SCS recruitment

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

A total of 61 HMRC and VOA posts were advertised during the last year with a number of appointments made on promotion into and within the SCS from HMRC and across the Civil Service. Recruitment growth was seen in specialist and digital posts.

27 posts were advertised across Whitehall.

34 posts were advertised via external recruitment campaigns.

Performance management system

HMRC has two Permanent Secretaries: the Chief Executive and the Executive Chair. Below them are three levels of senior civil servant: Director General, Director and Deputy Director, which are underpinned by a job evaluation scheme that creates a consistent way of comparing the relative value of jobs within and across departments, and a performance management system that is governed by Cabinet Office. A pay award that averaged 1% of the total SCS paybill was implemented from 1 April 2016.

Remuneration committees

The Main Remuneration Committee comprises the Chief Executive, all Directors General, and an independent observer, and represents both HMRC and the Valuation Office Agency. The committee makes performance decisions for directors and signs off the sub-committee performance recommendations for deputy directors and the performance of deputy directors is moderated at Director General-led remuneration committees, in line with Cabinet Office performance guidance to meet the performance group allocations.

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

Pay awards

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

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

Base pay awards in 2016-17 were only paid to 'Top' and 'Achieving' performers. We also paid an additional award to a limited number of SCS members undertaking heavily weighted roles, paid towards the bottom of their pay range and paid below their comparable peers. Delivery of performance against objectives is rewarded through a non-consolidated performance award for those who make the biggest contributions. Non-consolidated performance awards for 2016-17 were made to SCS in the 'Top' performance group only, based on 2015-16 performance.

Performance assessments consider whether:

- business objectives within the performance contract have been met
- the corporate, capability and development objectives in the performance contract have been met
- leadership behaviours and professional skills elements of the common framework have been demonstrated
- the degree of difficulty or ease of meeting the objectives in the light of actual events has been reflected.

Non-consolidated performance award decisions are monitored to guard against bias or discrimination. The value of non-consolidated awards paid in 2016-17 for the top 25% performers in 2015-16 were set as:

- SCS1 – £9,500
- SCS2 – £12,500
- SCS3 – did not exceed the Cabinet Office limit of £17,500.

Policy on notice periods and termination payments

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

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

Executive Committee and Non-Executive Board members

Figure 56: Senior officials single total figure of remuneration and pension benefits[1]

Senior official	Salary (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits[2] (£000)		Total (£000)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Jon Thompson[6] Chief Executive and Permanent Secretary From 4 Apr 2016	170-175[3] (185-190 full year equivalent)	–	15-20[4]	–	700	–	20-25	–	210-215	–
Edward Troup Executive Chair and Permanent Secretary From 28 Aug 2012	165-170	150-155	–	–	800	400	–	50-55	170-175	205-210
Gill Aitken General Counsel and Solicitor From 27 Jan 2014	130-135	125-130	–	–	1,000	–	25-30	45-50	155-160	175-180
Penny Ciniewicz Chief Executive of the Valuation Office Agency From 20 Jul 2015	125-130	85-90 (125-130 full year equivalent)	–	10-15[5]	100	–	60-65	110-115	190-195	210-215
Mark Dearnley Chief Digital and Information Officer 1 Oct 2013 – 30 Sep 2016	90-95 (180-185 full year equivalent)	175-180	15-20	15-20	100	300	30-35	50-55	140-145	250-255
Joe Dugdale Interim Chief People Officer 1 Sep 2016 – 30 Nov 2016	30-35 (130-135 full year equivalent)	–	–	–	300	–	5-10	–	45-50	–
Jennie Granger Director General Customer Compliance 1 Oct 2012 – 26 Jun 2017	150-155	150-155	–	15-20	900	700	55-60	55-60	210-215	225-230
William Hague Chief People Officer 23 Sep 2013 – 31 Aug 2016	55-60 (140-145 full year equivalent)	135-140	15-20	–	200	500	20-25	65-70	95-100	205-210
Jim Harra Director General Customer Strategy and Tax Design From 16 Apr 2012	135-140	135-140	–	–	800	300	25-30	55-60	165-170	190-195
Justin Holliday Chief Finance Officer From 9 Mar 2015	160-165	155-160	–	10-15[5]	1,000	400	55-60	75-80	220-225	245-250
Nick Lodge Director General Transformation From 6 Aug 2012	135-140	135-140	–	–	900	400	25-30	55-60	165-170	190-195
Ruth Owen Director General Customer Service 1 Sep 2012 – 27 Jun 2017	140-145	140-145	–	–	800	300	50-55	75-80	195-200	215-220
Mike Potter Chief Digital and Information Officer From 1 Aug 2016	95-100 (140-145 full year equivalent)	–	–	–	600	–	35-40	–	130-135	–

Continued

Senior official	Salary (£000)		Bonus payments (£000)		Benefits in kind (to the nearest £100)		Pension benefits[2] (£000)		Total (£000)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Esther Wallington Chief People Officer From 1 Dec 2016	35-40 (105-110 full year equivalent)	–	–	–	200	–	10-15	–	50-55	–
Dame Lin Homer DCB[6] Chief Executive and Permanent Secretary 23 Jan 2012 – 4 Apr 2016	0-5 (185-190 full year equivalent)	185-190	–	15-20	–	200	0-5	70-75	0-5	275-280

1 These disclosures have been subject to external audit
2 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights. The value of pension benefits can vary year to year due to a number of factors: the date an individual joined the department; the date an individual left the department; an individual receiving a higher pay increase in one year compared to another
3 Jon Thompson transferred to HMRC from Ministry of Defence (MoD) on 4 April 2016 but was paid by MoD until 30 April 2016. The figures shown in these accounts represent payments made by HMRC and therefore reflect the period from 1 May 2016
4 Bonus is based on 2015-16 performance achieved in previous department, before appointment to the HMRC Board
5 Bonus is based on 2014-15 performance achieved in previous role, before appointment to the Executive Committee
6 Lin Homer stood down as Chief Executive on 4 April 2016 and was succeeded by Jon Thompson

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

Figure 57: Non-Executive directors single total figure of remuneration[1]

Non-Executive director	Fees (£000)		Benefits in kind (to the nearest £100)		Total (£000)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Mervyn Walker[2] (Lead Non-Executive) 1 Sept 2014 – 30 Jun 2020	20-25	15-20	100	100	20-25	20-25
Ian Barlow[2] 20 Feb 2012 – 31 Dec 2016	35-40 (45-50 full year equivalent	45-50	–	100	35-40	50-55
Joanna Baldwin 1 Jan 2016 – 31 Dec 2018	15-20	0-5 (10-15 full year equivalent)	200	–	15-20	0-5
Alice Maynard 1 July 2016 – 30 June 2019	10-15 (10-15 full year equivalent)	–	100	–	10-15	–
Simon Ricketts 1 Sept 2014 – 31 Aug 2017	10-15	10-15	–	100	10-15	15-20
John Whiting 1 Apr 2013 – 31 Mar 2019	15-20	15-20	100	100	20-25	20-25

1 These disclosures have been subject to external audit
2 Ian Barlow stood down as Lead-non-executive on 31 December 2016 and was succeeded by Mervyn Walker

Salary

Salary covers both pensionable and non-pensionable amounts and includes gross salary; overtime; recruitment and retention allowances; reserved rights to other allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the department.

Bonuses

Bonuses are based on performance achieved in post(s) held in the previous year and are made as part of the performance and pay award process.

Benefits in kind

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

Pay multiples*

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

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

The full-year equivalent banded pay of the highest paid director in HMRC in 2016-17 was £205,000-£210,000 (2015-16: £200,000-£205,000). This was 8.57 times (2015-16: 8.43 times) the median, which was £24,224 (2015-16: £24,012).

The 2016-17 median has increased from 2015-16. This is largely due to a reduction in the number of Administrative Assistants and a change in the grade mix, particularly as a consequence of becoming a more digital organisation.

* These disclosures have been subject to external audit

Pension benefits

The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages. The accrued pension is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age.

Figure 58: Pension benefits[1]

Senior official	Accrued pension at pension age as at 31 March 2017 and related lump sum (£000)	Real increase in pension and related lump sum at pension age (£000)	Cash Equivalent Transfer Value (CETV) at 31 March 2017 (to the nearest £000)	CETV at 31 March 2017 (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £100)
Jon Thompson[13] Chief Executive and Permanent Secretary From 4 Apr 2016	45-50	0-2.5	744[10]	718[6]	16	11,100
Edward Troup[5] Executive Chair and Permanent Secretary From 28 Aug 2012	–	–	–	554	–	–
Gill Aitken[3] General Counsel and Solicitor From 27 Jan 2014	45-50 (Lump sum 115-120)	0-2.5 (Lump sum 2.5-5)	987	919	26	–
Penny Ciniewicz[3] Chief Executive of the Valuation Office Agency From 20 Jul 2015	30-35 (Lump sum 95-100)	2.5-5 (Lump sum 7.5-10)	640	558	52	–
Mark Dearnley[4] Chief Digital and Information Officer 1 Oct 2013 – 30 Sep 2016	10-15	0-2.5	129[10]	105	14	–
Joe Dugdale[2] Interim Chief People Officer 1 Sep 2016 – 30 Nov 2016	20-25	0-2.5	466[9]	455[7]	8	–
Jennie Granger[4] Director General Customer Compliance 1 Oct 2012 – 26 Jun 2017	15-20	2.5-5	253	194	42	–
William Hague[4] Chief People Officer 23 Sep 2013 – 31 Aug 2016	35-40	0-2.5	432[7]	408	6	–
Jim Harra[3] Director General Customer Strategy and Tax Design From 16 Apr 2012	55-60 (Lump sum 175-180)	0-2.5 (Lump sum 5-7.5)	1,182	1,107	24	–
Justin Holliday[4] Chief Finance Officer From 9 Mar 2015	50-55	2.5-5	757	695	24	–
Nick Lodge[3] Director General Transformation From 6 Aug 2012	55-60 (Lump sum 165-170)	0-2.5 (Lump sum 2.5-5)	1,180	1,103	25	–

Continued

Senior official	Accrued pension at pension age as at 31 March 2017 and related lump sum (£000)	Real increase in pension and related lump sum at pension age (£000)	Cash Equivalent Transfer Value (CETV) at 31 March 2017 (to the nearest £000)	CETV at 31 March 2017 (to the nearest £000)	Real increase in CETV (to the nearest £000)	Employer contribution to partnership pension account (to the nearest £100)
Ruth Owen[4] Director General Customer Service 1 Sep 2012 – 27 Jun 2017	45-50 (Lump sum 125-130)	2.5-5 (Lump sum 0)[12]	813	752	24	–
Mike Potter[4] Chief Digital and Information Officer From 1 Aug 2016	5-10	0-2.5	82	56[8]	17	–
Esther Wallington[4] Chief People Officer From 1 Dec 2016	0-5	0-2.5	7	0[9]	5	–
Dame Lin Homer DCB[2] Chief Executive and Permanent Secretary 23 Jan 2012 – 4 Apr 2016	120-125	0-2.5	2,403[11]	2,402	1	–

1 These disclosures have been subject to external audit
2 Member of the Premium Scheme
3 Member of the Classic Scheme
4 Member of the Alpha Scheme
5 Member opted out of PCSPS 31 March 2016
6 CETV at 3 April 2016
7 CETV at 31 August 2016
8 CETV at 31 July 2016
9 CETV at 30 November 2016
10 CETV at 30 September 2016
11 CETV at 4 April 2016
12 A decrease in the range 0-2.5 has resulted from extra service not being sufficient to offset the increase in inflation
13 Member opted to have a Partnership pension account 1 October 2016

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity.

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

Real increase in CETV

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

People off-payroll

We report to HM Treasury about off-payroll appointments of more than six months and more than £220 a day. We make sure that the appointee in question is paying the right amount of tax and National Insurance.

We have reviewed the way we employ appointees to ensure our processes are transparent and robust. We exercise the right to request assurances from the appointees about payments they receive from HMRC. We can terminate the individual's contract if these assurances are not provided.

From 6 April 2017, reforms to intermediaries legislation (known as IR35) came into effect, which changed the rules for people working off-payroll in the public sector. The reform to IR35 shifts the burden for assessing the tax position of contractors from the contractor to the engager. The reform brings more closely together the HM Treasury off-payroll requirements with tax law requirements.

HMRC and VOA secure support primarily through two routes: the Contingent Labour One and the G-Cloud frameworks, both of which are administered by the Crown Commercial Service. RCDTS uses the G-Cloud framework. For 2016-17, and for previous years, we have only treated Contingent Labour One supplies as being within the scope of off-payroll reporting. We have implemented changes to comply with the IR35 reforms and are reviewing our contracts with suppliers and the way in which we engage off-payroll people. Any contractors found to be in scope for seeking assurance information will be included in our Annual Report for 2017-18.

Figure 59: Existing off-payroll engagements as of 31 March 2017, for more than £220 per day and that last for longer than six months

	HMRC	VOA
Number of existing engagements as of 31 March 2017	87	10
Length of existing engagements:		
Less than one year at time of reporting	27	4
Between one and two years at time of reporting	33	3
Between two and three years at time of reporting	20	3
Between three and four years at time of reporting	6	Nil
Four or more years at time of reporting	1	Nil

All existing off-payroll engagements, outlined in figure 59, 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.

Figure 60: All new off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months

	HMRC	VOA
New engagements, or those that reached six months in duration	49	6
Right to request information about income tax and National Insurance Contributions	49	6
Requests for information made	49	6
Information has been received	49	6
Information has not been received	Nil	Nil
Engagement terminated as a result of information not being received	Nil	Nil

Figure 61: Board members, and/or, senior officials with significant financial responsibility

	HMRC	VOA
On-payroll	96	8
Off-payroll	Nil	1*

* The appointment of an interim VOA Chief Operating Officer (and VOA Board member) was required to ensure business continuity during a crucial period and lasted for just over three months, ending 31 March 2017. The appointment was approved by the VOA's Accounting Officer as the most expedient solution for this business critical post while recruitment took place. All decisions by the interim relating to financial matters were overseen by permanent staff with appropriate delegated authority. A permanent successor took up post 3 April 2017

Consultancy and temporary employees

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

External advisers provide HMRC 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.

Since the controls introduced in May 2010, has seen a significant reduction in spend on consultancy. HMRC 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 the department.

Although spend on consultancy increased from £643,987 in 2015-16 to £1,212,806 in 2016-17, this is still a significant decrease when compared to £47m in 2009-10 when the Cabinet Office measures were introduced and should also be viewed in context of the major transformation agenda HMRC is currently undertaking.

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 17 to the Resource Accounts confirms that no member of the Board, including Non-Executives, had any related-party interests.

Jon Thompson
Accounting Officer
10 July 2017

Parliamentary accountability

Consolidated Statement of Parliamentary Supply

In summary...
Parliament sets the budget for HMRC. The Consolidated Statement of Parliamentary Supply shows that we delivered within that budget. We successfully managed our budget within parliamentary controls, despite the volatility of tax credits entitlements which are challenging to estimate.

The Government Financial Reporting Manual (FReM) requires HM Revenue and Customs to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

Last year we successfully delivered all of our business activities within our parliamentary control totals.

The Supply Estimate is a request to Parliament to fund our expenditure. A full breakdown of the lines of the Estimate which form the voted and non-voted totals below are shown in SoPS note 1.

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

Figures in the areas highlighted are voted totals subject to parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote. The Consolidated Statement of Parliamentary Supply and its related notes have been subject to external audit.

Figure 62: Summary of resource and capital outturn

	SoPS note	Estimate Voted	Estimate Non-voted	Estimate Total	Outturn Voted	Outturn Non-voted	Outturn Total	2016-17 £m Voted variance: saving	2015-16 £m Total outturn
Departmental Expenditure Limit									
– Resource	1.1	3,567.4	293.8	3,861.2	3,520.0	315.5	3,835.5	47.4	3,576.1
– Capital	1.2	341.0	–	341.0	326.4	–	326.4	14.6	227.8
Annually Managed Expenditure									
– Resource	1.1	11,891.5	31,291.7	43,183.2	11,803.6	30,525.5	42,329.1	87.9	43,193.8
– Capital	1.2	–	–	–	–	–	–	–	–
Total budget		**15,799.9**	**31,585.5**	**47,385.4**	**15,650.0**	**30,841.0**	**46,491.0**	**149.9**	**46,997.7**
Non-budget									
– Resource	1.1	–	–	–	–	–	–	–	9,852.0
– Capital	1.2	–	–	–	–	–	–	–	–
Total		**15,799.9**	**31,585.5**	**47,385.4**	**15,650.0**	**30,841.0**	**46,491.0**	**149.9**	**56,849.7**
Of which:									
Total resource	1.1	15,458.9	31,585.5	47,044.4	15,323.6	30,841.0	46,164.6	135.3	56,621.9
Total capital	1.2	341.0	–	341.0	326.4	–	326.4	14.6	227.8
Total		**15,799.9**	**31,585.5**	**47,385.4**	**15,650.0**	**30,841.0**	**46,491.0**	**149.9**	**56,849.7**

	SoPS note	Estimate	Outturn	2016-17 £m Voted variance: saving	2015-16 £m Outturn
Net cash requirement	3	15,725.8	15,316.2	409.6	24,918.2
Administration costs		899.8	871.3	28.5	791.9

SoPS 1. Net outturn

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

Voted expenditure includes the costs of running the department as well as payments to individuals for social benefits, payments in lieu of tax relief and certain rates payments made by the Valuation Office Agency. RCDTS Ltd expenditure and income is included within lines A, B and H as appropriate. The department also makes payments for which the funding is not subject to the vote system. This non-voted expenditure mainly relates to personal tax credits, other reliefs including certain corporation tax credits and our costs in respect of the National Insurance Fund. In contrast to 2015-16, the department has not been required to make non-budget payments to top-up the National Insurance Fund in 2016-17.

Our income and expenditure is further analysed between administration and programme as required by HM Treasury. Administration costs relate to the costs of running the department, for example human resources, finance, estates management. Programme costs relate to the costs incurred in the delivery of frontline services such as the parts of the department that interact directly with our external customers.

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

Explanations of material variances between the Estimate and outturn are provided in SoPS note 1 on **page 141**

A reconciliation of total resource outturn to the Statement of Comprehensive Net Expenditure is provided in SoPS note 2 on **page 142**

Full information about the Valuation Office Agency activities can be found within their accounts viewed at: **www.gov.uk/government/organisations/valuation-office-agency**

SoPS 1.1 Analysis of net resource outturn by section

Figure 63: Analysis of net resource outturn by section

	Estimate	Outturn								2016-17 £m	2015-16 £m
		Administration			Programme			Outturn	Variance: saving/ (excess)	Total outturn
	Net total	Gross	Income	Net	Gross	Income	Net	Net total		
Spending in Departmental Expenditure Limit										
Voted:										
A HMRC administration	3,543.0	922.9	(134.3)	788.6	2,810.9	(94.3)	2,716.6	3,505.2	37.8	3,219.2
B VOA administration	–	–	–	–	202.8	(205.5)	(2.7)	(2.7)	2.7	(1.4)
C Utilised provisions	24.4	8.6	–	8.6	8.9	–	8.9	17.5	6.9	29.8
Total voted	3,567.4	931.5	(134.3)	797.2	3,022.6	(299.8)	2,722.8	3,520.0	47.4	3,247.6
Non-voted:										
D National Insurance Fund	293.8	74.1	–	74.1	241.4	–	241.4	315.5	(21.7)	328.5
Total non-voted	293.8	74.1	–	74.1	241.4	–	241.4	315.5	(21.7)	328.5
Total spending in Departmental Expenditure Limit	**3,861.2**	**1,005.6**	**(134.3)**	**871.3**	**3,264.0**	**(299.8)**	**2,964.2**	**3,835.5**	**25.7**	**3,576.1**
Spending in Annually Managed Expenditure										
Voted:										
E Child Benefit	11,724.8	–	–	–	11,651.9	–	11,651.9	11,651.9	72.9	11,700.9
F Tax-Free Childcare	12.4	–	–	–	–	–	–	–	12.4	–
G Providing payments in lieu of tax relief to certain bodies	70.8	–	–	–	70.1	–	70.1	70.1	0.7	75.4
H HMRC administration	30.0	–	–	–	32.0	–	32.0	32.0	(2.0)	28.5
I VOA payments of Local Authority rates	75.8	–	–	–	67.6	(3.7)	63.9	63.9	11.9	67.0
J VOA administration	2.1	–	–	–	3.1	–	3.1	3.1	(1.0)	2.9
K Utilised provisions	(24.4)	–	–	–	(17.4)	–	(17.4)	(17.4)	(7.0)	(29.8)
Total voted	11,891.5	–	–	–	11,807.3	(3.7)	11,803.6	11,803.6	87.9	11,844.9
Non-voted:										
L Personal tax credits	27,996.2	–	–	–	27,143.6	–	27,143.6	27,143.6	852.6	28,450.2
M Other reliefs and allowances	3,295.5	–	–	–	3,381.9	–	3,381.9	3,381.9	(86.4)	2,898.7
Total non-voted	31,291.7	–	–	–	30,525.5	–	30,525.5	30,525.5	766.2	31,348.9
Total spending in Annually Managed Expenditure	**43,183.2**	–	–	–	**42,332.8**	**(3.7)**	**42,329.1**	**42,329.1**	**854.1**	**43,193.8**
Non-budget spending										
Voted:										
*Payments to National Insurance Fund**	–	–	–	–	–	–	–	–	–	9,852.0
Total non-budget spending	–	–	–	–	–	–	–	–	–	**9,852.0**
Total voted	15,458.9	931.5	(134.3)	797.2	14,829.9	(303.5)	14,526.4	15,323.6	135.3	24,944.5
Total non-voted	31,585.5	74.1	–	74.1	30,766.9	–	30,766.9	30,841.0	744.5	31,677.4
Total	**47,044.4**	**1,005.6**	**(134.3)**	**871.3**	**45,596.8**	**(303.5)**	**45,293.3**	**46,164.6**	**879.8**	**56,621.9**

* As the balance on the National Insurance Fund did not fall below one sixth of the annual benefit expenditure, no top-up payments were required in 2016-17

SoPS 1.2 Analysis of net capital outturn by section

Figure 64: Analysis of net capital outturn by section

	2016-17 £m					2015-16 £m
	Estimate	Outturn				
	Net total	Gross	Income	Net total	Variance: saving/ (excess)	Total outturn
Spending in Departmental Expenditure Limit						
Voted:						
A HMRC administration	329.0	323.3	(8.7)	314.6	14.4	220.2
B VOA administration	12.0	12.0	(0.2)	11.8	0.2	7.6
C Utilised provisions	–	–	–	–	–	–
Total voted	341.0	335.3	(8.9)	326.4	14.6	227.8
Non-voted:						
D National Insurance Fund	–	–	–	–	–	–
Total non-voted	–	–	–	–	–	–
Total spending in Departmental Expenditure Limit	**341.0**	**335.3**	**(8.9)**	**326.4**	**14.6**	**227.8**
Spending in Annually Managed Expenditure						
Voted:						
E Child Benefit	–	–	–	–	–	–
F Tax-Free Childcare	–	–	–	–	–	–
G VOA – payments of rates to local authorities on behalf of certain bodies	–	–	–	–	–	–
H HMRC administration	–	–	–	–	–	–
I VOA payments of Local Authority rates	–	–	–	–	–	–
J VOA administration	–	–	–	–	–	–
K Utilised provisions	–	–	–	–	–	–
Total voted	–	–	–	–	–	–
Non-voted:						
L Personal tax credits*	–	39.4	(39.4)	–	–	–
M Other reliefs and allowances	–	–	–	–	–	–
Total non-voted	–	**39.4**	**(39.4)**	–	–	–
Total spending in Annually Managed Expenditure	–	**39.4**	**(39.4)**	–	–	–
Non-budget spending						
Voted:						
Payments to National Insurance Fund	–	–	–	–	–	–
Total non-budget spending	–	–	–	–	–	–
Total voted	341.0	335.3	(8.9)	326.4	14.6	227.8
Total non-voted	–	39.4	(39.4)	–	–	–
Total	**341.0**	**374.7**	**(48.3)**	**326.4**	**14.6**	**227.8**

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

The total resource outturn for the year was £46,164.6 million, £879.8 million (1.9%) below the Estimate. The total capital outturn for the year was £326.4 million, £14.6 million (4.3%) below the Estimate. Explanations of material variances between the Estimate and outturn are provided below.

Resource Departmental Expenditure Limit (DEL)

C Utilised provisions – outturn was £6.9 million (28.3%) less than the Estimate. Provisions are inherently unpredictable in terms of amount paid and the timing of settlements. HMRC have an established process in place to regularly review and monitor provisions. The underutilisation is driven by the unpredictable nature of, in particular, legal settlements against the department.

D National Insurance Fund – outturn was £21.7 million (7.4%) more than the Estimate. Expenditure allocated to National Insurance work is variable depending on the combination of work we do on a range of taxes and contributions, which can be customer driven. All National Insurance spending is fully accounted for in the National Insurance Fund Accounts.

Resource Annually Managed Expenditure (AME)

F Tax-Free Childcare – outturn was £12.4 million (100.0%) less than the Estimate. This was scheduled to go live in early 2017 but a decision was made in February to go live in April 2017. There were £6 thousand of payments made from the pilot scheme but since this amount is so small this cannot be seen in the accounts.

I VOA – Payments of Local Authorities rates – outturn was £11.9 million (15.7%) less than the Estimate. This is mainly due to refunds of rate payments in respect of vacated properties.

J VOA administration – outturn was £1.0 million (47.6%) more than the Estimate. This relates to new provisions required for legal claims.

K Utilised provisions – outturn was £7.0 million (28.7%) less than the Estimate. Provisions are inherently unpredictable in terms of amount paid and the timing of settlements. HMRC have an established process in place to regularly review and monitor provisions. The underutilisation is driven by the unpredictable nature of, in particular, legal settlements against the department.

L Personal tax credit – outturn was £852.6 million (3.0%) less than the Estimate. This is because payments are driven by entitlement and therefore fluctuate throughout the year.

M Other reliefs and allowances – outturn was £86.4 million (2.6%) more than the Estimate. This is due to an increase in demand of creative industries tax reliefs and research and development tax relief for large companies.

SoPS 2. Reconciliation of outturn to net operating expenditure

This note reconciles the net resource outturn from SoPS note 1.1 to the net operating expenditure in the IFRS-based Statement of Comprehensive Net Expenditure (SoCNE). Reconciling items are treated differently between the Statement of Parliamentary Supply (SoPS) and the SoCNE and these are explained in further detail below.

Figure 65: Reconciliation of net resource outturn to net operating expenditure

		SoPS note	2016-17 £m Outturn	2015-16 £m Outturn
Total resource outturn in the Statement of Parliamentary Supply				
	Departmental Expenditure Limit	1.1	3,835.5	3,576.1
	Annually Managed Expenditure	1.1	42,329.1	43,193.8
	Non-budget – additional payments to the National Insurance Fund	1.1	–	9,852.0
			46,164.6	**56,621.9**
Add:	Capital grant in kind: Transfer of personal tax credits receivables to DWP		39.4	–
	Other		(10.0)	–
	IFRS asset costs		6.2	7.4
			35.6	**7.4**
Less:	Income payable to the Consolidated Fund		(0.5)	(1.9)
			(0.5)	**(1.9)**
Net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure			**46,199.7**	**56,627.4**

Explanation of additions and deductions

Capital grant in kind

Transfer of personal tax credits receivables to DWP – this represents the receivable for which DWP have now taken responsibility. The receivables balance relates to customers who have made a valid claim to Universal Credit, administered by DWP.

Other – this comprises developer contribution received as a result of property lease arrangements, also represents the value of non-current assets transferred from DWP in relation to HMRC assuming responsibility for Government Gateway.

IFRS asset costs

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

IT – as described in note 1.7.3, IT non-current assets of our IT suppliers used in the delivery of the PPP contract have been capitalised as finance leases under IFRIC 12.

These asset costs are outside the Estimate and budgeting considerations and therefore excluded from the SoPS.

Income payable to the Consolidated Fund

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

SoPS 3. Reconciliation of net resource outturn to net cash requirement

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

Figure 66: Reconciliation of net resource outturn to Net Cash Requirement

	SoPS note	Estimate £m	Outturn £m	Outturn compared to Estimate: saving/(excess) £m
Resource outturn	1.1	47,044.4	46,164.6	879.8
Capital outturn	1.2	341.0	326.4	14.6
Accruals to cash adjustments:				
Adjustments for Arms Length Bodies (ALBs):				
Remove voted resource and capital		–	(0.3)	0.3
Adjustments to remove non-cash items:				
Depreciation and amortisation		(291.3)	(274.6)	(16.7)
New provisions and adjustments to existing provisions		(32.1)	(20.7)	(11.4)
Other non-cash items		(2.2)	(5.9)	3.7
Adjustments to reflect movements in working balances:				
Capital grant in kind: Transfer of personal tax credits receivables to DWP		–	39.4	(39.4)
Increase/(decrease) in inventories		–	(0.1)	0.1
Increase/(decrease) in receivables		290.7	213.8	76.9
(Increase)/decrease in payables		(63.6)	(458.7)	395.1
Use of provisions		24.4	17.5	6.9
Removal of non-voted budget items				
Other adjustments[1]		(31,585.5)	(30,685.2)	(900.3)
Net cash requirement		**15,725.8**	**15,316.2**	**409.6**

1 This primarily includes funding from the Trust Statement in respect of tax credits, funding from the National Insurance Fund in respect of costs of administering and collecting National Insurance contributions and adjustments for IFRS assets

The net cash requirement outturn for 2016-17 was £15,316.2 million, £409.6 million (2.6%) below the Estimate.

Explanations of material variances between the Estimate and outturn are provided below.

New provisions and adjustments to existing provisions – varied by £11.4 million from the Estimate. This is due to a lower than expected need for new provisions.

Assets transferred to DWP - varied by £39.4 million from the Estimate This is the value of personal tax credit debt transferred to the Department for Work and Pensions to be collected through Universal Credit.

Receivables – varied by £76.9 million from the Estimate, largely due to a lower than expected increase in the level of personal tax credits debt.

Payables – varied by £395.1 million from the Estimate, largely due to an increase in corporation tax relief payables.

Use of provisions – varied by £6.9 million from the Estimate. Provisions are inherently unpredictable in terms of amount paid and the timing of settlements. HMRC have an established process in place to regularly review and monitor provisions. The underutilisation is driven by the unpredictable nature of, in particular, legal settlements against the department.

Other adjustments – varied by £900.3 million (2.9%) from the Estimate, this is an improvement on last year when this varied by £1,545.5 million (4.7%) from the Estimate. The variance is largely due to reduced expenditure on personal tax credits because payments are driven by entitlement and demand and fluctuate throughout the year.

SoPS 4. Income payable to the Consolidated Fund

SoPS 4.1 Analysis of income payable to the Consolidated Fund

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

Figure 67: Analysis of income payable to the Consolidated Fund

	Outturn 2016-17 £m		Outturn 2015-16 £m	
	Income	*Receipts*	Income	*Receipts*
Income outside the ambit of the Estimate	0.5	*0.5*	1.9	*1.9*
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total amount payable to the Consolidated Fund	**0.5**	***0.5***	**1.9**	***1.9***

SoPS 4.2 Consolidated Fund income

Consolidated Fund income shown in SoPS note 4.1 above does not include any amounts collected by the department where it was acting as agent of the Consolidated Fund rather than as principal.

Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statement, see **page 157**

Regularity of expenditure[1]

HMRC is a custodian of taxpayers' funds and has a duty to Parliament in ensuring the regularity and propriety of its activities and expenditure*. The term regularity is used to convey the idea of probity and ethics in the use of public funds – that is, delivering public sector values in the round and applying the seven principles of public life**. Regularity specifically encompasses compliance with all relevant legislation, delegated authorities and the guidance set out in HM Treasury's Managing Public Money publication.

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

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

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

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

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

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

For details of Comptroller and Auditor General's qualified regularity opinion in respect of personal tax credits, see **pages 153-154**

1 These disclosures have been subject to external audit
   i. Utilised provisions changes followed discussions with HMT as the timing and value of provisions is inherently uncertain. The voted DEL reduction leads to a corresponding increase in AME
   ii. Child Benefit increased because the latest ONS population growth rates were higher than previously estimated.
   iii. Other relief and allowances increase due to higher than forecast Research and Development relief claims from both large and small companies

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

Figure 68: Public spending control (£million)

	Main Estimate	Supplementary Estimate (Adjustment)	Final Provision	2016-17 outturn
Resource DEL				
Voted				
HMRC Administration	3,564	21	3,543	3,505
VOA Administration	0	0	0	-3
Utilised provisions	24	0	24	18
Non-voted				
National Insurance Fund	294	0	294	316
Total spending DEL	**3,882**	**21**	**3,861**	**3,836**
Resource AME				
Voted				
Child Benefit	11,650	75	11,725	11,652
Tax Free Childcare	20	-8	12	0
Providing payments in lieu of tax relief to certain bodies	120	-49	71	70
HMRC Administration	30	0	30	32
VOA – payments of rates to local authorities on behalf of certain bodies	76	0	76	64
VOA Administration	2	0	2	3
Utilised provisions	-24	0	-24	-18
Non-voted				
Personal tax credits	28,516	-520	27,996	27,144
Other relief and allowances	2,577	718	3,295	3,382
Total spending AME	**42,967**	**216**	**43,183**	**42,329**
Capital DEL				
HMRC Administration	230	99	329	314
VOA Administration	12	0	12	12
Total capital spending DEL	**242**	**99**	**341**	**326**
Capital AME				
Child Trust Fund	0	0	0	0
Total capital spending AME	**0**	**0**	**0**	**0**

Losses and special payments*

These losses and special payments relate to the running of the department and until 2015-16 had been disclosed in the Resource Accounts section of the Financial Statements.

Full details on revenue losses can be found in the department's Trust Statement, see **pages 166-167**

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

Figure 69: Losses statement

	2016-17 Core department and agency		2016-17 Departmental group		2015-16 Core department and agency		2015-16 Departmental group	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
Personal tax credits remissions	*1,608,783*	58.8	*1,608,783*	58.8	*1,583,637*	75.0	*1,583,637*	75.0
Personal tax credits write-offs	*37,179*	40.9	*37,179*	40.9	*40,798*	43.6	*40,798*	43.6
Child Benefit remissions and write-offs	*38,139*	16.6	*38,139*	16.6	*41,965*	10.9	*41,965*	10.9
Exchange rate losses	*129*	11.1	*129*	11.1	–	–	–	–
Others	*6,077*	0.4	*6,077*	0.4	*4,300*	0.4	*4,300*	0.4
Total	***1,690,307***	**127.8**	***1,690,307***	**127.8**	***1,670,700***	**129.9**	***1,670,700***	**129.9**

Details of cases more than £300,000

In 2016-17 £99.7 million of personal tax credit debt was remitted/written-off as it was uncollectable.

For further information on tax credits see the Resource Accounts on **pages 190-191** (note 4)

In 2016-17 the department wrote-off £16.6 million of Child Benefit debt that was uncollectable.

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

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

* These disclosures have been subject to external audit

Special Payments*

These include compensation and ex-gratia payments in respect of personal injury, damage to property and those which result from the department's redress policy.

For further details information on reporting requirements please see guidance in Managing Public Money, see **Annex 4.13**.

For further details information on reporting requirements please see guidance in Managing Public Money, see **www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf**

Figure 70: Special payments

	2016-17				2015-16			
	Core department and agency		Departmental group		Core department and agency		Departmental group	
	cases	£m	*cases*	£m	*cases*	£m	*cases*	£m
Payments and accruals	***18,559***	**3.0**	***18,559***	***3.0***	***29,395***	***3.9***	***29,395***	**3.9**

Included within special payments shown above are severance payments. These are paid under certain circumstances to employees, contractors and others outside of normal statutory or contractual requirements, when leaving employment in the public service, whether they resign, are dismissed, or reach an agreed termination of contract. For 2016-17, the department made five payments totalling £60,555 (2015-16: seven payments totalling £146,778) in respect of severance cases. The highest payment was £22,000 (2015-16: £37,599) and the lowest payment was £3,000 (2015-16: £3,925), the average payment was £12,111 (2015-16: £20,968).

Details of cases more than £300,000

£1.2 million - Payments made to a liquidator under an HMRC indemnity for adverse costs, the funds for payment had been provided for in previous years. Proceedings were launched by the liquidators for the benefit of creditors in the liquidation, with HMRC being the principal creditor. The support provided to the liquidators was done as part of HMRC's statutory responsibility to recover revenue for the UK where insolvency is a feature of the case. The payments were made with HM Treasury approval.

* These disclosures have been subject to external audit

Fees and charges[1]

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

Figure 71: Analysis of income where full cost exceeds £1 million

			2016-17 £m			2015-16 £m
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
Fees and charges raised by the Valuation Office Agency (VOA)						
Non-Domestic Rates and Council Tax	168.7	167.7	1.0	169.5	169.3	0.2
Statutory Valuation Team	11.8	11.4	0.4	11.8	11.2	0.6
Property Services	14.7	14.6	0.1	15.1	15.3	(0.2)
Local Housing Allowance and Fair Rents	10.2	10.4	(0.2)	11.6	11.7	(0.1)
Fees and charges raised by the core department						
Civil Service Resourcing[2]	83.8	83.3	0.5	63.0	62.0	1.0
UK Border Agency	15.3	15.3	–	20.2	20.2	–
Government Banking Service	11.8	10.3	1.5	17.1	15.1	2.0
Single Tier Pension Reform	12.4	12.4	–	14.0	14.0	–
National Minimum Wage	16.5	16.5	–	12.1	11.9	0.2
Anti-Money Laundering Regime	10.0	10.5	(0.5)	9.7	8.8	0.9
Scotland Act Implementation[3]	6.2	6.2	–	8.7	8.7	–
Collection of Student Loans	7.1	7.2	(0.1)	6.4	6.4	–
Accommodation recharges	3.9	3.7	0.2	4.6	4.8	(0.2)
DWP Welfare Reform Agenda	1.1	1.1	–	1.6	1.6	–
Services provided to VOA	2.2	2.2	–	1.7	1.7	–
Apprenticeship Levy[4]	2.9	2.9	–	–	–	–
RCDTS[5]	1.9	1.9	–	–	–	–
Total	**380.5**	**377.6**	**2.9**	**367.6**	**363.2**	**4.4**

1 These disclosures have been subject to external audit
2 Civil Service Resourcing (CSR), which was managed by HMRC up to 31 March 2017 on behalf of the Civil Service, is the professional resourcing and talent management service for the Civil Service, administering a centralised process across the end-to-end scope of resourcing activities, including recruitment, redeployment and the Civil Service Fast Stream. From 1 April 2017 hosting transferred to Cabinet Office.
3 The Scotland Act 2012 gives the Scottish Parliament the power to set a rate of income tax from 2016-17 onwards. This tax will be accounted for within HMRC's Trust Statement. HMRC has incurred costs which are included in the Resource Accounts. HMRC recovers these implementation and running costs by way of recharging Scottish Government for Scottish Rate of Income Tax (SRIT) £4.2 million (comprising staff costs £0.7 million; IT costs £3.3 million & other costs £0.2 million); Scotland Programme Office £10 thousand
4 New income stream – Apprenticeship Levy. Apprenticeship Levy is an initiative HMRC is delivering on behalf of Department for Education. HMRC are recharging for all related costs
5 As Revenue & Customs Digital Technology Services (RCDTS) was set up in 2015, minimal activity costs in 2015-16 fell below the £1 million criteria for inclusion in the fees and charges and therefore no comparative is included in the table

Remote Contingent Liabilities*

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

The department has no quantifiable remote contingent liabilities.

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

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

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

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

Figure 72: Indemnities (£m)

	1 April 2016	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2017	Amount reported to Parliament by departmental minute
Indemnities	3.6	1.9	–	(0.1)	5.4	–

The department has not entered into any guarantees of costs agreements, where likelihood of realisation is considered remote, issued any letters of comfort, nor entered into any unquantifiable contingent liabilities.

* These disclosures have been subject to external audit

Jon Thompson
Accounting Officer
10 July 2017

The Trust Statement audit report of the Comptroller and Auditor General to the House of Commons

I have audited HM Revenue and Customs' (the department's) Trust Statement for the year ended 31 March 2017 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Foreword and Principal Accounting Officer's responsibilities, the Principal Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the HM Revenue and Customs Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of taxes, duties, National Insurance Contributions, Student Loan recoveries, fines, penalties and related expenditures and disbursements administered by the department as at 31 March 2017 and of the net revenue for the year then ended
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Performance and Accountability sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

Further details arising from my examination can be found in my Report on the 2016-17 Accounts of HM Revenue and Customs, under Section 2 of the Exchequer and Audit Departments Act 1921, on pages R1 to R80.

Sir Amyas C E Morse
Comptroller and Auditor General
12 July 2017
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

The Resource Accounts: Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of HM Revenue and Customs: and of its departmental group for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The department consists of the core department and its agency. The departmental group consists of the department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2016. The financial statements comprise: the departments and departmental group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

In my opinion, except for the estimated levels of fraud and error in personal tax credits expenditure referred to in the basis for the qualified opinion on regularity paragraph, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified opinion on regularity

Note 4 to the Accounts records Personal Tax Credits expenditure of £27.1 billion in 2016-17. Where error and fraud result in over and underpayments the transactions do not conform with the relevant primary legislation specifying entitlement and calculation criteria, and the expenditure is irregular.

The most recent estimates of over and underpayments relate to 2015-16, due to the time taken to finalise awards. For 2015-16, the department estimates:

- overpayments of £1.57 billion (5.5% of related expenditure); and
- underpayments of £210 million (0.7% of related expenditure).

As estimates for 2016-17 will not be available until June 2018, the estimates of error and fraud in 2015-16 are the most up to date indication available of the level of error and fraud in personal tax credits expenditure for 2016-17. I consider these levels of over and underpayments to be material to my opinion on the accounts.

I have therefore qualified my opinion on the regularity of personal tax credits expenditure because of:

- the estimated level of overpayments attributable to error and fraud where payments have not been made for the purposes intended by Parliament; and
- the estimated level of over and under payments in such benefit expenditure which do not conform with the relevant authorities.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the department's and the departmental group's affairs as at 31 March 2017 and of the department's net operating expenditure and departmental group's net operating expenditure for the year then ended
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunders.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have prepared a Report on HM Revenue and Customs 2016-17 Accounts, under Section 2 of the Exchequer and Audit Departments Act 1921, on page R1. This includes, at paragraphs 4.3 to 4.5, further information on the qualification of my audit opinion on the regularity of personal tax credits expenditure.

Sir Amyas C E Morse
Comptroller and Auditor General
12 July 2017
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Contents

Trust Statement

Statement of Revenue, Other Income and Expenditure

for the year ended 31 March	Note	2017 £bn	2016 £bn
Taxes and duties			
Income tax	2.1	173.8	169.4
Value Added Tax	2.2	124.4	116.0
Corporation Tax	2.3	51.1	45.5
Hydrocarbon oils duties	2.4	28.0	27.7
Stamp taxes	2.5	15.4	14.5
Alcohol duties	2.6	11.3	10.7
Tobacco duties	2.7	8.7	9.1
Capital Gains Tax	2.8	8.4	7.3
Other taxes and duties	2.9	27.5	21.7
Total taxes and duties		**448.6**	**421.9**
Other revenue and income			
National Insurance Contributions	3.1	122.5	112.0
Student Loan recoveries	3.3	2.2	1.9
Fines and penalties	3.4	1.6	1.0
Total other revenue and income		**126.3**	**114.9**
Total revenue		**574.9**	**536.8**
Less expenditure			
Impairment charges	4.4	(3.4)	(2.2)
Movement in provisions	7.1	(3.5)	(0.2)
Total expenditure		**(6.9)**	**(2.4)**
Less disbursements			
National Insurance Contributions due to the National Insurance Funds and National Health Services	3.1	(122.0)	(111.6)
Appropriation of revenue to Resource Account	3.2	(30.4)	(30.9)
Student Loan recoveries due to the Department for Education	3.3	(2.2)	(1.9)
Taxation paid to Isle of Man	3.5	(0.2)	(0.1)
Total disbursements		**(154.8)**	**(144.5)**
Total expenditure and disbursements		**(161.7)**	**(146.9)**
Net revenue for the Consolidated Fund		**413.2**	**389.9**

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes at pages 160 to 172 form part of this statement.

Statement of Financial Position

As at 31 March	Note	2017 £bn	2016 £bn
Non-current assets			
Receivables falling due after one year	4.1	1.3	0.9
Current assets			
Receivables	4.1	20.5	18.9
Accrued revenue receivable	4.1	99.6	95.7
Total current assets		**120.1**	**114.6**
Total assets		**121.4**	**115.5**
Current liabilities			
Payables	5	17.1	16.8
Accrued revenue payable	5	31.9	31.2
Deferred revenue	5	1.8	1.5
Cash and other payables	5.1	0.9	1.6
Total current liabilities		**51.7**	**51.1**
Assets less current liabilities		**69.7**	**64.4**
Non-current liabilities			
Provision for liabilities	7	14.2	12.8
Net assets		**55.5**	**51.6**
Movements on Consolidated Fund account:			
Balance on Consolidated Fund account as at 1 April		51.6	43.0
Net revenue for the Consolidated Fund		413.2	389.9
Less amount paid to Consolidated Fund		(409.3)	(381.3)
Balance on Consolidated Fund account		**55.5**	**51.6**

Jon Thompson
Accounting Officer
10 July 2017

The notes on pages 160 to 172 form part of this statement.

Statement of Cash Flows

For the year ended 31 March	Note	2017 £bn	2016 £bn
Net cash flow from operating activities	A	410.0	381.0
Cash paid to the Consolidated Fund		(409.3)	(381.3)
Increase/(decrease) in cash in this period	B	**0.7**	**(0.3)**

Notes to the Statement of Cash Flows

A: Reconciliation of net cash flow to movement in net funds

For the year ended 31 March	2017 £bn	2016 £bn
Net revenue for the Consolidated Fund	413.2	389.9
(Increase)/decrease in non-cash assets	(5.9)	(8.3)
Increase/(decrease) in current liabilities	1.3	1.3
Increase/(decrease) in provision for liabilities	1.4	(1.9)
Net cash flow from operating activities	**410.0**	**381.0**

B: Analysis of changes in net funds

For the year ended 31 March	2017 £bn	2016 £bn
Increase/(decrease) in cash in this period	0.7	(0.3)
Net funds as at 1 April (opening bank balance)	(1.6)	(1.3)
Net funds as at 31 March (closing bank balance)	**(0.9)**	**(1.6)**

Notes to the Trust Statement

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1. Statement of accounting policies

1.1 Basis of accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921
- the 2016-17 Financial Reporting Manual issued by HM Treasury
- International Financial Reporting Standards adapted or interpreted for the public sector context
- the accounting policies detailed in subsequent notes.

The accounting policies have been developed by HMRC in consultation with HM Treasury and have been reviewed during 2016-17. These policies have been applied consistently in dealing with items considered material in relation to the accounts. The Trust Statement is prepared on a going concern basis.

The financial information presented is rounded to the nearest £0.1 billion, except for Certificates of Tax Deposit, Student Loan recoveries, and revenue losses which are rounded to the nearest £1 million, due to the much smaller amounts disclosed in these notes.

1.2 Accounting convention

The Trust Statement has been prepared in accordance with historical cost convention. The majority of taxes and duties are accounted for on an accruals basis. As agreed with HM Treasury, Corporation Tax for smaller companies that do not pay by instalment and Capital Gains Tax are accounted for on a partial accruals basis hence there is no accrued revenue receivable estimate in the Statement of Financial Position for these taxes. Stamp Duty and National Insurance Classes 1A, 1B and 3 are accounted for on a cash basis as also agreed with HM Treasury. In addition, some repayments are accounted for on a cash basis. Accounting for these elements on a cash basis does not have a material impact on revenue.

1.3 Revenue recognition

Taxes and duties are measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to HMRC. The taxable events for the main taxes and duties are described in note 2 below. Note 4 provides an explanation of accrued revenue receivable, note 6 describes the circumstances and approaches used where estimation of accruals is needed and note 7 provides an explanation of provisions and contingent liabilities. Revenues are deemed to accrue evenly over the period for which they are due.

The tax gap is not recognised in the Trust Statement. The tax gap is the difference between the amount of tax that should, in theory, be collected by HMRC (the theoretical liability), against what is actually collected. The theoretical tax liability represents the tax that would be paid if all individuals and companies complied with both the letter of the law and HMRC's interpretation of the intention of Parliament in setting law (referred to as the spirit of the law). The tax gap estimate is net of the department's compliance activities. The tax gap is the tax that is lost through non-payment, use of avoidance schemes, interpretation of tax effect of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

HMRC undertakes compliance work to collect or protect revenue as part of the commitment to narrow the tax gap. This includes work in tackling avoidance, evasion and criminal attack. Given the uncertainty of both the probability of economic flow and reliability of estimated figures, future revenue flows in relation to this activity are not recognised in the accounts until such time as a liability is assessed or established and/or reasonably certain.

Further accounting policies are explained under the relevant notes (starting at note 2).

2. Accounting policies and analysis

2.1 Income tax

For the year ended 31 March	2017 £bn	2016 £bn
Self Assessment	24.5	27.6
Other income tax revenue (including PAYE)	149.3	141.8
Total	**173.8**	**169.4**

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer. Where payments are received in advance of Self Assessment returns, the estimate of the income tax component is based on prior year income tax liabilities.

2.1.1 Scottish Rate of Income Tax

The Scotland Act 2012 gives the Scottish Parliament the power to set a rate of tax (SRIT) that replaces ten percentage points of each of the main UK rates of tax. This allows the Scottish Government to affect the amount of income tax that Scottish taxpayers pay and, as a result, the amount that the Scottish Government has to spend in Scotland. SRIT is calculated on a tax year basis and was introduced with effect from 6 April 2016 i.e. for the 2016-17 tax year. The Scottish rate for 2016-17 was set at 10%.

During the financial year 2016-17 revenue is estimated to have amounted to £4.6 billion. The figure shown has been estimated because actual data is unavailable, for example in respect of Self Assessment revenue for the 2016-17 tax year where minimal disclosure has been made to HMRC, and PAYE revenue for taxpayers whose accounts have not been reconciled before this document is published. The Scottish share of income tax liabilities is estimated using a simulation model based on sample data from the HMRC Survey of Personal Incomes.

Further information on revenue for the tax year 2016-17 that becomes available during 2017-18 will allow refinement of these calculations. Updated figures will be disclosed in the 2017-18 Trust Statement, allowing a final reconciliation for the 2016-17 tax year.

HM Treasury is responsible for ensuring that the proceeds are made available to fund expenditure by the Scottish Government; these transfers are not accounted for in the HMRC Trust Statement.

The costs of collecting and administering are charged to the Scottish Government and accounted for in the parliamentary accountability section (see figure 71 on page 149).

2.2 Value Added Tax

For the year ended 31 March	2017 £bn	2016 £bn
Gross revenue	206.8	195.9
Less: revenue repayable	(82.4)	(79.9)
Net revenue	**124.4**	**116.0**

The taxable event for Value Added Tax is the undertaking of taxable activity during the taxation period by the taxpayer. VAT is structured in such a manner that taxpayers are also entitled to claim repayments; hence a breakdown of gross revenue and repayments is disclosed.

2.3 Corporation Tax

For the year ended 31 March	2017 £bn	2016 £bn
Total	**51.1**	**45.5**

The taxable event for Corporation Tax is the earning of assessable profit during the taxation period by the taxpayer.

In 2015-16 £0.3 billion of Bank Surcharge was included within Corporation Tax. For 2016-17 Bank Surcharge is included within other taxes and duties (note 2.9).

2.4 Hydrocarbon oils duties

For the year ended 31 March	2017 £bn	2016 £bn
Total	**28.0**	**27.7**

The taxable event for Hydrocarbon oils duty is the date of production, date of import or movement of goods out of a duty suspended regime.

2.5 Stamp taxes

For the year ended 31 March	2017 £bn	2016 £bn
Stamp Duty Land Tax	11.4	11.0
Stamp Duty Reserve Tax	2.8	2.6
Stamp Duty	1.0	0.7
Annual Tax on Enveloped Dwellings	0.2	0.2
Total	**15.4**	**14.5**

The taxable event for stamp taxes (Stamp Duty Land Tax and Stamp Duty Reserve Tax) is the purchase of property and additional residential properties or shares.

Stamp Duty is recognised in the accounting period in which the tax receipt is received and is measured as the cash amount received. Repayments of Stamp Duty are made on a cash basis - these are recognised in the period the repayment is made.

2.6 Alcohol duties

For the year ended 31 March	2017 £bn	2016 £bn
Wine, cider and perry	4.5	4.4
Beer	3.4	3.2
Spirits	3.4	3.1
Total	**11.3**	**10.7**

The taxable event for alcohol duties is the date of production, date of import or movement of goods out of a duty suspended regime.

2.7 Tobacco duties

For the year ended 31 March	2017 £bn	2016 £bn
Cigarettes	7.4	7.9
Hand rolling tobacco	1.2	1.1
Cigars	0.1	0.1
Total	**8.7**	**9.1**

The taxable event for tobacco duties is the date of production, date of import or movement of goods out of a duty suspended regime.

2.8 Capital Gains Tax

For the year ended 31 March	2017 £bn	2016 £bn
Total	**8.4**	**7.3**

The taxable event for Capital Gains Tax is the disposal of a chargeable asset leading to a taxable gain. Repayments for Capital Gains Tax are made principally on a cash basis and are recognised in the period the repayment is made.

2.9 Other taxes and duties

For the year ended 31 March	Note	2017 £bn	2016 £bn
Inheritance Tax		5.2	4.1
Insurance Premium Tax		4.5	3.7
Bank Levy		3.9	2.8
Customs Duties		3.6	2.9
Air Passenger Duty		3.1	3.0
Betting and gaming duties		2.7	2.7
Climate Change Levy		1.8	1.8
Bank Surcharge	2.9.1	1.5	–
Landfill Tax		0.9	0.9
Aggregates Levy		0.4	0.4
Diverted Profits Tax	2.9.2	0.1	–
Petroleum Revenue Tax	2.9.3	(0.2)	(0.6)
Total		**27.5**	**21.7**

2.9.1 Bank Surcharge was introduced as a result of legislation in the Finance (No.2) Act 2015 (received Royal Assent on 18 November 2015). The measure imposes a surcharge of 8% on the profits of banking companies. Revenue for 2016-17 represents the first full year of Bank Surcharge activity. In 2015-16 £0.3 billion of Bank Surcharge revenue was included within Corporation Tax (note 2.3).

2.9.2 Diverted Profits Tax (DPT) was introduced as a result of legislation in the Finance Act 2015 and applies to profits arising from 1 April 2015. The tax was introduced to counter the use of aggressive tax planning techniques used by multinational enterprises to divert profits from the UK.

2.9.3 Petroleum Revenue Tax (PRT) is a tax charged on the profits arising from oil and gas production, and seeks to obtain the government share of the extra amount earned from the production (economic rent). The change to a permanent zero rate of PRT for all chargeable periods from 1 January 2016, has led to zero revenue for 2016-17. This has resulted in net repayments by HMRC.

Further information regarding any significant movements in taxes and duties can be found in Performance - maximising revenues (page 20).

3. Other revenue, income and disbursements (additional information)

3.1 National Insurance Contributions

For the year ended 31 March	Note	2017 £bn	2016 £bn
National Insurance Fund Great Britain (NIF GB)		97.0	87.0
National Insurance Fund Northern Ireland (NIF NI)		1.9	1.8
National Health Services (NHS)		23.6	23.2
Total National Insurance Contributions (NICs)		**122.5**	**112.0**
NIC losses	4.3	(0.5)	(0.4)
NICs due to NIF and NHS		**122.0**	**111.6**

National Insurance Contributions (NICs) are collected by HMRC on behalf of the National Insurance Funds (NIF) of Great Britain and Northern Ireland, and the Health Services for England, Wales, Scotland and Northern Ireland. They are payable to the NIF and the health services when received and not when accrued. Some elements are estimated (refer to note 6 for further information).

National insurance classes 1A, 1B and 3 receipts are recognised in the accounting period in which the contributions are allocated.

3.2 Appropriation of revenue to the Resource Accounts

Appropriations of revenue are made from the Trust Statement to fund tax credit payments which are accounted for within the Resource Accounts.

Please see the Resource Accounts, Consolidated Statement of Changes in Taxpayer's Equity, page 178.

3.3 Student Loan recoveries

For the year ended 31 March	2017 £m	2016 £m
Balance at 1 April	208	89
Receipts included in 'Other revenue and income'[1]	2,194	1,949
Payments made to Department for Education (DfE)	(2,150)	(1,830)
Balance at 31 March – included in (receivables)/payables	**252**	**208**

1 This is the amount due to DfE and therefore reflected as a disbursement in the Statement of Revenue, Other Income and Expenditure.

HMRC collects Student Loans on behalf of the Department for Education. The majority of Student Loans are collected through the PAYE tax system. An element of Student Loans are collected through the Self Assessment tax system, which are accounted for on an estimated basis. The balance at year end is shown as a payable (note 5 - other revenue payables).

3.4 Fines and penalties

This consists of income arising from the levying of tax fines and penalties. Penalties relating to NICs are accounted for as NIC income and paid over to the National Insurance Fund.

3.5 Taxation due to or from the Isle of Man

Under the Isle of Man Act 1979, a revenue sharing agreement exists between the UK and the Isle of Man (IoM). As the IoM agreed share was more than the revenue collected and retained by the IoM, this resulted in the UK making payments to the IoM to ensure the IoM received the correct revenue. This will be shown as a disbursement. Where the IoM collect and retain more than the sharing agreement the IoM will make payments to the UK. This will be shown as other revenue and income.

For 2016-17, payments to the IoM totalled £163 million (2015-16: £137 million).

4. Receivables, accrued revenue receivable and impairment charges

4.1 Receivables and accrued revenue receivable (ARR)

	Receivables as at 31 March 2017 £bn	Accrued revenue receivable as at 31 March 2017 £bn	Total as at 31 March 2017 £bn	Total as at 31 March 2016 £bn
Non-current assets				
Receivables due after one year:				
Inheritance Tax	1.3	–	1.3	0.9
Non-current assets before impairment	**1.3**	–	**1.3**	**0.9**
Current assets				
Receivables and ARR due within one year:				
Income tax	5.5	29.5	35.0	39.0
Value Added Tax	9.0	31.6	40.6	37.0
Corporation Tax	2.0	18.1	20.1	16.3
National Insurance Contributions	2.6	12.8	15.4	15.7
Other taxes and duties	7.8	7.6	15.4	13.5
Current assets before impairment	**26.9**	**99.6**	**126.5**	**121.5**
Less impairment of receivable (note 4.2)	(6.4)	–	(6.4)	(6.9)
Total current assets after impairment	**20.5**	**99.6**	**120.1**	**114.6**
Total assets before impairment	**28.2**	**99.6**	**127.8**	**122.4**
Less impairment of receivable (note 4.2)	(6.4)	–	(6.4)	(6.9)
Total assets after impairment	**21.8**	**99.6**	**121.4**	**115.5**

Receivables represent all taxpayer liabilities that have been established, irrespective of whether due or overdue, for which payments have not been received at the Statement of Financial Position date. Receivables are shown net of impairments in accordance with the requirements of IAS 39.

Accrued revenue receivable represents amounts of taxes and duties where the taxable event has occurred but the return has not been received from the taxpayer by the end of the reporting period. A proportion of these amounts have been estimated (see note 6).

HMRC has a number of taxpayer liabilities which have been postponed pending finalisation of enquiries. These items arise predominantly under income tax (PAYE/SA) and Corporation Tax. HMRC undertakes a review of large postponed cases for Corporation Tax to ensure that revenue that meets the revenue recognition criteria as set out in note 1.3 above, is recognised in the accounts. As a result, an amount of £1.6 billion (2015-16: £1.4 billion) has been included in accrued revenue receivables.

4.2 Impairment of receivables

For the year ended 31 March	2017 £bn	2016 £bn
Balance as at 1 April	6.9	8.5
Increase/(decrease) in impairment of receivables	(0.5)	(1.6)
Balance as at 31 March	**6.4**	**6.9**

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on HMRC's analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. The department assesses the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The impairment of receivables is calculated to provide a fair value of receivables, in effect reducing them to a value that is likely to be collected and providing for non-collectable debt.

Each year, HMRC review and enhance the impairments methodology based on the latest management information available to ensure a robust estimation process.

This year's impairments balance has reduced by 7.2% as a result of continued improvements to HMRC's debt collection performance, meaning that more debts are collected resulting in less impairments.

4.3 Revenue losses

	Remissions 31 March 2017 £m	Write-offs 31 March 2017 £m	Total 31 March 2017 £m	Remissions 31 March 2016 £m	Write-offs 31 March 2016 £m	Total 31 March 2016 £m
Income tax	125	699	824	136	522	658
Value Added Tax	42	1,378	1,420	87	1,475	1,562
Corporation Tax	2	377	379	3	323	326
Alcohol duties	4	47	51	12	23	35
Tobacco duties	6	15	21	2	12	14
Capital Gains Tax	5	37	42	8	33	41
National Insurance Contributions	29	491	520	41	350	391
Fines and penalties	86	438	524	310	414	724
Other remissions and write-offs	4	82	86	5	19	24
Total revenue losses	**303**	**3,564**	**3,867**	**604**	**3,171**	**3,775**

Revenue losses occur when we formally cease collection activity. The vast majority are driven by individual and business insolvencies.

Further information on losses can be found in Performance - dealing with debt and the monies owed to us (pages 25 to 27).

Revenue losses are made up of remissions and write-offs. Remissions are debts capable of recovery but HMRC has decided not to pursue the liability on the grounds of value for money. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

For certain taxes only a partial split between remissions and write-offs is known. Where information is unavailable the percentage split of the known element is applied to the remainder to calculate a total estimated remission and write-off split.

Revenue losses – cases more than £10 million (included in revenue losses table)

More insolvency cases have been included in the over £10 million losses note due to the availability of better management information which allows HMRC to identify individual customers with more than one significant loss.

There are 19 cases (20 cases in 2015-16) where the loss exceeded £10 million, totalling £500 million (£790 million in 2015-16). Details are shown below:

There was one write-off (seven cases in 2015-16) relating to Missing Trader Intra-Community Fraud (MTIC), totalling £18 million (£308 million in 2015-16). All MTIC cases are assessed to establish if there is potential to recover revenue and, where appropriate, proactive insolvency action is initiated.

There were 15 write-offs (eight cases in 2015-16) relating to Insolvency, totalling £372 million (£145 million in 2015-16).

There was a bulk remission for Self Assessment (SA) penalties of £23 million relating to 25,431 cases, where it had been identified that customers had not filed returns for at least three consecutive years. These customers were therefore removed from the SA regime and are no longer liable for SA.

There was a bulk remission of £28 million relating to 54,186 cases for SA and VAT penalties of at least two years of age. These liabilities were considered not cost effective to pursue on a value for money basis.

There was a bulk remission of £58 million relating to 62,609 cases for PAYE where collection activity had been attempted and was unsuccessful. These liabilities were considered not cost effective to pursue on a value for money basis.

4.4 Breakdown of impairment charges

Impairment charges are made up of revenue losses and the movement in the impairment of receivables.

For the year ended 31 March	Note	2017 £bn	2016 £bn
Increase/(decrease) in impairment of receivables	4.2	(0.5)	(1.6)
Revenue losses	4.3	3.9	3.8
Total impairment charges		**3.4**	**2.2**

5. Payables, accrued revenue payable and deferred revenue

	Payables as at 31 March 2017 £bn	Accrued revenue payable as at 31 March 2017 £bn	Deferred revenue as at 31 March 2017 £bn	Total as at 31 March 2017 £bn	Total as at 31 March 2016 £bn
Value Added Tax	2.0	12.5	–	14.5	14.0
Corporation Tax	8.7	0.8	0.4	9.9	9.6
Income tax	2.3	3.7	–	6.0	5.1
National Insurance Funds and the NHS	0.6	14.8	–	15.4	15.8
Other revenue payables	1.1	0.1	1.4	2.6	2.6
Payments on account	2.4	–	–	2.4	2.4
Current liabilities before cash and cash equivalents	**17.1**	**31.9**	**1.8**	**50.8**	**49.5**
Cash and other payables	0.9	–	–	0.9	1.6
Total current liabilities	**18.0**	**31.9**	**1.8**	**51.7**	**51.1**

Payables are amounts recorded as due by HMRC at the end of the reporting period but payment has not been made. Accrued revenue payable is recognised when:

- amounts due to VAT traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- amounts of receivables and accrued revenue receivable that when received will be passed to a third-party, e.g. National Insurance Contributions due to the National Insurance Funds and National Health Services
- amounts in respect of Corporation Tax, income tax and other small taxes likely to be repayable by HMRC pending finalisation of taxpayer liabilities, and for expected Corporation Tax overpayments.

Deferred revenue includes duties and taxes paid in the current year that relate to future accounting periods. There are no payables which fall due after one year.

5.1 Cash and other payables

This reflects the net position of cash in HMRC bank accounts and payments that have been authorised to issue but the money has not cleared through the banking process as of the 31 March.

6. Accruals measurement and accounting estimates

The nature of tax legislation and our associated systems, mean that some of the accrued revenue receivable figures and some other items are subject to statistical estimation or forecasts. Because of the areas of uncertainty involved, actual outcomes could differ from the estimates used.

The underlying approach to accruals measurement is that revenues from taxation are deemed to accrue evenly over the period for which they are due. Revenues are recognised in the period in which the event that generates the revenue occurs.

Estimates have been made to support the accrued revenue receivable and payable balances where tax returns reporting taxpayer liabilities or associated tax payments are not filed until after the Trust Statement has been published. The estimates are consistent with those prepared for the March 2017 Budget on the basis of the economic assumptions provided by the Office for Budget Responsibility.

6.1 Uncertainty around the estimates

Statistical models are used to produce the estimates and these are based on a combination of projections based on the most recent revenue flows and forecasts of economic variables on which future revenue flows depend. The forecasts are based on what HMRC believes to be the relevant inputs. HMRC management believe that the levels of variation are acceptable, and any total understatement or overstatement is unlikely to exceed £5 billion, which does not affect significantly the reported position and is less than 1% of total revenue reported in the Statement of Revenue, Other Income and Expenditure.

This uncertainty is based on a combination of evidence from the performance of the models over previous years and takes into account the changes we've made to the models to reflect March 2017 Budget measures, the judgement of professional departmental economists, and statisticians having substantial experience of tax forecasting. The estimates process for each major tax stream is described in more detail below:

6.2 Income tax and National Insurance Class 1 collected under PAYE

Due to late or missing submissions and for receipts relating to prior periods where the split between IT and NICs cannot be identified, some estimation of PAYE is required.

Estimates are also required to recognise underpayments as receivables or overpayments as payables identified during the end of year reconciliation of individual taxpayer accounts. These amounts have been estimated based upon previous experience of the levels of underpayments and overpayments from previous reconciliations as there are no alternative sources of data to draw from.

6.3 Self Assessment income tax and National Insurance Contributions Class 4

Accrued revenue receivable represents accrued tax liabilities for 2016-17 where payment is not yet due at 31 March 2017. The estimation process has three stages:

(i) Estimation of accrued tax liabilities for 2016-17. Due to the nature of the Self Assessment regime, information from actual Self Assessment returns or associated tax payments relating to 2016-17 are not available at the point of estimation. The March 2017 Budget IT and NICs Class 4 Self Assessment forecast has been revised slightly to incorporate the latest head of duty analysis results (see below for more information); the class 4 NICs forecast is as published at March 2017 Budget, as changes due to the latest head of duty analysis are very small.

(ii) Deduction from the 2015-16 accrued tax liabilities of relevant payments by 31 March 2017. An estimate of these payments is provided by the 'head of duty analysis', a statistical apportionment of total Self Assessment receipts of income tax, NICs Class 4 and Capital Gains Tax.

(iii) A further deduction for payments due by 31 March 2017 but not made by that date (these are included in the receivable balances). The amounts relate to payments on account due on 31 January of a given year. The breakdown of the total between income tax and NICs is made by statistical estimation.

6.4 Value Added Tax

A large amount of the VAT accrued revenue receivable and payable is based on actual data and is not therefore subject to estimation uncertainty. It is necessary to estimate a small percentage as some returns relating to the current financial year are not available prior to publication of these accounts. An estimate is produced by calculating the value of these returns last year as a proportion of the total value of the returns in the preceding period last year. Those proportions are then applied to the value of returns for the corresponding period this year.

Such a methodology provides a reliable indication of future accrued revenue receivable and payable, though there remains an element of estimation uncertainty around them. The total estimation uncertainty for all tax streams has been disclosed in note 6.1.

To construct final estimates of accrued revenue receivable and payable, a number of further adjustments need to be made so as to reflect VAT that is accounted for outside the process described above. These adjustments relate to import VAT, repayments made to government departments and officers' assessments of errors in submitted VAT returns. These are based largely on actual return information although some forecast element remains using the methodology described above.

6.5 Corporation Tax

Corporation Tax for large onshore companies is paid by four quarterly instalment payments (QIPs). North Sea companies pay their Corporation Tax liabilities in three instalment payments (TIPs). Therefore, separate accrued revenue receivable estimates have been calculated for onshore and North Sea companies. A reliable accrued revenue receivable estimate for non QIPs cannot be formed so is not included in the accounts.

Onshore companies

Accrued revenue receivable has been estimated where between one and four QIPs for onshore companies have been received using a model that forecasts companies' Corporation Tax liabilities based on the number and value of QIPs received.

For accounting periods where no QIPs have been received, accrued revenue receivable has been estimated based on prior year outturn liabilities at a sectoral level adjusted for forecast growth in Corporation Tax liabilities.

Corporation Tax is assumed to accrue evenly throughout the companies' accounting periods. Assumptions for the proportions of companies' Corporation Tax liabilities that are remitted with each QIP and adjustments for overpayments and late payments of Corporation Tax liabilities are based on historical trends of Corporation Tax liabilities and receipts.

Accrued revenue payable has been estimated for expected overpayments based on historical trends.

North Sea companies

The majority of TIPs relating to 1 January to 31 March are not due in sufficient time for publication of the accounts and are therefore estimated. This estimate is primarily based on prior year outturn liabilities adjusted for forecast changes in North Sea companies' Corporation Tax liabilities.

7. Provision for liabilities and contingent liabilities

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount can be reliably estimated.

The contingent liabilities relate to legal cases for which the outcome is uncertain and HMRC consider that there is only a possible rather than probable likelihood that a payment will be required, or the amount cannot be reliably measured.

Provision for liabilities

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2016-17 £bn	Total 2015-16 £bn
Balance at 1 April 2016	5.9	6.9	12.8	14.7
Provided in the year	4.0	1.2	5.2	1.1
Provision not required written back	(0.3)	(1.4)	(1.7)	(0.9)
Provision utilised in the year	(1.8)	(0.3)	(2.1)	(2.1)
Balance as at 31 March 2017	**7.8**	**6.4**	**14.2**	**12.8**

Analysis of expected timing of cash flows

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2016-17 £bn
Amounts payable <5yrs	7.5	1.5	9.0
Amounts payable >5 yrs	0.3	4.9	5.2
Balance as at 31 March 2017	**7.8**	**6.4**	**14.2**

7.1 Expenditure – movement in provisions

	Legal claims £bn	Oil and gas field decommissioning £bn	Total 2016-17 £bn	Total 2015-16 £bn
Total provided in the year	4.0	1.2	5.2	1.1
Provision not required written back	(0.3)	(1.4)	(1.7)	(0.9)
Net movement increase/(decrease)	**3.7**	**(0.2)**	**3.5**	**0.2**

7.2 Legal claims

Provision for liability

HMRC is involved in a number of legal and other disputes which can result in claims by taxpayers against HMRC. It is in the nature of HMRC's business that a number of these matters may be the subject of litigation over several years. The department having taken legal and other specialist advice, has established a provision having regard to the relevant facts and circumstances of each matter in accordance with accounting requirements. Due to the inherent uncertainty in the estimate of the provision the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement discussions.

Provisions were reviewed during 2016-17. Of the sum of £5.9 billion provided last year £1.8 billion was paid out during the year and it was identified that £0.3 billion was no longer required. New provisions totalling £4.0 billion have been included, giving a carried forward balance of £7.8 billion - a £1.9 billion increase.

Contingent liabilities

Contingent liabilities are disclosed at a value made in accordance with a best estimate based on the information available at the end of the reporting period. Those estimates are subject to change and, for some legal cases, are inherently uncertain. Review of the population of cases that comprises the contingent liability balance has led to cases being revalued, recognised as provisions, or removed from the contingent liability disclosures where the probability that HMRC will be required to make a payment to settle the liability is now considered to be remote.

As at 31 March 2017, HMRC has 19 cases estimated at £18.7 billion (23 cases £49.1 billion as at 31 March 2016) where the maximum potential tax repayments, before losses, capital allowances and other tax reliefs, is over £100 million. Each case may include a lead case with follower claimants and covers a range of heads of duty, including Corporation Tax, income tax and VAT.

The total value of estimates has reduced in 2016-17 for a variety of reasons, including revised costings, reduced likelihood of repayment, and cessation of litigation action.

Unquantifiable contingent liability

HMRC is aware of one case which is likely to result in further claims against the department. At this stage it is not possible to quantify HMRC's ultimate liability for these claims.

7.3 Exchequer liabilities arising from oil and gas infrastructure liable for Petroleum Revenue Tax

Oil and Gas fields given development consent prior to 16 March 1993 are liable for Petroleum Revenue Tax (PRT). The rate of PRT was permanently set to zero for all chargeable periods commencing on or after 1 January 2016.

The 1975 Oil Taxation Act, as subsequently amended, allows for participators in PRT liable oil and gas fields to carry-back decommissioning losses against previous tax paid almost indefinitely. This may result in repayments from HMRC as assessed below.

Provision for decommissioning liabilities

At 2016 prices the total industry costs of decommissioning PRT liable oil and gas infrastructure are estimated at £31.8 billion over the period 2017-18 to 2045-46 requiring a provision of £6.4 billion. This is based on the estimated cash repayments relating to losses arising from decommissioning costs, that HMRC expects to make.

Since 2015-16, HMRC have made improvements to its forecasting model allowing for the use of more reliable administration data resulting in a smaller provision requirement. Through the use of new data and a revised methodology, the Oil and Gas Authority have increased their estimate of the industry's costs for decommissioning the UK/UK Continental Shelf (UKCS). The net impact of these two changes is a reduction to this year's provision balance resulting in some provision being written back.

The provision utilised in-year is the PRT amount repaid on decommissioning expenditure in 2016-17.

The total industry costs between 2017-18 and 2055-56 of decommissioning all oil and gas infrastructure in the UK/UKCS are £59.7 billion in 2016 prices. This will result in projected Exchequer cost of decommissioning tax relief (comprised of Petroleum Revenue Tax, Ring Fence Corporation Tax and Supplementary Charge) of £24.2 billion.

8. Certificates of tax deposits

	CTD issues 2016-17 £m	CTD redemptions 2016-17 £m	CTD total 2016-17 £m	CTD total 2015-16 £m
Receipts	1,169	783	1,952	2,915
Payments	(1,155)	(792)	(1,947)	(2,905)
Net receipts/(payments)			**5**	**10**
Balance at 1 April			**(6)**	**(16)**
Balance at 31 March – included in (receivables)/payables			**(1)**	**(6)**

Under the Certificate of Tax Deposits (CTD) scheme, HMRC accepts deposits from people liable to UK taxes and other liabilities. Relevant taxes and liabilities can be found on the HMRC website (www.gov.uk). HMRC administers this scheme on behalf of HM Treasury, and the accounts of the National Loans Fund include the principal and accrued interest for all issued CTDs as at 31 March.

Delays in processing between the issue and redemption of CTDs and the transfer of funds to and from the National Loans Fund can result in balances at the year end; these balances are included within receivables or payables in the Statement of Financial Position in the Trust Statement.

9. R.N. Limited

R.N. Limited is a registered company that administers, on behalf of HMRC, the holding of charges securing tax debts owed to HMRC. These debts are already fully reflected in the Trust Statement. The company's parent undertaking and controlling party is HMRC.

R.N. Limited also holds on behalf of HMRC, assets that have been assigned to HMRC in settlement of debts. These are not recognised in the Trust Statement until realised. There is no designation order requiring R.N. Limited's financial statement to be consolidated within HMRC's Accounts. R.N. Limited's accounts can be viewed at Companies House.

10. Third party assets

The department holds cash and other assets which have been seized in relation to ongoing legal proceedings. These assets do not belong to the department and do not form part of these accounts, although where seized assets are forfeited without legal proceedings, proceeds are recognised as penalty income.

The department holds Euro deposits in relation to traders who have registered with HMRC to use the VAT Mini One Stop Shop (VAT MOSS) scheme. This entails the making of a single quarterly payment to HMRC who will then forward any relevant amounts onto the tax authorities in the member state(s) where the consumers of telecommunications, broadcasting and e-services are subsequently located. Neither the department nor the government have any beneficial interest in these funds.

11. Related party transactions

Due to the nature of HMRC's business, we have a large number of transactions, relating to taxation income, with other government departments and other central government bodies. No Board member, key manager or other related party has undertaken material transactions with the department during the year.

12. Events after the reporting period

There are no reportable events after the reporting period.

The financial statements were authorised for issue by the Principal Accounting Officer on 12 July 2017.

Accounts direction given by HM Treasury

Accounts direction given by HM Treasury in accordance with Section 2 of the Exchequer and Audit Departments Act 1921.

1. This direction applies to those government departments listed in appendix 2.
2. The department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2017 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2016-17.
3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.
4. The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 8). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.
6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.
8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Vicky Rock
Deputy Director
Government Financial Reporting
HM Treasury

19 December 2016

Resource Accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2017

This statement summarises the expenditure incurred and income generated on an accruals basis. Other comprehensive expenditure and income includes changes to the values of non-current assets that cannot yet be recognised as income or expenditure.

Consolidated Statement of Comprehensive Net Expenditure

	Note	Core department and agency	2016-17 £m Departmental group[1]	Core department and agency	2015-16 £m Departmental group
Cash items:					
Personal tax credits	4.1	27,143.6	27,143.6	28,450.2	28,450.2
Corporation tax reliefs	4.4	3,379.7	3,379.7	2,895.5	2,895.5
Child Benefit		11,654.1	11,654.1	11,703.5	11,703.5
National Insurance Fund top-up		-	-	9,852.0	9,852.0
Staff and related costs		2,526.6	2,532.3	2,344.1	2,347.8
Service charges		661.7	661.7	674.0	674.0
Goods and services		518.1	507.1	418.0	413.6
Payments in lieu of tax relief and rates		137.8	137.8	147.3	147.3
Other cash expenditure		243.7	243.3	217.0	217.1
Non-cash items:					
Transfer of personal tax credit receivables to DWP		39.4	39.4	-	-
Other		333.0	336.7	341.5	341.5
Total operating expenditure	2	**46,637.7**	**46,635.7**	**57,043.1**	**57,042.5**
Total operating income	5	**438.0**	**436.0**	**415.7**	**415.1**
Net operating expenditure		**46,199.7**	**46,199.7**	**56,627.4**	**56,627.4**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs:					
Net gain on:					
- revaluation of property, plant and equipment		5.9	5.9	13.2	13.2
- revaluation of intangible assets		2.5	2.5	19.3	19.3
Total comprehensive expenditure for the year		**46,191.3**	**46,191.3**	**56,594.9**	**56,594.9**

1 Core department and agency expenditure and income can be higher than the departmental group, due to adjustments upon consolidation of RCDTS Ltd. The core department presents certain expenditure with RCDTS Ltd on the basis of how it is invoiced. At departmental group level this presents differently, reflecting how the expenditure is incurred with entities outside the departmental boundary.

The notes on pages 179 to 207 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2017

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

Consolidated Statement of Financial Position

	Note	2016-17 £m Core department and agency	2016-17 £m Departmental group	2015-16 £m Core department and agency	2015-16 £m Departmental group
Non-current assets:					
Property, plant and equipment	6	527.9	528.5	536.6	536.9
Intangible assets	7	1,233.0	1,233.0	1,181.1	1,181.1
Receivables	10	1,674.7	1,664.8	1,637.0	1,631.0
Total non-current assets		**3,435.6**	**3,426.3**	**3,354.7**	**3,349.0**
Current assets:					
Inventories		1.9	1.9	2.0	2.0
Trade and other receivables	10	1,680.5	1,680.0	1,482.7	1,482.7
Cash and cash equivalents	11	41.2	41.2	38.4	38.9
Total current assets		**1,723.6**	**1,723.1**	**1,523.1**	**1,523.6**
Total assets		**5,159.2**	**5,149.4**	**4,877.8**	**4,872.6**
Current liabilities:					
Trade and other payables	12	3,843.6	3,830.1	3,368.8	3,363.6
Provisions	13	90.2	93.9	81.1	81.1
Total current liabilities		**3,933.8**	**3,924.0**	**3,449.9**	**3,444.7**
Total assets less current liabilities		**1,225.4**	**1,225.4**	**1,427.9**	**1,427.9**
Non-current liabilities:					
Payables	12	283.2	283.2	307.8	307.8
Provisions	13	64.7	64.7	70.6	70.6
Pension liability	14	(1.1)	(1.1)	7.9	7.9
Total non-current liabilities		**346.8**	**346.8**	**386.3**	**386.3**
Total assets less total liabilities		**878.6**	**878.6**	**1,041.6**	**1,041.6**
Taxpayers' equity and other reserves:					
General fund		769.8	769.8	911.7	911.7
Revaluation reserve		107.7	107.7	137.7	137.7
Pension reserve		1.1	1.1	(7.8)	(7.8)
Total equity		**878.6**	**878.6**	**1,041.6**	**1,041.6**

Jon Thompson
Accounting Officer
10 July 2017

The notes on pages 179 to 207 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2017

This statement shows the changes to the department's cash and cash equivalents of the department during the reporting period. It shows how the department generates and uses these by classifying cash flows as operating, investing and financing activities. Cash flows arising from financing activities include Parliamentary Supply.

Consolidated Statement of Cash Flows

	Note	2016-17 £m	2015-16 £m
Cash flows from operating activities			
Net operating expenditure		(46,199.7)	(56,627.4)
Adjustments for non-cash transactions	2	376.1	341.5
(Increase)/decrease in trade and other receivables[1]		(224.7)	(62.5)
Personal tax credits receivables, adjusted for impairment, transferred to DWP	4.2	(39.4)	-
(Increase)/decrease in inventories		0.1	0.3
Increase/(decrease) in trade and other payables[1]		465.8	506.8
Use of provisions	13	(17.5)	(29.8)
Net cash outflow from operating activities		**(45,639.3)**	**(55,871.1)**
Cash flows from investing activities			
Additions to property, plant and equipment	6	(64.3)	(71.8)
Less additions to leased property, plant and equipment		7.6	35.1
Additions to intangible assets	7	(281.4)	(192.2)
Less additions to leased intangible assets		–	–
Proceeds of disposal of property, plant and equipment		0.5	0.2
Proceeds of disposal of intangible assets		–	–
Net cash outflow from investing activities		**(337.6)**	**(228.7)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		15,319.9	24,931.7
From the Consolidated Fund (Supply) - prior year		–	–
From the Consolidated Fund (non-Supply)		–	–
From the Trust Statement		30,392.3	30,873.1
From the National Insurance Fund		299.0	343.1
Net financing from the Contingencies Fund and the National Loans Fund		–	–
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(30.6)	(32.2)
Net financing		**45,980.6**	**56,115.7**

Continued

	Note	2016-17 £m	2015-16 £m
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**3.7**	**15.9**
Payments of amounts due to the Consolidated Fund		(1.4)	(2.7)
Excess cash paid to the Consolidated Fund		–	–
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**2.3**	**13.2**
Cash and cash equivalents at the beginning of the period	11	**38.9**	**25.7**
Cash and cash equivalents at the end of the period	11	**41.2**	**38.9**

1 Figures are net of items not passing through the Consolidated Statement of Comprehensive Net Expenditure.

The notes on pages 179 to 207 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2017

This statement shows the movement in the year on the different reserves held by the department, analysed into General Fund, revaluation and pension reserves. The General Fund represents the total assets less liabilities of the department, to the extent that it is not represented by other reserves and financing items. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure. The pension reserve represents changes in the underlying assumptions used by the actuaries to determine the valuation of pension scheme liabilities, such as financial assumptions, market expectations, mortality rates and projected salaries.

Consolidated Statement of Changes in Taxpayers' Equity

		Core department and agency				Departmental group			
	Note	General Fund £m	Revaluation reserve[1] £m	Pension reserve[2] £m	Total reserves £m	General Fund £m	Revaluation reserve[1] £m	Pension reserve[2] £m	Total reserves £m
Balance at 31 March 2015		**1,319.3**	**201.0**	**(8.7)**	**1,511.6**	**1,319.3**	**201.0**	**(8.7)**	**1,511.6**
Net Parliamentary funding - drawn down		24,931.7	–	–	24,931.7	24,931.7	–	–	24,931.7
Net Parliamentary funding - deemed[3]		23.9	–	–	23.9	23.9	–	–	23.9
Funding from Trust Statement[4]		30,873.1	–	–	30,873.1	30,873.1	–	–	30,873.1
National Insurance Fund		331.0	–	–	331.0	331.0	–	–	331.0
Supply (payable)/receivable adjustment		(37.4)	–	–	(37.4)	(37.4)	–	–	(37.4)
Income payable to the Consolidated Fund		(2.0)	–	–	(2.0)	(2.0)	–	–	(2.0)
Net expenditure for the year		(56,627.4)	–	–	(56,627.4)	(56,627.4)	–	–	(56,627.4)
Other net comprehensive expenditure:									
Revaluation of property, plant and equipment		–	13.2	–	13.2	–	13.2	–	13.2
Revaluation of intangible assets		–	19.3	–	19.3	–	19.3	–	19.3
Transfer between reserves		97.7	(95.8)	(1.9)	–	97.7	(95.8)	(1.9)	–
Pension reserve actuarial (losses)/gains		–	–	2.1	2.1	–	–	2.1	2.1
Contributions to LGPS pension fund by DWP		–	–	0.7	0.7	–	–	0.7	0.7
Non-cash charges - auditor's remuneration	2	1.8	–	–	1.8	1.8	–	–	1.8
Balance at 31 March 2016		**911.7**	**137.7**	**(7.8)**	**1,041.6**	**911.7**	**137.7**	**(7.8)**	**1,041.6**
Net Parliamentary funding - drawn down		15,319.9	–	–	15,319.9	15,319.9	–	–	15,319.9
Net Parliamentary funding - deemed[3]		37.4	–	–	37.4	37.4	–	–	37.4
Funding from Trust Statement[4]		30,392.3	–	–	30,392.3	30,392.3	–	–	30,392.3
National Insurance Fund		307.8	–	–	307.8	307.8	–	–	307.8
Supply (payable)/receivable adjustment		(41.1)	–	–	(41.1)	(41.1)	–	–	(41.1)
Income payable to the Consolidated Fund		(0.5)	–	–	(0.5)	(0.5)	–	–	(0.5)
Net expenditure for the year		(46,199.7)	–	–	(46,199.7)	(46,199.7)	–	–	(46,199.7)
Other net comprehensive expenditure:									
Revaluation of property, plant and equipment		–	5.9	–	5.9	–	5.9	–	5.9
Revaluation of intangible assets		–	2.5	–	2.5	–	2.5	–	2.5
Transfer between reserves		40.2	(38.4)	(1.8)	–	40.2	(38.4)	(1.8)	–
Pension reserve actuarial (losses)/gains		–	–	9.9	9.9	–	–	9.9	9.9
Contributions to LGPS pension fund		–	–	0.8	0.8	–	–	0.8	0.8
Non-cash charges - auditor's remuneration	2	1.8	–	–	1.8	1.8	–	–	1.8
Balance at 31 March 2017		**769.8**	**107.7**	**1.1**	**878.6**	**769.8**	**107.7**	**1.1**	**878.6**

1 The 31 March 2017 balance comprised £54.9 million in relation to tangible assets (31 March 2016 £67.3 million, 1 April 2015 £126.8 million) and £52.8 million in relation to intangible assets (31 March 2016 £70.4 million, 1 April 2015 £74.2 million).
2 The pension reserve is in respect of VOA employees who are members of the Local Government Pension Scheme (LGPS).
3 This is any Supply drawn down in the previous year but not spent at that year-end and, therefore, is available to be spent in this financial year.
4 Personal tax credits and corporation tax reliefs are funded out of tax receipts from the Trust Statement. Please see the Statement of Revenue, Other Income and Expenditure in the Trust Statement, page 157

The notes on pages 179 to 207 form part of these accounts.

Notes to the departmental Resource Accounts

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1. Statement of accounting policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the 2016-17 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The Resource Account is prepared on a going concern basis.

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

In addition to the primary statements prepared under IFRS, the *FReM* also requires the department to prepare the Statement of Parliamentary Supply and supporting notes located in the Accountability Section. These show outturn against Estimate in terms of the net resource and capital requirements and the net cash requirement.

1.2 Accounting convention

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

1.3 Basis of consolidation

This account consolidates the results of the bodies that fall within the departmental boundary as defined by the *FReM*. For HMRC these are the results of core department, Valuation Office Agency (VOA) and Revenue and Customs Digital Technology Services Limited (RCDTS Ltd). Transactions between core department and VOA are eliminated from the figures shown in the 'Core department and agency' column. The 'Departmental group' column further eliminates transactions with RCDTS Ltd.

1.4 Tax credits

1.4.1 Personal tax credits

Personal tax credits expenditure is recognised in the financial year in which claims are assessed and awards authorised. Authorisation is the point at which the obligation to pay personal tax credits arises; payments are provisional until entitlement is finalised after the financial year-end. Expenditure recognised during the financial year (1 April to 31 March) relates to provisional awards for the award year (6 April to 5 April) and adjustments in respect of an estimate of the finalisation occurring following the year-end. The department's statisticians provide a range for the likely outcome of the finalisations and the mid-point of this range has been included as a receivable in the Account.

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Receivables and payables are recognised as appropriate. Correcting payments are made in respect of underpayments, however if we have an existing receivable balance for a customer the underpayment is firstly offset against the receivable. Overpayments are treated as receivables and the department seeks to recover these from future personal tax credits awards or through direct repayments. Further details relating to the accounting for personal tax credits receivables are provided at note 1.15 and note 4.

Receivables which are deemed irrecoverable are written-off in accordance with the department's normal remission policy, and recorded as losses or remissions as appropriate in the Losses Statement.

DWP has taken on the receivable balance associated with personal tax credits for customers who have made a claim to Universal Credit (UC). This balance is net of historic impairment. The receivable balance started to transfer in April 2016 and is planned to continue to transfer over the coming years as more customers move to UC. In line with the Government Financial Reporting Manual this transfer has been treated as a capital grant in kind and disclosed as such throughout the financial statements.

1.4.2 Corporation tax reliefs

The value of corporation tax reliefs (see note 4.4) is estimated, based on the most recent data available. The basis of the estimation is, where available, derived from claims recorded on companies' returns for their accounting period which ended in the relevant HMRC financial year or based on other appropriate forecasting methodology. The filing requirements for companies are such that these returns are not due until 12 months after the accounting period end and consequently historic claims are utilised to project forward to the current year taking into account forecast growth rates and planned changes in relevant tax policy and rates.

1.5 Child Benefit

Child Benefit payments are accounted for from the time a claim for Child Benefit is approved.

Where under or overpayments are identified, adjustments are made to expenditure. Where possible, overpayments are recovered from future benefit entitlements. Receivables which are deemed irrecoverable are written-off in accordance with the department's normal remission policy, and recorded as losses or remissions as appropriate in the Losses Statement.

The Losses Statement is reported in the Accountability Section on **page 147**.

1.5.1 Child Benefit error and fraud

HMRC measures the overall level of error and fraud by investigating a random sample of claims, selected to be representative of the Child Benefit population.

1.6 Non-current assets

1.6.1 Depreciation/amortisation

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

Asset category – property, plant and equipment	Estimated useful life
Land	Not depreciated
Freehold buildings	50 years
Leased serviced accommodation	Period of the lease
Leased IT assets	Period of the lease
Accommodation refurbishments	Remainder of the lease
Office equipment	5 to 20 years
Computer equipment	4 to 7 years
Vehicles	5 to 8 years
Furniture and fittings	15 years
Scientific aids	3 to 10 years

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

1.6.2 Review of useful economic life

The useful economic life of all assets are considered on an annual basis and changed if required.

1.6.3 Impairments

A formal impairment review is undertaken on an annual basis for buildings, accommodation refurbishments and developed computer software assets.

1.7 Property, plant and equipment

1.7.1 General

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses, in accordance with IAS 16 *Property, Plant and Equipment*. A £5,000 capitalisation threshold applies to all property, plant and equipment except for furniture, vehicles and IT hardware, which are capitalised regardless of cost and accommodation refurbishments which are capitalised once costs exceed £150,000. Assets capitalised under finance leases are recorded at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract, in accordance with IAS 17 *Leases*.

On initial recognition assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets under construction are recorded at cost. Non-property assets are valued on a depreciated historical cost basis as a proxy for fair value had indices been applied, as they are of low value with short lives.

1.7.2 Property assets

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

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

The majority of the freehold and leasehold property assets occupied by HMRC were acquired from the predecessor departments by Mapeley STEPS Contractor Ltd in March 2001 under a 20 year PFI contract (see note 9.2). These assets have been capitalised as finance leases under IFRIC 12. The buildings only have been treated as finance leases and the related land has been treated as operating leases. The department has also capitalised other PFI property interests as finance leases being service concession arrangements under IFRIC 12. The department has capitalised both its short-term leases with third-party private landlords which Mapeley manages on its behalf, and its short-term leases held directly with third-party private landlords under IAS 17 where the relevant conditions are met.

The intention under Building our Future locations strategy is that all new leases will be operating leases, however, this will be reviewed on a case-by-case basis to ensure they are classified correctly. As such, the assets relating to new buildings will be property refurbishment assets, and depreciated over the life of the lease.

Property assets have been stated at fair value using professional valuation on a rolling five year programme, all assets will be professionally revalued within this time period.

1.7.3 IT assets

The IT non-current assets recognised by our IT partners and used in providing the IT service to the department have been capitalised as finance leases under IFRIC 12 and are disclosed at the lower of fair value and the present value of the minimum lease payments, at the inception of the contract. It is not possible to separate these assets between the core department and the Valuation Office Agency as they are used in common to deliver the service. These joint assets are held by the core department and are treated as an operating lease by the Valuation Office Agency. Whilst consolidated figures will report the correct aggregate position this difference in approach is to be noted.

From 1 December 2015, RCDTS Ltd have taken over the provision of the management of third-party supplier contracts for IT hardware, software, service and consumables from our IT partners. As part of this service IT hardware is purchased by RCDTS Ltd on behalf of the department and are capitalised within these Accounts.

1.7.4 Tangible assets under construction

Assets under construction are separately reported in note 6. In respect of the Building our Future locations strategy, this includes accommodation refurbishment and furniture assets. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and depreciation commences.

1.8 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses, in accordance with IAS 38 *Intangible assets*.

1.8.1 Developed computer software

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

1.8.2 Intangible assets under construction

Intangible assets under construction relate to software development by the department, our IT Partners and RCDTS Ltd. Intangible assets under construction are separately reported in note 7. Costs are accumulated until the asset is available for use whereupon it is transferred to the relevant asset class and amortisation commences.

1.9 Pensions

1.9.1 Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS) known as alpha, are unfunded and contributory. The departmental group recognises the expected cost of these elements. This is determined systematically and rationally over the period during which we benefit from employees' services by payment to the PCSPS and CSOPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and CSOPS.

1.9.2 Local Government Pension Scheme

A number of the Valuation Office Agency employees are members of the Local Government Pension Scheme. Further information can be found within the Valuation Office Agency accounts (HC 73) that can be viewed at www.gov.uk/government/organisations/valuation-office-agency.

1.9.3 Partnership pensions

The partnership pension account is a stakeholder pension arrangement with employees able to choose a stakeholder pension product from a panel of providers.

1.9.4 Aviva Friends Life plc

A number of RCDTS Ltd employees are members of the Aviva Friends Life plc pension scheme. Further information will be found within the RCDTS Ltd accounts available at Companies House at: www.gov.uk/government/organisations/companies-house by 31 December 2017.

1.10 Provisions

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the department provides for probable legal or constructive obligations which are of uncertain timing or amount at Consolidated Statement of Financial Position date, on the basis of the best estimate of the expenditure required to settle the obligation.

1.11 Early departure costs

The department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who have taken early departure or retirement under the Civil Service Compensation Scheme. The department has made provision in full for early retirement costs. The estimated risk-adjusted cash flows are discounted at 0.24% as set by HM Treasury (2015-16: 1.37%).

1.12 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the department discloses possible legal or constructive obligations of uncertain value or timing at Consolidated Statement of Financial Position date on the basis of the best estimate of the expenditure required to settle the obligation.

For Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, are disclosed separately. In accordance with the requirements of *Managing Public Money*. Remote contingent liabilities are reported in the Accountability Section on page 150.

Where the time value of money is significant, contingent liabilities are stated at discounted amounts, and the amount reported to Parliament separately noted.

1.13 Value Added Tax (VAT)

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

1.14 Impending application of newly issued accounting standards not yet effective

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

- IFRS 9 Financial Instruments, effective 1 January 2018 (EU endorsed 22 November 2016). IFRS 9 addresses classification, measurement and impairment of financial assets. Exposure Draft consultation in summer 2016 has resulted in interpretations for public sector context. HM Treasury propose to include in the 2018-19 FReM
- IFRS 15 Revenue, effective 1 January 2018 (EU adopted October 2016, clarifications not yet EU adopted). IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The disclosure requirements under the new Standard are more extensive than the current requirements included within IAS 18. Exposure Draft consultation in summer 2016 has resulted in interpretations for public sector context. HM Treasury propose to include in the 2018-19 FReM.

- IFRS 16 Leases, effective 1 January 2019 (not yet EU adopted). IFRS 16 will provide a single model for all leases that will bring all leases on Statement on Financial Position unless the lease term is 12 months or less or the underlying asset has a low value. HM Treasury have formed a cross-government technical working group to assist in the assessment of this with a view to include in the 2019-20 FReM.

- IAS 7 Statement of Cash Flows, effective 1 January 2017 (not yet EU adopted). IAS 7 amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. HM Treasury will review the implications of this amendment and follow due process nearer to the EU adoption with a view to include in the 2018-19 FReM.

1.15 Critical accounting judgements and key sources of estimation

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

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

Personal tax credits expenditure

Personal tax credits consist of Child Tax Credit and Working Tax Credit. HMRC statisticians provide receivable and payable balances based on data from tax credits systems to move personal tax credits to an accruals accounting basis. A range for the estimate of the results of the current year finalisation exercise is also provided. This estimate is based on a model used to forecast debt and factors in a number of assumptions including the expected effects of new policy. It is therefore subject to uncertainty and the estimate disclosed in note 4.2 represents the mid-point of the range (see note 1.4.1). Estimates for the split of Child Tax Credit and Working Tax Credit is derived by modelling the tax credits systems and financial data (see note 4).

Corporation tax reliefs

As stated in note 1.4.2, corporation tax reliefs are estimated by the department's statisticians. The models are based on a combination of projections utilising the most recent forecasts of economic variables on which future expenditure flows depend. Due to the areas of uncertainty involved, there will inevitably be differences between the estimated forecasts and actual future outturns. These differences arise because of the need to make judgements on areas of uncertainty and are not indicative of deficiencies in the models (see note 4.4).

Impairment of receivables

Receivables in the Statement of Financial Position are reported after impairment, which is estimated based on our analysis of existing receivables and historical trends in debt recovery, losses, discharges, amendments and cancellations. We assess the collectability of receivables that are considered individually significant and the remainder are placed into groups of similar receivables, based on risk, and assessed collectively. The impairment of receivables is calculated to provide a fair view of receivables, in effect reducing them to a value that is likely to be collected and providing for non-collectable debt.

The following receivables balances have been impaired: personal tax credits, Child Benefit, law costs, and other receivables (see note 10).

The impairment of personal tax credits receivables is estimated by using a model that tracks historic recoveries. The impairment rates are calculated for each receivables category, taking into account actual recovery rates. These rates are then applied to the gross carrying value of receivables for each category to provide an estimate of the recoverable amount.

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

Provisions and contingent liabilities

The department undertakes a quarterly review of provisions and contingent liabilities. These are estimated by appropriate business areas based on the likelihood of a liability materialising.

1.16 Machinery of government change – Government Gateway

The hosting of a web portal that enables customers to access on-line material pertaining to their tax affairs transferred to HMRC from DWP. The transfer of income, expenditure and non-current assets were successfully accounted for, without the requirement to restate prior year comparatives, within both sets of departmental Resource Accounts.

2. Expenditure

	Note	2016-17 £m Core department and agency	2016-17 £m Departmental group	2015-16 £m Core department and agency	2015-16 £m Departmental group
Personal tax credits	4.1	**27,143.6**	**27,143.6**	**28,450.2**	**28,450.2**
Corporation tax reliefs	4.4	**3,379.7**	**3,379.7**	**2,895.5**	**2,895.5**
Child Benefit					
Child Benefit[1,2]		11,651.9	11,651.9	11,701.4	11,701.4
Guardian's Allowance (funded from National Insurance Fund)		2.2	2.2	2.1	2.1
		11,654.1	**11,654.1**	**11,703.5**	**11,703.5**
National Insurance Fund top-up[3]		**–**	**–**	**9,852.0**	**9,852.0**
Staff and related costs	Page 119				
Wages and salaries		1,871.7	1,876.1	1,776.5	1,779.7
Social security costs		175.6	176.1	125.6	125.8
Other pension costs		371.1	371.4	356.0	356.2
Less capitalised costs		(20.6)	(20.6)	(7.3)	(7.3)
Travel, subsistence and hospitality		67.8	68.1	60.6	60.6
Recruitment and training		32.4	32.6	26.6	26.7
Early severance schemes		28.6	28.6	6.1	6.1
		2,526.6	**2,532.3**	**2,344.1**	**2,347.8**
Service charges					
IT Public Private Partnership contract payments		501.0	501.0	497.2	497.2
Accommodation PFI and non-PFI contract payments		123.7	123.7	135.4	135.4
Indexation of liability on PFI deals		1.7	1.7	2.4	2.4
IT Public Private Partnership interest charges		3.7	3.7	5.4	5.4
Accommodation interest charges		31.6	31.6	33.6	33.6
		661.7	**661.7**	**674.0**	**674.0**
Goods and services					
Printing, postage, stationery and office supplies		63.4	63.4	66.0	66.0
Consultancy		5.2	5.2	2.3	2.5
Contracted out services		125.7	125.8	84.3	84.3
Publicity		6.2	6.2	6.4	6.4
Post Office services		8.3	8.3	7.6	7.6
Bank charges		21.3	21.3	24.6	24.6
IT services and consumables		171.4	160.2	99.9	95.1
Telephone expenses		50.6	50.7	64.9	65.1
Legal and investigation		45.1	45.1	42.8	42.8
Enforcement costs		20.9	20.9	19.2	19.2
		518.1	**507.1**	**418.0**	**413.6**

Continued

	Note	2016-17 Core department and agency £m	2016-17 Departmental group £m	2015-16 Core department and agency £m	2015-16 Departmental group £m
Payments in lieu of tax relief and rates					
Life Assurance Premium Relief, MIRAS		0.1	0.1	1.6	1.6
Transitional payments to charities		40.0	40.0	45.0	45.0
Stakeholder pensions		30.0	30.0	30.0	30.0
Payments of local authority rates		67.7	67.7	70.7	70.7
		137.8	**137.8**	**147.3**	**147.3**
Other cash expenditure					
Accommodation expenses		112.3	112.3	85.8	85.8
National Insurance Fund other government department collection service		51.0	51.0	53.2	53.2
Shipbuilders' Relief		0.8	0.8	17.9	17.9
Hire of plant and machinery		0.3	0.3	0.3	0.3
Other operating leases		33.6	33.6	32.4	32.4
Payments to add capacity		(0.3)	(0.3)	–	–
Losses - excluding Child Benefit and tax credits		11.5	11.5	0.4	0.4
Special payments		3.8	3.8	4.7	4.7
Other		30.7	30.3	22.3	22.4
		243.7	**243.3**	**217.0**	**217.1**
Non-cash items:					
Depreciation, amortisation and impairments					
Depreciation		77.5	77.6	75.6	75.6
Amortisation		228.9	228.9	229.4	229.4
Loss on impairment of non-current assets	8	3.7	3.7	2.0	2.0
		310.1	310.2	307.0	307.0
Provisions for liabilities and charges	13	20.7	24.3	28.8	28.8
Other non-cash					
Transfer of personal tax credits receivables to DWP		39.4	39.4	–	–
Pension finance costs		1.7	1.7	1.9	1.9
Auditor's remuneration and expenses		1.8	1.8	1.8	1.8
(Profit)/loss on disposal of non-current assets		0.9	0.9	2.0	2.0
Revaluation gain		(2.2)	(2.2)	–	–
		41.6	41.6	5.7	5.7
Total non-cash items		**372.4**	**376.1**	**341.5**	**341.5**
Total operating expenditure		**46.637.7**	**46,635.7**	**57,043.1**	**57,042.5**

1 HMRC undertook a review for 2016-17 between October 2016 and May 2017 based on a random sample of 2,700 claims. As a result, HMRC estimates that error and fraud resulted in overpayments of between 0.7% and 1.2% of Child Benefit expenditure being paid to claimants to which they were not entitled. The review identified no instances which relate to error on the part of HMRC.

2 Child Benefit expenditure includes amounts paid to higher rate taxpayers earning greater than £50,000 per annum. It is estimated that £421 million (2015-16: £475 million) will be recovered via future income tax charges arising from payments of Child Benefit to those earning over £50,000 in 2016-17. These income tax charges are accounted for in the Trust Statement.

3 As the balance on the National Insurance Fund did not fall below one sixth of the annual benefit expenditure, no top-up payments were required in 2016-17.

3. Statement of operating expenditure by operating segment

This note shows how current expenditure is apportioned against the main areas of business activity.

As part of a review to make sure we are serving our customers and collecting tax in the best possible way, we made some changes to how we are organised with effect from 1 October 2016. This saw the restructuring of the department's operational areas into three new groups; Customer Strategy and Tax Design, Customer Services and Customer Compliance which are underpinned by existing Transformation and corporate services areas.

Each segment relates to a business activity reported to the Chief Executive and the Board using relevant management information covering expenditure and income and which is used by the Board to make decisions.

3.1 Expenditure and income by reportable segment

			2016-17 £m			2015-16[1] £m
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure
Reportable segment						
Customer Services	944.8	22.8	922.0	907.6	23.7	883.9
Customer Strategy and Tax Design	147.6	9.9	137.7	157.0	11.5	145.5
Customer Compliance	1,079.4	38.6	1,040.8	967.6	46.0	921.6
Chief Digital and Information Officer	645.0	34.2	610.8	633.8	40.0	593.8
Chief Finance Officer Group	494.7	17.2	477.5	405.0	24.9	380.1
Chief People Officer Group	68.0	0.7	67.3	76.9	0.7	76.2
Solicitors Office and Legal Services	79.4	5.6	73.8	56.3	4.2	52.1
HMRC Transformation	234.7	9.9	224.8	219.5	1.0	218.5
CEO and Corporate Communications Group	32.0	0.2	31.8	43.7	0.2	43.5
Depreciation/Amortisation[2]	266.2	–	266.2	262.2	–	262.2
Valuation Office Agency	205.8	205.5	0.3	209.4	207.9	1.5
Civil Service Resourcing	83.3	83.8	(0.5)	62.0	63.0	(1.0)
Total	**4,280.9**	**428.4**	**3,852.5**	**4,001.0**	**423.1**	**3,577.9**

3.2 Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

Information on all other net expenditure is included in the table below. This information is reported to the Board, however as it is centrally managed it is reported in a different format than the reportable segments in the management accounts which compares budgeted spend to full year forecast spend at the segment level.

Reconciliation between operating segments and Consolidated Statement of Comprehensive Net Expenditure

	2016-17 £m	2015-16[1] £m
Total net expenditure reported for operating segments	**3,852.5**	**3,577.9**
Payments in lieu of tax relief[3]	70.1	76.6
Payments of Local Authority Rates	63.9	67.0
Child Benefit and Child Trust Fund	11,651.9	11,700.9
Personal tax credits	27,143.6	28,450.2
Corporation tax reliefs	3,379.7	2,895.5
Non-Budget Voted NIF	–	9,852.0
Transfer of personal tax credits receivables to DWP	39.4	–
Capital grant	(10.0)	–
Other	8.6	7.3
Net Operating Cost in Statement of Comprehensive Net Expenditure	**46,199.7**	**56,627.4**

1 The 2016-17 restructure has resulted in the restatement of comparatives to align with the current segment structure. Certain of these reflect a revised approach to determine segment values.
2 Excludes depreciation and amortisation relating to assets capitalised as finance leases.
3 See note 2 Expenditure for more detailed analysis.

4. Tax credits

Since 2011-12 both personal tax credits expenditure and certain corporation tax reliefs are reported in these Resource Accounts. Tax credits can comprise of an element that is treated as negative taxation which is when the extent of the relief is less than or equal to the recipient's tax liability. They can also contain an element that is in excess of the tax liability, which is treated as a payment of entitlement. Personal tax credits are treated as public expenditure on social benefits for the National Accounts.

4.1 Analysis of personal tax credits expenditure

Personal tax credits consist of Child Tax Credit and Working Tax Credit.

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

Analysis of personal tax credits expenditure

			2016-17 £m			2015-16 £m
	Child Tax Credit	Working Tax Credit	Total tax credits	Child Tax Credit	Working Tax Credit	Total tax credits
Tax credits	21,511.4	5,444.2	26,955.6	22,148.7	6,013.4	28,162.1
Movement in impairment for receivables	119.4	(31.1)	88.3	137.6	31.9	169.5
Remissions/write-offs	74.8	24.9	99.7	82.7	35.9	118.6
Total tax credits	**21,705.6**	**5,438.0**	**27,143.6**	**22,369.0**	**6,081.2**	**28,450.2**

Please see note 1.15 for the estimation techniques used to apportion between Child Tax Credit and Working Tax Credit.

Background about the operation of personal tax credits can be found at **www.gov.uk/government/organisations/hm-revenue-customs**.

4.2 Personal tax credits receivables

Where under or overpayments are identified, either during the award year or subsequently, adjustments are made to expenditure. Overpayments are treated as receivables and the department seeks to recover these from future personal tax credits awards or through direct repayment.

HMRC statisticians provide a range for the estimate of the results of the current year finalisation exercise. It is therefore subject to uncertainty and the estimate disclosed represents the mid-point of the range.

DWP has taken on the debt associated with personal tax credits for customers who have made a claim to Universal Credit (UC). The debt started to transfer in April 2016 and is planned to continue to transfer over the coming years as more customers move to UC. In line with the Government Financial Reporting Manual this transfer has been treated as a capital grant in kind and disclosed as such throughout the financial statements. The debt has been calculated at fair value under IFRS 12 (Fair Value Measurement) which is the estimated actual value. The debt has then been impaired under IAS 36 (Impairment of Assets) and in line with HMRC and DWP policy, based on historical recoveries and write-offs.

Personal tax credits receivables

	Note	2016-17 £m	2015-16 £m
Receivables as at 1 April		**7,098.1**	**6,925.5**
Adjustment to prior year finalisation estimate		(187.3)	(114.4)
Estimated overpayment of awards prior to finalisation[1]		1,100.0	800.0
Overpayments identified from change of circumstances in year		979.2	977.6
Transfer of personal tax credits receivables to DWP		(145.6)	–
Recoveries made		(1,424.1)	(1,372.0)
Remissions/write-offs		(99.7)	(118.6)
Receivables as at 31 March		**7,320.6**	**7,098.1**
Impairment:			
– Provision		(4,322.8)	(4,234.5)
– Transfer of personal tax credits receivables to DWP		106.2	–
Net receivables at 31 March		**3,104.0**	**2,863.6**
Of which:			
Amounts expected to be recovered within one year	11	1,439.4	1,232.6
Amounts expected to be recovered in more than one year	11	1,664.6	1,631.0
Total		**3,104.0**	**2,863.6**

1 The range of the estimate is £900 million to £1,300 million (2015-16: £600 million to £1,000 million).

4.3 Personal tax credits error and fraud

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

In June 2017, HMRC completed its testing on finalised awards for 2015-16, based on a random sample of some 4,000 enquiries. As a result, HMRC estimates that error and fraud resulted in overpayments of between £1.45 billion and £1.69 billion (5.1% to 5.9% of the final award by value) being paid to claimants to which they were not entitled. In addition, HMRC estimates that error resulted in underpayments of awards to which claimants were entitled of between £0.19 billion and £0.24 billion (0.6% to 0.8% of the final award by value).

4.4 Corporation tax reliefs

In certain circumstances, companies are permitted to reduce their tax liability by making a claim for corporation tax reliefs. In order to claim a relief, a company must be undertaking specific activities and meet the criteria set out for that relief. Certain corporation tax reliefs are reported in these Resource Accounts as Annually Managed Expenditure. This treatment has been agreed with HM Treasury and relates to reliefs where there is (or could be), by virtue of their design, a payable element that is in excess of any negative taxation. Other corporation tax reliefs are reported in the Trust Statement.

Corporation tax reliefs

	2016-17 £m	2015-16 £m
Research and development tax credits - Large Companies 'Above the Line' (ATL)	1,379.2	1,356.3
Research and development tax credits - Small and Medium Enterprises	1,358.0	994.2
Film Tax Relief	387.2	326.8
Video Games Tax Relief	39.3	36.4
High-end Television Tax Relief	112.2	104.4
Children's Television Tax Relief	7.2	6.3
Animation Tax Relief	11.0	10.9
Theatre Tax Relief	44.9	32.8
Land Remediation Relief	28.5	25.4
Vaccine Research Relief	2.2	2.0
Orchestra Tax Relief[1]	10.0	–
Enhanced Capital Allowance	–	–
Total	**3,379.7**	**2,895.5**

1 This relief was introduced in 2016-17.

5. Income

Operating income is income which relates directly to the operating activities of the department. It principally comprises fees and charges to other government departments, agencies, non-departmental public bodies and external customers for services provided on a full-cost basis. It includes not only income allowed to be retained by the department but also any operating income which is required to be paid to the Consolidated Fund. VOA services relate to income generated by the agency for the provision of valuations and property advice required to support taxation and benefits. Operating income is stated net of VAT.

Operating income

		2016-17 £m		2015-16 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Administration services	146.1	144.1	119.1	118.5
Banking services	11.6	11.6	17.9	17.9
VOA services	196.9	196.9	198.9	198.9
Other income types	38.2	38.2	34.3	34.3
Subscriptions and fees	24.6	24.6	27.0	27.0
IT and telephony charges	20.6	20.6	18.5	18.5
	438.0	**436.0**	**415.7**	**415.1**
Of which:				
Income from services	354.6	352.6	335.9	335.3
Other operating income	83.4	83.4	79.8	79.8
Total	**438.0**	**436.0**	**415.7**	**415.1**

6. Property, plant and equipment

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2016	52.5	528.2	166.5	326.6	20.2	50.8	25.7	5.1	1,175.6
Additions	–	–	–	14.3	1.3	4.9	43.7	0.1	64.3
Disposals	–	(5.9)	(4.4)	(33.3)	(1.6)	(1.4)	–	(1.7)	(48.3)
Impairments	–	(0.1)	–	(0.2)	–	–	–	–	(0.3)
Reclassifications[2]	–	–	1.0	15.5	–	1.0	(15.8)	–	1.7
Revaluations[3]	–	11.6	–	–	–	–	–	–	11.6
At 31 March 2017	**52.5**	**533.8**	**163.1**	**322.9**	**19.9**	**55.3**	**53.6**	**3.5**	**1,204.6**
Depreciation									
At 1 April 2016	–	(255.9)	(108.4)	(232.9)	(12.4)	(24.8)	–	(4.3)	(638.7)
Charged in year	–	(19.7)	(12.5)	(38.9)	(2.4)	(3.7)	–	(0.4)	(77.6)
Disposals	–	4.9	3.8	32.9	1.4	1.1	–	1.6	45.7
Impairments	–	0.1	–	0.1	–	–	–	–	0.2
Reclassifications[2]	–	–	–	–	–	0.1	–	–	0.1
Revaluations[3]	–	(5.8)	–	–	–	–	–	–	(5.8)
At 31 March 2017	**–**	**(276.4)**	**(117.1)**	**(238.8)**	**(13.4)**	**(27.3)**	**–**	**(3.1)**	**(676.1)**
Carrying amount at 31 March 2016	52.5	272.3	58.1	93.7	7.8	26.0	25.7	0.8	536.9
Carrying amount at 31 March 2017	**52.5**	**257.4**	**46.0**	**84.1**	**6.5**	**28.0**	**53.6**	**0.4**	**528.5**
The assets are financed as follows:									
Owned	52.5	–	46.0	56.5	6.5	28.0	53.6	0.4	243.5
Finance leased	–	–	–	27.6	–	–	–	–	27.6
PFI contracts	–	257.4	–	–	–	–	–	–	257.4
Carrying amount at 31 March 2017	**52.5**	**257.4**	**46.0**	**84.1**	**6.5**	**28.0**	**53.6**	**0.4**	**528.5**
Of the total:									
Core department	52.5	257.1	44.3	79.8	6.5	25.1	51.9	0.4	517.6
Valuation Office Agency	–	0.3	1.7	3.8	–	2.9	1.6	–	10.3
Revenue and Customs Digital Technology Services Limited	–	–	–	0.5	–	–	0.1	–	0.6
Carrying amount at 31 March 2017	**52.5**	**257.4**	**46.0**	**84.1**	**6.5**	**28.0**	**53.6**	**0.4**	**528.5**

	Land[1] £m	Buildings[1] £m	Accommodation refurbishments[1] £m	Office and computer equipment £m	Vehicles £m	Furniture and fittings £m	Assets under construction £m	Scientific Aids £m	Total £m
Cost or valuation									
At 1 April 2015	50.0	523.7	163.8	288.9	20.3	49.7	11.4	5.5	1,113.3
Additions	–	–	–	40.0	0.8	3.2	27.7	0.1	71.8
Disposals	–	(1.7)	(2.5)	(10.3)	(0.9)	(2.3)	–	(0.5)	(18.2)
Impairments	–	(1.4)	–	–	–	(0.1)	–	–	(1.5)
Reclassifications	–	–	5.2	8.0	–	0.2	(13.4)	–	–
Revaluations[3]	2.5	7.6	–	–	–	0.1	–	–	10.2
At 31 March 2016	**52.5**	**528.2**	**166.5**	**326.6**	**20.2**	**50.8**	**25.7**	**5.1**	**1,175.6**
Depreciation									
At 1 April 2015	–	(241.7)	(98.8)	(204.7)	(10.6)	(23.5)	–	(3.9)	(583.2)
Charged in year	–	(19.2)	(12.1)	(37.4)	(2.6)	(3.4)	–	(0.9)	(75.6)
Disposals	–	1.1	2.5	9.7	0.8	1.6	–	0.5	16.2
Impairments	–	0.9	–	–	–	–	–	–	0.9
Reclassifications	–	–	–	(0.5)	–	0.5	–	–	–
Revaluations[3]	–	3.0	–	–	–	–	–	–	3.0
At 31 March 2016	–	**(255.9)**	**(108.4)**	**(232.9)**	**(12.4)**	**(24.8)**	–	**(4.3)**	**(638.7)**
Carrying amount at 31 March 2015	50.0	282.0	65.0	84.2	9.7	26.2	11.4	1.6	530.1
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**
The assets are financed as follows:									
Owned	52.5	–	58.1	56.9	7.8	26.0	25.7	0.8	227.8
Finance leased	–	–	–	36.8	–	–	–	–	36.8
PFI contracts	–	272.3	–	–	–	–	–	–	272.3
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**
Of the total:									
Core department	52.5	271.9	55.6	88.8	7.8	23.5	24.9	0.8	525.8
Valuation Office Agency	–	0.4	2.5	4.6	–	2.5	0.8	–	10.8
Revenue and Customs Digital Technology Services Limited	–	–	–	0.3	–	–	–	–	0.3
Carrying amount at 31 March 2016	**52.5**	**272.3**	**58.1**	**93.7**	**7.8**	**26.0**	**25.7**	**0.8**	**536.9**

1 See note 1.7.2 for the accounting policy for property assets.
2 Of the total, £1,230 million of cost and £1,215 million of depreciation (£15 thousand net book value) have been recognised as being assets held for sale. The balance represents assets reclassified across the non-current asset notes.
3 See notes 1.2 and 1.7 for the accounting policy regarding revaluation of property, plant and equipment.

Property revaluation

Valuations were performed by the Valuation Office Agency, an executive agency of HM Revenue and Customs, whose services include providing valuation and estate surveying services to government departments.

7. Intangible assets

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2016	29.3	2,976.5	12.4	207.7	3,225.9
Additions	0.5	1.6	–	279.3	281.4
Disposals	(2.2)	(42.5)	–	–	(44.7)
Impairments	–	(7.3)	–	(0.9)	(8.2)
Reclassifications[1]	1.6	104.4	3.2	(112.0)	(2.8)
Revaluation[2]	–	14.2	–	–	14.2
At 31 March 2017	**29.2**	**3,046.9**	**15.6**	**374.1**	**3,465.8**
Amortisation					
At 1 April 2016	(26.1)	(2,014.6)	(4.1)	–	(2,044.8)
Charged in year	(1.9)	(225.0)	(2.0)	–	(228.9)
Disposals	2.2	42.4	–	–	44.6
Impairments	–	4.6	–	–	4.6
Reclassifications[1]	–	1.1	–	–	1.1
Revaluation[2]	–	(9.4)	–	–	(9.4)
At 31 March 2017	**(25.8)**	**(2,200.9)**	**(6.1)**	**–**	**(2,232.8)**
Carrying amount at 31 March 2016	3.2	961.9	8.3	207.7	1,181.1
Carrying amount at 31 March 2017	**3.4**	**846.0**	**9.5**	**374.1**	**1,233.0**
The assets are financed as follows:					
Owned	3.4	846.0	9.5	374.1	1,233.0
Finance leased	–	–	–	–	–
PFI contracts	–	–	–	–	–
Carrying amount at 31 March 2017	**3.4**	**846.0**	**9.5**	**374.1**	**1,233.0**
Of the total:					
Core department	3.4	838.4	9.5	363.1	1,214.4
Valuation Office Agency	–	7.6	–	11.0	18.6
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2017	**3.4**	**846.0**	**9.5**	**374.1**	**1,233.0**

Continued

	Licences £m	Software £m	Website development £m	Assets under construction £m	Total £m
Cost or valuation					
At 1 April 2015	33.5	2,807.5	9.1	172.0	3,022.1
Additions	0.1	0.2	–	191.9	192.2
Disposals	(5.0)	(27.7)	–	(0.3)	(33.0)
Impairments	–	(8.0)	–	–	(8.0)
Reclassifications	0.7	151.9	3.3	(155.9)	–
Revaluation[2]	–	52.6	–	–	52.6
At 31 March 2016	**29.3**	**2,976.5**	**12.4**	**207.7**	**3,225.9**
Amortisation					
At 1 April 2015	(29.1)	(1,787.6)	(2.5)	–	(1,819.2)
Charged in year	(2.0)	(225.8)	(1.6)	–	(229.4)
Disposals	5.0	25.5	–	–	30.5
Impairments	–	6.6	–	–	6.6
Reclassifications	–	–	–	–	–
Revaluation[2]	–	(33.3)	–	–	(33.3)
At 31 March 2016	**(26.1)**	**(2,014.6)**	**(4.1)**	–	**(2,044.8)**
Carrying amount at 31 March 2015	4.4	1,019.9	6.6	172.0	1,202.9
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**
The assets are financed as follows:					
Owned	3.1	961.9	8.3	207.7	1,181.0
Finance leased	–	–	–	–	–
PFI contracts	0.1	–	–	–	0.1
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**
Of the total:					
Core department	3.2	950.6	8.3	203.4	1,165.5
Valuation Office Agency	–	11.3	–	4.3	15.6
Revenue and Customs Digital Technology Services Limited	–	–	–	–	–
Carrying amount at 31 March 2016	**3.2**	**961.9**	**8.3**	**207.7**	**1,181.1**

1 The total represents assets reclassified across the non-current asset notes.
2 See notes 1.2 and 1.8 for the accounting policy regarding revaluation of intangible assets.

8. Impairments

The department has incurred the following impairments to non-current assets and assets held for sale during the financial year.

Impairments

	2016-17 £m Core department and agency	2016-17 £m Departmental group	2015-16 £m Core department and agency	2015-16 £m Departmental group
Charged to Statement of Comprehensive Net Expenditure				
Property, plant and equipment	0.1	0.1	0.5	0.5
Intangible assets	3.6	3.6	1.5	1.5
Assets held for sale	–	–	–	–
Impairment charged	**3.7**	**3.7**	**2.0**	**2.0**
Transferred from revaluation reserve				
Property, plant and equipment	–	–	–	–
Intangible assets	0.2	0.2	0.1	0.1
Assets held for sale	–	–	–	–

See note 1.6.3 for the accounting policy for impairments.

9. Capital and other commitments

9.1 Commitments under leases

Leases are categorised as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership, whereas an operating lease doesn't. The property leases vary in length and the department has no right of purchase at the end of the contract but would re-negotiate leases where continued occupation is desired.

9.1.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the department, property leased by the department direct from private landlords and the minor occupation of other government department buildings. The other commitments relate to a number of IT and vehicle leasing contracts.

Obligations under operating leases

		2016-17 £m		2015-16 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Land and buildings				
Due within one year	85.1	85.1	93.5	93.5
Due between one year and five years	270.7	270.7	315.9	315.9
Due later than five years	268.8	268.8	42.4	42.4
	624.6	**624.6**	**451.8**	**451.8**
Other				
Due within one year	6.4	6.4	7.7	7.7
Due between one year and five years	11.8	11.8	4.2	4.2
Due later than five years	–	–	–	–
	18.2	**18.2**	**11.9**	**11.9**

9.1.2 Finance leases

The following commitments are in respect of assets that have been brought onto the department's Consolidated Statement of Financial Position under IAS 17. Total finance lease charges are given in the table below. The buildings payments relate to property leased by Mapeley from third-party landlords on behalf of the department and property leased by the department direct from private landlords.

Obligations under finance leases

	2016-17 £m Core department and agency	2016-17 £m Departmental group	2015-16 £m Core department and agency	2015-16 £m Departmental group
Buildings				
Due within one year	2.7	2.7	2.7	2.7
Due between one year and five years	8.8	8.8	10.3	10.3
Due later than five years	0.5	0.5	1.7	1.7
	12.0	**12.0**	**14.7**	**14.7**

9.2 Commitments under PFI and other service concession arrangements

9.2.1 Off-Statement of Financial Position

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

9.2.2 On-Statement of Financial Position

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

The total amount charged in the Consolidated Statement of Comprehensive Net Expenditure in respect of on-Statement of Financial Position PFI and other service concession arrangement transactions (there were no off-Statement of Financial Position transactions) was £626.4 million (2015-16: £635.0 million). This amount is included within the figures reported in note 2 as PPP and PFI service charges.

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

Details of the obligations for lease payments

	Core department and agency	2016-17 £m Departmental group	Core department and agency	2015-16 £m Departmental group
Minimum lease payments:				
Due within one year	61.2	61.2	62.4	62.4
Due between one year and five years	177.2	177.2	201.8	201.8
Due later than five years	313.4	313.4	342.2	342.2
Total minimum lease payments due in future periods	**551.8**	**551.8**	**606.4**	**606.4**

Details of the obligations for service elements

	Core department and agency	2016-17 £m Departmental group	Core department and agency	2015-16 £m Departmental group
Service elements due in future periods:				
Due within one year	189.2	189.2	412.4	412.4
Due between one year and five years	402.2	402.2	451.9	451.9
Due later than five years	323.7	323.7	367.0	367.0
Total service elements due in future periods	**915.1**	**915.1**	**1,231.3**	**1,231.3**
Total commitments	**1,466.9**	**1,466.9**	**1,837.7**	**1,837.7**

9.3 Capital commitments

The capital commitments reported relate to the future cost of the development work raised under the IT service contract and costs associated with regional centres.

Contracted capital commitments at 31 March not otherwise included in these financial statements

	Core department and agency	2016-17 £m Departmental group	Core department and agency	2015-16 £m Departmental group
Property, plant and equipment	14.1	14.1	0.6	0.6
Intangible assets	9.7	9.7	39.5	39.5
	23.8	**23.8**	**40.1**	**40.1**

9.4 Other financial commitments

During 2016-17 the department had no non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements).

10. Trade receivables, financial and other assets

	2016-17 £m Core department and agency	2016-17 £m Departmental group	2015-16 £m Core department and agency	2015-16 £m Departmental group
Amounts expected to be received in more than one year:				
Personal tax credits	1,664.6	1,664.6	1,631.0	1,631.0
RCDTS Ltd funding[1]	9.9	–	6.0	–
Accrued income, other prepayments	0.2	0.2	–	–
	1,674.7	**1,664.8**	**1,637.0**	**1,631.0**
Amounts expected to be received within one year:				
Personal tax credits	1,439.4	1,439.4	1,232.6	1,232.6
Child Benefit[2]	22.2	22.2	23.4	23.4
Trade receivables	5.4	5.5	8.6	8.6
Other receivables[3]	10.4	10.4	14.4	14.4
Deposits and advances	55.5	55.5	54.8	54.2
Value Added Tax	17.3	17.5	36.5	36.7
Prepayments - Child Benefit	27.4	27.4	41.2	41.2
Accrued income, other prepayments	102.9	102.1	71.2	71.6
	1,680.5	**1,680.0**	**1,482.7**	**1,482.7**

1 HMRC has funded RCDTS Ltd for general working capital and investment purposes. This has been accounted for as a long-term loan arrangement.
2 This figure is net of provision for impairment amounting to £25.3 million (2015-16: £30.4 million).
3 This figure is net of provision for impairment amounting to core department: £20.8 million, departmental group £22.0 million (2015-16 core department: £18.1 million, departmental group: £19.2 million).

11. Cash and cash equivalents

Cash and bank balances relate to the administering of the department and programme expenditure, but exclude all tax and duty revenues collected. The latter are included in the department's Trust Statement. Cash and cash equivalents comprise cash in hand and current balances, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

Cash and cash equivalents

		2016-17 £m		2015-16 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Balance at 1 April	38.4	38.9	25.7	25.7
Net change in cash and cash equivalent balances	2.8	2.3	12.7	13.2
Balance at 31 March	**41.2**	**41.2**	**38.4**	**38.9**
Of which balances were held at:				
Government Banking Service	40.9	40.9	37.1	37.6
Commercial banks and cash in hand	0.3	0.3	1.3	1.3
Balance at 31 March	**41.2**	**41.2**	**38.4**	**38.9**

12. Trade payables and other liabilities

The department is committed to the prompt payment of invoices. Payment is regarded as late if made outside the agreed terms, or, where no terms were agreed, beyond 30 days after receipt of goods and valid invoice. The department paid 99.8% (2015-16: 99.7%) of supplier invoices within 30 days.

The department aims to pay invoices within five days of receipt of goods and valid invoice. The department paid 96.8% (2015-16: 95.8%) of supplier invoices within five days. The legal requirement remains at 30 days.

In 2016-17 interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £0 (2015-16: £11).

The department's figures included above for prompt payment of invoices are not subject to audit.

Trade payables and other liabilities

		2016-17 £m		2015-16 £m
	Core department and agency	Departmental group	Core department and agency	Departmental group
Amounts expected to be paid within one year:				
Personal tax credits	562.3	562.3	567.8	567.8
Child Benefit	9.7	9.7	9.1	9.1
Trade payables	54.4	55.5	73.3	74.7
Taxation and social security excluding VAT	46.2	46.8	38.5	38.7
IT Public Private Partnership	15.6	15.6	15.5	15.5
Accommodation PFI	14.3	14.3	12.4	12.4
Accommodation non-PFI	1.9	1.9	1.8	1.8
Other payables	3.4	3.4	5.8	5.8
Accruals - corporation tax reliefs	2,423.2	2,423.2	2,006.8	2,006.8
Accruals - Child Benefit	235.9	235.9	214.6	214.6
Deferred income, other accruals	435.5	420.3	384.8	378.0
Amounts issued from the Consolidated Fund for Supply but not spent at year end	41.1	41.1	37.4	37.4
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
received	0.1	0.1	1.0	1.0
receivable	–	–	–	–
	3,843.6	**3,830.1**	**3,368.8**	**3,363.6**
Amounts expected to be paid in more than one year:				
IT Public Private Partnership	15.1	15.1	24.1	24.1
Accommodation PFI	260.5	260.5	274.2	274.2
Accommodation non-PFI	7.6	7.6	9.5	9.5
	283.2	**283.2**	**307.8**	**307.8**

13. Provisions for liabilities and charges

Provisions are recognised when HMRC has a present legal or constructive obligation as a result of a past event, it is probable that HMRC will be required to settle that obligation and an amount has been reliably estimated.

Provisions for liabilities and charges

		Core department and agency		2016-17 £m Departmental group		Core department and agency		2015-16 £m Departmental group
Balance at 1 April		**151.7**		**151.7**		**152.7**		**152.7**
Provided in the year	40.5		44.1		50.3		50.3	
Provisions not required written back	(19.9)		(19.9)		(21.7)		(21.7)	
Borrowing costs (unwinding of discounts)	0.1		0.1		0.2		0.2	
Net expenditure		20.7		24.3		28.8		28.8
Provisions utilised in the year		(17.5)		(17.5)		(29.8)		(29.8)
Balance at 31 March		**154.9**		**158.5**		**151.7**		**151.7**

13.1 Analysis of expected timing of discounted flows

	Core department and agency	2016-17 £m Departmental group	Core department and agency	2015-16 £m Departmental group
Not later than one year	90.2	93.9	81.1	81.1
Later than one year and not later than five years	63.1	63.1	67.9	67.9
Later than five years	1.6	1.6	2.7	2.7
Balance at 31 March	**154.9**	**158.6**	**151.7**	**151.7**

	Early departure costs £m	Child Trust Fund £m	Legal claims £m	Accommodation costs £m	Other £m	Total £m
Not later than one year	6.0	0.1	28.0	2.0	57.7	93.8
Later than one year and not later than five years	2.6	0.3	49.5	10.0	0.7	63.1
Later than five years	–	–	0.9	0.7	–	1.6
Balance at 31 March	**8.6**	**0.4**	**78.4**	**12.7**	**58.4**	**158.5**

13.2 Early departure costs

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS paying agent over the period between the early departure date and normal retirement date. The department has provided for this in full at the point when the early retirement programme became binding by establishing a provision for the estimated payments, discounting by the HM Treasury discount rate of 0.24% in real terms, and updated annually to reflect the unwinding of the discount.

13.3 Child Trust Fund

Child Trust Fund (CTF) endowments; eligibility to which ceased on 3 January 2011, provided assistance with the funding on long-term individual savings and investment accounts provided by approved financial institutions. A provision of £0.4 million was retained for general CTF payments amounts forecast to become payable in respect of children qualifying for CTF endowments.

13.4 Legal claims

A provision of £78.4 million (2015-16: £86.7 million) has been made for costs relating to various legal claims against the department. The provision reflects all known claims, in excess of the de minimis limit for reporting of £0.1 million, where legal advice indicates that it is probable that the claim will be successful and the amount of the claim can be reliably estimated. Legal claims which may succeed but are less likely to do so or cannot be estimated reliably are disclosed as contingent liabilities in note 15.

13.5 Accommodation costs

A provision of £12.6 million has been made (2015-16: £11.8 million) for a contractual obligation to return leased buildings to their original condition prior to vacation where the amount of the claims can be reliably estimated. Claims, which may succeed but are less likely to do so or cannot be estimated reliably, are disclosed as contingent liabilities in note 15.

13.6 Other

Provisions relating to various other claims against the department amount to £58.4 million (2015-16: £36.0 million). This includes a provision for payscales and progression payments of £29.8 million. The increase from 2015-16 is predominantly due to a new provision created in 2016-17 for voluntary and compulsory exit schemes relating to Building our Future for £18.2 million and an RCDTS provision of £3.7 million to fund the pension shortfall resulting from the transfer of Capgemini and Fujitsu employees into RCDTS Ltd.

14. Pension liability

The Valuation Office Agency merged with The Rent Service on 1 April 2009, taking on staff who are members of the Local Government Pension Scheme. The pension assets and liabilities, part of the Local Government Pension Scheme are reflected in the Consolidated Statement of Financial Position (see page 175).

Further information can be found within the Valuation Office Agency accounts (HC 73) that can be viewed at
www.gov.uk/government/organisations/valuation-office-agency

15. Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within HMRC's control. An example is legal action where the department may need to pay legal costs if it loses the case. These are not disclosed where disclosure could seriously prejudice the outcome of legal claims against the department.

The department has the following quantifiable contingent liabilities:

Shipbuilders' Relief - a contingent liability of £1.8 million (2015-16: £1.0 million) exists for potential future claims against the department. This relief is disclosed as a contingent liability as when a contract to build a vessel is signed it creates a possible obligation that will only be satisfied if two future events occur.

Legal claims - a contingent liability of £86.2 million (2015-16: £92.9 million) exists for costs that may be awarded should various legal cases in which HMRC is involved be determined against the department. The contingent liability covers all such cases where the outcome is unknown or cannot be estimated reliably.

Guaranteed costs - possible liability where appointed liquidators have been guaranteed payment of their costs with a view to recovery of outstanding tax liabilities £0.6 million, 78 cases (2015-16: £0.9 million, 72 cases).

Other - the department has a further number of contingent liabilities amounting to £12.4 million. (2015-16: £11.3 million).

The department has not entered into any unquantifiable contingent liabilities.

16. Financial instruments

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

The value of financial assets and financial liabilities carried at amortised cost is deemed to be a reasonable approximation of their fair value. In respect of receivables and payables, these have not been discounted to present value as it has been concluded that the effect would not be material. When considering personal tax credits, there is also fundamental uncertainty in the estimate of future inflows which would make any such discounting insufficiently reliable. Further information in relation to receivables and payables can be seen in notes 10 and 12. Personal tax credits can be seen in more detail in note 4. Assumptions on the recoverability of receivable balances are reviewed on an annual basis and appropriate adjustments for impairment are made.

17. Related-party transactions

The department is the parent of the Valuation Office Agency as well as Revenue and Customs Digital Technology Services Limited (RCDTS Ltd). These bodies are both regarded as a related-party with which the department has had various material transactions during the year.

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

RCDTS Ltd provides a managed IT service to HMRC, funding is provided from HMRC to RCDTS Ltd.

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

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

18. Entities within the departmental boundary

The Valuation Office Agency is a supply-financed agency, its Annual Report and Accounts are published at **www.voa.gov.uk**

Revenue and Customs Digital Technology Services Limited is an Arms Length Body, its Annual Report and Accounts are published at **www.gov.uk/government/organisations/companies-house**

19. Investments in other public sector bodies

The department holds no loans, public dividend capital or other interests in public bodies outside the departmental boundary.

20. Events after the reporting period end

The department is reporting a non-adjusting event after the reporting period. HMRC have exchanged agreements for operating leases, for which the present value of minimum lease payments totals £85 million. There are no other reportable adjusting or non-adjusting events after the reporting period. The financial statements were authorised for issue by the Principal Accounting Officer on 12 July 2017.

Glossary to the financial statements

Accrued Revenue Payable (ARP) – these comprise three distinct types:

- amounts due to traders that have an established revenue repayment claim relating to the financial year, but the date the claim is received is after the end of the reporting period
- amounts of receivables and accrued revenue receivable that will, when received, be passed to a third-party, for example national insurance contributions due to the National Insurance Funds and National Health Services
- amounts in respect of Corporation Tax and income tax likely to be repayable by HMRC pending finalisation of taxpayer liabilities.

Accrued Revenue Receivable (ARR) – this represents taxes and duties relating to the financial year that are not yet due or received from taxpayers, where these have not been included in receivables.

Administration costs – these relate to the internal administration costs of running the department, for example human resources, finance, estates management, and includes both costs and associated operating income.

Amortisation – this is the measure of consumption of the value of intangible assets. It is recorded as resource expense on a systematic basis over the associated asset useful life.

Annually Managed Expenditure (AME) – departments are allocated a separate annually managed spending limit. This is demand-led and therefore more volatile than DEL (Departmental Expenditure Limit) expenditure. Examples include expenditure such as tax credits and Child Benefit.

Consolidated Fund – this is the government's general bank account at the Bank of England. Payments from this account must be authorised in advance by the House of Commons.

Consolidated Fund Extra Receipts (CFER) – this is income which is outside of the ambit of the supply estimate and is required to be paid over to HM Treasury.

Consolidated Statement of Cash Flows (CSoCF) – the statement that reports the cash flows during the financial year from operating, investing and financing activities.

Consolidated Statement of Changes in Taxpayers' Equity (CSoCTE) – the statement which explains the movements in net assets between the beginning and end of the financial year.

Consolidated Statement of Comprehensive Net Expenditure (CSoCNE) – the performance statement, reporting a summary of expenditure, income, gains and losses for the financial year.

Consolidated Statement of Financial Position (CSoFP) – the statement which provides a snapshot of the assets, liabilities and reserves as at the beginning and end of the financial year.

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

Current assets – these are assets reported on the CSoFP that include cash, or any asset that is expected to be converted to cash within one year from the reporting date.

Current liabilities – these are obligations that are expected to be settled within one year of the reporting date.

Deferred income – this is income that relates to a future financial year and will be recorded in the CSoCNE of that future year.

Deferred revenue – this includes duties and taxes received in the current year that relate to a future year.

Departmental Expenditure Limit (DEL) – departments are allocated a spending budget set at Spending Reviews on a three yearly basis. It comprises capital and resource elements. Resource DEL includes the running of the services and the everyday cost of resources such as staff. Capital DEL is for the purchase of non-current assets.

Depreciation – this is the measure of consumption of the value of property, plant and equipment. It is recorded as resource expense on a systematic basis over the associated asset useful life.

Excess Vote – is the means by which Parliament retrospectively authorises departmental overspends in terms of resources or cash and infringements of agreed protocols.

Finalisation (personal tax credits) – this is the process, occurring after the financial year end, by which claimants confirm their actual income and other circumstances for the previous award year. The award is finalised for the year that has ended and appropriate adjustments for under or overpayments of tax credits are made.

Force Majeure – a common clause in contracts that essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties occurs.

Financial Reporting Manual (FReM) – this is the HM Treasury technical accounting guide to the preparation of the financial statements that are prepared on an accural basis.

IAS – International Accounting Standards. These were issued by the predecessor to the IASB.

IASB – International Accounting Standards Board.

IFRS – International Financial Reporting Standards. These are issued by the IASB. The financial statements of Government adopted IFRS from 2009-10 as the basis for preparation of their accounts which were previously prepared under UK based Generally Accepted Accounting Practice (UK GAAP).

IFRS Interpretations Committee (IFRIC) – the body that develops guidance, approved by the IASB, on appropriate accounting treatment of particular issues and scenarios.

Impairment – the process by which the value or collectability of assets is assessed to for reporting purposes.

Indemnities – these will be ordered by the court, on behalf of the insolvency practitioner or solicitors, in case the department has incorrectly wound up a viable business. These indemnities are unlimited, although we calculate a likely value for reporting purposes. The calculation is based on the likely amount that a business could be awarded in proceedings and the likelihood of a successful claim for that amount being made. The indemnity will be in place until the case is settled and the liquidation confirmed.

Intangible assets – these are non-physical items used in the business that are expected to have a useful life in excess of one year, for example, website development costs and certain software licences.

Losses – these are receivables that are determined to be uncollectable and comprise remissions and write-offs. Remissions are receivables that we have decided not to pursue, typically on the grounds of value for money. Write-offs are receivables that are considered to be irrecoverable, for example because there is no practical means for pursuing them.

Managing Public Money – this is a HM Treasury publication giving guidance on how to handle public funds.

Negative taxation – this is the element of tax relief payable that is less than or equal to the recipient's tax liability.

Net Cash Requirement – this represents the amount of funding that the department is entitled to draw-down from the Consolidated Fund.

Non-current assets – these are assets reported on the CSoFP that, upon acquisition, are expected to be held for a period in excess of one year.

Non-current liabilities – these are obligations that are expected to be settled beyond one year of the reporting date.

Non-Voted expenditure – this is part of DEL and AME which is not authorised annually through the Supply Estimate. It occurs where Parliament has passed legislation that allows funding of a service on a continuing basis either directly from the Consolidated Fund or from other sources, for example the National Insurance Fund.

Payables – these are amounts recognised as owing by the department at the end of the reporting period but for which payment has not been made.

Payment of entitlement – this is the element of tax relief payable that is in excess of the recipient's tax liability, and is therefore in addition to any negative taxation element.

Private Finance Initiative (PFI) – a method of establishing public-private partnerships (PPPs) by funding public infrastructure projects with private capital.

Programme expenditure – these are typically the costs that the department directly incurs in delivering its policy objectives. It includes the payments such as tax credits and Child Benefit. All expenditure and associated operating income for the Valuation Office Agency is treated as Programme.

Provisions for liabilities – these are recognised when HMRC has a present legal or constructive obligation as a result of a past event, that it is probable that HMRC will be required to settle that obligation and an amount can be reliably estimated.

Public-Private Partnerships (PPPs) – see Private Finance Initiative.

Receivables – these represent amounts recognised as being owed to the department at the end of the reporting period but for which payment has not been received. A proportion of the receivable balance relates to revenue that is not yet overdue for payment.

Receivable Days – the average number of days it takes to receive payment. The department calculates Receivable Days as, 'total receivables/total revenue x 365 days'.

Resource Accounts – the financial statement which report the cost of running the department and include payments of tax credits, Child Benefit and certain reliefs.

Statement of Parliamentary Supply (SoPS) – this is the primary parliamentary accountability statement and is unique to central government financial reporting. By expenditure category, it reports the net outturn (how much expenditure and income has been recognised) for the departmental group compared with the amounts approved by Parliament through the Supply Estimates process.

Supply Estimates process – this is the means by which a government department seeks funds from Parliament and authority is given for departmental expenditure each year.

Suspended liability – a suspended liability is an indirect tax, penalty or surcharge that is under challenge, dispute or appeal. The value is currently included in the receivables but excluded from the debt balance as currently no recovery action can be taken.

Tax debt – Debt Management Directorate calculates and reports monthly the department's debt balance which consists of debts that are overdue or where recovery action can be taken at this time. This provides key operational information for the management of overdue, recoverable debt. This differs to the debt reported in the financial statements which is termed 'Receivables' and is defined earlier in this glossary.

Trust Statement – the financial statement which reports the revenues, expenditure, assets and liabilities related to taxes and duties collected by the department.

UK GAAP – the generally accepted accounting practice in the UK which is the body of accounting standards and guidance published by the Financial Reporting Council.

Voted expenditure – this is part of DEL and AME which is authorised annually through the Supply Estimate.

Statistical tables

Table 1: Total departmental spending (£000)

This table provides further detail by category on HMRC spending.

	2012-13[1] Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Plans	2018-19 Plans	2019-20 Plans
Resource DEL								
HMRC administration	3,289,624	3,292,167	3,106,554	3,219,241	3,505,243	3,476,312	3,204,264	2,981,253
VOA administration	-1,978	-2,085	-2,420	-1,425	-2,743	150,701	151,301	122,301
Utilised provisions	40,954	33,160	31,057	29,793	17,500	30,000	30,000	30,000
National Insurance Fund	334,541	322,125	328,902	328,579	315,500	290,000	287,000	283,300
Total resource DEL	**3,663,141**	**3,645,367**	**3,464,093**	**3,576,188**	**3,835,500**	**3,947,013**	**3,672,565**	**3,416,854**
Of which:								
Staff costs	2,270,672	2,260,253	2,171,463	2,250,106	2,406,240	2,350,640	2,225,120	2,051,735
Purchase of goods and services	1,069,561	1,130,017	1,089,582	1,156,655	1,269,919	1,105,363	951,133	863,133
Income from sales of goods and services	-313,498	-321,142	-342,428	-423,119	-426,857	-191,056	-177,400	-180,700
Current grants to persons and non-profit bodies (net)	29,944	4,012	4,214	20,463	2,841	21,191	16,526	13,797
Current grants abroad (net)	594	449	424	1,301	1,286	1,309	976	780
Rentals	262,455	225,422	184,626	201,221	203,739	237,567	215,829	204,152
Depreciation[2]	226,075	233,890	247,555	271,151	278,038	325,189	351,372	379,428
Change in pension scheme liabilities	1,255	2,788	2,975	291	1,828	–	–	–
Other resource	116,083	109,678	105,682	98,119	98,466	96,810	89,009	84,529
	3,663,141	**3,645,367**	**3,464,093**	**3,576,188**	**3,835,500**	**3,947,013**	**3,672,565**	**3,416,854**

1 Figures for 2012-13 have been restated to correct some spend classification misalignments reported in the 2014-15 accounts.
2 Includes impairments.

Table 1: Public spending (£000)

	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Plans	2018-19 Plans	2019-20 Plans
Resource AME								
Social benefits and grants	12,160,117	11,492,064	11,601,947	11,700,897	11,651,914	11,579,010	11,540,459	11,542,498
Tax Free Childcare	–	–	–	–	6	383,485	777,200	866,325
Providing payments in lieu of tax relief to certain bodies	57,134	76,396	99,703	75,399	70,068	85,075	90,071	95,068
HMRC administration	19,596	24,631	70,610	28,547	32,000	30,000	30,000	30,000
Payments to add capacity	–	–	2,732	–	–	–	–	–
VOA - Payments of rates to local authorities on behalf of certain bodies	55,747	60,085	65,939	66,995	63,836	93,000	79,430	81,460
VOA administration	-398	825	963	2,902	3,100	2,000	2,000	2,000
Utilised provisions	-41,500	-33,383	-31,068	-29,798	-17,412	-30,010	-30,010	-30,010
Personal tax credit	29,699,832	29,329,220	29,123,165	28,450,152	27,143,623	26,721,090	26,447,622	26,126,139
Other reliefs and allowances	739,496	1,624,497	1,997,314	2,898,728	3,381,936	3,524,598	3,683,726	3,815,153
Total resource AME	**42,690,024**	**42,574,335**	**42,931,305**	**43,193,822**	**42,329,071**	**42,388,248**	**42,620,498**	**42,528,633**
Of which:								
Purchase of goods and services	74,927	74,442	85,715	81,710	94,963	97,000	83,770	85,910
Income from sales of goods and service	-3,312	-3,702	-4,064	-3,774	-3,764	-4,000	-4,340	-4,450
Current grants to persons and non-profit bodies (net)	42,200,664	41,963,365	42,037,716	41,977,679	40,706,128	42,293,258	42,494,838	42,397,948
Subsidies to private sector companies	465,118	551,816	764,666	1,126,492	1,531,740	–	44,240	47,235
Depreciation[2]	-489	2,859	2,072	131	-2,144	–	–	–
Take up of provisions	3,829	20,219	69,501	30,771	26,137	30,000	30,000	30,000
Release of provision	-41,500	-33,383	-31,068	-29,798	-18,912	-30,010	-30,010	-30,010
Change in pension scheme liabilities	–	–	–	–	–	2,000	2,000	2,000
Other resources	-9,213	-1,281	6,767	10,611	-5,077	–	–	–
	42,690,024	**42,574,335**	**42,931,305**	**43,193,822**	**42,329,071**	**42,388,248**	**42,620,498**	**42,528,633**
Resource budget								
Total resource DEL	3,663,141	3,645,367	3,464,093	3,576,188	3,835,500	3,947,013	3,672,565	3,416,854
Total resource AME	42,690,024	42,574,335	42,931,305	43,193,822	42,329,071	42,388,248	42,620,498	42,528,633
Total resource budget	**46,353,165**	**46,219,702**	**46,395,398**	**46,770,010**	**46,164,571**	**46,335,261**	**46,293,063**	**45,945,487**
Of which:								
Depreciation[2]	225,586	236,749	249,627	271,282	275,894	325,000	351,000	379,000

Continued

Table 1: Public spending (£000)

	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Plans	2018-19 Plans	2019-20 Plans
Capital DEL								
HMRC administration	190,063	211,019	223,985	220,162	314,622	235,790	225,020	208,000
VOA administration	3,968	7,101	7,694	7,569	11,778	11,000	9,000	8,000
Total capital DEL	**194,031**	**218,120**	**231,679**	**227,731**	**326,400**	**246,790**	**234,020**	**216,000**
Of which:								
Purchase of assets	199,245	220,229	237,864	228,970	327,774	266,290	237,020	219,000
Income from sales of assets	-5,214	-2,109	-6,185	-1,239	-1,374	-19,500	-3,000	-3,000
	194,031	**218,120**	**231,679**	**227,731**	**326,400**	**246,790**	**234,020**	**216,000**
Capital AME								
Child Trust Fund	547	223	11	5	4	10	10	10
Utilised provisions	–	–	–	–	–	–	–	–
Total capital AME	**547**	**223**	**11**	**5**	**4**	**10**	**10**	**10**
Of which:								
Capital grants to persons and non-profit bodies (net)	547	223	11	5	4	10	10	10
	547	**223**	**11**	**5**	**4**	**10**	**10**	**10**
Capital budget								
Total capital DEL	194,031	218,120	231,679	227,731	326,400	246,790	234,020	216,000
Total capital AME	547	223	11	5	4	10	10	10
Total capital budget	**194,578**	**218,343**	**231,690**	**227,736**	**326,404**	**246,800**	**234,030**	**216,010**

1 Figures for 2012-13 have been restated to correct some spend classification misalignments reported in the 2014-15 accounts.
2 Includes impairments.

Table 2: Administration budget (£000)

This table shows HMRC administration expenditure, utilised provisions and the administration element of the National Insurance Fund. This table does not include programme expenditure.

	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Plans	2018-19 Plans	2019-20 Plans
Resource DEL								
HMRC administration	849,599	777,741	706,563	717,025	788,643	826,826	829,783	826,334
Utilised provisions	32,971	26,156	18,831	13,642	8,596	14,000	14,000	14,000
National Insurance Fund	64,838	60,254	71,647	61,223	74,100	54,274	52,174	51,474
Total administration budget	**947,408**	**864,151**	**797,041**	**791,890**	**871,339**	**895,100**	**895,957**	**891,808**
Of which:								
Staff costs	303,503	306,449	311,376	328,875	359,968	336,178	319,058	300,381
Purchase of goods and services	391,306	401,842	354,374	417,815	474,151	408,554	409,509	411,747
Income from sales of goods and services	-59,518	-68,469	-95,341	-126,465	-134,700	-76,725	-71,816	-71,310
Current grants to persons and non-profit bodies (net)	2,001	2,981	3,027	1,920	1,988	2,531	2,612	2,683
Rentals	195,916	139,403	116,203	90,869	95,355	119,805	123,597	126,978
Depreciation	55,000	67,232	96,617	68,609	68,359	91,999	99,836	107,808
Other resource	59,200	14,713	10,785	10,267	6,218	12,758	13,161	13,521
	947,408	**864,151**	**797,041**	**791,890**	**871,339**	**895,100**	**895,957**	**891,808**

National Audit Office

HM Revenue & Customs 2016-17 Accounts

Report by the Comptroller and Auditor General

This Report is published alongside the 2016-17 Accounts of HM Revenue & Customs

Issued under Section 2 of the Exchequer and Audit Departments Act 1921

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

12 July 2017

This report provides the findings and overall conclusion of work conducted under section 2 of the Exchequer and Audit Departments Act 1921, by which the Comptroller and Auditor General must consider the adequacy of the systems to assess, collect and allocate tax revenues.

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Contents

Coverage of this report

HMRC corporate document	Coverage of this report
Trust Statement	HM Revenue & Customs (HMRC) reported £574.9 billion of tax revenue for 2016-17. We cover this in Part One. Under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General (C&AG) must certify whether the Trust Statement is true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG has concluded that: • the figures in the Trust Statement are true and fair; and • HMRC has used income and expenditure for purposes Parliament intended. The 1921 Act also requires the C&AG to consider whether HMRC's revenue systems to collect taxes are adequate. We found that HMRC's revenue systems are adequate subject to the observations in this report and our other reports to Parliament (paragraphs 35 and 36).
Resource Accounts	The annual cost of running HMRC was £3.3 billion in 2016-17. HMRC paid £38.8 billion in benefits and credits, including £27.1 billion of Personal Tax Credits payments and £11.7 billion of Child Benefit. Under the Government Resources and Accounts Act 2000, the C&AG must certify whether HMRC's Resource Accounts are true and fair, and whether HMRC has used the income and expenditure for the purposes Parliament intended. The C&AG: • found the Resource Accounts are true and fair; but • found material levels of error and fraud in Personal Tax Credits expenditure (Part Four).
Annual Report	HMRC reported £28.9 billion compliance yield in 2016-17. We reviewed compliance yield data with the agreement of HMRC. Our conclusions about compliance yield are in Part One. We review whether HMRC is getting value for money. We report our findings to Parliament under section 6 and section 9 of the National Audit Act 1983. We refer to our recent work on value for money in this report.

Summary

HM Revenue & Customs' performance, 2016-17

1 This report is our commentary on HM Revenue and Customs' (HMRC's) performance in 2016-17. We report findings from all our statutory audits of HMRC this year including audits of HMRC's financial statements, the adequacy of its systems for collecting revenue and the value for money it achieved from its spending. Each audit comes under different legislation (see Coverage of this report, page R4).

2 Our audit of HMRC covers the tax revenues the government raises and the benefits HMRC pays out. HMRC raised £574.9 billion of tax revenues this year (some 85% of total revenues raised by government) and paid out £38.8 billion in benefits and credits (approximately one-fifth of the government's total benefit expenditure). The annual cost of running HMRC, which is the second-largest government department in terms of staff numbers, was £3.3 billion in 2016-17.

3 Each year, we choose parts of HMRC's business to report on in more detail. Last year's report considered HMRC's transformation plans and improving the management of tax reliefs.

4 This year's report has four parts:

- Part One considers HMRC's objective of maximising revenues and looks at the main components of the £574.9 billion raised during 2016-17;
- Part Two looks at HMRC's progress in transforming the way it administers taxation;
- Part Three considers HMRC's customer service performance; and
- Part Four examines HMRC's progress in managing fraud, error and debt in Personal Tax Credits and Child Benefit and explains the basis of the Comptroller and Auditor General's (C&AG's) qualification of his regularity audit opinion on HMRC's Resource Accounts.

Summary findings

5 HMRC's vision, as published in its *Single Departmental Plan*, is as follows: "We are the UK's tax, payments and customs authority, and we have a vital purpose: we collect the money that pays for the UK's public services and help families and individuals with targeted financial support. We do this by being impartial and increasingly effective and efficient in our administration. We help the honest majority to get their tax right and make it hard for the dishonest minority to cheat the system."[1]

Tax revenues in 2016-17

6 The Trust Statement reports that HMRC collected total tax revenue of £574.9 billion in 2016-17, an increase of £38.1 billion (7.1%) on 2015-16. HMRC records revenues in the Trust Statement on an accruals basis (tax due rather than actual cash received) (paragraphs 1.3 and 1.4).

7 Of the £574.9 billion of total revenue, £127.8 billion relates to amounts that had not been collected as at the year-end. Of this balance, £99.6 billion relates to accrued revenue. While some of the accruals balance can be derived from tax receipts relating to 2016-17 and collected after the end of the financial period, HMRC is required to produce estimates to establish the total tax that will be due where assessment and collection is yet to take place. These estimates are inherently uncertain, as explained in Note 6 of the Trust Statement (paragraphs 1.6 to 1.9).

8 HMRC's estimate of compliance yield in 2016-17 was £28.9 billion, against a target of £27.0 billion.[2] HMRC achieved £26.6 billion of yield in 2015-16 against a target of £26.3 billion. Compliance yield measures the effectiveness of HMRC's compliance and enforcement activities. It is one of HMRC's main internal performance measures and is used to agree targets with HM Treasury for spending on compliance work. It comprises both cash expected and estimates of assessed tax for future accounting periods as a result of compliance activities completed in the year (paragraphs 1.15 to 1.18).

9 **HMRC has robust processes in place for estimating and reporting the value of the yield that it has generated through its compliance activities**. It has continued to develop its governance over compliance measures; its assurance of reported yields; and improve the consistency of its measures across the categories of yield. HMRC recognises, however, that there is inherent uncertainty in some elements of the yield being recorded given the nature of the estimates being made (paragraphs 1.21 to 1.25).

1 HM Revenue & Customs, *Single Departmental Plan 2015 to 2020*, updated February 2017.
2 Note that the £28.9 billion total for compliance yield reflects a change in the methodology for calculating Future Revenue Benefit. The total 2016-17 compliance yield if calculated under the old methodology would be £28 billion.

HMRC's transformation plans

10 In 2015, HMRC committed to highly ambitious plans to transform the tax system by 2020. HMRC's vision is to be one of the most digitally advanced tax administrations in the world, automating the collection of tax data, and encouraging taxpayers to use its new digital services. At the same time it has embarked on a long-term estates replacement programme, and it must make changes to systems, support the introduction of Universal Credit, and implement the Tax-Free Childcare scheme. When we first reported in 2015 it was already clear the scale of the transformation was more complex and far-reaching than previous change initiatives.[3] In 2016, we found that HMRC had a strong rationale for its plans to use technology to modernise services and reduce its costs. However, the plans carried a significant delivery risk and we raised the risk of optimism bias, particularly in assumptions about taxpayers' take-up of new online services (paragraphs 2.1 to 2.4).[4]

11 It is becoming clear that transformation as originally scoped, and its intended benefits, will be challenging to deliver within the timescale. As part of the Spending Review 2015, HMRC received a budget of £1.8 billion for its transformation for the period 2016-17 to 2019-20. In return it committed to achieving total efficiencies of £1.9 billion by 2019-20 and to collect £920 million of additional tax revenue by 2020-21. HMRC is delivering its transformation through 15 main programmes. The latest programme business cases estimated that transformation could cost £2.2 billion, including additional elements that HMRC is able to fund from existing budgets such as the costs of changing IT contracts, programme staff, redundancy costs and contingencies. Early requests for funding based on business cases totalled £710 million in 2017-18, exceeding that year's transformation budget of £457 million. HMRC recognised that it needed to slow, stop or de-scope activity to live within its budget, and subsequently reduced the difference to around £60 million for 2017-18. There are still budget pressures and HMRC is managing the risk through ongoing prioritisation of its programme. This is difficult as many of the programmes are interdependent and some are implementing necessary changes, such as the new customs system. The UK's exit from the EU will add further pressure to the programme and timetable (paragraphs 2.4 to 2.6, 2.13, 2.20, 2.23 to 2.25 and 2.40).

3 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts,* Report by the Comptroller and Auditor General, National Audit Office, July 2015.
4 Comptroller and Auditor General, *HM Revenue & Customs 2015-16 Accounts*, Report by the Comptroller and Auditor General, National Audit Office, July 2016.

12 **HMRC has recognised these challenges, and has improved the way it is managing transformation.** HMRC has developed its leadership capacity, and improved its accountability arrangements and its financial forecasting. It is managing the programmes as a single portfolio, providing increased visibility of programme risks and interdependencies and enabling better management of cost and delivery pressures. HMRC continues to seek improvements in its approach, and is enhancing its management information and streamlining governance. It is also developing its financial forecasts to narrow the range of uncertainty around the savings it plans to deliver (paragraphs 2.7 to 2.10).

13 **HMRC forecasts its 15 transformation programmes may contribute fewer efficiencies than expected, but it still aims to achieve its efficiency target from change activity elsewhere in the business.** In 2016-17, HMRC made £254 million of efficiency savings against a target of £203 million. Only £181 million of these were sustainable, so it will need to make additional savings in future years. It fell behind its planned profile for achieving sustainable efficiencies from its transformation programmes, reporting £78 million of savings against £189 million originally expected. HMRC made other operational savings and one-off cost reductions which helped to compensate. HMRC assesses that recurrent transformation savings are more likely to fall below target than to achieve it, and HMRC is actively managing a number of risks to delivery. Work to shift customers to online services has not reduced customer demand for telephone contact to the levels expected. HMRC also needs to define further how compliance activities will evolve and release efficiencies. HMRC is managing its overall financial position by targeting efficiency savings from operational activities, for example from its continuous improvement initiatives (paragraphs 2.29 to 2.33).

Recommendations

14 Overall, we have seen that HMRC has made significant progress in managing its transformation plans. The combined scale of these programmes means HMRC must maintain its pace of delivery to secure more sustainable efficiencies. There are risks that transformation will need more funding than the resources available. It is important that HMRC carries out a thorough review of progress to date and reviews alternative options for achieving its objectives to collect more revenue, and reduce its costs and the costs of its customers. HMRC should:

- **Review its plans given the pressures on the cost and affordability of programmes. It should align the transformation portfolio with the funding it has available.** In particular it should ensure it assesses the operational and customer impacts of changes to its plans, and ensure that attempts to prioritise activities to meet short-term budget constraints do not lead to a cycle of reduced savings and further pressures on resources.
- **Ensure it can turn efficiency gains into cash savings without adversely affecting performance.** It should monitor customer service and compliance performance in detail to ensure that resource is only released in areas where transformation has delivered the tools or changed ways of working that will enable adequate performance levels to be maintained.

HMRC's customer service performance in 2016-17

15 Over the past five years the National Audit Office and the Committee of Public Accounts have reported several times on the performance of HMRC's customer services. In 2012, we reported that HMRC's performance in providing services had been unacceptable.[5] HMRC's performance subsequently improved. However, in May 2016, we reported that HMRC's customer service to personal taxpayers had suffered in 2014-15 and 2015-16 because HMRC had, under budget pressure, released staff too quickly.[6] HMRC could not sustain service levels and HMRC's speed to answer the telephone and respond to post were greatly reduced. Performance improved in the second half of 2015-16 after HMRC recruited 2,400 additional staff. HMRC again plans to reduce costs significantly as it implements new digital services. We previously highlighted that poor service can have adverse consequences: the cost to customers from waiting on the telephone can be significant; and the quality of service experienced by personal taxpayers may have an impact on tax compliance. In 2016, HMRC committed to exploring these issues further and improving services significantly (paragraphs 3.2 to 3.8).

5 Comptroller and Auditor General, *HM Revenue & Customs: Customer service performance*, Session 2012-13, HC 795, National Audit Office, December 2012.
6 Comptroller and Auditor General, *HM Revenue & Customs: The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

16 In 2016-17, HMRC improved customer service performance significantly, achieving its best performance in the past five years against its key targets. HMRC reported its best performance against both its key telephony measures: the percentage of calls to its helplines that it handled; and the average speed to answer calls from when a caller enters a queue to speak to an adviser. Its performance against the time for processing overseas Tax Credits and Child Benefit claims was also at its highest level. HMRC reduced significantly the time customers spent in queues to speak to a call adviser, from 12 minutes in 2015-16 to under four minutes in 2016-17. HMRC does not routinely measure the cost to all individual customers of using its services. Using a model, we estimated that shorter queue times for the Income Tax and Tax Credits helplines saved customers £8 million in telephone charges in 2016-17 and reduced the opportunity cost of the time they spent in queues by around £73 million. Customer experience measures show improvements of between three to seven percentage points between 2015 and 2016 (paragraphs 3.9, 3.10, 3.24 and 3.25, and Figures 13, 14 and 19).

17 To improve performance HMRC recruited additional staff in 2016-17 and increased service flexibility. In 2016-17, HM Treasury provided HMRC with £28 million as part of a £71 million investment into HMRC's customer service to make it quicker and easier for individuals and small businesses to deal with HMRC.[7] The programme is intended to help HMRC bridge the gap between its customer service levels and industry standards for call-handling. The programme's objectives include HMRC providing a "top-class, multi-channel, seven-day service", and reducing call answering times by April 2017. The programme enabled HMRC to increase its customer service workforce by more than 800 in 2016-17, with new staff recruited on flexible contracts. The additional staff helped HMRC return telephone adviser numbers to 2013-14 levels. HMRC has increased its capacity to meet demand by employing staff on flexible contracts and training advisers to deal with a range of query types (paragraphs 3.6, 3.7, 3.15 and 3.16, and Figure 18).

18 HMRC's operating environment remains challenging as its advisers had to deal with eight million more calls in 2016-17 than forecast. The overall number of call attempts reduced from 61 million in 2015-16 to 50 million in 2016-17 but the number of calls reaching advisers increased. The number of calls handled by advisers increased from 29 million to 34 million while calls terminated in the automated telephony system fell from 14 million to 12 million. In previous years, customers may have been deterred from holding on for advisers because of long waiting times. Other factors have also contributed to higher than expected demand. In 2016-17, HMRC received 1.6 million more calls from customers and agents asking for pay and tax records, or employment histories (paragraphs 3.12 to 3.14, and Figure 17).

7 HM Treasury, *Budget 2016*, March 2016, paragraph 7.38. A further £43 million is being provided in 2017-18.

19 **HMRC's set of performance measures could be improved to better reflect customer experience**. HMRC has made significant progress improving service levels and as a result it achieved the more ambitious targets set for 2016-17. HMRC's existing telephone measures, however, risk miscategorising or excluding important aspects of customer experience. HMRC's established approach to measuring call-handling counts most calls terminated in its automated telephony system as successfully handled. Independent research commissioned by HMRC concluded that HMRC cannot assume that all customers have had their query resolved at the point a call ends, meaning HMRC could have resolved fewer queries than it has reported (92% in 2016-17). While HMRC includes calls handled by automated telephony, it has excluded customers' time in the automated telephony system when measuring its speed to answer. HMRC told us that typically its customers spend two to four minutes in automated telephony before entering a queue for an adviser. Industry practice in measuring speed to answer is mixed. While some organisations focus on queue time, others measure the time taken for all the stages before a customer's call is answered. HMRC's current approach to measurement could overstate calls handled, and understate the time to answer as experienced by the customer. There is also opportunity for HMRC to improve some of its other performance measures to better reflect customer experience, including whether it resolves customers' queries first time, and the quality of its advice (paragraphs 3.9 and 3.28 to 3.34, and Figures 13, 20 and 21).

Recommendations

20 HMRC has significantly improved its performance against its customer service targets by deploying additional resource and using its workforce more flexibly. HMRC has also signalled its ambition to become a leading customer services organisation, while recognising that this will take time. However, it has not yet defined what this means. In the coming year, HMRC plans further cost reductions, which could put the service under pressure once again. To safeguard customer services while making cost reductions, HMRC should:

- **improve its performance measures so that these better reflect customer experience;**
- **reduce the time, and improve the experience for customers using automated telephony,** for example by improving call routing and offering more self-service options;
- **consider the cost to customers when making strategic decisions about the overall level of resources for customer services.** It has a target to reduce costs for businesses, and a similar target for individuals would help protect against cost transfer from HMRC to individuals; and
- **set out a clear plan for achieving its ambition to be a leading customer service organisation, including timescales and performance levels.**

Progress in reducing error and fraud in Tax Credits and Child Benefit

21 **The C&AG has again qualified his regularity audit opinion on the 2016-17 Resource Accounts because of material error and fraud in Personal Tax Credits (Tax Credits).** HMRC's central estimate of error and fraud resulting in overpayments in 2015-16 is 5.5% of Tax Credits expenditure (4.8% in 2014-15) and its estimate of error resulting in underpayments is 0.7% of Tax Credits expenditure. This equates to overpayments of £1.57 billion and underpayments of £0.21 billion. These estimates of error and fraud are the most recent available (paragraphs 4.3 to 4.5 and 4.8 to 4.13).

22 **HMRC's estimated increase in error and fraud within Tax Credits is contrary to the significant reductions achieved in previous years, and the rate is expected to increase further.** HMRC analysis shows that during 2015-16 the increase in estimated error and fraud was associated with the income, work and hours, childcare and undeclared partner risk categories. HMRC also expects the level of error and fraud to increase when reported for 2016-17, due to the impact of introducing the 'Commercial with a view to a profit' test for the self-employed as well as the impact of the ending of the Concentrix contract. HMRC forecasts that the new self-employed test will reduce the cost of Tax Credits by over £500 million in the period up to 2021 (paragraphs 4.8 to 4.13, 4.17 to 4.19 and 4.24).

23 **Following the ending of the contract between HMRC and Concentrix, HMRC is undertaking a number of actions aimed at ensuring that the failings of the contract are not repeated.** This includes actions designed to ensure that its compliance interventions achieve an appropriate balance between identification of error and fraud and providing the necessary level of customer service. The proposed changes reflect a change in approach to HMRC's delivery of error and fraud interventions and will come into effect for the High Risk Renewals 2017 compliance campaign (paragraphs 4.25 and 4.26).

24 **HMRC will face further challenges in administering Tax Credits as claimants transfer to Universal Credit.** Some 95,000 claimants have transferred to Universal Credit (62,000 in 2016-17), with a further 220,000 expected to transition in 2017-18. Full transition and migration of claimants to Universal Credit is not expected to be completed until 2022. Uncertainties in the migration to Universal Credit will leave HMRC managing a diminishing but proportionally more complex caseload, with a reducing and potentially less stable workforce as staff transfer to the Department for Work & Pensions (DWP). HMRC has plans in place to ensure a smooth transfer of Tax Credits claimants to Universal Credit over the timeframe for transition. Due to the long timeframe for the transition of Tax Credits claimants to Universal Credit, and relatively small numbers of cases transitioned so far, it is too early to conclude on HMRC's performance in meeting the challenges this transition presents (paragraphs 4.27 to 4.30).

25 The 2016-17 estimate of error and fraud of 1.0% of total spending on Child Benefit is a significant reduction from previous years. HMRC has carried out detailed analysis of the cases where claimants do not respond to contact and their award is counted as error or fraud. This work indicates that the rate of error and fraud may be lower than estimated. HMRC has identified further interventions that it is planning to introduce both over the next 12 months and in the longer term that will seek to reduce the rate of error and fraud further (paragraphs 4.31 to 4.36).

Recommendations

26 HMRC should seek to fully understand the reasons for the increase in error and fraud in Tax Credits in 2015-16 and the reasons behind the predicted increases in error and fraud in 2016-17, to consider how it can best target its error and fraud activities going forwards.

27 HMRC should continue to monitor the transition of claimants to Universal Credit and ensure that its plans meet the challenges that this transition, and the transfer of staff to DWP, will bring, including ensuring that there is an effective response to the risks of error and fraud.

28 HMRC should ensure that it delivers the actions it has identified in response to the failings of the Concentrix contract, and those recommended by the Committee of Public Accounts, to avoid further disruption to claimants.

29 HMRC should continue its work to understand the causes of error and fraud and how best to engage with the Child Benefit claimant population, to support its delivery of Child Benefit systems reform.

Summary of findings from our value for money work

30 We have reproduced below the concluding paragraphs from our value for money work published up to the end of June 2017. We published two reports on HMRC: HMRC's approach to collecting tax from high net worth individuals; and managing the HMRC estate.[8] We also produced two investigations: HMRC's contract with Concentrix; and overseas sellers failing to charge VAT on online sales.[9]

8 Comptroller and Auditor General, *HMRC's approach to collecting tax from high net worth individuals*, Session 2016-17, HC 790, National Audit Office, November 2016; Comptroller and Auditor General, *Managing the HMRC estate*, Session 2016-17, HC 726, National Audit Office, January 2017.

9 Comptroller and Auditor General, *Investigation into HMRC's contract with Concentrix*, Session 2016-17, HC 915, National Audit Office, January 2017; Comptroller and Auditor General, *Investigation into overseas sellers failing to charge VAT on online sales*, Session 2016-17, HC 1129, National Audit Office, April 2017.

HMRC's approach to collecting tax from high net worth individuals

31 Assessing the correct amount of tax owed by high net worth individuals is a challenge for all tax authorities. The tax affairs of the wealthiest in society are complex, making it harder for tax authorities to ensure that they are paying the right amount of tax. HMRC has a dedicated team to handle the tax affairs of high net worth individuals, which is a sensible approach given the tax at stake, and follows the best-practice advice of the Organisation for Economic Co-operation and Development. It has allowed HMRC to get a better understanding of the tax affairs and behaviours of these taxpayers, and the yields from HMRC's work in this area have increased. HMRC has now aligned the work of the high net worth unit more closely with other parts of its business that focus on compliance risk. This change should help HMRC increase the expertise it brings to bear in identifying and challenging the behaviour of the wealthiest taxpayers where they do not comply with HMRC's interpretation of tax law.

Managing the HMRC estate

32 It is important to see HMRC's estate strategy in two ways. First as a major programme in its own right, and second, as a component in HMRC's wider business transformation. From the standpoint of the estate strategy itself, we can conclude that the handling of HMRC's STEPS contract has improved, and is more likely to deliver value for money, although significant risks remain. As far as the new programme is concerned, HMRC has already recognised that its original plan was unrealistic and it is considering how it can adjust the scope and timing of the programme to reduce the cost and delivery risk. It is, of course, better management practice to recognise cost underestimates early and to consider options for recovery early as well. However, we think it important for HMRC to step back and consider the benefits afforded by the wider business transformation, and whether they might be reduced or placed at risk by cutting back on, or delaying, the estate plans, before going ahead.

Investigation into HMRC's contract with Concentrix

33 In August 2016, MPs and the public raised concerns that Concentrix had incorrectly suspended or terminated a number of claimants' tax credits awards. For example, Concentrix mistakenly believed claimants were living with individuals unconnected to them. Substantial numbers of claimants also had difficulties contacting Concentrix to discuss their awards. It became clear the contract was not working as HMRC intended. Concentrix was not working on as many cases as HMRC had expected or meeting performance standards. In November 2016, HMRC and Concentrix agreed to end the contract and a number of Concentrix staff transferred to HMRC. This report set out the facts about the contract between HMRC and Concentrix and its termination. Our investigation covered: the aims of the contract; the management of the contract; the decision to terminate the contract; and the impact of the contract termination.

Investigation into overseas sellers failing to charge VAT on online sales

34 Online VAT fraud and error causes substantial losses to the UK Exchequer and undermines the competitiveness of UK businesses. Compliance with the VAT rules is a legal requirement. Not knowing about the rules does not excuse non-compliance. The UK trader groups who raised the issue report having experienced the impact of this problem through progressively fewer sales. They consider HMRC has been slow in reacting to the emerging problem of online VAT fraud and error and that there do not seem to be penalties of sufficient severity to act as a substantial deterrent. It is too soon to conclude on the effectiveness and impact of HMRC's new powers, and whether the resources devoted by HMRC to using them match the scale of the problem. We recognise that HMRC must consider effort and efficiency in collecting VAT but its enforcement approach to online trade appears likely to continue the existing unfair advantage as perceived by UK trader groups. This is contrary to HMRC's policy of encouraging voluntary compliance and it does not take account of the powerful effect that HMRC's enforcement approach has on the operation of the online market as a whole.

Conclusion

35 In fulfilling our statutory duties under the Exchequer and Audit Departments Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, we conclude that in 2016-17 HMRC had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of taxes in this report and our other reports to Parliament.

36 In addition to our statutory duties under the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General has again qualified his regularity opinion on the Resource Accounts due to material levels of error and fraud in Tax Credits. The estimated error and fraud rate in Tax Credits has increased and HMRC has forecast a further increase for the next year as that estimate will include the impact of introducing the 'Commercial with a view to a profit' self-employed test as well as the impact of the failings of the Concentrix contract. HMRC must consider how it can address the causes of error and fraud to reduce levels and prevent further increases, while coping with the challenges presented by the transition of claimants to Universal Credit.

Part One

Performance in 2016-17

1.1 HM Revenue & Customs' (HMRC's) objectives are to:

- maximise revenues due and bear down on avoidance and evasion;
- transform tax and payments for its customers; and
- design and deliver a professional, efficient and engaged organisation.[10]

1.2 This part considers HMRC's performance against the first of these objectives. This is measured by the revenues reported in HMRC's Trust Statement, and by compliance yield, which is disclosed in its Annual Report.

Revenues in 2016-17

Tax revenue

1.3 The total revenue HMRC reported in its Trust Statement in 2016-17 was £574.9 billion (£536.8 billion in 2015-16) (**Figure 1**). HMRC prepares the Trust Statement on an accruals basis, other than for those taxes disclosed in Note 1.2 of the Trust Statement. Accounting for tax on an accruals basis means that the revenue figures reported relate to tax due on earned income or activities during the financial year, regardless of when the cash is received.

1.4 In 2016-17, £154.8 billion of receipts collected by HMRC were paid over to other government departments, with further receipts of £409.3 billion paid over to the Consolidated Fund.

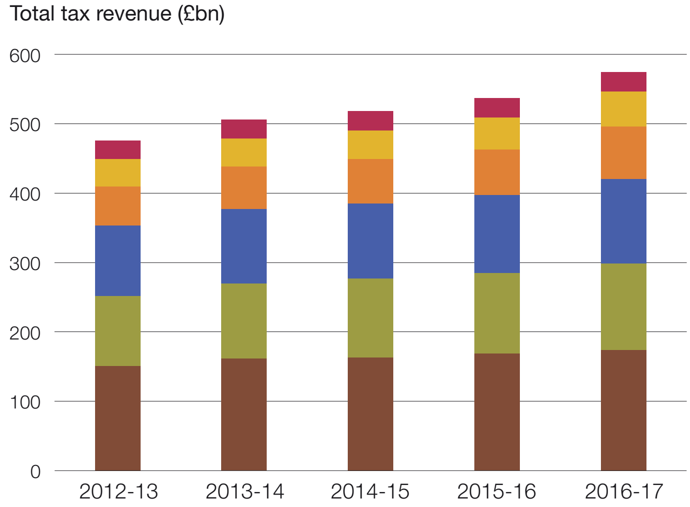
Repayments

1.5 The total revenue figure of £574.9 billion disclosed in the Trust Statement is net of £107.2 billion of repayments to taxpayers (£105.5 billion in 2015-16). Repayments are a necessary part of tax administration and can arise for a variety of reasons. HMRC may receive payments on account which can lead to repayments when the taxpayer's liability is subsequently assessed. VAT registered taxpayers can claim back VAT on certain purchases they have made, where they relate to the sale of goods and services. In 2016-17, £82.4 billion (76.9%) of repayments related to VAT (**Figure 2** on page R18).

10 HM Revenue & Customs, *Single Departmental Plan 2015 to 2020*, updated February 2017. Available at: www.gov.uk/government/publications/hmrc-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020

Figure 1
Tax revenues 2012-13 to 2016-17

Tax revenues have increased in each of the past five years



	2012-13	2013-14	2014-15	2015-16	2016-17
Hydrocarbon oils	26.5	26.9	27.2	27.7	28.0
Corporation Tax	39.2	40.3	41.4	45.5	51.1
Other	56.3	61.6	64.1	66.2	75.1
National Insurance Contributions	101.7	106.7	108.0	112.0	122.5
VAT	101.0	108.2	113.9	116.0	124.4
Income Tax	150.9	162.1	163.1	169.4	173.8
Total revenue	**475.6**	**505.8**	**517.7**	**536.8**	**574.9**

Source: HM Revenue & Customs Annual Report and Accounts 2012-13 to 2016-17

Receivables, impairment and revenue losses

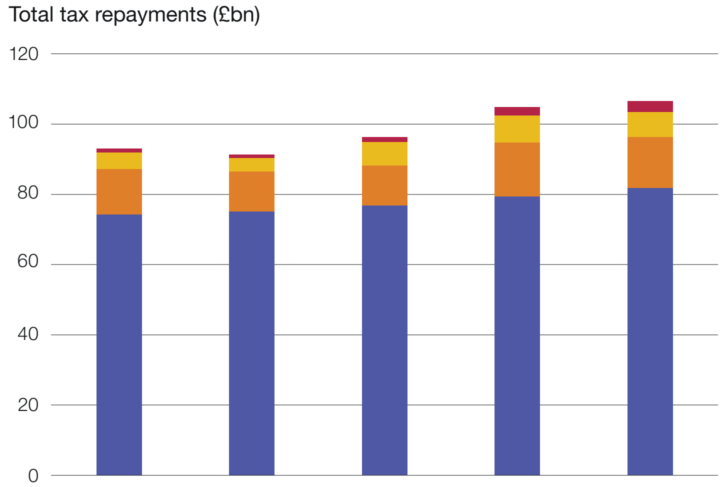
1.6 As at the financial year end (31 March 2017) £127.8 billion – 22.2% of revenue (2015-16: £122.4 billion, 22.8%) was due to be received. This balance consisted of:

- £99.6 billion (2015-16: £95.7 billion) of taxes not yet due from taxpayers, but earned in the financial year (**accrued revenue receivable**); and
- £28.2 billion (2015-16: £26.7 billion) due from taxpayers but not yet received (**receivables**).

1.7 Of the £99.6 billion **accrued revenue receivable** balance, 92.4% is comprised of taxpayer liabilities for Income Tax and National Insurance Contributions (£42.3 billion); VAT (£31.6 billion); and Corporation Tax (£18.1 billion). For Income Tax – Self-Assessment, and Corporation Tax in particular, the accrued revenue receivable amounts calculated by HMRC are subject to a high degree of estimation, as explained in Note 6 of the Trust Statement.

Figure 2
Repayments by tax type 2012-13 to 2016-17

Repayments are a necessary part of tax administration



	2012-13	2013-14	2014-15	2015-16	2016-17
Other	1.1	1.0	1.4	2.4	3.0
Corporation Tax	4.6	3.8	6.6	7.7	7.2
Income Tax/National Insurance Contributions	13.2	11.5	11.5	15.5	14.6
VAT	74.7	75.6	77.4	79.9	82.4
Total repayments	**93.6**	**91.9**	**96.9**	**105.5**	**107.2**

Source: HM Revenue & Customs Trust Statements 2012-13 to 2016-17

1.8 HMRC has developed models to calculate these estimated taxpayer liabilities. This is required because, although taxable income will have been earned by taxpayers during 2016-17, HMRC will not yet have details of all of this, for example where tax returns are not yet due to be submitted. The models are complex and require HMRC to make assumptions about the income earned by taxpayers and the related tax that is due to be paid.

1.9 The National Audit Office (NAO) reviews those models and assumptions as part of its financial audit. Although HMRC's estimates are inherently uncertain for those taxes and collection processes where assessment has yet to be finalised, particularly for Corporation Tax and Self-Assessment, we are satisfied that the estimates are reliable and have been formed on a reasonable basis with reference to the appropriate data available to HMRC at the time.

1.10 The **receivables** balance of £28.2 billion reflects where taxpayers have yet to make a payment but have a liability to pay at the end of the financial year.

1.11 There is a risk that some of the £28.2 billion receivables balance will not be collected or may prove not to be due. Accounting standards require that the Trust Statement reflects this risk. As a result, HMRC has estimated that it may not be able to collect £6.4 billion (2015-16: £6.9 billion) of these receivables. Reflecting this impairment, the overall receivables balance due from taxpayers is £21.8 billion (2015-16: £19.8 billion).

1.12 In some cases HMRC assesses that the tax is unlikely to be collected. When this happens it is either written off, where there is no practical way to pursue it, or it is remitted, where HMRC decides not to pursue a tax liability on value for money or hardship grounds. An amount of £3.6 billion was written off by HMRC during 2016-17 with a further £0.3 billion of remissions.

Provisions and contingent liabilities

1.13 HMRC recognises a provision in the Trust Statement where it considers that it is probable that it will need to repay taxes already paid to it in this and previous financial years in accordance with accounting standards. HMRC includes two categories of such probable repayments:

- **Legal claims** where taxpayers have disputed the interpretation of legislation through the courts and want the tax payable to be reassessed. The outcome depends on the court ruling. In 2016-17, HMRC made repayments of £1.8 billion with respect to legal provisions. As at 31 March 2017 HMRC expects it will have to repay £7.8 billion (2015-16: £5.9 billion).

  HMRC also separately discloses contingent liabilities for legal claims, where it considers that it is possible that it will be required to repay tax. Contingent liabilities decreased by 61.9% to £18.7 billion at 31 March 2017 (2015-16: £49.1 billion). This is due to revisions of estimates for cases currently in litigation, reduced likelihood of payment for certain cases, and cessation of litigation action.

- **Oil and gas field decommissioning costs** where companies offset the losses arising from decommissioning oil and gas infrastructure in the North Sea against tax they have previously paid on those fields. These costs can be carried back almost indefinitely to earlier years' tax history, in contrast to other taxes that are time limited. As at 31 March 2017 HMRC has estimated that between 2017-18 and 2045-46 it will have to repay £6.4 billion of Petroleum Revenue Tax (PRT) (2015-16: £6.9 billion). In 2016-17 the carry-back of decommissioning losses resulted in the repayment of £0.3 billion of PRT.

Tax developments during the year

1.14 The following developments are reflected in these financial statements:

- The Scotland Act 2012 introduced powers for the Scottish Parliament to apply a Scottish Rate of Income Tax (SRIT) to the non-savings, non-dividend income of Scottish taxpayers from 6 April 2016. HMRC continues to collect the income tax due from Scottish taxpayers and has estimated that £4.6 billion of 2016-17 tax revenues relate to the SRIT.
- Diverted Profits Tax (DPT) is set at a higher rate (25%) than Corporation Tax to encourage businesses to change their arrangements and pay Corporation Tax in line with their economic activities. DPT charging notices were issued for the first time in 2016-17, raising £138 million. HMRC has estimated that the DPT regime has also driven behavioural change in companies that has led to an additional £143 million of Corporation Tax being raised in 2016-17.
- From 1 January 2016, a new banking surcharge of 8% has been levied on the taxable profits of banking companies and building societies resident within the UK. The surcharge raised £1.5 billion in 2016-17, the first full financial year since the surcharge was introduced.

Compliance yield

1.15 Compliance yield is an estimate of the additional revenues that HMRC considers it has generated, and the revenue losses it has prevented, from its compliance and enforcement activities. It is one of HMRC's main performance measures and is used to agree targets with HM Treasury for spending on compliance work.

1.16 Compliance activities can take many different forms, such as disrupting organised criminal gangs or tackling the use of tax avoidance schemes. They fall within three groups:

- Promote: where HMRC makes complying with tax law easier for the majority of its customers who are willing and able to comply with their tax obligations, for example by designing compliance into its systems and processes.
- Prevent: where HMRC stops non-compliance from entering the system.
- Respond: where there is non-compliance, HMRC detects it and corrects it.

HMRC's performance in 2016-17

1.17 In 2016-17, HMRC achieved £28.9 billion (2015-16: £26.6 billion) of compliance yield against a target of £27.0 billion. HMRC reports the compliance yield it has recorded under five categories (**Figure 3** overleaf).

- **Cash expected – £10.3 billion (36%):** an estimate of the extra tax HMRC expects to collect by identifying and challenging non-compliance.
- **Revenue losses prevented – £7.9 billion (27%):** the tax revenue HMRC has protected each year either by refusing or reducing repayment claims because they are in error or fraudulent (£4.8 billion) or by disrupting organised criminal activity (£3.1 billion).
- **Future revenue benefit – £6.3 billion (22%):** an estimate of the revenue benefits where HMRC considers it has changed the behaviour of the taxpayers.[11]
- **Product and process yield – £3.0 billon (10%):** the annual impact of legislative changes made since April 2011 to close tax loopholes and changes to HMRC's processes which reduce opportunities to avoid or evade tax.
- **Accelerated payments – £1.3 billion (5%):** the amount that users of avoidance schemes have paid to HMRC upfront while their dispute is being resolved.

1.18 From 2016-17, following our recommendation, HMRC is reporting future revenue benefit in the year of impact rather than the year in which it is assessed. The new method is more consistent with the way in which compliance yield is reported, although there is still some uncertainty around the estimation. The change in the estimation methodology has increased the estimate from £5.4 billion (old method) to £6.3 billion (new method) and so is responsible for £0.8 billion of the £2.3 billion total increase in compliance yield this year.

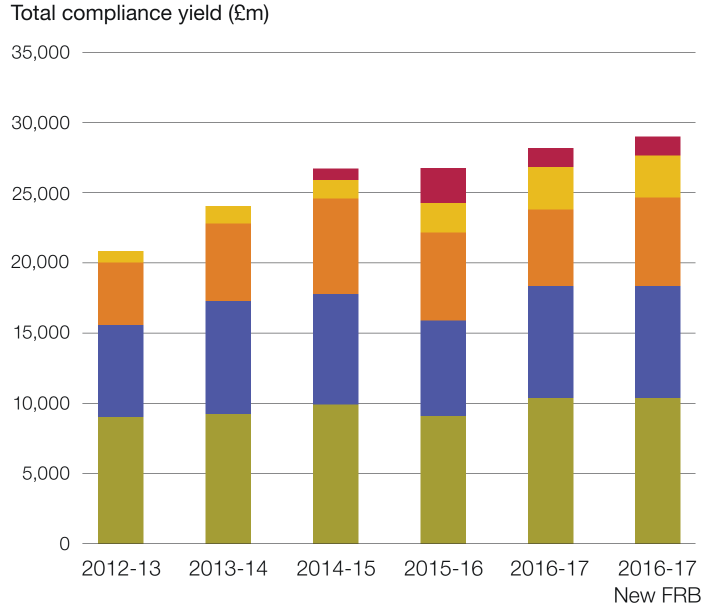
1.19 In its April 2016 report on tackling tax fraud, the Committee of Public Accounts concluded that the way HMRC reported its performance was too confusing and that the impact HMRC claimed for its work far exceeded any reduction in the tax gap. The Committee recommended that: "HMRC should clearly set out in its annual reports the relationship between its compliance yields and changes in the tax gap. It should also publish this information in a way that is accessible for everyone to understand".

1.20 HMRC notes in its Annual Report that the linkage between the tax gap and compliance yield is not a straightforward one. The Annual Report also provides links to further technical papers that provide some further detail and context of these two measures. This is a useful step in explaining the relationship, but it will take longer-term work to address the issues raised by the Committee of Public Accounts on how HMRC's reported headline performance measures relate to each other.

11 HMRC changed the basis for calculating the Future Revenue Benefit yield this year, as explained in paragraph 1.18.

Figure 3
Compliance yield reported by HMRC 2012-13 to 2016-17

HMRC reported £28.9 billion of compliance yield in 2016-17, more than in any previous year



	2012-13	2013-14	2014-15	2015-16	2016-17	2016-17 New FRB
Accelerated payments			768	2,436	1,317	1,317
Product and process yield	794	1,233	1,335	2,110	3,013	3,013
Future revenue benefit	4,441	5,508	6,748	6,238	5,419	6,259
Revenue losses prevented	6,512	8,003	7,869	6,795	7,926	7,926
Cash collected	8,975	9,182	9,838	9,028	10,340	10,340
Total compliance yield	**20,722**	**23,926**	**26,558**	**26,607**	**28,015**	**28,855**

Note

1 The '2016-17 (New FRB)' column show the impact of the change in methodology HMRC has used to determine the value of future revenue benefit as explained in paragraph 1.24. The total 2016-17 compliance yield as calculated under the old methodology would be £28 billion.

Source: HM Revenue & Customs 2016-17 Annual Report & Accounts

Our assessment of the 2016-17 measure

1.21 HMRC's reported compliance yield is an attempt to reflect the impact of all of its tax compliance activities and informs HMRC's understanding of the impact of the resources it deploys in different enforcement and compliance areas. We have previously examined HMRC's processes for assuring the robustness of the compliance yield measure and concluded that these are well developed and effective. As part of our examination of reported compliance yields in 2016-17 we reviewed HMRC's recent work to:

- improve its governance and assurance;
- address estimation and uncertainty;
- increase consistency in its measures; and
- increase transparency in its reporting.

Governance and assurance

1.22 In 2016-17 HMRC has continued to develop the governance arrangements in place to provide assurance that the amounts of compliance yield are being accurately captured and reported. Challenge panels and newly established working groups have considered the assumptions and other documentation supporting different aspects of HMRC's compliance yield measures. An internal audit mid-year review of the Future Revenue Benefit (FRB) measure noted that HMRC's own assurance processes had identified some issues with respect to incorrect calculations and inadequate audit trails, but noted that remedial action was taken during the year to address this.

Estimation and uncertainty

1.23 Compliance yield is not limited to a cash-based measure of additional yields collected in-year and it necessarily includes a degree of estimation of likely future yields to arise from compliance. We consider that HMRC's methodology and processes for estimating compliance yield are reasonable. However, as HMRC acknowledges, there is still uncertainty within these estimates and it is continuing to review its estimation methodologies to determine how they can be refined to reduce that uncertainty further.

Internal consistency

1.24 HMRC's compliance work covers a wide range of activities, which are reflected in the different yield types. NAO previously recommended that the basis for recording FRB was changed so that it is more consistent with other revenue streams. For 2016-17 HMRC has changed the way in which it records FRB so that the yield is recognised in future years when the benefit arises, rather than being fully recorded as yield in the year in which the compliance activities were completed.[12]

Transparency in reporting

1.25 HMRC continues to improve the clarity and transparency of the way it reports compliance yield in its Annual Report. This year it has published a more detailed technical paper, alongside the Annual Report, that explains the relationship between the tax gap and compliance yield, including illustrative examples of how various compliance activities map to the tax gap.

12 HM Revenue & Customs, *HMRC's Compliance Revenues – how HMRC will change how it reports 'Future Revenue Benefit'*, July 2016. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/537622/HMRCs_Compliance_Revenues-how_HMRC_will_change_how_it_reports_Future_Revenue_Benefit_web_.pdf

Part Two

HM Revenue & Customs' transformation plans

Background

2.1 HM Revenue & Customs' (HMRC's) vision is to be one of the most digitally advanced tax administrations in the world. For the last two years we have reported on the progress of HMRC's plans to transform how it administers tax. In 2015 we reported that HMRC's transformation would be more complex and far-reaching than previous change initiatives.[13] In 2016 we found that HMRC had a strong rationale for its plans to use technology to modernise services and reduce its costs. However, the plans carried a significant delivery risk, and we raised the risk of over-optimism in planning; particularly in assumptions about taxpayers' take-up of new online services.[14] The Committee of Public Accounts has also asked whether HMRC has enough staff with the right skills to deliver change of this scale.[15] We said we would report on progress as the programme developed.[16]

2.2 HMRC has continued to implement its plans over the past year. In this chapter we provide an update on:

- HMRC's transformation plans;
- how HMRC is managing its transformation;
- understanding risks in HMRC's business plans; and
- early indications of progress.

HMRC's transformation plans

2.3 HMRC is one year into a programme of transformation agreed under the Spending Review and Autumn Statement 2015 (SR15). Its main aim is to move to a fully digital tax system by 2020 so that all individuals and businesses can see their tax affairs in one place and carry out transactions digitally. To support this HMRC also plans to simplify and automate processes, make better use of data on taxpayers and modernise its working environment.

13 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, Report by the Comptroller and Auditor General, National Audit Office, July 2015.
14 Comptroller and Auditor General, *HM Revenue & Customs 2015-16 Accounts*, Report by the Comptroller and Auditor General, National Audit Office, July 2016.
15 HC Committee of Public Accounts, *HM Revenue & Customs performance in 2015-16*, Twenty-ninth Report of Session 2016-17, HC 712, November 2016.
16 See footnote 14.

2.4 At the same time it must also deliver policy commitments, including Tax-Free Childcare reforms, and support the introduction of Universal Credit. The UK's exit from the European Union (EU) increases the level of uncertainty and challenge that HMRC faces in managing transformation. For example, HMRC expects it will directly affect more than 20 different systems including its plans to reform its main customs processing system.

2.5 HMRC expects that a digital tax system will help it raise more tax revenue; and reduce its costs and those of its customers. HMRC committed to spending £1.8 billion on transformation between 2016-17 and 2019-20 to deliver:

- £1.9 billion efficiency savings (reaching annual efficiency savings of £717 million in 2019-20);
- £920 million additional tax revenue (including £310 million by 2019-20 and another £610 million in 2020-21); and
- reductions in business customers' costs (HMRC's overall aim is to save businesses £400 million over the four years to 2019-20).[17]

2.6 HMRC is managing its transformation through 15 major programmes (**Figure 4**) containing around 250 projects at different stages of maturity. The portfolio evolves as priorities change, for example, as a result of policy changes in response to administrative need and delivery and funding pressures. HMRC told us there is also wider change activity in the business which these new systems and digital tools will enable, and which it expects will contribute to improved ways of working and further efficiencies. We would expect changes to the portfolio over time, and for the delivery of programmes in the portfolio to enable further improvements as they are adopted by the business. However, HMRC will need to keep close track of the costs and benefits so it is able to demonstrate that it is getting value for money from its investment.

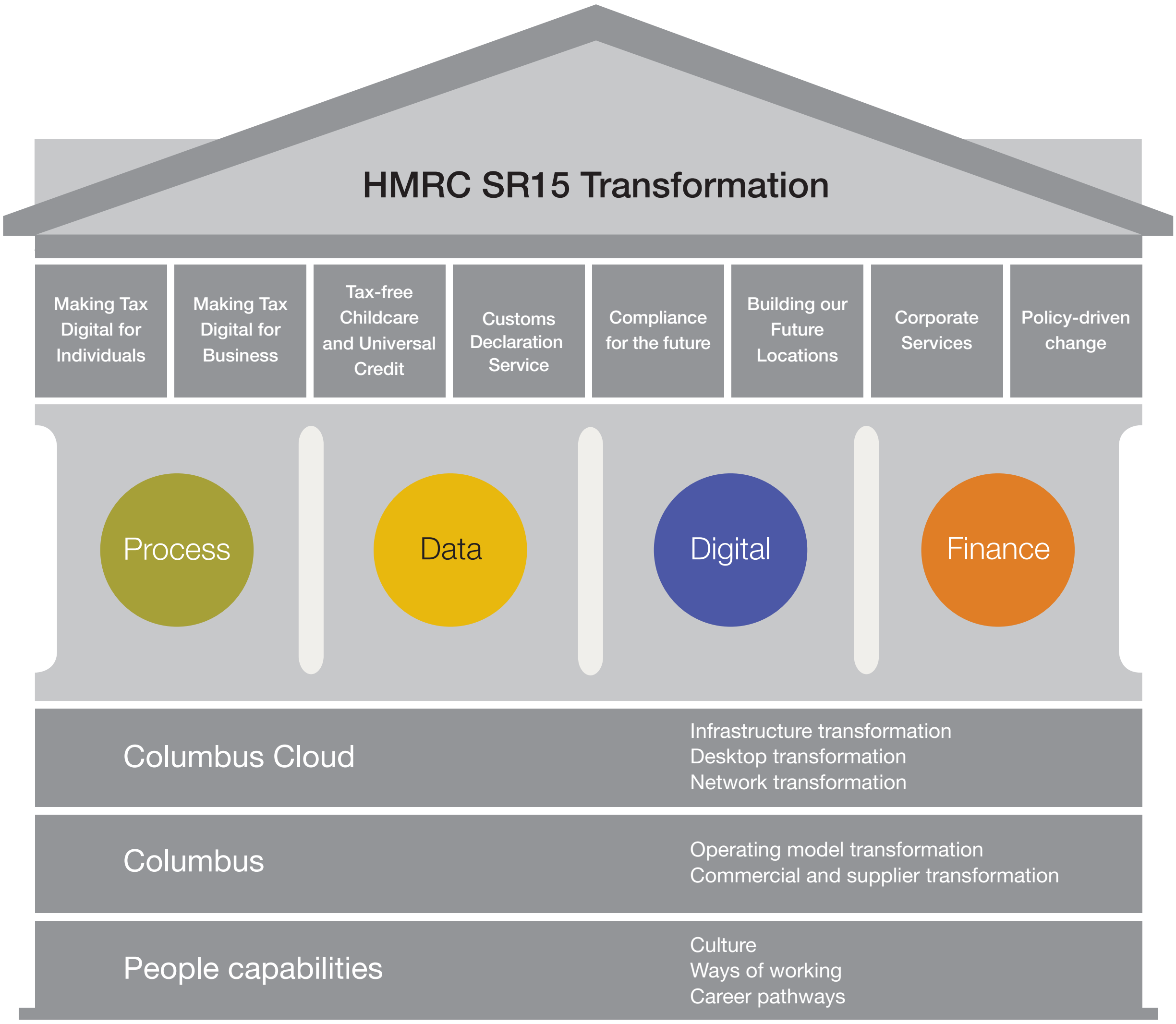
How HMRC is managing its transformation

2.7 When we looked at HMRC's change programmes in 2016 we highlighted the need for HMRC to: maintain a clear view of whether it is on track to achieve its strategic goals; develop a more detailed view of dependencies between activities; take stock of its progress early in 2017-18 to learn lessons; and refresh its plans as necessary.

17 HMRC's transformation extends beyond the SR15 period and further benefits are expected to accrue in the long-term, see Figure 6.

Figure 4

Most of HMRC's transformation is delivered through a portfolio of 15 major programmes



Notes

1 See Figure 6 for more details on the 15 programmes.

2 HMRC intends to work on Process; Data; Digital; and Finance indefinitely as its needs change. Work on these four permanent 'platforms' supports other programmes. For example, the Data platform is developing a centralised 'data hub'. This will be used by many programmes including Making Tax Digital for Individuals; Making Tax Digital for Business; Compliance for the Future, Tax-Free Childcare and Customs transformation.

Source: HM Revenue & Customs

2.8 Since last year HMRC has reviewed its approach to managing transformation in several ways:

- In April 2016, HMRC brought together its main change programmes and the existing central change teams into a single transformation portfolio, led by a Director General for Transformation as its senior responsible owner. Before that 2,000 people had worked within programmes and change clusters in various parts of HMRC.[18] The portfolio team will coordinate the changes needed to transform HMRC.
- In summer 2016, HMRC developed a master plan for transformation that integrated the milestones across the main programmes. In its March 2017 management information, HMRC used this plan to track progress towards 391 milestones with 215 dependencies between them. It has identified 52 milestones that are critical to delivering transformation overall and monitors these closely.
- In autumn 2016, HMRC invited the Infrastructure and Projects Authority (IPA) to conduct an early review of its readiness for transformation.[19] The IPA reported that it had seen good progress on synthesising existing initiatives and new initiatives. It identified areas that were working well including: a consistent view of the portfolio approach in the top team; good engagement and support from HM Treasury; HMRC confidence in 2016-17 milestones; and collaboration across the portfolio.

2.9 HMRC told us it is implementing the IPA's recommendations. These cover three main areas: improving capacity and capability in programme management and business analysis; better communication of what HMRC will look like after transformation for customers and staff; and making sure that the whole of HMRC is engaged in supporting and challenging transformation.

2.10 Since our last review, HMRC has also improved the way it is managing its transformation (**Figure 5**). It continues to seek improvements in its approach, and has identified scope to streamline governance and improve management information. This will put it in a better position to monitor progress.

18 HMRC had 63,000 full-time equivalent employees on average in 2016-17.
19 The IPA carried out an experimental-type review at an earlier stage than it has normally carried out for transformation programmes.

Figure 5

Examples of good practice in how HMRC is improving management of transformation

Theme	Improvements made	Evidence
Strategic direction	Established clear link to strategic objectives of transformation	Reporting monthly against key strategic objectives for efficiency, tax revenue and customer service.
	Customer-focused structure	Introduced a new operating model that brings customer services together.
Governance	Better accountability	Reallocation of some board roles and ownership of strategic risks.
	Better financial forecasting	HMRC introduced new financial systems; programme directors are required to forecast costs more accurately to manage the risk of overspend.
	Regular prioritisation	Board meetings regularly discuss workloads and whether to defer lower priority projects.
Portfolio management	Improved ability to manage cost and delivery pressures	Consolidating most transformation programmes into a group better enables it to manage cost and maintain progress.
	Improved visibility of interdependencies	Mapping of dependencies helped accelerate HMRC's understanding of the links and critical path across programmes.
Management Information	Comprehensive and regular reporting of key indicators for transformation established	Monthly transformation packs report on costs, benefits, risks, resources, milestones, and readiness.
Capacity	Improved resource management	Ongoing attention to capacity and capability and implications for recruitment and deployment.
Delivery	Improved planning	A detailed portfolio delivery plan exists.

Source: National Audit Office analysis of HM Revenue & Customs data and management information

Understanding risks in HMRC's plans

2.11 HMRC's plans show that most benefits will accumulate over the next five years. It measures three types of benefits: net benefits for businesses from reduced administration costs; additional tax revenue; and efficiency savings in HMRC. Most of the additional tax revenue and benefits for businesses are expected at the end of the SR15 period depending on the progress made by the Making Tax Digital for Business programme. Any slippage, whether caused by delays, policy changes or other reasons, will mean that HMRC is at risk of not achieving its targets for transformation. In 2016, we found that HMRC's approach looked credible and proportionate to the scale of the risks involved, and that HMRC had worked closely with HM Treasury and the Cabinet Office to develop and refine plans. We concluded that it was too early to evaluate how well its approach was working.

2.12 HMRC expects efficiencies to increase cumulatively over the SR15 period. These will partially fund its ongoing transformation plans. Each year it expects an increase in cumulative efficiencies of around £150 million–£200 million. HMRC will need to manage delivery risks to ensure that its target is achieved. In the past we have seen HMRC release too many staff before completing changes to services.[20] There are serious risks if major assumptions underpinning HMRC's strategy do not prove realistic, and HMRC needs to model the impact of different scenarios and monitor leading indicators of the success of its strategy. In this section we consider:

- how HMRC has developed its business cases for transformation;
- the major assumptions underlying the benefits of transformation; and
- the risks to affordability.

20 Comptroller and Auditor General, *HM Revenue & Customs: The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

Business cases for transformation

2.13 The full life cost and benefits of the programmes are set out in **Figure 6** overleaf.[21] The largest components are HMRC's estates programme (Building our Future Locations), which runs for 25 years; Making Tax Digital for Business; and the Columbus programmes to replace HMRC's IT infrastructure and service provider.

2.14 The business cases for individual programmes differ in several ways:

- Five programmes appear to offer a negative return but are seen as essential by HMRC because they are either ministerial commitments, enable benefits to be achieved by other programmes, or are essential to undertake at this time. For example, HMRC expects to incur large costs if it does not replace systems reaching the end of their useful life.
- HMRC may have understated some benefits. HM Treasury guidance states that all benefits should be considered and quantified where possible. HMRC routinely quantifies additional tax revenue, efficiency savings and cost reductions for businesses. However, it does not consider that there is additional value for decision-making in estimating the benefits to individuals from the Making Tax Digital programme.
- Programmes run for shorter or longer periods depending on when costs and benefits occur (in line with HM Treasury guidelines).[22] For example, HMRC has calculated the costs and benefits for the estates programme (Building our Future Locations) to 2040-41.

21 The full-life costs and benefits in Figure 6 have been discounted to present values. The costs and benefits are not discounted elsewhere in this chapter (where we consider affordability and benefits realisation over the medium term).
22 HM Treasury, *The Green Book*: *Appraisal and Evaluation in Central Governmen*t, April 2013.

Figure 6

Forecast full-life costs and benefits for HMRC's transformation

	Programme	Description	Full-life Cost (£m)	Efficiencies (£m)	Additional Tax Revenue (£m)	Full-life Benefit (£m)
1	Making Tax Digital for Individuals	Modernising tax administration for individuals through digital solutions	196	421	7	428
2	Making Tax Digital for Business	Modernising tax administration for business through digital solutions	1,719	942	2,494	3,436
3	Compliance For the Future	Building internal capability at HMRC, improving data and better end-to-end compliance	193	505	37	542
4	Customs Declaration Service	Replacing an ageing Import / Export system plus enhancements	127	14	26	40
5	Building Our Future Locations	Creating 13 regional centres, redeploying staff and disposing of buildings	508	1,197	–	1,197
6	Corporate Services	Removing bureaucracy, and introducing leaner systems and processes, a self-service culture, lower service costs, shared services, and improved experience	44	143	6	149
7	Tax Free Childcare and Universal Credit	Develop accounts to support parents' childcare costs; and to help replace Tax Credits with Universal Credit administered by the Department for Work & Pensions	Costs and benefits ring-fenced			
8	Policy Driven Change	To implement policy initiatives not funded from SR15 that affect or depend on portfolio activities	No overall business case			
9	Data Platform	Electronic Data Hub – a digital repository for storing and sharing data	194	55	–	55
10	Digital Platform	A number of enabling platforms including Government Gateway, Security solutions, the Digital Tax platform and Large Option Paperless	242	87	–	87
11	Finance Platform	Digital payments by customers, improved internal reporting and rationalised HMRC accounting system	22	13	–	13
12	Process Platform	Developing processes to support future ways of working	No overall business case			
13	Columbus	Replacing HMRC's IT provision contract (ASPIRE)	576	968	–	968
14	Columbus Cloud	Moving to secure cloud-based computing and rationalising existing IT infrastructure	446	198	–	198
15	People capabilities	Developing people capabilities (culture, ways of working and career pathways) to support the future organisation.	No overall business case			

Notes

1 These are full-life costs and benefits (not just covering the four years in SR15 from 2016-17 to 2019-20) and based on the full set of business cases justifying the transformation programmes, which were produced at different times.

2 The full-life costs and benefits are discounted to present values, so benefits less costs equals the net present value of the programme. All business cases were approved in 2016-17 except Columbus (2015-16). Columbus business case costs include some elements subsequently included in the scope of the Columbus Cloud business case. As such there is some overlap of the costs and benefits. We do not include total figures because Columbus costs are discounted to a different time period and to avoid double-counting between these programmes.

3 We reported on HMRC's estates programme, known as 'Building our Future Locations', in January 2017 (Comptroller & Auditor General, *Managing the HMRC estate*, Session 2016-17, HC 726, January 2017). In March 2017, HMRC produced an updated business case with revised costs and benefits.

4 More business cases could be produced in future months and years. HMRC intends to develop the platforms indefinitely as its needs change. It develops separate business cases for each change it proposes.

Source: National Audit Office analysis of HM Revenue & Customs transformation business cases as at March 2017

2.15 The programmes and their business cases are at different stages of maturity and the depth of analysis in the business cases will vary accordingly. We reviewed HMRC's transformation business cases to see whether they contained the information required under HM Treasury guidelines. We found the following:

- Strategic aims were clearly defined and aligned to the aims of the transformation portfolio.
- Critical success factors were identified in most cases, but they were not sufficiently defined to measure performance or progress.
- For several programmes HMRC did not develop its analysis sufficiently to support a robust comparison of the costs of the different options. HMRC told us that in these cases it did not consider there were credible alternatives that were worth developing further.
- The financial cases for most programmes included funding from administrative budgets. Four were not fully funded but these identified actions to close the gap.

Major assumptions underlying benefits of transformation up to 2020-21

2.16 In this section we consider the overall scale and timing of additional tax revenue; efficiency savings and savings for business customers. We also consider the source of the estimates.

Efficiency savings of £1.9 billion

2.17 HMRC expects to achieve £1.9 billion in efficiencies over the 2015 Spending Review period. It aims to deliver this through its portfolio of 15 programmes, and through wider change activity in the business. In 2016-17 HMRC expected to spend £1.8 billion on transformation in total between 2016-17 and 2019-20, contributing £643 million annual efficiencies by 2019-20.[23] The contribution of transformation is not a formal target, and sits within HMRC's overall public target of achieving £1.9 billion savings. HMRC retains the flexibility to deliver efficiencies from other business activities such as from changes led by its operations, continuous improvement, improved productivity and pay restraint.

2.18 HMRC's efficiency savings estimates for transformation depend on assumptions that digital transformation will result in HMRC using fewer resources for the following activities:

- chasing underpaid tax and dealing with overpayments – because digital services will help taxpayers to comply with tax rules in the first place and enable more efficient processing of tax receipts;
- managing compliance cases – because HMRC will be able to use data better to assess risk and target its resources; and
- dealing with post and phone contacts – because individuals, partnerships and companies will use HMRC's digital services instead.

23 HMRC Annual Report and Accounts 2015-16. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/539608/HMRC_Annual_Report_and_Accounts_2015-16-web.pdf

2.19 HMRC also estimates that it will make efficiency savings in its IT services through the Columbus programmes; and in its administrative and estates costs through its Corporate Services and 'Building our Future Locations' programmes.

Additional tax revenue of £920 million

2.20 Making Tax Digital for Business is expected to deliver HMRC's £920 million target for additional tax revenue. The target is based on assumptions that requiring businesses to keep digital records using commercial software, and providing HMRC with quarterly digital data will reduce error and that this will increase tax revenues. HMRC's evidence to support its assumptions about why small businesses currently make mistakes in their tax, and the extent to which digital record keeping will prevent these errors and increase tax revenues, are based on HMRC's random enquiry programme. However, the behavioural response of taxpayers is difficult to gauge this way. The Office for Budget Responsibility considered HMRC's estimate to be 'reasonable and central' but gave it a 'high' uncertainty rating because of uncertainties in the extent to which the software will prevent errors by taxpayers and the timing of delivery.[24]

Reduced business costs of £400 million[25]

2.21 HMRC expects a reduction in business customers' costs on the assumption that businesses will need to spend less time meeting their tax obligations as a result of Making Tax Digital for Business. HMRC considers that more routine work will be done automatically and end-of-year processes will be simpler than they are currently for a business maintaining its books and records on paper.[26] HMRC's internal forecasts show savings to customers of £100 million from April 2018 but these do not take account of transitional costs to business.

Affordability

2.22 The detailed costs in HMRC's transformation plans amount to £2.2 billion to 2019-20. HMRC secured transformation funding of £1.8 billion under SR15. It set aside other administrative funding of around £320 million to cover some of the costs of its Columbus programme and estates programme redundancy costs. The SR15 settlement and the business cases indicate different spending profiles for transformation. The SR15 settlement anticipated that transformation expenditure would decline from 2016-17 onwards. Since then HMRC finalised nine of its 15 business cases for transformation in the final quarter of 2016-17, and these show spending peaking in 2017-18 (**Figure 7**).

24 Office for Budget Responsibility (OBR), *Economic and fiscal outlook*, November 2015, pp 208-209. Available at: http://budgetresponsibility.org.uk/docs/dlm_uploads/EFO_November__2015.pdf. At each Budget and Autumn Statement the OBR scrutinises departments' estimates of costs and benefits of new policies and assesses their uncertainty as 'very high', 'high', 'medium-high', 'medium', 'medium-low' or 'low'.

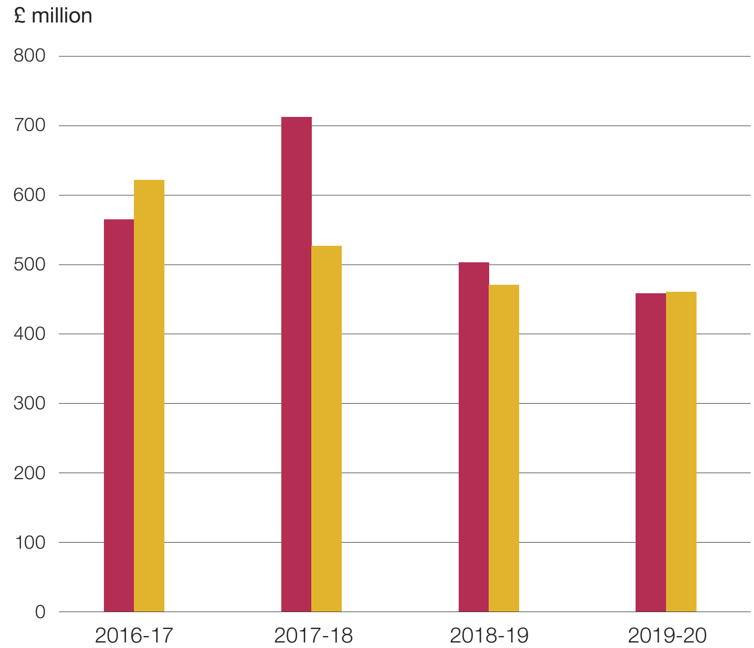
25 HMRC has a target of reducing business customer costs by £400 million over the SR15 period. Only some of this target was expected to come from transformation.

26 HMRC, *Making Tax Digital for Business*, March 2017. Available at: www.gov.uk/government/publications/making-tax-digital-for-business/making-tax-digital-for-business

Figure 7

HMRC's planned costs (from programme business cases) and its budgets for transformation 2016-17 to 2019-20

Transformation plan costs exceed the budget particularly in 2017-18



	2016-17	2017-18	2018-19	2019-20
Transformation plans' costs (£m)	565	713	504	459
Budget (£m)	622	527	471	461

Notes

1 The SR15 period runs to the end of 2019-20. HMRC's SR15 funding settlement included £1.8 billion for HMRC's transformation (£1.3 billion new investment and £0.5 billion from existing budgets).

2 Costs arising from the UK's exit from the EU are not included in either the budget or the transformation plans' costs.

3 Transformation plans costs exclude the cost of work originally proposed in the Columbus business case now covered by the Columbus Cloud programme.

4 'Budget' includes the transformation budget and additional funds set aside for transformation of £40 million a year from HMRC's IT budget and £40 million a year from its human resources budget. This is in addition to total SR15 funding of £1.8 billion.

Source: HM Revenue & Customs

2.23 Early requests for funding based on business cases totalled £710 million, exceeding the transformation budget of £457 million in 2017-18.[27] HMRC has needed to take tough decisions and recognised that it needed to stop anything that was not fully aligned with its priorities. It has de-scoped some activity and deferred some work until future years. In doing so it reduced planned activity to around £519 million. The changes included: deferring some estates work; deferring development of cloud systems and delaying the replacement of data storage technology; pausing the final phase of inheritance tax online (which has sunk costs of £4 million); and stopping some digital work to support customer services. HMRC estimates the changes reduced expected benefits by between £30 million and £60 million. HMRC told us it can manage the effect on its overall benefits delivery.

2.24 HMRC still faces cost pressures as its current plans exceed its transformation budget by around £60 million for 2017-18. It analysed the impact of reducing its spending to £500 million but concluded that doing so would likely see the deferral of some significant elements beyond the SR15 timeframe, for example it is unlikely it would deliver a full single financial account for business customers. It would increase the scale of change required at the end of the Spending Review period and remove significant contingency. It would also require a significant reduction in the size of some programme teams, adding risk to delivering to cost, time and quality within projects. HMRC is seeking to manage the cost pressure through ongoing prioritisation of its transformation and operational activity. The gap is manageable within the context of HMRC's total administrative budget but it may place pressure on its operations.

2.25 HMRC still has opportunities to reduce costs as some of its plans for transformation are still being developed. However, this is not straightforward as some programmes are necessary to replace ageing systems and many of the transformation programmes are interdependent. HMRC must ensure that any changes to scope or timing of programmes do not jeopardise the delivery of benefits.

27 Excludes £80 million of funding from HMRC's IT and Human Resources budgets which was set aside for specific programmes.

Early indications of progress

Profile of spending and achievement of milestones

2.26 HMRC spent £507 million of its transformation budget in 2016-17, around 6% less than it originally planned (£542 million).[28] HMRC had revised its budget for the year to reflect projected activity. HMRC has 52 critical milestones for transformation, of which 34 were due to have been completed by 31 March 2017. All but seven were completed in-year. Four were completed in April and three were expected to be completed in summer 2017.

2.27 Most programmes were within a 20% margin of expected spend at March 2017. Three programmes had rescheduled critical milestones. One programme (Compliance For The Future) spent less than expected, indicating marginally slower progress has been coupled with lower spending. Two programmes spent more than expected in 2016-17 without achieving all of their 2016-17 critical milestones (**Figure 8** overleaf). HMRC has attributed deviations from budget to planned changes in scope rather than delivery pressures.

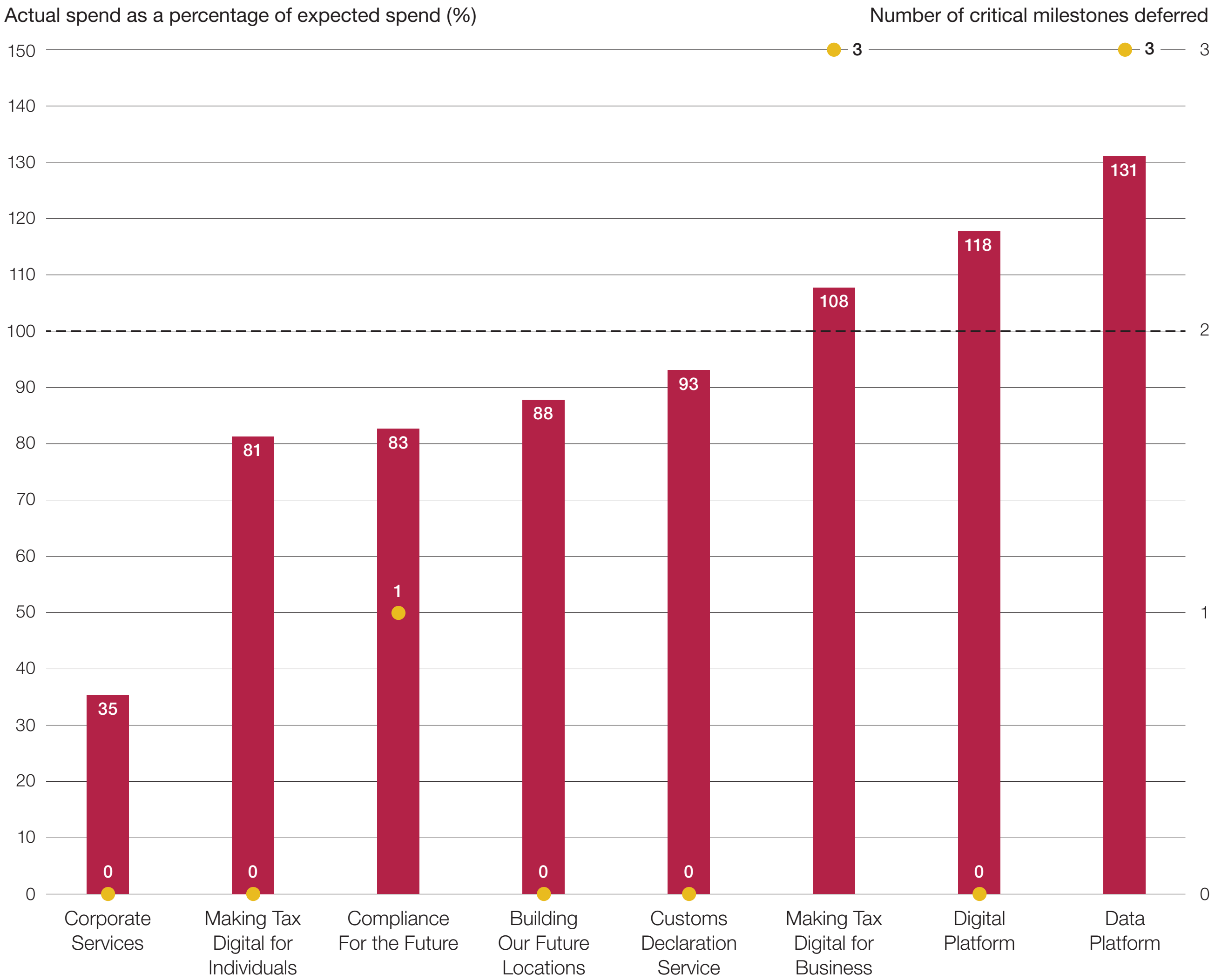
2.28 HMRC has detailed reporting on risks for each programme which HMRC's board reviews monthly. At March 2017, it had given five programmes amber-red delivery ratings: Making Tax Digital for Business, Compliance For The Future, Customs Declaration Service, Building our Future Locations and the Process platform.[29] All other programmes had an amber risk rating apart from Making Tax Digital for Individuals and Corporate Services, which were rated amber-green. The board also reviews critical milestones for achieving its SR15 objectives. Each milestone has a risk rating, providing the board with clear information about potential problems.

28 The 2016-17 budget in Figure 7 differs because it includes £40 million a year from HMRC's IT budget and £40 million a year from its human resources budget in addition to the £542 million 2016-17 transformation budget.

29 HMRC assesses each programme against nine key performance indicators to give an overall 'RAG' rating. It aims to move programmes away from red, through amber-red, amber, and amber-green, to green by taking action to improve performance against the indicators. It also tracks changes in 'RAG' status over time.

Figure 8
Programme spending and progress against critical milestones

In general, programmes were within 20% of spending expectations at March 2017 but some had deferred critical milestones



Notes

1 Programmes may have rescheduled other milestones which are not critical. For example, Building our Future Locations and the Customs Declaration Service did not have critical milestones in 2016-17 but both have rescheduled programme delivery.

2 Analysis based on investment appraisal budget estimates for 2016-17.

Source: National Audit Office analysis of HM Revenue & Customs data

2016-17 Efficiency Savings

2.29 HMRC's goal is to reduce its annual baseline funding by £717 million between 2015-16 and 2019-20. In its SR15 settlement, HMRC committed to making £203 million of sustainable efficiency savings in 2016-17.

2.30 In 2016-17 HMRC made £254 million of efficiency savings against a target of £203 million. Only £181 million of these were sustainable. Around £70 million of the savings were one-off cost reductions with its IT suppliers which only apply in 2016-17, so it will need to increase the sustainable savings it delivers in 2017-18 and future years to get back on track.

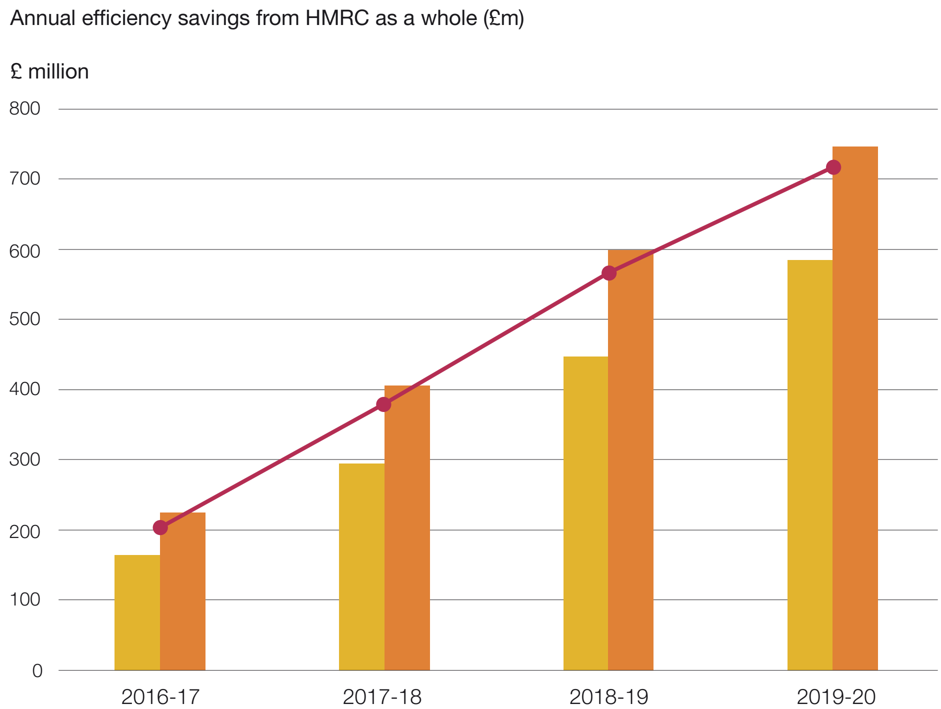
2.31 HMRC did not achieve efficiency savings of £189 million expected from transformation in 2016-17, instead recording a total of £78 million sustainable efficiency savings. Work to shift customers to online services has not reduced customer demand for telephone contact to the levels expected. HMRC has also identified it must take immediate action to achieve efficiencies expected from its compliance activities. This includes identifying a clear and detailed vision of how compliance will operate in the future and increasingly preventing non-compliance before it occurs.

2.32 HMRC expected its £1.8 billion investment in transformation would contribute £643 million of sustainable efficiencies by 2019-20. HMRC's recent sustainable efficiency savings forecasts, indicate the transformation programmes, are likely to contribute less than expected to HMRC's efficiency target (**Figure 9** on pages R40 and R41). HMRC told us its forecasts do not take account of the aggregate impact of its transformation programmes. It is seeking around £240 million of annual efficiencies arising from change led by operations. HMRC argues that this change is enabled by the transformation programmes and can be seen as transformation. However, the cost of the activity is additional to HMRC's transformation budget of £1.8 billion and includes continuous improvement activity.

2.33 HMRC forecasts it can still achieve its efficiency target by 2019-20. The forecast assumes it can manage all risks to delivery and will be unaffected by external factors. HMRC's estimate at June 2017 suggested total efficiencies of £737 million could be achieved, £10 million less than its best case forecast (Figure 9). It has assessed that recurrent transformation savings are more likely to fall below target than to exceed it but it is actively managing risks to delivery.

Figure 9
HMRC's forecast sustainable efficiency savings 2016-17 to 2019-20

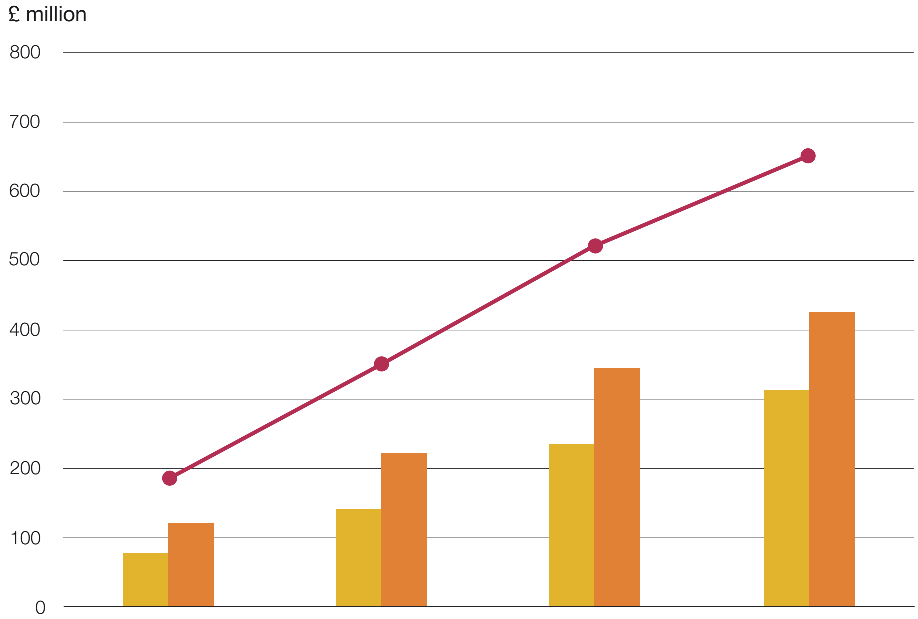
HMRC's £1.8 billion transformation is likely to contribute less than expected to HMRC's efficiency target but HMRC expects to make up the difference from change led by the operations



	2016-17	2017-18	2018-19	2019-20
HMRC spending review target (£m)	203	380	566	717
Total HMRC worst case forecast at start of 2017-18 (£m)	164	295	447	584
Total HMRC best case forecast at start of 2017-18 (£m)	225	406	598	747

Source: National Audit Office analysis of HM Revenue & Customs data and HM Revenue & Customs 2015-16 Accounts, Report by the Comptroller and Auditor General, National Audit Office, July 2016

The expected contribution of transformation (£m)



	2016-17	2017-18	2018-19	2019-20
● The expected contribution of transformation to HMRC efficiencies at start of 2016-17 (£m)	189	351	517	643
■ Transformation worst case forecast at start of 2017-18 (£m)	78	141	235	313
■ Transformation best case forecast at start of 2017-18 (£m)	121	221	345	425

Source: National Audit Office analysis of HM Revenue & Customs data and HM Revenue & Customs 2015-16 Accounts, Report by the Comptroller and Auditor General, National Audit Office, July 2016

Delivery schedule

2.34 Changes to the roll-out of Making Tax Digital for Business may affect the timing of additional tax revenue and customer benefits. Since the programme was launched in December 2015, the government has announced a reduction in scope and a number of deferrals:

- August 2016 – micro-businesses were exempted from digital record-keeping and quarterly reporting.[30,31]
- September 2016 – the implementation date for incorporated businesses was deferred by a year to April 2019.[32]
- March 2017 – the implementation date for businesses with turnover below the VAT threshold was deferred by a year to April 2019.[33]
- April 2017 – Making Tax Digital for Business was not included in the Finance Bill 2017 due to the election.

2.35 HMRC has revised its estimates of when it expects to achieve the benefits from Making Tax Digital for Business. Changes made following consultations have had an impact on timing of benefits. In 2016, we highlighted that HMRC had not estimated the cost or benefits to individuals and business customers of moving to online services. Its most recent published estimate now includes costs as well as benefits for businesses, although it includes neither of these for individuals (**Figure 10**). HMRC now expects net annual savings to businesses of around £100 million a year from 2020-21 against earlier forecasts of £100 million from 2018-19. It will take some time for businesses to recover transitional costs, which are forecast to be around £1 billion up to 2020-21. These are the costs of moving to new software and changing processes.

30 Micro-businesses are businesses with a turnover under £10,000 a year.
31 HMRC, *Making Tax Digital: Bringing business tax into the digital age – Consultation document*, August 2016. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/545715/Making_Tax_Digital-Bringing_business_tax_into_the_digital_age-consultation.pdf.
32 Financial Secretary to the Treasury's speech to the HM Revenue & Customs annual conference, 5 September 2016. Available at: www.gov.uk/government/speeches/financial-secretary-to-the-treasury-on-a-tax-service-for-the-21st-century
33 HM Treasury, *Spring Budget 2017*, 8 March 2017, p.26. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/597467/spring_budget_2017_web.pdf

Figure 10

Costs and benefits for business customers from making tax digital

There will be net costs for businesses in the short term

	2017-18 (£m)	2018-19 (£m)	2019-20 (£m)	2020-21 (£m)	2021-22 (£m)	2022-23 (£m)
Transitional costs	-100	-200	-590	-100	0	0
Ongoing costs	0	-50	-150	-170	-170	-170
Administrative savings	0	0	150	270	270	270
Net impact	-100	-250	-590	0	100	100

Source: HM Revenue & Customs

Ongoing prioritisation within spending constraints

2.36 HMRC is actively managing a large and complex transformation involving 250 projects with 215 interdependencies. Delivery challenges can affect the sequencing and priority of work. HMRC needs to review its plans as issues emerge and in the light of external developments, including costs arising from the UK leaving the EU. To do this well, HMRC needs to have a good understanding of alternative ways forward and their relative value for money.

2.37 HMRC has focused its prioritisation efforts on reducing its transformation spending in 2017-18 to £457 million, as this is where its funding pressures are most immediate. It has concluded that it must stop, slow or de-scope some activity to live within its budget, and that it must stop anything that is not fully aligned with its priorities. However, many of the programmes are interdependent and some are implementing necessary changes, such as the new customs system, making prioritisation difficult. HMRC's work to develop an overall critical path for transformation has allowed it to see how projects contribute to its SR15 commitments. It has been reviewing the costs and benefits of each programme and prioritising according to criteria including: contribution to SR15 commitments; ministerial commitments; contractual commitments; whether the project is essential to ensuring other projects or programmes meet their commitments, and whether it is essential to replace an outdated system.

2.38 HMRC has been considering alternative scenarios for managing its budget pressures in 2017-18. It has taken a sensible, staged approach combining downward pressure on all transformation programmes with an assessment of the costs and benefits for changing individual elements. It has developed options for reducing the cost of transformation further but is also monitoring progress and considering wider operational demands.

2.39 HMRC must manage its medium-term funding position carefully and ensure it secures the efficiencies transformation is intended to deliver. As HMRC's budgets reduce it could have less recourse to recover efficiencies from its operations. In 2018-19, HMRC faces the single largest reduction in its budget for years (**Figure 11**). HMRC's nominal budget has stayed relatively stable over time. It has absorbed new work in its budget and reinvested efficiencies to fund further change and increase compliance activity. It has not experienced a significant reduction in its budget since 2014-15 and must soon realise cash savings. In doing so HMRC must ensure that it maintains performance levels.

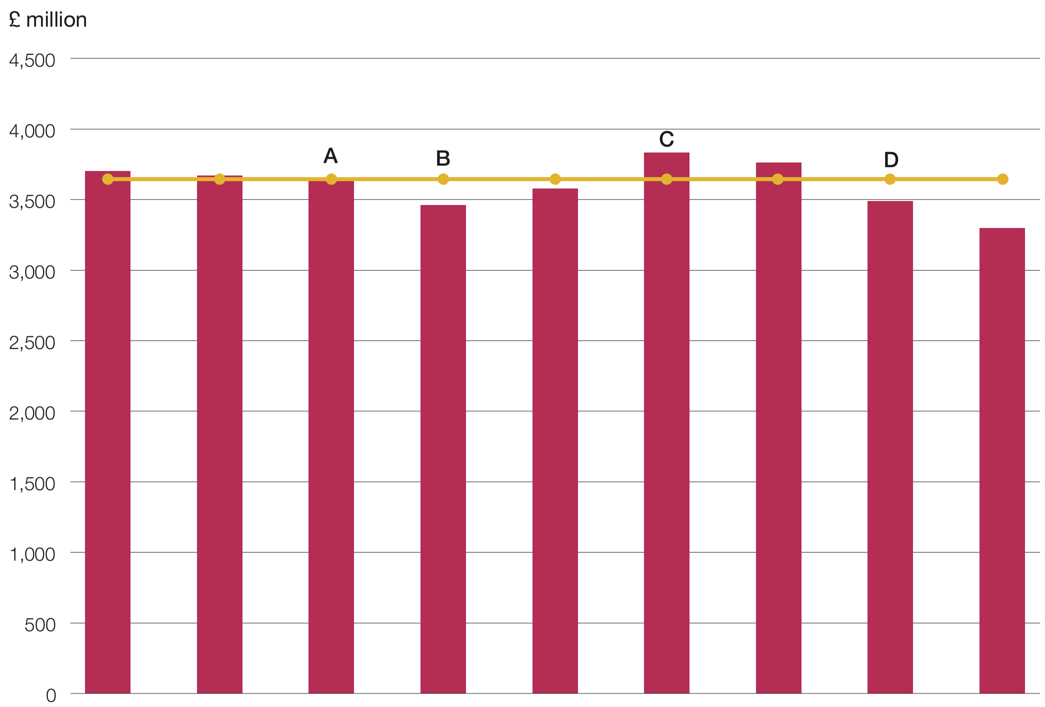
2.40 HMRC's forecasting of efficiencies is showing greater maturity. For each programme it has developed a best case and worst case forecast. This has enabled it to predict the range of uncertainty it needs to manage and should leave it better placed to develop contingency plans. HMRC's initial assessment is that it can keep costs down in 2017-18 by deferring activity without affecting its ability to achieve its £1.9 billion overall efficiency savings target.[34] However, its forecasts indicate risks that it will not achieve all the savings by the end of SR15. And it has seen fewer sustainable savings than planned in 2016-17. HMRC needs to make sure its efficiencies are genuinely sustainable. It must ensure it tests efficiency gains are genuine before reducing costs.

34 HMRC's £1.7 billion efficiency savings target for transformation is included in HMRC's £1.9 billion efficiency savings target for the department as a whole.

Figure 11

HMRC actual and forecast resource budget 2011-12 to 2019-20

In 2018-19 HMRC faces its single biggest funding reduction, taking it close to levels in 2014-15



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Total RDEL (£m)	3,700	3,670	3,640	3,460	3,576	3,830	3,760	3,490	3,300
Average RDEL 2011 to 2017 (£m)	3,646	3,646	3,646	3,646	3,646	3,646	3,646	3,646	3,646

A 2013-14: HMRC reduces its nominal spend for second year running, it takes on additional work and maintains service levels

B 2014-15: Largest single budget reduction to date. HMRC takes on additional compliance activity. To live within its budget HMRC releases customer service staff but performance levels suffer

C 2016-17: Additional funding for additional work awarded in budgets, including making tax digital and funds to improve customer service and increase revenues

D 2018-19: HMRC faces the largest single reduction in its budgets for years

Source: National Audit Office analysis of HM Revenue & Customs annual report and accounts

Part Three

HM Revenue & Customs' customer service performance 2016-17

Background and scope

3.1 Almost 50 million individuals are in the tax system in the UK, and Tax Credits support around four million families. Every year millions of people contact HM Revenue & Customs (HMRC) by telephone, by post and online (**Figure 12** on pages R48 and R49). HMRC employs around 25,000 staff to provide these services to customers.

3.2 Since 2012, the National Audit Office (NAO) and the Committee of Public Accounts have both issued critical reports on HMRC's customer service. In December 2012, we reported that HMRC's performance had been unacceptable.[35] In 2011-12, HMRC met three out of its five customer service targets. We found that HMRC's targets were lower and covered fewer areas than those of other organisations.

3.3 In May 2016, we reported that HMRC's customer service to personal taxpayers had not been value for money.[36] Up to 2013-14, HMRC had maintained or improved service levels. It also reduced the cost of administering personal tax by 32% between 2010-11 and 2014-15. However, under pressure to live within its budget, HMRC released customer service staff in 2014-15 before it had made the service improvements needed to reduce demand through automation and online services. As a result, the time HMRC took to respond to post and phone calls increased significantly and it missed its performance targets. HMRC responded by recruiting 2,400 additional staff in summer 2015, helping it to improve performance.

3.4 The reduction in HMRC's service from 2014-15 increased costs to customers as they waited longer for calls about Tax Credits and personal tax to be answered. The quality of service experienced by personal taxpayers may have had an impact on tax compliance.

35 Comptroller and Auditor General, *HM Revenue & Customs: Customer service performance*, Session 2012-13, HC 795, National Audit Office, December 2012.
36 Comptroller and Auditor General, *HM Revenue & Customs: The quality of service for personal taxpayers*, Session 2016-17, HC 17, National Audit Office, May 2016.

3.5 In July 2016, the Committee of Public Accounts concluded that HMRC's service had not been good enough. HMRC accepted the Committee's recommendations that it should:

- provide an acceptable and consistent service, ensuring that it answer calls promptly and effectively;
- test whether its forecasts of demand are realistic; and
- ensure that it strikes the optimal balance between customers' costs and its own costs.[37]

3.6 In 2016-17, HM Treasury provided HMRC with £28 million as part of a £71 million investment into HMRC's customer service to make it quicker and easier for individuals and small businesses to deal with HMRC by providing a "top-class, multi-channel, seven-day service".[38] The programme aims to bridge the gap between HMRC's service levels and industry standards for call-handling, and enabled HMRC to increase its customer service workforce by more than 800 in the second half of 2016-17, with new staff recruited on flexible contracts. The business case for this additional investment set out wide-ranging plans to improve existing and new services. It included an ambition to reduce the average speed to answer calls to two minutes (HMRC's public target for 2016-17 was six minutes).[39] HMRC told us this was an internal aspiration, set to drive rapid improvement, rather than a longer-term target. The programme also supports HMRC's wider transformation and the development of digital services as an alternative to individuals writing or phoning. Through transformation and continuous improvement activities, such as increased automation, HMRC is planning to cut the overall cost of providing customer services by £86 million (10%) between 2016-17 and 2017-18.

3.7 In October 2016, HMRC reorganised its operations, with the aim of putting the customer at the heart of HMRC and providing services and designing policies, products and processes with the customer in mind. The reorganisation brought customer services for Tax Credits and benefits, personal tax and debt management together into a new customer services group headed by one director-general. HMRC now aspires to be a leading customer services organisation. It recognises its aspiration will take time to achieve and has yet to define what it means. We are carrying out a more detailed review of HMRC's plans to sustain improvements to customer services, including its initiatives to change demand. We intend to report on HMRC's plans separately.

37 HM Treasury, *Treasury Minutes: Government responses to the Committee of Public Accounts on the Thirty-Seventh and the Thirty-Ninth reports from Session 2015-16; and the First to the Thirteenth reports from Session 2016-17*, Cm 9351, November 2016, pp 66-68.

38 HM Treasury, *Budget 2016*, paragraph 7.38. A further £43 million is being provided in 2017-18.

39 As at June 2017, HMRC had not published targets for 2017-18.

Figure 12
HMRC's customers and services for individuals

HMRC is developing more digital services for individual customers. This figure illustrates key services provided to those paying Income Tax, and to those receiving Tax Credits and Child Benefit

Customer group	Tax and benefits products	Digital services
Personal tax customers includes 48 million people in the Income Tax system, of whom: • 38 million are in Pay-As-You-Earn (PAYE) only • 7 million are in both PAYE & self-assessment • 3 million are in self-assessment only	**Personal tax** – Income Tax Employee data are collected by the PAYE system Self-employed people and people with other incomes submit a self-assessment return	**10 million self-assessments submitted online** **More than 9 million customers signed up for a personal tax account by March 2017, of which** • 1.7 million submitted their self-assessment via the personal tax account • 1.6 million submitted PAYE repayments via the personal tax account by December 2016 **0.5 million web chats, of which** • 0.2 million PAYE queries • 0.3 million self-assessment queries
Tax Credits customers 4 million families – and 7 million children – supported by Tax Credits **Child Benefit customers** 7 million families paid Child Benefit	**Tax Credits** People can claim a working tax credit and/or a child tax credit if they meet qualifying criteria **Child Benefit** People can claim Child Benefit if they are responsible for a child[4]	**Around 1 million people renewed their Tax Credits online by the July 2016 deadline** **0.7 million web chats**

Notes

1 In addition to Income Tax, individuals can be liable for National Insurance, Inheritance Tax and other taxes.

2 HMRC also provides a needs-enhanced service to vulnerable customers through specialist visits and telephone support. In 2016-17, just over 100,000 people were referred to this service by frontline staff and the voluntary community sector.

3 Volumes for digital services, telephone and post are for 2016-17 unless stated.

4 A tax charge may be payable by those with an individual income over £50,000.

Source: National Audit Office analysis of HM Revenue & Customs data including from HM Revenue & Customs *Annual Report and Accounts 2016-17; Child and Working Tax Credits Statistics – Finalised annual awards in 2015-16*

Telephone	Post
15 million calls made to the taxes helplines were handled by advisers, including: • 10 million calls on PAYE • 3 million calls on self-assessment	**Approaching 10 million items of personal tax correspondence received from customers** **1 million self-assessment paper returns**
Calls handled by advisers include: • 12 million calls to Tax Credits helplines • 2 million calls on Child Benefit	**0.8 million Tax Credits claims made using a paper form**

3.8 This Part considers:

- how HMRC performed in 2016-17;
- factors affecting HMRC's operational performance;
- cost to HMRC and customers; and
- the scope for further improvements.

We do not cover the relationship between customer service and tax revenue. HMRC is carrying out research to improve its understanding of this relationship. It plans to report to the Committee of Public Accounts in autumn 2017.

How HMRC performed in 2016-17

3.9 HMRC's performance against its targets is much improved since we last reported. In 2016-17 HMRC:

- **reported it had achieved all nine customer service targets** set in its single departmental plan (**Figure 13**);[40]
- **exceeded, or was close to, its best performance in the past five years for responding to post and phone calls, and handling Tax Credits and Child Benefit claims** (Figure 13). HMRC reported its best performance against both of its key telephony measures: the percentage of calls to its helplines that it handled; and the average speed to answer calls from the point when a caller enters a queue to speak to an adviser. Its performance against the time for processing overseas Tax Credits and Child Benefit claims was also at its highest level;[41]
- **improved its average speed to answer calls in queues to under four minutes** (**Figure 14** on page R52);[42]
- **provided a more consistent level of performance in answering calls.** The proportion of callers waiting for more than 10 minutes to speak to an adviser fell from around two-fifths in 2015-16 to around one in 10 in 2016-17;[43]
- **restored its performance in handling post** (**Figure 15** on page R53); and
- **exceeded new targets for digital services, including the number of people signed up for a personal tax account, and speed of responding to secure emails and forms that can be filed online** (Figure 13). In March 2017, HMRC changed its reporting of customer satisfaction with digital services to include existing services as well as new services. The change meant HMRC met its target as it increased satisfaction levels above 80%.[44]

40 HM Revenue & Customs, *Single departmental plan 2015 to 2020*, first published February 2016. Available at: www.gov.uk/government/publications/hmrc-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020

41 The impact of HMRC's contract with Concentrix on Tax Credits is discussed at paragraphs 4.25 and 4.26.

42 This measure excludes the time that customers spend in HMRC's automated system before entering the queue for an adviser.

43 This measure includes some time in automated telephony as well as time queuing for an adviser. For 2017-18, HMRC is intending to obtain data from its telecom provider which will enable it to measure 10-minute waiting time, and average speed to answer, on a consistent basis.

44 When HMRC set the 80% target in spring 2016, it was planning to measure satisfaction across four services: the personal tax account, the business tax account, social media and webchat. In March 2017, HMRC decided that to improve completeness, it would report satisfaction with all its digital services, which include more established services such as self-assessment online. This change added six percentage points taking outturn to 80%. HMRC also changed the way it calculated satisfaction, adding a further three percentage points to outturn. HM Treasury was notified of both changes.

Figure 13

HMRC's customer service performance

HMRC reported achieving all of its nine published targets in 2016-17

Metric	Target (those new for 2016-17 in bold)	2015-16 outturn[1]	2016-17 outturn	Performance in 2016-17 compared with previous four years
Phone				
Average speed of answering calls to HMRC helplines (queue time[2])	**6 minutes**	Approximately 12 minutes	● 3 minutes and 54 seconds	3 seconds shorter than previous best in 2012-13
Percentage of calls to helplines that HMRC handled	85% [3]	● 72%	● 92%	13 percentage points better than previous best in 2013-14
Tax correspondence				
Post responded to within 15 days	80%	● 52%	● 81%	4 percentage points below previous best in 2012-13
Post responded to within 40 days	95%	● 87%	● 96%	1 percentage point below previous best in 2012-13 and 2013-14
Tax Credits and Child Benefit claims				
Average time to handle new Tax Credits and Child Benefit claims and changes of circumstances – UK customers	22 days	● 17 days	● 16 days	1 day longer than previous best of 15 days in 2012-13 to 2014-15
Average time to handle new Tax Credits and Child Benefit claims and changes of circumstances – international customers	92 days	● 63 days	● 52 days	11 days shorter than previous best. First measured in 2013-14
Digital				
Customers using their personal tax account[4]	**7 million by March 2017**	n/a	● 9.4 million	
Customer satisfaction for digital services[5]	**80%**	n/a	● 83%	
i-forms and secure emails replied to within 7 days[6]	**95%**	n/a	● 99%	

Notes

1 Green – target achieved; amber – outturn within 10% of target; red – outturn more than 10% off target; no rating where target not set.

2 Speed of answering calls covers the time customers spend in the queue waiting for an adviser. It excludes the time customers are in HMRC's automated telephony system before entering the queue.

3 Target was 80% in 2015-16.

4 The number of customers using their personal tax account includes people who have accessed their account but not carried out transactions.

5 Customer satisfaction for digital services is measured using an exit survey.

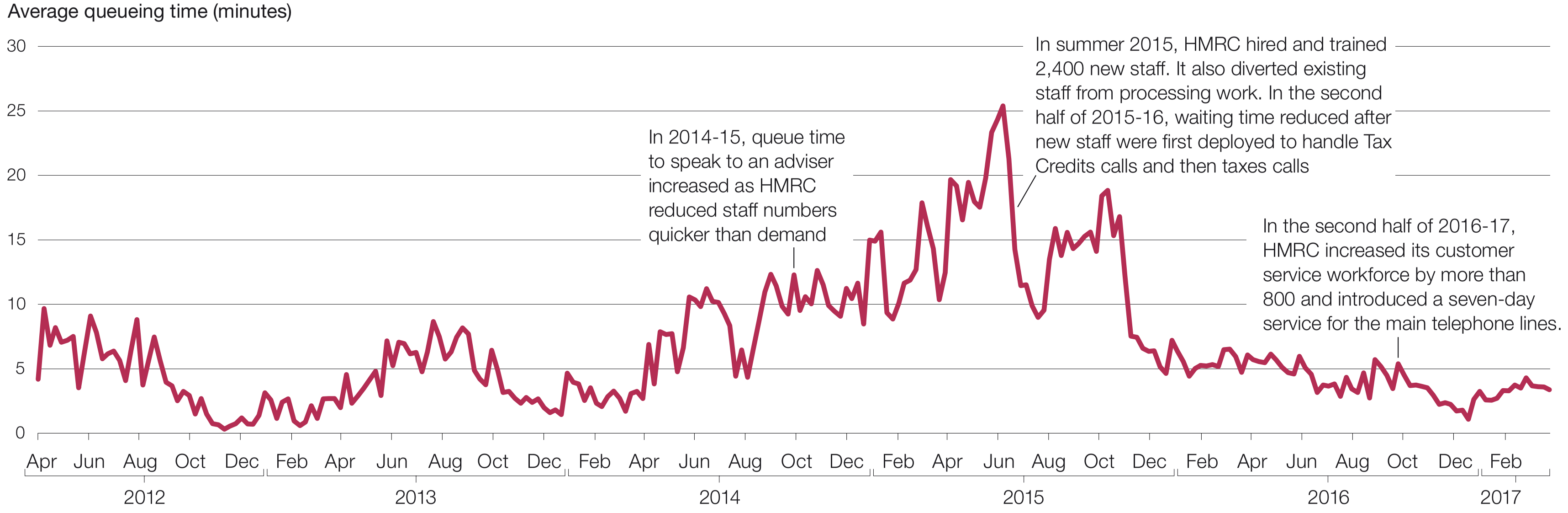
6 i-forms can be filled in and filed online.

Source: National Audit Office analysis of HM Revenue & Customs' data including from its Annual Reports and Accounts (2012-13 to 2016-17)

Figure 14

Average time customers spend queueing before speaking to an adviser

In 2016-17, HMRC recorded its best average speed to answer in the past five years



	2012-13	2013-14	2014-15	2015-16	2016-17
Average speed to answer (minutes)	3:57	4:22	9:50	11:51	3:54
Calls handled (%) (not shown above)	75	79	73	72	92

Notes

1 Data in chart are weekly times for all helplines.

2 Staff numbers are full-time equivalents.

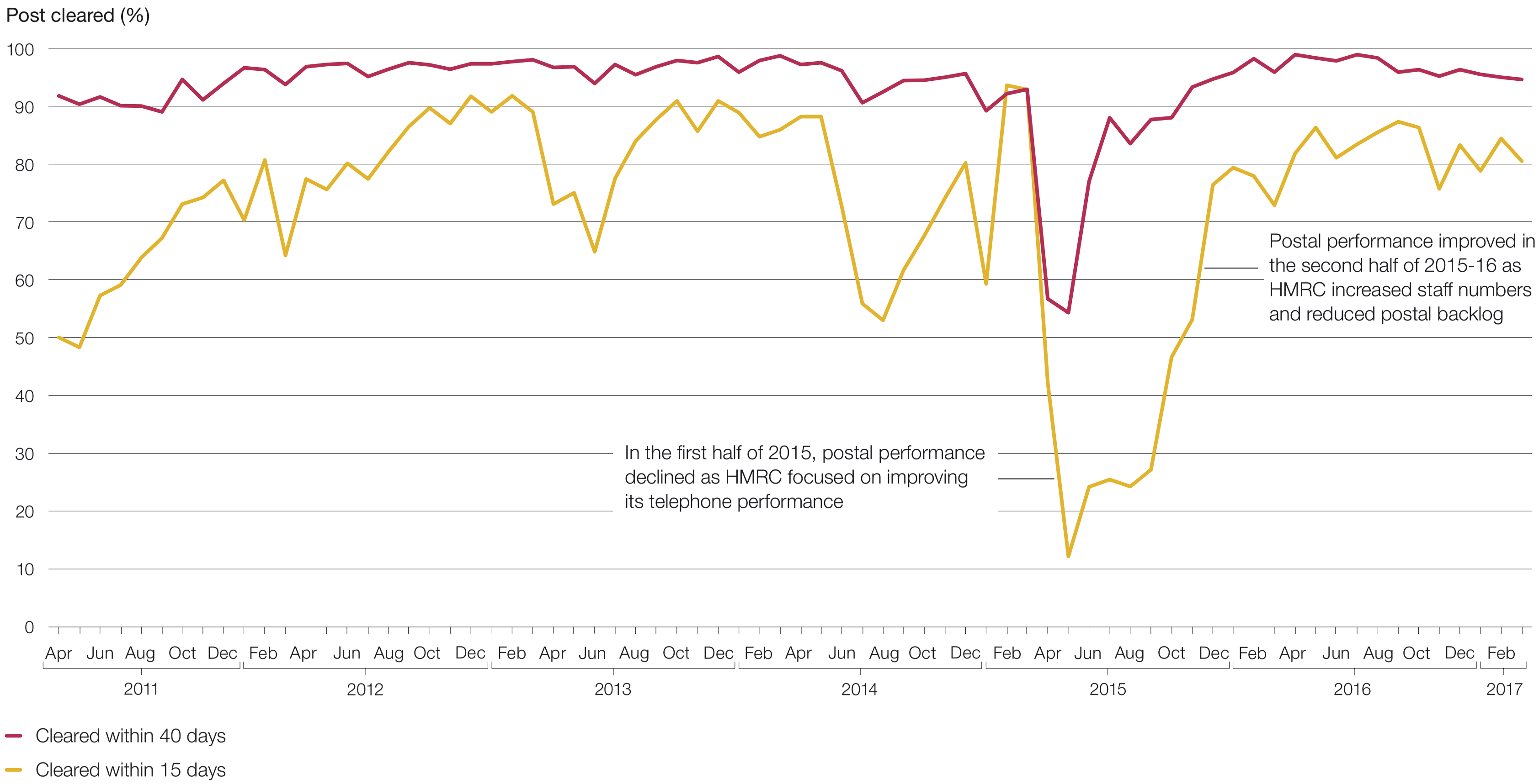
3 HMRC defines average speed to answer as the time that customers spend in the queue waiting to speak to an adviser. There is limited information on the time that customers spend in HMRC's automated telephony system before entering the queue. In 2012 we reported that customers generally hear an automated message, lasting around one to two minutes. HMRC told us that in 2016-17 customers typically spent between two and four minutes listening and responding to automated messages.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 15

HMRC's performance in processing tax correspondence

In 2016-17 HMRC's performance recovered from its low levels in 2015-16



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Post cleared within 15 days (%)	66	85	83	70	52	81
Post cleared within 40 days (%)	92	97	97	93	87	96

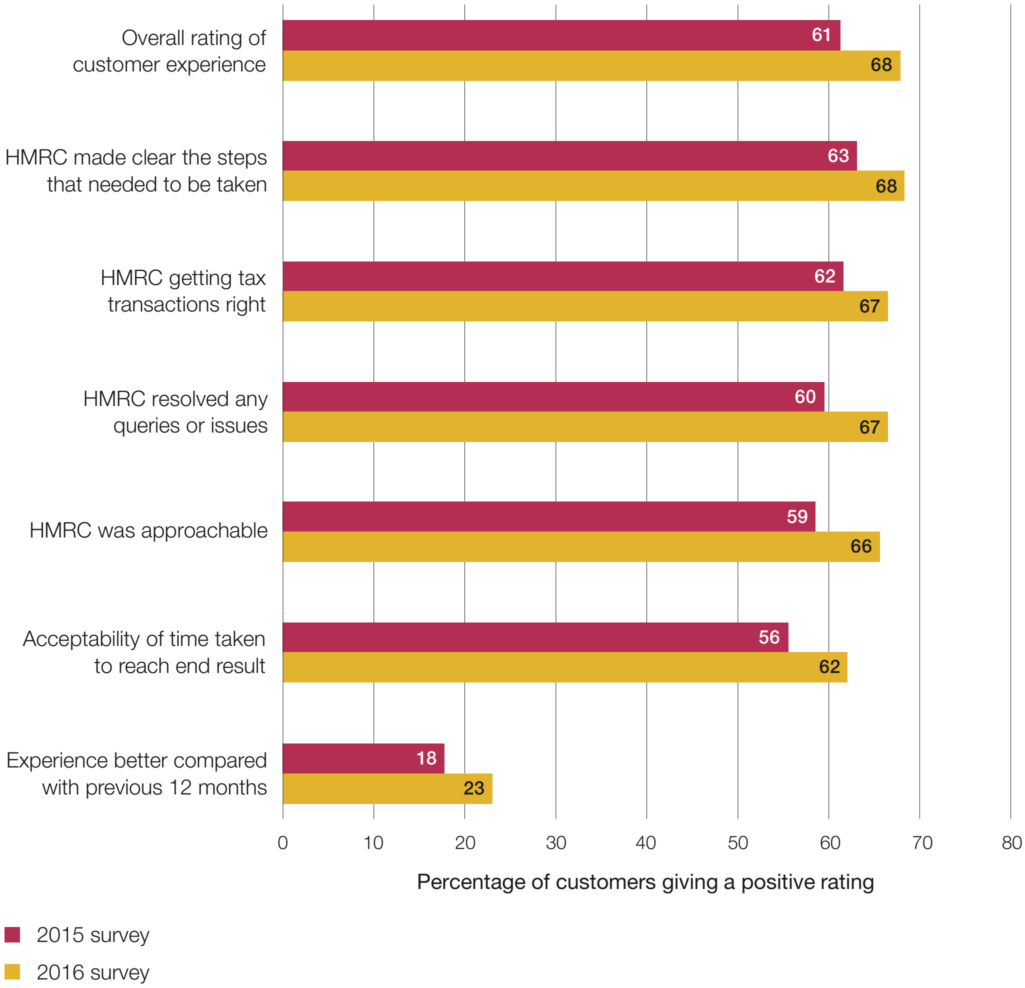
Source: National Audit Office analysis of HM Revenue & Customs data

3.10 HMRC's 2016 customer survey of individuals showed significant improvement in seven areas of customer experience, including overall experience (**Figure 16**). Ratings improved by between three and seven percentage points for all measures of customer experience, although some changes were not statistically significant.

Figure 16

Customers' experience of HMRC

Statistically significant increases were recorded for seven measures



Notes

1 Non-statistically significant increases were recorded for the other four measures of customer experience: ease of finding information (57% positive in 2016); quality of information looked for/received (67%); HMRC made clear when everything was complete (71%); HMRC's systems prevented mistakes (52%).

2 The annual survey is undertaken in the autumn. Sample sizes are provided in Appendix One.

Source: HM Revenue & Customs customer survey of individuals, 2015 and 2016

Factors affecting HMRC's operational performance

3.11 HMRC's operational performance depends on the demand for its services, and the resources it deploys to meet that demand.

Customer demand for services

3.12 HMRC has been improving performance levels while also dealing with higher-than-expected levels of demand. HMRC's strategy is to reduce cost by encouraging and helping customers to use the most cost-effective form of contact that meets their needs. Its aim is that new digital services will reduce the need for telephone calls and correspondence.

3.13 In 2016-17, total customer call attempts fell as more customers got through first time. However, calls reaching advisers increased (**Figure 17** overleaf). HMRC had forecast that advisers would handle around a quarter (eight million) fewer calls than they did. The additional telephone demand was partly offset by post volumes, which were one million items lower in 2016-17 than the 13 million forecast.

3.14 Customers may have been deterred from holding on for advisers due to long waiting times in 2014-15 and 2015-16. This has made it more difficult for HMRC to forecast demand because it does not know how many abandoned calls arose from people trying to get through more than once, or the number of people who did not get through at all. Other factors also contributed to higher-than-expected demand in 2016-17. Around 400,000 more customers sought advice on HMRC's digital services in 2016-17, and the calls HMRC received from customers, or their agents, asking for pay and tax records, or employment histories, rose by 1.6 million (150%) in 2016-17. HMRC attributes part of the increase to more agents seeking tax repayments for multiple clients.

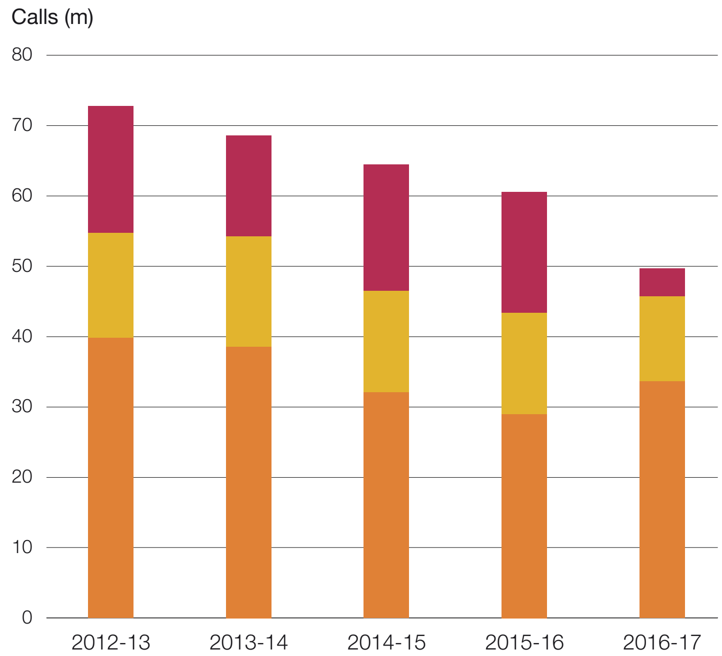
Deployment of staff

3.15 The most important factor in HMRC's improved performance has been the recruitment of additional staff. Between 2015-16 and 2016-17 HMRC deployed 12% more telephone advisers to handle calls (**Figure 18** on page R57), returning adviser numbers to 2013-14 levels.

3.16 Another important factor in HMRC's improved performance has been the increased flexibility in how it deploys staff. HMRC has increased its capacity to meet demand by employing new staff on flexible contracts and training people to deal with more query types. Between March 2015 and March 2017, the proportion of staff administering personal tax on flexible contracts increased from 37% to 55%. HMRC has also increased the number of staff that can work on more than one channel or business line. Of HMRC's advisers, 24% are capable of dealing with calls to two or more of its helplines.

Figure 17
Calls received and handled

Call attempts to HMRC's helplines fell in 2016-17, but advisers handled more calls



	2012-13	2013-14	2014-15	2015-16	2016-17
Not handled (m)	18	14	18	17	4
Handled by automation (m)	15	16	15	14	12
Handled by adviser (m)	40	39	32	29	34
Total call attempts (m)	**73**	**69**	**64**	**61**	**50**

Notes

1 Not-handled calls are: those that are abandoned in the queue; those that receive an engaged tone, a busy message or are terminated due to a system fault; and those where a caller ends a call after hearing an automated opening message asking them to call back later.

2 Component values may not sum to total due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

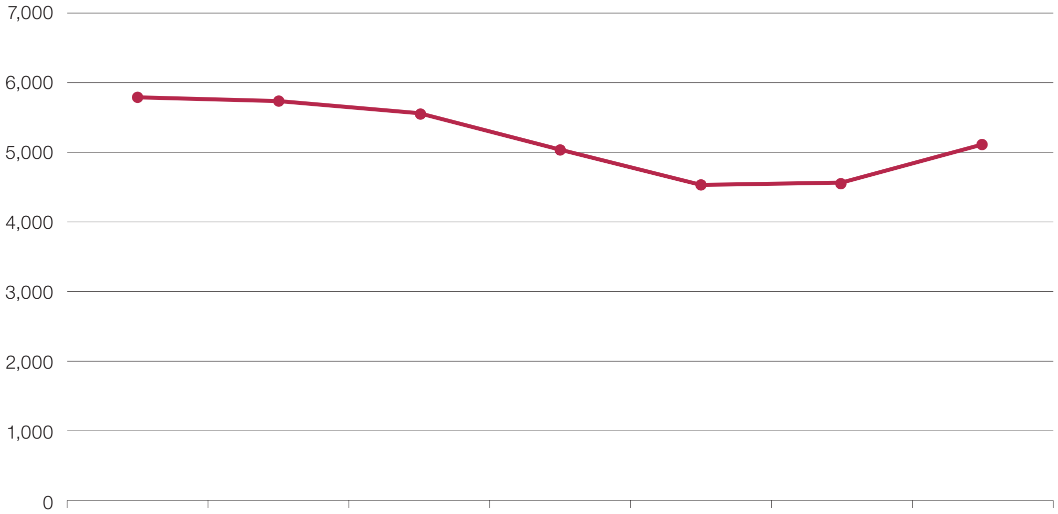
3.17 HMRC's data show a mixed picture on the productivity of telephone advisers. Call adviser utilisation rates – the proportion of advisers' time in the office available to handle customer queries – was 81.5% in 2016-17, more than three percentage points higher than in any of the four previous years. The average time taken by advisers to handle calls in 2016-17 (8.5 minutes) was similar to the average for previous years. However, the number of calls that each adviser handled had fallen by around 10% compared with the period from 2012-13 to 2014-15 (Figure 18).[45]

45 The number of calls handled takes account of staff working on other tasks.

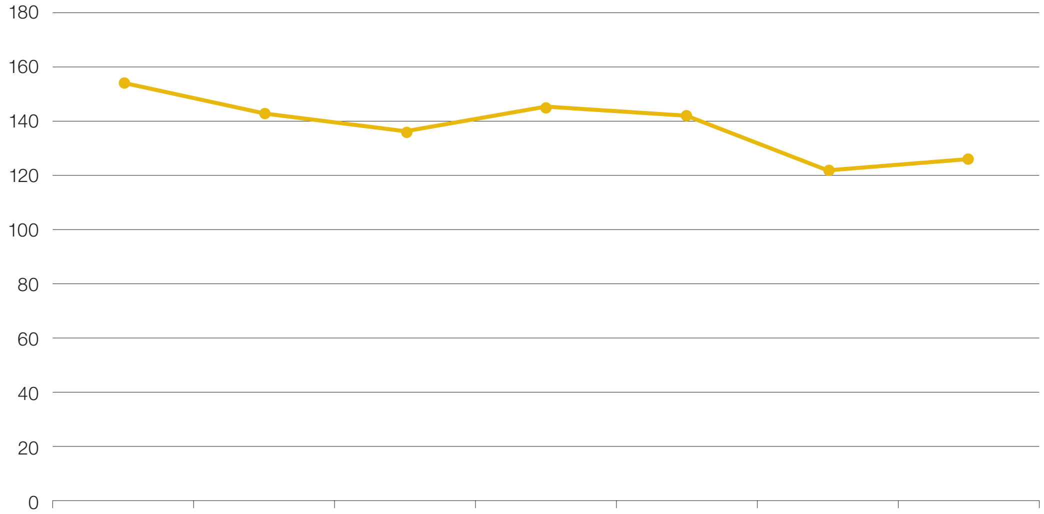
Figure 18

Number of advisers working on phone lines and calls handled per adviser

HMRC increased the number of full-time equivalent advisers working on phone lines in 2016-17, but individual advisers handled fewer calls than in the five years to 2014-15.



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Full-time equivalents average for year	5,792	5,736	5,627	5,082	4,565	4,568	5,111



	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Calls handled per week per full-time equivalent	154	143	136	145	142	122	126

Notes

1 Covers all telephone helplines.

2 Full-time equivalent numbers are the number of advisers assigned to telephone calls, including their indirect time and leave. The numbers exclude the time when advisers are reallocated to other work.

Source: National Audit Office analysis of HM Revenue & Customs data

3.18 HMRC told us that the number of calls handled per adviser does not take account of operational changes intended to improve customer experience. It said calls were getting more complicated, with customers using digital channels and self-service options for simpler queries. HMRC is aiming to answer all of a customer's queries in one go. In 2016-17 it transferred 13% of calls between advisers, rather than asking customers to ring back on a different number as it did until 2014-15. However, we could not verify that this was the reason that call transfers had increased. For example, it may also be due to customers being incorrectly routed by new automated telephony systems.

3.19 There may be several reasons for the reduction in the number of calls handled by each adviser, including: the scale of increase in staff that HMRC has had to manage; the number of new and flexible staff with limited experience of the queries they handle; the time it takes to move staff between different types of call; and HMRC extending call centre opening times in 2016-17 to periods that were less busy.

3.20 The reduction in calls handled per telephone adviser has been offset by an improvement of around a quarter between 2013-14 and 2016-17 in the productivity of those advisers processing post. As a consequence, the number of items handled per adviser across all HMRC's channels has been broadly stable over the past four years.

The cost of the service to HMRC and to customers

3.21 The cost of individuals complying with their tax obligations and claiming Tax Credits comprises both the cost of HMRC's customer service, and the cost incurred by individuals. We examined both costs for Income Tax and Tax Credits.

3.22 HMRC estimates that the cost of handling Income Tax transactions increased from £252 million in 2015-16 to £264 million in 2016-17.[46] HMRC estimated that it spent in 2016-17:

- £40 million on **digital transactions** – 3% less than 2015-16;
- £101 million on **handling telephone calls** – 16% more than 2015-16;
- £102 million on dealing with **post** – 4% more than 2015-16;
- £3 million on **face-to-face support** for people needing extra help – 37% less than 2015-16; and
- £18 million on the cost of **maintaining and correcting tax records** – 15% less than in 2015-16.

46 All estimates of HM Revenue & Customs costs are for staff costs, which are its main cost. All costs are in 2016-17 prices.

3.23 The cost increase in Income Tax was partially mitigated by a £8 million reduction in the costs of handling Tax Credits calls (from £51 million in 2015-16 to £43 million in 2016-17). HMRC reduced the cost of handling a Tax Credits call by 16%. Call volumes were unchanged.

3.24 We looked in more depth at the cost of the Income Tax and Tax Credits helplines, two of HMRC's most-used services. As HMRC has not calculated the cost to all customers that call these helplines, we used a model to estimate customers' costs from when they entered a queue to speak to an adviser to the point their call ended.[47] The model uses a method HMRC developed for estimating the value of customers' time. HMRC published the method in 2010 following consultation with HM Treasury.[48]

3.25 We found that HMRC spent £6 million more on the Income Tax and Tax Credits helplines in 2016-17 than in 2015-16, but this increase was outweighed by the benefits to customers of queuing less time to speak to an adviser. We estimate that shorter queue times in 2016-17 reduced customers' call costs by £8 million and the opportunity cost of the time they spent by around £73 million (using a value of £16.70 per hour).[49] The total cost of the helplines to HMRC and its customers therefore fell by around £75 million in 2016-17 (**Figure 19** overleaf).

3.26 In November 2016, HMRC said it had implemented the Committee of Public Accounts' recommendation that it should estimate the cost to those using its services, and use this information when considering the resources needed to strike an optimal balance between its costs and the costs of its customers.[50] We found that HMRC had considered customer costs in summer 2016 when it assessed the benefits of cutting telephone queue time as a result of additional funding provided by HM Treasury (paragraph 3.6). However, HMRC does not routinely calculate customer costs as it considers it would be prohibitive to do so for all customer journeys. It also considers that the large number of assumptions required for costings reduces the accuracy and value of any data.

47 There are insufficient data to include the cost of time spent in the automated telephony system.

48 HM Revenue & Customs, *HMRC Working Paper - No. 8, Costing Customer Time – Research Paper*, January 2010. HMRC's research paper used principles from HM Treasury's *Green Book: Appraisal and evaluation in central government*, and data on earnings, employment and time from the Office for National Statistics, to estimate the value (ie opportunity cost) of the time an individual spends meeting their tax obligations.

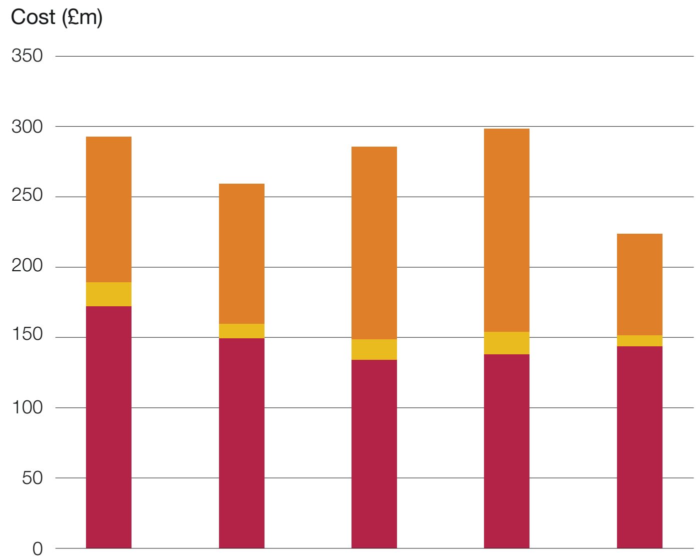
49 We used £16.70 per hour for individuals' time. The £16.70 rate was based on updating values set out by HMRC in its paper on costing customer time (see previous footnote).

50 HM Treasury, *Treasury Minutes: Government responses to the Committee of Public Accounts on the Thirty-Seventh and the Thirty-Ninth reports from Session 2015-16*; *and the First to the Thirteenth reports from Session 2016-17*, Cm 9351, November 2016, page 68.

Figure 19

Cost of Income Tax and Tax Credits helplines

HMRC spent more on these helplines in 2016-17, with reduced waiting time cutting customer costs



	2012-13	2013-14	2014-15	2015-16	2016-17
Customer time (£m)	103	99	137	145	72
Customer call charge (£m)	17	11	15	16	8
HMRC costs (£m)	172	149	134	138	144
Total (£m)	**293**	**259**	**285**	**299**	**224**

Notes

1. Customer costs include call costs and the opportunity cost of their time from when they enter a queue to speak to an adviser to the point their call ends. We used £16.70 per hour for customer time which is based on HMRC's methodology (see footnote 48). There are insufficient data to include the cost of time customers spend in the automated telephony system.
2. Tax Credits covers adviser handled calls to the main Tax Credits helpline and the payments helpline (12 million in 2016-17). Income Tax covers the adviser-handled calls made to the Pay-As-You-Earn and self-assessment helplines (13 million). Cost estimates do not include adviser-handled calls made to other HMRC helplines (9 million).
3. HMRC costs cover staff costs, which are its main cost.
4. Costs are in real terms, 2016-17 prices.
5. Component values may not sum to total due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

Scope for further improvements

3.27 HMRC has made significant progress in making its services more accessible. It has stabilised its operations and is developing good practices in some areas. HMRC has raised its ambitions and is seeking to become a leading customer services organisation. In this section we consider how much further it needs to go, focusing on telephone handling. We engaged contact centre experts to support our review.[51]

51 We engaged Customer Consulting Limited. CCL's consultants have set up, run and reviewed contact centres in the UK and 13 other countries. The consultants that advised us each had 30 years of experience in contact centres.

3.28 Our contact centre experts compared the range of performance measures used by HMRC against call centre measures typically used by large customer service organisations. HMRC's current measures focus on the speed of response and efficiency. There is less coverage of other aspects of operational performance or outcomes for customers. HMRC is closing the gap with industry standards by introducing customer exit surveys to gather real-time feedback on its handling of calls. It already uses the practice for digital services. Our contact centre experts identified other improvements that HMRC can make, including to the way it measures call-handling and resolving queries at first contact (**Figure 20** overleaf).

3.29 Customers' experience of calling HMRC can differ significantly from its reported performance. Our analysis indicates that the proportion of calls a customer would consider successfully and fully handled is less than the 92% HMRC reported as handled in 2016-17. HMRC counts around 25% of calls as 'handled' by its automated telephony system (**Figure 21** on page R63).

3.30 HMRC does not have reliable data about the extent to which customers' queries are satisfied by its automated telephony system. There is a recognition within HMRC, and the contact centre industry, that automated technology is changing the nature of interactions with customers, and the changes need to be understood. Following a commitment made to the Committee of Public Accounts in June 2016, HMRC commissioned qualitative research to better understand outcomes for customers.[52] It found:

- **Some simple queries can be resolved by HMRC's automated telephony system but satisfaction depends on the nature of the query.** Most customers believe their query requires a tailored response and only feel satisfied once their expectations are met and they have spoken with an adviser.

- **HMRC cannot assume all customers who disconnect during automated telephony have had their query resolved.** Generally, customers who disconnect themselves following an automated message call again immediately – although there is evidence of customers attempting to self-serve and resolving their query without calling. It is clear that customers often attempt to circumvent the system and get through to an adviser, by disconnecting during an automated message and calling back in order to try and route themselves more effectively.

- **Customers often go online prior to making a call to the helpline.** The automated messages have limited success in encouraging customers to self-serve by another channel; customers go online or carry out instructions as a result of the automated messages, but many call back again having been unable to resolve their query in this way.

52 HC Committee of Public Accounts, *Quality of service to personal taxpayers and replacing the Aspire contract*, Thirteenth Report of Session 2016-17, HC 78, July 2016, Q86. HMRC commissioned Ipsos MORI to undertake the research in November 2016. HMRC plans to publish the research in July 2017.

Figure 20

The consistency of HMRC's performance measures with industry measures

Standard contact centre measure[1]	HMRC's measure	Overview assessment of HMRC's measure	Assessment rating of HMRC's measure[2]
Percentage of calls answered within specified time period	No target. HMRC monitors calls answered within 10 minutes.	HMRC has yet to state publicly what it considers an acceptable waiting time.	●
Average speed to answer	Six-minute target for the average time customers spend in the queue for an adviser.	Call centre practice varies with some organisations focusing on queue time and others also measuring time in automated telephony. If HMRC extended its measure and tracked time in automated telephony it would get a full view of the total waiting time experienced by customers (paragraph 3.31).	●
Percentage of calls answered	85% of calls handled.	HMRC categorises as handled calls where customers hang up following information or deflection messages, or fail security (Figure 21). Some of these customers will not consider their call handled (paragraph 3.29).	●
Call abandoned rate	No formal target, but an implied target of 15% of calls abandoned can be deduced from the target for calls answered (above).	HMRC has limited data on why customers abandon calls in the automated system (paragraph 3.30).	●
Customer satisfaction	No target but HMRC's annual survey measures customer experience (Figure 16).	To complement its annual survey, HMRC is introducing exit surveys to obtain immediate feedback on more channels. HMRC already uses exit surveys for digital channels.	●
Difference between actual and forecasted calls	Variance within 5%.	Measure is in line with industry standard.	●
First contact resolution	n/a.	HMRC has so far been unable to establish measures to assess its 'once & done' initiative. It is considering whether it could measure aspects of 'once & done' through exit surveys.	●
Staff utilisation	Adviser time spent dealing with telephony and non-telephony work such as webchat.	An additional telephony-only measure of utilisation would help HMRC to compare performance across teams.	●
Shrinkage	Adviser time spent on non-customer work.	Definition of measure could be clearer.	●

Notes

1 Standard contact centre measures based on research undertaken by our contact centre experts, Customer Consulting Limited. The research included reviewing benchmarking reports and consultation with groups representing the contact centre industry and customer services organisations.

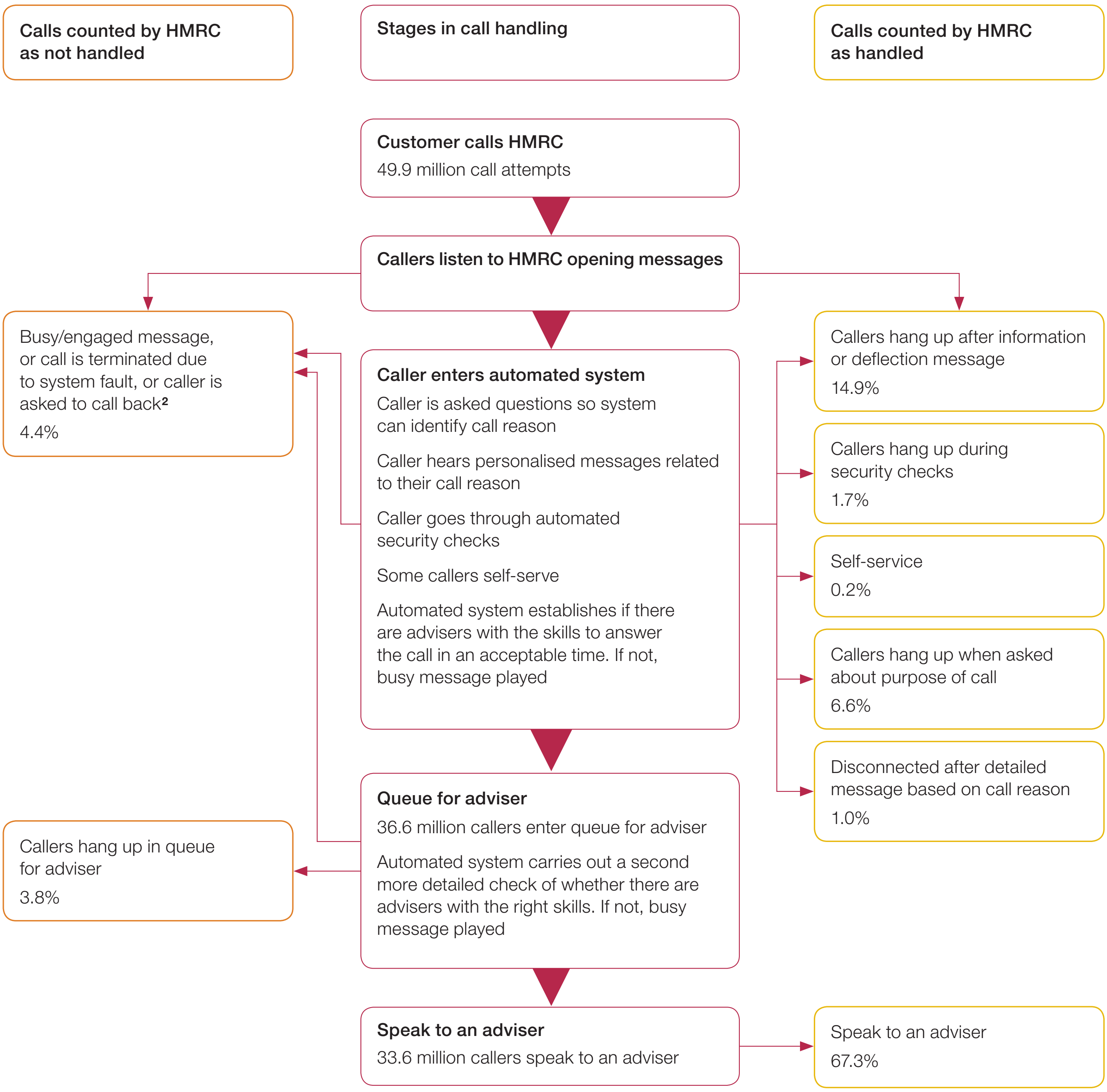
2 Green: measure is at or broadly consistent with industry standard. Amber: HMRC tracks performance but measure is not sufficiently comprehensive. Red: no measure or measure is inadequate.

Source: National Audit Office summary of Customer Consulting Limited research

Figure 21

How calls to helplines in 2016-17 were handled and recorded by HMRC

HMRC's measure of calls handled includes some calls where customers hang up



Notes

1. A typical customer journey is shown. Not all callers will pass through each of the stages shown.
2. Most callers that hang-up after hearing an opening message are counted as handled by HMRC. However, HMRC does not count as handled those customers that end a call after hearing an opening message asking them to call back later. 0.3% of calls ended this way in 2016-17.
3. Component values may not sum to total due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

3.31 A key measure for HMRC is the speed at which it answers calls. In contrast to its call-handling measure, HMRC's average speed in answering excludes both those calls that are completed in its automated system and the time customers spend in the automated system. HMRC told us that customers typically spend between two and four minutes listening and responding to automated messages. HMRC is aware from speaking to other major customer service organisations that some exclude time in the automated system from their average speed to answer measures. Our contact centre experts reviewed industry practice, and consulted with industry bodies, on measuring speed to answer. They found practice is mixed, with some organisations measuring all elements of waiting time. They subsequently concluded that good practice is to measure and report on time spent in automated telephony, and the time then spent queuing for an adviser, as both are experienced by the customer. HMRC told us it believes measuring queue time sufficiently captures customer experience of waiting time. It said it does not measure the period in automated telephony as it considers this time is valuable to a customer as the system is aiming to navigate them to an agent who can meet their need.

3.32 HMRC measures but does not report publicly on quality. HMRC tracks calls and correspondence which have errors that could have an immediate impact on the customer.[53] In 2016-17, there were errors in 8% of tax and Tax Credits telephone calls and in 7% of correspondence on tax. Errors included advisers disclosing information before a customer had passed security, and advisers making mistakes that have a financial impact on a customer.[54]

3.33 HMRC's measure of quality is incomplete. A quality team reviews a limited sample of calls and correspondence. Some important aspects of quality, including customer experience, are assessed by the quality team but excluded from HMRC's internal quality measure. For example, the team assesses whether all aspects of a query have been dealt with and whether interactions are friendly and empathetic.

3.34 Our contact centre experts also reviewed HMRC's operational performance. They found that HMRC has a customer-focused culture and its management is open to new ways of working and technologies. The contact centre experts identified areas where HMRC could improve its operational performance and reduce costs by:

- improving the way its advisers handle calls and provide guidance to customers;
- extending its quality management to cover customer experience; and
- developing its performance management culture, including by using a balanced set of targets to manage performance at all levels of its organisation.

53 HMRC examines a sample of calls and correspondence.
54 For taxes, the impact must be more than £10 for the error to be counted.

Part Four

Benefits and credits

4.1 HM Revenue & Customs (HMRC) administers Personal Tax Credits (Tax Credits) and Child Benefit to provide support to families with children and to help ensure that work pays more than welfare. In 2016-17 HMRC spent £38.8 billion on these benefits and credits. Of this, £27.1 billion was spent on Tax Credits and £11.7 billion was Child Benefit. Tax Credits supported around 4.1 million families and around 7.2 million children, 58% of total expenditure of £46.6 billion recorded in HMRC's 2016-17 Resource Account. Child Benefit supported around 12.9 million children, 25% of expenditure in HMRC's 2016-17 Resource Account.

4.2 This part of our report covers:

- the qualification of the Comptroller and Auditor General's (C&AG's) opinion on the Resource Account due to material irregular Tax Credits expenditure;
- the estimated level of error and fraud in Tax Credits, including the analysis of these losses by risk area;
- HMRC's progress in addressing error and fraud in Tax Credits;
- the migration of Tax Credits to Universal Credit; and
- error and fraud in Child Benefit.

Qualification of the C&AG's audit opinion on the regularity of Tax Credits expenditure

4.3 Under the Government Resources and Accounts Act 2000, the C&AG must obtain enough evidence to give reasonable assurance that:

- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament; and
- the financial transactions recorded in the financial statements conform to the authorities which govern them (the C&AG's regularity opinion).

4.4 The Tax Credits Act 2002 specifies the eligibility criteria for Tax Credits and the way HMRC calculates the amounts to be paid. Where error and fraud result in overpayment or underpayment of Tax Credits to an individual who is either not entitled to Tax Credits or is paid at a different rate from that specified in the legislation, the transaction does not conform with Parliament's intention and is irregular. In respect of HMRC's 2016-17 financial statements, the C&AG has qualified his opinion on regularity due to the material level of estimated error and fraud in Tax Credits expenditure.

4.5 The C&AG has qualified his opinion on regularity due to material over and underpayments every year since Tax Credits were introduced in 2003.

Tax Credits

4.6 Tax Credits were introduced in April 2003. They are designed to support families with children; tackle child poverty; and help to make sure that work pays more than welfare. The government is continuing to roll out Universal Credit: this will replace many of the current working-age benefits, including Tax Credits, with a single means-tested payment. HMRC will be responsible for administering the Tax Credits scheme until all existing claimants have either transitioned to Universal Credit or left the Tax Credits regime, which is currently expected to be in 2022.

4.7 Tax Credits awards are based on initial estimates, and finalised at the end of the year. Some overpayments and underpayments occur as a result of the way that Tax Credits are designed. The process for finalising awards relies on claimants providing complete and accurate data, and HMRC calculating awards accurately. Error and fraud in Tax Credits has been a significant challenge for HMRC since the government introduced Tax Credits in 2003.

Estimated level of error and fraud in Tax Credits

4.8 HMRC's estimate of the level of error and fraud in Tax Credits for 2016-17 relates to error and fraud in 2015-16. This is because awards for 2016-17 have not yet been finalised, in accordance with the normal Tax Credits annual cycle. Finalisation of awards occurs between April and July following the end of the tax year or the following January for self-assessment claimants. Following finalisation, testing is undertaken to inform the estimate of error and fraud.

4.9 HMRC estimates that the overall level of error and fraud that resulted in overpayments in Tax Credits in 2015-16 increased to 5.5% of Tax Credits expenditure (from 4.8% in 2014-15).[55,56,57] HMRC estimates that the overall level of error and fraud resulting in underpayments in Tax Credits in 2015-16 remained at 0.7% of Tax Credits expenditure (0.7% in 2014-15). This equates to overpayments of £1.57 billion and underpayments of £210 million. The rate of error and fraud resulting in overpayments fell between 2010-11 and 2013-14, but has since increased in 2014-15 and 2015-16 (**Figure 22** overleaf).

4.10 HMRC has told us that it believes the level of error and fraud in Tax Credits will increase further when measured for 2016-17. Two main factors have been identified that will lead to this increase: the introduction of the 'Commercial with a view to a profit' self-employment test for those who are self-employed and the impact of the Concentrix contract (paragraphs 4.23 to 4.26 below). The impact of these factors on error and fraud levels will not be measured until June 2018, and so the estimate of error and fraud in 2015-16 remains the most up-to-date indication available of error and fraud in Tax Credits expenditure for 2016-17.

4.11 HMRC has set itself a target to keep the level of error and fraud overpayments no higher than 5% for 2016-17. It is likely that HMRC will not meet this target given the expected increases predicted by HMRC (paragraphs 4.23 to 4.26). The target for 2017-18 and subsequent years, up until the full transition of claimants to Universal Credit, has not yet been set.

4.12 HMRC has set a provisional target for 2017-18 to keep underpayments no higher than 0.7% of finalised entitlement.

4.13 As part of the government's response to recommendations made by the Committee of Public Accounts, HMRC and the Department for Work and Pensions (DWP) also announced a joint external target for net overpayments of benefit to be no higher than 1.6% of the joint benefit expenditure during 2017-18.[58] This figure represents net loss across welfare (DWP benefits plus Tax Credits) after DWP recovery of overpayments has been taken into consideration. This target will be in addition to the overpayment and underpayment targets that HMRC has set itself, and will be reported in 2019-20, after 2017-18 Tax Credits awards have been finalised and HMRC has undertaken testing to inform the estimate of error and fraud.

55 Note 4.3 to the Resource Account.

56 HMRC's published statistics refer to error and fraud resulting in overpayments – where claimants have received more than their entitlement – as 'error and fraud favouring the claimant', and error resulting in underpayments – where claimants have received less than their entitlement – as 'error and fraud favouring HMRC'. We use the terms overpayments and underpayments throughout this report. This is not the same as overpayments reported by HMRC that arise upon finalisation of Tax Credits awards, which are unrelated to the error and fraud statistics discussed here.

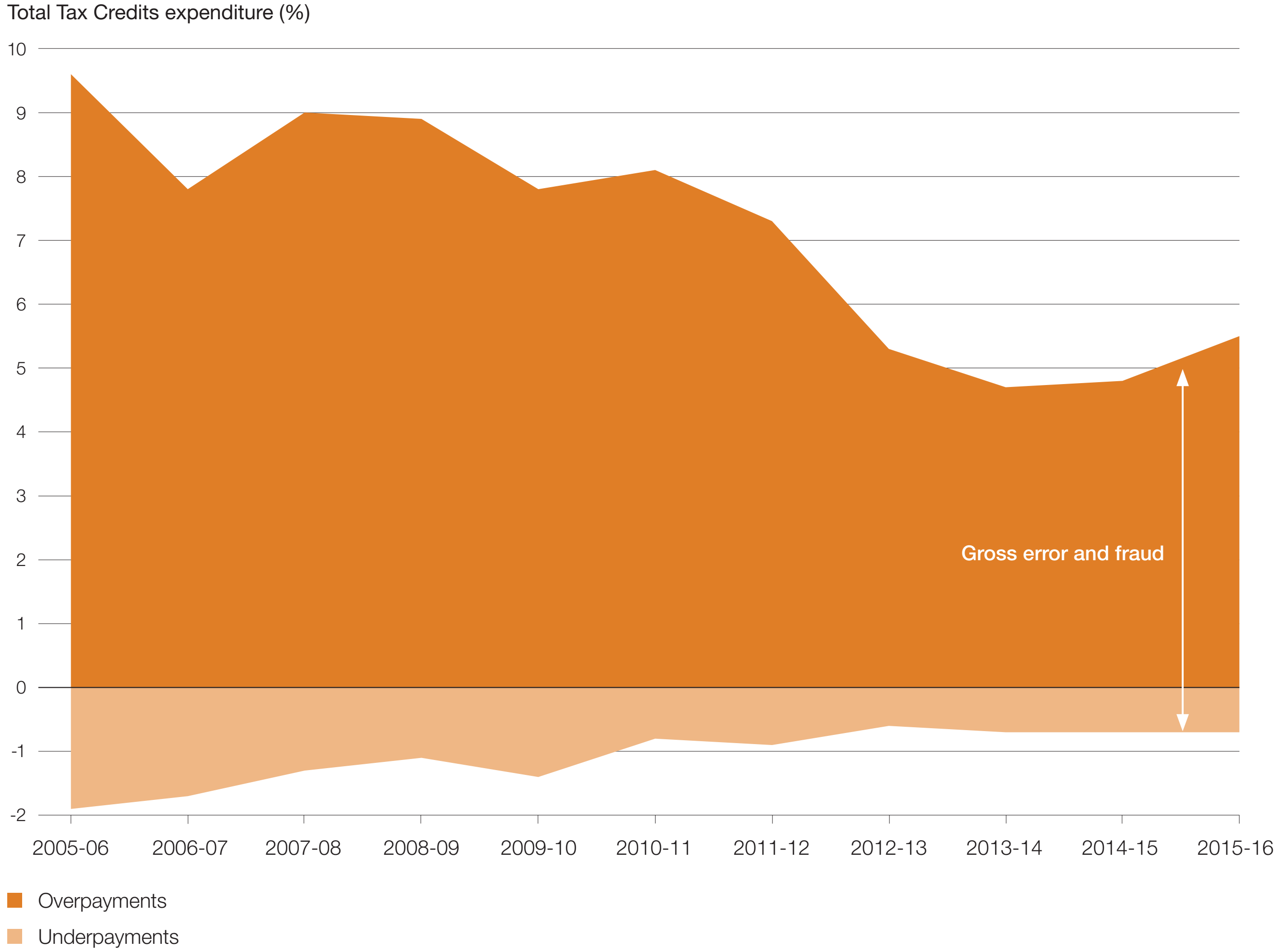
57 Error and fraud figures quoted within the main body of this Part are central estimates within a 95% confidence interval. This range reflects the uncertainty within the estimates. Detail on the estimate ranges is provided within the table in Appendix Two.

58 HM Treasury, *Treasury Minutes*: *Government responses to the Committee of Public Accounts on the Twenty-Second to the Twenty-Fifth and the Twenty-Eighth reports from Session 2016-17*, Cm 9413, February 2017.

Figure 22

HMRC's Tax Credits overpayment and underpayment estimates from 2005-06 to 2015-16

Error and fraud resulting in overpayments fell between 2010-11 and 2013-14, but has since increased in 2014-15 and 2015-16



Source: National Audit Office analysis of HM Revenue & Customs data

Tackling Tax Credits error and fraud by cause of loss

4.14 In 2009, HMRC reassessed its approach to error and fraud. It changed its strategy to move from compliance interventions that were largely designed to identify error and fraud after claims had entered the system ('pay now, check later') to interventions that were increasingly designed to prevent error and fraud from entering the system ('check first, then pay').

4.15 At the same time, HMRC increased the number of error and fraud checks on claims from 123,000 in 2008-09 to nearly two million in 2010-11 (**Figure 23** overleaf) and targeted the claims at greatest risk of containing error and fraud. It also increased the number of front-line staff involved in checking claims from 1,100 to 1,500. Since 2012-13 the Tax Credits caseload has remained relatively stable, the volume of interventions has risen slightly and error and fraud has fallen (Figure 22).

4.16 HMRC's change in approach involved disaggregating, by risk type, losses from overpayments to identify the underlying causes of error. To tackle error and fraud, HMRC uses interventions targeted at the six main causes of loss:

- disability (incorrectly reporting disability status);
- children (incorrectly including children or young persons on a claim);
- income (inaccurately reporting income);
- childcare costs (claiming for incorrect childcare costs);
- undeclared partner (making a single claim instead of a joint claim); and
- work and hours (overstating hours worked).

HMRC's progress in addressing error and fraud

4.17 **Figure 24** on page R71 shows HMRC's progress in addressing error and fraud losses against each of these categories since the introduction of its new approach. HMRC has used this insight to restructure and target its range of intervention activities across the major risk areas to both prevent and detect error and fraud. HMRC also analyses the point at which the error and fraud enters the system; whether at the point of a new claim, a change of circumstances or on renewal. This analysis is important in identifying options to further reduce error and fraud, to prioritise the most effective interventions and to inform a view of what level of loss reduction may be possible.

4.18 As Figure 24 shows, HMRC has seen significant success in tackling error and fraud relating to misreporting of children, but has not sustained earlier success in tackling undeclared partners, or misreporting of income, work and hours and childcare costs. HMRC will further analyse the reasons for the increases in these risk categories as part of an exercise to look at the underlying reasons for instances of error and fraud identified in the estimation process.

4.19 The rate of underpayments has remained stable since 2014-15. The vast majority of underpayments continue to be associated with the income risk.

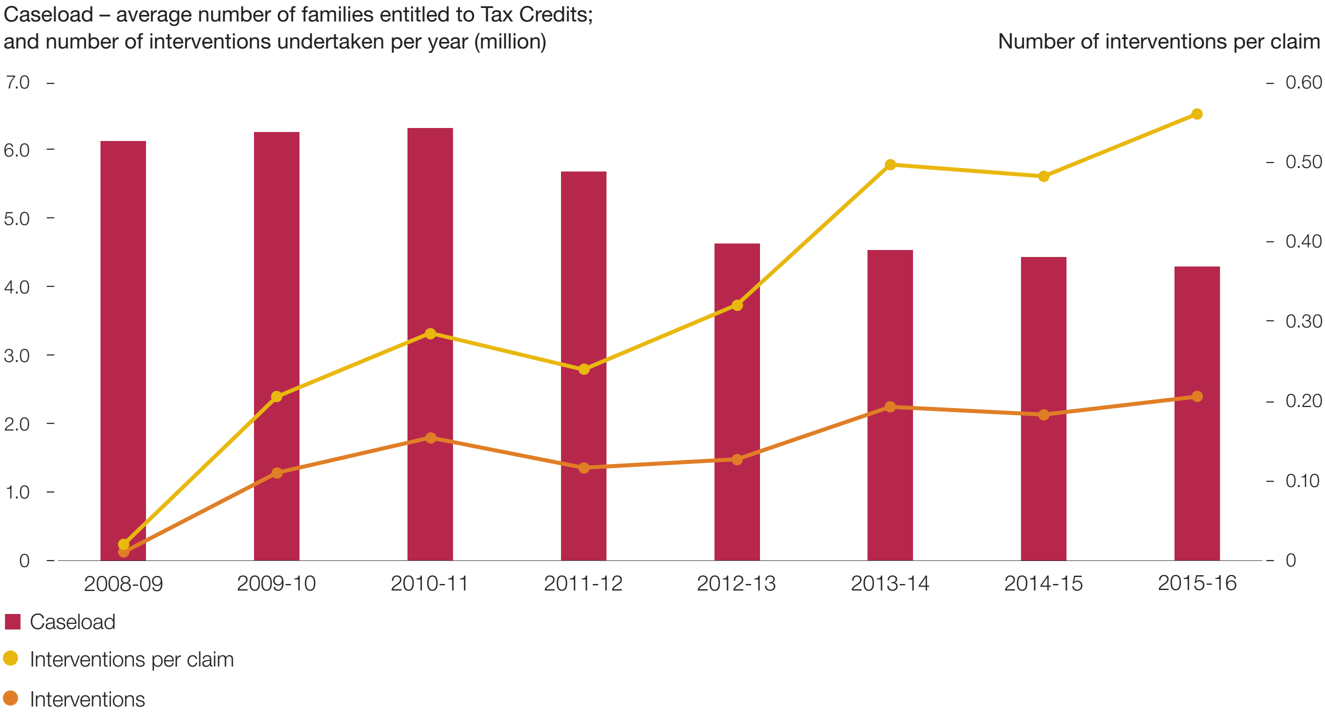
4.20 Last year our report detailed HMRC's progress in tackling error and fraud against a Fraud and Error Framework (F&E Framework) set out in the *Fraud and error stocktake*.[59] Since we reported, HMRC has produced an initial assessment against the F&E Framework with respect to the strategy, design, implementation, monitoring and evaluation of its error and fraud activities.

59 Department for Work & Pensions, HM Revenue & Customs, *Fraud and error stocktake*, Session 2015-16, HC 267, National Audit Office, July 2015.

Figure 23

Tax Credits caseload and volume of error and fraud interventions from 2008-09 to 2015-16

HMRC has increased the number of error and fraud checks, and the number of interventions per claim, since 2008-09



Source: National Audit Office analysis of HM Revenue & Customs data

4.21 HMRC's use of the F&E Framework to implement a systematic approach to further developing error and fraud strategies and measures is a positive step towards understanding and tackling the causes of error and fraud. It will take time and iteration to see the outcome of this more systematic approach to tackling error and fraud, in the form of an attributable reduction. As HMRC continues to further focus its efforts it is important that it takes steps to understand the increases in error and fraud estimated for 2015-16 and forecast for 2016-17, and appropriately reflects the reasons in its interventions.

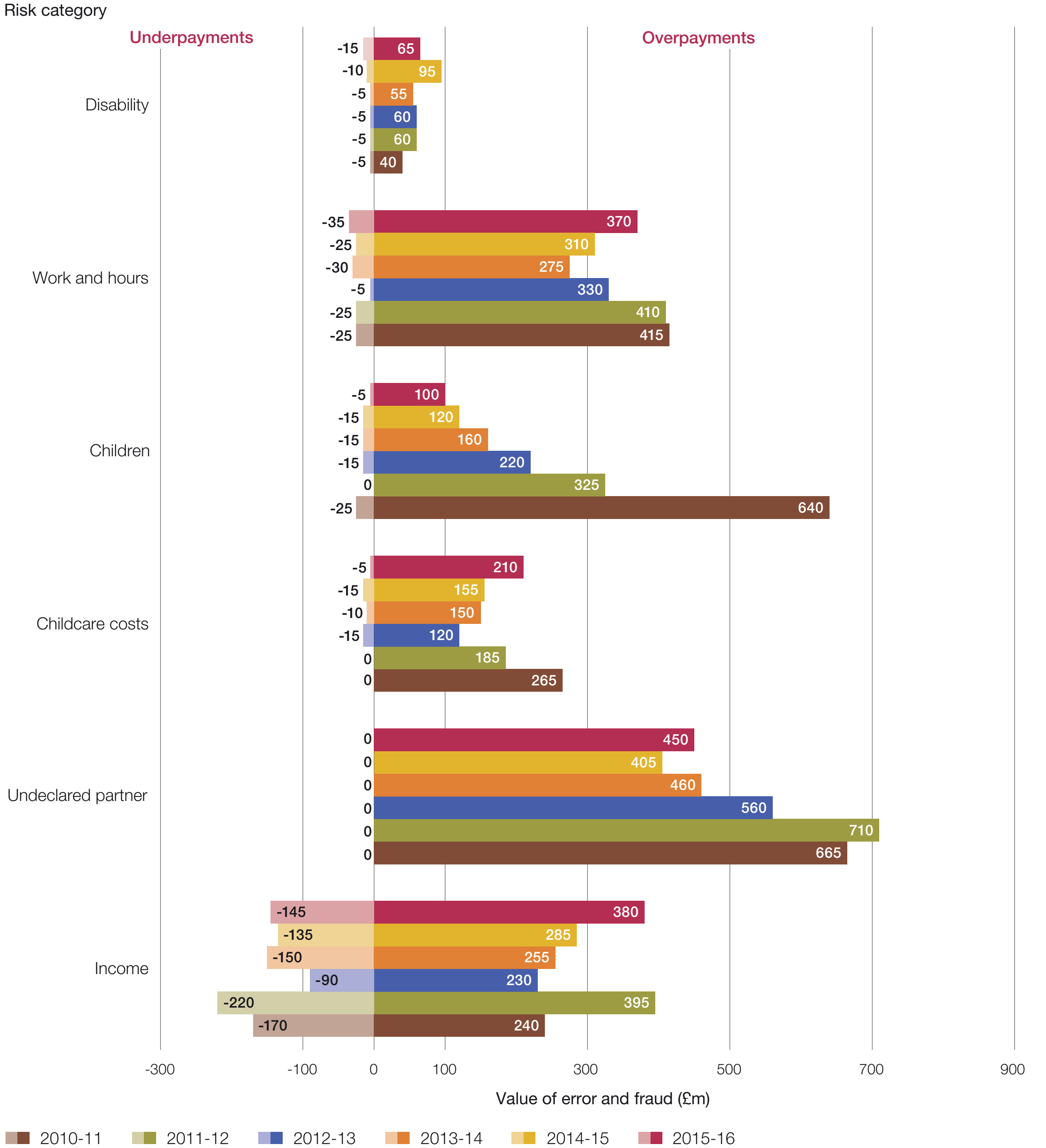
Challenges looking ahead

4.22 HMRC has identified several challenges arising from changes to Tax Credits policy and its administration that will require changes to its approach to ensure error and fraud does not rise further. Two of these changes are expected to increase error and fraud estimates, at least in the short term.

Figure 24

HMRC's Tax Credits overpayment estimates by risk type for 2010-11 to 2015-16

HMRC has tackled error and fraud from misreporting of children, but not in undeclared partners or misreporting of income, work and hours, and childcare costs



Source: National Audit Office analysis of HM Revenue & Customs data

‘Commercial with a view to a profit’ self-employed test

4.23 In the Autumn Statement 2014 a new eligibility criteria was announced covering the Working Tax Credits element of Tax Credits for self-employed claimants. This change, the ‘Commercial with a view to a profit’ self-employed test, came in to effect on 6 April 2015, and requires all self-employed claimants to meet the conditions of the test, that is to say, that they are “carrying on a trade, profession or vocation on a commercial basis and with a view to the realisation of profits… and trade, profession or vocation is organised and regular”.

4.24 HMRC took a phased approach to applying the new eligibility criteria during 2015-16, testing the communications and the approach to checking eligibility through the year. HMRC forecasts that the new rules will reduce the cost of Tax Credits by more than £500 million in the period up to 2021. HMRC estimates that the new rule is likely to lead to an increase of 0.9 percentage points in the rate of error and fraud for 2016-17. Estimates of error and fraud in 2016-17 will be published in June 2018.

Impact of HMRC’s contract with Concentrix

4.25 Following the widely publicised termination of HMRC’s contract with Synnex-Concentrix in November 2016, our January 2017 report *Investigation into HMRC’s contract with Concentrix* outlined the aims of the contract; the management of the contract; the decision to terminate the contract and the impact of the contract termination.[60] At the time of the Committee of Public Accounts hearing in January 2017,[61] HMRC estimated that the short-term redeployment of HMRC staff to complete Concentrix cases would have an opportunity cost of £30 million of savings not realised.[62] HMRC also said that the transfer of staff from Concentrix to HMRC would give it additional capacity. Since the Committee hearing, due to HMRC’s resourcing constraints, it has used the former Concentrix staff to fill vacancies in its benefits and credits operational directorate. HMRC forecasts that early termination will increase the underlying rate of error and fraud by 1.2 percentage points in 2016-17 (published June 2018), due to:

- Concentrix not undertaking the agreed volume of interventions as part of the 2016-17 compliance campaigns (an estimated 0.9 percentage point increase in error and fraud (£240 million)); and
- the redeployment of HMRC staff from lower priority, business-as-usual activities to work on Concentrix compliance cases brought back in-house just prior to the early termination of the contract (an estimated 0.3 percentage point increase in error and fraud (£70 million)).[63]

60 Comptroller and Auditor General, *Investigation into HMRC’s contract with Concentrix*, Session 2016-17, HC 267, National Audit Office, January 2017.

61 HC Committee of Public Accounts, *HMRC’s contract with Concentrix, Fifty-first Report of Session 2016-17*, HC 998, April 2017, Q58.

62 The impact of the redeployment of staff to complete Concentrix cases can be measured in several different ways. In this report we talk about the impact on the rate of error and fraud, an increase of 0.3 percentage points or £70 million, as the rate of error and fraud is the basis of the C&AG’s opinion. When HMRC reported to the Committee of Public Accounts it used its estimate of savings that would not be realised of £30 million. The difference between the two bases of measurement is primarily assumed recovery rates.

63 See footnote 62.

4.26 As part of HMRC's response to the lessons learned from the Concentrix contract, it is undertaking several actions aimed at ensuring that the failings of the contract are not repeated and that its compliance interventions achieve an appropriate balance between identification of error and fraud and providing the necessary level of customer service. The proposed changes, which reflect a significant change in approach to HMRC's delivery of error and fraud interventions, will come into effect for the High Risk Renewals 2017 initiative, and include:

- reviewing and revising all letters, to ensure claimants understand what is required and where help is available;
- prompting claimants to respond to enquiries, including the use of SMS alerts and more dedicated claimant telephone calls;
- making claimant engagement with HMRC easier, including digital channels to submit information, improving claimant telephony services, and refining the referrals service between contact centre and compliance teams;
- supporting claimants who actively engage with HMRC, including giving proactive claimants more time to provide evidence and providing greater flexibility in assessing the types of evidence provided; and
- ensuring rapid reinstatement of payments for claimants who have had their payments changed due to non-response to an enquiry, but who subsequently provide new evidence.

Transfer of Tax Credits to Universal Credit

4.27 Under current plans, Universal Credit will fully replace Tax Credits by 2022. New Tax Credits applications will be replaced by Universal Credit applications in line with DWP's Universal Credit geographic roll-out timetable and existing Tax Credits claimants will transition in line with DWP's migration timetable. Some 95,000 Tax Credits claims in total had ended following their transition to Universal Credit by March 2017; 62,000 of which transferred in 2016-17, and HMRC expects a further 220,000 claimants to transition in 2017-18.

4.28 HMRC will continue to be responsible for administering Tax Credits until all claimants have either migrated to Universal Credit or left the Tax Credits regime. This will result in further challenges for HMRC, most notably in ensuring that compliance processes operate effectively in preventing and detecting error and fraud with reduced resources, as HMRC staff will move to DWP as claimants transition to Universal Credit. HMRC's current expectation is that approximately 4,000 staff will transfer to DWP, of 5,130 staff responsible for delivering Tax Credits.

4.29 During 2016-17 HMRC transferred to DWP £145.6 million of Tax Credits debt, some 231,000 individual debts. The number of debts transferred to DWP exceeds the volume of claimants transitioned to Universal Credit as a single claimant may have multiple individual debts, from various years, associated with their Tax Credits award. As claimants transfer to Universal Credit, HMRC will need to finalise associated debt to transfer, requiring in-year finalisation of Tax Credits awards as transition is not aligned to the Tax Credits annual cycle. While the Universal Credit claim is active, this debt will normally be deducted in instalments from ongoing payments. Where the claimant no longer claims Universal Credit, the debt will be pursued using DWP's wider powers of recovery for benefits debt, for example attachment of earnings orders.

4.30 HMRC has plans in place to ensure a smooth transfer of Tax Credits claimants to Universal Credit over the timeframe for transition. Due to the long timeframe for the transition of Tax Credits claimants to Universal Credit, and relatively small numbers of cases transitioned so far, it is too early to conclude on HMRC's performance in meeting the challenges this transition presents.

Error and fraud in Child Benefit

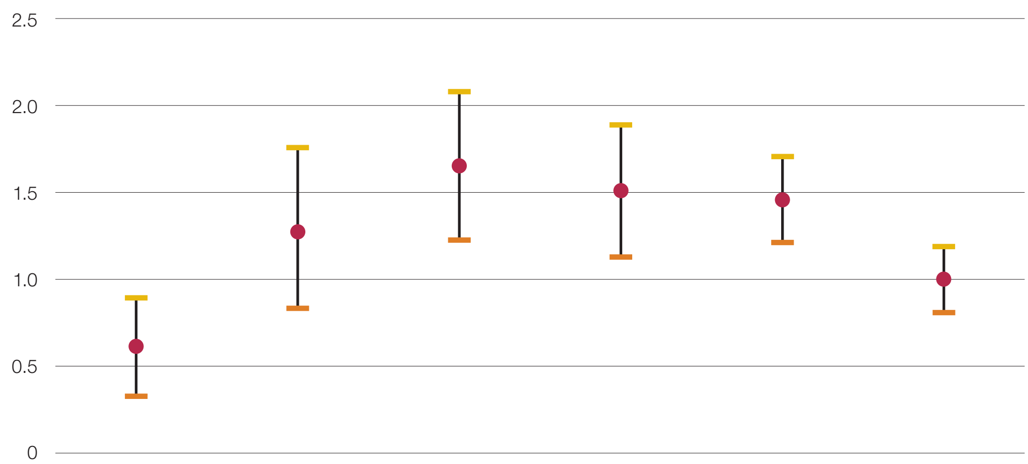
4.31 Child Benefit was introduced in phases between 1977 and 1979. DWP administered payments until 31 March 2003, when responsibility transferred to HMRC. Child Benefit expenditure has been reported within the HMRC (and its predecessor, the Inland Revenue) Resource Accounts since 2003-04.

4.32 As with Tax Credits, HMRC carries out work to estimate the level of error and fraud within Child Benefit. HMRC estimated that the overall level of error and fraud resulting in overpayments in Child Benefit amounted to 1.0% of total 2016-17 Child Benefit expenditure (1.4% in 2015-16) or up to £110 million (£170 million in 2015-16). Prior to 2014-15, estimates varied considerably, and methodology was revised from one year to another. It is therefore not possible to draw robust conclusions about longer-term trends in error and fraud in Child Benefit. HMRC's best estimates of error and fraud in Child Benefit for the past six years can be seen in **Figure 25**.

4.33 To evaluate error and fraud within Child Benefit, HMRC relies on its annual estimation process. A sample of ongoing Child Benefit cases are selected each year and the claimants are contacted to ask that they verify personal details and provide supporting evidence proving that the child exists, lives at the recorded address and, where the child is aged over 16, is in full-time non-advanced education and undertaking an approved course.

Figure 25
HMRC's Child Benefit overpayment estimates from 2011-12 to 2016-17

Estimated overpayments in Child Benefit are 1% of total Child Benefit expenditure. Due to methodological changes, it is not possible to draw robust conclusions about longer-term trends



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Upper error limit (%)	0.90	1.77	2.09	1.90	1.71	0.80
Most likely error (%)	0.61	1.27	1.65	1.51	1.46	1.00
Lower error limit (%)	0.33	0.82	1.22	1.12	1.20	1.20

Notes

1 HMRC has not set a target for reducing error and fraud within Child Benefit.

2 These estimates are based on a small number of cases: as a result, there is a large amount of uncertainty in the results, which is reflected in the wide confidence intervals around the central estimate.

3 Changes in methodology mean that estimates may not be directly comparable before 2014-15.

Source: HM Revenue & Custom's Child Benefit Error and Fraud Analysis Programme statistics

4.34 The vast majority of error and fraud estimated for Child Benefit (£75 million in 2016-17) is as a result of Child Benefit claimants not responding to these requests for information ('non-response' cases). As Child Benefit statute requires claimants to comply with processes and demonstrate eligibility for Child Benefit, non-response claimants are deemed ineligible and their award is counted as error or fraud and is terminated. During 2016-17 HMRC has carried out a considerable amount of analysis and commissioned claimant research to identify whether there are any characteristics common to non-responders. While this work did provide HMRC with some intelligence that certain claimant groups have a higher propensity not to respond, it did not provide a clear reason for non-response.

4.35 HMRC has also undertaken an exercise to assess if it can identify whether non-response indicates error and fraud in 2015-16 and 2016-17 non-response cases, using data-matching from other HMRC and DWP systems for Child Benefit eligibility criteria. This exercise demonstrated that many non-responders in 2016-17 may have been eligible. This suggests that the headline error and fraud estimate of 1.0% is likely to be overstated due to including non-response cases as error and fraud. HMRC will consider the results of this exercise further in 2017-18 in order to assess whether the results can help to make further refinements to the estimate.

4.36 Looking ahead, HMRC is using the F&E Framework, described in paragraphs 4.20 and 4.21, to further understand error and fraud in Child Benefit and target causes of error and fraud within the benefit system. HMRC has identified a number of ways in which it can seek to reduce error and fraud within Child Benefit both over the next 12 months and in the longer term. This includes the introduction of automated data-matching with the General Register Office and National Records of Scotland, to verify British births, and a new digital service that will look to improve checks on the integrity of data and therefore reduce error and fraud. In the longer term, HMRC is addressing the challenge of error and fraud in Child Benefit through the re-platforming of the IT systems used in administering the benefit and has increased compliance resources. This re-platforming should enable better coordination and utilisation of claimant data across HMRC systems. Once data have been moved to the new system, there will be additional opportunities to make further changes to the system with the aim of reducing error and fraud in Child Benefit. The transfer of data onto the new system is expected to be completed during 2019.

Appendix One

Our evidence base

1 We reached our conclusions on HM Revenue & Customs' (HMRC's) performance using evidence collected between September 2016 and June 2017.

2 For Part One, and as part of our financial audit, we reviewed the supporting information for HMRC's Trust Statement and Resource Accounts. We analysed and discussed with officials the supporting data prepared by a variety of business units within HMRC. Our analytical review examined the numbers published in the financial statements plus supporting information provided during the course of the financial audit.

3 As part of our audit of the adequacy and integrity of HMRC's revenue collection systems, we reviewed the systems for collecting revenue across all different tax streams, as well as HMRC's debt management system and the Real-Time Information system introduced for PAYE.

4 To provide evidence for Part Two's consideration of HMRC's plans for transforming its tax administration, we reviewed the strategy, governance and risk management for HMRC's portfolio of programmes and projects, including:

- HMRC's business cases;
- benefit forecasts;
- funding allocations;
- Infrastructure and Projects Authority documents; and
- prioritisation documents.

5 For our review of customer service in Part Three we:

- compared HMRC's performance in 2016-17 against its customer service targets and its performance in previous years;
- examined the customer experience scores from HMRC's annual customer survey of individuals;[64]

64 As stated in Figure 16, the survey included 11 questions on customer experience, with seven of those showing statistically significant increases between 2015 and 2016. The sample sizes for these seven measures were: Overall rating of customer experience – 1,763 (2015) and 1,726 (2016); HMRC made clear the steps that needed to be taken – 1,605 (2015) and 1,552 (2016); HMRC getting tax transactions right – 1,694 (2015) and 1,626 (2016); HMRC resolved any queries or issues – 1,370 (2015) and 1,336 (2016); HMRC were approachable – 1,484 (2015) and 1,440 (2016); acceptability of time taken to reach end result – 1,516 (2015) and 1,461 (2016); and experience compared to previous 12 months – 1,889 (2015) and 1,892 (2016).

- analysed data on the demand for HMRC services, the number of advisers it deployed to meet that demand and the productivity of advisers;
- estimated the costs that customers incur when they have called an HMRC helpline and are queueing to speak to an adviser. Our estimates covered phone charges and the cost of customers' time when they are on hold;
- engaged contact centre experts to support our review of HMRC's customer service performance. The experts: met with HMRC senior management; visited contact centre operations in Salford, Bootle and Cardiff to see the centres in operation, to listen to calls and to interview managers; reviewed HMRC's quality assurance process; reviewed key HMRC documents and data; compared HMRC performance measures against industry standards for call centres; reviewed data on HMRC's automated telephony system; and mapped example customer journeys; and
- visited HMRC's contact centre operations in Salford and Bootle to support the contact centre experts' work and to gain an insight into issues faced at contact centres.

6 For Part Four, in addition to our financial audit work on Personal Tax Credits and Child Benefit, we reviewed HMRC's error and fraud statistical analysis and information on the performance of initiatives to reduce error and fraud in Tax Credits and Child Benefit payments. We interviewed key staff and reviewed documents on HMRC's plans and strategies around tax credit debt.

7 We also reviewed:

- HMRC's internal audit reports to understand the management of risks and challenges; and
- HMRC's corporate publications on compliance performance and on measuring the tax gap.

Appendix Two

Historical Error and Fraud Rates in Personal Tax Credits (%)

	Year of EFAP[1]	Error and fraud as a percentage of finalised entitlement		
		Lower bound	Central estimate	Upper bound
Overpayments	2003-04	8.8	**9.7**	10.6
	2004-05	7.3	**8.2**	9.1
	2005-06	8.5	**9.6**	10.6
	2006-07	7.2	**7.8**	8.4
	2007-08	8.3	**9.0**	9.7
	2008-09	8.3	**8.9**	9.6
	2009-10	7.0	**7.8**	8.6
	2010-11	7.5	**8.1**	8.8
	2011-12	6.6	**7.3**	7.9
	2012-13	4.2	**5.3**	6.0
	2013-14	4.2	**4.7**	5.2
	2014-15	4.4	**4.8**	5.2
	2015-16	5.1	**5.5**	5.9
Underpayments	2003-04	1.6	**1.9**	2.3
	2004-05	1.4	**1.9**	2.4
	2005-06	1.4	**1.9**	2.4
	2006-07	1.3	**1.7**	2.1
	2007-08	1.0	**1.3**	1.6
	2008-09	0.8	**1.1**	1.3
	2009-10	0.9	**1.4**	2.0

	Year of EFAP[1]	Error and fraud as a percentage of finalised entitlement		
		Lower bound	Central estimate	Upper bound
Underpayments *continued*	2010-11	0.6	**0.8**	1.0
	2011-12	0.6	**0.9**	1.2
	2012-13	0.2	**0.5**	0.7
	2013-14	0.6	**0.7**	0.9
	2014-15	0.6	**0.7**	0.8
	2015-16	0.6	**0.7**	0.8

Note

1 EFAP is Error and Fraud Analysis Programme.

Source: HM Revenue & Customs, Knowledge, Analysis and Intelligence, Benefits and Credits Child and Working Tax Credits Annual Error and Fraud Statistics 2015-16